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Organizing and Managing Innovation at ActivoBank

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Abstract

Title: Organizing and managing Innovation at ActivoBank

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ActivoBank, a small Portuguese retail bank with digital focus, has been operating in the Portuguese market with its current structure for five years. As the model proves to be successful and allows the company to grow at a generous pace, some questions arise on the most adequate innovation strategy for the company, one of the bank's strongest competitive advantages.

After hitting its breakeven point earlier than expected, in 2014, the bank is now at a critical point to check-up on the company's structure and overall health status. It has a client base of around eighty thousand people (and growing).

The present case aims at tracking the history of the company, questioning the relevance of its strong innovation culture strategy and providing an overview on the Portuguese retail banking industry.

The reader will be in place of a top management decision-maker from inside ActivoBank, the Head of the Innovation Office. Its goals are to analyze the situation critically and propose with strong arguments possible answers to the upcoming challenges. Should the bank maintain its centralized innovation model, or shift to a different one more suited to its scalability and upcoming challenges? Effectively, is there a more suited model regarding the future of the company?

Keywords: Innovation, Retail Banking Services, Organizational Structure

Resumo

Título: Organização e gestão de inovação no ActivoBank

Autor: Tomás Valbordo Carvalho

O ActivoBank, um banco português de pequena dimensão com foco em canais de distribuição digitais, festeja em 2015 o seu quinto aniversário em operação (com a estrutura actual). Apesar de o modelo de negócio seguido ter dado provas de sucesso e permitido ao banco crescer a um ritmo considerável, surgem questões sobre a estratégia de inovação mais adequada para a empresa, uma das mais fortes vantagens competitivas do ActivoBank no seu mercado.

Depois de atingir o *Break-even** em 2014 (antes do esperado aquando da criação do banco em 2010), o banco encontra-se num ponto crítico para revisão e análise da situação organizacional da empresa. Neste momento, serve cerca de setenta e dois mil clientes, número este que tende a crescer nos próximos anos.

O caso de estudo apresentado procura estudar a história da empresa, questionar a pertinência do seu modelo atual de inovação e analisar de forma breve o mercado bancário português no qual o banco opera.

O leitor estará na pele do responsável pela área de Inovação. Os seus objetivos serão refletir sobre a situação atual de forma crítica e apresentar a melhor solução, justificando com argumentos fortes e utilizando modelos de gestão existentes. Deverá o banco manter o seu modelo de inovação centralizado, ou alterar para se adaptar aos próximos desafios que surgem, entre outros fatores, da escalabilidade? Será que há algum modelo mais adequado ao futuro da empresa?

Palavras-chave: Inovação, Banca Comercial, Serviços, Estrutura Organizacional

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Glossary & Acronyms

AB – ActivoBank S.A., Portuguese hybrid retail bank with digital focus.

APB – *Associação Portuguesa de Bancos* (Portuguese Banking Association) – counts most Portuguese banks and foreign banks operating in Portugal among its members. Its purpose is to represent its members in relations with the authorities responsible for regulating banking activities and for drafting economic policy in order to help improve the regulatory system and the quality of banking services and to reduce risk levels.

ATM – Automated Teller Machine.

BP – *Banco de Portugal* – Portuguese central bank.

MBCP – *Banco Comercial Português* (Millenium BCP).

BEST – Banco Eletrónico de Serviço Total.

BiG – Banco de Investimento Global.

Break-even – The point at which cost or expenses and revenue are equal: there is no net loss or gain.

CEO – Chief Executive Officer.

Deloitte Digital – A sub-section of Deloitte focusing on online and mobile strategy, design and development, offering world-class knowledge and resources from the leading global business and technology consultancy.

DNA – Deoxyribonucleic acid – Molecule containing hereditary characteristics passed on by parents to offspring. In the case, it is used figuratively to describe characteristics that are patent in the bank in most of its history.

Efma– Global not-for-profit organization; Efma brings together more than 3,300 retail financial services companies from over 130 countries. It provides members exclusive access to a multitude of resources, databases, studies, articles, news feeds and publications.

FinTech – Financial Technology.

FTE – Full-time employee.

GDP – Gross Domestic Product.

IT – Information Technologies.

MIT – Massachusetts Institute of Technology.

MSc – Master of Science.

Self-directed – Prefers autonomy over constant guidance, does whatever possible individually rather than contacting a third party to accomplish its goals.

SIBS – *Sociedade Interbancária de Serviços* – Company that congregates all the banks operating in Portugal and manages the main payment systems, as well as the ATM* network.

Tech-savvy – Having substantial knowledge about modern technology.

VdA – *Vieira de Almeida & Associados*, a Portuguese renowned law firm.

Organizing and Managing Innovation at ActivoBank

Introduction

Carlos Gomes found that morning darker than usual. Parking his car near the ActivoBank's building, he heard the car's parking sensor 'beep' and could not help but smile while remembering the contrast to his first car. How far could things go? As Head of the Innovation Department, that was a question considered to be unanswerable to Carlos. During the last 5 years, boundaries were consistently redefined and ActivoBank (AB*) was one of the state-of-the-art players in the heavily regulated and conservative Portuguese retail banking sector. From the moment of its creation (as Banco7) until today as ActivoBank, there is at least one characteristic that persisted in its DNA*: Innovation.

“[Innovation is] the intentional introduction and application within a role, group or organization of ideas, processes, products or procedures, new to the relevant unit of adoption, designed to significantly benefit the individual, the group, organization or wider society.”

- (1)

As the bank's growth pace accelerates, questions about the innovation structure arise. Is the present model appropriate to tackle future challenges like managing a larger customer pool and supporting the company's growth while increasing the quality of the service provided? Is it scalable? As Carlos enters the board meeting, his internal struggle to postpone this subject and focus on the meeting's agenda seems to be doomed to fail. To question the present and face the future, never settling, that is what propelled ActivoBank to its current status and, as part of the company's culture, it must be one of the drivers to project the future.

Retail Banking

Overview

The global retail banking market has been recently exposed to a change in customer's expectations and needs. As the generation Y¹ increases its proportion in the bank's number of clients, there is a shift in the requirements of customers not only in terms of products offered but also (and mainly) in the type and delivery of the services provided (2). The customer has become more tech-savvy* and self-directed*.

To answer these new trends, players within the retail banking industry (a usually conservative and traditional one) urged to embrace innovation as a driver to differentiate products and enhance their market share, changing from a product-centered towards a customer-centered delivery: rather than selling what is best for the bank, selling what the customer actually consciously (or, in a more straightforward environment, unconsciously) needs.

With the generalization and increase of access to information technologies through powerful tools such as the Internet, banks needed not only to embed these tools in their everyday offerings but also to increase transparency and offer real value to customers.

Figure 1 – Preferred channels by type of service for different generation members

Type of Service	Preferred Channel	
	Gen Y	Gen X ²
Bank transfers	Direct Channels	Branch/ATM*
Advisory	Branch/Remote	Branch
Deposits	Branch/ATM*	Branch
Payments	Direct Channels	Branch/ATM*

Despite the signaling and demand for change from the younger generation, not all banks are including innovation in their formal structure, nor investing enough in it. Only 63% of the banks have dedicated resources for innovation, and these range from a centralized unit to a distributed by business unit basis (3).

According to Larry Keeley in *Ten types of Innovation*, the broad concept of innovation can be divided into four different categories: Finance, Process, Offering and Delivery. These

¹ Composed by people born between 1980 and 1995 (23); also known as the "Millennial" generation.

² Composed by people born in the early 1960s to 1980 (24).

* Words marked with '*' are defined in the 'Glossary & Acronyms' section of the case study

four categories can be fragmented into ten different types. The table displayed below explains the questions addressed in these different types:

Figure 2 – Ten types of innovation

Innovation Category	Innovation Type	Description
Finance	Business Model	How you make money
	Networks and alliances	How you join forces with other companies for mutual benefit
Process	Enabling process	How you support the company's core processes and workers
	Core processes	How you create and add value to your offerings
Offerings	Product performance	How you design your core offerings
	Product system	How you link and/or provide a platform for multiple products
	Service	How you provide value to customers beyond and around your products
Delivery	Channel	How you get your offerings to the market
	Brand	How you communicate your offerings
	Customer Experience	How your customers feel when they interact with your company and its offerings

Source: (4)

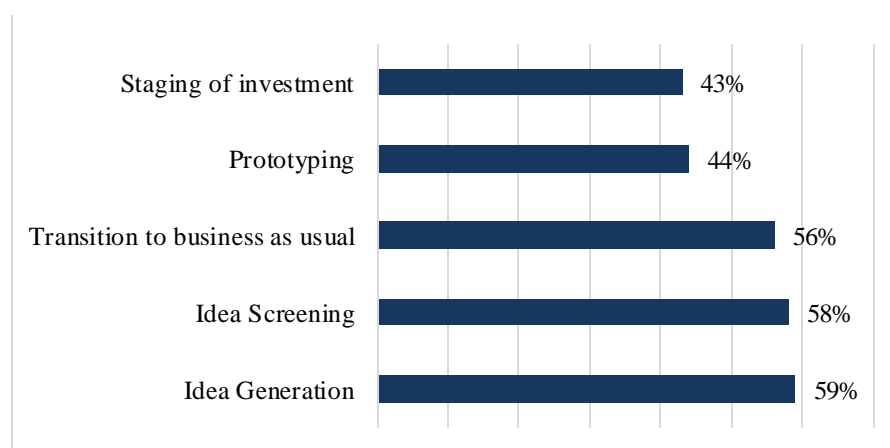
In the next sections of the case study, we will understand how different banks or even different providing companies address innovation in their sector or market.

Setting up an innovation team

Unlike what may seem at first sight, the innovation process requires not only creativity and inspiration but also great discipline, organization and focus to be successfully performed. There is not a single, perfect innovation strategy that fits best all of the banks. When including innovation into a bank's structure, several variables have to be accounted for: the bank's target, size, desired positioning and its value proposition. There is however general consensus about the need for a dedicated innovation team for it to be successful.

In setting up an innovation team, it is important to carefully manage expectations upfront, agree how success will be measured, start with some low risk ideas to show success, and to generate a mix of different types of innovation options for the bank to prioritize from. Another strong and successful measure to create innovation spirit within a company is the creation of innovation communication mechanisms such as regular workshops or forums for the staff to participate. The innovative efforts should be visible to every company member and the contribution of each should be taken into consideration (3).

Figure 3 – Percentage of banks with clearly defined innovation processes



Source: (3)

Sample: “108 respondents to the survey in 2014, from 47 countries around the world. For example, leading banks in countries like France, Spain, Malaysia, United Arab Emirates, South Africa, Brazil and Turkey all participated. Overall, 43% of respondents were from high income countries and 57% were from middle or low income countries. We define a high income country as one with a GDP* per capita on a PPS basis of more than US\$30,000.” (3)

“Idea generation” and “Idea screening” are the initial steps in the innovating process: the first consists in gathering all the ideas into a big idea pool to be selected later through the screening process, where a triage is made to check for the fit with the bank's strategy.

“Transition to business as usual” is the formal process of linking the idea with the company’s everyday activities taking into consideration aspects such as operations and regulatory boundaries. Most banks have these three processes clearly defined within their formal structure, but the scenario is different regarding “Prototyping” and “Staging of investment”.

Analyzing a sample closer to the Portuguese banking environment, it is appropriate to separate different countries according to their characteristics.

