

THE DRIVERS OF STRATEGIC INNOVATION: AN EMPIRICAL STUDY OF SELECTED COMPANIES IN THE SOUTH AFRICAN FINANCIAL INDUSTRY

By

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Thesis presented in fulfilment of the requirements
for the degree of Master of Commerce
at the University of Stellenbosch

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Faculty of Economic and Management Sciences

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April 2014

The financial assistance of the National Research Foundation (NRF) towards this research is hereby acknowledged. Opinions expressed and conclusions arrived at, are those of the author and are not necessarily to be attributed to the NRF.

Declaration of Own Work

I, the undersigned, hereby declare that the work contained in this dissertation is my own original work and that I have not previously, in its entirety or in part, submitted it at any university for a degree.

Signed:

(Kieran McKenzie)

Date: 01 December 2013

Abstract

Strategic innovation originated as a concept in academic literature in the 1990's, and provides companies with the opportunity for substantial value creation. Previous research has shown how the learning or process aspects of a company foster strategic innovation capacity, or the ability of a company to systematically create strategic innovation initiatives. However, an understanding of the role of the content aspects or the drivers of strategic innovation – Strategy Processes, People, Culture and Resources – remains problematic. Despite a heightened awareness and interest by both scholars and practitioners in studying and better understanding strategic innovation, it is still regarded as an emerging field of inquiry. Additionally, limited research has been conducted on strategic innovation in a South African context. As such, a limited base of empirical research for strategic innovation exists.

To address this lack of empirical research a literature review of strategic innovation was conducted, highlighting any research gaps; an empirical study was then executed. The literature review first investigated strategic innovation as a topic, identifying the antecedents to; the results of; and motivations for strategic innovation. Subsequently, a theoretical link between strategic innovation capacity and the drivers of strategic innovation was established. Lastly, each driver of strategic innovation was individually explored for the purpose of operationalising each driver for empirical analysis. The review of strategic innovation literature revealed a research gap that culminated in the following research question: *How do the drivers of strategic innovation affect the strategic innovation capacity of selected banks?*

The empirical study consisted of a mixed-methodology design, conducted in two phases. First the sample was narrowed to include only the most appropriate banks, this being the most significant sector of the financial services sector in South Africa. The first phase of research consisted of semi-structured interviews conducted with the six most qualified individuals across the participating banks. This phase of research was used to refine the identified antecedent elements of the drivers of strategic innovation, and develop the sample for the second phase of research. The interviews were recorded, transcribed, and subjected

to thematic analysis to generate findings. The findings of the qualitative phase show that the antecedent elements of the drivers in South African banks are consistent with the literature. Although no new South African specific elements were discovered, external factors for managerial consideration were noted. This emphasises that South African banks should adopt global best practices for their field, whilst taking into consideration the unique South African circumstances.

The second phase of research made use of cross-sectional electronic questionnaires to gather interval data on the drivers of strategic innovation and strategic innovation capacity. The questionnaire was developed from the findings of the first phase of research and distributed to 125 individuals, 53 completed responses were received, yielding a response rate of 42.4%. All the constructs were measured to be reliable using Cronbach's alpha and the collected data were analysed using descriptive and inferential statistics. The findings of the quantitative phase indicate that the drivers of strategic innovation have a significant positive relationship with strategic innovation capacity. This finding underlines the important role managers can play in fostering a company's ability to systematically create strategic innovation initiatives. The driver with the strongest relationship with strategic innovation capacity was shown to be Culture, emphasising the importance of creating an organisational culture geared towards innovation. The second strongest driver was Resources, followed by People, and lastly Strategy Processes which had the lowest significant positive relationship with strategic innovation capacity. The findings also showed that the inter-driver relationships were significantly positive, with Culture once again displaying the strongest correlation values.

The most important contribution of this study is the empirical evaluation of the relationship between the drivers of strategic innovation and strategic innovation capacity in the South African banking context. The establishment of this relationship creates a solid platform upon which future studies may build through the highlighted areas for further study. The findings also provide management with a means to assess the levels of the drivers, as well as antecedents on which to focus when staging managerial interventions for their improvement.

Opsomming

Strategiese innovering het ontstaan as 'n konsep in die akademiese literatuur in die 1990's, en bied maatskappye 'n geleentheid vir aansienlike waardeskepping. Vorige navorsing het getoon hoe die leer- of prosesaspekte van 'n maatskappy strategiese innoveringskapasiteit, of die vermoë van 'n maatskappy om stelselmatig innoveringsinisiatiewe te skep, bevorder. 'n Begrip van die rol van die dryfkragte agter strategiese innovering – Strategieprosesse, Mense, Kultuur en Hulpbronne – bly egter problematies. Ten spyte van groter belangstelling in die studie van strategiese innovering vanuit die akademie sowel as die praktyk, word dit steeds as 'n ontluikende navorsingsveld beskou. Verder is slegs beperkte navorsing oor strategiese innovering in 'n Suid-Afrikaanse konteks reeds gedoen. Daar bestaan dus 'n beperkte basis van empiriese navorsing vir strategiese innovering.

Om hierdie gebrek aan navorsing aan te spreek, is 'n literatuuroorsig van strategiese innovering gedoen wat navorsingsleemtes uitgewys het; 'n empiriese studie is toe uitgevoer. Die literatuuroorsig het eerstens strategiese innovering ondersoek deur die voorgangers van; resultate van; en motiverings vir strategiese innovering te identifiseer. Vervolgens is 'n teoretiese skakel tussen strategiese innoveringskapasiteit en die dryfkragte agter strategiese innovering vasgestel. Laastens is elke dryfkrag individueel ondersoek met die doel om dit te operasionaliseer vir empiriese ontleding. Die literatuuroorsig het 'n navorsingsleemte onthul wat tot die volgende navorsingsvraag gelei het: *Hoe beïnvloed die dryfkragte agter strategiese innovering die strategiese innoveringskapasiteit van die gekose banke?*

Die studie het bestaan uit 'n gemengdemetodologie-ontwerp wat in twee fases uitgevoer is. Die eerste fase het bestaan uit semi-gestruktureerde onderhoude met die ses mees gekwalifiseerde individue vanuit die deelnemende banke. Hierdie fase is gebruik om die geïdentifiseerde voorafgaande elemente van die dryfkragte agter strategiese innovering te verfyn, en om die steekproef vir die tweede fase te ontwikkel. Die onderhoude is opgeneem, getranskribeer en onderwerp aan tematiese ontleding om bevindinge te genereer. Die bevindinge van die kwalitatiewe fase wys dat die voorafgaande elemente van die dryfkragte

in Suid-Afrikaanse banke strook met die literatuur. Alhoewel geen nuwe, spesifiek Suid-Afrikaanse elemente ontdek is nie, is eksterne faktore vir bestuursoorweging opgemerk. Dít beklemtoon dat Suid-Afrikaanse banke behoort te hou by die wêreldwye beste praktyke vir hulle veld, terwyl hulle steeds die unieke Suid-Afrikaanse omstandighede in ag moet neem.

Die tweede fase het elektroniese deursnitvraelyste gebruik om intervaldata oor die dryfkragte agter strategiese innovering en strategiese innoveringskapasiteit in te samel. Die vraelys is ontwikkel uit die eerste fase se bevindinge en is versprei aan 125 individue; 53 volledige response is ontvang, 'n responskoers van 42.4%. Al die konstrakte is met Cronbach se alfa as betroubaar gemeet, en die ingesamelde data is ontleed met beskrywende en inferensiële statistiek. Die bevindinge van die kwantitatiewe fase dui daarop dat die dryfkragte agter strategiese innovering 'n beduidende positiewe verhouding het met strategiese innoveringskapasiteit. Hierdie bevinding onderstreep die belangrike rol wat bestuurders speel in 'n maatskappy se vermoë om stelselmatig strategiese innoveringsinisiatiewe te skep. Kultuur het na vore gekom as die dryfkrag met die sterkste verhouding met strategiese innoveringskapasiteit, wat die belangrikheid beklemtoon van die skep van 'n organisatoriese kultuur wat op innovering toegespits is. Die tweede sterkste dryfkrag was Hulpbronne, gevolg deur Mense, en laastens het Strategieprosesse die laagste beduidende positiewe verhouding met strategiese innoveringskapasiteit gehad. Die bevindinge het ook gewys dat die onderlinge verhoudings tussen die dryfkragte beduidend positief was, met Kultuur wat weereens die sterkste korrelasiewaardes toon.

Die belangrikste bydrae van hierdie studie is die empiriese evaluering van die dryfkragte agter strategiese innovering en strategiese innoveringskapasiteit in die Suid-Afrikaanse bankwesekonteks. Die vasstelling van hierdie verhouding skep 'n platform waarop toekomstige studies kan bou. Die bevindinge bied aan bestuur 'n manier om dryfkragvlakke te assessee, asook voorafgaande elemente om op te fokus wanneer bestuursintervensies gebruik word om hierdie vlakke te verbeter.

Acknowledgements

A word of sincere thanks and appreciation to the following people, without whose assistance and support this study would not have been possible:

Firstly to my supervisors, who have guided and directed me over this past year. To Prof. Hough, thank you for your guidance and insight which made this thesis possible. To Ms. Maree thank you for your endless patience and the many hours spent on this, my appreciation for all the help and guidance over the last few years is truly beyond words.

To the executives who sacrificed their valuable time to grant me personal interviews, thank you.

To my family, thank you for constantly believing in me and spurring me on. Especially to my Mom and Dad, thank you for the unwavering support that you have provided. I cannot thank you enough for giving me the opportunities that you have and for the continuous love, friendship, laughter and wine.

To my friends, both locally and abroad, a huge thanks for your constant motivation and reassurance, and for putting up with me. A special mention to the Masters crew (Meredith and Xanri) thank you for the Bib coffees and inspirational conversations. And to Dave, you know why.

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Chapter 1 : Research Overview

1.1 Introduction

Strategic innovation as a concept was first mentioned in academic circles in the late 1990's, but was referred to by many differing titles. Markides (1997, 1998, 1999a, 1999b), Krinsky and Jenkins (1997), Pitt and Clarke (1999) and Tushman and Anderson (1997) referred to the concept as strategic innovation, whereas others, such as Kim and Mauborgne (1997, 1999a, 1999b, 2004) referred to the concept as both value innovation and blue ocean strategy. Hamel (1996, 1998a, 1998b) referred to the concept as strategy innovation and non-linear innovation, and Hamel and Prahalad (1989, 1993, 1994a, 1994b) as competitive innovation.

Since strategic innovation's first appearance in academic literature, little time and research has been dedicated to its understanding (Matthyssens, Vandenbempt and Berghman, 2006). However, a revived interest in the subject has seen a recent proliferation of the topic in management journals. Accordingly, the field of strategic innovation, as consistent with most new fields of study, is described using old knowledge fields, as they are the only available frame of reference (Gibbons, Limoges, Nowotny, Schwartzman, Scott and Trow, 2010). This results in the majority of the new field being theoretical, with little empirical grounding.

In line with this, recent research has resulted in the development of certain concepts and constructs in pursuit of understanding the field of strategic innovation. However, little empirical research has been undertaken to validate and probe these results. As Schlegelmilch, Diamantopoulos and Kreuz (2003) point out, it is highly important that an empirical base of research is created that validates and supports the developed constructs and concepts in strategic innovation literature.

Owing to their influence on a company's strategic innovation capacity (Berghman, 2006), and consequently strategic innovation itself, the drivers of strategic innovation – Strategy

Processes, People, Culture and Resources (Schlegelmilch *et al.*, 2003) – can be considered a logical origin for strategic innovation in companies. This ultimately leads to the conclusion that the drivers are a logical point of departure to begin building an empirical base of research in this field.

1.2 Background to strategic Innovation

As shown in Table 1.1, the concept of strategic innovation has been cited under many different titles.

Table 1.1: Differing titles for strategic innovation

Title	Authors
Strategic innovation	Markides (1997, 1998, 1999a, 1999b); Krinsky and Jenkins (1997); Pitt and Clarke (1999); Tushman and Anderson (1997)
Value innovation	Kim and Mauborgne (1997, 1999a, 1999b)
Blue ocean strategy	Kim and Mauborgne (2004)
Strategy innovation	Hamel (1996, 1998a)
Non-linear innovation	Hamel (1998b)
Competitive innovation	Hamel and Prahalad (1989, 1993, 1994a, 1994b)

Source: Own compilation

Despite these differing titles, three noticeable elements run parallel through all titles emanating from academic literature. Firstly, all accounts of strategic innovation have, at their core, the idea of innovating, and therefore transforming, a company's business model (Christensen, Johnson and Rigby, 2002; Lehmann-Ortega and Schoettl, 2005; Schlegelmilch *et al.*, 2003). Specifically, the focus falls on the market served by a company, the company's offering to the market, and the manner in which this offering is supplied (Markides, 1997, 1998). Secondly, there is a common thread of changing the existing market and challenging the prevalent status-quo and norms, in effect, changing how a company competes (Anand

and Peterson, 2000; Charitou and Markides, 2003; Markides, 1997, 1998; Schlegelmilch *et al.*, 2003). Lastly, under all the titles, the result of strategic innovation is substantial value creation, for the customer and the company alike, through growth and increased profits (Kim and Mauborgne, 1997, 1999a, 1999b; Schlegelmilch *et al.*, 2003).

In order to create a clear definition of strategic innovation for this study, the academic literature can be distilled to yield the following definition of strategic innovation:

“Strategic innovation is the process of innovating a company’s business model for either the company as a whole, or for a specific offering, in an attempt to reshape existing markets so as to alter the competitive formula for an industry.”

(Markides, 1997, 1998, 1999a, 1999b; Tushman and Anderson, 1997; Krinsky and Jenkins 1997; Pitt and Clarke, 1999; Kim and Mauborgne, 1997, 1999a, 1999b; Hamel, 1996, 1998a, 1998b; Hamel and Prahalad, 1989, 1993, 1994a, 1994b; Schlegelmilch *et al.*, 2003; Berghman, 2006).

1.2.1 The need for strategic innovation

The need for a concept such as strategic innovation has grown largely from the prevalent market conditions that have come to exist in modern-day industries, namely:

- Hyper competition – a state of competition, with rapidly escalating levels of competition and reduced periods of competitive advantage for a company, where member companies act boldly and aggressively to create a state of competitive disequilibrium (Bogner and Barr, 2000). Strategic innovation would allow a company to escape a hyper competitive market by essentially not competing with existing competitors (Kim and Mauborgne, 1999a).
- Convergence – the increasing occurrence where the boundaries between industries “blur”, and markets are enlarged along with an influx of new competitors (Markides,

1997; Styles and Goddard, 2004; Greenstein and Khanna, 1997). This eventually leads to a state of hyper competition, and hence a need for strategic innovation.

- Commoditisation – a process resulting from intense competition where some competitors differentiate themselves by following a low-cost provider strategy (Hough, Thompson, Strickland and Gamble, 2011). This starts a commoditisation process as consumers expect to be able to pay increasingly less for a product (Greenstein, 2000). This creates fiercer competition for market space, leading to hyper competition and once again a need for strategic innovation.

Hamel (2000:72) provides an explanation that “radical, non-linear innovation is the only way to escape the hyper-competition that has been diminishing margins in countless industries,” thus providing a compelling rationale for strategic innovation within companies.

1.2.2 The need for strategic innovation in South African financial services

The financial industry of South Africa’s origins can be traced back to Lombard Bank in Cape Town, which first opened their doors for business in 1793 (History – the South African Reserve Bank, 2013). Since then, because of the necessity for financial services, the industry has seen a robust expansion, resulting in an industry that was the single biggest contributor to GDP at 21.2% of total GDP in the second quarter of 2010, and the third biggest employer in the country (The Banking Association South Africa, 2010).

This growth has resulted in the financial industry becoming highly saturated with a large number of competitors, and as a result displays the traits associated with hyper competition. There are slim periods of competitive advantage for companies, and competitors often act boldly and aggressively (Bogner and Barr, 2000). This hyper competition is also a result, to a certain degree, of convergence between players in different markets, as discernible through financial services branching into non-traditional markets, and established companies offering financial services (FNB Connect, 2013; Woolworths: Financial services, 2013). Lastly, the state of hyper competition is exacerbated by the commoditisation of financial services and

products, as observable through the homogeneity between products and services leading to price being the discerning factor between options, resulting in the success of low-cost banking (Ndzamela, 2013).

The modern market trends which justify a need for strategic innovation are especially visible in the South African financial services industry, justifying the study of strategic innovation in this context. Owing to the economic significance and necessity of the financial industry in South Africa, the proposed research may prove to be highly valuable. However, strategic innovation is not an immediately implementable process, as the correct elements and mechanisms need to be in place in a company first. More specifically, a company needs to house the correct elements in the drivers of strategic innovation (Schlegelmilch *et al.*, 2003), and have the correct learning mechanism capacities (Berghman, 2006) fostering strategic innovation capacity and leading to an increased likelihood of strategic innovation coming to fruition.

1.3 Strategic innovation capacity

Capacity is defined as an entity's actual or potential ability to perform (The Oxford Dictionary of English, 2010); and serves as an indicator of the likelihood of the level of achievement or performance given the degree of prevalent capacity. Strategic innovation capacity is defined by Berghman (2006) as a company's capacity to systematically create strategic innovation initiatives, and serves as an indicator of a company's ability in regards to strategic innovation.

Berghman (2006:33) explains that a company's "strategic innovation capacity is ultimately defined by their dynamic capabilities, such as their strategic decision making process, knowledge creation process, and alliance and acquisition routines". It is their high level antecedent routines by which managers alter their company's resource base, with a view to creating new value generating strategies (Eisenhardt and Martin, 2000) that affect their strategic innovation capacity.

Berghman (2006) concludes that the unit of analysis for a company's strategic innovation capacity is set at the initiative level, as consistent with other strategic innovation research (Kim and Mauborgne, 1997; Govindarajan and Trimble, 2004, 2005b; O'Connor and Rice, 2001). As such, the method provided by Bergman to measure a company's strategic innovation capacity utilises an intuitive multi-staged approach. Firstly, the number of innovative initiatives of a company is determined. Secondly, the nature of these initiatives is assessed, in order to determine their orientation towards strategic innovation. This assessment is achieved through evaluating the degree to which the initiative differs from industry norms and the status quo. In determining the number of strategic innovation initiatives, it is possible to classify companies which exhibit a high number of strategic innovation initiatives as having a high strategic innovation capacity (Berghman, 2006).

1.3.1 The aspects of strategic innovation capacity

In assessing the various antecedent aspects of strategic innovation capacity in a company, literature shows that these influences may be grouped into one of two categories. The first category relates to process or mechanism aspects – specifically, what the various actions are that a company must undertake to foster strategic innovation capacity. The second category relates to content aspects – namely what elements need to be present in a company to foster strategic innovation.

1.3.1.1 The process aspects of strategic innovation capacity

Berghman (2006) explains, and documents, the effects that the process or mechanism aspects have on strategic innovation capacity. In her paper she explains that the process or mechanism aspects influence strategic innovation capacity through three distinctive learning mechanism capacities:

1. Recognition capacity;
2. Assimilation capacity; and

3. Transformation capacity.

Berghman (2006) uses these learning mechanisms as the basis for her research into strategic innovation capacity. However, Berghman (2006) does cite the limitation that the component aspects of strategic innovation capacity are largely ignored, a limitation that this study seeks to rectify.

1.3.1.2 The content aspects of strategic innovation capacity

Given that the drivers of strategic innovation (Schlegelmilch *et al.*, 2003), have been identified as fostering strategic innovation, they may be regarded as the elements that comprise the content aspect of strategic innovation capacity. However, as mentioned, there is at present a gap in the research, as little existing empirical research has been conducted on how the drivers of strategic innovation affect strategic innovation capacity. This is ultimately the gap that this research filled.

Figure 1.1 combines the concepts of the drivers of strategic innovation and strategic innovation capacity to form a hypothesised figure representative of the consulted literature. This figure hypothesises the relationships between each individual driver and strategic innovation capacity, with the block on the far left representing the elements that comprise each driver. This model forms the conceptual and theoretical basis from which this study proceeded.

The following section explores each driver of strategic innovation, providing a rationale as to how they individually contribute to fostering a company's strategic innovation capacity.

1.4 The drivers of strategic innovation

The drivers of strategic innovation – Strategy Processes, People, Culture and Resources – have been identified as fostering strategic innovation capacity within a company (Schlegelmilch *et al.*, 2003). The drivers of strategic innovation shape the way in which a business functions and communicates. Over time this directly influences how strategic

innovation capacity is fostered, enabling the learning mechanism capacities and ultimately strategic innovation (Stopford and Baden-fuller, 1994). The following sections describe the elements of which each driver comprises, so as to develop characteristics that can be used to collect interval data relating to each driver.

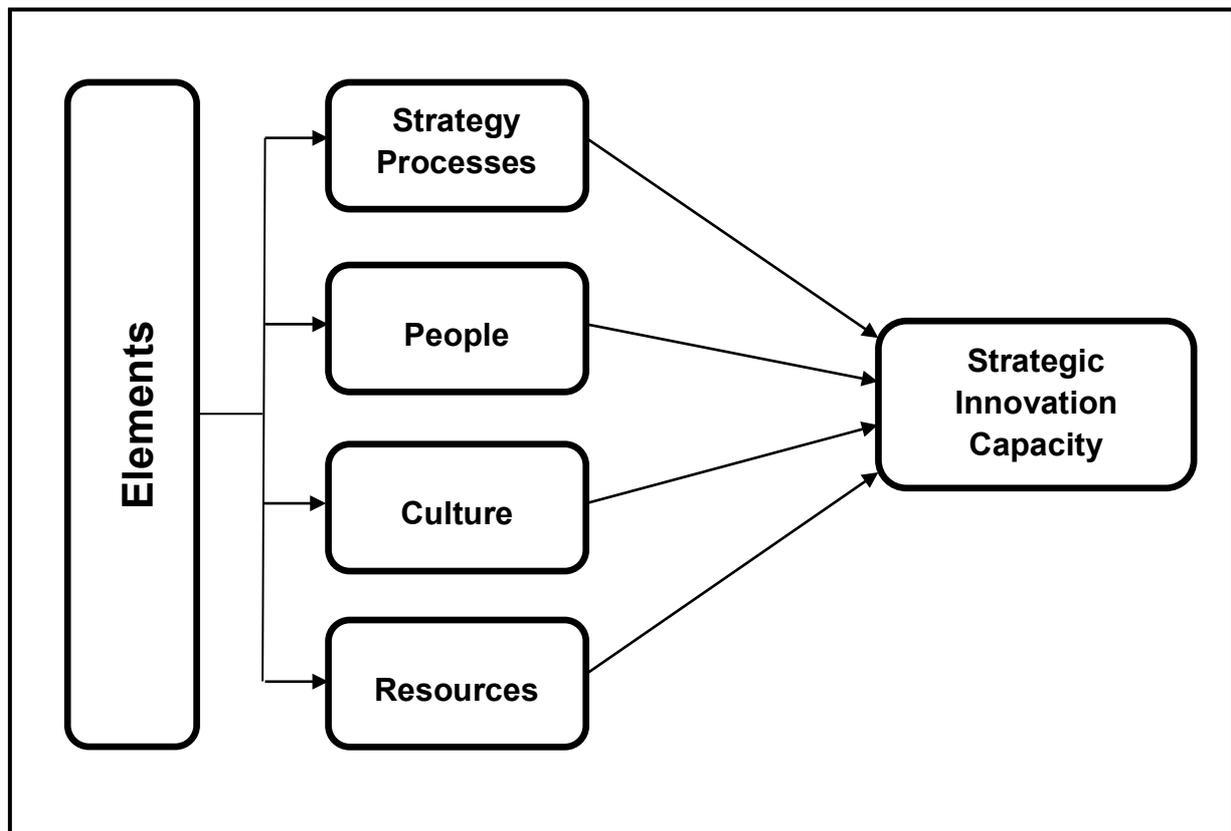


Figure 1.1: Relationship between the drivers of strategic innovation and strategic innovation capacity

Source: Own Compilation

1.4.1 Strategy Processes

In assessing how the driver of Strategy Processes influences a company it is first necessary to appraise the generic strategy development process, in line with the history of strategy as a business practice (Hough *et al.*, 2011; Mintzberg and Lampel, 1999; Mintzberg, Ahlstrand, and Lampel, 1998). Through this appraisal it is possible to note the relevant critiques provided by strategic innovation authors, further allowing for the description of the strategy

processes for strategic innovation through three categories – the role of strategy, strategic frontiers, and the strategy development process.

1.4.1.1 The role of strategy

The first concern relating to strategy processes is the presumed role of strategy. Strategy processes should actively probe and question the choices made in the past, as well as possible future choices (Christensen, 1997; Skarzynski and Yates, 1999). In addition, these processes need to challenge the norms and biases that comprise the present market, industry, and its way of operating (Hamel, 1996; Markides, 1999, Martinsons, 1993; Christensen, 1997; Skarzynski and Yates, 1999). This fosters a learning component in a company's strategy processes, which is crucial to strategic innovation (Aiman-Smith, 2005; Burgelman, 1983).

1.4.1.2 Strategic frontiers

The second concern relating to strategy processes is strategic frontiers, which represent areas with the potential for new growth, all having the common trait of existing outside a company's present business model (Bate and Johnston, 2005). Key to recognising a company's strategic frontiers is a strategic focus that looks to the future, while further strategising for the driving forces present in an industry and maintaining ambidextrous strategy processes that balance alignment and adaptability (Christensen, 1997; Bate and Johnston, 2005; Brinkshaw and Gibson, 2004; Stopford and Baden-fuller, 2001).

1.4.1.3 The strategy development process

Lastly, strategic innovation authors argue for the democratisation of the strategy development process, opening up the process to the entire company (Hamel, 1996). Companies are further encouraged to use an experimentation and selection approach in aid of implementation, which will further instil the aforementioned questioning role of strategy (Burgelman, 1983; Hamel, 1996; Krinsky and Jenkins, 1997; Barsh, Capozzi and Davidson,

2008). Finally, the strategic choices made need to be widely communicated throughout a company, and have the full endorsement of top management (Burgelman, 1983; Hamel, 1996; Schlegelmilch *et al.*, 2003).

The characteristics and elements of a company's strategy processes as stated above were further researched and refined to create specific measures to provide interval data for analysis for this study.

1.4.2 People

People are a crucial aspect of business's innovation, as a company's innovation potential is determined by the way in which their staff think and act (Dobni, 2008). People's importance as a driver of strategic innovation is further emphasised through the twofold influence people hold. Specifically, the driver People refers to both people who work inside the company, and to people outside the company, particularly those in a company's networks (Schlegelmilch *et al.*, 2003; Cohen and Levinthal, 1990). Owing to this dual role, people play a large role in fostering strategic innovation in many ways.

1.4.2.1 People inside the company

Fostering people inside the company as a source of strategic innovation bears a close resemblance to the concept of strategic human resource management. This component of the driver focuses on the actual staff maintained by a company, the management practices around this staff, and also the influence of top management and leadership.

