The culture of financial innovation and the extent of applying Principles of Financial innovation in an Organization

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Abstract

In this research paper, we tried to highlight the importance of financial innovation in the organization, by emphasizing that the value and importance of financial innovation lies in the fact that it is found to improve and develop the work of organizations in general, as it is a means by which parties can reduce transaction, research and marketing costs, as we indicated in this The research paper indicates that technological developments stimulate innovation and are a fundamental factor in economic growth in general.

In this study, we tried to identify the culture of innovation and the most important principles of financial innovation. We also addressed the most important classifications of financial innovation in organizations through risk transfer innovations, liquidity enhancing innovations, stock generation innovations, and insurance innovations.

Keywords: Innovations, Financial Innovations, organizations, culture of innovations, classifications of innovations

الملخص:

حاولنا في هذه الورقة البحثية ابراز الضوء حول أهمية الابتكار المالي في المنظمة، من خلال التأكيد على أن قيمة الابتكار المالي وأهمية تكمن في أنه وجد لتحسين وتطوير عمل المنظمات بوجه عام، فهو وسيلة تستطيع من خلالها الأطراف تقليل تكاليف المعاملات والبحث والتسويق ، كما أشرنا في هذه الورقة البحثية إلى أن التطورات التكنولوجية تحفز الابتكارات وهي عامل أساسي في النمو الاقتصادي بصفة عامة .

وحاولنا في هذه الدراسة التعرف على ثقافة الابتكار و أهم مبادئ الابتكار المالي، كما تطرقنا لأهم تصنيفات الابتكار المالي في المنظمات من خلال ابتكارات نقل المخاطر، وابتكارات تعزيز السيولة، وابتكارات توليد الأسهم، وابتكارات التأمين

الكلمات المفتاحية: الابتكارات، الابتكارات المالية، المنظمة ، ثقافة الابتكار، تصنيفات الابتكار.

I INTRODUCTION

Scientific research, technological development and innovation are very important factors in determining a country's success in building its knowledge society and economy. Research and innovation are now seen as an engine of economic growth and sustainable development in developed and developing countries alike.

Creativity and innovation are among the important matters that need a lot of attention by institutions in particular and governments in general, as they are receiving wide attention at the present time. Especially since societies and their governments are moving in rapid steps for their progress and development, and through the process of achieving this goal, they face many problems that really need creativity and innovation in all areas of human activity. The backbone and main axis of modern economies.

Financial innovations have changed the world since the beginning of interest and innovation of money from metal money to paper money, in addition to innovations for stocks and mutual funds based on debt ... etc. And innovation has come to be seen as one of the most important criteria that determine the degree of excellence of the institution, but has become considered the dominant feature in the modern financial system is the high speed in innovation, whether in terms of number or value, and it is important to analyze its impact on the financial system. Recently, many studies devoted to this science have been published, as it has become a determining factor for the survival of any institution or organization, and even governments, in light of the rapid change and intense competition that characterizes the business environment of most institutions today.

II THE PROBLEMATIC:

this research paper comes to answer the following question: **What is the culture of innovation that organizations rely on to develop and improve the quality of their work** ?, and **what are the most important classifications of financial innovation among organizations?**

Themes of Research: The themes of research are manifested in the following elements:

The first axis: The emergence of a culture of innovation in the organization

The second Axis: Definition and classification of financial innovation..

The third Axis: Factors for the emergence of financial innovation .

The fourth Axis: Principles of Applying Financial innovation in an Organization

III . THE EMERGENCE OF A CULTURE OF INNOVATION IN THE ORGANIZATION

Enterprises at the present time face a lot of competition, which calls for the need for new products and services that meet the needs of the challenges and opportunities that are forming in the highly changing world.

Here comes the importance of the culture of innovation for the development of Islamic financial institutions, in order to place them as the levers of the desired growth and development for the nation, Leading innovation and preparing its culture is one of the most challenging aspects of contemporary leaders. It not only involves the creative act of generating new ideas but also the purposeful transformation of these ideas into useful products and services.

1.Concept of innovation:

The concept of innovation has taken a large place in the attention of many writers of management in recent years, and the viewer in terms of innovation finds that it is a complex phenomenon with implications and multiple dimensions in various fields, which surrounded the idea that innovation is a complex process, because there are several overlaps in it, and Alexander and Rushka confirm this idea by saying "Innovation is a very complex process with multiple faces and dimensions. [1]" Especially if we combine the term innovation with creativity, invention and renewal.

