Open Innovation and Collaboration in the Financial Services Sector: Exploring the role of Trust

Dimitrios Salampasis*

Public Research Centre-Henri Tudor, 29 Avenue John F. Kennedy, L-1855, Luxembourg
E-mail: dimitrios.salampasis@tudor.lu

Dr. Anne-Laure Mention

Public Research Centre-Henri Tudor, 29 Avenue John F. Kennedy, L-1855, Luxembourg
E-mail: anne-laure.mention@tudor.lu

* Corresponding author

Abstract: There is a vast discussion about open innovation, the need of collaboration and knowledge sharing, co-creation and user-centred innovation among scholars, as well as practitioners, in several spheres of economic activity including financial services, which nowadays represent considerable share of the global economy. In the European Union (EU-27) financial services account for 5.9% of the Gross Value Added in 2010 (Eurostat, 2011). However, in the process of building up an open innovation organization, trust does not yet seem to have a place in this process. The approaches of current literature are failing to denote the relation between the actual importance and the impact of trust within this open and collaborative environment under an organizational perspective. The objective of this paper is to identify the relevant factors that influence and are influenced by the role of trust within the financial services organizations ex-post financial crisis.

Keywords: open innovation; collaborative innovation; financial services; trust.
1. Introduction

The era of globalization and the worldwide financial crisis have formulated a new set of rules within an extremely sensitive and constantly changing business environment. Turbulent, uncertain, violent, demanding, risky are some of the different words used by researchers and scholars to describe it. Companies are working in all directions to be able to adapt their strategies and plans into this new reality and try at the same time both to explore and exploit any useful and available resources in order to succeed and develop a competitive advantage. Innovation plays a fundamental role and everyone considers it as the ultimate pathway to success.

Innovative companies are considered the ones that will be able to shape new market situations by setting up new rules and standards, become the pioneers of change (Costanzo, Keasey and Short, 2003) and attain superior performance (Tsou and Hsu, 2011). With substantial growth in most major industrialized countries, organizations cannot rely anymore to the traditional practice of business as usual. At the same time international human resources mobility, the opening up of the markets on a worldwide perspective and the abundance of highly competent employees have brought upfront the need for cultural awareness, understanding and appreciation of inclusion and integration.

Collaboration is a real fact in business today. Good partnerships denote a key corporate asset and this denotes the company’s collaborative advantage (Kanter, 1994, p.96). It is imperative for organizations to realize that without successful partnerships and alliances the co-creation of shared value and the endorsement of a substantial competitive advantage simply remain void. Furthermore, it is not enough only to build successful alliances but also to have the ability to sustain them. The important element here is the realization of a co-creation attitude propensity rather than sheer value capture.

Open attitudes allow free knowledge flow between the parties and therefore support the innovativeness of the firm (Miles et al., 2000 cited by Pällysaho and Kuusisto, 2011). Despite the fact that it is widely acknowledged that Open Innovation is the key for future business success, it is not yet vastly adopted in terms of company structure and approach (Barrett, 2010). For this reason we perceive open innovation from a different angle, since we do believe that it is more than a paradigm, a business model, a framework (Rasmussen, 2007) or a process (Chesbrough et al., 2006); but a mindset. And an open innovation mindset to be perceived under the collaborative aspect requires another vital element which is trust.

2. Literature Review

2.1. Innovation and Collaboration

The role of collaboration in innovation plays a vital role. In fields where technology shows rapid development and knowledge is widely distributed and shared, it is apparent to observe that no firm has all the skills and competences to remain in the competition as a solo player, as a lonely driver. Building up participatory relationships within networks promotes learning and innovation. Inter-firm relationships are the core of collaboration since they can ease access both to complementary knowledge and of course development of existing skills, competences and cognitive attitudes. As a result, success in innovation management lies within the simultaneous exploitation and exploration of new knowledge, the facilitation of long-lasting relationships and the effective and efficient internal knowledge management. Through the establishment of successful networks companies
succeed not only in orchestrating their relationships but also learning how to develop a network identity and establishing mechanisms of knowledge creation and sharing (Delbridge and Mariotti, 2009).