Figure 4 – Comparison of innovation indicators by country groups

Indicator	High Income Group	Middle Income Group
% of Banks with innovation Strategy	54%	69%
% of banks aiming to be an innovation leader	22%	50%
% of banks investing in R&D	25%	44%
Innovation Performance (self-rating, ascending from 1 to 7)	4,4	4,9
% of banks becoming more innovative in the last 12 months	71%	71%
% of banks increasing investment in 2014 versus 2013	100%	82%

High Income Group: US, France, Italy, Sweden, Norway, Belgium, the Netherlands

Middle Income Group: Turkey, Poland, Malaysia, Russia, Brazil, South Africa

Source: (3)

As it can be seen in the table displayed above, Middle Income countries’ banks are keener to have innovation present in their organization (69% vs. 54% in ‘High Income’ Countries). At first glance, these numbers seem quite counterintuitive. One would think that the countries where the cutting-edge research and latest technologies are discovered and available early will be the countries with the most innovative banking systems, but apparently not. It is a matter of mind-set and general acceptance, and currently, innovation does not fit in developed countries’ customers as great as in growing middle income ones.

“The most important factors for success [of innovating in organizations] are the extent to which innovation is integrated in corporate strategy and to which company leaders support and engage with innovation efforts.”

- (5)

Successful examples of innovation in the banking sector

Rabobank (The Netherlands)

Rabobank, one of the largest retail banks in the Netherlands and operating in 48 countries, is a great benchmark concerning innovation strategy. It builds up its strategy around 3 distinct pillars: co-creation, autonomy and collaboration:

Co-creation is the inclusion of the customer in the product offerings and in the customer satisfaction directly. Either through continuous feedback or idea generation challenges using social media, Rabobank uses interaction with customers to create the best possible products to suit their needs. There are also forums for customers to help each other troubleshoot problems, and a user Experience Centre for customers to try-out new products, services and state-of-the-art technologies allowing them to provide direct feedback.

Autonomy is encouraged as part of the company's culture. Central to this is the ability to carry out experiments without the fear of failure. Freedom is given in the creation process, employee's leeway is assured.

Collaboration is promoted using tools such as an internal facilitator network and brainstorming facilities. Staff training includes innovation, through an e-coaching network or innovation courses sponsored by the company.

To involve the whole company in this innovation spirit, a weekly newsletter or video is shared among employees with the latest trends (3).

Leumi Bank (Israel)

Another great example of best practices and success in including innovation in the organizational structure is Leumi Bank, the second largest bank in Israel. It has been recently investing strongly in innovation, including the setup of a dedicated innovation strategy team. To strengthen this innovation culture, Leumi Bank has also been cooperating with Elevator Fund to work with and invest on Financial Technology (FinTech*) start-ups that may be of interest to the company. The support provided to the start-ups was not only in the form of financial support but also in giving conditions and providing products and services for the FinTech*s to use. Loyalty and first-access to cutting-edge innovation were

the main drivers of this support strategy, which was extremely successful, according to the bank's Innovation Manager, Dorel Blitz (3).

IndusInd Bank (India)

IndusInd Bank, in India, is also an example of a company who believes in technology as the best way to add value to customers, describing their operations as a “technology backed customer centric bank”. The banks belief in innovation translates into an inclusion of it in its DNA*, not only as a top down management initiative. For that purpose, IndusInd Bank provides their staff of every organizational level the opportunity to post and discuss their ideas on an online idea sharing portal. It has also created an “Innovation Delivery Group” pinpointing strategic idea generation and digitization (3).

The Portuguese economic set

On April 2011, and after several years of overspending and poor budgeting, the Portuguese government was forced to ask for international help through a seventy eight billion euro loan from the IMF (International Monetary Fund) to maintain the balance in its public finances, which had reached precarious levels. The loan was conceded, but required the acceptance for paying high interest over the borrowed amount, to compensate Portuguese government's risk of default.

In order to generate enough public surplus to pay for the interest while setting up the conditions to keep the economy running, heavy austerity procedures were implemented by the government through cuts in public expenditure and increase on tax revenues. Thus, Portuguese companies and overall population were put under intense pressure and led the country to a stagnant period of economic drawback. Confidence levels of the consumers dropped, unemployment rate sky-rocketed and Portugal was not attracting enough investors to stimulate its economy, nor being able to keep its products as competitive as before in the international market (6).

By the end of 2013 and after more than 2 years of a meandering recovery path through a harsh Economic and Financial Assistance Program (EFAP), indicators showed that the economic scenario was shyly improving. GDP* decline pace decreased and budgeting for

2014 already started to increase its focus on stimulating the economy rather than solely on generating income to pay back the loan (7).

The next legislative elections will be in September 2015, and candidates' running against the current government strongest statement is to ease the austerity measures and focus on stimulating the economy. There is a strong generalized acceptance for this type of campaign, since the Portuguese society has been forced to reduce their overall spending on the previous years and are saturated with the high tax rates and decreasing support from the government (6).

Retail banking in Portugal

The EFAP also brought about boundaries for the Portuguese financial institutions. Not only were they suffering from the overall retraction of the Portuguese economy, but they also had to deal with industry specific structural changes, such as the penalties introduced by *Banco de Portugal* (BP*, the Portuguese Central Bank) on interest rates higher (by a predefined level controlled by BP*) than the market reference. Savings deposits are one of the Bank's main revenue streams, and the interest rate is the key factor to shift demand by the overall population for these savings products. This regulation on interest rates together with the fall of individual available income was challenging to financial institutions seeking deposits.

Not only the hurdles on getting deposits from customers but also the decline of loans offered by banks due to the high perception of risk caused a downfall in the sector's profitability. Even with this degraded environment around them, Portuguese banking institutions were able to subsist.

In the Portuguese Retail banking market, there are around 30 players, although it is a highly concentrated market in the top institutions:

Figure 5 – Main Players in the Portuguese Retail Banking Industry (Dec. 2013)

Bank	Number of Employees	Number of Branches
Caixa Geral de Depósitos (CGD)	9049	804
Millennium BCP* (Banco Comercial Português)	8323	758
Banco Português de Investimento (BPI)	6151	631
Novo Banco (former Banco Espírito Santo – BES)	5908	612
Santander Totta	5481	610
Montepio Geral – Associação Mutualista	3881	456
Caixa Central de Crédito Agrícola Mútuo (CCCAM)	3765	683
Banif	2258	276
Barclays Portugal	1570	147
Banco BIC	1365	216
Banco Popular	1300	174
Banco Bilbao Vizcaya Argentaria (BBVA) Portugal	734	85
Banque Nationale de Paris (BNP) Paribas SS	718	0
Banco Espírito Santo Investimento	240	1
Banif Mais	211	19
Banco de Investimento Global (BiG*)	176	14
Santander Consumer	171	4
Central Banco de Investimento (CBI)	161	2
Banco Electrónico de Serviço Total (BEST*)	156	14
ActivoBank	147	14
Finantia	135	2
Invest	120	17
Banco Espírito Santo dos Açores (BAC)	101	17
Banco do Brasil	96	5
Banif Investimento	58	2

Source: (8)

To approach the topic of this thesis it is important to subdivide the market into two different views, given ActivoBank's positioning and to be able to identify its closer competitors: as a retail bank, but also as a digital and innovation top player, leading to an alternative view where the main players are Digital, less-tradition banks such as the Banco de Investimento Global (BiG*) and Banco Electrónico de Serviço Total (BEST*), which are smaller, more investment-oriented banking institutions (especially BiG*).

Figure 6 – Commercial Indicators (ActivoBank, BEST*, BiG*) - Dec. 2013

	ActivoBank 2013	BEST* 2013	BiG* 2013
# of Branches	14	14	15
Capital	41.000	63.000	104.000
# of Employees	149	166	176

Source: (9) (10) (11)

Why this separation? Best and BIG position themselves in terms of channels and culture closer to ActivoBank than the traditional retail banks, as they have a hybrid channel strategy (few branches, mainly digital focus) and also because of their overall size, as it can be seen in figure 6 and supported by the income statements in exhibit 8.

In the tables displayed below, we can see the main difference between the functionality of different channels, offerings, conditions and business lines in the three biggest remote-oriented banks in Portugal (ActivoBank, BEST* and BiG*):

Figure 7 – AB*, BEST* and BiG* comparison – Distribution channels

	ActivoBank	BEST*	BiG*	
Mobile	Daily transactions	✓	✓	✓
	Stock operations and checking	✓	✓	✓
	Investment Funds	✓	✓	✓
	Personal finance manager	✓	✓	.
	Mobile Payments (QR-Codes)	✓	.	.

	ActivoBank	BEST*	BiG*	
Website	Daily transactions	✓	✓	✓
	Investments (Stock/Funds)	✓	✓	✓
	Personal finance manager	✓	✓	.
	Click to Chat (Facebook)	✓	✓	.

Source: (12) (13) (14)

As their main distribution channels given their lack of branch locations, these three banks' remote channels have to be tuned perfectly regarding their customers' needs. The distribution channels of the three banks cover most of the functionality according to their

specific target. BiG* Online is the one offering less functionality on its channels, possibly due to its focus on investment product transactions.

Figure 8 – AB*, BEST* and BiG* comparison – Offerings

		ActivoBank	BEST*	BiG*
Cards	Point-based reward program	✓	✓	•
	Milhas Tap	•	✓	•
	Pre-paid cards	✓	•	•
	Commission-free accounts and cards	Always	Cards only free if certain conditions are respected	Cards have commissions

		ActivoBank	BEST*	BiG*
Products	Partnerships with retailers	✓	•	•
	Deposits with pre-paid interest	✓	✓	•
	Deposits by Auction	•	✓	•

		ActivoBank	BEST*	BiG*
Investments	Customer Support	✓	✓	✓
	Investment Credit	✓	✓	✓
	Trading Platform (CFDs)	✓	✓	✓
	Fund Platform	✓	✓	✓
	Discretionary Management Service	•	✓	✓

Source: (12) (13) (14)

One of the main differences between banks lies in the offerings. The target difference is crystal clear in this analysis: BiG* and BEST* offer more complete products and services in the Investment business line, while ActivoBank has the best conditions and diversity regarding day-to-day banking.

Figure 9 – AB*, BEST* and BiG* comparison – Conditions and business lines

		ActivoBank	BEST*	BiG*
Account opening	Account opening in less than 20 minutes	✓	•	•
	Immediate card issue	✓	•	•
	Starting Deposit	(250€)	(500€)	(250€)
	Online account opening	✓	✓	✓

		ActivoBank	BEST*	BiG*
Business lines	Investment Fund Market to corporate customers	•	✓	•
	Asset management to corporate customers	•	✓	✓
	Treasury and Capital Markets	•	•	✓

Source: (12) (13) (14)

Regarding business lines and conditions, ActivoBank focuses its efforts on providing the best, fastest and simplest possible service to day-to-day individual customers, seeking transactional and straightforward products. BiG* and BEST* main difference in Business lines is the existence for offerings and products for corporate clients.

Innovation in other service providing companies

Vieira de Almeida & Associados – Legal Industry

Service Providing Companies, like product companies, have different degrees of innovation required, depending on the industry on which they operate. At Vieira de Almeida & Associados (VdA*), a prestigious Financial Times (FT) award winner Portuguese law firm, innovation is slowly slithering through the company's branches. The process is slow, especially because many clients disregard innovation in this sector and look for the comfort and traditional model that law firms represent. Even so, the company built a humble yet efficient innovation formal structure: a forum of 6 people meet in a monthly basis to discuss the latest trends in foreign markets as well as possible new offerings for their customers, together with incremental and efficiency related improvements. According to Margarida Saragoça and Hugo Moredo Santos, both distinguished associates and members of the innovation forum, Vieira de Almeida & Associados is the only law firm operating in the Portuguese market with a formal approach to innovation.