Parahalad, krishnah knew that innovation is: "innovation is the application of changes in technology or technology combinations that lead to product changes in production methods, and in organization."[2]

As for the Longman business dictionary, the concept of innovation is defined as "it is any invention or a new method of production, which is also any change in the method of production that contributes to giving the product an advantage over competitors that help it achieve a temporary monopoly." [3]

As for Hassan Ibrahim Ballout, he went on to say that innovation is a new idea or a new behavior by the management of the organization, the market or the environment in which it operates.[4]

Najm Aboud explained the innovation star as producing a new commodity by adopting a new way of working, introducing a new production structure, opening a new market, and obtaining a new resource [5].

And he knows innovate on at the end of World War II, the innovation process was explained in general through the "linear model", on the basis that innovation is the result of scientific research, which develops and leads to the production and marketing of a new product [6]

Mealiea and Latham hold that there is no difference between innovation and invention, and that they can be used as synonyms and interchangeably[7]. When Mohamed Ahmed Abdel Gawad sees that innovation is the ability to invent, in the sense that there can be no innovation without invention[8].

However, Robbins and coulter believe that the invention is associated with technology, that is, the invention is to come up with a new idea that is directly related to technology and affects societal institutions[9]. In another context, Marie Debourg believes that innovation is the commercial application of the invention. According to this idea, innovation expresses the following equation:

Innovation = invention + commercial application

Jean Jacques Lambin holds that innovation is the successful application of the invention[10].

By presenting different opinions about the synonyms (innovation and invention) we find that there is a conflict and difference between writers in the two terms, especially when we limit innovation to technological application, or when we see that innovation is only a commercial application of the invention. When the concept of innovation is broad and multidisciplinary, and it applies in all scientific and human fields, and by this we find that there is a huge and vast difference between invention and innovation.

2. culture of innovation in the organization

The studies supporting the development of a culture of innovation are based on analyzing the dimensions of the culture in the organization, determining its reality, and then developing a strategy to move the institution to a pioneering innovative culture. As our study does not focus on the private life of Islamic financial institutions, we will deal with the intellectual level and the incubating environment in it.

There is no doubt that the institutional culture environment for the Islamic finance industry is extremely important to drive and stimulate innovation, and it may either be facilitating or hindering.

The culture of the institution contains the visions, values, beliefs, procedures, and systems of the institution, which individuals interact with in their daily lives. The culture of innovation is an intangible strategic resource that increases adaptation capacity and generates the benefits of this enterprise.

2.1 The culture of innovation

The culture of innovation has specific characteristics in six dimensions:

- The first dimension: It is represented by the presence of innovative leaders and managers
- The second dimension: It is represented by the existence of innovative teams
- The third dimension: It is represented by the presence of innovative individuals
- The fourth dimension: It is represented in the organizational context that leads to innovation
- The fifth dimension: It consists of multiple and easy links with outside the organization
- The sixth dimension: The existence of a culture that supports innovation.

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The corporate culture contains the visions, values, beliefs, procedures, and systems of the organization, which individuals deal with in their daily lives. An innovation culture is considered an intangible, strategic resource that increases adaptability and generates enterprise benefits.

2.2 Determinants of a culture of innovation

Many thinkers agree that there are five determinants of a culture of innovation:
1. Environment: It constitutes a determinant of innovation culture. By comparing the most dynamic environment with the most stable environment, the former is the most supportive and generative of the innovation culture. Likewise, the open environment is more supportive and incubating for innovation than the closed environment.

2. Strategy: It is considered the cornerstone of building an Islamic financial institution, and it is one that clarifies the vision and goals and sets the basic lines for the institution’s path and its future determinants.

3. Leadership: It is the ability to develop the components and elements of innovation in the organization, represented by needs, including: inspiration, motivation, encouragement, developing a positive attitude, focusing on opportunities, enhancing confidence, accepting mistakes and benefiting from them.