2.2. Financial Innovation and Innovation in the Financial Services

Financial innovation occurs in other activities other than the finance sector. “Financial innovation is the act of creating and then popularizing new financial instruments, as well as new financial technologies, institutions and markets” (Lerner and Tufano, 2011, p.6). Financial innovation has been characterized as the “life blood of efficient and responsive capital markets” (Van Horne, 1985 cited by Akhavein, Frame and White, 2005, p.577). Most financial innovations are evolutionary adaptations of prior products so they subsume the acts of invention and diffusion within their being. Innovation within financial services is focused on the implementation of innovative practices within the financial services sector which can be perceived as a subgroup of financial innovation.

2.3. Open Innovation in the Financial Services

The role and impact of innovation is still not adequately explored since the contemporary shift from a manufacturing to a service-oriented perspective is still new. Service innovation as a vital element worth in-depth exploration (Miles, 2005). The contribution of financial services is of utmost importance since they depict the dyadic direction of consumer and professional investors’ involvement. According to the 2008 OECD report, financial services firms had a major 7.9% contribution to the US GDP and considered as major employers, accounting for 4.5% of total US employment in 2004. Financial innovation as a concept is a research niche since it involves a four-level analysis; making and promotion of financial products and services (product innovation), development of new processes (process innovation), interaction with customers and development of new structures for the financial institutions (Mention, 2011). Open innovation in financial services is a new research area since it calls for an interdisciplinary approach to define the role of open innovation paradigm and the impact that it has within the financial services industry (Mention, 2011; Mention and Torkkeli, 2012.).

2.4. Open Innovation and trust

In our view, Open innovation is thus a dynamic organizational mindset that encourages the exploration and exploitation of diverse knowledge inflows and outflows, leading to innovation continuity and incremental organizational change, through the establishment of trustworthy, culturally sensitive and sustainable relationship.

3. Research context and methods

3.1. Research design and method

The methodological approach used denotes that this is an exploratory qualitative study which combines the use of literature approaches and primary data gathered from interviews. We chose to conduct an exploratory qualitative research since it is more aligned to our intention to contribute to theory development and to conceptualize the research area (Quint, 1976 cited by Knafl and Howard, 1984).
3.2. The design of the study

The aim has been to bring a “pragmatic approach” (Robson, 2003 p.42 cited by Lösch, 2006, p.135) in the study of the role of trust in open innovation and collaboration by choosing the sector of financial services. Our intention here has been to identify the potential factors that influence and are influenced by trust within the financial services sector and try not only to communicate the view of the interviewees but also to emphasize on conceptual links and theory formulation on the basis of the first research question. In order to be able to collect primary data we decided to conduct interviews with professionals on the field who would be open in sharing their insights based on their experience. The collected primary data are used as “a catalyst for conceptualization” (Knafl and Howard, 1984, p.18).

3.3. Sampling strategy and data collection

We wanted to have a dyadic level in the analysis, by having representative voices both from the consulting perspective aiming at capturing a broader view of the financial services sector and then having also some more focused business examples to see the real function of innovation and the role of trust within the sector. Furthermore, this would allow us to detect potential generalizable, common patterns, in order to support our theoretical propositions (Miles and Huberman, 1994; Wagner and Schwab, 2004 cited by Lösch, 2006, p.136).

The choice of the interviewees has been made according to their profiles, current positions and their potential contribution outcomes. It is important to underline the fact that the interviews, which most of them were not recorded for confidentiality reasons, were conducted more in a discussion format rather than a formalized framework. This is strictly in line with the willingness to capture the variety of perceptions from the respondents rather than to adopt a narrow and closed perspective on the investigated questions. Most of the interviews were conducted via Skype but also in person. Last but not least the interviewees are coming from different parts of the world and not only from Luxembourg leading to a more international rather than localized approach.