In considering the staff employed by a company, one notes two co-requisite aspects of staff competencies and staff behaviours. Staff competencies are maintaining the correct mix of specific knowledge, skills and abilities (Prahalad and Hamel, 1990; McKelvey, 1982). These competencies, however, need to be complemented by the correct behaviours of staff, which are aligned towards the strategic intent of a company (Cappelli and Singh, 1992; Wright, Dunford and Snell, 2001). In eliciting the desired behaviours and competencies from staff, a

company may make use of a variety of management practices which have been shown to influence staff traits (Wright *et al.*, 2001). A company may make use of human resource planning, organisational structuring, performance appraisals and reward systems to elicit the desired staff traits to foster strategic innovation (Gupta and Singhal, 1993; Smith, Boroski, and Davis, 1992; Ritter, Wilkinson and Johnston, 2004; Collins and Clark, 2003). However, staff also needs to receive the correct support and leadership from the top management of a company, which is displayed through both a formal and informal commitment to innovation (Lyons, Chatman and Joyce, 2007; Bel, 2010; Bartlett and Ghoshal, 1995).

1.4.2.2 People outside the company

The phrase "people outside the company" refers to the fact that every company forms part of a wider network comprising multiple relationships with customers, competitors, suppliers, and various other entities (Håkansson and Ford, 2002; Ritter *et al.*, 2004). These networks and relationships form a wellspring of resources and knowledge, such as access to complementary and different knowledge sets, access to new markets and technologies, the pooling of complementary assets and skills, and the reduction of risk (Tidd and Bessant, 2009). In order to exploit the various advantages created by the network relationships maintained by a company, both the correct level and type of networks need to be maintained, while further extracting the correct information from these networks (Anderson and Narus, 1991; Tidd and Bessant, 2009; Ritter *et al.*, 2004).

The characteristics relating to the driver People that are mentioned were further researched, to identify measures that to solicit interval data for analysis for this study.

1.4.3 Culture

Markides (1998) explains that creating an innovative culture, referring to an individual's views, interpersonal dynamics and social rules that characterise a group of people in a particular time and place (Ball, McCulloch, Geringer, Frantz and Minor, 2010), is a tactic for

creating strategic innovation. An organisational culture, which influences an individual's culture, further infuses the symbols, values, myths, vocabulary, methodology and rules of conduct of a company (Morris, Kuratko, and Covin, 2011). As such, culture will ultimately influence the implicit beliefs, values, and assumptions of staff; this consequently influences the behaviour of individuals in a company, as well as how these individuals interact inside and outside the company, all of which play a defining role in a company's innovation potential (Martins and Terblanche, 2003).

A consensus exists that the common elements believed to characterise an innovative culture are, firstly, a level of openness and trust resulting in open communications needs to be present (Aiman-Smith, 2005; Tidd and Bessant, 2009; Schein, 1996). Secondly, challenge and involvement needs to be a routine part of a culture to help motivate and drive achievement (Aiman-Smith, 2005; Tidd and Bessant, 2009). Thirdly, culture needs to incorporate a level of support and space for ideas, resulting in a learning culture that is ambidextrous (Tidd and Bessant, 2009; Brinkshaw and Gibson, 2004; Calantonea, Cavusgila and Zhaob, 2002). Lastly, there needs to be an appropriate mix of freedom and encouraged risk-taking, so as to build an innovative culture (Tidd and Bessant, 2009). By developing the right mixture of these elements, a company will develop a rare type of culture that is valuable and impossible to imitate, resulting in a source of competitive advantage (Barney, 1986).

These elements that characterise an innovative culture were further investigated through primary research, so as to develop measures to solicit interval data for analysis for this study.

1.4.4 Resources

Conventional strategy focuses on leveraging and building on existing capabilities and resources (Baden-Fuller and Pitt, 1996; Kim and Mauborgne, 1997). This perpetuates an attitude of doing what we do, but better, restraining a company to its current market space

and competition (Schlegelmilch *et al.*, 2003). In order to foster strategic innovation a company must ensure that their strategic direction is not constrained by their resource base, and in doing so complement the conventional strategy process with an updated view on the utilisation of resources.

In managing resources as a driver of strategic innovation, a resource-based view of the firm is taken (Wernerfelt, 1984; Robinson, 2008). Resources are separated into three categories for management, namely, physical capital resources, human capital resources, and organisational capital resources (Barney, 1991). However, the aforementioned drivers comprise the categories of both organisational and human capital resources (Schlegelmilch *et al.*, 2003; Barney, 1991). The driver of Resources focuses specifically on the physical capital resources available to a company, expressly, technological and financial resources.

Technology is widely recognised as a driving force of innovation, producing either a “market-pull” or a “technology-push” on companies (Morris *et al.*, 2011; Brem and Voigt, 2009; Chau and Tam, 2000). In order to foster a greater potential for strategic innovation, a company needs to embrace both sides of this influence, specifically by means of customer interactions, future forecasting, and visioning (O’Connor and Veryzer, 2001; Sawhney, Verona and Prandelli, 2005; Rinne, 2004; Hamel and Prahalad, 1994a).

Alternatively, financial resources form a critical aspect of any company, given the premium that is placed on financial performance and profitability (McWilliams and Siegel, 2001; McGuire, Sundgren and Schneeweis, 1988). However, given that the financial resources available to a company are finite in nature, it is pertinent that a variety of evaluation techniques are implemented, so as to best apportion the limited financial resources available and maximise company performance (Wernerfelt, 1984). Evaluation methods such as a phase-gate or venture capital models, which have been shown to be effective in evaluating innovations, are therefore prescribed for utilisation by companies.

The characteristics of a resource base discussed were further developed and researched, creating specific measurements to solicit interval data for analysis in this study.

1.5 Research problem, objectives, and justification

The preceding literature review has highlighted the gap of empirical research between the drivers of strategic innovation and strategic innovation capacity. The following section further clarifies the research gap by detailing the research questions and objectives formulated for this study; these are then translated into specific testable hypotheses with the aid of a proposed model, developed from the literature. Subsequently, the research design to be utilised to test these hypotheses and meet the research objectives will be explained, as well as justified.

1.5.1 The research problem

The concepts of strategic innovation capacity and the drivers of strategic innovation are invariably linked concepts (Berghman, 2006; Schlegelmilch *et al.*, 2003). However, the nature and degree of the relationship between these two concepts, specifically the degree to which the drivers of strategic innovation affect strategic innovation capacity, had not yet been examined empirically, in any context to date. Because of the value that an empirical understanding of these two concepts' relationship would create, the research problem for this study was formulated as: *How do the drivers of strategic innovation affect the strategic innovation capacity of selected banks?*

This research was first guided by the secondary study directed at specifying the elements that constitute the drivers of strategic innovation. Consequently a mixed-methodology primary research initiative was undertaken. The first phase of primary research, qualitative research using semi-structured interviews with selected individuals, was first used to confirm the existence of each element. This phase then searched for any elements that were not explicitly mentioned in the literature, given the unique South African context. Upon these

elements' confirmation and identification a second phase of primary research was undertaken. This second phase made use of quantitative research, using structured questionnaires. The questionnaires were designed to gather interval data to determine the presence of the drivers of strategic innovation, as well as providing a quantitative measure of strategic innovation capacity. The collected interval data was then subjected to statistical analysis to test the hypotheses and determine the relationship between the drivers of strategic innovation and strategic innovation capacity in South African banks. This ultimately allowed for the resolution of the research problem – how the drivers of strategic innovation affect the strategic innovation capacity of selected financial companies.

1.5.2 Research objectives and justification

Blumberg, Cooper and Schindler (2011) explain that research objectives address the purpose of a given study, as well as creating goals for the research. In light of the formulated research problem, the research objectives for this paper were divided into primary and secondary objectives.

1.5.2.1 Primary objectives

Berghman (2006) declares that as a company commits itself to fostering its strategic innovation capacity it increases its odds of systematically creating strategic innovation initiatives. Given that it has been shown in theory that the drivers of strategic innovation comprise the various categories of company resources, as defined by Barney (1995), the case is made that the drivers of strategic innovation form the content aspects of strategic innovation capacity and hence influence it. As a study that empirically evaluates how the drivers affect capacity is valuable for both academics and professionals, the primary objective of this study was to: *determine empirically what the relationship between the drivers of strategic innovation and the strategic innovation capacity of selected banks is.*

Given the determination of these two concepts' relationship, it was possible to conclude exactly how the drivers of strategic innovation affect strategic innovation capacity in banks in *South Africa*.

1.5.2.2 Secondary objectives

Owing to the limited extent of context-specific research on the drivers of strategic innovation in South Africa, the first secondary objective for this study was to confirm the elements that constitute the drivers of strategic innovation in banks in the South African financial industry. In line with this objective the second secondary objective, given South Africa's unique context, was to determine whether there are any unidentified elements that constitute the drivers of strategic innovation in South African banks. The third secondary objective relates to strategic innovation capacity and was to determine the strategic innovation capacity amongst the selected banks in South Africa. These three secondary objectives are pursued so as to help answer the primary objective of the study.

A further result of the limited literature and research on the drivers of strategic innovation is a failure to recognise the relative importance of each driver in fostering strategic innovation capacity. Therefore, the fourth secondary objective of this study was to determine which driver of strategic innovation has the greatest effect on the strategic innovation capacity of South African banks. To compliment this objective the fifth secondary objective set was to determine the relationships present between the drivers of strategic innovation in South African banks. Lastly, as Hair, Celsi, Money, Samouel, and Page (2011) state, business research should contribute to managers' decision making, and therefore the final secondary objective to be considered was how South African banks should manage their internal and external surroundings to best influence their own strategic innovation capacity.

1.5.2.3 Justifications

Given the above objectives, this study was justified from both a practical and research-orientated stance. On a practical level, as shown in the literature, the drivers of strategic innovation affect a company's strategic innovation capacity and the ability of companies to create strategic innovation initiatives. Therefore, firstly by empirically testing the drivers of strategic innovations' relationship with strategic innovation capacity, a compelling rationale is provided to managers about where to begin with fostering strategic innovation. Secondly, by determining to what degree each driver affects a company's strategic innovation capacity, managers are directed where to focus their time and efforts to achieve the best results. Lastly, the overall findings of the research provide managers with a set of elements that can be used to examine where their companies fall short, and consequently how to rectify these shortcomings, with the consideration of strategic innovation.

With regard to a justification from a research stance, strategic innovation is still a fairly new research field, and as such uses concepts from related fields to define itself (Gibbons *et al.*, 2010). This results in the body of research to date being mostly theoretical, with little empirical backing. Using the drivers of strategic innovation as the base for strategic innovation, this research creates a sound empirical base upon which future research may build. Research of this kind was yet to be undertaken in South Africa; hence this research also helps to validate the concept of the drivers of strategic innovation as more global phenomena to strategic innovation. Finally, this research will complement previous research on strategic innovation capacity (Berghman, 2006). Previous empirical research has explored the mechanism or process aspects of strategic innovation capacity, but has largely ignored the content aspects of the concept. This research addresses this gap, and in doing so, creates a more holistic understanding of strategic innovation capacity.

This research is also justified in the South African financial industry through the possible value that may be created. As stated, strategic innovation creates value for both the

customers of a company and the company itself (Kim and Mauborgne, 1997). Therefore, an increased strategic innovation capacity and an increased likelihood of value creation will be highly beneficial in the South African financial industry. This is due to the economic size and employment capacity of the financial industry, as well as the demand for the products and services provided.

1.5.3 Hypotheses

Given the above research problem and objectives, the following null hypotheses were set for the study:

H_{0:1} - The drivers of strategic innovation have no effect on strategic innovation capacity

H_{0:2} –The Strategy Processes driver has no effect on strategic innovation capacity

H_{0:3} – The People driver has no effect on strategic innovation capacity

H_{0:4} – The Culture driver has no effect on strategic innovation capacity

H_{0:5} – The Resources driver has no effect on strategic innovation capacity

1.6 Mixed methodology

Research methodologies can generally be typified into one of two categories, either qualitative or quantitative research, through an appreciation of the varying elements that constitute the research initiative. Qualitative research focuses on induction, exploration, discovery, and theory/hypothesis development, where the researcher is viewed as the primary data collection instrument (Given, 2008; Bergman, 2008). Quantitative research, by contrast, is mostly characterised by deduction, confirmation, explanation, prediction, theory/hypothesis testing, standardised data collection and statistical analysis (Johnson and Onwuegbuzie, 2004; Bergman, 2008). Mixed method studies are “those that combine the

qualitative and quantitative approaches into the research methodology of a single study or multi-phased study” (Tashakkori and Teddlie, 1998:17-18).

Although a multitude of reasons exist for the utilisation of a mixed methodology, the present study used a mixed methodology for triangulation, development, and complementarity (Greene 2005). The overall design of the research process that was used in this project is summarised in Figure 1.2.

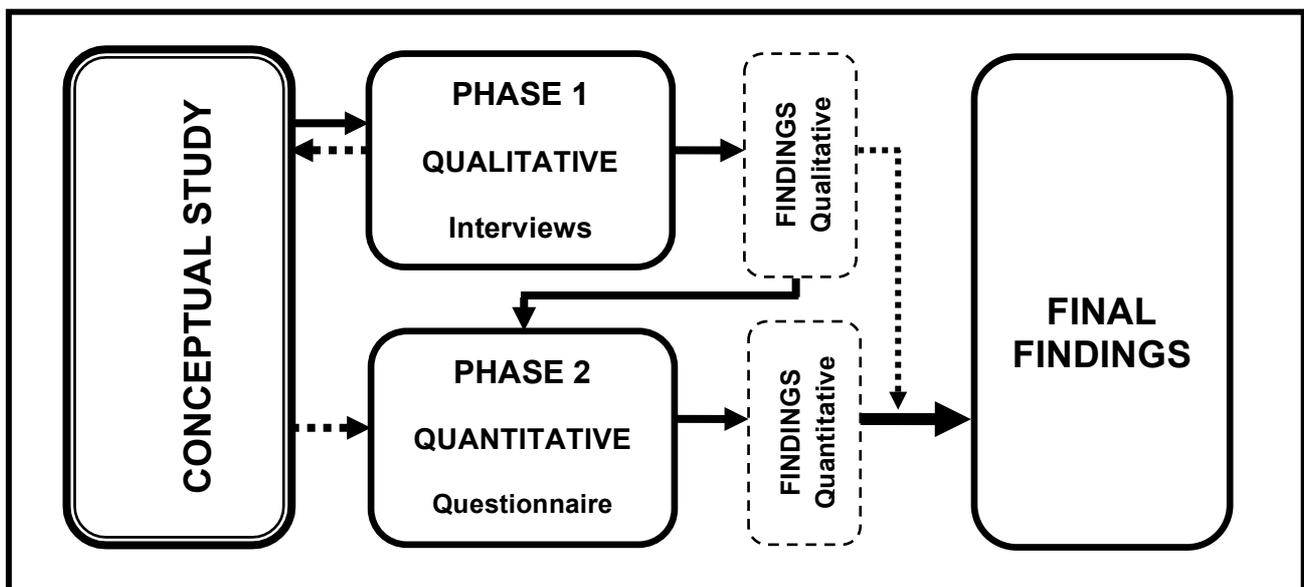


Figure 1.2: Research design

Source: Own compilation

1.7 Qualitative research design

The broad research objectives for the first phase of research were to explore the reality surrounding the drivers of strategic innovation in South African banks, while specifying the elements and constructs used in the second research phase. Specifically, the first phase of research sought to address the first two secondary research objectives – namely, to confirm the elements that constitute the drivers of strategic innovation and to conclude, given South Africa’s unique context, whether there were any unidentified elements that constitute the drivers of strategic innovation in banks in South Africa.

Given these objectives, the first phase of research was conclusively defined as qualitative, as it specifically examines and reflects upon how individuals perceive and experience their world, to create findings (Given, 2008; Vogt 2005; Collis and Hill, 2009). This research phase is descriptive and exploratory in nature, as it created a detailed account of the drivers of strategic innovation, while concerning itself with the discovery or generation of new theory (Davies, 2006a; Blumberg *et al.*, 2011; Collis and Hussey, 2009). A deductive approach was maintained as the research attempted to draw conclusions and develop theory from the gathered data within a specific framework, as opposed to exclusively developing theory from the collected data (O'Reilly, 2009; Collis and Hussey, 2009; Blaikie, 2004).

The following section details the research design elements utilised to meet the research specifications and objectives, as set out above.

1.7.1 Target population and sample

1.7.1.1 Target population

For this study the target population was defined as *companies operating in the financial services industry of South Africa*. However, given the diverse nature and scope of companies that participate in the South African financial services industry, the population was narrowed to specifically focus on *banks operating in the financial services industry of South Africa*. This narrowing of the target population was undertaken in order to give a greater validity and comprehensiveness to the findings, associated with focusing on a single specific type of company operating in the South African financial services industry.

1.7.1.2 Sampling

The sampling frame which was utilised for the first phase of the research was a non-probability sampling frame, also referred to as a non-random sample (Vogt, 2005; Davidson, 2006). In using such a sampling frame there are four general categories available to researchers, namely convenience, quota, purposive, and snowball sampling (Boslaugh and

McNutt, 2008). For the purposes of this study, a purposive sampling frame was used, specifically, the sample is chosen on the basis of accessibility to the researcher and respondents' particular knowledge, while meeting parameters defined by the purposes of the research (Boslaugh and McNutt, 2008; Vogt, 2005; Salkind, 2010; Palys, 2008). Such a sampling frame was utilised owing to the lack of any existing sample frame that would meet the needs of this research, and the researcher's need to make use of available respondents who would be able to provide relevant information. Purposive sampling was further deemed appropriate given the need for a small informative sample, in accordance with qualitative research (Leedy and Ormrod, 2001).

In accordance with the selected sampling frame, the sampling method used for this study was a judgement-based, multi-stage sampling method (Battaglia, 2008; Cramer and Howitt, 2004; Blumberg *et al.*, 2011). Such a method was appropriate given the need to first determine which banks might be judged appropriate to participate in the study, and secondly, to adjust the sampling unit from companies to individuals, when identifying the relevant individuals in each bank, once the appropriate banks had been selected. This was once again appropriate given the need for a small informative sample, as characterised by a great deal of qualitative research (Leedy and Ormrod, 2001).

In line with the specifications set out above, the sample for the first phase of research was structured by first identifying suitable banks in South Africa. These selected banks included:

- Commercial and retail banks;
- Private banks; and
- Corporate and Investment banks.

These companies were selected to create a representative sample of the various types of banks in South Africa, so as to create a better representation of the South African banking industry. Each bank was identified as suitable through an assessment of their innovation reputation using the Accenture innovation index (Accenture Innovation Index, 2013), as well

as each bank's market presence as judged by total assets (ABSA, 2013; Standard Bank, 2013; Investec, 2013; Nedbank, 2013; FNB, 2013).

For each bank, contact was made with the chief executive officer (CEO) in each company via email explaining the premise of the research to be conducted and seeking their support and endorsement. Once accrued, the CEO's were then asked who they believed would be most appropriate for the researcher to liaise with. This ensured that the sample for the first phase of research encompassed individuals who were the best qualified to provide input about the innovation and strategic elements in each company. Upon identifying and communicating with the individuals from each bank, suitable times were arranged to conduct the first phase of research either in person or telephonically where necessary.

1.7.2 Data collection methods

As previously discussed, the first phase of primary research was designed specifically with the first two secondary research objectives in mind, as well as the type of data that was needed to answer the research objectives. These considerations highlighted the need for qualitative research which interprets how individuals perceive and experience their world, to create findings, with the aforementioned sampling plan being developed to meet data-gathering requirements.

Consistent with the need to explore individuals' perceptions and experiences in a manner not readily available through observations, as well as the time constraints placed on the study, it was decided to use semi-structured interviews as the main means for data collection, supplemented by document collection, for triangulation where applicable.

Semi-structured interviews presented an opportunity for the researcher to maintain control over the topics covered in an interview, while allowing for flexibility in responses (Ayres, 2008a). A characteristic well suited to the researcher's need to explore each driver of strategic innovation as a separate topic. In addition, through allowing for flexibility in participants' responses, a free flow of information would be created, permitting the possible

appearance of any information that might not have been specifically covered in the literature. Through utilising such an interview method, supplemented by document collection where applicable, the congruency between the literature on the drivers of strategic innovation and the actual reality present in South African banks was best assessed, while allowing for new content development. For these reasons semi-structured interviews were deemed the most appropriate type of interview for use.

1.7.2.1 Developing the research instrument

In line with utilising a semi-structured interviewing technique, an interview guide that detailed the content to be covered in the interviews was developed before engaging with respondents (Ayres, 2008a; Morgan and Guevara, 2008). The interview guide was structured to include a preamble, introductory questions, a section relating to each driver of strategic innovation, and a brief section on strategic innovation capacity. The interview guide was further developed in conjunction with the compiled literature, ensuring academic soundness.

1.7.2.2 Pilot testing

Pilot testing was undertaken to ensure the validity, wording, ordering and clarity of questions, as well as the overall quality of the interview guide, and to check for any omissions (Manson, 2004; Tull and Hawkins 1993). The pilot tests consisted of mock interviews conducted with individuals with various areas of expertise and backgrounds. Mock interviews were undertaken with individuals in senior management positions, to ensure tone, wording and relevance of questions, with individuals involved in banking to ensure to ensure validity of content and wording, and with professional researchers, to ensure order, wording, content and any other research-related issues.

1.7.2.3 Data collection

Being mindful of the sampling methods described above, as well as the research instrument to be used, it was decided to conduct the semi-structured interviews either telephonically or face-to-face, with experienced senior managers as identified by the CEO from each bank. These individuals were identified by each CEO as being the most knowledgeable about the subject matter of the study, and consequently provided the researcher with a reasonable period of uninterrupted time in which the interview could be conducted.

In order to allow respondents some time to formulate their responses, an interview guide tailored to each individual bank was e-mailed to each respondent at the time of setting each interview (see Appendix III). The interview guide was accompanied by a cover letter from the research promoter (see Appendix II), as well as a confidentiality agreement to ensure the safety of any sensitive information (see Appendix I).

All the interviews were personally conducted by the researcher, during which the interview guide was used to direct the conversation towards the appropriate topics. During this time the researcher further probed the answers provided by respondents to generate greater insight, so as to answer the formulated research objectives. Each interview was recorded and transcribed for analysis at a later stage. This was supplemented by notes taken by the researcher during the interview,.

1.7.3 Analysis

Data analysis aims to understand the various elements that make up the collected data through inspecting the various relationships between concepts, constructs or variables, to identify any trends and patterns, or to establish themes in the data (Mouton, 2008).

1.7.3.1 Thematic analysis

In analysing qualitative data, various authors (Vogt, 2005; Weber, 1990; Druckman, 2005) advocate the use of content analysis, as it allows researchers to “make inferences by

objectively and systematically identifying specified characteristics of messages” (Holsti, 1969:14). For the purposes of this study, such an approach was refined to include thematic analysis, which allows a researcher to segment, categorise, summarise, and reconstruct data in a way that captures the important concepts within the data set (Ayres, 2008b; Lapadat, 2010).

For the purposes of this study, each driver of strategic innovation was treated as a separate theme, with a coding list being developed in conjunction with the compiled literature. In consideration of the objectives, as well as the supportive role of the first phase of research, the coding list was kept to a small number of codes, also allowing for a greater breadth of interpretation. The coding allowed for the creation of comprehensive categorisation and segmentation of the data set into elements that reflected the drivers of strategic innovation. Through creating descriptions of the drivers of strategic innovation as themes in the data set, a genuine perception of the elements which constitute the drivers in banks was created, hence facilitating an assessment of congruency with the compiled literature. Any development within the codes for analysis was documented and analysed to determine if the new codes might be representative of new elements to the drivers of strategic innovation, and consequently new theory. Intercoder reliability was addressed by having the coded transcripts appraised by two separate parties.

1.7.3.2 Reliability and validity

Reliability in qualitative research is approached through the concepts of credibility, dependability, confirmability, and consistency (Miller, 2008a), all of which were addressed by the researcher for this qualitative research. Both credibility and dependability were catered for by the use of multiple rounds of pilot testing and development of interview guides as well as through the use of multiple methods of recording the interviews. Accordingly, the manner in which the interviews and analysis were carried out catered for consistency in the research initiative, with the results of the research promoting the confirmability of the research.

With regard to validity, it is agreed that a researcher gives consideration to the concepts of trustworthiness, credibility, authenticity, transferability, and plausibility as criteria for valid research (Miller, 2008b). The selected executives interviewed represented the general views of their firms, so that their responses represented a credible, as well as authentic, picture of the drivers of strategic innovation in their companies. Given the comparability of the interview guides used during the semi-structured interviews, a level of transferability, as well as plausibility was maintained in the research.

It is important to note that as the sample for the qualitative research was limited, due to the nature and purpose of the first phase of primary research, it was not scientifically possible to extrapolate the findings to all banks in South Africa. The first primary phase of research did however serve as a valid indicator and confirmer of the drivers of strategic innovation in banks in South Africa, hence, allowing for the quantitative phase of research to be undertaken.

1.8 Quantitative research design

As noted, the first phase of research was used to develop and refine both the theoretical model compiled through the literature, and the sample for the second phase of research. The analysis of the qualitative phase contributed to developing the drivers of strategic innovation as testable constructs. For these constructs, measurement instruments were developed, allowing for the testing of the hypothesised model and the refinement of the established hypotheses while allowing for the resolution of the primary and additional secondary research problems. The second phase of research focused primarily on determining, empirically, what the relationship between the drivers of strategic innovation and the strategic innovation capacity of selected banks was. In pursuit of this objective, the second phase evaluated the strategic innovation capacity of South African banks, determined which driver of strategic innovation had the greatest effect on strategic innovation capacity, determined the inter-driver relationships present and utilised the

gathered data to synthesise management recommendations in regard to the drivers of strategic innovation.

The following section details the research design elements utilised to meet the research specifications and objectives, as set out above.

1.8.1 Target population and sampling

1.8.1.1 Target population

As explained, motivation for the use of a mixed-methodology approach was the use of the first phase of research to develop the target population and sampling frame for the later phase of research. Where the first phase of research focused on banks operating in the financial services industry of South Africa, given the objectives of this phase of research, the target population was refined to *individuals working in the selected banks in South Africa*.

1.8.1.2 Sampling

By analysing the qualitative phase's data, the researcher was made aware that although innovation was a company-wide initiative, very few individuals, if any, were employed at banks specifically for the purpose of managing innovation. This created the challenge of structuring a sample frame to specifically target individuals with both dependable and credible knowledge. For these reasons the following distinction is made now. Although the sample size constructed for this phase of research was small, the researcher undertook sampling processes to ensure that the gathered data was of the highest validity.

Consequently, the sampling frame utilised for this phase of primary research was a non-probability sampling frame, also referred to as a non-random sample (Vogt, 2005; Davidson, 2006). Specifically, a purposive non-probability sampling frame was utilised, (Boslaugh and McNutt, 2008; Vogt, 2005; Salkind, 2010; Palys, 2008). Such a sample was used owing to the number of respondents with the applicable knowledge needed to provide valid data, hence preventing the use of a probabilistic sampling sequence.

In accordance with the selected sampling frame, a judgement sampling method was used for this research phase (Cramer and Howitt, 2004). Such a method was appropriate given the use of the respondents from the qualitative phase of research to determine the most appropriate participants for the quantitative phase.

In line with the specifications set out above, the sample for the quantitative phase was constructed by first consulting with the respondents of the qualitative phase. These respondents were asked to identify individuals within their companies who possessed the necessary knowledge. Consequently, each respondent from the qualitative phase was sent a covering letter containing a link to the developed online questionnaire (see Appendix IV), which they then distributed to the relevant parties for completion. Sending the questionnaire from a senior executive in each company helped affirm the credibility of the research, ensuring a high response rate.