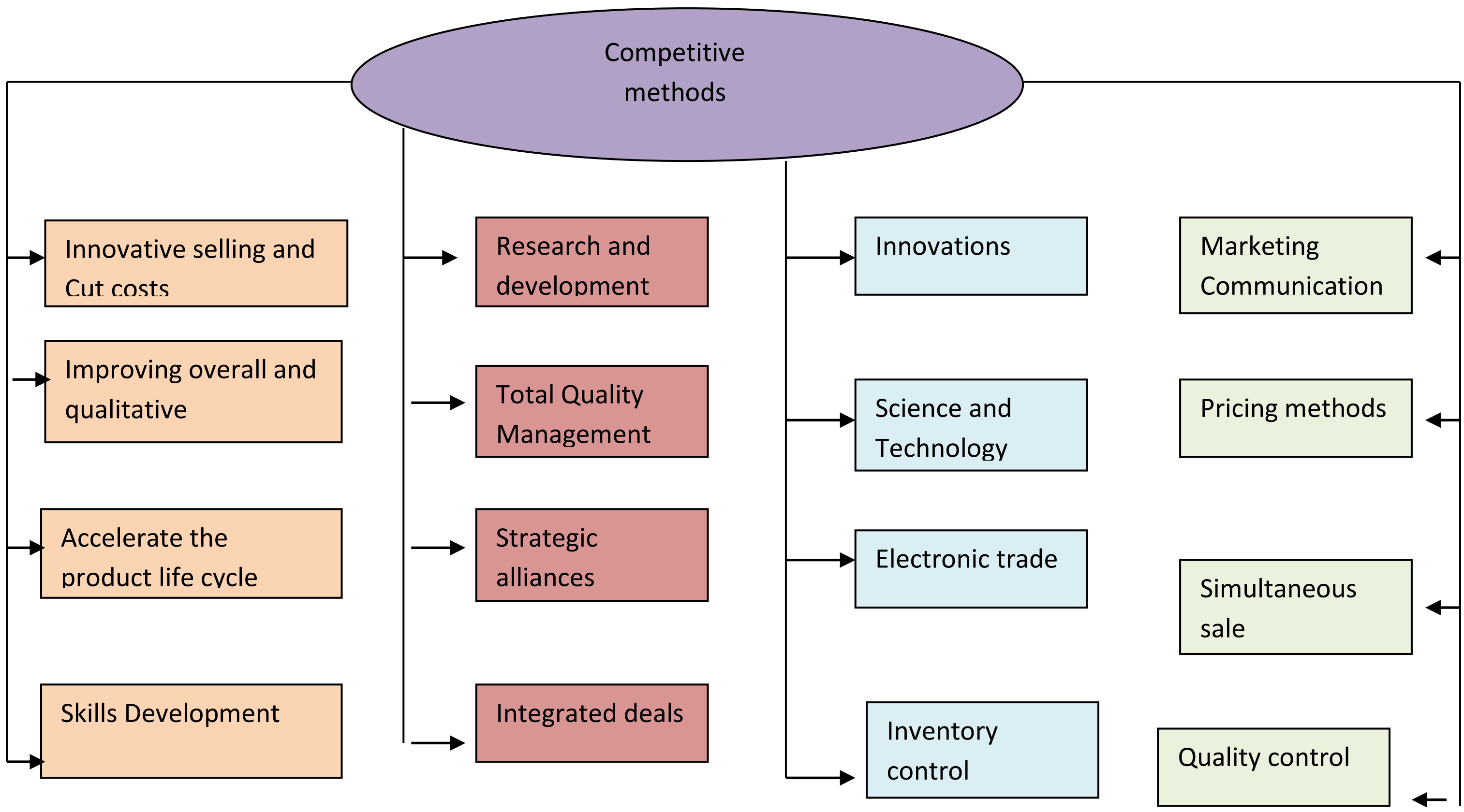
4. Structure: It is one of the main pillars that define the innovation culture in the organization.

5. Standards: There are acceptable and fair measures of personal performance that serve the goals of the organization to create a balance between the organization and individuals.

3.The importance of innovation

Today, innovation has become one of the areas that receive great attention and care by institutions, bodies and governments, so it has become the most important means to achieve a competitive advantage for the institution, and perhaps the field of innovation in the financial field represents the backbone of modern economics, innovation has become one of the most important modern competitive methods and even a necessary condition for the enterprise's competitiveness and growth[11] in addition to, the institution’s provision of innovation, unprecedented to it, may allow it to partially and temporarily monopolize the market, depending on the degree of intensity of innovation. Financial innovation aims to make the various financial services provided by the financial system cheaper and more available to Customers and increase their quality, [12] to achieve long-term sustainable growth for emerging market economies[13]. The following figure shows innovation as one of the organization's modern competitive methods.

Figure 01: Innovation as one of the organization's modern competitive methods.



Source: Farid Al-Najjar, Competition and Applied Promotion, University Youth Foundation, Alexandria, Egypt, 2000, p. 158,(Written in Arabic).