The questions that have been used to formulate the interview guide consist of a mix of open format and semi-structured questions. This type of questions allows the respondent to think and reflect, give opinions and feeling and in a sense share the control of the discussion with the respondent. During the discussions we conducted we got authentic, full of insight and sometimes even quite unexpected answers. Qualitative questions belong to the category of open format questions. Open format questions “simply establish the topic for the respondent and then leave the respondent to structure and answer as is seen fit” (Vinten, 1995 p.27).

3.4. Data analysis

The interpretation and analysis of the data has followed the qualitative data analysis model proposed by Seidel (1998) who encapsulates into the model three interrelated, interlinked and cyclical parameters; noticing, collecting and thinking. The variables emerging from the interview guide are encoded in a way that they can enable further investigation and discovery. On a first level they are seen as collection points denoting the significance of the primary data. On a second level they enable the rationality of the thought and dynamic feeling perceived from the discussant. On a third level they enable
the continuation of discoveries about realities which still remain buried deeply and still need to emerge.

The approach has been interpretative and inductive and we decided to let all these variables emerge from the data as part of the noticing process that Seidel describes in his model. We believe that since trust as a concept is related to complex social behaviour from a sociological point of view this research strategy would bring a multidisciplinary dimension in the level of our analysis. We chose this approach because many qualitative analytic strategies rely on the constant comparative analysis since it has helped us develop conceptualizations of the possible relations between various pieces of data. In this qualitative study the purpose is to generate knowledge combining common patterns and themes also in relation to the experiences and ideas shared by the professionals interviewed, depicting this dynamic relationship between data analysis and data collection.

The codes and the information emerging from the discussions we had, cover a vast area of the financial services sector but also the innovation management in general. It is not easy to classify the attitudes of the interviewees but it is interesting to see the relation of behaviours and attitudes following Polk’s classification in the four patterns of resilience; dispositional, relational, situational and philosophical (Polk, 1997 cited by VanBreda, 2001). The reason why this classification has been chosen is because it mainly depicts the inflow of information and attitudes of the interviewees leading to a formulation of a profile based upon the individual’s roles in society, the relationships with others and the individual’s worldview or life paradigm.

4. Findings and Discussion

4.1. Introduction

Due to the complexity of many of the financial services provided, trust plays a significant role in the development and maintenance of successful relationships in the financial services sector (Chan and Fengwei, 2010). Following the data analysis from the interviews conducted with professionals in the financial services sector we drive the research to the identification of factors that share a counter-influencing orientation in the financial services sector within an open innovation and collaborative perspective. In the analysis to follow we present the main findings and outcomes deriving from the interviews on the role of financial services in the contemporary economy, the role of innovation and open innovation under a not-invented here mentality and the perception of trust, a highly valid element emerging as an absolute basis to all kinds of relations.

4.2. Financial Services

Financial services is the backbone of the global market and the economic environment since their main function lies within the management of personal and corporate assets and the exclusive management of financial and banking transactions. This is highly related to the role of risk within the financial services sector and the mentoring of both innovative approaches but at the same time the adoption of risk averse strategies which will have a minimum potential negative impact in the image of the organization per se.
4.3. The financial services sector today

The financial sector is in a bad shape and on a global perspective it tries to hold on. The current international business and financial environment is really unstable, insecure and uncertain. The financial crisis definitely plays a major role since it has led the financial services organizations to struggle for survival, focusing on a short, rather than long term perspective in their strategic planning. Being encapsulated within this financial turmoil the sector experiences constant changes and always tries to comply with new rules of the game. The emergence of non-financial players in the field, the big challenges in the area of governance, regulation and compliance lead to the understanding that the financial services sector is characterized by its uniqueness imbued within a large and continuously changing ecosystem of diverse players.