Despite the demographic shift occurring in the whole world's demand, towards a more technologically driven and informed customer, Law industry remains a quite conservative sector bound by strict regulations and deontological principles. "These regulations are not unbreakable hurdles to innovating but rather guidelines within which it can be explored" said Margarida, who believes that the difficulty imposed by these boundaries is a motivating challenge.

Another very important tool of the forum are the "lâmpioes"³. "Lâmpioes" are VdA* associates of all areas who report to the Innovation Forum. Their main goal is to address innovation suited to their practice areas' specificities.

The example of the innovation area structure within VdA* is a valid alternative for retail banking, or at least feasible given the internal organization of most banks (15).

Deloitte Consultores, S.A. – Consulting Industry

"Deloitte Consultores, S.A." is one of the top tier players within the Portuguese consulting industry. With more than 1.800 collaborators in Portugal and Angola, it is

³ Translation of street lights, in Portuguese.

considered by André Fonseca Ferreira – Innovation Manager for Financial Services Industry (FSI) at Deloitte Portugal – as one of the top innovators regarding knowledge, intelligence, offerings and innovative practices. “Other consulting firms are still giving their first steps in internal idea generation, not even the structure of innovation processes”.

Regarding the organizational structure, the innovation area is divided by two main divisions:

Innovation Advisory Services (IAS). This unit is transversal to all other areas in the company’s structure. Together with Marketing, it composes an informal unit called “Clients and Markets”, led by a partner (Jorge Marrão) who reports directly to the CEO* (Luís Magalhães). The IAS primary focus is the creation of mechanisms to capture idea generation by the company’s collaborators of different business units; the establishment of new work methodologies and the conception of new offerings based on market research and trends where Deloitte’s customers operate.

Financial Services Industries innovation group. This innovation group, inserted in the FSI, aims at innovating in the offerings of this specific sector. The innovation solutions are implemented via a two way solution: incorporation of new work methodologies in areas such as design thinking, customer experience and agility; and the creation of a specialized research group responsible for disruptive innovation, called Center for Disruption in Financial Services. The FSI innovation group is led by André Ferreira, and reports to the partner responsible for *fit.* (internal R&D program) and the partner responsible for the Consulting FSI area.

The main advantages of the current model are, according to André Ferreira, the autonomy and flexibility, contrasting with the major disadvantage of budgetary constraints and pressure for presenting positive results in the short-term.

Among the main achievements of the innovation area at Deloitte are the creation of “Deloitte Digital*” in Portugal and the completion of the first start up incubator created by a consulting company.

This is the example of a decentralized structure, where the innovation area is divided by two units rather than unifying all in a single group. The direct to CEO* reporting helps the company to keep its focus in innovating and differentiating its offerings from its competitors (16).

“The incremental innovations have been very well received and the customer support offerings in process transformation are having excellent results”

- André Ferreira, Innovation Manager at Deloitte

Innovation at ActivoBank

History

ActivoBank S. A. is a Portuguese Retail Bank known for its strong innovation culture since its early ages.

In 1994, Millennium BCP* Managers considered creating a new bank to test innovative and cost-efficient alternative distribution channels. Banco7 (“7” because it was available every day) was born from this desire, it was the perfect opportunity to minimize the risks of testing cutting-edge concepts such as, at that time, telephone banking. It was the first Portuguese bank to embrace the telephone as its core channel, and it targeted middle to high income clients.

In 2001, Banco7 was reinvented. It was then called ActivoBank7, and the shift occurred to explore the recently blooming Internet Channel. Not only did the channel focus broaden (from telephone to telephone and online), but also the customer focus: it targeted on investment seeking affluent clients. There was also the creation of some branches, merging from a fully remote channel model to a hybrid one, to enable direct contact to customers through relationship managers, an adequate comfort when dealing with investment. The shift was also geographical. It extended its operations temporarily to Spain, through a brief partnership with Sabadell bank. This partnership was soon terminated, in 2002, leading ActivoBank7 Portuguese operations back to MBCP*’s full control.

Despite having its own, independent dynamics, growth was never ActivoBank7’s main purpose. Self-sufficiency was the word in order, to test innovations in the market while generating enough revenues to finance its own operations; this was the bank’s mission from the perspective of the Millennium Group.

During the economic and financial crisis that struck some of the largest economies in the world in 2008, ActivoBank7 saw its mission compromised. Having not diversified its target and customer database (the majority of the bank’s customers were using the bank as a secondary bank, and composed by mid to high income families, the retail-investment bank

struggled along with its customers, who were composed by the classes that best reflected the effects of the crisis. When the confidence of the markets went down, along with the available income to invest and the overall asset valuation during the IMF intervention in Portugal, the scenario was looking gloomy. This was confirmed in ActivoBank7's 2009 income statement: the positive result, self-sustaining operations were under jeopardy and the net income was negative. The lack of diversification and the drop of its core operations left ActivoBank7 in a difficult situation with few financial revenue alternatives to compensate losses.

Struggling with its own results, also under intense pressure due to the financial crisis, Millennium BCP* started assessing its own assets. With this inward focus in mind, among many others, two issues arose: the age structure of the MBCP*'s client database, with a high average age and lacking young individuals, who were critical to Millennium BCP*'s future; and the need to address ActivoBank7's situation (17).

To attend to the first problem, a team was assembled to develop and carry out a new strategy: *Blue Ocean Project* team. This project's goal was clear but challenging: to create the "bank of the future", a new, innovative and contemporary bank, targeting younger generations. The concept was to make banking easy and simple, focusing on transactions and offering simple but complete products.

During the brainstorming and developing of the required concept, the team ended up bashing many times into ActivoBank7's ideologies: the solution would be to provide a solution for clients desiring more autonomy and simplicity, a self-directed* experience driven mainly by technology⁴. Innovation was on the core of ActivoBank7's and *Blue Ocean Project* team's solution.

The creation of ActivoBank answered the two previously mentioned problems jointly: reshape ActivoBank7 into a young generation attractor as well as an innovation lab for the Millennium Group⁵ (18).

Mission and Values

Trust, Honesty (Transparency), Simplicity, Innovation and Accessibility are the bank's core values. All the value proposition for ActivoBank's customers revolve around these five

⁴ Exhibit 9 – ActivoBank's Client Type: Average & Heavy users

⁵ Exhibit 13 – ActivoBank, ActivoBank7 and Blue Ocean Project value propositions

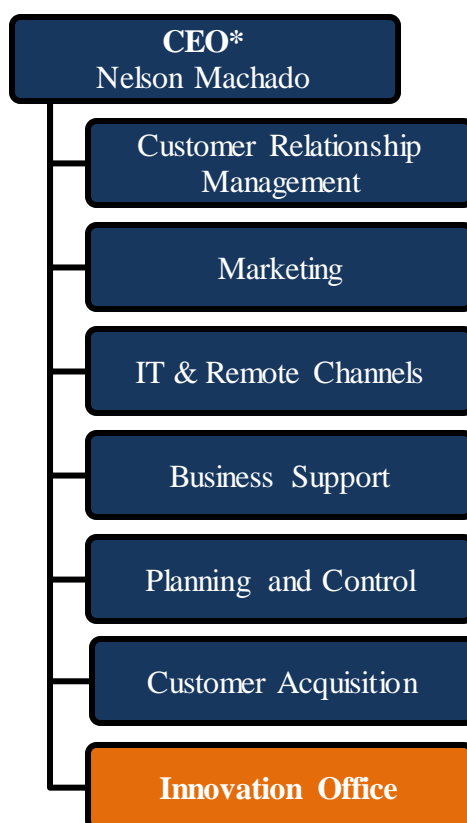
concepts which, according to the bank's belief, are becoming the most appreciated characteristics by the average client recurring to retail banking services.

Simplicity is one of the strongest values: every project is faced with a critical question before moving on: "Is this product/service simple enough?" The internal processes and external offerings need to qualify for this core value, to enable agile operations or to improve customer experience.

Internal Model

ActivoBank has a distributed model, working in an Omni-channel environment composed by: branches, mobile and online channels backed up by a vast amount of operators from customer support operators to dynamic remote account managers. The overall organization is structured as follows:

Figure 10 – ActivoBank's Hierarchical structure



Source: (19)

As stated in Figure 10, all departments and units report directly to the CEO*. It is part of the company's strategy and commitment to delivering the best possible services, and it is the top management's understanding that all decisions must pass through this ultimate filtering process. The Innovation Office is not considered specific departments. Despite this difference in category, this unit reports directly to the CEO*.

Following *Ten types of Innovation* (4), ActivoBank divides the responsibility of the different innovation types as follows:

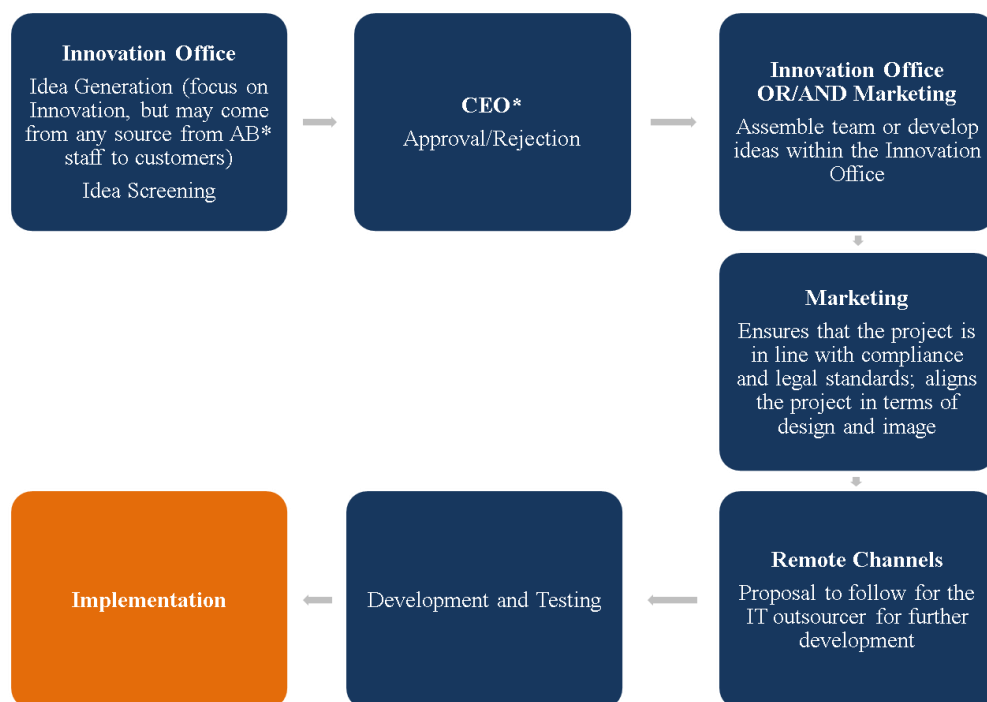
Figure 11 – Division of the ten types of Innovation inside ActivoBank

Innovation Category	Innovation Type	Description	ActivoBank's Department
Finance	Business Model	How you make money	Innovation Office/ Marketing
	Networks and alliances	How you join forces with other companies for mutual benefit	Innovation Office/ Marketing
Process	Enabling process	How you support the company's core processes and workers	Innovation Office/ Marketing
	Core processes	How you create and add value to your offerings	Innovation Office/ Marketing
Offerings	Product performance	How you design your core offerings	Innovation Office/ Marketing
	Product system	How you link and/or provide a platform for multiple products	Innovation Office/ Marketing
	Service	How you provide value to customers beyond and around your products	Innovation Office
Delivery	Channel	How you get your offerings to the market	Marketing
	Brand	How you communicate your offerings	Marketing
	Customer Experience	How your customers feel when they interact with your company and its offerings	Marketing

In general terms, and even though in some cases both cases look similar, the Innovation office handles disruptive innovation, while Marketing addresses incremental innovation.