4.Types and divisions of innovation

I have presented several classifications of innovation, according to the characteristics, nature or field of innovation or its various significance as a complex phenomenon with implications and broad dimensions. Among these classifications is the Stewart classification, where innovation is classified into three types[14] :

- ✓ **Macro innovations:**

It relates to new or technical and technological goods that would bring about major changes;

- ✓ **Basic innovations:**

It consists in applying partial innovations that are standardized and integrated in a specific industry (integrated circuits in the electronics industry).

- ✓ **Innovation improvements**

Associated with technological development in a specific field and various improvements of the product or its components.

IV DEFINITION AND CLASSIFICATION OF FINANCIAL INNOVATIONS

1. Definition of financial innovation:

1.1Concept of financial innovation:

Innovation is defined as new markets and new forms of industrial organization that create capitalist formation, and innovation is defined as a dynamic mental process that requires thinking about innovation as one of its inputs to develop new ideas or create new uses for existing products with an emphasis that the definition must be something better[15] . And financial innovations are not a new phenomenon, as they have been accompanying technological innovations from their beginnings [16].

Financial innovation is defined as a single intellectual process that contributes to a quantum leap in the financial fields at the macro / micro level, combining brilliant knowledge and creative work capable of implementing new ideas led by distinguished people, so that it achieves benefit to society as a whole or the organization in which they work through finding solutions For various financial problems, or problems that hinder development in the financial fields, through meeting and satisfying existing needs or exploiting idle opportunities or resources[17].

An examination of this concept finds that it includes three types of activities[18]:

1- Creating innovative solutions with ideal efficiency for financing problems / such as: designing tools to manage liquidity on both the supply and demand sides, or tools to hedge against investment risks, delinquent arrears, or developing methods to exploit disrupted opportunities or resources..

2-Creating financing mechanisms with acceptable returns and low costs, which is expressed by the term (economic efficiency)

3- Creating modern tools and products according to economic variables and in light of existing needs.

4- Dependence of innovation processes on faculties, rules and objectives derived from legal texts and respected jurisprudential sources, and this is expressed by the term (credibility or legitimate integrity).

Financial or financial innovation or the so-called financial or financial engineering can be defined as follows: “Design and development of financing tools and mechanisms distinct from those prevailing in terms of reliability, economic efficiency, idealism, and competitive advantage, and the formulation of reasonable creative solutions to problems and challenges and the exploitation of financing opportunities, all within the framework Sharia standards and controls[19] .

It can also be defined as "applying new ideas, solutions and tools in order to change the conditions of the commercial entity and improve its position. It also increases the application of innovations from the competitiveness of the commercial entity and creates added value for its owners. It is also impossible to sustainable growth of the commercial entity without managing sound innovation accompanied by knowledge, information and reputation." And trust management[20]. "

The main features of product financial innovations can be listed as follows[21]:

- ✓ They can be entirely new solutions or just traditional tools in which new elements have been introduced into the building to improve their liquidity and increase the number of their potential applications because they are better suited to specific circumstances;
- ✓ It can be used as alternatives to traditional financial instruments to improve the financial position and uses of business entities;
- ✓ It can be used to hedge against extreme volatility of market parameters;
- ✓ It can be used in the form of new financial processes, technologies, or new strategies.

2. **Classification of Financial Innovations**

−Risk Transfer Innovations

These are innovations that reduce the inherent risk, or enable the holder to hedge against a specific risk, such as default swap contracts.

-Liquidity Enhancement Innovations

These are innovations that have the potential to increase liquidity of securities and leverage assets.