4.4. Financial Innovation

Innovative solutions are the key for entering a new globalized era of global transactions and the promotion and establishment of innovations in the process, product and service management are imperative. This is in accordance with the fact that the financial services sector should be a vital part of the societal structure since it brings up front all the people as clients and as potential stakeholders. This means that the strategic planning should focus on and be more aligned to the needs of the clients and also create all these effective and efficient mechanisms that will create a safe and trustworthy environment.

Despite the fact that innovation is considered as the direct link to the financial crisis it is also the element that will bring the light of change either incremental or radical and urge the political will for more focused, sustainable and effective measures which will not simply bring austerity policies but formulate and restructure the current financial framework and set up managing factors for a long-term stability. What is important is to be able to bring up front the human side of innovation by considering other factors such as psychology, behavioural attitudes and generally thinking about the user, the client and what need does it cover. It does not make sense to consider something innovative if this cannot be aligned to the needs of the customers and the key problem that we are trying to solve. The innovative product, service or process should have the capacity to be understood by the end user and on the other hand the user to have the ability to freely and openly contribute and be able to be part in the value capture and the value co-creation.

The financial crisis plays a vital part in the continuity of innovation and the emergence of a need for a better functionality of the sector since the situation beforehand was like a bubble which was meant to explode. Sustainable growth, attention to the customer needs, more effective and efficient risk model adoption is the key for a healthy and credible financial services organization. Innovation is a key part in the field since it brings together interrelated internal and external efforts which can be shared, explored and exploited equally.

4.5. Open Innovation and Collaboration

Open innovation despite the fact that is a part of the financial services sector is not something new since these kinds of practices are taking place subsequently. The “Not Invented Here” mentality despite the fact that it does not really appear in the financial services sector per se, plays indeed a catalytic role in the adoption and nurturing of open innovation since on the one hand gives the stimuli to the organization to open up and be able to manage the knowledge inflow and outflow but on the other hand raises the
question on the time, place and kind of collaboration needed in order to accomplish different standards set.

Collaboration is the next step since the “invented here” culture does not any more lead to any feasible and sustainable results. The continuous flow of information, data and constant interaction with the public creates a collaborative spirit which is embedded in the new mindset which needs to be infused within the organizations. The financial services sector should and is expected to take the lead in the promotion of partnerships and cooperation activities leading to collaborative innovation, value capture but also value co-creation.

Regulatory practices, compliance issues and financial practices are the main elements of the external environment since they create a structural and methodological framework on the other hand though, time, cost and inflexible propensity to change lead to the diminishing of innovative practices adoption within the sector. More specifically regulation is an absolute constraint for open innovation within the financial services sector. More generally, regulation plays a dominant role in either hampering or fostering innovation in financial services, as scholars have highlighted (e.g. Mention and Torkkeli, 2012).

The financial services sector despite the fact that it is characterised by a disclosure attitude has found space for adopting a not invented here culture since the understanding of the world from an inside-out and outside-in perspective has a diverse perception. Mechanisms of involvement, of engagement and understanding that a participatory, collaborative and effective attitude is the key factor for being able to bring innovation both within the organizational boundaries but also in the daily practices and platforms. In any case we should not forget that innovation is doing more with less.

4.6. Collaboration password: Trust

Trust has a bottom-line part within the financial services sector in terms of operational perspective, collaboration, branding and marketing of innovation. Trust requires a lot of time and patience to be built however it is more likely that nowadays financial services organizations despite the fact that they realize the role of trust, it is either not mentioned or simply taken for granted. Trust is encapsulated within the organizational perspective in relation to multicultural human resources and reflects upon the organizational trust and image when it comes to cross-border relationships and collaborative activities.

Trust within the financial services sector is a part of the proprietary legacy an organization is coated within since it drives the way to open innovation and collaborative initiatives. This legacy can be understood in a dyadic level both positively and negatively; positively in the sense of branding and marketing, the validity enacted within the experience and image of the organization. On the other hand difficulty to change and institutionalization of practices based upon past paradigms can lead to the loss of trust. This of course is highly related to the character and the history of a company and has a diversified impact on the competitive advantage within the market.

