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From Start-Up to Buy-Out: the Changing Descriptions of Innovation and Employee Jobs Through the Fintech Life-Cycle

TEACHING CASE

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QuInnE - ***Qu**ality of jobs and **Inn**ovation generated **E**mployment outcomes* - was an interdisciplinary project investigating how job quality and innovation mutually impact each other, and the effects this has on job creation and the quality of these jobs.

Drawing on the Oslo Manual, both technological and non-technological innovation were investigated. Through quantitative analyses and qualitative organization-level case studies, the factors, as well as the mechanisms and processes by which job quality and innovation impact each other were identified.

The QuInnE project brought together a multidisciplinary team of experts from nine partner institutions across seven European countries.

QuInnE Project Member Institutions:
- *Lund University, Sweden*
- *The University of Warwick, UK*
- *Universitaet Duisberg-Essen, Germany*
- *Centre Pour La Recherche Economique Et Ses Applications (CEPREMAP), France*
- *Magyar Tudomanyos Akademia Tarsadalomtudomanyi Kutatokozpont, Hungary*
- *Universiteit van Amsterdam, The Netherlands*
- *Erasmus Universiteit Rotterdam, The Netherlands*
- *Universidad de Salamanca, Spain*
- *Malmö University, Sweden*

The project ran from April 2015 through July 2018. The QuInnE project was financed by the European Commission's Horizon 2020 Programme 'EURO-2-2014 - The European growth agenda', project reference number: 649497.

More information about the project and project generated publications and material can be found at www.quinne.eu.

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The QuInnE teaching cases and teaching notes are based on the confidential field research conducted in the context of the QuInnE project. They are written to provide material for training and class discussion rather than to illustrate either effective or ineffective handling of a management situation. Personal names and identifying information from the research cases have been altered for the purpose of confidentiality. The case studies and teaching notes have been developed in cooperation with RSM Case Development Centre of Rotterdam School of Management, Erasmus University (www.rsm.nl/cdc).

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Introduction

In September 2017, Nicolas Weber, a web designer and manager for Bank in My Pocket (BMP), a former fintech start-up acquired by a large commercial bank, shook his head in disbelief as he walked out of the Thursday morning meeting. One of his best web designers had announced her resignation -- she was leaving to join a new start-up -- and the HR manager had made no effort to retain her. 'She's leaving for personal reasons. That's life!' the HRM had dismissively announced. Weber was torn between frustration, that the company did not have better retention practices for top talent -- how long would it take to find and hire a new skilled web designer? -- and excitement for his colleague, who was grabbing the chance to start over and be free to innovate in a new start-up. What was BMP's top management doing? Didn't they realize the extent of the issues that this one departure highlighted?

Brief History and Current Snapshot

Initially started as an online trading website in the late 1990's, BMP was sold by its founders several years later to the subsidiary of a large retail bank that had launched its own website for online trading. This merged entity rapidly bought a third company. In the next few years, BMP began developing its online banking capabilities, and took a leap in that direction with the acquisition of another European bank that had local branch offices in France. BMP's choice to develop an exclusively online bank, however, meant that all of the European bank's branch offices had to be closed. In 2010, BMP began to market its online bank as the 'modern' way of managing a personal bank account. Through technical innovations, BMP was finally able to launch a new website which provided access to the same level of information and features regardless of the mobile device used: phone, tablet, or computer. BMP had become the first, 100% mobile bank. In 2015, one of Europe's largest retail banks took notice of this rising star in online banking, and launched a takeover bid for BMP, which became its wholly-owned subsidiary. For this large parent bank, being able to offer a complete online alternative to customers -- the banking industry's new focus since the 2007 financial crisis -- was a major competitive leap ahead of other traditional retail banks.

With nearly 1 million customers by 2017, BMP was among Europe's largest online banks. While over half of its net income derived from online banking, BMP was still collecting a good portion of profits from online brokerage and from its internet portal. According to Patrick Leroy, BMP's Director of Marketing and Websites, there were two main reasons for the online bank's success:

1) low price: 'This is not just a marketing argument; it's the result of our production process. We work to rationalize and simplify our processes every day, to pass the savings back to the client'; and also,
2) accessibility - BMP's website was available 24/7, and from any device: 'BMP is a supermarket for financial products. Eliminating the need for customers to call us is our goal. Last year, our web content increased by 25% and customer calls decreased by 10%. This is the key of our business model.'

Perspectives on the Definition of Innovation and Evolving Employee Roles

For Leroy, innovation meant 'being ATAWAD (any time, any where, any device), but at the lowest price.' This strategic directive mandated the simplification, through standardization and automation, of processes. To this end, web designers and other technicians at BMP kept an eye on technology development in the market with a view to acquiring the most needed technologies. As Leroy explained, 'We acquire a start-up to internalize know-how, to save time and go faster on the road-map we have planned.'

From Nicolas Weber's perspective, much had changed within the fintech start-up since his beginnings with BMP in 2000. Weber had been hired into the former start-up as the 19th employee of the new company. He lived and worked in a mid-sized town, far from urban hubs, which fit perfectly with his choice of lifestyle. When the company's two founders had initially sold the start-up, the new management had allowed the web design offices to remain in place in the provincial town; so Weber, as most of his original colleagues, had stayed on. 'I was 23 when I was hired. We were a group of friends -- the oldest was 27 -- who had done the same studies. Some of us had been roommates. We all shared the same mindset.' Weber, however, had a sense of changes to come, and had joined a banking employees' union right after the start-up's sale.

