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The study on the impact of social capital on the financial service innovation process

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ABSTRACT

Combined with the characteristics of financial services, this paper defines the meaning of financial service innovation and the specific content of the financial service innovation process. The paper analyzes the relationship between social capital and financial service innovation process and then discovers the social capital playing some important roles in securing information, providing power, allocating resource and protecting innovative outcomes during the financial service innovation process.

KEYWORDS

Social capital; Financial service innovation; Financial service innovation process.



INTRODUCTION

Social capital is put forward formally by Pierre Bourdieu firstly. He defines social capital is the sum of actual and potential resources embedded within the network of relationships by an individual or social unit^[1]. Coleman (1988) defines social capital includes some aspects of social structure and is also conducive to the actions of the actors (individual or collective action). The forms of social capital includes responsibilities and expectations, potential information, norms and effective system, authority relations, appropriate social and international organizations^[2]. Granovetter (1973) puts forward that location and density of the social network are important features^[3]. Putnam (1993) argues that social capital is a series of features of social organizations, such as the connections between people, social network, mutual reciprocal, norms and trust^[4]. Nahapiet & Ghosha (1998) argues that social capital is the sum of actual and potential resources which are embedded within the networks of relationships by an individual or social unit. The social capital highlights three dimensions: the relationship dimension, structural dimension and cognitive dimension^[5]. The famous sociologist Lin Nan (2001) argues that social capital is a kind of resource embedded in the social relations or a certain social structure and obtained by purposeful action resource^[6]. Bian Yanjie (2000) thinks that social capital is a kind of relations between actors and society and also a kind of ability of getting scarce resources from the relations^[7].

The definition of social capital remains controversial, but scholars agreed that social capital is a multi-dimensional variable including relations, cognitive and structure which exists in the community, businesses and individuals. Relational social capital refers mainly to the personified qualities such as quality of the relationship and emotional strength between social network members. Cognitive social capital refers to the shared norms, values, trust and reciprocity owned by enterprises and network members. Structural social capital refers to social networks established through the rules, procedures, mainly for the impersonal characteristics such as social network size, density. This paper argues that social networks, trust, norms and values are key elements of enterprises' social capital.

A COMMENTARY OF STUDY ON RELATIONSHIP BETWEEN SOCIAL CAPITAL AND SERVICE INNOVATION

Moran (2005) thinks corporate social capital is a new source of knowledge needed by the enterprise practicing service innovation^[8]. Chen Yanhao (2009), China Taiwan scholars, found that enterprises must be closely linked with their partners in order to improve service innovation by empirical studies, thus achieve better development in a competitive environment^[9]. Yang Ying (2011) found that internal social capital of hotel affect service innovation through knowledge sharing^[10]. Xin Fengdong (2011) proposed knowledge-based service companies can improve service innovation capacity by building network relationships^[11].

The studies on financial innovation theorists mostly come from the macro level, industry level, but the studies from the enterprise level are not much. Social capital as an informal institutional factor provides a new perspective for financial services innovation.

Has social capital influential on financial service innovation process? What elements of social capital have an impact on the financial services innovation process? How financial enterprises develop service innovation by social capital? Research in these areas is basically scarce. Financial services industry has its unique development process, business environment and environmental characteristics, which has significant differences with other industries. Based on defining the connotation of financial

services innovation, the paper discusses the way in which the effect social capital on financial services innovation process.

THE CONNOTATION AND PROCESS OF FINANCIAL SERVICES INNOVATION

The connotation of financial service innovation

With the arrival of the service economy, service innovation has gradually developed as an emerging field. Wietze van der Aa (2002) proposed that service innovation is a series of new management ideas, new operating methods and new organizational structure for the enterprises themselves, their environment, and actual or potential competitors to achieve their business objectives^[12]. Sundbo (1997) considered that the services innovation activities adopt mainly new ideas, new technologies, new management methods and so on^[13]. Tidd (2003) thinks that service innovation is the concept of service or service delivery system which is new and significant change. It provides customers with more added values by giving new or improved methods to solve problems^[14].

Scholars have given different definitions for financial services innovation. Miller (1986) thinks that financial services innovation is the constitution of innovation activities such as the establishment of new production functions, the combination of new elements and the pursuit of new market opportunities^[15]. Drew (1995) thinks that financial service innovation is the reforms of financial business and financial organizations by financial enterprises for pursuing for the profitable opportunities and avoiding risks^[16]. In a narrow sense, Barras (1986, 1990) proposed financial service innovation include mainly product innovation and process innovation^[17]. The above definitions derive from the Schumpeter studies on innovation and still analysis the nature of financial service innovation from the perspective of financial innovation with confusing financial service innovation and financial product innovation and not reflecting the nature of service innovation very well.