The measurement of the downside concerning the conceiving of trust is also related to the impact that the specific practice has on the customer per se. Trust needs time to be built but only seconds to be destroyed. And for open innovation and collaboration trust plays a paramount role which is directed by non-disclosure agreements since the approach is perceived only after the formalization of a specific collaborative framework. This
formalized framework can lead to partnering driven by a defensive and offensive play since the main decision to be taken is the necessity to keep the existing market share and continue with a *business as usual* but on the other hand put different angles and criteria on the table realizing the way to make people understand why they would change what they are doing for something new.

Trust sometimes is more referred to confidentiality, security and execution. This remark underlines a critical parameter since it shows that trust is mostly related to the pragmatic and practical way rather than something that is deeply imbedded within and outside the organizational boundaries. Trust encompasses different perspectives, elements and beliefs which is far beyond official agreements. This is also related to the internal changes enabling the connection of two or multiple different ecosystems into a collaborative value capture and co-creation.

Trust in the financial services sector is denoted bidirectionally. This means that the customer, the client, the user has an expectation of an embedded trustworthiness in the relationship with the organization per se meaning that trust should be explored and not exploited and be the starting point for a sustainable relationship. A relationship is embedded within a partnership since this is the pathway to a collaborative framework and perspective. Trust is also about sharing interest and passion since it allows by the openness that it creates the emerging of ideas and their introduction to the people who are living in different environments and have a certain social life but who are urged by their willingness to contribute and take a step forward.

### 4.7. Proposition

Based on the abovementioned analysis we have developed the following figure which depicts the factors which influence trust and the factors that are influenced by trust within the financial services sector. The very important parameter here to be explored and specifically underlined lies within the fact that there is an observation of a circular relation between both pillars and this relation is encapsulated around trust. Having trust in the centre denotes the importance and the impact it has on the mechanism.

All the factors which are presented in the following figure share a calculative and non-calculative orientation and can dynamically influence the propensity to adopt Open Innovation approaches and strategies. Their further classification however does not fall under the scope of this analysis. Trust is a critical aspect and this uncovers other aspects which influence open innovation strategies, aspects that cover a vast space in the research. These factors have a substantial impact in the managerial and strategic perceptions, the way the mechanism in the financial services sector is functioning and the way the flow of information in relation to the extensive need for institutional and substantial change of mindset with the financial services sector as a whole and not only in the peripheral services.

Bearing in mind the current debt and subprime financial crises which have been creating fundamental consequences, the necessity for substantial changes call for the emergence of alternative mechanisms, of getting back to the basis and trying to comprehend the way the globalized financial market and the financial services sector functions in terms of sustainability, affectivity and efficiency. We believe that regaining trust both in terms of customer-oriented activities but also within the sector per se will be the correct starting point in the changes yet to come.
5. Summary and Conclusions

5.1. Initial Comments

Trust is expressed as the most overused and abused word (Fawcett et al., 2012) in any analysis that tries to fathom the correlation between different parameters which initiate openness and lead to mutual long-term value creation (Dahlander and Gann, 2010). Trust is usually taken for granted since it is perceived as an element of mere importance; yet appreciating the concept under a down reaching spectrum it becomes immediately apparent that trust is the *conditio sine qua non* of any kind of social, business oriented interaction and cooperation.
5.2. The future of the financial services sector

Financial services organizations need to have empathy i.e. developing the right competence to learn how to listen carefully and sense the needs of the public. The customer needs to be put on the core of the product/service process and through this dynamic interrelation a collaborative spirit imbued with trustworthy feelings will emerge. This new framework will lead to the financial continuity and the durability of an open innovation and collaborative culture in the financial services sector.

Another very important parameter which unfortunately is not widely expressed is the need for efficient and effective financial education. Learning has always been connected with errors and learning from mistakes always leads to the realization of the problem and the implementation of sustainable solutions. Financial education does not only mean understanding the financial mechanisms of the market but also being able to understand the usefulness of innovative, products, services and the new interfaces provided by the financial services organizations. It is the way to make people understand why they should change a current practice to something new not being pushed but by being educated and led into every step of the process.