1.8.2 Data collection methods

In order to statistically test the relationships between the drivers of strategic innovation and strategic innovation capacity, numerical data was needed. Consequently, the second phase of research was squarely quantitative in nature. Consistent with the need to gather numerical data from a dispersed sample of individuals, a survey technique was selected as the means for data collection. A survey technique was also appropriate given the time and cost constraints imposed on this study, as well as the non-experimental nature of the research design.

1.8.2.1 Developing the research instrument

In line with using a survey technique, data was gathered from the sample by means of a questionnaire (Punch, 2003). However, no existing questionnaire met the requirements set by the study, hence creating the need to develop a questionnaire geared towards gathering

the numerical data needed to evaluate the relationship between the drivers of strategic innovation and strategic innovation capacity.

Mindful of the research objectives, it was decided to design the questionnaire specifically to collect interval data, given its incorporation of nominal and ordinal data types, as well as its ability to provide comparative scales for each construct, while using the mean as a measure of central tendency (Blumberg *et al.*, 2011). In order to provide a quantifiable assessment of respondents' answers, a summated rating scale, in the form of a 5-point Likert scale, was chosen (Spector, 1992, 2006; Blumberg *et al.*, 2011). Accordingly, the questionnaire utilised a structured format, separating each construct into a separate section, while providing respondents with a set list of close-ended statements, to which they indicated their level of agreement via the 5-point Likert scale. Respondents' level of agreement was rated from 1, representing strongly disagree, to 5, representing strongly agree. In answering the questionnaire each respondent therefore provided a composite measure of the level of each driver of strategic innovation, as well as strategic innovation capacity, which could then be analysed.

The questionnaire (see Appendix V) commenced with a brief introduction explaining the concept of strategic innovation, followed by an explanation of the research being undertaken and lastly providing guidelines for the questionnaire's completion. The following four sections each related to an individual driver of strategic innovation. A description was first given for each driver, followed by guidelines for answering the section. The first driver of Strategy Processes consisted of 14 items, the second driver of People, 11 items, the third driver of Culture, 14 items, and the final driver of Resources, 7 items. The wording and length of each statement were further taken into consideration and refined through pilot testing, so as to reduce respondent fatigue. The fifth section of the questionnaire focused on strategic innovation capacity, and adapted the reliable instrument developed by Berghman (2006). Berghman's (2006) instrument consists of 8 items, each also utilising a 5-point Likert scale, to determine a numerical score for strategic innovation capacity in a company. The final

section of the questionnaire gathered demographic information from respondents, and was left till last, so as to not alienate respondents before completing the questionnaire. Respondents were also invited to leave an email address at the end of the questionnaire if they wished to receive a copy of the results of the research.

1.8.2.2 Pilot testing

For quantitative studies a pilot study is typically conducted to test for weaknesses in the research instrument, and also to provide proxy data for the selection of a probability sample (Cooper and Schindler, 2008). Given the usage of a non-probability sample, the time constraints, and the manner in which the questionnaire was developed, a small-scale pilot test was used to ensure the structuring, wording, length and appropriateness of the questionnaire. Senior executives, professional researchers, and individuals employed in the target banks were all consulted to ensure the validity of the questions being posed, as well as ensure that the questionnaire was of an appropriate length and structure.

1.8.2.3 Data collection

Being mindful of the sampling methods and research instrument, it was decided to administer the questionnaire electronically. This was further deemed appropriate given the time constraints that individuals faced during the working day, as well as the dispersed nature of the sample. In order to distribute the questionnaire electronically, Qualtrics software was used to host the questionnaire online, and capture responses in real time.

The respondents from the qualitative phase of the research were consequently sent a cover letter containing a link to the developed questionnaire (see Appendix IV), which they then distributed to the relevant parties for completion. Sending the questionnaire from a senior executive in each company helped affirm the credibility of the research, ensuring a higher response rate. All responses were sorted and cleaned by the researcher with the aid of pre-coding, allowing for the analysis of the gathered data.

1.8.3 Analysis

All the responses were first digitally captured through the online survey software Qualtrics. Upon the completion of the second phase of the research, the gathered data was downloaded and exported into Microsoft Excel. The results were then cross-checked by the researcher, removing all incomplete responses and further cleaning the data for statistical analysis with the Statistical Package for the Social Sciences (SPSS).

1.8.3.1 Descriptive statistics

Descriptive statistics generally refers to procedures for summarising, organising, graphing, and describing quantitative information (Vogt, 2005; Cramer and Howitt, 2004). It enables the researcher to describe the sample variables numerically, through describing the central tendency of the data, as well as the shape and spread of the data. For the purposes of this study, the descriptive statistics of mean and standard deviation were used.

1.8.3.2 Inferential statistics

This study made use of an inferential analysis to test the developed hypotheses and the hypothesised model, as shown in Figure 1.3. The study made use of multiple regression analyses, perhaps the most widely used data analysis technique for measuring linear relationships (Hair *et al.*, 2011), in order to determine the statistical significance between the independent variables of the drivers of strategic innovation, and the dependent variable of strategic innovation capacity. The statistical significance of the regression coefficient, calculated between 0 and +1, of the relationships and the calculated probability values served as an indicator of whether or not to reject the null hypotheses.

In Figure 1.3, $X_1 - X_4$ represents the independent constructs of the drivers of strategic innovation, with $X_{1a} - X_{1c}$ and $X_{2a} - X_{2c}$, etc. representing the characteristics developed for measuring the constructs of the drivers of strategic innovation. It is important to note that there are not only three elements per X construct, and that it is represented as such owing to uncertainty in the number of specific elements, and to keep the model as simple as possible. The dependent variable of strategic innovation capacity is represented by Y , and $H_{0:2} - H_{0:5}$ representing the hypotheses for analysis, as discussed.

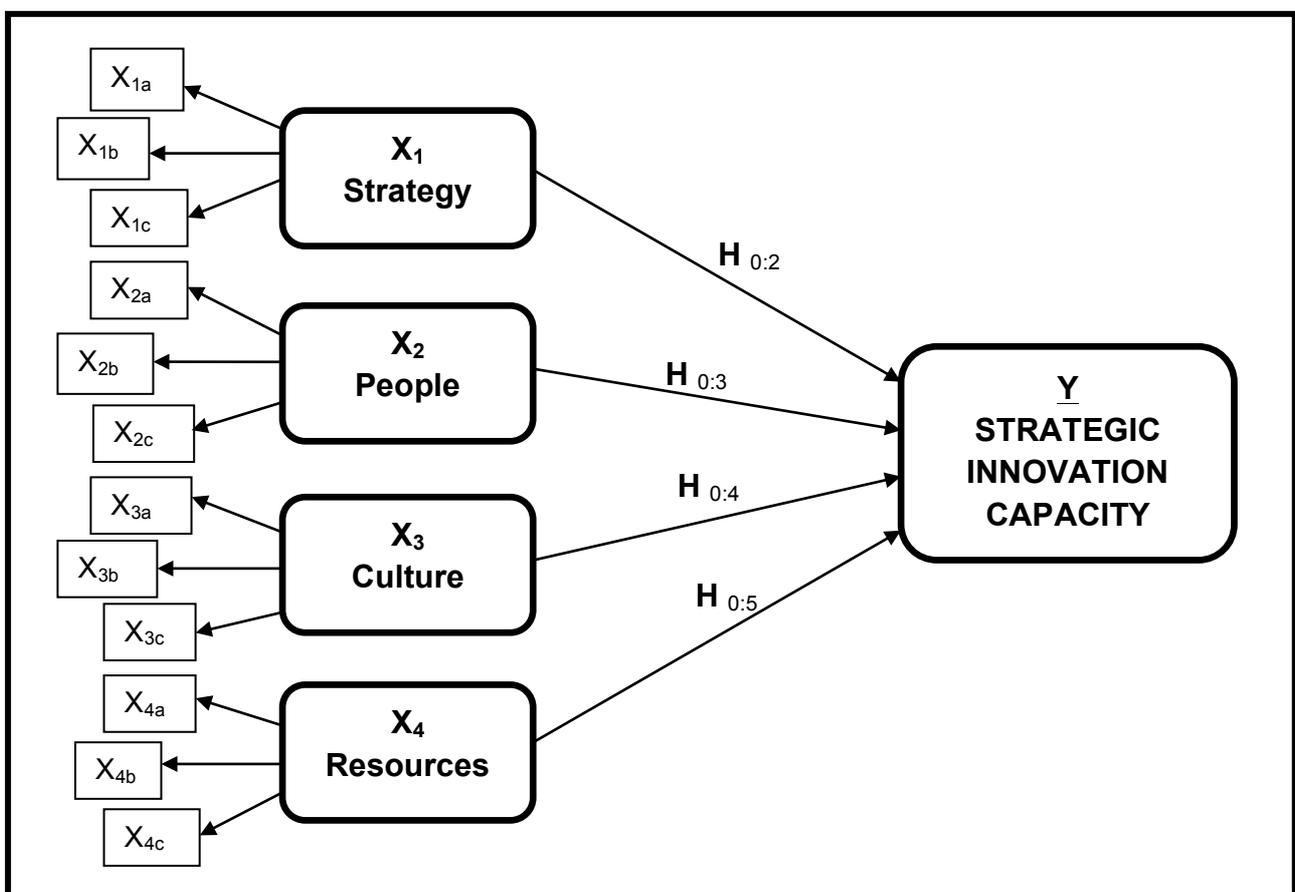


Figure 1.3: Hypothesised model for strategic innovation capacity and drivers

Source: Own Compilation

1.8.3.3 Reliability and Validity

Four methods exist for testing the reliability of a research instrument, the reset method, the alternative form method, the split-halves method, and the internal consistency method (Carmines and Zeller, 1979). For the purposes of this study, the internal consistency method was used. Internal consistency is measured using a coefficient, most often referred to as

Cronbach's alpha or the coefficient alpha, to measure the degree to which the questionnaire items are homogeneous and therefore reflect the same underlying constructs (Cooper and Schindler, 2008). A specialised correlational formula is used to calculate the alpha, with a value of 0.7 and above indicating a satisfactory level of reliability.

Validity broadly describes the extent to which a measure can be shown to measure what it is intended to measure (Cramer and Howitt, 2004; Kramer and Miller, 1986; Miller, 2008b). In regard to research, there are three main types of validity considered, namely, content validity, criterion-related validity and construct validity (Carmines and Zeller, 1979).

Given the small size of the sample for this study, it was not possible to test for these validities, the researcher rather considered internal validity. Internal validity, which involves being sure of the relevance and internal consistency of the results produced by a study, is achieved through the removal of identified biases (Drucker-Godard, Ehlinger, and Grenier, 2001). These biases are relevant to the context of the research, the collection of data and the sampling, and need to be addressed throughout the study (Drucker-Godard *et al.*, 2001). As such, validity was ensured for this research phase through the use of the first phase to develop items and the sampling frame, through the use of the qualitative respondents to build the sample, and lastly through the use of pilot testing the questionnaire to ensure validity of the research instrument.

1.9 Orientation

Chapter 1 is an introductory chapter. This chapter provides a description of what the study entails, and the reasons why it was undertaken.

Chapter 2 discusses strategic innovation and its need in modern markets, as well as the South African financial services industry. Strategic innovation capacity is also discussed.

Chapter 3 deals with the drivers of strategic innovation.

In Chapter 4, the dual methodology of the study, as laid out in Table 1.2, is explained in detail. Details regarding the population, the research instruments, sampling processes, data collection and analysis techniques, and the research objectives are discussed.

Table 1.2: Summary of primary research methodology

	First Phase	Second Phase
Research Type	Qualitative study	Quantitative study
Population	Banks in the South African financial services industry	People employed in selected banks in the South African financial services industry
Sampling Frame	Non-probability; Non-random	
Sampling Method	Judgement ;Multi-stage	
Sampling Technique	Purposive & Convenience	Purposive
Sample Size	5	50-100
Research Instrument	Semi-structured interviews	Close ended questionnaire
Research Strategy	Exploratory and Validating	Descriptive and Inferential
Time Dimension	Cross-sectional	
Research Objective	To confirm the elements comprising the drivers of strategic innovation, and to conclude, whether there are any unidentified elements comprising the drivers in South African banks.	To collect numerical data that may be used to investigate the relationship between the drivers of strategic innovation and strategic innovation capacity in selected banks in the South African financial industry.
Data Analysis	Thematic analysis	Descriptive and inferential statistics, regression analysis

Source: Own Compilation

Chapter 5 presents the results of this study, discussing an analysis of the data collected.

Lastly, in Chapter 6 the findings and recommendations are discussed.

Chapter 2 : Strategic Innovation

2.1 Overview of the literature review

The purpose of the following literature review is to explore the concept of strategic innovation, as laid out in Figure 2.1. This chapter will first detail the history of strategic innovation, its benefits, and provide a definition. The need for strategic innovation in modern markets, as well as the South African financial industry, will be contextualised. Next, the central component of Figure 2.1, strategic innovation capacity, will be explored. This exploration will allow for the examination of the antecedents to strategic innovation capacity, through the process and content aspects. The process aspects will be dealt with in this chapter while the content aspects, which form the main focus of this study as highlighted in Figure 2.1, will be explored and discussed in a separate chapter. This exploration of the content aspects, serves to operationalise the drivers of strategic innovation into testable constructs, allowing for empirical examination.

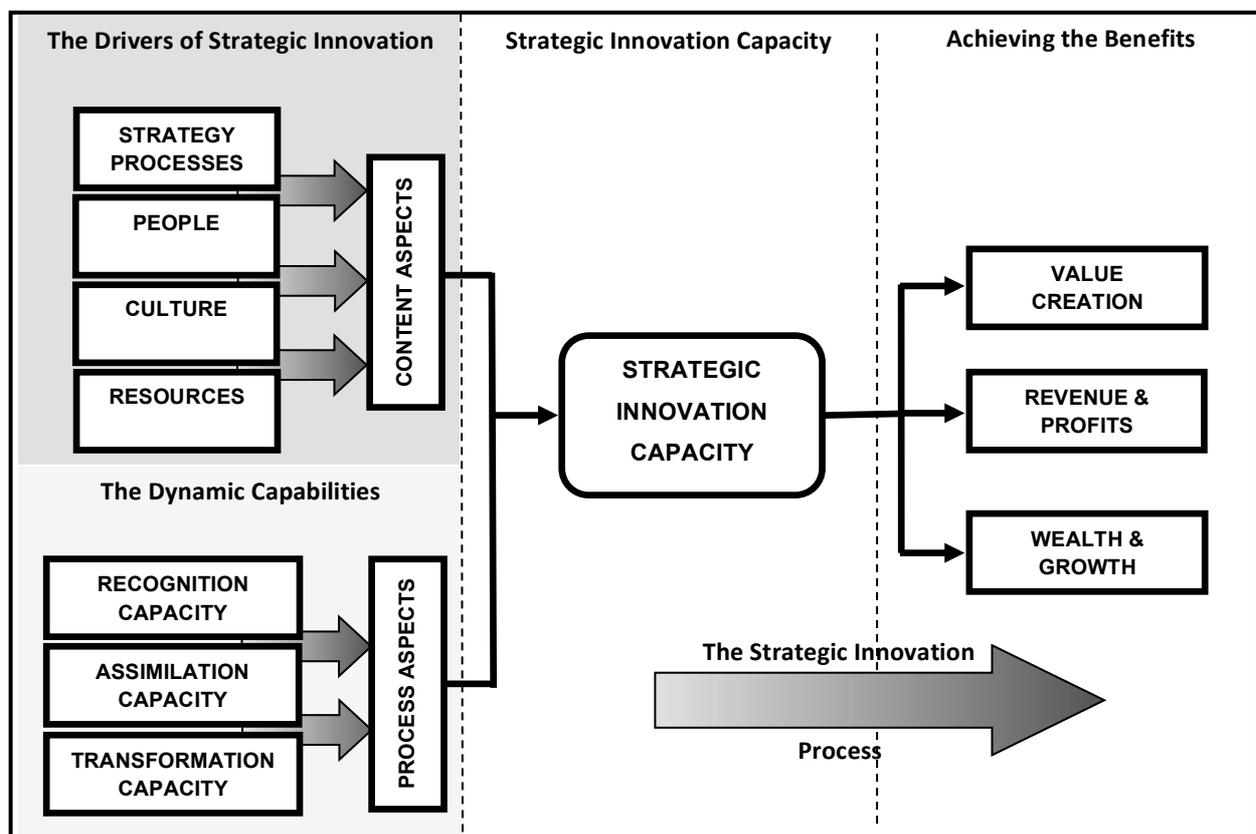


Figure 2.1: Components of strategic innovation

2.2 Introduction

As companies have developed over the years, certain processes have proved pivotal to their success, from efficiency, to quality, to flexibility, all have at a certain stage been recognised as important and sufficiently invested in until no further gains could be realised (Janszen, 2000). Innovation has now become widely acknowledged, and accepted, as one of the new pivotal processes for large organisations (Drucker, 1985), as supported by the evidence of innovating companies constantly outperforming their non-innovative peers (Klomp and Van Leeuwen, 1999). Accordingly, companies have come to realise the value that innovation not only holds but can create for their organisations. However, due to the ever-increasing competitive nature of the marketplace, companies now need to shift their innovation focus to ensure a more sustainable competitive advantage (Kim and Mauborgne, 2004). This re-focusing entails a shift from a product- and service-centric view of innovation, to a more systematic and holistic view, to innovation of the business model itself (Hamel, 1998b), and thus to a view of strategic innovation.

2.3 Background to strategic innovation

Strategic innovation is said to be the uneasy collision of two management disciplines, that of strategic planning, and innovation and creativity (Schlegelmilch *et al.*, 2003). The cause of this collision can be traced to three trends experienced by operating companies (Krinsky and Jenkins, 1997). The first of these trends is the inclination of companies to maintain or increase their growth and profits, a feat which is made increasingly difficult by the second and third trends, namely shorter product life-cycles and an increased intensity in global competition (Krinsky and Jenkins, 1997; Kim and Mauborgne, 2004; Ball *et al.*, 2010). These trends have nurtured the realisation in companies that attention needs to be paid to their environment, as well as their competition, traditional focal areas of strategy and strategic planning. Strategic planning has moved away from standard analysis and is developing into a growth-visioning process; it has been transformed from a planning exercise into an

analysis-supported creative process, resulting in a new concept which has been driven by a new underlying paradigm (Krinsky and Jenkins, 1997).

This new concept and accompanying paradigm were first mentioned in academic circles in the 1990's, although they were referred to under many differing titles, as demonstrated in Table 2.1.

Table 2.1: Differing titles for strategic innovation

Title	Authors
Strategic innovation	Markides (1997, 1998, 1999a, 1999b); Krinsky and Jenkins (1997); Pitt and Clarke (1999); Tushman and Anderson (1997)
Value innovation	Kim and Mauborgne (1997, 1999a, 1999b)
Blue ocean strategy	Kim and Mauborgne (2004)
Strategy innovation	Hamel (1996, 1998a)
Non-linear Innovation	Hamel (1998b)
Competitive innovation	Hamel and Prahalad (1989, 1993, 1994a, 1994b)

Source: Own Compilation

Markides (1997, 1998, 1999a, 1999b), Krinsky and Jenkins (1997), Pitt and Clarke (1999) and Tushman and Anderson (1997) all refer to strategic innovation. Markides (1997) refers to a concept whereby the “rules of the game” are actively challenged. Markides (1998:32) further develops this concept to create a definition of strategic innovation as “the fundamental reconceptualisation of what a business is all about, which in turn leads to a dramatically different way of playing the game in an existing business.” This is achieved by focusing on the strategic positioning elements of a company, specifically *who* the company targets, *what* they offer, and *how* they conduct business (Markides, 1997, 1998, 1999a, 1999b). Krinsky and Jenkins (1997), on the other hand, discuss the implications of the amalgamation of strategy and strategic planning with creativity and innovation, arriving at the

concept of strategic innovation as an updated strategy process in which analysis supports a creative process. Pitt and Clarke (1999) describe the new paradigm as the attempts to strategically manage the innovation activities of a company. Pitt and Clarke (1999) specifically focus on the role that resources and competencies play in the process. Lastly, Tushman and Anderson (1997) refer to the radical redesign and reshaping of an organisation, focusing specifically on the role that strategy plays in this process, and the resulting effects that this change may have on a company.

Kim and Mauborgne (1997, 1999a, 1999b, 2004) refer to the concept and paradigm as both value innovation and blue ocean strategy in differing works. Kim and Mauborgne (1997) discuss a specific type of strategic logic which they call value innovation, explaining that companies should shift their focus from competition to customers as the basis of their strategic thinking. To do so, companies must seek to innovate in a manner that redefines the problem an industry focuses on, shifting the relevant performance criteria of customers (Kim and Mauborgne, 1999b). This shift in paradigm is claimed to be possible through looking at specific boundaries present in all industries, such as looking across substitute industries, buyer groups, strategic groups, complementary product and service offerings, the functional-emotional orientation of an industry, and even across time (Kim and Mauborgne, 1999a). Kim and Mauborgne (2004) also refer to the idea of creating new market space through expanding and challenging industry boundaries as “blue ocean strategy”. They specifically refer to blue oceans as untapped market spaces, creating opportunities for high growth and demand creation (Kim and Mauborgne, 2004).

Hamel (1996, 1998a, 1998b) similarly uses two titles in reference to this concept and paradigm, those of strategy innovation and non-linear innovation. Hamel (1996, 1998a) explains strategy innovation as the capacity to reconceive the existing industry model in a manner that creates new value for customers and catches competitors off guard. Hamel (1998a) explains that key to this definition is the realisation that strategy is an emergent occurrence in companies, and as such is not completely controllable. Therefore, in order to

create strategy innovation, this emergence process needs to be positively influenced (Hamel, 1998a). To positively influence this process companies may involve new people in the strategy process, start new discussions relevant to strategy, try to view the problem from a new perspective, and create new experiments (Hamel, 1996, 1998a). Similarly, Hamel (1998b) explains that companies need to shift to a more systematic view of innovation, namely non-linear innovation, referring to innovation of the business model itself. The crux of non-linear innovation lies not in companies readily changing their strategies and relying on incremental innovation, but rather in attempting to re-invent the way their industry functions (Hamel, 1998b).

Hamel and Prahalad (1989, 1993, 1994a, 1994b) also refer to this new paradigm and concept in their studies, describing it as a competitive innovation. Hamel and Prahalad (1989) explain that the majority of companies focus on a strategy that merely imitates, resulting in a lack of competitiveness because the majority of competitors have used similar strategies. Hamel and Prahalad (1989) extend this argument, reaching the conclusion that companies should not pursue competitive imitation, but rather use competitive innovation, specifically the art of containing competitive risks within manageable proportions. Key to competitive innovation is collaboration and change (Hamel and Prahalad, 1989, 1991, 1993, 1994b). More explicitly, companies need to look for opportunities and ways to change the prevailing market, and consequently use collaboration as a vehicle to create this change (Hamel and Prahalad, 1989, 1991, 1993).

Despite these numerous titles, current literature (Berghman, 2006; Schlegelmilch *et al.*, 2003; Lehman-Ortega and Schoetti, 2005; Govindarajan and Gupta, 2001; Moenaert, Robben, Antioco, De Schamphelaere and Roks, 2010) refers to the concept under discussion as “strategic innovation”. As such, this is the title that will be used for this research. The challenge of creating an inclusive definition for the concept of strategic innovation still remains.

2.4 Creating a definition for strategic innovation

In light of the assortment of differing titles, it is possible through an appreciation of each title to note common aspects that run parallel through all published definitions. There emerges from the literature three observable themes in all definitions that can be used to create a more holistic definition of strategic innovation.

Firstly, it can be seen, across all the literature that at the core of this concept is a company's business model (Markides, 1998; Tushman and Anderson, 1997; Kim and Mauborgne, 1999b; Hamel, 1996, 1998a; Hamel and Prahalad, 1993). Although not always stated explicitly, all definitions explain that a company needs to rethink what they do, and the manner in which they do it. According to Markides (1998), a company needs to consider its key strategic positioning elements of *who* the company targets, *what* they offer, and *how* they conduct business. It is only through this willingness to redefine itself that a company can continue the process of strategic innovation to full fruition.

The second observable theme, to which all definitions make reference, is the re-conception of the industry or market (Markides, 1997; Kim and Mauborgne, 1997, 1999b; Hamel 1996, 1998a; Hamel and Prahalad, 1991). This is specifically exhibited in attempting to "change the rules of the game" (Markides, 1998:32) through challenging the dominant strategic logic present in an industry or market (Kim and Mauborgne, 1997). This re-conception of the industry and market allows a company to catch their competitors' off guard, and in effect alter the competitive formula that a market's participants support (Hamel, 1996, 1998a).

Lastly, across all definitions presented in literature the result of strategic innovation is value creation for all stakeholders of a company (Markides, 1998; Krinsky and Jenkins, 1997; Kim and Mauborgne, 1999a, 2004; Hamel, 1996; Hamel and Prahalad, 1989). Through offering a substantially better solution to a customer's needs, a company creates varying dimensions of value (Kim and Mauborgne, 1997). This increased value attracts more customers to a company's offering, thus increasing revenues and profits, all of which spur growth for a

company and result in increased wealth for all stakeholders (Hamel, 1998a; Kim and Mauborgne, 1997).

By looking at the literature which first mentions the concept of strategic innovation and taking cognisance of the three observable themes that present themselves, it is possible to create a definition for strategic innovation, to which this study can refer. The available literature can be summarised as follows:

“Strategic innovation is the process of innovating a company’s business model for either the company as a whole, or for a specific offering, in an attempt to re-conceive existing markets so as to alter the competitive formula for an industry.”

(Markides, 1997, 1998, 1999a, 1999b; Tushman and Anderson, 1997; Krinsky and Jenkins 1997; Pitt and Clarke, 1999; Kim and Mauborgne, 1997, 1999a, 1999b; Hamel, 1996, 1998a, 1998b; Hamel and Prahalad, 1989, 1993, 1994a, 1994b; Schlegelmilch *et al.*, 2003; Berghman, 2006).

Through enacting a process of strategic innovation, as defined above, a company will be able to create substantial value benefits and wealth gains for its stakeholders, while surmounting the modern market trends that create a need for strategic innovation.

2.5 The need for strategic innovation

Despite the origin of strategic innovation being traced to the trends of company profit and growth ambitions, reduced product life-cycles, and increased global competition (Krinsky and Jenkins, 1997), it has become even more applicable due to the specific modern market trends of hyper-competition, convergence and commoditisation. These modern trends have a hampering effect on markets, and as such strategic innovation represents a process that allows for the surmounting of the negative effects associated with these trends.

2.5.1 Hyper-competition

Hyper-competition as a concept closely relates to Schumpeter's (1947) theory of creative destruction, especially with regard to his view on competitive advantage, specifically that it is increasingly difficult for a company to sustain an advantage over a competitor. Schumpeter (1947) maintains that this trait is a characteristic of many an industry, and that sustainable competitive advantage is no longer contingent on one single area within a company, but rather the cumulative effect of multiple areas of investment (Schumpeter, 1947; Wiggins and Ruefli, 2005; Ilinitch, D'Aveni and Lewin, 1996).