The paper proposes financial service innovation refers to all kinds of financial services with changing existing financial service process by adopting new financial service ideas, new financial service means, new financial service mode and so on, which aims to provide a personalized experience and value for customers and improve the quality of service.

The process of financial service innovation

Bowers (1989) proposes that the financial service innovation process includes the formulation of business strategy and new product strategy, new services creations, construction and evaluation of creative concept, business analysis, product development and testing and commercialization^[18]. Martin (1995) divides the financial service innovation process into the three stages including concept development, business analysis and making marketing plan by investigating 88 financial services companies in Belgian^[19]. Lee and Yong (1996) suggests that the process of new service development includes the five stages with generation and selection of innovation, business analysis and market strategy, technology development, testing and commercialization^[20]. Sundbo (1998) proposes the innovation process model with three stages including the concept stage, development stage and conservation stage^[21].

The paper proposes that financial innovation process include the formulation stage of financial service innovation strategy, the concept stage, the development stage and the commercialization stage of financial service innovation. In the formulation stage of innovation strategy, the financial enterprises need forecast the trends in development of market environment and the development directions in financial service innovation etc. In the concept stage the birth of new service ideas, the development and the test of concept are included. In the development stage, business analysis, the design of service operation and the staff training are involved. In the commercialization stage, small scale testing, market launch and improved track are involved.

THE EFFECT OF SOCIAL CAPITAL ON THE FINANCIAL SERVICE INNOVATION PROCESS

More and more financial service innovation (such as insurance services, financial services of banks) was developed by financial enterprises collating with their competitors, suppliers and customers. Therefore, the service innovation of financial enterprises is not only the internal activities, but also the external activities such as communicating with external environment to obtain scarce resources and so on, which leads to generate inevitably all kinds of connections with external organizations. The value of social capital on financial service innovation mainly depends on the financial enterprises' grasp on the elements of social capital during the process of financial service innovation. The model of the effect of social capital on the process of financial service innovation process is shown in Figure 1.

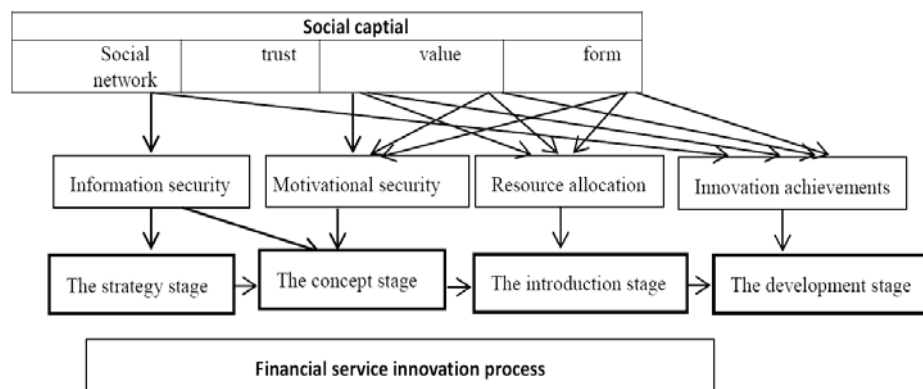


Figure 1 : The model of social capital on the financial service innovation process

The effect social capital on the formulation of the financial service innovation strategy

Facing the dynamic competitive environment, information is the basis of formulating innovation strategy. The financial enterprise can not obtain all information from the internal and have to access useful external information making connections with organizations outside. Therefore, the financial enterprises need to attach importance to the establishment of various social networks and virtual social network. By these networks, it is easy to get the trust among the financial enterprise and other organizations, accurate and market information, policy information, technology information and so on will be timely obtained to grasp the needs of customers and explore the potential market which helps to formulate innovation strategy for financial service enterprises. At the same time, obtaining useful information from the social networks can decrease the cost of searching information and is a kind of informal information source. The formal information sources usually include the research reports of finance industry, the finance yearbook, financial information database, the financial experts, publications of government and industry associations, industry seminars and traditional media etc. Therefore, social capital provides information security for financial service innovation.