The types of innovation generated from the Innovation Office follow a specific flow, usually very agile and straightforward. This agility is crucial for the bank to consolidate its position as an innovation leader and first-mover, since it allows the bank to launch successful innovations earlier into the market. This flow is usually as depicted in figure 12, although some projects do not require all the flow steps to be performed.

Figure 12 – Process flowchart of the Innovation Office



In any innovation launched into the market, there are three units that are always involved in the process: the Innovation Office, the Marketing department and the Remote Channels department. These units work together with the CEO* and with any other AB* departments that may contribute to the development of individual projects together to deliver solutions as soon and flawless as possible.

The main characteristics of ActivoBank's Innovation Office's model are (19):

- **Leadership type: *Direct to CEO* reporting.*** There is a high level of autonomy of the Innovation Office, and it is where the disruptive innovation inside ActivoBank comes from. After formal reporting to the CEO* (where triage is made), the proposal returns to the Innovation Office to be developed as a final project. The project is usually led by a member of the Innovation Office, who assembles a team composed by employees from the required areas (depending on the project) and accompanies the project until its implementation phase.
- **Distribution through the organizational structure: *Centralization.*** The innovation is an independent cell of the company, having full time members thinking about the future, applicability of new technology developments and exploring what the most developed banks are doing in their own markets.

- **Internal human resources structure: *Mix between Full-time employees (FTE*) and interns.*** Right now, the Innovation Office is comprised of a combination between an equal number of full-time employees and rotating intern positions. This strategy pinpoints at enriching the diversity pool of ideas to develop while keeping the planning and structure stable with the more experienced and static FTE*s.
- **Culture: *Open office model.*** The innovation lab is opened for every bank employee to share their ideas for evaluation. There are two main possible ways to share insights available to all employees: either post it (for voting by other company members) in a dedicated idea generating platform; or simply walk in the innovation departments physical work space and discuss the ideas. It is a very transparent and accessible process, where all ideas are considered and only excluded (or adapted) after considerable analysis.
- **Bureaucracy level: *Agility and Flat Structure.*** Overall, ActivoBank's structure is very flexible and agile. There is a lot of communication and cooperation between different departments, creating a propitious environment to hastily incorporate upcoming innovations and transformations imposed. The most affected departments are in touch with (and most of the times even part of) the innovation projects, not only to contribute with their valuable inputs but also to start preparing the implementation.

Main Achievements

In its 5 years of existence, ActivoBank has already completed and surpassed all of the predefined milestones that were set upon the bank's creation in 2010.

- ActivoBank attracted **16.000** new Customers in 2012, **18.000** new Customers in 2013 and more than **21.000** in 2014; it currently serves around **80.000** customers.
- In early 2016 ActivoBank is expected to escalate the number of Customers to **over 100.000**.
- Market share of **6% on self-directed* customer segment**, **75%** of them acquired on the last 3 years.
- Growth of **25 % in Customer's Deposits** between 2013 and 2014.
- Break even starting in the second quarter of 2014 (4 years after launch), earlier than the forecasted 5 year period.

- **Positive commercial gap** (deposits less loans) contributes to a better funding cost to Millennium BCP* group.

ActivoBank inside the Millennium Group

Inside the Millennium Group, ActivoBank has a determinant role: even more than at the time of its creation, it is the innovation lab. Now with a bigger client database and a broader target (any self-directed* person), its results represented a bigger sample of the overall market and, therefore, a clearer view of what innovations were worth merging to the Millennium Group. The only question hard to answer after implementation in ActivoBank for a fit in MBCP* is scalability: will it be possible for the Portuguese banking behemoth to apply the solutions that worked in ActivoBank? Are some of the steps of the whole process impossible to apply, or even to find alternatives to? The reverse applies as well: some projects are too costly to be conducted only by ActivoBank (due to the size of the company vs. investment required of the projects), so the two banks join efforts to benefit from economies of scale.

Examples of innovations passed from ActivoBank to MBCP* are:

- **MBCP's Mobile Banking** was first developed in ActivoBank (Transactional and Investment App).
- **AB's Investments Web Site** component was the base for MBCP*'s web site.
- **Remote Account Managers** Model is now being implemented in MBCP*.
- System availability during **Saturdays**.
- **Social Media** strategy with a constant and active presence started in ActivoBank.
- **Paperless** Account Opening Process.
- **Welcome Term Deposit** and ActivoBank's **Flexible Term Deposit** was passed on to MBCP*.
- Pre-paid thematic cards.
- **Current Account "Product Box"** (to approach a retail experience) was also adopted by MBCP*.
- Communication material and techniques.

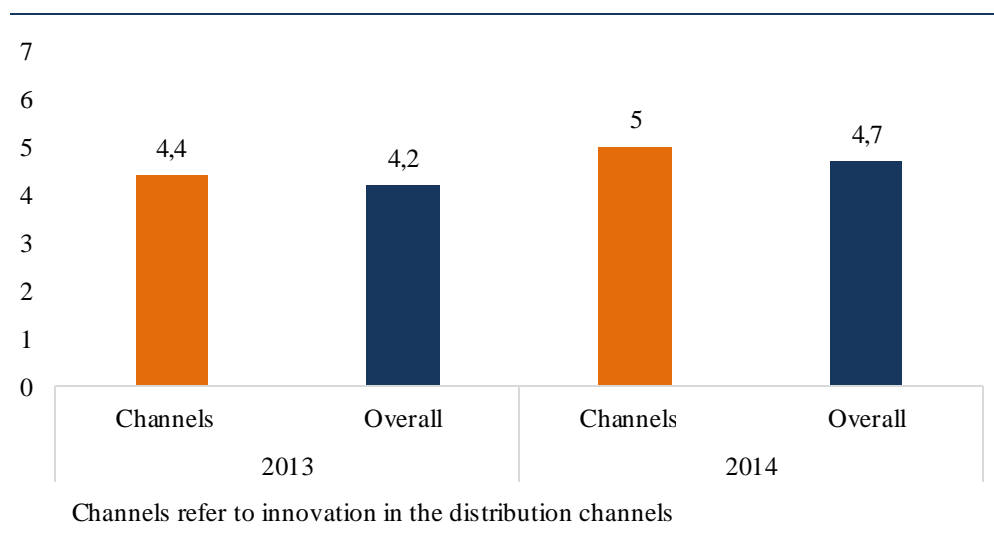
Conclusion

The board meeting was concluded, but only a small shred of its content was absorbed by Carlos Gomes. Not the case that the contents were insignificant but, unwittingly, greatest topics were in order. The company's next steps? If innovation was one of the bank's cornerstones and strongest values, then the future of the innovation department was directly correlated to ActivoBank's future, magnifying the dimension and repercussions of this challenge.

Is scalability a deterrent to the actual model? As the bank expands its customer base and widens its target, should ActivoBank maintain its current innovation model, or should it change to one with other features in the categories highlighted in the case (Leadership type, distribution through the organizational structure, internal human resources structure, culture and bureaucracy level)?

Exhibits

Exhibit 1 – Innovation Performance in banks (self-assessment, scale of 1 to 7)



Source: Innovation in retail banking 2014 (EFMA*)

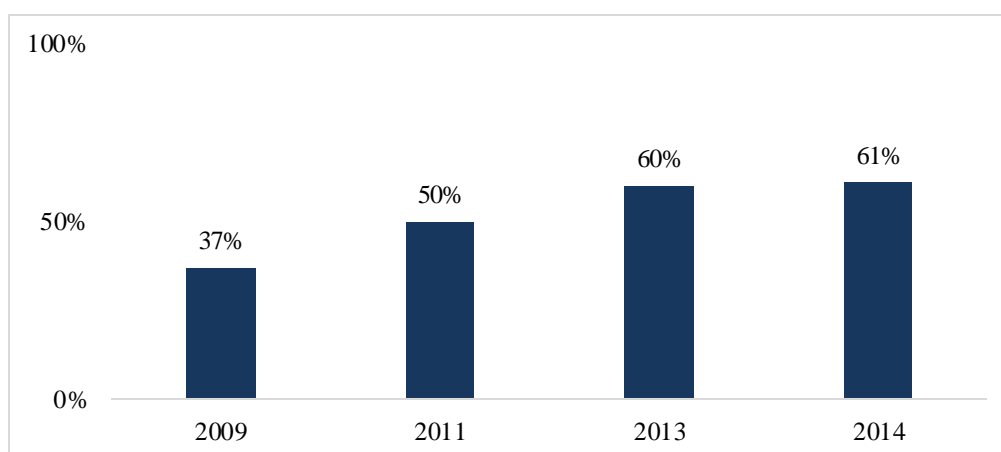
Sample: “108 respondents to the survey in 2014, from 47 countries around the world. For example, leading banks in countries like France, Spain, Malaysia, United Arab Emirates, South Africa, Brazil and Turkey all participated. Overall, 43% of respondents were from high income countries and 57% were from middle or low income countries. We define a high income country as one with a GDP* per capita on a PPS basis of more than US\$30,000.” (3)

The graphic shows us the self-assessment of retail banks on innovation performance. As displayed, the self-assessment grade has increased from 2013 to 2014, in distribution channel offerings (Channels) and regarding the organization as a whole (Overall).

In 2013, the average grade attributed by banks to their own distribution channels and overall innovation was 4,4 and 4,2 respectively. These numbers increased moderately in the following year, 2014: the grade for channel innovation performance increased from 4,4 to 5 and the overall innovation performance self-rating incremented from 4,2 to a more expressive 4,7.

Although this is a self-assessment, the fact that the increase is registered in relative terms (meaning both years were based on self-assessment), we may concur that there was a positive variation in the self-perception in the company’s innovation.