Given this relation, hyper-competition refers to a state or environment characterised by rapidly escalating levels of competition and intense competitive moves, where reduced periods of competitive advantage for companies exist, because of competitors' quick building of advantages and eroding of the advantages of others (Bogner and Barr, 2000; D'Aveni and Gunther, 1994; D'Aveni, 1998; D'Aveni, Canger and Doyle, 1995).

Companies who find themselves in a market characterised by hyper-competition will be subject to a high level of turbulence, blurred industry boundaries, shortened product life-cycles, ambiguous customer demands and a continually shifting competitive landscape (Eisenhardt and Martin, 2000; D'Aveni, 1998; Styles and Goddard 2004; Floyd and Lane, 2000; Hanssen-Bauer and Snow, 1996; Slywotzky and Wise, 2004). The market environment will continually escalate towards ever higher levels of uncertainty, dynamism, heterogeneity of competitors and hostility (D'Aveni *et al.*, 1995), what Kim and Mauborgne (2004) refer to as a "red ocean".

In order to make progress in a market characterised by such conditions, a company needs to take an "unreasonable approach" (D'Aveni *et al.*, 1995:48), namely to strive to disrupt others and adapt the market to themselves, a tenet key to the philosophy of strategic innovation. Strategic innovation is a realistic process that can surmount the effects of hyper-competition. By engaging in rapid change, applied to the company or to the market, while actively

pursuing new market space so as to rewrite the industry rules, a company will be able to surmount the challenge of hyper-competition. (Berghman, 2006; Hanssen-Bauer and Snow, 1996; Kim and Mauborgne, 2004; Markides, 1998; Ilinitch, *et al.*, 1996)

2.5.2 Convergence

Convergence, more specifically the tendency towards increased similarity or increased unification (Greenstein, 2000), is a process that is beginning to have a drastic effect on markets. This effect is particularly being felt through the catalyst of industry or market convergence, a process driven by globalisation, deregulation, harmonisation, and increasingly rapid technological shifts (Choi and Valikangas, 2001; Prahalad and Hamel, 1994; Bettis and Hitt, 1995; Sampler, 1998).

Industry or market convergence relates especially to the increasing trend of “boundary blurring” between industries, as prompted by the convergence of various industry delineators (Choi and Valikangas, 2001; Weaver, 2007). These industry delineators are the various elements that distinguish one industry from another, and are representative of elements such as value propositions, products, technologies, markets, organisational structures, or processes (Choi and Valikangas, 2001; Bröring, Martin and Leker, 2006; Lee and Olson, 2010). The process of industry convergence can be further distinguished on the basis of two separate orientations, namely supply- and demand-side convergence (Bröring *et al.*, 2006). Supply-side convergence relates to the application of an industry characteristic, such as a technology, across differing industries from the input side, and is also referred to as a technology-push orientation (Morris *et al.*, 2011; Pennings and Puranam, 2001). On the other hand, demand-side convergence originates from the opposite end of the spectrum and makes the distinction of consumers driving the convergence process. This occurs through consumers’ wish to satisfy multiple needs in one transaction, or where previously heterogeneous groups of customers become similar, resulting in a market-pull orientation (Pennings and Puranam, 2001).

The process of industry or market convergence typically results in numerous strategic challenges for any given company. The most common is the erosion of organisational capabilities through a market's exposure to new technologies, consumers, and their needs (Pennings and Puranam, 2001). These consequences of convergence often result in the reconfiguration of value-chains and an enlarged market, both resulting in increased levels of competition (Greenstein and Khanna, 1997; Borés, Saurina and Torres, 2003). Because of this, convergence can be recognised as both a facilitator and a contributor to hyper-competition (Gimeno and Woo, 1996), with the resulting market conditions and applicability of strategic innovation as previously discussed, coming into being (Lee and Olson, 2010).

2.5.3 Commoditisation

Matthyssens and Vandembemt (2007) define commoditisation as a dynamic process that erodes the competitive differentiation potential between companies, resulting in a deterioration of the respective parties' financial position (de Neufville and Pirnar, 1999). This process is driven by pervasive market forces, particularly as markets mature, a degree of standardisation and product imitation across offerings occurs, and customers start to gain a wider scope of experience with competitors (Matthyssens and Vandembemt, 2007). As mentioned, these forces then diminish the differentiating characteristics between competitors, resulting in diminished profits for companies, and a higher bargaining power for customers (Reimann, Schilke and Thomas, 2010).

Markets characterised by, or which have undergone a process of commoditisation, show certain traits. Firstly, there is a high level of perceived product homogeneity, as parallel offerings are perceived to be undifferentiated and are therefore interchangeable (Reimann *et al.*, 2010; Bakos, 1997; Greenstein, 2004; Pelham, 1997; Robinson, Clarke-Hill and Clarkson, 2002). Secondly, there is increased price sensitivity amongst customers, that occurs as customers perceive all offerings to be interchangeable because of product homogeneity, and the main element for discrimination between offerings becomes price

(Shapiro, 1997; Reimann *et al.*, 2010). Lastly, customers experience low switching costs, and have a higher bargaining power as there is relatively little that distinguishes one offering from another, so they can easily switch between products with minimal negative effects (Reimann *et al.*, 2010; Burnham, Frels and Mahajan, 2003; Hough *et al.*, 2011).

Ultimately commoditisation moves the market towards a totally competitive state where there is little advantage, and competition is solely based upon price, in effect moving the market into a hyper-competitive state (D'Aveni, *et al.*, 1995). Once again the case for strategic innovation is promoted, as reinforced by Kampas (2003:43), who describes how the source of customer value shifts from product innovation to business innovation, with power shifts from vendors to customers during the “path of technological development”.

2.6 The need for strategic innovation in South African financial services

The origin of the financial services industry of South Africa can be traced back to the foundation of the Lombard Bank in Cape Town, which first opened their doors for business in 1793 (History: the South African Reserve Bank, 2013). Since then, owing to the necessity for financial services, the industry has undergone a robust expansion, and has resulted in becoming the single biggest contributor to GDP; at 21.2% of the total GDP for the second quarter of 2010, as well as the third biggest employer in the country (The Banking Association South Africa, 2010). However, in assessing the current state of the South African financial services industry, one must note the market characteristics discussed under section 2.4 creating applicability for strategic innovation as a concept in relation to the South African financial services industry.

2.6.1 Hyper-competition in South African financial services

The growth, and the associated profits it delivered, resulted in the financial services industry of South Africa becoming a highly profitable market (Selected South African Banking Sector Trends, 2013). Consequently, a large number of entrants have been drawn to the industry

which currently supports a large number of competitors, comprising varying banks, insurers and other service providers (Selected South African Banking Sector Trends, 2013). This saturation has led the industry to be characterised by escalating levels of competition and intense competitive moves (Boomgard, 2013; Steenkamp, 2013). As a result, reduced periods of competitive advantage exist, as competitors are quick to build advantages while eroding the advantages of others. Therefore one can conclude that the South African financial services industry has become characterised by hyper-competition.

2.6.2 Convergence in South African financial services

Convergence is similarly a highly observable process within the South African financial services industry, emanating from both a demand- and supply-side orientation. In considering the demand-side orientation of convergence, many customer needs have prompted the blurring of industry delineators, originating from both adjacent markets' advances into financial services, and from financial services into adjacent markets (Woolworths: Financial services, 2013). The same proposition holds true for the supply-side orientation of convergence, as demonstrated by the activities of banks, using their traditional means for service delivery to offer new products and services (FNB Connect, 2013). Regardless of the origin, convergence has had a pronounced effect on the dynamics of financial services in South Africa, creating an erosion of organisational capabilities, as created by the markets' exposure to new technologies and consumer needs (Pennings and Puranam, 2001). This convergence has created a proliferation of competitors as markets merge, further developing hyper-competition (Gimeno and Woo, 1996).

2.6.3 Commoditisation in South African financial services

Given the saturated nature of the South African financial services industry, as well as the effects of convergence and other technological developments, the competitive differentiation potential between financial services companies has been somewhat eroded, resulting in a commoditisation of financial products and services. This is observable in the level of

homogeneity between various financial products and services, as they are easily interchangeable, each fulfilling the desires and needs of customers. Given this homogeneity, a discernible element of differentiation between offerings has become price, as evident from the success of low-cost banking models in the market (Ndzamela, 2013). Although customers may not hold a high amount of bargaining power in terms of the products and services they receive, the switching costs presented are relatively low, allowing for customers to change between preferred financial services providers with ease (Taljaard, 2013). For these reasons the financial services industry may be defined as a commoditised market, further contributing to increased competition, and the need for strategic innovation.

The modern market trends of hyper-competition, convergence and commoditisation are well incorporated in the South African financial services industry, and have already had a marked effect on the industry's dynamics. Therefore the concept of strategic innovation is clearly applicable as a process to be used in surmounting the inherent challenges and constraints imposed by these market trends. This applicability is further emphasised by the economic significance of the financial industry in South Africa. As strategic innovation has the potential to create value, an understanding of its antecedents may result in value not only for customers and companies but also for national prosperity with a higher level of national GDP.

Strategic innovation is however not an immediately implementable process; the correct elements and mechanisms need to be in place in a company first. More specifically, a company needs to maintain and foster the necessary capacity to conceive innovative, rule-breaking strategies, and hence create strategic innovations.

2.7 Strategic innovation capacity

It has long been realised that sustaining a competitive advantage has become less a matter of discovering and maintaining one single competitive advantage, than discovering and maintaining a series of competitive advantages over time (Schumpeter, 1947; Wiggins and

Ruefli, 2005; D'Aveni, 1994). Key to this new reality is maintaining the relevant capacity needed to both develop and exploit discovered competitive advantages, in order to concentrate them into a sustained competitive advantage (Wiggins and Ruefli, 2005; D'Aveni, 1994). Given the broad nature of elements which influence a company's ability to foster strategic innovation, creating the capacity needed to both develop and exploit these various elements has become a crucial issue for strategic innovation.

This importance of possessing the ability to foster such a capacity is highlighted through the increased likelihood of performance and success in strategic innovation, as witnessed in various companies (Berghman, 2006). The main characteristics involved in successful strategic innovation processes need to be detailed so as to build a clear definition of strategic innovation capacity. Consequently, it is appropriate to determine what antecedents in a company influence this capacity, hence allowing for an exploration of the opportunities available to increase a company's strategic innovation capacity.

2.8 Defining strategic innovation capacity

The process of innovation, let alone strategic innovation, contains inherent risks and dilemmas, which may be mitigated against by an assortment of techniques and concepts (Tidd and Bessant, 2009; Morris *et al.*, 2011). One such technique is a portfolio approach to innovation development, namely pursuing a large number of different projects simultaneously (Faems *et al.*, 2005; Mikkola, 2001; von der Gracht, Vennemann and Darkow, 2010). Such an approach not only allows a company to spread the risks of innovation across many projects in the portfolio, but also builds a higher propensity for performance. As successful strategic innovations emanate from portfolios of options (Berghman, 2006; Shimizu and Hitt, 2004), the implementation of parallel innovation streams that probe an industry in the form of multiple, well-informed bets increase a company's likelihood of successfully strategically innovating (Pitt, 1998; Govindarajan and Trimble, 2005; Lynn, Morone and Paulson, 1996; Berghman, 2006). Therefore, a company needs to

produce a requisite amount of variety in a number of strategic ideas, particularly “who-what-how” combinations, if it wishes to enhance its chances of conceiving innovative, rule-breaking strategies (Markides, 1999b; Berghman, 2006). These multiple innovative, rule-breaking strategies which comprise a company’s portfolios are referred to as a company’s strategic innovation initiatives.

Maintaining the requisite variety in a strategic innovation portfolio alone cannot ensure success. Rather, the variety of innovation streams needs to be correspondingly constant in nature, continually targeting industry gaps in order to sustain the advantages afforded by strategic innovation (Larsen, Markides and Gary, 2002). This essential continuity stems from the turbulent nature of markets, characterised by the market trends of hyper-competition, convergence, and commoditisation (D’Aveni, 1994; Berghman, 2006; Choi and Valikangas, 2001; Reimann *et al.*, 2010). With the necessity of variety and continuity amongst strategic innovation initiatives to ensure success, it is possible to summarise these two characteristics as key to building a strategic innovation capacity in a company. The following definition of strategic innovation is provided by Berghman (2006:33): Strategic innovation capacity is defined as *an organisation’s capacity to systematically create strategic innovation initiatives*.

Berghman (2006) concludes that the unit of analysis for a company’s strategic innovation capacity is set at the initiative level, as consistent with other strategic innovation research (Kim and Mauborgne, 1997; Govindarajan and Trimble, 2004, 2005b; O’Connor and Rice, 2001). The method provided by Berghman (2006) to measure a company’s strategic innovation capacity utilises an intuitive multi-staged approach. First, the number of innovative initiatives of a company is determined. Second, the nature of these initiatives is assessed, so as to determine their orientation towards strategic innovation. This assessment is achieved by evaluating the degree to which the initiative differs from industry norms and the status quo. Thus, in determining the number of strategic innovation initiatives, it is possible to classify companies which exhibit a high number of strategic innovation initiatives

as having a high strategic innovation capacity. Berghman (2006) further operationalises this construct into a testable number of questionnaire items.

2.9 The aspects of strategic innovation capacity

The final element for consideration of strategic innovation capacity pertains to the antecedent elements within a company that ultimately influence and define the level of a company's strategic innovation capacity. Berghman (2006) concludes that the antecedents of strategic innovation capacity can be segmented into two categories – process aspects and content aspects – which influence a company's strategic innovation capacity, as illustrated in Figure 2.2.

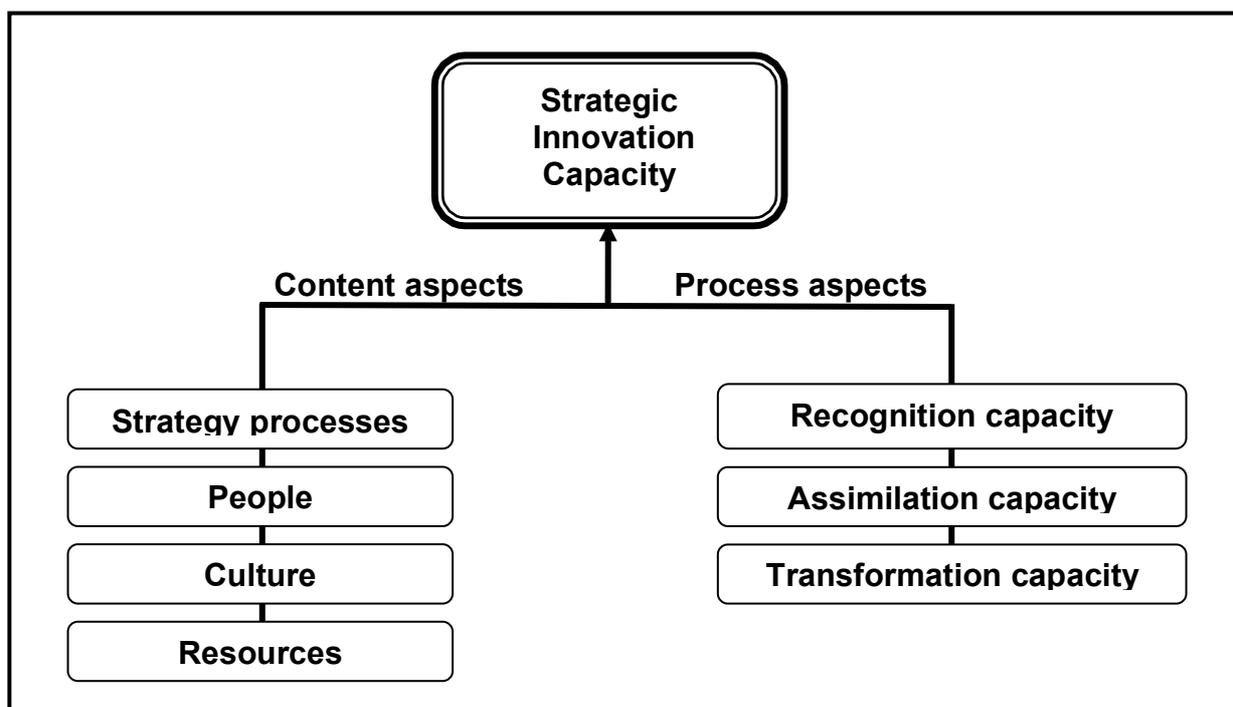


Figure 2.2: The antecedents of strategic innovation capacity

Source: Own Compilation

2.9.1 The process aspects of strategic innovation capacity

The process aspects of strategic innovation capacity refer largely to the series of actions needed to foster the ability to conceive innovative, rule-breaking strategies and consequently to strategically innovate (Berghman, 2006). As Berghman (2006: 37-38) explains, a

company's "strategic innovation capacity is ultimately defined by their dynamic capabilities, it is the high level or antecedent routines, through which managers alter their company's resource base with the view of new value creating strategies, which affect their strategic innovation capacity". In exploring the dynamic capabilities needed to foster strategic innovation capacity, Berghman (2006) distils three specific capacities as having an effect on fostering strategic innovation capacity in a company, namely the capacities of recognition, assimilation and transformation.

2.9.1.1 Recognition capacity

Recognition capacity refers to a company's capability to identify and acquire new external information (Zahra and George, 2000). This capability is of vital importance to strategic innovation, because the capacity to recognise new opportunities and options in a sustainable manner is of crucial importance to any company aspiring to discontinuous innovation (Ahuja and Katila, 2004; O'Connor and Rice, 2001; Johnson and Hoopes, 2003).

Companies need to introduce market-sensing, or industry foresight capabilities into their internal processes. This allows for the signalling and reading of market developments, further creating opportunities for strategic innovation (Johnson and Hoopes, 2003; Hamel and Prahalad, 1994a; Brown and Eisenhardt, 1997). The applicability of this capability is made more relevant given the hampering market trends that create a need for strategic innovation, as mentioned: "In a world in which changes come from many different directions, the ability to balance organisational focus with the wide-angle view may be the most important ability for long-term survival and success" (Day and Schoemaker, 2004:117). For these reasons the sensing, surveillance, and visualisation of the market will help facilitate the recognition of new strategic innovation options, fostering a greater strategic innovation capacity (Johnson and Hoopes, 2003).

2.9.1.2 Assimilation capacity

Assimilation capacity refers to a company's capability to analyse, process, interpret and understand acquired external information (Zahra and George, 2002). This capability forms the learning and sense-making processes of a company, whereby new knowledge is connected to existing knowledge in attempts to distil meaning, so as to identify new opportunities (Lane, Salk and Lyles, 2001; Day and Schoemaker, 2004; Child, 1997).

Given strategic innovation's premise of constantly questioning and probing both a company's internal operations and the external environment in which it operates (Schlegelmilch *et al.*, 2003; Markides, 1997,1998), the capability to interpret and synthesise information into relevant usable knowledge and opportunities is crucial (Berghman, 2006). The assimilation process should cut through existing knowledge barriers in a company, involving an open dialogue among individuals with diverse perspectives (Liedtka, 2000; Thomas, Sussman and Henderson, 2001). This invigorates the mental models that guide a company's perception of the business they are in, consequently influencing its strategy, as well as their strategic innovation capacity (Styles and Goddard, 2004).

2.9.1.3 Transformation capacity

While recognition and assimilation capacity denote the capability of identifying and utilising information, transformation capacity refers to the changing of operating routines in order to integrate this newly acquired and assimilated knowledge (Zahra and George, 2002; Zollo and Winter, 2002). Transformation capacity centres on issues such as conversion, internalisation and re-codification (Zahra and George, 2002; Zollo and Winter, 2002). It may thus be viewed as the capacity to effectively change the behavioural processes and operating routines in a company, so as to support strategic innovation (Zahra and George, 2002; Daghfous, 2004; Schlegelmilch *et al.*, 2003; Almeida, Phene and Grant, 2003).

The importance of transformation capacity is emphasised by the reinforcing nature of the mental modes maintained by a company, which can prevent the recognition and assimilation

of new valuable information through instilled company behaviours and contexts (Berghman, 2006). The recognition and assimilation capacities of a company should lead to, and be aligned with, revised behavioural and procedural changes, in order to foster new insights, meanings and initiatives (Zahra and George, 2002; Tranfield and Smith, 1998). For these reasons processes that foster and accelerate the development of new routines, processes and ways of working, ultimately improving the integration of new external knowledge with existing knowledge, will lead to the behavioural change required for strategic innovation (Berghman, 2006).

In summary, the three capacities of recognition, assimilation and transformation, as distinguished above, form the learning mechanisms necessary to promote the dynamic capabilities to foster strategic innovation (Berghman, 2006:61). Through successfully establishing each capacity a company has a much greater chance of disrupting the path dependencies which govern their business operations, hence fostering a greater strategic innovation capacity (Berghman, 2006; Eisenhardt and Martin, 2000). As Berghman (2006) notes, these capacities form the process antecedents to strategic innovation capacity. To fully understand and foster a strategic innovation capacity, the process antecedents need be collectively managed alongside the content antecedents.

2.9.2 The content aspects of strategic innovation capacity

The content aspects of strategic innovation capacity generally refer to the fundamental elements and characteristics needed in a company's resource base to foster strategic innovation (Berghman, 2006). In line with the resource-based view of a company, Barney (1991) suggests that a company's resource base consists of three categories for consideration – physical capital resources, human capital resources and organisational capital resources. Physical capital resources are the actual technologies and finances available to a company, among other physical resources (Barney, 1991; Robinson, 2008). Human capital resources are the aspects surrounding employees and management (Barney,

1991; Robinson, 2008). Organisational capital resources are both the informal and formal systems and processes of control in a company (Barney, 1991; Robinson, 2008). In considering the three categories presented by Barney (1991) it can be seen that the drivers of strategic innovation comprise each of these categories.

The driver of Resources comprises the category of physical capital resources, describing the technology and financial management needed for strategic innovation (Barney, 1991; Schlegelmilch *et al.*, 2003). The driver of People comprises the category of human capital resources, relating to the knowledge, skills, and abilities of employees and managers, as well as the relationships and networks which they utilise (Barney, 1991; Robinson, 2008; Schlegelmilch *et al.*, 2003). The drivers of Strategy Processes and Culture comprise the category of organisational capital resources, referring to the formal and informal planning, controlling and co-ordinating systems and processes, as well as the manner in which work is carried out and employees conduct themselves (Barney, 1991; Robinson, 2008; Schlegelmilch *et al.*, 2003). Given this conclusion, the drivers of strategic innovation may be considered as the content aspects of strategic innovation capacity.

2.10 Conclusion

This chapter has provided a rationale for the concept of strategic innovation, as well as an analysis of the concepts' origins in academic literature. This analysis was then used to create a definition of strategic innovation. The applicability of the concept with regard to modern markets and the South African financial services industry was then undertaken, setting the context for strategic innovation capacity. An exploration of the concept of strategic innovation capacity, detailing its definition, measurement and antecedents was provided. As such, a clear image of the elements which influence a company's strategic innovation capacity has emerged. It is the manner in which a company organises and manages its resource base, in conjunction with the learning mechanisms that it employs, which creates a company's capacity to strategically innovate.

In an empirical context only the process aspects have been researched in relation to strategic innovation capacity. Whilst the content aspects, although formally recognised, have received little attention given the novelty of the research area. As such, a gap exists for research exploring the relationship between the content aspects of strategic innovation and strategic innovation capacity. The following chapter (Chapter 3) further explores the drivers of strategic innovation, commencing with the operationalisation of each driver so as to address the identified research gap.

Chapter 3 : The Drivers of Strategic Innovation

3.1 Introduction

The drivers of strategic innovation were first mentioned in academic literature by Schlegelmilch *et al.* (2003), who identified the four drivers of, Strategy Processes, People, Culture and Resources, as jointly fostering strategic innovation in a company. These drivers form the content aspects of strategic innovation capacity (Berghman, 2006; Schlegelmilch *et al.*, 2003), which, when considered in conjunction with the process aspects (Berghman, 2006), create an understanding of how strategic innovation capacity is formed in a company, as illustrated below in Figure 3.1.

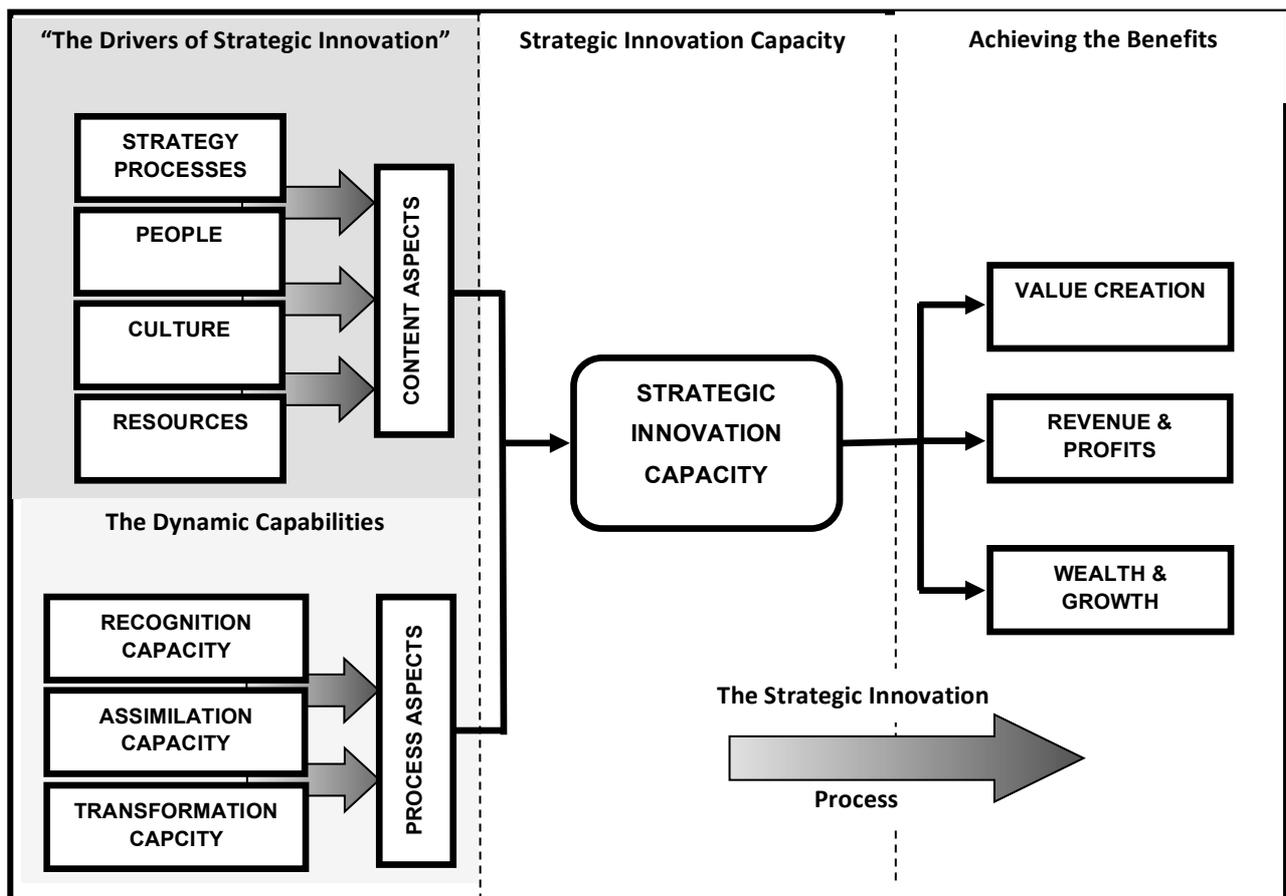


Figure 3.1: The components of strategic innovation

Source: Own compilation

In their discussion of the drivers of strategic innovation, Schlegelmilch *et al.* (2003) instigate the operationalisation of each driver, describing how each contributes to creating a higher strategic innovation capacity. Schlegelmilch *et al.* (2003:128) however, do not fully operationalise each driver, and highlight the need for future research “to develop psychometrically sound composite measures (i.e., multi-item scales) of each strategic innovation driver”. In the following chapter each driver is individually assessed through a consultation of the relevant literature. This assessment will serve as the basis to begin the operationalisation of each driver.