5.3. Learning to trust

Trust plays a vital role here and it is directly proportional to the role of financial education since it encourages the need for the human side of innovation and the understanding that learning, experimenting and trying is the investment for the future developments in financial innovation. Willingness to change comes from awareness; willingness to contribute derives from trust so changing organizational patterns, cultural hindrances by fostering effective and trustworthy relationships is nurtured by education, by experiential learning and by the feeling of globalization and collaborative attitude.

The financial crisis has created a new realization of our financial world and has led to the destruction of institutionalized practices and has emerged the motivation for change. The financial services sector needs to change and start thinking differently both in terms of product, process and service innovation.

The financial services sector needs to regain trust (Mention, 2011) and this will come alongside existing leadership styles in order to re-enforce credibility, leverage and impact and top management should facilitate high performance teams, motivated workforce, respect and effective and socially responsible strategies.

We believe that in practice we can see an open innovation mindset within the financial organizations however all the activities, processes and services denote the emergence of collaborative innovation taking place in the peripherals but not in the core of the financial services sector.

6. Implications

In terms of the academic perspective we believe that our study will be able to open up the ground for new research in the area of open innovation in relation to organizational behaviour, organizational change and the role of trust as a core element of open innovation. The contextualization of open innovation within the financial services sector and the role of trust have a great impact within the development of collaborative initiatives both on a local, national and international level.
In terms of managerial perspective, effective collaboration and financial innovation have an impact in the financial services in terms of marketing and the profile of the financial services user. Top management needs to realize the social and economic factors affecting the demand for financial services and the implications that they have on the needs and profile of the user behaviour. This is also applied to the building of sustainable user relationships, the process of this relationship development and the impact that the technology has in the delivery of the financial services.

7. Limitations and future research

It is important to underline the fact that there are some limitations deriving from this study which deserve to be acknowledged. First, the choice of the sample limits this study. The reason behind this lies within the fact that financial services organizations follow a strict disclosure of information policy, meaning that it is very difficult to share information which is not required to be made publicly available such as product features. Furthermore, the different professional background of the interviewees might have an influence in their way of interpreting the questions and elaborating on their answers during the discussion. Second, the generalizability of the results within the sector itself is in question. Within financial services, there are may be specific forms of innovation, let aside services in general. These forms are normally referred as tailored or customized meaning that despite the fact that they might exist in many sectors of business to business services does not necessarily mean that they can apply to the financial services sector as a whole (Micudâ, 2011). This is the fact that it is methodologically correct to focus on the study of a single sector instead of trying to make generalizations which argued of their rationale and feasibility. In addition to the above the calculative and non-calculative factors have been identified but not explicitly classified. Moreover, the analysis has been conducted ex-post the financial crisis. An interesting approach would be a historical approach which would try to conceptualize trust combining ex-ante and ex-post data of the financial crisis using time series and leading to a more macroeconomic perspective or the role of trust. Replicating our study by using a large sample of both financial services organizations and consulting professionals would strengthen the exploratory findings of our study. Similarly, despite the fact that the following questions do fall off the scope of the current analysis we think that it is important to address the relationship between risk and trust, trust and distrust, violation and trust despair and trust measurement in relation to open innovation, would be important extensions of our study.

8. Closing remarks

We believe that there is a need for new insights and studies in the area of open innovation in the financial services sector. We feel that since trust is a core important element and is completely aligned with the theory of open innovation it definitely deserves academic attention, re-thinking and revisiting. We hope that our propositions presented in this study will spur additional research on the issues of open innovation, collaboration and trust both in the academic field and also in the functionality of the financial services sector.

9. Acknowledgements

We would sincerely like to acknowledge the time and efforts of all our interviewees and their generous contributions to this attempt to explore the role of trust in the financial services sector.
References and Notes