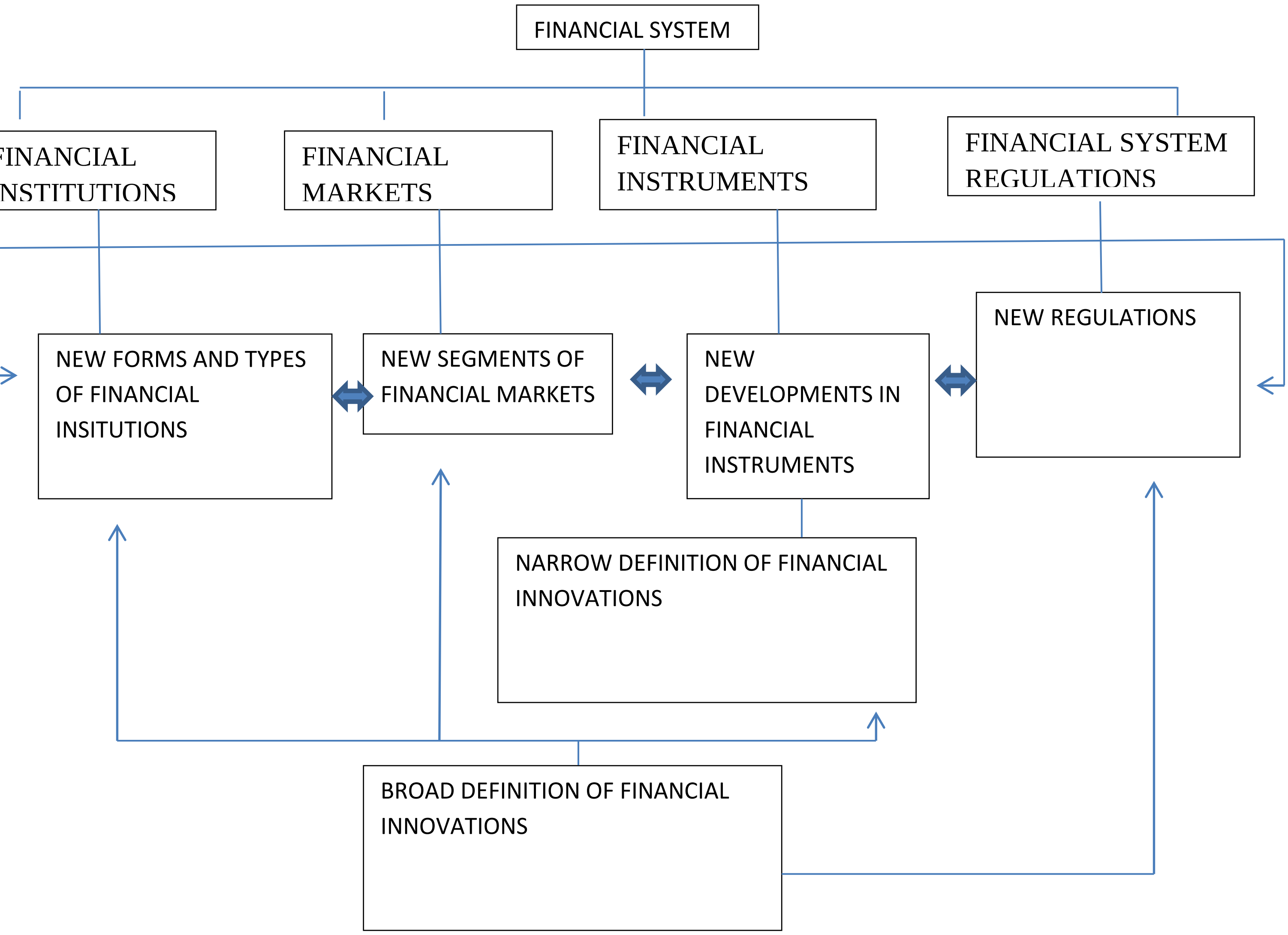
-Stock generation innovation:

Instruments that offer the characteristics of shares in assets, as the nature of debt service in them is defined as advances.

-Insurance innovation

For example, cds contracts where the buyer pays the seller a portion of the insurance premiums in exchange for the seller undertaking to compensate the buyer in the event of a defect[22].

Figure 02: Financial innovations in the broad and narrow meaning



Source : Joanna Blach, Financial Innovations and Their role in the modern financial system – identification and systematization of the problem , research paper from Ministry of science and higher education , Poland ,financial internet quarterly, e- finance 2011, vol7, n3,p19.

Thus, to summarize the conclusion – the term “financial innovations” can be applied in two

meanings (see figure 02)[23]:

1) according to the narrow approach, the financial innovations are defined as any new

developments in financial instruments (entirely new instruments, combination of

traditional instruments, modification of traditional instruments, new application of

existing instruments, etc.),

2) according to the broad approach, the financial innovations include any new

developments in any elements of the financial system (markets, institutions,

instruments and regulations).