3.2 Strategy Processes

Schlegelmilch *et al.* (2003) denote the driver of Strategy Processes in their work as processes, referring to the characteristics of strategy development within a company. Subsequently, Schlegelmilch *et al.* (2003) share the view of the likes of Krinsky and Jenkins (1997), Skarzynski and Yates (1999), Hamel (1996), and others, in that the traditional process of strategy development in companies is flawed.

In order to define the strategy processes needed to foster strategic innovation, the following section first describes the history of strategy development processes through apprising the differing schools of strategy, so as to elaborate on a generic strategy process. The focus will then shift to expanding upon the relevant critiques of the generic strategy process as available in the literature. In doing so, the relevant characteristics of the strategy development process necessary to foster strategic innovation capacity will be outlined.

3.2.1 The schools of strategy

Since the inception of strategy as a business process in the 1940's (Bracker, 1980) many authors have explored the concept, with each emphasising the roles of differing aspects in the strategy development process. This line of exploration and research has resulted in a

diverse body of literature relating to strategy development, but common trends do present themselves, hence allowing for the categorisation of theories into ten distinct schools of thought as outlined by Henry Mintzberg in various studies (Mintzberg, 1990b; Mintzberg *et al.*, 1998; Mintzberg and Lampel, 1990). Table 3.1 provides a summary of these schools.

Table 3.1: The schools of strategy

School of thought	Sources
Design school	Selznick (1957); Newman (1951); Learned, Christensen, Andrews and Guth (1965); Andrews (1987, 1976, 1980, 1981); Idenburg (1993)
Planning school	Ansoff (1965); French (2009)
Positioning school	Hatten And Schendel (1977), Porter (1980, 1985)
Entrepreneurial school	Schumpeter (1934), Cole (1959)
Cognitive school	Simon (1947), March and Simon (1958)
Learning school	Lindblom (1959), Cyert and March (1963), Weick (1979), Quinn (1980), Hamel and Prahalad (1994)
Power school	Allison (1971), Pfeffer and Salancik (1978), Astley (1984)
Cultural school	Rhenman (1973), Normann (1977)
Environmental school	Hannan and Freeman (1977), Pugh, Hickson, Hinings and Turner (1968)
Configuration school	Chandler (1962), Mintzberg (1979), Miller and Friesen (1984), Miles and Snow, (1978)

Source: Mintzberg, H., and Lampel, J. 1999. Reflecting on the Strategy Process. *Sloan Management Review*. 40(3):21-30.

The existence of distinct schools of thought with regard to strategy development does not mean that each one exists separately from the others. Rather, they all form different facets of a complex process known as strategy development. As Mintzberg and Lampel (1999:27)

explain, “strategy formation is judgemental designing, intuitive visioning, and emergent learning: it is about transformation as well as perpetuation; it must involve individual cognition and social interaction, cooperative as well as conflictive; it has to include analysing before and programming after, as well as negotiating during: and all this must be in response to what may be a demanding environment.” The process may at times lean more towards one school, yet a clear process may be visualised with differing schools representative of differing stages in the process, as illustrated in Figure 3.2.

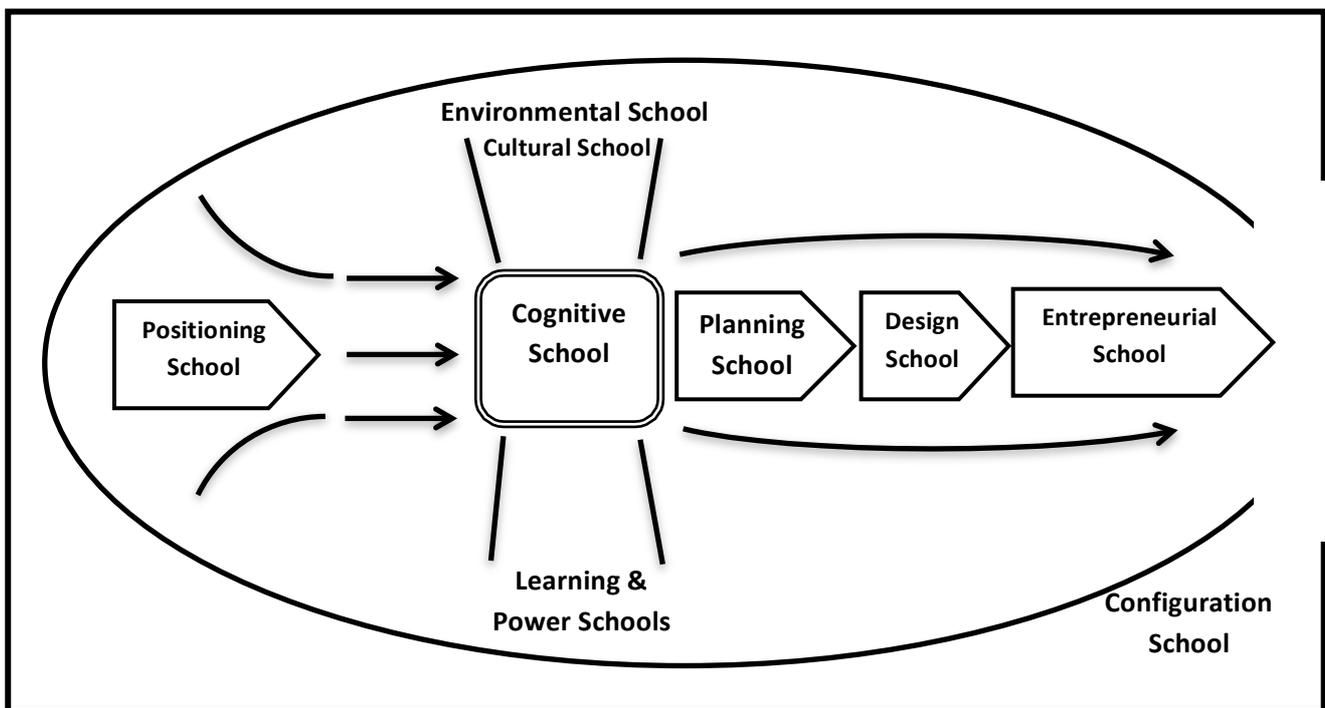


Figure 3.2: Strategy formation as a single process

Source: Mintzberg, H., and Lampel, J. 1999. Reflecting on the Strategy Process. *Sloan Management Review*. 40(3):21-30.

In Figure 3.2, the cognitive school, representing strategy as a mental process rooted in cognitive psychology where strategy is formulated through differing mental schemas and frames, resides in the middle (Mintzberg and Lampel, 1999). The positioning school, which constantly analyses the external environment to create a generic position for a company, is behind the cognitive school, continually analysing and feeding forwards to the centre (Mintzberg *et al.*, 1998). The planning school, which views strategy as a formal process that

leads a company, looks ahead slightly in an attempt to guide the company (Mintzberg *et al.*, 1998; French, 2009). The design school looks slightly further ahead, attempting to match a company's internal and external environment, to create the best possible fit (Mintzberg and Lampel, 1999; Mintzberg *et al.*, 1998). The entrepreneurial school looks the furthest ahead of all the schools, as it summarises strategy as a visionary process through which a company strives to create its own future (Mintzberg *et al.*, 1998).

The learning and power schools both look down, specifically focusing on the human element in strategy development. While the learning school emphasises strategy development as emergent through the process of learning over time, the power school focuses on the relationships between people, especially how influence and power are used to manipulate strategy development (Mintzberg *et al.*, 1998; Mintzberg and Lampel, 1999). The environmental and cultural schools both look at the organisation and its surroundings. The environmental school focuses on strategy as a reactive process to outside influences, while the cultural school focuses on the influence of common interest and the collective on strategy development (Mintzberg and Lampel, 1999). Lastly, the configuration school looks at the entire process itself, as well as all around it, viewing strategy development as shifting from one school to another, as required by the prevalent conditions (Mintzberg and Lampel, 1999; Mintzberg *et al.*, 1998). In review of the interactions between the various schools of strategic thought, it is possible to move towards a generic strategy development process, one which makes reference to all aspects of the strategic schools as discussed above.

3.2.2 The strategy development process

Although formally appraised as being set in the planning school of thought, the strategy crafting and executing process as set forward by Hough *et al.* (2011), does in fact contain nuances of all the schools of thought. Therefore it is appropriate to use the model of strategy crafting and executing, as proposed by Hough *et al.* (2011), as a generic process for the

development and formulation of strategy within a company. Figure 3.3 provides an illustration of the generic strategy crafting and executing process.

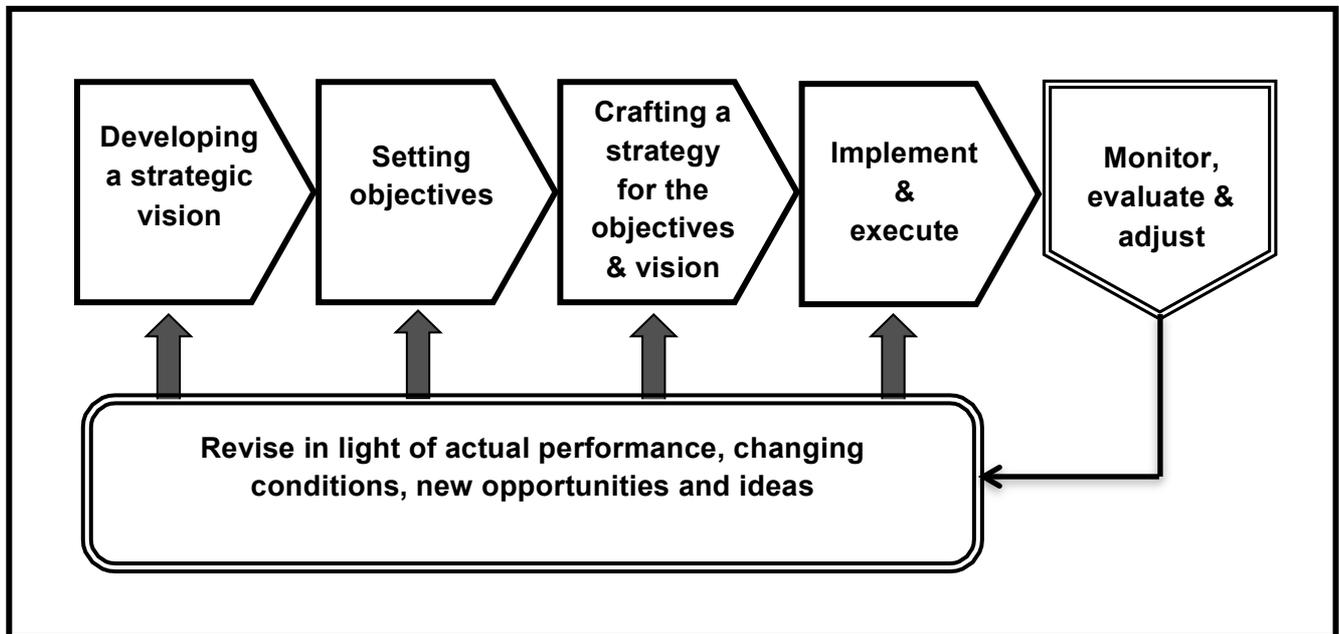


Figure 3.3: The process of strategy development and execution

Source: Hough, J., Thompson, A.A., Strickland, A.J. and Gamble, J.E. 2011. *Crafting and executing strategy: creating sustainable high performance in South Africa: Text, Readings and Cases*. 2nd edition. Berkshire: McGraw-Hill higher education

According to Hough *et al.* (2011) the strategy-making and strategy-executing process is a five-phase process that follows after an environmental analysis has taken place, in line with the environmental school of strategy (Mintzberg and Lampel, 1999). The first phase involves crafting a strategic vision for the company, congruent with the entrepreneurial school of thought. In crafting this strategic vision, it is essential that both the internal and external environments of a company are considered to create a unique vision and position, as motivated by both the design and positioning school of strategy (Mintzber *et al.*, 1998).

The second phase of the process sets future objectives for the company, being both financial and strategic in nature (Hough *et al.*, 2011). The setting of these objectives facilitates the third phase, where a strategy is crafted to achieve the specified objectives and

vision. This process of strategy crafting entails answering a series of “How?” questions, relating strategy to a conceptual process of learning, in line with both the cognitive and learning schools of strategic thought (Hough *et al.*, 2011; Mintzberg *et al.*, 1998; Mintzberg and Lampel, 1999). As this process of questioning also takes place between the various individuals in a company, reference is made to the cultural and power schools of strategic thought, which emphasise the role of people in the strategy development process (Mintzberg *et al.*, 1998; Mintzberg and Lampel, 1999).

In the fourth phase, the actual implementation and execution of the strategy takes place through a set sequence of events, in line with the planning school of thought (Mintzberg *et al.*, 1998). The fifth and final phase involves continually evaluating the performance of the strategy and taking corrective actions in the event that the stated objectives and vision are not achieved; a process which emphasises the learning nature of strategy development.

Throughout the entire strategy development process it is possible to consider the configuration school of strategy. As already shown, each differing phase of development has aspects consistent with each school of thought. These stages can be considered different states in the strategy developing process, with transformation moving the process from state to state, a tenet central to the configuration school of strategy.

3.2.3 Issues with current strategy development

Within the generic strategy development and executing process, as described above, there are many characteristics which present themselves as counter-intuitive to strategic innovation logic. Through reviewing each individual step in the development and executing process it is possible for one to note several issues which must be challenged, and also surmounted, in order to foster a greater strategic innovation capacity.

3.2.3.1 Developing a strategic vision

The crafting and development of a strategic vision is a vital starting point for strategies. A vision provides direction as well as a rationale for a company, in effect creating a reference point for all strategic decisions, while visualising the company's preferred future state (Hough *et al.*, 2011). Although it is common practice to consider the internal and external situations of a company when formulating a strategic vision (Hough *et al.*, 2011), strategic innovation authors argue that this is insufficient. It is claimed that the traditional means of formulating a strategic vision account only for the current business scope and model, and do not look far enough into the future (Ahmed, 1998; Bartlett and Ghoshal, 1994; Tucker, 2001; Skarzynski and Yates; 1999). Strategic innovation is inherently focused upon the future, and requires a company to actively envision a future beyond the current business model – a future where the operations of a company may be entirely different from the present, a future which goes beyond the limits of a traditional strategic vision (Govindarajan and Trimble, 2005a; Tucker, 2001). A company should replace a highly defined strategic vision with a broader organisational purpose which will allow for the necessary scope required to strategically innovate (Bartlett and Ghoshal, 1995; Choi and Valikangas, 2001)

3.2.3.2 Setting objectives

Setting of objectives is an activity that stems from the creation of a strategic vision, and involves the process of translating the strategic vision into finite achievable goals and objectives, being both strategic and financial in nature (Hough *et al.*, 2011). Owing to the chronology in the development process, it is observable that the set objectives suffer from the same biases present in the strategic vision, namely having an insufficiently forward-looking stance (Ahmed, 1998; Bartlett and Ghoshal, 1994; Tucker, 2001; Skarzynski and Yates, 1999). As the objectives set are developed specifically for the attainment of the strategic vision, they perpetuate the current business model, not encouraging the future

sensing role that is necessary to recognise strategic innovation opportunities and foster a greater strategic innovation capacity (Hamel, 1996; Mang, 2000).

A further issue arises in relation to the focus areas of employees in a company. The setting of objectives, as well as the allocation of accountability, results in the objectives becoming the overriding area of focus for managers; this perpetuates the predominant focus on present business operations and performance (Hamel, 1996; Mang, 2000). A fixation upon objectives also has negative connotations as management tends to focus energy on issues such as why objectives and targets were not met, as opposed to a view such as, where and how they might improve, which is much more beneficial to fostering strategic innovation capacity (Markides, 1999).

3.2.3.3 Crafting a strategy for the objectives and vision

The act of crafting the actual strategy entails answering a series of “How?” questions, particularly how the set objectives, goals and vision will be realised (Hough *et al.*, 2011). As this step of the process directly follows on from the previous steps, it also suffers from the aforementioned biases. Specifically in crafting a strategy, the chosen strategy only looks as far as the vision in the long term and the immediate objectives in the short term, once again perpetuating a business perspective that only caters to the current business model, therefore drastically diminishing a company’s strategic innovation capacity (Bartlett and Ghoshal, 1994; Tucker, 2001; Skarzynski and Yates; 1999). Rather than strategise how a company can proceed from the present to obtain a future goal, many advocate that a company should start with the desired future and strategise backwards to the present day in order to create a comprehensive strategy for change (Hamel 1996).

An additional issue that arises in the crafting of strategy relates to the actual people involved in the crafting process. As explained by Hough *et al.* (2011), the crafting of strategy takes a somewhat hierarchical form, with different levels of strategy being delegated to appropriate managers, resulting in the realised overall strategy being highly collaborative in nature. This

however results in strategy crafting remaining an almost exclusively managerial process, to a degree neglecting the possible information available from employees in lower organisational levels. This is a view that is strongly supported by the likes of Hamel (1996) and Martinsons (1993) who maintain the view that the strategy process should be as democratic as possible, involving individuals from all areas of a company.

3.2.3.4 Implementation and execution

The implementation and execution stage of the strategy development and execution process entail creating and confirming the correct enabling conditions and processes in a company, to ensure that the developed strategy has the greatest chance of meeting its set objectives (Hough *et al.*, 2011). Key to fostering a greater strategic innovation capacity is ensuring that there is a company-wide communication and understanding of the proposed strategy, as well as ensuring that the other drivers are sufficiently fostered to facilitate the implementation and execution of the strategy (Martinsons, 1993; Hamel 1996).

3.2.3.5 Monitor, evaluate and make corrective adjustments

The final stage of the strategy development and execution process is concerned with constant monitoring and evaluation of the strategy's performance, allowing for possible adjustments to the objectives or vision, or enabling factors around the strategy if need be (Hough *et al.*, 2011). In order to foster a greater strategic innovation capacity, a company needs to employ a much more proactive stance than waiting for actual performance to guide decisions. A company should actively question their decisions and the future market prospects. This is substantiated by Markides (2000) and Hamel (1996), who explain that the annual strategic planning process should be to question and challenge the choices that a company has made.

3.2.4 Strategy Processes for strategic innovation

From the literature it is possible to summarise the traditional strategy development and crafting process as multi-layered and interlocking (Burgelman, 1983). In this process the two aspects of formulation and implementation are intrinsically entwined (Mintzberg and Lampel, 1999), and are open to the influence of many factors, from the market environment and contextual elements to the self-interests of those involved (Mintzberg *et al.*, 1998). This volatile nature of influence results in the realised strategy often differing from the intended one, leading to a high level of hindsight and review, creating a focus on past actions and performance (Mintzberg, 1978). These factors lead to strategy being recognised as a company's theory about the basis of its past and current successes and failures, providing a shared frame of reference for actors within a company as well as a basis for objective setting (Burgelman, 1983).

Authors in strategic innovation literature often take issue with this traditional notion of strategy. A rules-based, calendar-driven process focused on historical aspects is counter-intuitive to strategic innovation logic (Schlegelmilch *et al.*, 2003; Kim and Mauborgne, 1997). As, mentioned, strategic innovation challenges the orthodoxies present in traditional strategy development and management, resulting in the need for an updated view of strategy processes along several fronts.

3.2.4.1 The role of strategy

The first concern relating to strategy processes is the presumed role of strategy; specifically, strategy processes need to take the role of questioning and probing the prevalent norms, biases and company choices (Christensen, 1997; Skarzynski and Yates, 1999). This is in contrast to the traditional role of strategy which focuses on planning and coordination, where strategy is used as a business process to plan and coordinate multiple business functions to successfully compete with the current market and business model (Garcia, 2012). While strategy still needs to fulfil this role, many authors in strategic innovation literature (Hamel,

1996; Markides, 1999; Martinsons, 1993; Skarzynski and Yates, 1999) promote the premise that strategy needs to actively probe and question the choices a company has made in the past, as well as possible future choices, while challenging the norms and biases that comprise the present market, industry, and way of operating. This leads to a strong learning component being present in the strategy processes of a company, as motivated by Aiman-Smith (2005), Burgelman (1983) and Wright *et al.* (2001). Learning is crucial, as without it a company will not be able to assimilate the outcomes from questioning the prevailing norms and biases and use them to their advantage.

3.2.4.2 The strategic frontiers

A consequence of instilling a questioning attitude into the role of strategy is a future-orientated perspective in strategy discussions and development, an issue which is encapsulated by the concept of strategic frontiers (Bate and Johnston, 2005). Strategic frontiers, which may be characterised by elements such as new technologies or markets, represent areas with the potential for new growth, all having the situation of existing outside a company's existing business model (Bate and Johnston, 2005). Key to recognising a company's strategic frontiers is instilling a strategic focus that looks to the future, while continuing to strategise for the driving forces present in an industry (Christensen, 1997). This allows a company to identify the boundaries of their strategy and to question themselves and their industry, providing the opportunity for them to redefine themselves and their strategic frontiers (Bate and Johnston, 2005). For a company to best exploit the benefits of its strategic frontiers, they need to display the requisite ambidexterity in their strategy processes, referring to balancing the need for alignment in their industry while remaining adaptable to market conditions and new strategic frontiers (Brinkshaw and Gibson, 2004; Stopford and Baden-fuller, 2001).

3.2.4.3 The strategy development process

In line with a reviewed role and orientation of strategy, a review of the actual process of development is also required. As Hough *et al.* (2011) explain, traditionally the strategy development process is hierarchical, being entrusted to the appropriate managers at the appropriate levels within a company. This ensures that the development of strategy is exclusionary; creating a process that is exclusively in the domain of top management. In contrast to this, it is suggested by authors in strategic innovation literature that the strategy development process be opened up to the entire company, creating a democratised process (Hamel, 1996). In order to further complement this new process of strategy development, an experimentation and selection approach should be used in aid of implementation. Ultimately this will facilitate a questioning and learning role for strategy, allowing for a higher degree of strategic flexibility (Burgelman, 1983; Hamel, 1996; Krinsky and Jenkins, 1997; Barsh *et al.*, 2008). Finally, strategic choices need to be widely communicated throughout a company, while having the full endorsement of top management (Burgelman, 1983; Hamel, 1996; Schlegelmilch *et al.*, 2003). Instilling these changes into the development process will further facilitate the reconsiderations mentioned earlier, all culminating in a greater strategic innovation capacity.

Table 3.2 provides a summary of the elements for consideration necessary to foster a greater strategic innovation capacity as regards the strategy processes needed.

Table 3.2: Strategy Processes for strategic innovation

Strategy Processes for strategic innovation	
Questioning of Industry and market biases	Christensen (1997); Skarzynski and Yates (1999)
Questioning of Industry and market norms	Christensen (1997); Skarzynski and Yates (1999)
Questioning company choices and direction	Hamel (1996); Markides (1999); Martinsons (1993); Skarzynski and Yates (1999)
Learning-orientated strategy processes	Aiman-Smith (2005); Burgelman (1983); Wright <i>et al.</i> (2001)
Proactive strategy development process	Markides (2000); Hamel (1996)
Continual search for new growth opportunities	Bate and Johnston (2005); Tucker (2001); Skarzynski and Yates (1999); Martinsons (1993)
Constant consideration of market driving forces	Christensen (1997); Bate and Johnston (2005); Choi and Valikangas (2001)
Looking beyond current business for growth opportunities	Tucker (2001); Bate and Johnston (2005); Skarzynski and Yates (1999)
Strategic focus on the future	Bartlett and Ghoshal (1994); Tucker (2001); Skarzynski and Yates (1999); Govindarajan and Trimble (2005a)
Strategic ambidexterity	Brinkshaw and Gibson (2004); Stopford and Baden-fuller (2001)
Open strategy development process	Hamel (1996); Martinsons (1993)
Experimentation and selection in strategy implementation	Barsh <i>et al.</i> (2008); Hamel (1996); Burgelman (1983); Krinsky and Jenkins (1997)
Clear communication of strategic decisions	Burgelman (1983); Hamel (1996); Schlegelmilch <i>et al.</i> (2003)
Top management support	Burgelman (1983); Hamel (1996); Schlegelmilch <i>et al.</i> (2003)

Source: Own compilation

3.3 People

Many sources list the most important factor for success in the current knowledge-based economy as people, specifically attracting and retaining great people (O'Reilly and Pfeffer, 2000). For this reason it is often seen that a company's innovation is a function of the people they retain, because it is the way they think and act that allows a company to realise innovation (Dobni, 2008). People are one of the most important drivers of strategic innovation, as postulated by Schlegelmilch *et al.* (2003), in that, who is selected by companies to create strategic innovation, and how they select them, is critical to the success of the process.

Another emphasis of the importance of people as a driver of strategic innovation capacity is the two-fold significance they hold. People as a driver refers to those inside a company, namely who a company hires, top management and leadership, and their management policies as well as those outside a company, referring to the networks and relationships across the industry and organisational boundaries (Schlegelmilch *et al.*, 2003).

The following section explores the driver of People along the dimensions of people inside and outside a company while noting the characteristics and elements needed in both spheres to successfully foster strategic innovation capacity, serving as an operationalisation of the construct.

3.3.1 People inside the company

The concept of people inside the company is very close to the idea of strategic human resource management, a concept which focuses on exploring the role of human resources in supporting business strategy (Wright *et al.*, 2001). However, given the need for an updated appraisal of company strategy processes as described in section 3.1, the traditional concept of strategic human resource management is insufficient. The following section will explore the link between human resources, their management and strategic innovation capacity.

Specifically, who is employed to aid in fostering strategic innovation, staff competencies and behaviours, and the management practices and leadership of top management.

3.3.1.1 Staff

“Staff” are the individuals who comprise the human resources element of a company, namely the pool of human capital under a company’s control in a direct employment relationship (Wright, McMahan and McWilliams, 1993). Human resources are widely recognised and cited by managers as a company’s most important asset (Barney and Wright, 1997). Particularly the two facets of employee competencies, their knowledge, skills and abilities (McKelvey, 1982), and employee behaviour, namely the actions through which strategies are implemented (Wright and Snell, 1991), are the human resource elements that have this importance. Both these elements are vitally significant and co-requisite in creating value within human resources. As the correct behaviours are worthless without the required competencies, so too are the correct competencies without the correct behaviours (Wright *et al.*, 1993). For these reasons, the discussion of staff in regard to fostering strategic innovation capacity will focus on these two elements of employee competencies and employee behaviours.