Exhibit 2 – Proportion of banks with an innovation strategy



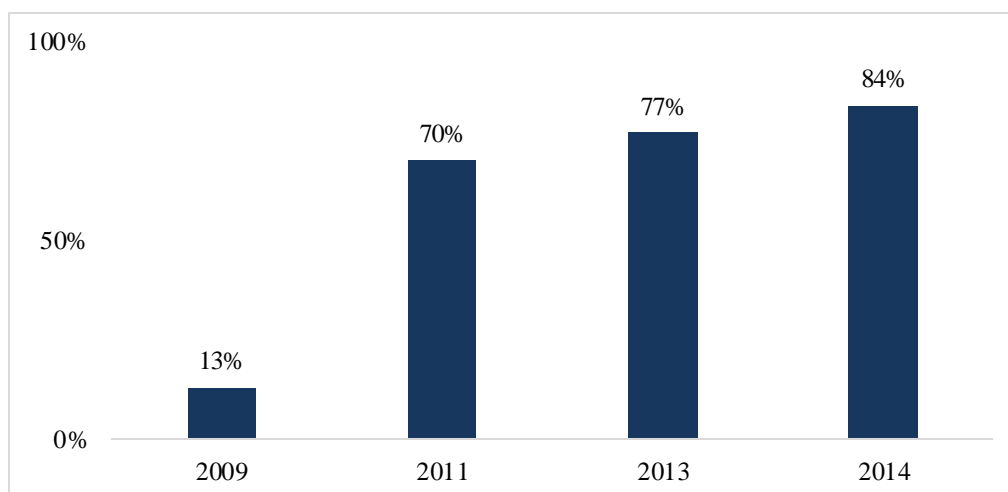
Source: (3)

Sample: “108 respondents to the survey in 2014, from 47 countries around the world. For example, leading banks in countries like France, Spain, Malaysia, United Arab Emirates, South Africa, Brazil and Turkey all participated. Overall, 43% of respondents were from high income countries and 57% were from middle or low income countries. We define a high income country as one with a GDP* per capita on a PPS basis of more than US\$30,000.” (3)

From 2009 until 2014, there has been a gradual and substantial increase in the proportion of banks with an innovation strategy. In 2009, only 37% had a formal strategy regarding innovation. Between 2009 and 2011, there was the biggest leap: from 37% to 50%, with an increase of 13 percentage points. In 2013, the majority of the banks already had integrated innovation in their strategic planning (60%); after this point, the growth pace regarding the number of banks with a defined innovation plan decreases.

From 2013 to 2014, the variation of this proportion was only 1 percentage point, from 60% to 61%. As innovation gains increasing importance in the banking sector, it is expected for this proportion to expand even further, until innovation is part of the activity of an expressive majority of the banks.

Exhibit 3 – Proportion of Banks increasing innovation investment yearly



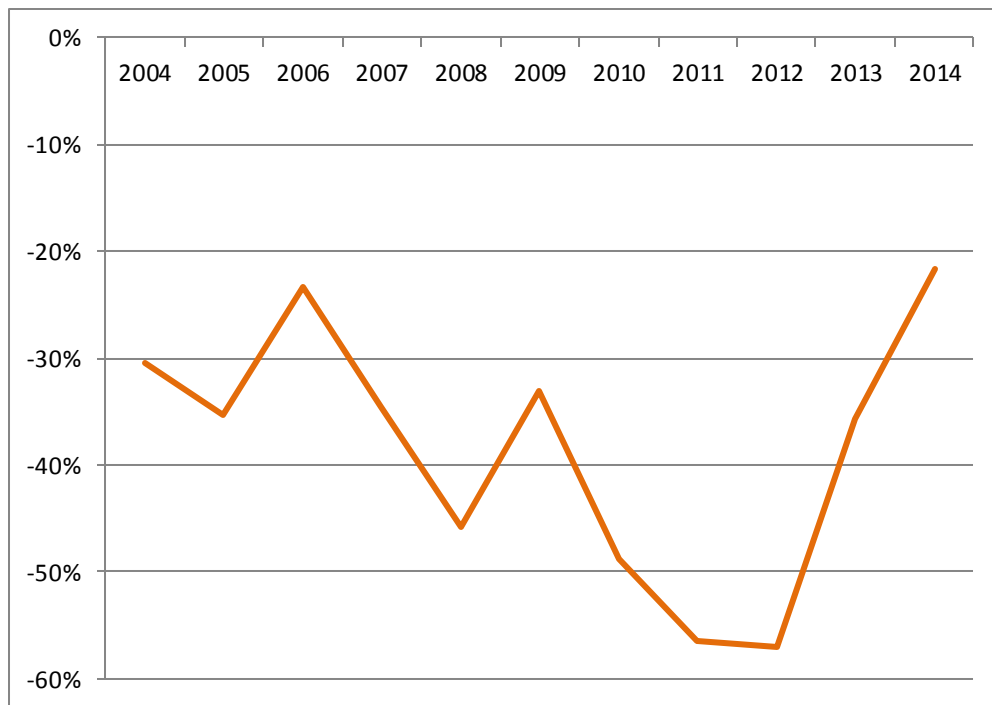
Source: (3)

Sample: “108 respondents to the survey in 2014, from 47 countries around the world. For example, leading banks in countries like France, Spain, Malaysia, United Arab Emirates, South Africa, Brazil and Turkey all participated. Overall, 43% of respondents were from high income countries and 57% were from middle or low income countries. We define a high income country as one with a GDP* per capita on a PPS basis of more than US\$30,000.” (3)

Has in the case of the proportion of banks with an innovation strategy historically increases, this trend is also reflected in the total investment done by banks pinpointing innovation. From 2009, where only 13% of the banks increased their investment versus what they had invested in 2008 (drawback caused by the financial and economic crisis), we get to 2014 where 84% - a vast majority of the banks – increased their investment versus 2013.

This is an expressive response of the market to the increasing importance of innovation in their operations, not only in the products offered but also in the internal processes.

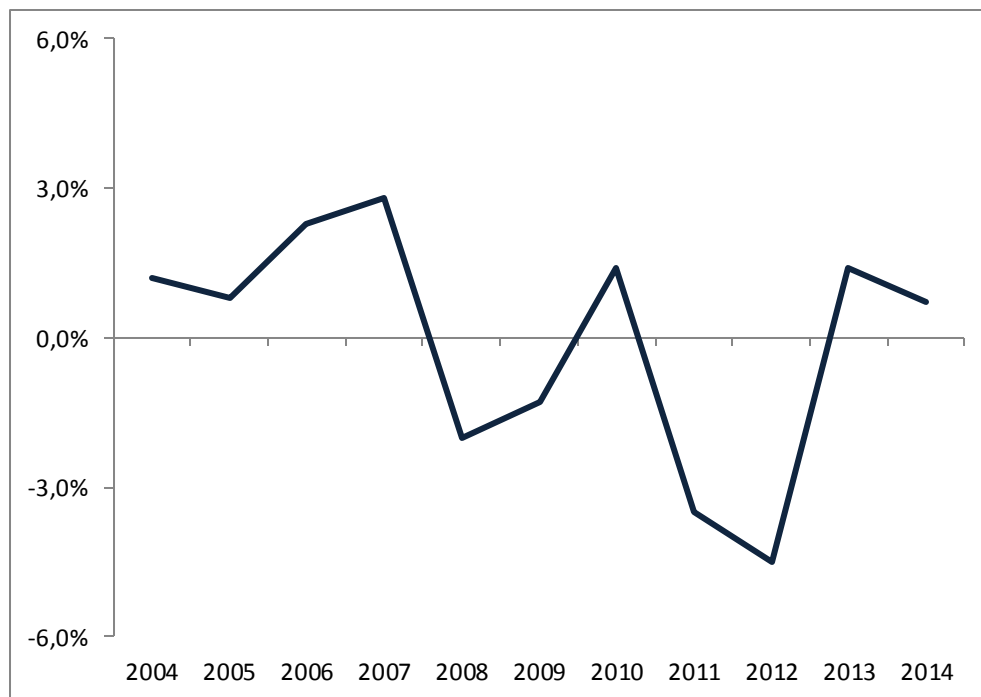
Exhibit 4 – Portuguese Confidence Level Index levels



Source: (7)

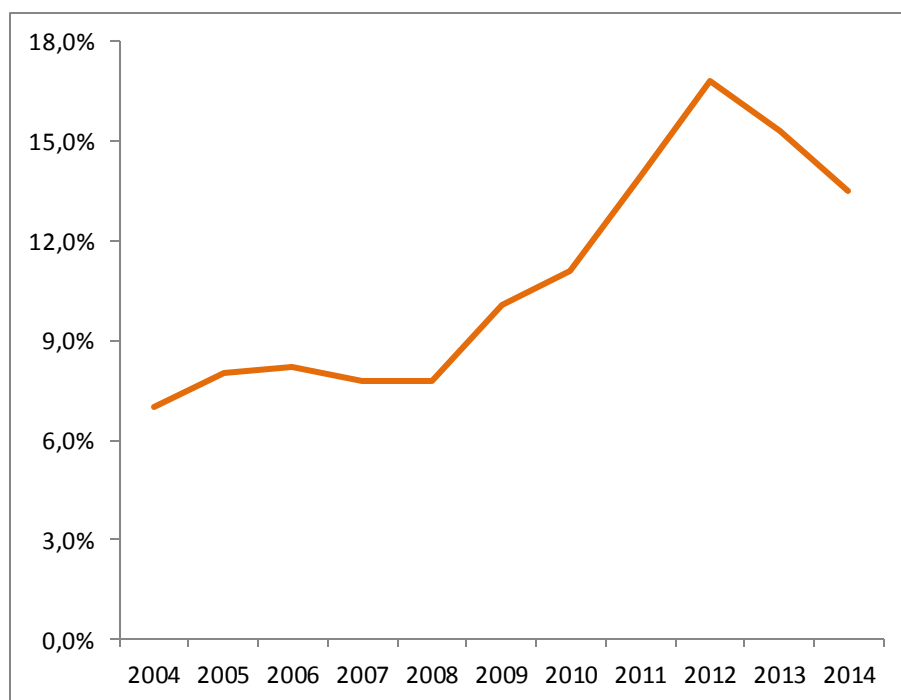
Measure: *Saldo de respostas extremas* (Net extreme answers, calculated based on survey results directly to the Portuguese population)

Exhibit 5 – Evolution of the GDP* variation rate (2011 constant prices), year-on-year basis



Source: (7)

Exhibit 6 – Evolution of the unemployment rate in Portugal



Source: (7)

Exhibit 7 – Balance Sheet (ActivoBank, BEST*, BiG*) – Dec. 2013

	Activobank	BiG	BEST*
Assets			
Cash and deposits at central banks	100	14.560	95
Deposits at other credit institutions	24.632	30.024	49.527
Financial assets held for trading	0	21.900	3
Available-for-sale financial assets	184.047	874.881	25.942
Loans and advances to credit institutions	205.054	35.528	120.014
Loans and advances to customers	15.432	196.950	159.615
Non-current assets held for sale	0	204	0
Other tangible assets	2.545	16.409	1.378
Intangible assets	173	133	5
Investments in subsidiaries, associates and joint ventures	0	5.295	0
Current income tax assets	74	227	0
Deferred income tax assets	3.189	2.109	472
Other assets	5.826	16.162	3.094
Total Assets	441.072	1.214.382	360.145
Liabilities			
Deposits from central banks	0	130.315	0
Financial liabilities held for trading	0	1.357	167
Deposits from other credit institutions	0	143.478	13.758
Deposits from customers	413.911	684.143	276.960
Hedging derivatives	0	7.353	34
Provisions	292	4.874	820
Current income tax liabilities	0	16.404	2.025
Other liabilities	3.217	19.872	4.147
Total Liabilities	417.420	1.007.796	297.911
Equity			
Share capital	41.000	104.000	63.000
Share premiums	0	1.362	0
Treasury stock	0	-1.084	0
Revaluation reserves	2.778	-2.261	154
Other reserves and retained earnings	-17.192	58.590	-11.156
Net income	-2.934	58.459	10.236
Interim dividends	0	-12.480	0
Total Equity	23.652	206.586	62.234
Total Liabilities + Equity	441.072	1.214.382	360.145

Source: (8)

The accounting structure reflects the similarities and differences among the 3 main Portuguese digital-focused banks. Financial assets and investment items are the ones with more weight in BiG*'s Balance sheet, while ActivoBank and BEST* have greater weight for items like 'Deposits from customers' (in the case of ActivoBank) or 'Loans and Advances to customers' (BEST*). Another observable trend from the Balance sheets is that BEST* and ActivoBank both are owned by other credit institutions (Novo Banco and MBCP*, respectively), via items such as 'Loans and advances to credit institutions'.