3.Principles of Financial innovation:

In order for financial innovation to be successful, able to solve financial problems and satisfy the needs of customers in creative and creative ways, some of the following basic principles must be observed[24]:

- Allowing any idea to generate, grow and grow as long as it is in the right direction, and as long as it has not yet been cut by its error or failure, many possibilities have been transformed into facts and the chances of success in them have turned into real success, so innovation is based on creativity, not imitating others, so it must It gives individuals great freedom to be creative, but this freedom must be concentrated in the main areas of work and be aimed at the most important goals;

- Individuals are the source of the organization’s strength, and caring for their development and care makes it the largest, best, most innovative and profitable, with reward based on merit and fitness;

- Respecting, encouraging and developing individuals to provide opportunities for them to participate in the decision and achieve successes for the organization, so that they can do their utmost to do things fully;

- Abandonment of routine and decentralization of dealings develops creativity, which equals footsteps for progress and success;

- Transforming work into something interesting, not just a job, and it is also if we turn the activity into a responsibility, and responsibility into ambition;

- Learning by doing must be given critical importance because it is the best way to develop competencies, expand activities, and integrate individuals with tasks and jobs.

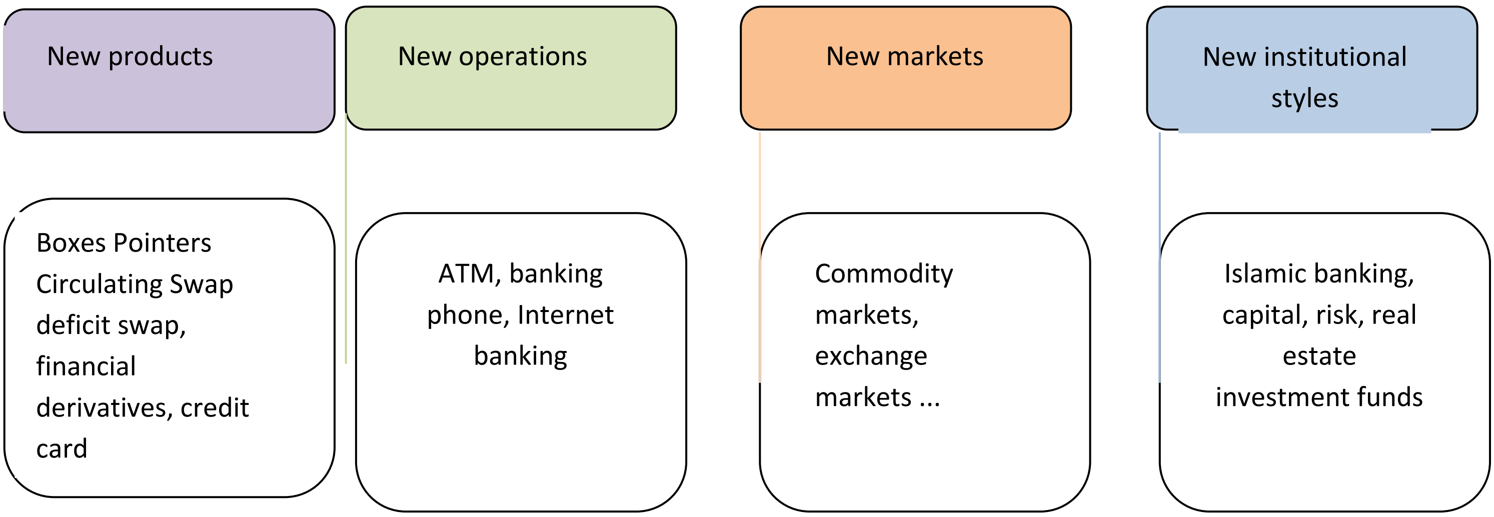
4.Types of Financial innovations:

Financial innovation improves institutional viability and the ability to allocate resources to the most beneficiaries. There are several divisions of financial innovation, the best of which are perhaps the following[25]:

- Institutional innovations (innovations in the financial system): This type of innovation affects the financial sector as a whole, including in the structure of the institution, creating new types of financial intermediation institutions or changes in the supervisory and legal framework.
- Operational innovations: This type of innovation covers the inclusion of new business processes that lead to more efficiency, expansion in the market ... Examples include the use of computer software in financial transactions, customer databases, etc.
- Innovations in financial products: This type of innovation includes the inclusion of new financial instruments that may be tools that lead to attracting more funds to the institution or help in the proper distribution of financial resources, an insurance product, rent, or others. Financial innovations are usually incorporated into products for the purpose of experimenting with changes in market demand or to improve efficiency.
- Innovation in tax planning: where financial engineers are required to develop a special tool or set of tools to attract more investors, which will enable them to reduce the tax burden, so it became necessary to design a product that reduces other expenses such as agency costs, commission, incentives ... etc[26].
- Facilitating adaptive changes in available financial instruments: Financial engineers are expected to design new features, which facilitate adaptive changes in existing capital market financial instruments, for example, interest-linked interest-linked equity securities, and optional dual-currency bonds, Bonds with an interest rate linked to valuation, private equity and others[27].