The effect social capital on the concept stage of the financial service innovation

The concept stage which is the basis of financial service innovation process includes the generation of the new service idea, the construction and development of the concept and the testing of the concept. The new service ideas come from internal innovation sources (after-sale service personnel, R&D personnel, management personnel, marketing personnel) and external innovation source (customers, university scientific research institutions, consultant companies, government and competitors). Close good social relations such as strategic alliance, industry cluster, knowledge network, production-learning- research network between financial enterprises and innovation source scan ensure the frequent and stable communication and build up trust and mutual benefit between financial

enterprises and innovation sources. Close good social relations can also promote the transfer and diffusion of the knowledge resource and then stimulating financial enterprises' creative inspiration. At the same time, social capital becomes a kind of channel through which financial enterprises can obtain a large number of implicit knowledge and reduce the cost of searching information in a certain extent. The elements of social capital such as forms, values and shared vision provide a good service innovation environment, which fully arouses the enthusiasm of staff and strengthens internal cohesion of enterprises so that customers can feel enterprises' internal unity and then participate actively in financial service innovation process taking a positive and cooperative attitude. Therefore, social capital plays an innovation motivational security role during the financial service innovation process.

The good communication and trust between financial enterprises and customers can transfer customers' fuzzy functional requirements into identified financial terms and make them get the consistency in concept in the internal of enterprises. Obtaining tacit knowledge from the outside is the key during the financial service innovation process, therefore, the strong connections between financial enterprises and the innovation sources help to form common values and shared vision in the internal of enterprises and also to form high quality social relations between financial enterprises and external enterprises. Therefore, social capital plays fully the role of information security at this stage.

The effect social capital on the development stage of the financial service innovation

At this stage, the enterprise should firstly allocate resources including human and material resources to successfully carry out the service innovation activities. The improper resource allocation leads to the failing service innovation. The experience, service innovation ability, service innovation knowledge and cooperation ability of members of the organization which is needed during the financial service innovation mostly belong to intangible resources. There are frequent interaction among the departments and members of enterprises through the social network. Based on this, the elements of social capital such as convention, forms and shared vision easily make trust relations among the departments and members of financial enterprises and quickly realize the effective allocation of resources and thus promote the efficiency of service operation design. Therefore, social capital can improve the efficiency of resource allocation during the financial service innovation process.

The effect social capital on the introduction stage of the financial service innovation

In this stage, the financial enterprises need to identify new service means and collect the evaluation and reaction of customers, employee and competitors for being more efficient in finding the potential customers and making an early warning for the loss of customers. The most important task is improving the satisfaction degree of customers and protecting all innovation achievements. Customers should not be seen as individual persons but as interrelated groups. Winning customers' trust through interrelation among the customers can promote communication and the stability of relations between financial enterprises and their customers, to provide efficient customer experience and thus improve the satisfaction degree of customers. At the same time, customers' social capital provides a basis for financial enterprises capturing market trends and then adjusting the service innovation strategy. It has great significance in reducing the transaction uncertainty.

Financial services innovation achievement scan be protected by the informal measures with the help of social capital. Financial enterprises should establish good, positive relationships with customers, suppliers, government, communities and associations and make their efforts in establishing a good social image and a high level of trust. At the same time, financial enterprises should establish customer-oriented corporate culture and enable the members of enterprise to be familiar with the corporate values and staff behavioral norms within the enterprises. If financial enterprises has always have a good reputation and a long-term relationships with cooperation and trust with key customers, the external social relations are to help them pull through when they encounter innovation failure. The internal social relations make the information transmitted smoothly among each department of the enterprise and help

to form effective supervision in order to effectively contain some opportunistic behaviors among members. These informal measures such as trust, forms, values and social relations belong all to the elements of social capital.

CONCLUSION

Social capital plays important roles such as information security, dynamic security, improving the efficiency of resource allocation and protecting the innovation achievements during the financial service innovation process. Social capital can improve the efficiency of financial service innovation. The different elements of social capital play important roles in the different innovation stages.

The paper provides a theoretical reference for the study of social capital in the financial service innovation. The relations among the elements of social capital are not specifically considered in this paper. Is the impact of Social capital on the process of financial service innovation direct or indirect through the intervening variables or the regulated variables? There is no clear answer in this paper. The further empirical research should be considered. In addition, the impact of social capital should be systematically studied from the connotation, formation conditions and dynamic factors of social capital.

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