



7TH INTERNATIONAL CONFERENCE

Actual Economy

SOCIAL
CHALLENGES
AND FINANCIAL
ISSUES IN XXI CENTURY



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Innovations in Thailand banking Industry development: unlimited source or endless problems

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Abstract

Innovation performance is an important construct for companies. It is an importance source of competitive advantage and determines the whole company's performance. Therefore, many researchers have studied various factors that influence the performance of innovation, in various contexts.

We use knowledge, as an important source of innovation. We use experience as a proxy of internal knowledge own, and absorptive capacity as capability to utilize external knowledge, on a sample of 49 Thai banks' offices.

We used Structural Equation Modeling (SEM) - variance based, results shows that both knowledge, significantly influence innovation performance. Experience is more important than absorptive capacity, and both are able to explain innovation performance by 79%.

Key-words Innovation Performance, Experience, Absorptive Capacity, Bank, Knowledge Based View (KBV)

Introduction

Innovation performance is an important construct for companies. It is an importance source of competitive advantage and determines the whole company's performance especially in the long run perspective (Tian & Wang, 2014) and in the era of knowledge base economic (Chen, Ling & Chang, 2009). Current business mantra is "Innovate or Die".

Innovation is important for the organization, but many innovations do not have a positive impact on organizational performance (Rosenbusch, Brinckmann & Bausch, 2011). Therefore, many researchers have studied various factors that influence the performance of innovation, in various contexts (van der Panne, van Beers & Kleinknecht, 2003). One of the most importance issues is the source of innovation, the knowledge and new idea (Ramadani & Gerguri, 2011). In management strategic, it is known as Knowledge Based View/KBV perspective (Hoskisson, Hitt, Wan, Yiu, 1999).

Knowledge and ideas can come from internal's experience or come from external. Company need capability to acquire and utilize knowledge or idea from external, it is Absorptive Capacity/ACAP (Ramadani & Gerguri, 2011). ACAP has been proven as one of the critical success factors of innovation (Chen et al, 2009; Yongping, Yanzhenga, Haomiaio 2011; Kostopoulos, Papalexandris, Papachroni, Ioannou, 2010).

Did the experience and the ACAP is also important in shaping the innovation performance in the banking industry? Banking industry is highly regulated industry. In Thailand banks need approval from banking regulator, before launching their new product. Banks in Thailand itself, considered less innovative, even for banks that apply prospector strategy though.

Literature review

Van der Panne, van Beers and Kleinknecht (2003) revealed that experience is one factor that has consistently demonstrated innovation as a critical success factor.

Experience is important in learning cycle product development, speeding up the process of pitching a product to market, increasing the tolerance to failure (Tian & Wang, 2011), as well as important for organizational performance overall (Abdi & Senin, 2014).

The results of the above studies form the basis of this study Hypothesis 1:

H1: Experience positively relates to innovation performance

Impact of ACAP most studied is the innovation (Kostopoulos et al., 2010). Liao, Fe and Chen, (2007) proved the positive effect of ACAP on innovation capabilities. Nieto and Quedo (2005) demonstrate the effect of ACAP on innovation activities. Other researchers using innovation performance (Kostopoulos et al., 2010; Chen et al., 2009) or the achievement of innovation as a result of ACAP (Yongping et al., 2011). Innovation performance is considered more important in shaping the company's performance and competitive advantage (Chen et al, 2009).

H2: ACAP positively relates to innovation performance.

Methodology

Questionnaires were distributed to most of commercial banks in Thailand. The respondent is a member of top management, as a representative of the company. It is operationalized by the two highest levels in the bank, the board of directors as well as officers who reports to the director.

Measurement of innovation performance in this study using the output of innovation, as performed by Chen et al (2009). This study adopted the measurement of innovation performance of Chen et al (2009), which has adequate validity and reliability. Innovation performance is measured using two dimensions, namely a product innovation and process innovation. Product and process innovation performance is rated as the two most important factors representing innovation as a whole (Capitanio, Coppola, Pascucci 2010).

Measurement of innovation performance in this study using the diversity of experience. Diversity of experience is important for the organization, because the more diverse the experience, the greater the chance there is of relevant experience and is similar to the new knowledge to be absorbed by the company (Cohen & Levinthal, 1990). Relevance and similarity of experience with new knowledge is essential for the organization (Gupta & Govindarajan, 2000).

Model tested by Structural Equation Modeling (SEM)-variance based. We use Smart PLS 3.0 application. Testing the validity of using a loading of at least 0.5, while the reliability testing using the Average Variance Extracted (AVE), at least 0.5 and Composite Reliability (CR) of at least 0.7 (Hair et al, 2006).

Conclusions

All validity and reliability meet the criteria. From a total of 46 initial items, 44 items can be used and 2 items rejected. Item's loading between 0.531-0.954 (above 0.500), with reliability AVE 0.672-0.931 (above 0.500) and CR 0.899-0.931 (above 0.700). All dimension of ACAP, and innovation performance also used because it has a loading between 0.886-0.962 (above 0.500).

Research model test results can be seen in the following figure:

The figure above show that experience positively (0,578) and significant (t value= 5.985; above 1.96) influence innovation performance, then H1 accepted. ACAP also positively (0,414) and significant (t value= 3.965; above 1.96) influence innovation performance, then H2 accepted. Experience and ACAP, can explain 79.2% of innovation performance's variance, while the rest (20.8%) explained by other factors.

The results proved that knowledge is essential in improving innovation performance. Innovation itself is a source of competitive advantage (Chen et al, 2009; Ramadani & Gerguri, 2011). It means that this study supports the Knowledge Based View / KBV, who believes that knowledge is the source of competitive advantage.

This research is in line with the review of van der Panne, van Beers and Kleinknecht (2003) which revealed that the experience is one factor that has consistently proven to be the critical success factors of innovation.

The study also proved that the capability to acquire and utilize knowledge and information from external organization was also able to improve innovation performance significantly. These results are consistent with research from Kostopoulos et al., (2010), Chen et al., (2009) as well as Yongping et al., (2011). In comparison, the effect of experience on innovation performance is more important than the influence of ACAP on the performance of innovation. Taken together the experience and ACAP is able to explain innovation performance by 79.2%.

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