  We can add the above to these types, to discover or find new markets.

Figure 03: Types of financial innovation and some of its forms



Source: Karim Kunduz, a reference previously mentioned, p. 69

V . FACTORS FOR THE EMERGENCE OF FINANCIAL INNOVATION

1.Direct factors

One of the most important fundamental factors attributable to the emergence of financial innovation lies in the way in which financial markets have changed since the 1960s of the post-World War II period, which witnessed stabilization of exchange rates, low fixed interest rates, few shocks to the economic system, and the transition of the entire world to a state. One of the real risks of irresponsible behavior that was launched by decision-makers, which led to a large movement in prices in the financial markets in an unstable manner[28]. This unstable environment denounced the necessity of abandoning traditional tools and adopting modern and developed tools compatible with The needs of the times, and putting an end to the financial problems that threaten the world's economies, especially America at the time, among which we deny the following[29]:

-The collapse of the Bretton Woods Agreement, which resulted in violent fluctuations in exchange rates and was a reason for the development of forward exchange contracts and the search for a mechanism to hedge against the risks of exchange rate fluctuations;

-The increase in inflation at the beginning of the 1980s and the accompanying rapid increase in short-term interest rates;

-The successive collapse of global stock markets, as investors sought to protect their financial assets through financial derivatives markets;

Fierce competition among financial and banking institutions, as it pushed these institutions to mobilize research and innovation circles to create new financial tools to manage risks, provide solutions to financing problems, and jump over the restrictions imposed by monetary policies.

2.Indirect factors

Based on the concept of innovation related to innovation related to innovation, exploitation of opportunities, solving financial problems, and satisfying the needs of individuals and institutions from among students and students, in addition to the emergence of new concepts in the middle of financial markets, other factors have emerged that greatly contributed to highlighting the importance of financial innovation and its development, the most important of which are the following:

- **Necessity is the mother of invention**: The idea of this factor revolves around the fact that financial innovation came in response to certain restrictions that hinder the achievement of economic and financial goals in the modern world of investment and finance, such as profit, liquidity and risk management. These restrictions may be legal, such as establishing certain contracts or transactions under the law, or technical restrictions such as Difficulty transferring certain products, or social restrictions such as preferring a certain type of product over others [30]. In this context, Silber presented a distinct analysis of the renaissance of financial engineering and innovation, which is summarized in the saying: "Need is the mother of invention" Financial engineering and financial innovations came to provide assistance to establishments operating under legislative restrictions, such as central bank legislation on banks with regard to deposits, which could affect the bank's profitability in the event of an increase in deposits as a commitment on the bank to a specific percentage of the total reserves and paid-up capital. To get rid of this, financial innovations came with the possibility of issuing medium-term bonds that have the characteristic of equity, and others that the market imposes on them, such as the high fluctuations in interest rates, which financial innovations have managed with This is done by inventing the idea of variable or floating interest rates and thus creating bonds and preferred shares, or restrictions imposed by the conditions of the establishment itself, for example, small and new enterprises that have difficulty issuing bonds or preferred shares, so financial engineering and financial innovations came to their aid through convertible bonds and instruments accompanying the bond or The excellent arrow.

These restrictions have a cost that may reach a level that prompts the establishment to find ways to reduce or eliminate those costs[31].

- **The growing different needs of investors and financing seekers:** The need for innovation is also motivated by the different and increasing needs of investors and funding seekers, as the increasing emergence of new and advanced needs for different financing means in terms of design and maturity dates resulted in the inability of the financial media in their traditional form and their old tasks to satisfy the desires of investors and participants in the capital markets in general. The need to devise new methods to meet these growing needs[32] .

- Legislation is the source of inspiration: As Miller points out, another fundamental reason for financial innovation and creativity is that they are reactions to legislation in general and tax legislation in particular. One of the most prominent examples of this is zero coupon bonds that took a heavy boost as a result of a "loophole in the tax system"[33].