Initially, there was an innovative and enterprising spirit among the small, close-knit group of employees. Innovation was spontaneous: 'We could make mistakes. We didn't ask someone what to do. We modified a webpage, and showed the results to colleagues.'

Fifteen years after its initial sale to a retail bank, a few of the start-up's original qualities still remained. Weber's group, for example, continued to display the same commitment to technology development: 'We don't look at the clock. When a project has to be delivered, everybody has to be here until... however late is necessary.'

The primary focus on customer accessibility, autonomy and satisfaction also had not changed: BMP actively promoted an 'autonomous' client, independently being able to find all sought-for information on the website. The architecture of the website therefore had to provide immediately readable, understandable and efficient information, with simulation tools where required. 'Our concern is to link technology to banking matters. Our innovative spirit works to improve things for customers. It's not only a marketing function!'

Also, everyone kept an eye on new technologies in the industry, as they had always done: 'As web developers, we are always interested in new tools, new languages...'

But Weber felt that leaps in innovation were no longer possible after the start-up had been bought-out. Innovation was no longer internally developed, but rather, internalised, from the 'fintechs' that BMP watched, sometimes partnered with, and later acquired. Internal innovation had become incremental; there were only 'projects' now, linked to the environments available on the website. Objectives were more narrowly focused on improving ergonomics, or adding new functionalities. Weber explained: 'Today, "spontaneous" innovation isn't possible anymore. We have "projects" or "missions", with dedicated resources and timelines. We have to report on them each weekend...'

With a large retail bank as owner, BMP had been given new objectives specifically focused on attracting new customers and increasing profitability. So sales personnel in particular were under pressure for results. Because of the nature of online banking, working conditions were not optimal. Working hours could be variable -- depending on the projects for web designers, and depending on assigned schedules for sales and customer service agents. A recent survey conducted by an independent expert had reported that 60% of total employees described themselves as stretched or overworked; for sales representatives, this number jumped to 70%.

According to Weber, there were three sources of tension, internal to BMP, that had emerged after the buy-out:

1) Marketing was too entangled in IT innovation.

   'We (web developers) can understand that innovation has to bring some money back to the company,' Weber explained. But web developers, while concerned with process improvements and sometimes tempted to show off what they could do, were under pressure from Marketing to sell products and increase profits, for example, by dedicating portions of the web page to advertising rather than facilitating the customer experience. 'Management doesn't hesitate to compromise the final result if it means having more to invest in acquiring new customers.'

2) Innovation had become very structured.

   According to Patrick Leroy, BMP was 'innovative' because it could offer services to customers -- for example, increasing an overdraft limit online -- that other banks could not. But Weber made the distinction between 'innovation' and 'projects'. According to Weber, pure innovation did not exist anymore at BMP. The innovation process had become more 'rigid' than before: for example, there was a dedicated space for testing new developments; people were assigned to certain stages of the production process; and two codes were now required to validate a new development and put it online. Also, 'versioning' had been introduced, which allowed for going back on the development process. But on a positive note, the process was also now more secure. According to Sophie Martin, BMP's HRM: 'The challenge is to stay creative in a more structured environment, under time pressure, and with a given business plan.' Weber, however, disagreed.

   > *To pretend that we are still doing as we used to, top management has created a 'project' for team innovation, in which we are given a package of hours to creatively use as we wish. But the problem is, that we are always delayed on current projects, and have to use our 'innovation time' to finish other projects. Defining a fixed number of hours per project is not a good idea. It's an impediment to innovation.*

> *Management should trust us and let us manage our time and be more autonomous. We could be more creative that way.*

An 'innovation committee' had been created, but according to Weber, this was just a committee that decided to which projects resources (i.e., people) would be assigned. A 'suggestion box' had also been implemented, but it was a black box. Ideas went in, but no one knew who received them. Sometimes, ideas that had been suggested by a web designer suddenly showed up on the website. But the person who had made the suggestion never received feedback.

3) Company efforts in innovation were wholly directed to the customer, not to employees or IT staff retention.

Weber explained: 'On social matters, BMP is archaic! For example, top management refuses to experiment with teleworking. And, we have a new building, but they didn't plan any space for employees to relax or talk. The company innovates in products and services, but remains very traditional in social matters and organization.'

Regarding the recent departure of his skilled colleague, Weber commented: 'We should try to keep [our experts] because we need them for the future. They have a proven skillset that's invaluable.' He added that IT experts are usually passionate about their jobs, and could be tempted to move elsewhere.

Although there was high turnover and Martin was having problems recruiting a sufficient amount of staff for the growing online company, particularly in sales and customer services, she seemed unconcerned. For web-specific trades, such as business intelligence, web marketing, and web design, Martin had an attractive story to tell: 'A former start-up, a famous brand, the possibility to do things...' For sales and customer service agents, she acknowledged that with the limited job content and inconvenient time schedule (customer services was open Monday to Saturday, from 8am to 10pm), 'this kind of job is not sustainable all along someone's working life.' She added that BMP did not strive to retain these employees and accepted their departure, but that all employees also had access to the internal employment database of the parent company. However, despite staffing issues in the online bank, few employees from the parent ever came to BMP. Martin explained that people interested in working for an online company had 'a different state of mind' than traditional bank employees. 'That's why there are very few moves from traditional banks to online ones. People simply don't want to.'

According to Weber, it was even easier to move from BMP to the parent company, than to move internally within BMP. Weber further underscored BMP's HR policy: 'There is no local and proactive policy for organising an internal career path. [There have been] some good speeches on managing talents, but no practice so far.'