Employee competencies in a managerial context are the specific factors and abilities seen as central to the way in which a company or their staff operates (Prahalad and Hamel, 1990). The factors considered for employee competencies regarding strategic innovation are their specific knowledge, skills and abilities (McKelvey, 1982). The focus is not however on a single set of knowledge, skills, and abilities that all employees should possess, but rather on the correct skill-mix among all the employees (Gupta and Singhal, 1993). Innovation, and consequently strategic innovation, is nearly always the result of collaboration between numerous parties (Tidd and Bessant, 2009). For these reasons, when employing individuals with the goal of fostering a greater strategic innovation capacity, it is imperative that cognisance is given to the unique knowledge, skills and abilities that a candidate possesses

(Gupta and Singhal, 1993). Ultimately, the goal should be to create a highly qualified and motivated human resource base which is comprised of both diverse and complementary individuals, who will be able to facilitate the required strategy processes (Wright *et al.*, 2001).

Strategic human resource management makes the assumption that a specific business strategy demands a unique set of behaviours and attitudes from employees (Cappelli and Singh, 1992). Holding this assumption to be true requires that the concept of strategic innovation necessitates its own unique set of behaviours and attitudes from employees, which deviate from the norm. However, as with employee competencies, it is nearly impossible, as well as incorrect, to conclude that there is an ideal set of behaviours that all employees should have in order to foster a greater strategic innovation capacity, given its diverse nature as a concept. The imperative rather lies in ensuring an alignment between employee behaviours and the strategic intent of a company, an issue which is addressed in the implementation and execution of a strategy (Hough *et al.*, 2011). An alignment of this nature reinforces strategy processes, and also creates synergistic relationships in a company, ultimately fostering a greater strategic innovation capacity (Wright *et al.*, 2001). The relevant issue is how the desired behaviours aligned to strategic intent should be elicited from employees, a challenge that falls to the people management practices and leadership maintained by a company; as they have been recognised as having the ability to influence and modify the attitudes, capacities, and behaviours of employees to achieve organisational goals (Collins and Clark, 2003).

3.3.1.2 People management practices

The people management practices of a company are of vital importance given their ability to influence a company's human capital pool, as well as eliciting the desired behaviours from employees (Wright *et al.*, 2001) – two actions which, over time, generate advantage for a company and facilitate the achievement of companywide goals and objectives (Wright *et al.*, 2001). These people management practices often extend beyond the realms of a company's

human resources function, including concepts such as culture, leadership, and any additional channels which have an impact on employee competencies, cognitions and attitudes (Wright *et al.*, 2001). The present study will however focus on the processes which fall under the control of human resource management.

In regarding human resource management, there are conceptualised management practices that have been recognised as fostering both creativity and innovation, hence facilitating a greater strategic innovation capacity (Gupta and Singhal, 1993). These practices are human resource planning, organisational structuring, performance appraisals and reward systems, which have been identified as influencing innovative behaviour.

Human resource planning is the formal process of linking business strategy with human resource practices, and involves considering the employee capabilities, skills, organisation, and accountabilities required to facilitate an elected strategy (Smith, Boroski, and Davis, 1992). One of the main challenges of this management practice is ensuring the creation of a highly qualified and motivated human resource base, comprised of both diverse and complimentary individuals, which will in turn be able to facilitate the attainment of the elected strategy (Wright *et al.*, 2001; Gupta and Singhal, 1993).

Organisational structuring assumes that a company is no more than a complex network of internal relationships between individuals, departments, and functional areas, which form the basis of the ability to develop, as well as implement chosen strategies (Ritter *et al.*, 2004). As such, the manner in which a formal structure is created around these relationships will either hamper or facilitate the communication between these parties, having a profound impact on company performance and ability (Dalton, Todor, Spendolini, Fielding and Porter, 1980). The type of organisational structure employed by a company will therefore have a profound effect on the innovation capability of a company, as innovation is also the result of collaboration between varying parties (Tidd and Bessant, 2009). However, given the diverse nature of innovation, one cannot prescribe one organisational structure that will best facilitate

innovation. Rather, an appropriate focus needs to be put on relationships, because structures that create discussion and collaboration amongst individuals have a greater potential to stimulate innovation, and consequently strategic innovation (Faems, Van Looy and Debackere, 2005; Powell, Koput and Smith-Doerr, 1996).

Performance appraisals, and the consequent reward systems they facilitate, are one of the most influential of strategic human resource management practices which can be used to reinforce employee behaviours, while further encouraging alignment with company goals (Collins and Clark, 2003). This outcome results from the ability of performance appraisals to directly assess and measure an employee's behaviour, hence determining congruency with company goals, as well as innovative behaviour (Chen and Huang, 2009). Through the use of the correct metrics for appraisals, and the subsequent rewarding of behaviours that have shown innovation potential, companies can directly elicit the desired behaviours required from employees to foster a greater strategic innovation capacity (Gupta and Singhal, 1993).

Conversely, reward systems in conjunction with performance appraisals, also form one of the most influential people management systems, with the ability to directly influence and encourage employee behaviours (Collins and Clark, 2003; Chen and Huang, 2009). The type of reward given to employees also has a profound effect. Such rewards can broadly be segmented into two categories, namely extrinsic and intrinsic. Extrinsic rewards are specifically tangible ones that come from outside the employee, such as financial rewards, and have been shown to have a moderate effect in prompting motivation from employees (Amabile, 1998; Eisenberger and Shanock, 2003). In contrast to this, intangible intrinsic rewards, such as recognition, have been shown to elicit much higher levels of motivation in employees (Amabile, 1998). In addition, it is suggested that individuals who, when solving a task, become intrinsically involved and unconcerned with the extrinsic elements, produce more original ideas (Collins and Amabile, 1999). This is not to say that extrinsic rewards are detrimental to motivation and creativity, but rather, when constructing reward systems and

allotting rewards, due consideration must be given to achieving the right balance between the two reward types (Amabile, 1998; Collins and Amabile, 1999).

3.3.1.3 Top management and leadership

The top management and leadership of a company plays an crucial role in defining the direction, operations, and structure of a company, as well as the environment in which these elements are determined (Bartlett and Ghoshal, 1995). Due to the pervasive and intricate nature of top management's influence, much of the impetus which surrounds fostering a greater strategic innovation capacity will come from a top management team and their perceived dedication to innovation (Lyons, Chatman and Joyce, 2007). Understanding the correct mechanisms for top management regarding strategic innovation is of vital importance. This can be gained by looking at the channels of influence from two perspectives; namely a formal operations perspective, and an informal conduct perspective.

As regards formal operations, the top managerial team's function has been compared to the information processing centre of a company, the metaphorical brain to the rest of the body, representative of the company (Daellenbach, McCarthy and Schoenecker, 1999; Haleblian and Finkelstein, 1993; Morgan, 1986). The information that is received from the rest of the company, as well as external sources, is used to create appropriate strategies, with the instalment of mechanisms, processes and structures to facilitate the desired outcome (Bel, 2010). Accordingly, top management can influence these operations in such a way as to foster strategic innovation. Strategically, most of the changes that may be put into effect follow on from what is outlined in strategy processes, with top management ensuring their facilitation. This facilitation begins with the redefining of the strategic vision, as the task of moving beyond a highly defined strategic vision towards a broader company purpose falls squarely to top management (Bartlett and Ghoshal, 1995). After this, the emphasis falls on demonstrating a visible formal commitment to innovation, again from the top management team. Something similar may be achieved through initiatives such as adding innovation to

the formal agenda for meetings, or defining formal performance metrics and targets for innovation (Barsh *et al.*, 2008). With innovation formally integrated into a company's strategy, the remaining tasks for top management are ensuring that the correct mechanisms, processes and structures are in place for human resources, as discussed above (Bartlett and Ghoshal, 1995; Bossink, 2007).

The demonstration of a formal commitment to innovation is only the beginning, as in addition to the large amount of influence that top management holds through formal processes, one sees an equal amount of influence through informal means (Carmeli, Gelbard and Gefen, 2010; Barsh *et al.*, 2008). In fostering innovation, it has been noted that without a commitment which extends beyond the formal, any innovation is set to fail (Barsh *et al.*, 2008). As discussed in the section on staff, the correct employee behaviours are needed in an appropriate organisational culture, all of which is profoundly influenced by top management conduct and leadership (Bel, 2010; Carmeli *et al.*, 2010; Bartlett and Ghoshal, 1995). In building the correct organisational culture, top management needs to take a proactive stance by identifying, communicating and shaping the desired company values (Bel, 2010; Bartlett and Ghoshal, 1995). This process is actively linked to top management's daily behaviour, as the behaviours needed in employees will be reinforced by top management's display of commitment towards innovation, all of which is supported by the appropriate structures and mechanisms (Von Stamm, 2009; Carmeli *et al.*, 2010; Bartlett and Ghoshal, 1995).

For the reasons cited above, top management needs to fully commit to innovation, on both a formal and informal basis, if they truly wish to create a company capable of innovation, and consequently strategic innovation.

3.3.2 People outside the company

"People outside the company" refers to the fact that every company forms part of a wider network consisting of multiple relationships with customers, competitors, suppliers, and other

various entities (Håkansson and Ford, 2002; Ritter *et al.*, 2004). These networks and relationships form a wellspring of resources and knowledge, such as access to complementary and different knowledge sets, access to new markets and technologies and the pooling of complementary assets and skills, as well as the reduction of risk (Tidd and Bessant, 2009). All these resources are readily available to any company with the correct network management capacities in place (Tidd and Bessant, 2009; Håkansson and Snehota, 1995). However, among these resources the most readily available for companies is that of strategic information, which cuts across organisational and industrial boundaries (Schlegelmilch *et al.*, 2003; Skarzynski and Yates, 1999; Krinsky and Jenkins, 1997; Markides, 1997). In order to best exploit the various advantages created by the network relationships maintained by a company, it needs to be both mindful of maintaining the correct level and type of networks, while continuing to extract the correct information from these networks.

3.3.2.1 Networks

A relationship in a business context can be defined as a process where two companies or other entities, “form strong and extensive social, economic, service and technical ties over time, with the intent of lowering total costs and/or increasing value, thereby achieving mutual benefit” (Anderson and Narus, 1991:96). Consistent with this definition, the perceived benefits which network relationships provide are numerous in nature, taking many forms (Tidd and Bessant, 2009). Further, as companies continue to grow differing networks on differing levels, the task of maintaining, tracking and extracting the relevant benefits and information becomes very complex, and network management becomes increasingly valuable (Håkansson, 1987). To best appreciate the benefits afforded by network relationships, companies need to be aware of the type of networks they maintain, as well as the information they wish to realise from each relationship.

In conceptualising the various types of networks available to a company for strategic innovation, one may define its specific value net as the map of the immediate business environment in which a company operates (Brandenburger and Nalebuff, 1997). A value net identifies the customers, suppliers, competitors and complementors as the main network relationships available to a company (Brandenburger and Nalebuff, 1997). Ritter *et al.* (2004) extend this model to include intra-firm relations, given that a company will interact with other organisations through its networks of internal interpersonal and cross-functional relations. Ritter *et al.* (2004) further recognise governmental agencies, research and development institutions, educational institutions and industry associations as additional networks available to a company. Each of these networks is not distinct from the others, with interaction between and within each network taking place, allowing for the development of sub-networks within networks, hence explaining the complex nature of network relationship management (Ritter *et al.*, 2004; Håkansson, 1987). However, maintaining the requisite networks will not amount to much if they are not utilised to gather necessary information and resources.

The various network relationships that a company maintains provide access to various benefits and advantages, which may be utilised in a number of ways (Tidd and Bessant, 2009). However, in leveraging network relationships for the purposes of strategic innovation there are certain benefits that take precedence over others. The most widely and easily used of these benefits pertains to the acquisition of key strategic information which crosses organisational and industrial boundaries (Schlegelmilch *et al.*, 2003). This information is very valuable as it can be directly used in the outlined strategy processes, fostering a greater strategic innovation capacity. This is supported by Kim and Mauborgne (1999) who actively promote the need for companies to systematically look across boundaries such as substitute industries, strategic groups, customers, complementary product and service offerings and suppliers, if they want to pursue strategic innovation. In addition to the strategic information that network relationships provide about strategic innovation, there are many other beneficial

resources which facilitate strategic innovation. Networks provide the opportunity to access individuals with unique knowledge and skill sets (Tidd and Bessant, 2009), which are highly beneficial when managed correctly. Network relationships can further provide access to additional resources in the form of assets and technologies that would otherwise not be accessible to a company, the implications of which have been discussed under Resources.

Networks are of a vital importance to companies, not only in regard to fostering strategic innovation, but also in terms of general operations. These network relationships give a company key information and resources that may not otherwise be readily available, and hence have the potential to influence the strategic innovation capacity of a company. For these reasons it is crucial that a company identifies and maintains relevant networks within and across their industries. This facilitates access to key information and resources, fostering a stronger strategic innovation capacity if used correctly.

Table 3.3 provides a summary of the elements necessary to foster a stronger strategic innovation capacity with regard to elements about “people” in a company.

Table 3.3: People elements for strategic innovation

People elements for strategic innovation	
Maintenance of a highly qualified human resource base	McKelvey (1982); Gupta and Singhal (1993)
Maintenance of a highly diversified human resource base	Gupta and Singhal (1993); Tidd and Bessant (2009)
Creation of alignment between employees and the desired strategic direction	Wright <i>et al.</i> (2001); Cappelli and Singh (1992); Hough <i>et al.</i> (2011)
Effective human resource planning for company requirements	Smith <i>et al.</i> (1992); Wright <i>et al.</i> (2001); Gupta and Singhal (1993)
Organisational structures which support a collaborative work environment	Dalton <i>et al.</i> (1980); Tidd and Bessant (2009); Faems <i>et al.</i> (2005); Powell <i>et al.</i> (1996)
Criteria in performance appraisals relating to innovative initiatives	Collins and Clark (2003); Chen and Huang (2009); Gupta and Singhal (1993)
Actively include rewards for innovation in reward systems	Collins and Clark (2003); Chen and Huang (2009); Amabile (1998); Collins and Amabile (1999)
Ensure top management displays a commitment to innovation by formal means	Bartlett and Ghoshal (1995); Barsh <i>et al.</i> (2008); Bossink (2007)
Top management reinforces formal commitment with conduct and behaviour	Carmeli <i>et al.</i> (2010); Barsh <i>et al.</i> (2008); Bartlett and Ghoshal (1995); Bel (2010)
Maintenance of relevant industry and market networks	Tidd and Bessant (2009); Brandenburger and Nalebuff (1997); Ritter <i>et al.</i> , (2004)
Utilisation of networks for strategic information, people, and resources	Schlegelmilch <i>et al.</i> (2003); Kim and Mauborgne (1999); Tidd and Bessant (2009)

Source: Own compilation

3.4 Culture

Culture as a managerial concept emerged in the 1980's through the success of Japanese companies; they were seen as blatantly imitating the technology of the United States, but appeared to operate in a completely different manner, leading commentators to suggest that it was their culture which explained their degree of success (Mintzberg *et al.*, 1998). This idea led to an influx of literature which sought to explain how the concept of culture can influence a company through varying facets – from strategy formation to the manner in which work itself is carried out.

As Markides (1998) explains, creating an innovative culture, referring to the individual views, interpersonal dynamics and social rules that characterise a group of people in a particular time and place (Ball *et al.*, 2010) is a steadfast tactic for fostering strategic innovation capacity. An organisational culture which has an influence on an individual's culture further infuses the symbols, values, myths, vocabulary, methodology and rules of conduct of a company (Morris *et al.*, 2011). Therefore an organisational culture will ultimately influence the implicit beliefs, values, and assumptions of staff, consequently influencing the behaviour of individuals within a company, as well as how these individuals interact inside and outside the company. All of this plays a defining role in a company's strategic innovation capacity (Martins and Terblanche, 2003).

The following section explores the components that comprise an organisational culture, while considering the role of culture in a company, and hence the strategic innovation process. This will allow for the detailing of the characteristics of what literature describes as an "innovative culture", so as to operationalise the concept of culture as a driver of strategic innovation.

3.4.1 The components of an organisational culture

As stated above, cultures are complex in nature, consisting of many different components, levels, and influences (Morris *et al.*, 2011). When analysing culture in an organisational context, the task becomes even more complex owing to the many differing sub-cultures, manifestations and levels which comprise the culture (Hofstede, 1998; Schein, 1999; Burnes and James, 1994). In support of this, Schein (1999) proposes that an organisational culture is comprised of varying elements, which may be further categorised into three distinct levels varying from an internalised and implicit level to an overt and noticeable level, as depicted in Figure 3.4 below.

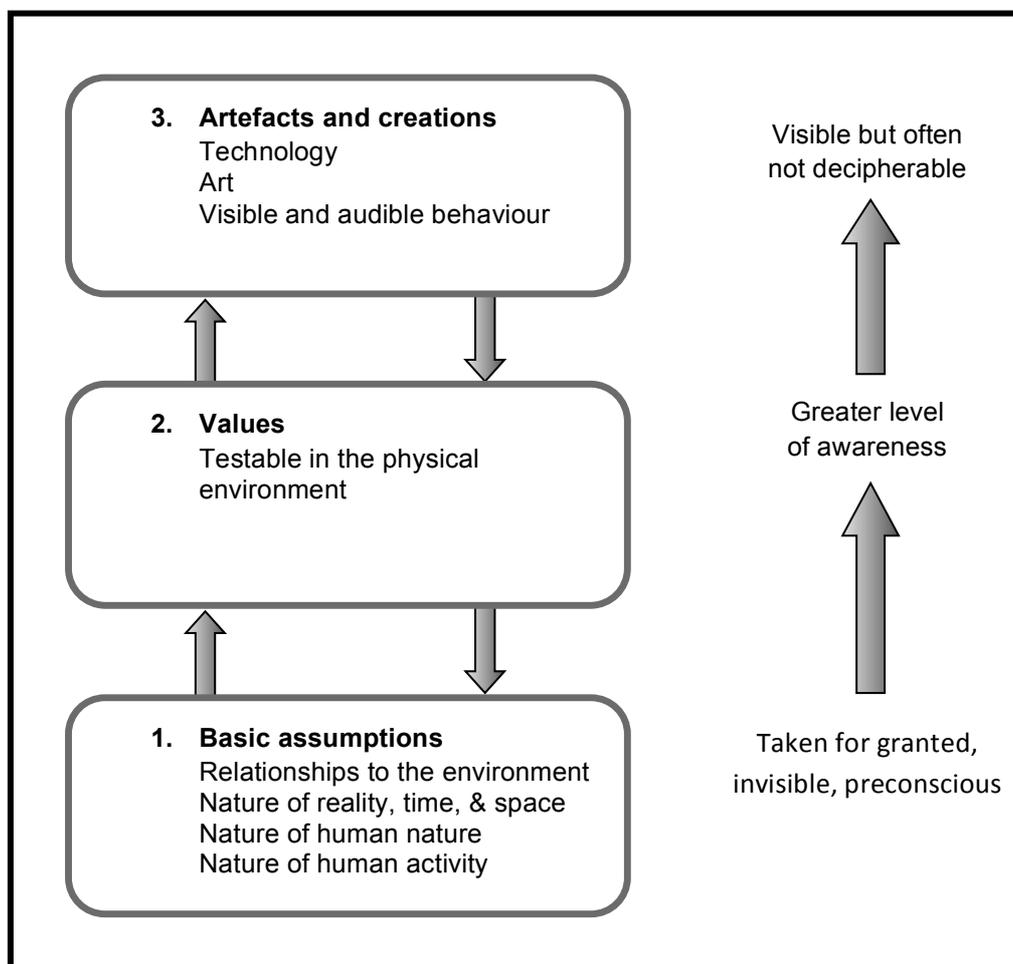


Figure 3.4: The levels of culture

Source: Schein, E.H. 1999. *The corporate culture survival guide*. San Francisco: Jossey-Bass

The basic assumptions, relationships and invisible aspects of an organisation are found at the first level of an organisational culture (Schein, 1999). This level includes the organisation's relationship with the environment, and how the organisation views the nature of time, reality, space, human nature and activity (Morris *et al.*, 2011). This level is often difficult to determine given its ingrained and intangible nature, but represents a strong determinant of innovative behaviour as it directly influences how people view their role in a company, as well as how they behave in the company.

The second level of organisational culture is occupied by the inherent values a company fosters (Schein, 1999; Sinclair, 1993). As these values are actively displayed within a company, employees and staff maintain a higher level of consciousness and awareness around them, for these reasons these values are testable through social consensus (Morris *et al.*, 2011). Many companies actively attempt to shape this level through regular formal communications of organisational values, while further reinforcing these values through leadership which actively demonstrates the desired values, as well as formal mechanisms such as performance appraisals and rewards (Wright *et al.*, 2001).

The third and final level of an organisational culture is the manifestation of the cultural aspects in various artefacts, technology, and creations in the actual work environment (Schein, 1999; Sinclair, 1993). These artefacts and creations are often highly visible, manifesting themselves in both visible and audible behaviour patterns amongst employees and staff (Morris *et al.*, 2011). Given that this level of culture is often the result of the proceeding levels, it is only open to influence by indirect means and the actual meaning of these artefacts and visible behaviours are often difficult to interpret (Morris *et al.*, 2011).

In order to create an innovative culture, cognisance needs to be given to all three levels which comprise an organisational culture, as attention needs to be given to each level's individual means of measurement and influence. Accordingly, all three levels need to be managed both collectively and consistently, as given the pervasive effects culture has upon

a company, any inconsistencies will not only hamper strategic innovation capacity, but will have further repercussions.

3.4.2 The role of culture

An organisational culture forms an integral part of the general functioning of a company. Although the influences which an organisational culture exerts are often subtle, the realised ramifications have a large effect on varying aspects within a company (Martins and Terblanche, 2003). In assessing the role which culture ultimately plays in a company, there are two notable avenues for exploration – the functions which an organisational culture fulfils, and the influence which an organisational culture has on company processes and mechanisms.

3.4.2.1 Cultural functions

Research has come to define culture through many differing perspectives, with the most popular of these claiming that culture is a variable within a company, and as such should be actively managed and utilised by companies as a managerial tool (Harris and Ogbonna, 1998; Smircich, 1983; Mintzberg and Lampel, 1999; Fiol, 1991). Various theories have been proposed as to what functions culture fulfils best as a managerial tool, with the broad consensus summarising the functions of culture as internal integration and co-ordination (Furnham and Gunter, 1993).

In essence the internal integration function of culture is the process of socialising employees into the company, as through this function common behaviours, attitudes, values and norms amongst staff and employees are created (Sinclair, 1993; Wilson, 2001; Martins and Terblanche, 2003; Ahmed, 1998). The process commences by defining the desired organisational culture through the creation of cultural organisational boundaries. Accordingly, both current and new employees are socialised towards the defined culture, fostering a feeling of common identity, as well as a commitment to the organisation (Martins and

Terblanche, 2003; Furnham and Gunter, 1993). The internal integration function will ultimately determine the manner in which employees in an organisation conduct themselves, and can therefore be considered the area where managers can begin to instil the behaviours, attitudes, values and norms into their employees to foster strategic innovation capacity (Wright *et al.*, 2001; Lyons *et al.*, 2007).

The “coordination function” refers to ensuring alignment between company strategy and the behaviours and norms fostered by an organisational culture (Martins and Terblanche, 2003; Furnham and Gunter, 1993). Coordination and alignment are achieved through appraising the goals and objectives set during the strategy development; the behaviours and norms needed to achieve these goals are then evaluated, and the social systems and mechanisms needed to create these behaviours and norms are instilled (Martins and Terblanche, 2003). This function of coordination is crucial for business effectiveness and performance. As fostering the correct behaviours under internal integration will amount to little if the co-requisite coordination is not achieved with company strategy and employee competencies (Schwartz and Davis, 1981; Cappelli and Singh, 1992). The process of matching and coordinating one’s organisational culture and business strategy should essentially become part of a company’s strategic development process (Schwartz and Davis, 1981). A lack of coordination may result in an organisation’s culture becoming a major obstacle to success, as opposed to a competitive advantage (Ahmed, 1998; Schwartz and Davis, 1981; Burnes and James, 1994; Harris and Ogbonna, 1998; Meehan, Gadiesh and Hori, 2006).

3.4.2.2 Influence on processes

The effects derived from an organisational culture have a pervasive influence on many aspects of a company (Ahmed, 1998). This influence extends to shape the design and implementation of processes and strategies within an organisation, with the biggest factor for consideration being the potential cultural resistance to change (Mintzberg and Lampel, 1999; Harris and Ogbonna, 1998; Burnes and James, 1994). This cultural resistance to change

manifests itself in two areas – management’s resistance to change, demonstrated through their commitment to the current business, and through employees’ active resistance to the implementation of new strategies and processes.

Managerial resistance to change manifests itself in the actual strategies and consequent goals developed by a company through their respective strategy processes (Johnson, 1992). As managers become increasingly integrated into a company a pervasive set of beliefs and values pertaining to the operations of a company are instilled (Boeker, 1997). These pervasive beliefs and values often constrain management’s strategic thinking, coercing a strategic logic dedicated towards minimal change, which is damaging to fostering a greater strategic innovation capacity (Govindarajan and Trimble, 2005a; Tucker, 2001). As a means of addressing this dilemma, management needs to instil and accept a requisite amount of flexibility and innovation as part of the organisational culture (Lorsch, 1986), hence encouraging a higher amount of questioning and understanding among managers, which in turn will complement the outlined strategy processes (Christensen, 1997; Skarzynski and Yates, 1999).

Employee resistance to change generally manifests itself as a result of dissonance among employees, resulting in actions such as undermining or even rejecting proposed strategies or processes (Harris and Ogbonna, 1998). Dissonance, namely a feeling of frustration and discomfort generated by an inconsistency between one’s attitudes, behaviours and actions (Burnes and James, 1994), is brought about when suggested changes challenge the rigid orthodoxies perpetuated by an organisational culture, a key facet of strategic innovation (Kavanagh and Ashkanasy, 2006; Lawson and Price, 2003; Schlegelmilch *et al.*, 2003). Because of the inconsistencies between the proposed new processes or strategies and the common behaviours and norms shared by employees, uneasiness is created. This may lead to the undermining or rejection of the changes, ultimately hampering the success of any new proposed strategy or implemented process (Schwartz and Davis, 1981). In order to avoid

dissonance, a company should attempt to create a culture which is open to change, while trying to involve employees in the decision-making processes (Hamel, 1996; Lorsch, 1986).

Culture forms an integral part of the general functioning of a company and has come to be seen as the element which fills the gaps between what is formally announced and what actually takes place (Martins and Terblanche, 2003). It is vitally important that management actively manages and shapes its own culture so as to foster the characteristics needed to avoid dissonance among employees, while creating alignment with strategy (Schwartz and Davis, 1981). However the issue still remains; how should an organisational culture be managed to foster strategic innovation.