- **Trying to benefit from the financial system**: The AMI system expresses the bodies, agents and mechanisms that allow some agents during a certain period of time to obtain financing resources, and for others to use and employ their savings. The effectiveness of the financial system depends on its ability to mobilize savings and ensure the best allocation of resources. Many economists have tried to study and understand how the various deficiencies in the financial system or the associated changes affect it[34].

- **Increasing risks and the need to manage them**: The large and unexpected fluctuations in the global financial and economic environment as a whole (fluctuations in prices, especially after the global trend of floating exchange rates, lifting barriers to capital flows across geographical and political borders, the tremendous development in the speed of communication and transmission, the economic transformation of Economies that focus on employment to knowledge-intensive economies), which have become a major threat to business enterprises, and consequently, the necessity of producing new financial products and developing high capabilities to control financial risks and this has led to the circulation of these new financial products and tools in the current stock market and in the markets. Capital, as well as New Markets[35] .

VI PRINCIPLES OF APPLYING FINANCIAL INNOVATION IN AN ORGANIZATION

In order for financial innovation to be able to solve financial problems and satisfy the needs of dealers in creative and creative ways, some of the following basic principles should be observed[36]:

-Allowing the room for any idea to be born and grow and grow as long as it is in the right direction, and as long as it has not been cut yet by its mistake or failure. Individuals have great freedom to be creative, but this freedom must be concentrated in the main areas of work and directed to the most important goals.

-Individuals are the source of the strength of the organization, and taking care of their development and care makes it the largest, best, most innovative and profitable, and let the reward be based on merit and decency;

-Respecting, encouraging and developing individuals to provide them with opportunities to participate in the decision-making and achieve the success of the organization, which is enough to ensure that they do their best to do things well;

- Abandoning routine and decentralization in dealing develops the creative capacity, which equates to steadfastness in the paths of progress and success;

- Turning work into something enjoyable, not just a job, and that is so if we turn activity into responsibility, and responsibility into ambition;

-Continuous renewal of the self, thinking and aspirations, and this is not achieved unless the individual feels that he is integrated in his work, because work is not a job for the individual only, but through it he can build himself and his personality as well, and this real feeling drives him to explode the creative energy inherent in him and employ it in the service of goals. An individual is a creative force in himself, and the manager must discover the keys to motivation and motivation in order to make truly creative individuals and his organization a creative mass;

- Looking to the top always drives individuals' incentives to work and do more, because the feeling of contentment with the existence is reversed on everyone and returns the institution to stand on what has been accomplished, which in itself is a regression and a loss, and with the passage of time, failure;

- Creativity is not to be a second copy or a duplicate in the country, but rather to be the original, pioneering and unique version, that is, to start from the self as an innovation and not to start from others with a tradition, so it is necessary to notice and evaluate the experience of others and also to take the good and leave the bad so that our work becomes a group of positives So, according to the innovative strategy, organizations are either a leader, a subordinate, or a duplicate, and leadership is a difficult and difficult task that the impossible should be made in order to reach it, otherwise we will be followers or repeaters, and this is not much.

-A good idea that lacks implementation mechanisms should not be left out, but rather we put it in mind, and from time to time we present it for discussion, as many new ideas are generated over time, and the repeated discussion may give us the ability to implement it, as the first and second discussion may not reach full maturity and be completed. On other attempts;

-Learning by doing should be given great importance because it is the best way to develop competencies, expand activities and integrate individuals with tasks and jobs.

- The natural tendency and tendency of individuals, especially decision-makers, is the tendency to stay as it was, because many of them are comfortable with the most habits and routines on which business has taken place and become familiar because change needs a high vigor and a new self, especially since the new is frightening because it has unknown destiny, and innovation by its nature He warned and has a lot of challenge and courage, so it is very important for individuals to believe that their creative work will bring more benefits to them and the organization, as it will place them in the focus of more care and greater respect.

-Financial innovation does not differ from the concept of innovation in general, except in some peculiarities that are related to financial issues, which in our belief may be a point of strength in favor of financial innovation, as innovations can be embodied and ideas transformed into business more smoothly in the financial aspect compared to other material aspects.

VII CONCLUSION

We conclude from this study that financial innovation is one of the most important areas of interest to institutions and organizations in general, because financial innovation aims to find solutions to financing problems by designing and implementing innovative financial tools and mechanisms, and thus can contribute to stimulating the market and meeting the needs of investors.

Financial innovation is one of the most important areas of interest to the administrations of successful financial institutions, because financial innovation makes the financial institution or bank effectively present in the banking and financial market, due to the renewal of financial products to meet contemporary financing needs.

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