Exhibit 8 - Separate Income Statements (Dec. 2013) in thousands €

	Millennium BCP	CGD	Santander Totta	BEST*	ActivoBank	BiG
Interest and similar income	2.616.769	2.994.444	1.254.782	6.614	6.212	43.994
Interest and similar expense	2.376.115	2.551.729	831.525	2.089	9.576	18.252
Net interest income	240.654	442.714	423.257	4.525	-3.364	25.742
Income from equity instruments	334.656	82.356	58.302	24	37	1.812
Fee and commission income	572.193	476.609	364.917	18.445	13.604	8.105
Fee and commission expenses	-91.793	-111.679	-59.234	-5.800	-180	-1.586
Net gains from assets and liabilities at fair value through profit or loss	73.390	-440	20.937	-135	-	7.018
Net gains from available-for-sale financial assets	55.860	118.110	4.293	17	3	79.261
Net gains from foreign exchange differences	13.652	10.935	3.985	15.113	-8	-90
Net gains from sale of other assets	-22.741	-49.972	-9.554	-	-	5.041
Other operating income and expense	-190.466	65.429	-16.356	-211	-129	-393
Operating income	985.405	1.034.062	790.548	31.978	9.963	124.910
Personnel costs	538.777	535.929	266.948	6.045	6.629	22.219
General administrative expenses	291.119	360.209	134.661	10.441	6.787	7.683
Depreciation and amortisation	27.970	93.077	59.835	422	732	1.135
Provisions net of reversals	-7.637	-170.314	17.185	-157	116	1.824
Value adj. relating to loans and adv. to cust. and receiv. from other debt	1.337.061	1.370.639	237.579	260	-14	35
Impairment on other financial assets net of reversals	96.624	102.892	20.554	-	-	125
Impairment on other assets net of reversals	1.129.763	186.278	35.703	-	-	125
Net income before tax	-2.428.272	-1.444.648	18.083	4.967	-4.287	91.764
Current tax	39.644	-40.309	29.217	4.614	59	33.219
Deferred tax	-509.186	-313.824	-13.582	117	-1.412	86
Net income	-1.958.730	-1.090.515	2.449	10.236	-2.934	58.459

Source: (8)

Exhibit 9 – ActivoBank’s Client Type: Average & Heavy users

Main Characteristics	Average User	Heavy User
Gender	All	All
Age	24-40	24-35
Address	Urban areas of Portugal	City Centers
Education	>High School	>Bachelor
Preferred Channel	Online	Online and Mobile
Number of Operations (monthly)	Up to 10	>10
Most Common Operations	Check Account Balance	Check Account Balance + Transfers

Source: (17)

Exhibit 10 – Interview with Margarida Saragoça – Practice & Clients Director – and Hugo Moredo Santos – Managing Associate, Banking & Finance at *Vieira de Almeida & Associados*.



1. Regarding the legal industry, do you think that regulatory pressures are hurdles to innovation and negatively influence the player's margin to offer clients more efficient solutions? Or they merely protect the consumer without harming the competitive environment of the market?

Regulations limit creativity, especially regarding pricing models and advertisements. Still, most of the rules are well received by lawyers, since they protect national lawyers and define the status and identity of law entities. These regulatory boundaries do not hold back innovation, they just impose adaptation to the rules.

2. How is innovation structured inside VdA*?

We have no FTE*s dedicated to innovation. Innovation is managed from a group of six associates, called “Innovation Forum”, who meet in a monthly basis. There is also a smaller unit dedicated to operations and innovation who meet in a weekly basis. The Innovation Forum reports directly to the administration.

There are also associates spread across the company called “lâmpioes”, whose mission is to report specific needs and problems in their own practice for the innovation forum to discuss and find ways to improve processes.

3. How would you describe the internal culture regarding innovation?

VdA* has a strong innovation and teamwork culture. Innovation is a generalized pride amongst company member, and is spread as something attractive to work on, counting with the acceptance and participation of several company members.

1. What is Deloitte’s organizational structure?

Deloitte Portugal is divided by business units called functions (Consulting, Audit, Tax, Corporate Finance and Business Process Solutions). Each of these functions is then fragmented by industries: FSI (Financial Services Industry), TMT (Telco Media Telecommunications + Tourism & Leisure + Public Sector + Construction, Real Estate & Infrastructures), MCBEATS (Manufacturing, Consumer Business, Energy, Aviation, Transportation Services). Transversal to this structure is an informal unit called “Clients & Markets”, aggregating the Marketing and Innovation Advisory Services. The IAS team reports to the “Clients & Markets” partner (Jorge Marrão) and is effectively an internal innovation group focused in creating of knowledge gathering factories for different business units, the creation of new work methodologies and the establishment of new offerings accounting for latest market trends and opportunities. The IAS group is led by João Messias Gomes, reporting to Jorge Marrão who in turn reports to Luis Magalhães (CEO*).

There is also a dedicated group of innovation inside the FSI area, led by me. It aims at innovating via a two way solution: incorporation of new work methodologies (design thinking, customer experience and agility); and the creation of a specialized research group responsible for disruptive innovation, called Center for Disruption in Financial Services, researching for latest trends in new technology (for example, Robotics, InternetofThings, Artificial Intelligence, BitCoin, Sensors, Wearables). The FSI innovation area also leads a project called Deloitte Digital* Accelerator which, through a partnership With Beta-i, aims at creating an incubator for technological companies Beta-I with the main goal of changing the paradigm in insurance sector. I report directly to the *fit*. (Internal R&D program) partner – Ana Cristina Gamito – and to the partner responsible for the Consulting FSI area – João Paula de Carvalho.

2. What are Deloitte’s internal innovation models DELOITTE?

In most cases, the IAS handles incremental innovation (in processes and offerings) and FSI addresses incremental, disruptive and product innovation.

3. What do you think that are the main advantages and disadvantages of Deloitte's model?

The main disadvantage of the FSI innovation model is the budgetary constraint, as well as the pressure to present positive results, leading to a greater focus on external innovation (to present to clients) rather than in internal innovation. The major advantages are the autonomy and flexibility granted to both groups (IAS and FSI innovation).

4. Are disruptive innovations well received by your customers?

The IAS group is still recent, with only four years of experience, and the operating model of this area is yet to be tuned to perfection. It is part of the maturing process, to reinvent itself constantly until they find the right choice. The FSI innovation group exists since October 2014, and there is not enough feedback collected to assess the success of the disruptive implementations. On the other hand the incremental innovations have been very well received and the customer support offerings in process transformation are having excellent results.

5. About your competitors, what do you perceive as the biggest difference between innovation in Deloitte and in other players in the Consulting industry?

Deloitte's global positioning, as a brand and investment choices; in the partnership with Singularity University and the MIT* Media Lab, giving Deloitte new knowledge and intelligence horizons to develop really inspiring and innovating offerings. Check Deloitte Digital*. Check Center for The Edge. In Portugal, other consulting companies are still giving their first steps in mechanism to capture ideas internally, not yet matured innovation processes.

6. What do you think that are Deloitte's innovation main achievements?

- Partnership with Singularity University and MIT* Media Lab.
- Recognition as the top consulting company regarding innovation in the insurance sector.
- First consulting company to create a start-up incubator.
- Creation of "Deloitte Digital*" in Portugal.

7. What is the bank's organizational structure?

Six departments (three autonomous, three connected to MBCP*) and one Office:

- (AB*) *Direcção captação*: Client acquisition (manage events, salesforce, branch network, among others).
- (AB*) *Direcção de Atenção e Relação com o Cliente*: manages the relationship with customers (CRM - Customer Relationship Management).
- (AB*+MBCP*) *Direcção de Marketing*: Marketing unit with a high level of autonomy over MBCP*, although it is still connected.
- (AB*+MBCP*) *Áreas de Suporte*: Connection with MBCP* interfaces.
- (AB*+MBCP*) *Direcção de Canais Remotos*: Integration with MBCP*'s IT* unit.
- (AB*) *Direcção de Planeamento e Controlo*: Manages all the bank's information (statistics, income statements, account reports).
- *Núcleo de inovação*: responsible for disruptive and incremental innovation.

8. What are the main characteristics of the innovation area in ActivoBank?

- Autonomous unit: it does not rely on any other department and has no individualistic interests.
- The team has the mission to research international best practices of various types: user experience, new products and services, internal efficiency, information management; analyzing trends affecting the bank to understand causes and adapt the bank's offerings to incoming opportunities. For example, a considerable number of youngsters were opening accounts, although AB* had no offerings directly targeting them. To take advantage of this trend, AB* created products directly targeting this new segment.

9. What are the main advantages and disadvantages of this innovation model?

Advantages:

- Reporting directly to the CEO* empowers the Innovation Office.

- Able to completely focus on research and project development rather than having everyday activities to perform.

- To fulfill projects, it can assemble teams with members from different departments and expertise levels.

- It is scalable.

Disadvantages:

- The human resources composing the Office could be performing day-to-day activities, which may represent high costs for the bank.

- The model only works if innovation is one of the core values of the company or a generalized mindset, and the Office has to have complete support from the CEO*.

- Having an autonomous unit dedicated to innovation may have a negative effect in the company's culture, causing the staff to believe that innovation is strictly from this group's responsibility rather than participating.

10. What do you think is the main difference between the innovation in ActivoBank and its competitors?

- Flat decision structure. The Innovation Office generates ideas; the ideas follow to the CEO* for approval (a swift process).

- Different departments use the Innovation Office to develop their own ideas or problems, working in a cooperative environment.

In other banks, the most frequent scenario is having a decentralized structure with individual innovation teams working within each department. The decentralization has the leverage inherent to specialization, but, in my opinion, there two major drawbacks: the dissemination of knowledge and lack of communication between innovation units. The bigger the banks are, the more acute are the mentioned disadvantages.