3.4.3 An innovative culture

As the base of innovation is a process of change rooted in social interaction and collaboration, the behaviours and norms of employees, and hence the culture to which they subscribe, will have a determining role in the process (Ahmed, 1998; Lyons *et al.*, 2007; Tidd and Bessant, 2009). As management has the ability to actively shape and manage an organisational culture, it is possible to instil certain cultural elements which will encourage a culture aligned towards the facilitation of innovation, and consequently strategic innovation (Markides, 1998; Schlegelmilch *et al.*, 2003). Accordingly, various researchers have attempted to define the cultural elements which will support an innovative culture, with the common consensus resting on the following cultural elements:

3.4.3.1 Trust and openness

Trust and openness are the qualities of emotional safety that is provided in relationships in a company, meaning that individuals view one another as competent, and share a common set of values (Tidd and Bessant, 2009). Trust allows for a greater efficiency in decision making, as there is less hesitance, it also creates stronger relationships between individuals, as well as more openness among members, which allows for a greater number, and sharing,

of ideas and opinions (Ahmed, 1998). Higher levels of trust and openness are desirable in an organisation, as they allow for greater work efficiency and the generation of a greater number of innovative ideas, fostering a greater innovative capability (Martins and Terblanche, 2003). However, if there is too much trust, it may “blind” employees, as trust reduces people’s tendency to question assumptions and directions, which may ultimately result in a barrier to change.

3.4.3.2 Challenge and involvement

Challenge and involvement determine the degree to which employees contribute to the daily operations and strategy-making process in an organisation (Tidd and Bessant, 2009). Higher levels of challenge and involvement are beneficial, as they mean that people are more intrinsically motivated and committed to the success of the company’s goals (Amabile, 1998; Ahmed, 1998). However, if challenge and involvement levels are too high, they may produce over-exertion of employees as they over-commit to the achievement of company goals (Tidd and Bessant, 2009).

3.4.3.3 Support and space for ideas

Support and space for ideas refer to the amount of time people can use to explore new ideas which are not central to the tasks they are currently assigned to. They also refer to the support which is received for these ideas, as well as the possibility of using these ideas (Tidd and Bessant, 2009; Ahmed, 1998; Cormican and O’Sullivan, 2004). However, there is an optimal level of support and space that an organisation should provide; specifically, a level needs to be achieved where enough time and support are given to generate new ideas but not so much that the main tasks of employees are not completed (Tidd and Bessant, 2009).

3.4.3.4 Debate

Conflict and debate refer to the degree to which employees feel free to debate issues actively, express minority views readily and listen to each other with an open mind (Tidd and

Bessant, 2009; Ahmed, 1998; Cormican and O'Sullivan, 2004). Appropriate debate and levels of conflict between ideas will spur diversity in thinking, as well as a multitude of different problem-solving techniques and styles of thinking (Ahmed, 1998). This diversity will ultimately lead to the generation of not only more, but better innovative ideas. However, levels of conflict that are too high can result in negative feelings between employees, ultimately impacting their work performance (Tidd and Bessant, 2009).

3.4.3.5 Risk-taking

Risk-taking is a behaviour associated with innovation and creativity, and refers to the tolerance of uncertainty and ambiguity in making decisions (Martins and Terblanche, 2003; Tidd and Bessant, 2009). A company with strict managerial controls will inhibit risk-taking among employees, hence reducing the likelihood of innovation (Martins and Terblanche, 2003). Consequently, management needs to signal to employees that risk-taking is not only acceptable, but encouraged when it does not have the potential to harm the company (Martins and Terblanche, 2003; Tidd and Bessant, 2009). These signals can be sent through giving people the freedom to experiment, to try things and fail, while most importantly to accept mistakes and treat them as a learning experience (Ahmed, 1998; Cormican and O'Sullivan, 2004).

3.4.3.6 Freedom

Freedom is described as the latitude afforded to an individual in defining and executing their own work (Tidd and Bessant, 2009; Ahmed, 1998). Requisite freedom is key to soliciting initiative and autonomy from employees and needs to be given to allow employees to explore their ideas as well as to experiment (Ahmed, 1998; Cormican and O'Sullivan, 2004). In companies with no freedom, employees will display little initiative to make suggestions and generate new and original ideas (Tidd and Bessant, 2009). However, if too much freedom is given, employees may lack focus, diminishing their productivity while disregarding other employees and internal policies or procedures (Tidd and Bessant, 2009).

Sustained innovation requires a cultural foundation which permeates a company and is ingrained in everybody (Lyons *et al.*, 2007). This cultural foundation needs to be actively managed and shaped to ensure that the ingrained cultural elements are conducive to soliciting innovation from employees while ensuring alignment between the culture and the company strategy and direction (Markides, 1998; Schlegelmilch *et al.*, 2003; Schwartz and Davis, 1981). An active management of this variety will greatly increase the perceived innovativeness of a company, hence helping to achieve a greater strategic innovation capacity.

Table 3.4 provides a summary of the necessary elements to foster a greater strategic innovation capacity regarding the elements around an organisational culture.

Table 3.4: Cultural elements for strategic innovation

Cultural elements for strategic innovation	
Active management and shaping of organisational culture	Harris and Ogbonna (1998); Smircich (1983); Mintzberg and Lampel (1999); Fiol (1991)
Creation of a common set of values and beliefs among employees	Martins and Terblanche (2003); Furnham and Gunter (1993)
Alignment between organisational culture and company strategies	Schwartz and Davis (1981); Cappelli and Singh (1992)
Creation of a trusting and open atmosphere among employees	Tidd and Bessant (2009); Ahmed (1998); Cormican and O'Sullivan (2004); Martins and Terblanche (2003)
Challenge and involve employees in their work environment	Tidd and Bessant (2009); Ahmed (1998); Cormican and O'Sullivan (2004); Martins and Terblanche (2003)
Give employees the space and support to explore their ideas	Tidd and Bessant (2009); Ahmed (1998); Cormican and O'Sullivan (2004); Martins and Terblanche (2003)
Encourage healthy debate between employees and their ideas	Tidd and Bessant (2009); Ahmed (1998); Cormican and O'Sullivan (2004); Martins and Terblanche (2003)
Encourage employees to take appropriate risks	Tidd and Bessant (2009); Ahmed (1998); Cormican and O'Sullivan (2004); Martins and Terblanche (2003)
Accept mistakes employees make as part of a learning process	Tidd and Bessant (2009); Ahmed (1998); Cormican and O'Sullivan (2004); Martins and Terblanche (2003)
Give employees a requisite amount of freedom to experiment and explore ideas	Tidd and Bessant (2009); Ahmed (1998); Cormican and O'Sullivan (2004); Martins and Terblanche (2003)

Source: Own compilation

3.5 Resources

Conventionally, it is argued that resource management in companies follows the prescriptions of the resource-based view of a company (Schlegelmilch *et al.*, 2003). In other words, business opportunities are viewed through the lens of existing assets and capabilities, leading to the pertinent question in regard to resource management: “Given our current assets and capabilities, what is the best we can do?” (Schlegelmilch *et al.*, 2003:123; Kim and Mauborgne, 1997). In doing so, a focus that perpetuates matching internal systems and capabilities with outside opportunities is maintained (Geroski, 1998).

Strategic innovation literature actively criticises such an approach to resource management, given the constraining effect it imposes upon a company’s ability to create comprehensive opportunities and strategies to transcend the existing business model (Schlegelmilch *et al.*, 2003; Baden-Fuller and Pitt, 1996; Kim and Mauborgne, 1997). Opposed to this introspective approach, it is argued that a company needs to break this paradigm by actively looking beyond current constraints, while maintaining a willingness to reinvent their capabilities and strategic resources in line with strategic innovation opportunities (Schlegelmilch *et al.*, 2003; Hamel, 1996; Kim and Mauborgne, 1997; Krinsky and Jenkins, 1997). In order to effect this paradigm shift a company needs to effectively manage the resources provided through the three categories of company capital – physical, human, and organisational (Kandampully, 2002; Barney, 1991; Robinson, 2008).

The following section will explore the resource-based view of a company, to contextualise the critique given by strategic innovation authors, before the investigation is carried out. This investigation will provide an exploration of how the three types of company capital should be managed in order to foster a greater strategic innovation capacity.

3.5.1 The resource-based view

A resource may be thought of as a strength which can be used by a company to conceive and implement strategies (Learned *et al.*, 1969). More specifically, resources are tangible and intangible assets, capabilities, information, organisational processes, knowledge, and firm attributes which are tied semi-permanently to a company and may be used for strategic purposes (Caves, 1980; Daft, 2009; Barney, 1991). Barney (1991) separates company resources into three specific categories:

1. Physical capital resources: The physical capital resources of a company include the physical technology used, the monetary resources, the plant and equipment, geographic location, and raw materials (Barney, 1991; Robinson, 2008).
2. Human capital resources: The human capital resources of a company include the training, experience, judgement, intelligence, relationships, and insights of the managers and employees of a company (Barney, 1991; Robinson, 2008).
3. Organisational capital resources: The organisational capital resources of a company include the formal reporting structure, their formal and informal planning, controlling and co-ordinating systems and processes, as well as their culture (Barney, 1991; Robinson, 2008).

Given this definition and classification of company resources and capital, the optimal growth of a company therefore involves the creation of a balance between the exploitation of existing resources and the development of new resources (Penrose, 1959; Rubin, 1973; Wernerfelt, 1984).

The view of resources described above, is a key tenet of the resource-based view of a company, in that resources are seen as the base of competitive advantage (Wernerfelt, 1984; Robinson, 2008), while companies are seen as bundles of productive resources with varying value depending on their context (Rumelt, 1984; Robinson, 2008). This view departs from those before it, such as the industrial organisational model of strategy (Porter, 1980),

which viewed a company's profitability as being determined solely by its external environment (Robinson, 2008). The resource-based view concludes that a company's profitability is determined by the way in which they organise and develop their resources, so as to create positional barriers (Wernerfelt, 1984). They further create sustainable competitive advantage through resources characterised as valuable, rare, imperfectly imitable and non-substitutable (Barney, 1991).

Accordant with this, the manner in which a company determines which resources to develop as potential positional barriers or into sustainable competitive advantages depends on the context of the market (Barney, 1991; Robinson, 2008). A company should ideally try to create positional barriers in market areas where entry barriers will create significant profits (Barney, 1991). While resources should be developed into sustainable competitive advantages when deemed as valuable, rare, imperfectly imitable and non-substitutable, a factor which is dependent on the characteristics of the external market (Barney, 1991). The process of developing resources, and the consequent strategies which are established around this development, follow a matching process between the internal and external environments of a company (Barney, 1991; Mintzberg and Lampel, 1999). It is with this process of development and management that strategic innovation literature takes issue.

3.5.2 The strategic innovation view

As previously explained, a key tenet of the concept of strategic innovation is the re-conception of an industry or market (Markides, 1997; Kim and Mauborgne, 1997, 1999b; Hamel 1996, 1998a; Hamel and Prahalad, 1991). Various methods have been prescribed to facilitate this re-conception, all containing the nuance of looking past the current market or industry constraints, so as to redefine the value creation elements of the industry or market (Kim and Mauborgne, 1997, 1999b).

It is this tenet of strategic innovation that takes exception to the resource-based view of a company. Where the resource-based view classically follows the line of thinking of the

design school of strategy development – the processes followed by strategic innovation are defined as increasingly unorthodox (Schlegelmilch *et al.*, 2003). The resource-based view regards the manner in which a company manages resources as an analysis-driven process, which appraises the external and internal situations of a company, so as to achieve a matching, or fit, between what a company offers and what a market needs (Mintzberg, 1990a; Andrews, 1987; Mintzberg and Lampel, 1999; Barney, 1991). By contrast, strategic innovation moves beyond the current market and focuses on strategising towards possibly uncontested market space, where there may not necessarily be a current demand (Kim and Mauborgne, 2004). The manner in which resources are developed and managed for strategic innovation needs to support this commitment to new market space, which may potentially lie away from what the current market needs or wants.

3.5.3 Resource management for strategic innovation

As noted by Barney (1991) the resources available to a company can be broadly distributed into three distinct categories – physical capital resources, human capital resources, and organisational capital resources. However, as discussed in chapter 2, in considering the three categories presented by Barney (1991) it can be noted that the preceding drivers comprise two of these categories.

Specifically, the driver of People comprises the category of human capital resources, describing the knowledge, skills, and abilities of employees and managers, as well as the relationships and networks which they utilise (Barney, 1991; Robinson, 2008; Schlegelmilch *et al.*, 2003). While the drivers of Strategy Processes and Culture comprise the category of organisational capital resources, referring to the formal and informal planning, controlling and co-ordinating systems and processes, as well as the manner in which work is carried out and employees conduct themselves (Barney, 1991; Robinson, 2008; Schlegelmilch *et al.*, 2003).

Given the above conclusion, for the purposes of this study, one may consider the driver of Resources, although formally comprising all three categories of company capital, to refer only to the physical capital resources available to management, specifically, focusing on the resource management practices around technology and finances, with the additional physical resources available being determined through the management of the aforementioned.

3.5.3.1 Technology resources

Technology, defined as the tools, devices and knowledge which help to transform inputs to outputs, is widely recognised as a driving force of innovation (Morris *et al.*, 2011). This influence manifests itself through either a technology-push or a market-pull approach to innovation development (Brem and Voigt, 2009). Market-pull refers to the development of innovations to meet the articulated needs of potential customers, and technology-push refers to the internal development of technology to create innovations which are “pushed” on to the market, where a clear and definable need may not yet be identified (Brem and Voigt, 2009; Morris *et al.*, 2011; Chau and Tam, 2000).

However, both a technology-push and a market-pull approach can foster strategic innovation. A market-pull approach allows a company to drastically alter the value proposition in a market through novel solutions, and a technology-push approach has the ability to create altogether new markets (Brem and Voigt, 2009; Chau and Tam, 2000; Lee, Kim and Lee, 2012). In order to extract the full potential from both these concepts, a company needs to actively engage in three tasks – customer interactions, future forecasting, and visioning (O’Connor and Veryzer, 2001).

The use of customers as a potential source of ideation and co-creation for innovation has become increasingly significant given the current existence of dynamic business environments (Sawhney, Verona, and Prandelli, 2005). The nature in which these interactions may occur is highly diverse, with the options ranging from online

communications to focus groups (Urban and Hauser 1993; Sawhney *et al.*, 2005). Despite the nature of the interaction, the acquisition of certain key information is vital (Ulwick, 2003). As Ulwick (2003) explains, in order to create a breakthrough product or service, or to enter new markets, a company must determine the job a customer is trying to accomplish, the outcomes which he is trying to achieve, and lastly the constraints which may prevent a customer from adopting the innovation. As such, listening to one's customers has become a key facet to innovating as a modern company, especially when attempting to foster strategic innovation (O'Connor and Veryzer, 2001).

Future forecasting involves trying to predict the circumstances of future markets, given the present technologies available, as well as their rate of advancement (O'Connor and Veryzer, 2001). The various techniques which allow companies to consider possible futures (Lindgren and Bandhold, 2002; Weisbord, 1992; Rinne, 2004) are designed to reduce a company's uncertainty of the future, while creating an anticipation of possible market events (O'Connor and Veryzer, 2001). This exploration perpetuates a mindset conducive to innovation as companies are made to recognise the relevant technologies which may be needed to compete in the future, as well as possible opportunities (O'Connor and Veryzer, 2001).

The concept "visioning" refers to companies imagining their preferred future, and accordingly determining which particular competencies and technologies need to be developed so as to achieve this envisioned future (Hamel and Prahalad, 1994a; O'Connor and Veryzer, 2001). Although this approach bears a resemblance to future forecasting, it differs in core concepts; where future forecasting attempts to use technological trends to construct futures, visioning commences with a desired future and reverse-engineers the technologies which will be required to facilitate this future (Godet, 1986). Key to the visioning process is the instilling of a future mindset among managers and employees, while facilitating discussion among individuals (Hamel and Prahalad, 1994a). Having facilitated the needed discussion, a company further needs to ensure that the correct processes are in place to ensure the development of the correct technologies (O'Connor and Veryzer, 2001).

There is little argument over the significant role that technology has come to play within business, given its ever-increasing rate of development (Cooper, 2000; Morris *et al.*, 2011). In order to fully capitalise on this, companies need to actively engage with their markets, while both developing and considering their role in these future markets (Hamel and Prahalad, 1994a). However, the development of new technologies is an expensive task, and requires prudent financial investments.

3.5.3.2 Financial resources

Financial resources are a critical aspect of any company, given the premium that is placed on financial performance and profitability (McWilliams and Siegel, 2001; McGuire *et al.*, 1988). However, the financial resources available to a company are finite, and when managing these resources, the pertinent question is how a company should best apportion the limited financial resources available, so as to maximise company performance (Wernerfelt, 1984).

Deciding which innovation initiatives warrant financial investment is a complicated task, particularly because of the uncertainty presented, the complexity of analysis, and the number of individuals and developmental stages involved in innovation initiatives (Tidd and Bessant, 2009). To ensure the efficient use of financial resources and a greater probability of success, the implementation of a variety of evaluation techniques is recommended, such as a phase-gate or venture capital model for evaluation.

The phase-gate system for innovation evaluation has been described as a best practice for managing innovation (Williams, 2011). Williams (2011) outlines the stages of the phase-gate model as: assess, plan, design and develop, implement and improve. During each of these phases distinct objectives are set, with the innovation initiative undergoing the requisite development before advancing to the next phase (Tatikonda and Rosenthal, 2000; Veryzer and de Mozota, 2005). If the innovation initiative fails to meet the set criteria it remains in the current phase of development until such time as the criteria are met, or is put on hold

indefinitely (Cooper, 1990). This method provides a holistic process which mitigates against the innate uncertainties present in innovation activities, while avoiding the appropriation of large amounts of resources into an innovation without the absolute certainty it is viable (Tidd and Bessant: 2009).

Venturing, on the other hand, is a relatively unique form of investment in which uncertainty is reduced by the detailed screening of proposals before investment (Florida and Kenney, 1988). While often associated with companies investing in external ventures deemed strategically significant or financially attractive, it is possible for a company to internalise the process through the formation of an internal venture capital fund for intrapreneurship (Morris *et al.*, 2011). This fund evaluates employee proposals along various dimensions (Florida and Kenney, 1988), and in doing so ensures that only the most viable proposals receive endorsements, as well as the required funds (Morris *et al.*, 2011). This process also provides a method to mitigate against the innate uncertainties present in innovation activities, by reducing complexity and the simplifying the analysis process (Tidd and Bessant, 2009).

Given the emphasis placed on financial performance, companies can ill afford to be careless with the appropriation of their financial resources. As explained, it is not the amount of money available to a company which is the issue; rather it is the manner in which they choose to invest it in innovations which is pertinent. Through the use of various evaluation techniques a company can mitigate against the risks present in innovation activities, hence ensuring a greater return on investment in their innovation initiatives.

Table 3.5 provides a summary of the elements needed to foster a greater strategic innovation capacity regarding the elements around resource management.

Table 3.5: Resource elements for strategic innovation

Resource elements for strategic innovation	
Maintain a willingness to develop into business areas beyond what resource base prescribes	Schlegelmilch <i>et al.</i> (2003); Baden-Fuller and Pitt (1996); Kim and Mauborgne (1997, 1999b)
Stay abreast of the latest technologies available	Morris <i>et al.</i> (2011); Chau and Tam (2000)
Use customers as a source of information for innovation development	Urban and Hauser (1993); Sawhney <i>et al.</i> (2005); Ulwick (2003); O'Connor and Veryzer (2001)
Use technology forecasting to determine what competencies need to be developed	O'Connor and Veryzer (2001); Lindgren and Bandhold (2002); Weisbord (1992); Rinne (2004)
Create future scenarios and create action plans to reach these futures	Hamel and Prahalad (1994a); O'Connor and Veryzer (2001); Godet (1986)
Make financial resources available for innovation	Schlegelmilch <i>et al.</i> (2003); Tidd and Bessant (2009); Morris <i>et al.</i> (2011)
Utilise multiple forms of analysis for investment requirements for an innovation	Tidd and Bessant (2009); Williams (2011); Tatikonda and Rosenthal (2000); Veryzer and de Mozota (2005); Florida and Kenney (1988); Morris <i>et al.</i> (2011)
Use analysis to mitigate the inherent risks present in innovation activities	Williams (2011); Tidd and Bessant: 2009); Florida and Kenney (1988); Morris <i>et al.</i> (2011)

Source: own compilation

3.6 Conclusion

This chapter has explored each driver of strategic innovation by first appraising their theoretical base in literature. After that a critique of the traditional management practices of each driver was undertaken, providing a context for the identification and interpretation of the necessary elements to foster strategic innovation capacity.

The strategy processes of a company, referring to the strategic development and controlling processes in a company, were found to need a reorientation of the perceived role and outlook of strategy, as well as the actual development process itself. The people element of a company, referring to both the internal employees and management practices as well as

the external networks, first required a reappraisal of employee competencies as well as management practices to entice the needed employee behaviours to facilitate innovative activities. Secondly, the role of networks in company operations required exploration. The culture of a company, referring to individual views, interpersonal dynamics and social rules that characterise an organisation, was explored to determine the best manner in which a culture should be managed, in order to cultivate certain cultural traits associated with innovation. Lastly, resources, referring to the physical capital resources available to a company, were scrutinised to determine the best practices in regard to resource utilisation in order to maximise innovation success. Tables 3.2 to 3.5 provided a summary of the elements required for each driver to facilitate strategic innovation.

This exploration serves as the foundation for the operationalisation of each driver as a testable construct, and will be complemented by further primary qualitative research to ensure validity. The following chapter (Chapter 4) concentrates on the research methodology that will be used to empirically examine the relationship between the drivers of strategic innovation, as discussed here, and strategic innovation capacity discussed in the previous chapter.

Chapter 4 : Research Methodology

4.1 Introduction

The previous chapters have provided an exploration of the concept of strategic innovation, in doing so creating a holistic definition for strategic innovation while contextualising the need for strategic innovation in current markets, as well as the South African financial services industry. The antecedents of strategic innovation were explored under the guise of the process and content aspects of strategic innovation capacity. This exploration highlighted the gap in empirical research between the content aspects, namely the drivers of strategic innovation, and strategic innovation capacity, while commencing the operationalisation of each driver. The present chapter further clarifies the research gap by detailing the research question and objectives formulated for this study; these are then translated into specific testable hypotheses with the aid of a proposed model, developed from the literature. The research design to be utilised to test these hypotheses and meet the research objectives will then be explained, as well as justified.

4.2 Research questions and objectives

A problem statement summarises the main goal of research, namely what the exact problem is that the research will try to solve (Blumberg *et al.*, 2011). As such, the problem statement clearly identifies the gap the research will fill, while laying the grounds for the research that follows. This is achieved through defining the direction of the research objectives, the hypotheses, the scope of the secondary research, and the contents of the primary research.

4.2.1 Research problem

The concepts of strategic innovation capacity and the drivers of strategic innovation are linked concepts, as already clarified (Berghman, 2006; Schlegelmilch *et al.*, 2003). However the nature and degree of the relationship between these two concepts, specifically the

degree to which the drivers of strategic innovation affect strategic innovation capacity, has not yet been examined empirically in any context to date. Owing to the value that an empirical understanding of the relationship between these two concepts, the research problem for this study can be formulated as: *How do the drivers of strategic innovation affect the strategic innovation capacity of selected banks?*

This research was guided in different sections. First, a secondary study directed at specifying the elements that constitute the drivers of strategic innovation was undertaken in Chapter 3. After this, a mixed-methodology empirical primary research initiative was undertaken. The first phase of primary research, specifically qualitative research using semi-structured interviews with selected individuals, was then used to confirm the existence of each element. This phase further searched for any elements that are not explicitly mentioned in the literature, given the unique South African context. Upon these elements' confirmation and identification a second phase of primary research was undertaken. This second phase of primary research made use of quantitative research, using structured questionnaires. The questionnaires were designed to gather interval data in order to determine the presence of the drivers of strategic innovation, as well as providing a quantitative measure of strategic innovation capacity. The collected interval data was then subjected to statistical analysis to test the hypotheses and determine the relationship between the drivers of strategic innovation and strategic innovation capacity in South African banks. This ultimately allowed for the resolution of the research problem of how the drivers of strategic innovation affect the strategic innovation capacity of selected financial companies.

4.2.2 Research objectives and justifications

Blumberg *et al.* (2011) explain that research objectives address the purpose of a given study, as well as creating goals for the research. In light of the formulated research problem, the research objectives for this paper are divided into primary and secondary objectives.

4.2.2.1 Primary objectives

Berghman (2006) declares that as a company commits itself to fostering its strategic innovation capacity it increases its odds of systematically creating strategic innovation initiatives. It has been shown in theory that the drivers of strategic innovation comprise the various categories of company resources, as defined by Barney (1995). The case is made that the drivers of strategic innovation form the content aspects of, and hence influence, strategic innovation capacity. A study that empirically evaluates how the drivers affect capacity will be valuable for both academics and professionals. Therefore, the primary objective of this study is: *To determine empirically what the relationship is between the drivers of strategic innovation and the strategic innovation capacity of selected banks.*

Given the determination of these two concepts' relationship, it will be possible to conclude exactly how the drivers of strategic innovation affect strategic innovation capacity in banks in South Africa.

4.2.2.2 Secondary objectives

Owing to the limited amount of context specific research on the drivers of strategic innovation in South Africa, the first secondary objective for this study was to confirm the elements that constitute the drivers of strategic innovation in banks in the South African financial industry. In line with this objective the second secondary objective was to determine, given South Africa's unique context, whether there are any unidentified elements that constitute the drivers of strategic innovation in banks in the South African financial industry. The third secondary objective relates to strategic innovation capacity and was to determine the strategic innovation capacity of the selected banks in the South African financial industry. These three secondary objectives are pursued so as to help answer the primary objective of the study.

A further result of the limited literature and research on the drivers of strategic innovation is a failure to recognise the relative importance of each driver in fostering strategic innovation capacity. As such, the fourth secondary objective of this study was to determine which driver of strategic innovation has the greatest effect on the strategic innovation capacity of South African banks. To compliment this objective the fifth secondary objective set was to determine the relationships present between the drivers of strategic innovation in South African banks. Lastly, as Hair *et al.* (2011) state, business research should contribute to managers' decision making, and hence the final secondary objective was to determine how South African banks should manage their internal and external surroundings to best influence their own strategic innovation capacity.

Table 4.1 provides a summary of the primary and secondary objectives for this study.

Table 4.1: Research objectives

Primary Objective	
	Determine empirically what the relationship is between the drivers of strategic innovation and the strategic innovation capacity of selected banks.
Secondary Objectives	
S₁	Confirm the elements that constitute the drivers of strategic innovation in banks in the South African financial industry.
S₂	Conclude, given South Africa's unique context, whether there are any unidentified elements that constitute the drivers of strategic innovation in banks in the South African financial industry.
S₃	Determine the strategic innovation capacity amongst the selected banks in the South African financial industry.
S₄	Determine which driver of strategic innovation has the greatest effect on the strategic innovation capacity of South African banks.
S₅	Determine the relationships present between the drivers of strategic innovation in South African banks.
S₆	Determine how South African banks should manage their internal and external surroundings to best influence their own strategic innovation capacity.

4.2.2.3 Justifications

Given the above stated objectives, this study can be justified from both a practical and research-orientated stance. On a practical level, as shown through the literature, the drivers of strategic innovation affect a company's strategic innovation capacity, and the ability of companies to create strategic innovation initiatives. Therefore, firstly, by empirically testing the drivers of strategic innovations relationship with strategic innovation capacity, a compelling rationale can be provided for managers regarding where to begin in fostering strategic innovation. Secondly, by determining to what degree each driver affects a company's strategic innovation capacity, managers can be directed where to focus their time and efforts to achieve the greatest results. Lastly, the overall findings of the research will provide managers with a set of elements that can be used to examine where their companies fall short, and consequently how to rectify these shortcomings related to strategic innovation.