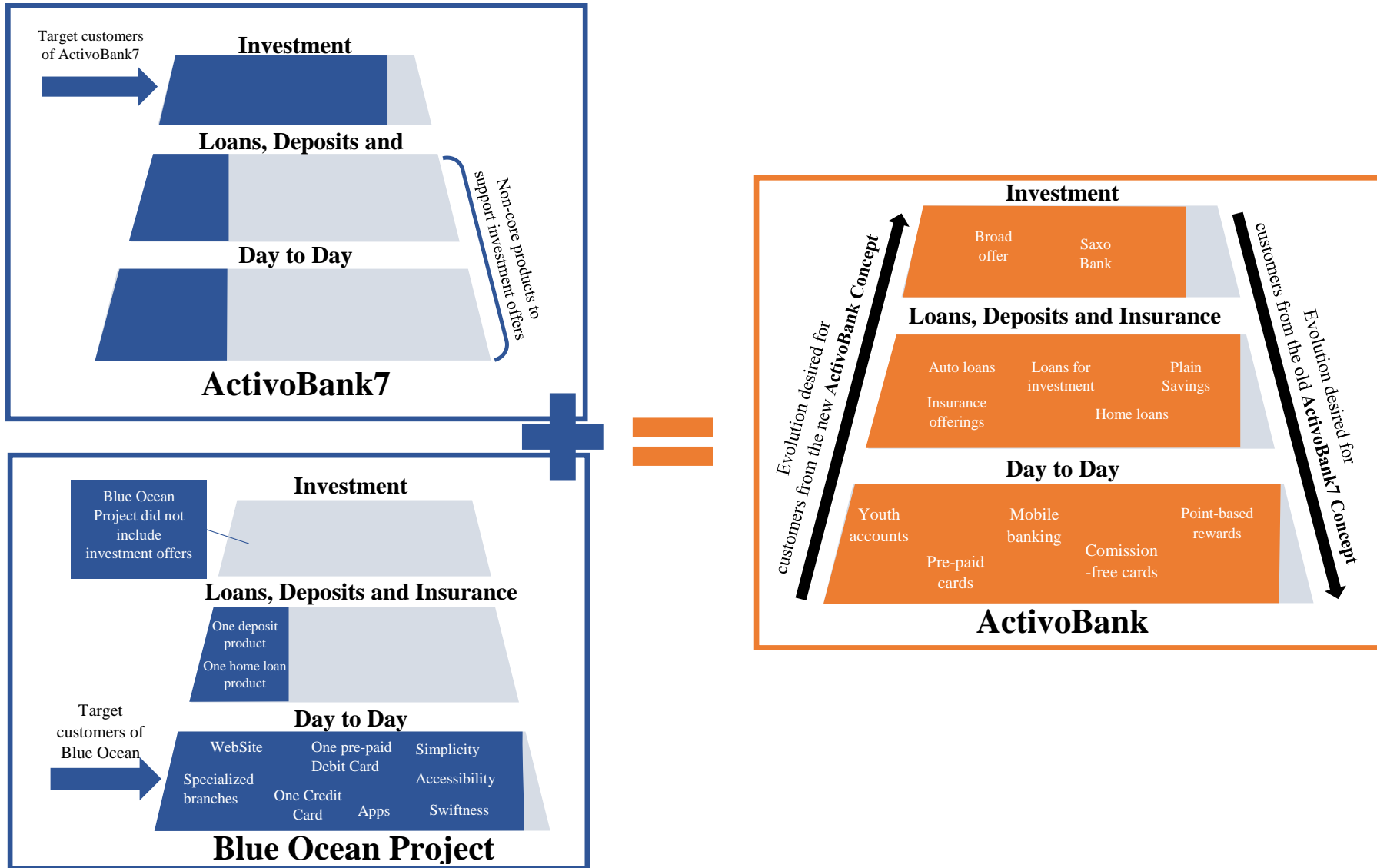
11. How do you think that the retail banking sector will be in 5 years?

In 5 years, all the banks will become closer to what AB* is now. The new generation demands technology and digitalization in the banking sector.

The weight of generation Y members in the overall population will increase, and older generations are also displaying surprisingly good adaptation to the latest technologies such as smartphones. This generalized embracement of the latest tech trends makes this a unique

technological revolution. Revenue streams will change, and so does the banking industry to adapt to this new reality. Opposite to what happened not so long ago, branches will become a secondary channel.

Exhibit 13 – ActivoBank, ActivoBank7 and Blue Ocean Project value propositions



Literature Review

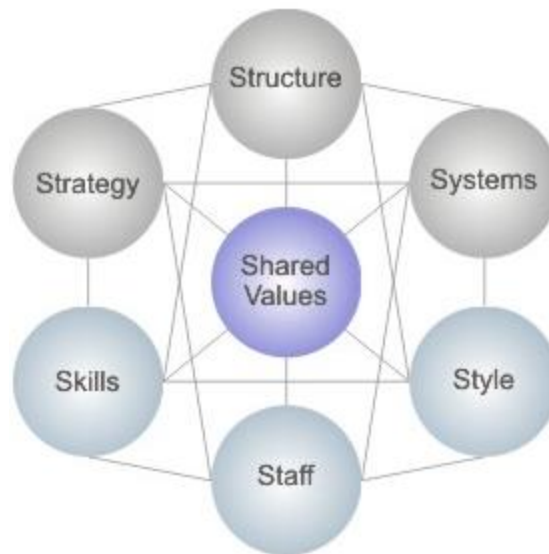
Academic Literature

In the process of addressing the case challenges, 3 frameworks were used to analyze ActivoBank's current (and often future) situation: the McKinsey 7 S Matrix, the Porter 5 forces framework and a PEST analysis.

McKinsey 7 S Framework

McKinsey 7 S Matrix is framework aimed at assessing, organizing and analyzing organizations' internal aspects. The basic concept behind this framework is that there are seven internal factors that need to be aligned for the company's strategy to be successful: Strategy, Structure, Systems, Shared Values, Skills, Style and Staff.

Figure 1 – McKinsey 7 S framework



Source: (20)

These seven factors can be organized into two categories: on the one hand, there are "Hard" elements – Strategy, Structure and Systems – composed by the factors that are easy to identify and change, since management can directly influence them; on the other hand, "Soft" elements – Skills, Shared Values, Style and Staff – are harder to identify and to

shape, they are much less tangible and perceivable than the “Hard” ones and are more influenced by culture rather than directly by the management.

PEST Analysis

Created by Francis Aguilar (21), the PEST analysis (**P**olitical, **E**conomic, **S**ocio-Cultural and **T**echnological) helps to assess the surrounding macroeconomics environment in which a company operates. Opportunities and threats may be identified.

Opportunities may come from new technologies, new trends, demographic shifts or government policies to stimulate the economy.

Threats can include regulation limiting your current offerings; a shrinking market or economic downturns.

PEST Analysis helps you to spot business or personal opportunities; it may trigger warnings of significant threats; it reveals the direction of change within your business environment – It helps you identify change and benefit from it rather than leaving your situation drifting with unsettled environmental conditions.

Porter's 5 forces model

Developed by Harvard Business School 's Michael Porter, in 1979, the Porter's five forces model looks at five specific factors that help determine whether or not a business can thrive, based on other businesses in the industry

"Understanding the competitive forces, and their underlying causes, reveals the roots of an industry's current profitability while providing a framework for anticipating and influencing competition (and profitability) over time,"

- (22)

The five factors considered by Michael Porter to assess the industry are:
Supplier Power: the power that suppliers have over the company; warning lights in this factor may come from the scarce number of suppliers, the difficulty of obtaining key materials, and how much does the company rely on specific suppliers.

Buyer Power: This section reveals the power that buyers have over the industry. If it is a small market, with few buyers and if the industry in which the company is operating is one where the buyers may easily switch sellers, then the buyer's power is high, which may be harmful for the company, or at least reduce the company's negotiation power.

Competitive Rivalry: the number and capability of competitors is analyzed. If the market has a high number of competitors, and they offer equally attractive products and services, then the company will most likely have little power, given that there is a lot of options available for the buyers.

Threat of Substitution: As the name states, this inquires the degree to which your offerings may be substituted by similar products or services. If substitution is easy and viable, then this weakens your power.

Threat of New Entry: Power is also affected by the ability of people to enter your market. The barriers to entry may either be natural through boundaries such as economies of scale or brand power of other existing companies in that specific industry; or be regulatory, controlled by a third party that makes it illegal for companies to compete in a peculiar market.

Case Analysis and Teaching Notes

Introduction

This section is for the exclusive use of the instructor. It aims at summarizing the case, identify some of the main challenges brought up by this case study and provide guidelines about possible answers. This analysis is done by using specific management frameworks such as the McKinsey 7s Matrix, but different approaches may prove to be as effective as the ones used in this case analysis chapter.

This master thesis aims at examining how service providing companies address innovation within their organizational structures, more specifically as a strategy case study in the retail banking environment, to be used as a teaching tool by professors and teaching assistants willing to address this topic. The adopted view is from the top management of ActivoBank, a small but growing swiftly Portuguese retail bank with digital and customer-driven focus.

Case Summary

ActivoBank, a small Portuguese retail bank with digital focus, has now been operating in the Portuguese market with the current structure for five years. As the model proves to be successful and allows the company to grow at a generous pace, some questions arise on the most adequate innovation strategy for the company, one of the bank's strongest competitive advantages.

After hitting its breakeven point earlier than expected, in 2014, the bank is now at a critical point to check-up on the company's structure and overall health status. With a client base of around eighty thousand people (and growing), should the bank maintain its centralized innovation model, or shift to a different one more suited to its scalability and upcoming challenges? Effectively, is there a more suited model regarding the future of the company?

Learning Objectives

The present case study was shaped to provide a successful and reasoned learning experience on the following topics:

- Macro and market environment analysis, using tools such as the Porter's 5 Forces and the PEST analysis. In the specific case of the case study, the geographical boundaries of this analysis would be Portugal, which is the market in which ActivoBank operates.
- Organization structure analysis, using specific frameworks such as the McKinsey's 7s Matrix.
- Explore benefits and disadvantages of each scenario and compare them, explaining the choice that best fits the organization given its environment and conditions.
- Understand the Portuguese retail banking industry and analyze the fit between its future and ActivoBank's strategy

Suggested Assignment Questions

Core Question

- Should ActivoBank maintain its current innovation model, or should it change to one with other features in the categories highlighted in the case (Leadership type, distribution through the organizational structure, internal human resources structure, culture and bureaucracy level)?

Additional Questions for Discussion

- Analyze ActivoBank's environment regarding the Portuguese Economy
- Analyze ActivoBank's position within the Portuguese Banking sector

Analysis

Core Question

- **Should ActivoBank maintain its current innovation model, or should it change to one with other features in the categories highlighted in the case (Leadership type, distribution through the organizational structure, internal human resources structure, culture and bureaucracy level)?**

The following table shows the current situation of the bank:

Table 1 – ActivoBank’s current Innovation Office structure

	Current
Leadership Type	Direct to CEO* reporting
Distribution through the organization structure	Centralized
Culture	Open office
Bureaucracy Level	Low: agile and flexible
Internal Structure	Mix FTE*s (50%) and University Interns (50%)

The main challenge of this case is to assess different scenarios and possible upcoming changes (a considerably bigger customer base, at around 350.000 customers, and new targets such as the corporate sector).

It is important to identify the characteristics of the organization as a whole, in its present state. The McKinsey 7s Matrix analysis displayed below shows us the overall organization structure, to proceed to more detailed analysis about the fit between the company’s strategy and the chosen structure to pinpoint its goals.

Table 2 – ActivoBank’s 2015 McKinsey 7s “Hard” Elements

<p>Strategy – Planning on how to get and keep a competitive advantage over competitors</p>	<p>What is our strategy?</p>	<p>To be Portugal's most innovative retail bank.</p>
	<p>How do we intend to achieve our objectives?</p>	<p>To take advantage of new technological, regulatory or process innovations arising. Always try to be one step ahead.</p>
	<p>How do we deal with competitive pressure?</p>	<p>By being first-movers.</p>
	<p>How are changes in customer demands dealt with?</p>	<p>Feedback is gathered using tools such as the Net Promoter Score (NPS), while trying to reshape the overall banking experience. ActivoBank's target customer is a self-directed*, autonomous one, who contacts directly his bank mainly for advice. The niche addressed by AB* is representative of what the average banking customer will be in the next years.</p>
	<p>How is strategy adjusted for environmental issues?</p>	<p>As the regulation is tight in the Portuguese banking industry, the bank is unable to implement some of the interesting solutions that it develops. It follows regulation changes to implement the pending projects.</p>
<p>Structure – The company’s organization and hierarchy</p>	<p>How is the company divided?</p>	<p>One CEO*, six departments and the Innovation Office. Departments: Customer Relationship Management, Business Support, IT & Remote Channels, Planning and Control, Marketing, Customer Acquisition.</p>
	<p>What is the hierarchy?</p>	<p>Flat structure, with all departments reporting directly to the CEO*.</p>
	<p>How do the various departments coordinate activities?</p>	<p>Weekly board meetings to report the evolution of each area to the CEO* and to each of the directors of other departments.</p>
	<p>How do the team members organize and align themselves?</p>	<p>The Innovation Office prepares proposals (business case and model, operations, financial model and technological model), and it is able to focus on this task alone, since it has no daily operations to be performed. If the proposal is validated, a team is assembled (usually led by the initial developer of the project) gathering employees from all the required areas of expertise. The leader then delegates and manages the project until its implementation phase.</p>
	<p>Is decision making and controlling centralized or decentralized?</p>	<p>The decision making process is centralized in the CEO*. Proposals are built and presented, but the final word always comes from the top manager.</p>
	<p>Where are the lines of communication? Explicit and implicit?</p>	<p>Daily communication is implicit throughout projects, but there are forms of explicit one like regular presentations in meetings.</p>
<p>Systems – Daily operations performed to obtain the desired output</p>	<p>What are the main systems that run the organization?</p>	<p>Central System, complemented by distributed systems (branches, mobile and website).</p>
	<p>Where are the controls and how are they monitored and evaluated?</p>	<p>Outsourcing to MBCP*'s IT* department.</p>
	<p>What internal rules and processes does the team use to keep on track?</p>	<p>Updated status reports for all ongoing projects are presented weekly in a board meeting.</p>

Table 3 – ActivoBank’s 2015 McKinsey 7s “Soft” Elements

Shared Values – Core values of the company and cultural environment:	What are the core values?	Innovation, Transparency, Simplicity, Trust, Accessibility
	What is the corporate culture?	Innovation, focus on the client. The client is seen as someone who is informed and should not be engaged too aggressively. The bank uses advisory as its tool to show customers what it has to offer.
	How strong are the values?	There is a widespread environment of acceptance and disclosure of the bank's core values by the employees, internally and externally.
Style – Leadership style	How participative is the leadership style?	Very participative, active participation in all departments. Weekly meetings with all directors, daily communication with each director individually.
	Do employees tend to be competitive or cooperative?	Mainly cooperative. As most processes are well distributed, there is no competition between different departments. The only area where this happens is Innovation, as it is divided (according to its category) between the Marketing Department and the Innovation Office.
	Are there real teams functioning within the company or just nominal groups?	Yes, there is a defined division among different areas of the bank, although occasionally, for different projects, there may be a temporary team with people from different areas
Staff – Employees and their capabilities	What positions or specializations are represented within the team?	The Innovation Office is composed by a mix of FTE*s and trainees (finalists in a Master of Science (MSc*) program).
	What positions need to be filled?	Regarding the Innovation Office, for the current bank size, there is no positions to be filled. Regarding the overall bank, there is a deficit of salespeople
Skills - What the company does best	Are there gaps in required competencies?	So far, no.
	What are the strongest skills represented within the company?	Great knowledge about the banking industry; embedded innovation culture. Widespread comfort using and adapting to new technology.
	What is the company known for doing well?	Offering fair conditions, simplifying and Innovating.
	How are skills monitored and assessed?	Outsourcing: MBCP*'s Human Resources Department.

Most of the characteristics assessed with the 7s framework seem to fit in and work with the current dimension and target, with around 150 employees and a customer base of over 80.000 customers. The main question is: will it remain successful? What are the implications of having a bigger client base and a broader target?

- **Leadership type: Direct to CEO* reporting.** As innovation is one of the company’s values and competitive advantages, its importance justifies the direct to CEO* reporting even though the company is now bigger and has more matters requiring the CEO*’s

attention. Despite the fact that the overall unit should report to the CEO* directly, there should be an extra filter before validating the projects with the CEO*: a director should be appointed to the unit, transforming it from a Office into a full department. The appointed director should have enough maturity and experience to perform a valid triage and reduce the scope of ideas presented to the CEO*. This would assure the top management's participation in the decision making process while keeping its time consumption at acceptable levels even though the innovation department's idea generation pool increase in size.

- **Internal human resources structure: *Mix between FTE*s and interns.*** Having a bigger customer base will imply changes in the human resources: there are more customers to serve, so the need for a bigger staff arises. The same applies for the Innovation Office as well. Currently, the Office is composed by 3 people: one responsible for the team, one full-time employee (FTE*) and a rotational (MSc* program finalist) trainee. The mix between interns and FTE*s should be kept, as it joins together the experience and knowledge about the retail banking market with the creative and fresh thinking inherent to the minds of graduates, unbiased from traditional formatting, who rotate often and bring different perspectives to the Office. The condition of being a finalist in the MSc* program ensures that the intern possesses the technical knowledge and analytical thinking required for the position. The proportion of FTE*s and Trainee's should remain equally distributed (half of the Office composed by FTE*s, and the other half by trainees) or slightly increase the weight of FTE*s in the Office. This would ensure that the objectives were followed by more seasoned collaborators and the stability would prevent the Office from drifting to a department too focused on Idea generation rather than the rest of the process of the innovation process, which usually takes longer and requires more tuning.

- **Distribution through the organization structure: *Hybrid.*** The distribution through the organization structure should vary from a centralized unit to a hybrid one. In line with what is done within Vieira de Almeida & Associados law firm with the *lampiões*, it would benefit the company to have separate units by department who meet with the innovation department regularly and represent their department, either by accompanying projects that refer to its area to ensure its quality, compliance and feasibility, or to bring up new ideas that arise from daily operations in its department.

- **Culture: *Open office model.*** The ideology of having all the stakeholders participating in the innovation process is definitely one of the cornerstones of the company's

overall culture. Not only increases the volume of ideas flowing into the screening process (hence increasing the probability of developing successful ideas), but also contributes to a generalized environment where everyone matters and is able to make the difference. The challenges of such model? If you are not able to display that the ideas entering the innovation department are analyzed and may be implemented, a credibility crisis may emerge and damage the image of the department. Another possible challenge – which under regular circumstances should be an opportunity - is the overflow of ideas. A sampling mechanism may be the right tool to overcome this hurdle, or, if possible, to tune operations in such way that the Innovation department is able to sort out all incoming ideas.

- **Bureaucracy level: *Agility and Flat Structure*.** With the organization growing, it is arguable if there should be more mechanisms in place to filter ideas and test them properly until they reach the top management for the final decision making stage. On the one hand, the agile and flat structure enables speed of implementation and qualifies perfectly for ActivoBank’s first-mover philosophy; on the other hand, it increases risk of implementing an unsuited solution due to lack of analysis and control. One extra level of hierarchy, with the inclusion of a Director, between the innovation team and the CEO* would increment the control level without compromising severely the agility and its benefits.

Summarizing the conclusions, table 3 displays the current situation of the bank’s innovation area structure and the recommendations that best suit the future challenges.

Table 4 – Recommendation for ActivoBank’s future innovation department’s structure

	Current	Recommendation for the future
Leadership Type	Direct to CEO* reporting	Inclusion of a Director, still reporting directly to the CEO*
Distribution through the organization structure	Centralized	Hybrid (single unit with several secondary units spread across the organization)
Culture	Open office	Open office
Bureaucracy Level	Low: agile and flexible	Addition of an extra level of filtering before the CEO*
Internal Structure	Mix FTE*s and University Interns (50/50)	Mix FTE*s and University Interns (50/50 or 60/40)

Additional Questions for Discussion

- **Analyze ActivoBank's environment regarding the Portuguese economy**

The proposed approach here is the PEST analysis to assess ActivoBank's Macroeconomic surroundings and conditions in under which the bank operates. The same or other acceptable conclusions can be drawn using alternative frameworks or even a structured analysis without using specific frameworks. The PEST framework resulted in the following analysis:

Political Factors to Consider

Portugal is a politically stable country, but elections for prime minister are coming this year. The current government is considered to be very conservative in terms of policies followed to avoid losing control of the country's economy. Tired of austerity, there is a strong possibility of a more expansive and liberal government to be elected, which may cause an increase in the flexibility of regulatory bindings and public support to institutions.

Economic Factors to Consider

The Portuguese economy is slowly recovering from the several years of economic downturn. The confidence levels are being restored and consumers are starting to slowly recover their disposable income and, consequently, consuming more, stimulating the market. The unemployment rate is declining, access to credit increasing, and GDP* growth slowly recovering to positive levels

Socio-Cultural Factors to Consider

Demographics are in favor of ActivoBank's "innovating and simplifying" ideologies. The branch paradigm is changing with the increase of self-directed* customers weight in the overall population, pushing the customers to more straightforward offerings such as the ones enabled by ActivoBank. Traditional banks are also shaping their offerings to tackle this new population structure, but it is proving to be a dull and difficult process, to shift to the new customer model without compromising the bank's offerings to more traditional customers.

Technological Factors to Consider

Despite being usually labeled as a conservative industry, technology has definitely stirred up the retail banking environment. After mobile and online channels changing the way that

clients manage their finances daily, more opportunities arise from existing technologies. Big data and analytical tools are amongst the biggest opportunities to shape offerings to customers according to a profiling process. Regarding ActivoBank's use of technological tools in the market, the bank is currently well positioned, offering innovative solutions such as QR code peer-to-peer (P2P) transfers, but its size may be a deterrent to invest in more complex solutions that could enrich its product portfolio.

- **Analyze ActivoBank's position within the Portuguese Banking sector**

The proposed approach here is to resort to the Porter's Five Forces to assess ActivoBank's Microeconomic Environment. Once again, the same or other acceptable conclusions can be drawn using alternative frameworks or even a structured analysis without using specific frameworks. However, in my analysis, a Porter's Five Forces framework is used and its output is as follows:

Supplier Power: *Low Pressure*. The supplier power in the retail banking power is limited. Most of the suppliers are operating in very competitive environments. Among these are law firms, information technology (IT*) developers and consulting firms.

Buyer Power: *Medium Pressure*. Every Portuguese is an ActivoBank's potential customer. The bank has the ability to accept or reject its customers, mechanism only used under very idiosyncratic circumstances. Although the qualification of nearly everyone to be a customer, all customers are considered to be important. The cost of switching financial service providers is not monetarily high, but products such as loans and direct debits tend to constrain customer's willingness and ability to change.

Competitive Rivalry: *High Pressure*. The Portuguese banking sector is saturated. Despite the high number of institutions, there is a high level of concentration on the biggest units. Until recently, the value proposition of all banks was too similar and it was difficult to perceive the benefits from shifting from one specific bank to another. Nowadays, with the advance of technologies and the demographic shift, there are more valid value propositions and banks have a differentiated offer, such as the online banking players, targeting a particular niche.

Threat of Substitution: *High Pressure*. Most of the products offered in the retail banking sector are easily replicable by all the institutions. The difference relies on the target chosen and the service provided beyond merely selling the products. It is also dependent on the organization values, culture and value proposition.

Threat of New Entry: *Medium to High Pressure*. Some companies outside the banking sector are starting to offer financial services to their customers (such as MEO Wallet, a service provided by one of the main Portuguese Telecommunication companies). In case of the ability of these new entrants to fulfill the regulators demands or to somehow contour them, these companies pose a serious threat to the current players.

There is also what may be considered a sixth force, one with substantial influence over the retail banking industry: the regulators. SIBS* regulates the ATM network and several payments systems; another regulator, BP*, supervises governance and the the operations of Portuguese retail banks.

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