As regards a justification for a research stance, as discussed, strategic innovation is still a fairly new research field, and uses concepts from related fields to define itself (Gibbons *et al.*, 2010). This results in the body of research to date being mostly theoretical with little empirical backing. As such, regarding the drivers of strategic innovation as the base for strategic innovation, this research will create a sound empirical base upon which future research may build. Further, research of this kind has yet to be undertaken in South Africa. Therefore this research will be useful to help validate the concept of the drivers of strategic innovation as a more global concept to strategic innovation. Finally, this research will complement previous research on strategic innovation capacity (Berghman, 2006). Previous empirical research has explored the mechanism or process aspects of strategic innovation capacity, but has largely ignored the content aspects of the concept. This research will address the gap, and in doing so create a more holistic understanding of strategic innovation capacity.

This research is also justified in the South African financial industry through the possible value that may be created. As stated, strategic innovation creates value for both the customers of a company and the company itself (Kim and Mauborgne, 1997). Therefore, an increased strategic innovation capacity and an increased likelihood of value creation would be highly beneficial if seen in the South African financial industry. This is due to the economic size and employment capacity of the financial industry, as well as the necessity of the products and services provided.

4.3 Hypotheses

Blumberg *et al.* (2011:32) explain a hypothesis as, “a proposition or statement that may be judged as either true or false in reference to an observable phenomenon formulated for empirical testing”. Given the defined research problem and objectives, at this stage of the research, hypotheses are set for this study. These hypotheses are created with the assistance of a proposed model for the drivers of strategic innovation’s influence on strategic innovation capacity, as displayed in Figure 4.1.

In Figure 4.1, $X_1 - X_4$ represent the constructs of the drivers of strategic innovation as independent variables, with $X_{1a} - X_{1c}$ and $X_{2a} - X_{2c}$, etc. representing the elements identified as influencing the drivers of strategic innovation in Chapter 3, (see Tables 3.2 to 3.5). It is important to note that there are not only three elements per X construct, but that it is represented as such for simplicity. Strategic innovation capacity is subsequently represented by Y as the dependent variable, with the arrows displaying the hypothesised direction of influence.

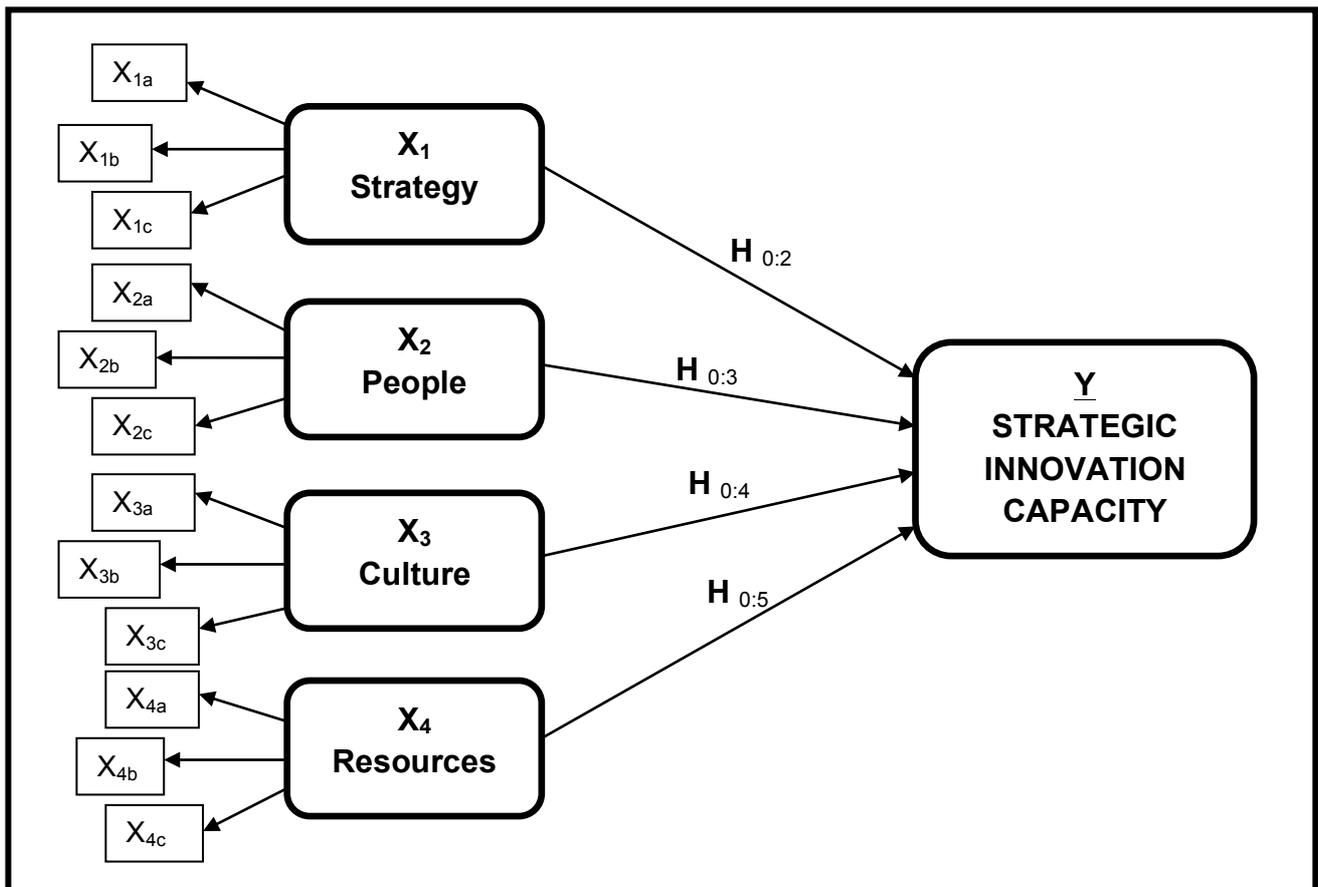


Figure 4.1: Hypothesised model for strategic innovation capacity and drivers

Source: Own compilation

As illustrated in Figure 4.1, the following null hypothesis has been developed for this study:

H_{0:1} - The drivers of strategic innovation have no effect on strategic innovation capacity

H_{0:2} –The Strategy Processes driver has no effect on strategic innovation capacity

H_{0:3} – The People driver has no effect on strategic innovation capacity

H_{0:4} – The Culture driver has no effect on strategic innovation capacity

H_{0:5} – The Resources driver has no effect on strategic innovation capacity

4.4 Secondary research

In line with the requirement placed on all research projects, a thorough review of existing literature was first undertaken, so as to save time and avoid duplication (Mouton, 2008). The literature review was further needed to create the necessary framework and content for the primary research. Consequently, secondary research in the form of a literature review, compiled using a wide selection of current academic literature from all leading journals and other various online sources, was first undertaken to explore the relevant facets of strategic innovation. This secondary research formed the departure point for the study, further ensuring that the research question and objectives set for this study had not been previously addressed. The literature review was divided into two sections, the first dealing with strategic innovation as a concept and strategic innovation capacity, and the second with the drivers of strategic innovation.

4.4.1 Strategic innovation

Chapter 2 was devoted to discussing strategic innovation as a concept, focusing specifically on the origin of the concept in academic literature. This focus allowed for the construction of a comprehensive definition for the concept, while further contextualising the need for strategic innovation in current markets, and relating this need to the South African financial services industry. A wide variety of journals were consulted in determining the origins of strategic innovation as a concept. The researcher focused on the works of authors such as C.C. Markides, W.C. Kim and R. Maugborgne, G. Hamel, and G. Hamel and C.K. Prahalad, and, various sources were consulted in contextualising the need for strategic innovation in current markets.

4.4.2 Strategic innovation capacity

The second part of Chapter 2 dealt solely with the concept of strategic innovation capacity, using the doctoral thesis by Berghman (2006) as a departure point. The section explored the

antecedents to strategic innovation capacity, using the compiled literature of Berghman (2006) for her doctoral study as the main source of content. The relationship between the drivers of strategic innovation and strategic innovation capacity was explored, providing a definitive link between both concepts, as well as the creation of a hypothesised model for testing.

4.4.3 The drivers of strategic innovation

The drivers of strategic innovation were specifically discussed in Chapter 3, with the article published by Schlegelmilch *et al.* (2003) serving as the seminal work for this Chapter. Schlegelmilch *et al.* (2003) give a basic description of each driver of strategic innovation, yet do not fully operationalise each driver as a construct, and in doing so call on future research “to develop psychometrically sound composite measures (i.e., multi-item scales) of each strategic innovation driver” (Schlegelmilch *et al.*, 2003:128). For this chapter a large variety of academic literature was consulted to explore the elements with a determining relationship on the drivers of strategic innovation, in doing so beginning the operationalisation of each driver.

At the conclusion of the secondary research it was clear that the research objectives stated for this study were indeed valid, as no existing literature was able to clarify how the drivers of strategic innovation affect strategic innovation capacity. Furthermore, the secondary study was able to clarify the hypothesised link between the drivers of strategic innovation and strategic innovation capacity, in turn facilitating the creation of the hypothesised model illustrated in Figure 4.1. In contributing to the primary research of this study, the literature review also commenced the operationalisation of each driver of strategic innovation. This operationalisation will later be refined through the first phase of research, and tested in the second.

4.5 Mixed methodology

Research methodologies can generally be typified into one of two categories, either qualitative or quantitative research, through an appreciation of varying elements which constitute the research initiative. Table 4.2 provides a summary of these elements. Qualitative research takes a usual focus on induction, exploration, discovery, and theory/hypothesis development, where the researcher is viewed as the primary data collection instrument (Given, 2008; Bergman, 2008). Quantitative research, in contrast, is mostly characterised by deduction, confirmation, explanation, prediction, theory/hypothesis testing, standardised data collection and statistical analysis (Johnson and Onwuegbuzie, 2004; Bergman, 2008). Mixed method studies are “those that combine the qualitative and quantitative approaches into the research methodology of a single study or multi-phased study” (Tashakkori and Teddlie, 1998:17-18).

Table 4.2: Quantitative vs. qualitative research

	Quantitative	Qualitative
Purpose of the research	<ul style="list-style-type: none"> • To explain & predict • To confirm & validate • To test theory 	<ul style="list-style-type: none"> • <i>To describe & explain</i> • <i>To explore & interpret</i> • <i>To build theory</i>
Nature of the research process	<ul style="list-style-type: none"> • Known variables • Established guidelines • Static design • Context-free • Detached view 	<ul style="list-style-type: none"> • <i>Unknown variables</i> • <i>Flexible guidelines</i> • <i>Emergent design</i> • <i>Context-bound</i> • <i>Personal view</i>
Method of data collection	<ul style="list-style-type: none"> • Large representative sample • Standardised instruments 	<ul style="list-style-type: none"> • <i>Small informative sample</i> • <i>Observations & interviews</i>
Analysis-type	<ul style="list-style-type: none"> • Deductive analysis 	<ul style="list-style-type: none"> • <i>Inductive analysis</i>
Method of communicating findings	<ul style="list-style-type: none"> • Numbers • Statistics, aggregated data • Formal voice, scientific style 	<ul style="list-style-type: none"> • <i>Words</i> • <i>Narratives, individual quotes</i> • <i>Personal voice, literary style</i>

Source: Leedy, P.D. and Ormrod, J.E. 2001. *Practical Research: Planning and Design*. Upper Saddle River, N.J.: Merrill Prentice Hall.102.

4.5.1 Explanation for mixed-methodology utilisation

The concept of a mixed-methodological approach to research has come to be described as the third methodological movement, succeeding those of quantitative and qualitative research methodologies (Creswell, 2010a). This claim is founded in the increased popularity of mixed-methodology approaches, as gauged by the increase in the number of publications on the topic, the founding of the Journal of Mixed Methods Research by Sage Publications in 2007, increased numbers of research projects employing such a design and method, as well as the proliferation of conferences and workshops dealing with the topic (Bergman, 2008).

This popularity ultimately stems from mixed-method's ability to combine the best facets of qualitative and quantitative research, while further appeasing the criticisms levelled against each methodology (Bergman, 2008; Johnson and Onwuegbuzie, 2004; Creswell, 2010b; Greene, 2005). Accordingly, the main motivations as to why a mixed method study should be utilised relate to triangulation, development, complementarity, and initiation (Greene 2005). Triangulation refers to the increased validity or credibility in findings that is brought about through the results of multiple methods that converge and agree with one another (Greene, 2005; Hammersley, 2008), a process that is provided through mixed-method's use of multiple research techniques around a specific research problem. Development accordingly specifies the use of one research method to develop elements such as the sample or instrument, for another method, a process provided for through multi-stage mixed-method research projects (Greene, 2005). Complementarity also refers to increasing the comprehensiveness of research findings through multiple results, which broaden the depth of the understandings and conclusions reached (Greene, 2005; Tashakkori and Teddlie, 1998). Lastly, initiation denotes the generation of new insights in findings, resultant from the use of different research methods that diverge and thus call for resolution via further analysis, reframing, or research (Greene, 2005). The majority of mixed-method research studies, as well as this study specifically, commonly incorporate two or more of the aforementioned motivations as a rationale for the use of multiple research methodologies.

4.5.2 Rationale for utilising mixed-methodologies in this study

As cited above, various motivations for the utilisation of a mixed-method approach in research design exist (Greene, 2005), with more than one motivation commonly being incorporated into a rationale for such a research design. As regards the mixed-methodology utilised in this research design, a rationale may be provided through the perspectives of triangulation, development, and complementarity.

The mixed-methodology utilised in this research design may firstly be justified as a source of triangulation for the generated results. Triangulation, defined as using multiple methods to study a single item, has been noted as a method to increase the validity and credibility of findings (Greene, 2005; Hammersley, 2008; Vogt, 2005; Rothbauer, 2008). Through studying the drivers of strategic innovation and strategic innovation capacity by means of qualitatively focused, semi-structured interviews and content analysis, as well as quantitatively focused, questionnaires and statistical analysis, the highest level of both credibility and validity of the research findings will be ensured.

Secondly, as explained by Greene (2005), in a mixed-methodology research design, a first phase of research can be used to develop certain aspects of a study for subsequent phases of research. As such, a mixed-methodology is promoted as a source of development in regard to the theoretical content, the sample frame, and the research instrument utilised for this study. The semi-structured interviews and content analysis utilised in the first phase of the study provide the opportunity to gauge the congruency between the literature, and the reality shown in South African banks. This allows the development of theory on the drivers of strategic innovation, which may be further utilised to develop the research instrument, operationalising the drivers of strategic innovation. This first phase of research similarly allows for the refining of the sample frame for the quantitative research phase, ensuring a better quality of respondents and consequently gathered data.

Lastly, the dual research methodologies used in this study are highly complementary, allowing for the development of a comprehensive set of research findings, further creating a deeper breadth of understanding. As explained, the field of strategic innovation is still a relatively new research field and therefore many of the constructs and themes lack a definitive conceptualisation (Schlegelmilch *et al.*, 2003; Gibbons *et al.*, 2010). Therefore, through approaching the drivers of strategic innovation and strategic innovation capacity from both a qualitative and quantitative perspective, a deeper understanding of the constructs, supported by empirical evidence, is garnered. This in turn creates a comprehensive set of research findings relating to strategic innovation.

The preceding rationale provides a compelling justification as to why a mixed-methodology study is suited to evaluating the relationship between the drivers of strategic innovation and the strategic innovation capacity of selected banks. Given the perceived benefits of such a methodology, the best results may be achieved through both triangulation and complementarity, while a multi-staged research project allows for suitable development of research elements. Figure 4.2 provides a general overview of the empirical research design used for this study, relating each phase to its specific research objectives and instruments.

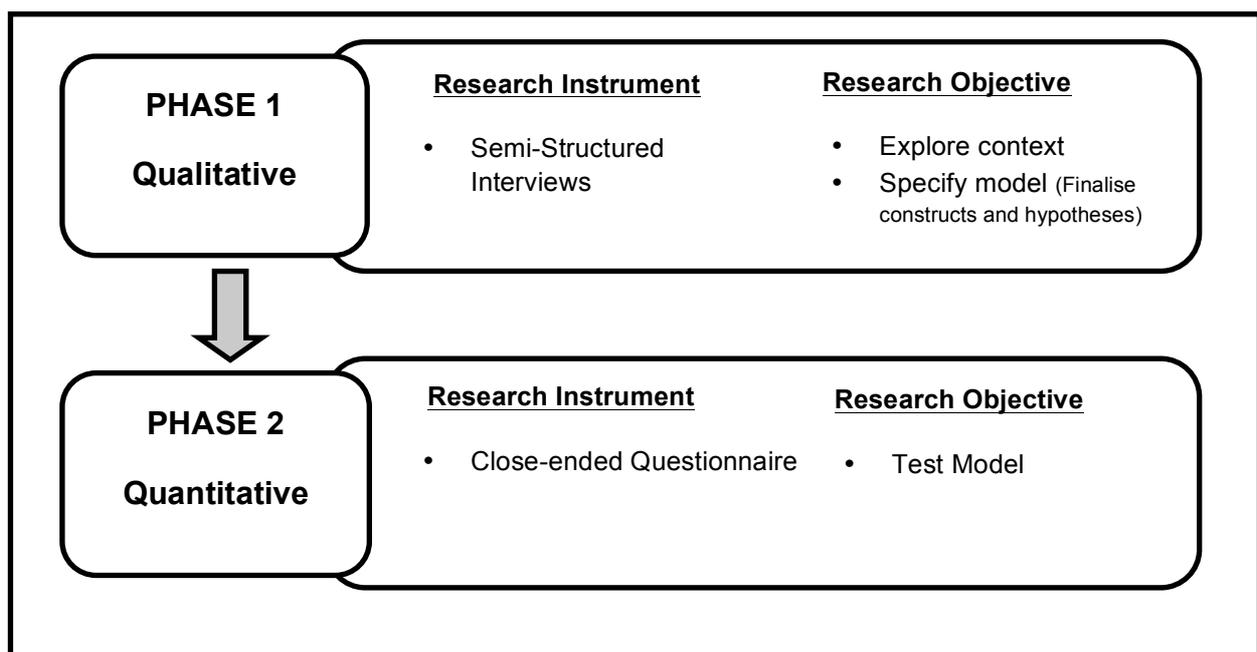


Figure 4.2: Overview of research phases

4.6 Qualitative research design

A research design justifies the logic, structure and the principles of the research methodology and methods to be used for a study, as well as how these relate to the research questions and hypotheses (Davies, 2006b). In light of this, as illustrated, the broad research objective of the first phase of research is to explore the reality surrounding the drivers of strategic innovation in banks in South Africa, in doing so specifying the elements and constructs to be used in the second research phase. Specifically, the first phase seeks to address the secondary research objectives of S_1 and S_2 , namely, to confirm the elements that constitute the drivers of strategic innovation, and to conclude, given South Africa's unique context, whether there are any unidentified elements that constitute the drivers of strategic innovation in banks in South Africa.

Given these objectives, the first phase of research may be defined as qualitative, as it specifically examines and reflects upon how individuals perceive and experience their world to create findings (Given, 2008; Vogt 2005; Collis and Hussey, 2009). This research phase is descriptive and exploratory in nature, as it creates a detailed account of the drivers of strategic innovation, while concerning itself with the discovery or generation of new theory (Davies, 2006b; Blumberg *et al.*, 2011; Collis and Hussey, 2009). A deductive approach is further maintained as the research attempts to draw conclusions and further develop theory from the gathered data within a specific framework, as opposed to exclusively developing theory from the collected data (O'Reilly, 2009; Collis and Hussey, 2009; Blaikie, 2004). Further input into designing the research phase was taken from Schlegelmilch *et al.* (2003) who actively highlighted the need for future research to develop composite measurement tools for each driver of strategic innovation, therefore highlighting the relevance of this research objective.

The following section details the research design elements to be utilised to meet the research specifications and objectives set out.

4.6.1 Target population and sample

4.6.1.1 Target population

Babin and Zikmund (2010) define a population as a group of entities that share some common set of characteristics, with the population of a research project being further defined as the object of study, including individuals, organisations and events (Vogt, 2005; Saumure and Given, 2008).

For this study the target population is defined as *companies operating in the financial services industry of South Africa*. However, given the diverse nature and scope of companies that participate in the South African financial services industry, the population is further narrowed to specifically focus on *banks operating in the financial services industry of South Africa*. This narrowing of the target population is undertaken in order to create a greater validity and comprehensiveness to the findings, as associated with focusing on a single specific type of company operating in the South African financial services industry.

4.6.1.2 Sampling

Sampling is described as “the process of selecting some elements from a population to represent the population as a whole” (Blumberg *et al.*, 2011:501). Sampling is undertaken so as to generate information from a select group, which can then be extrapolated to the entire population under observation.

The sampling frame, referring to a list of the target population from which the sample is drawn (Vogt, 2005; Cramer and Howitt, 2004), which was utilised for the first phase of research, was a non-probability sampling frame, also referred to as a non-random sample (Vogt, 2005; Davidson, 2006). Such a sampling frame refers to a frame that does not adhere to probability methods in sampling, namely no random selection of participants from the target population takes place (Davidson, 2006). In using such a sampling frame there are four general categories available to researchers, namely convenience, quota, purposive, and

snowball sampling (Boslaugh and McNutt, 2008). For the purposes of this study a purposive sampling frame was used, specifically, where the sample is chosen on the basis of accessibility to the researcher and respondents particular knowledge, while meeting parameters defined by the purposes of the research (Boslaugh and McNutt, 2008; Vogt, 2005; Salkind, 2010; Palys, 2008). Such a sampling frame was utilised due to the lack of any existing sample frame that would meet the needs of this research and the researcher's need to make use of available respondents who would be able to provide relevant information. Purposive sampling was further deemed appropriate given the need for a small informative sample, in accordance with qualitative research (Leedy and Ormrod, 2001). Although the criticism that such a sampling frame does not produce a representative response from the population, Davidson (2006) maintains that some of the most influential and interesting qualitative research has nevertheless been conducted on such a basis.

In accordance with the selected sampling frame, the sampling method, describing the actual process used to select a sample (Cramer and Howitt, 2004), for this study was a judgement-based, multi-stage sampling method. Such a sampling method describes the use of judgement levied by the researcher in regard to the composition of the sample, as well as a sampling process that proceeds in two or more stages (Battaglia, 2008; Cramer and Howitt, 2004; Blumberg *et al.*, 2011). Such a method was appropriate given the need to first determine which banks may be judged appropriate to participate in the study, and secondly, to adjust the sample unit from companies to individuals when identifying the relevant individuals in each bank, once the appropriate banks had been selected. This is once again suitable, given the needs of a small informative sample, as characterised by much qualitative research (Leedy and Ormrod, 2001).

In line with the specifications set out above, the sample for the first phase of research was structured by first identifying suitable banks in the South African financial industry. These selected banks represent the following:

- Commercial and retail banks;
- Private banks; and
- Corporate and Investment banks.

These companies were selected so as to create a representative sample of the various types of banks in the South African financial industry, so as to give a better representation of the South African banking industry. Each bank was identified as suitable by an assessment of their innovation reputation using the Accenture innovation index (Accenture Innovation Index, 2013), as well as each bank's market presence as judged by total assets (ABSA, 2013; Standard Bank, 2013; Investec, 2013; Nedbank, 2013; FNB, 2013).

For each bank, contact was made with the chief executive officer (CEO) in each company via email explaining the premise of the research to be conducted and seeking their support and endorsement. Once accrued, the CEO's were then asked who they believed would be most appropriate for the researcher to liaise with. This ensured that the sample for the first phase of research encompassed individuals who were the best qualified to provide input about the innovation and strategic elements within each company. Upon identifying and communicating with the individuals from each bank, suitable times were arranged to conduct the first phase of research either in person or telephonically where necessary.

4.6.2 Data collection methods

Primary research refers to the undertaking of original research, where the data collected is designed to answer developed research questions (Blumberg *et al.*, 2011; Jupp, 2006). As previously discussed, the first phase of primary research was designed specifically with the first two secondary research objectives in mind, as well as the type of data that would be needed to answer the research objectives. These considerations highlighted the need for qualitative research which interpreted how individuals perceive and experience their world to create findings, with the aforementioned sampling plan being developed to meet data-gathering requirements.

Given the use of qualitative research methods for the first phase of primary research, three general forms of data collection presented themselves (Firmin, 2008a; Staller, 2010):

- Interviews and/or conversations, conducted with individuals or groups;
- Observations, with the researcher as either unobtrusive or participant;
- Documents and artefacts collection, either pre-existing or generated through the research process.

Consistent with the need to explore individuals' perceptions and experiences in a manner not readily available through observations, as well as the time constraints placed on the study, it was decided to use interviews as the main means of data collection, supplemented by document collection, for triangulation where applicable.

In using interviews as a data collection method, Staller (2008) advocates the existence of three types of interview typologies available to researchers, namely unstructured, semi-structured, or structured interviews. Unstructured interviews, at one end of the spectrum, generally ask open-ended, vague questions in order to solicit broad responses from the participant(s) in order to develop theory (Firman, 2008b; Fontana, 2004). Alternatively, structured interviews, at the opposite end of the spectrum, serve as verbal questionnaires where participants are engaged with demarcated questions about specific constructs, so as to solicit specific data (Firman, 2008b). Semi-structured interviews, the interview typology utilised for this study, can be placed in the centre of the spectrum with predetermined but opened-ended questions to solicit focused, yet broad responses (Ayres, 2008a).

Semi-structured interviews give the researcher the chance to maintain control over the topics covered in an interview, while allowing for flexibility in responses (Ayres, 2008a). It is a characteristic well suited to the researcher's need to explore each driver of strategic innovation as a separate topic. In addition, through allowing for flexibility in participants' responses, a free flow of information is created, which may permit for the appearance of any information that may not have been specifically covered in the literature. Using such an

interview method, supplemented by document collection where applicable, the congruency between the literature on the drivers of strategic innovation and the actual reality present in South African banks is best assessed, while allowing for new content development. It is for these reasons that semi-structured interviews were deemed the most appropriate typology of interview available for use.

4.6.2.1 Developing the research instrument

In line with utilising a semi-structured interviewing technique, an interview guide that detailed the content to be covered in the interviews was developed before engaging with respondents (Ayres, 2008a; Morgan and Guevara, 2008) (see Appendix III). The interview guide was structured to include a preamble, introductory questions, a section relating to each driver of strategic innovation, and lastly a brief section on strategic innovation capacity. The preamble began by explaining the premise of the research being undertaken, then provided a justification of the population of the study, and lastly gave a breakdown of the interview guide. Following the preamble, four introductory questions were asked, so as to create a rapport between the interviewee and the researcher, while soliciting valuable data about innovation in the banking sector of South Africa. Following the introductory questions, four sections, each relating to a driver of strategic innovation, were asked. The questions for the drivers of strategic innovation were developed in conjunction with the compiled literature, so as to specifically solicit information from respondents regarding the characteristics of each driver that they perceived and experienced in their respective companies. The ordering of the drivers was arranged so that the most formal and business-centric driver was asked first before moving to less formal drivers. The order of the drivers was: Strategy Processes, People, Culture, and lastly Resources. The final section of the interview guide related to strategic innovation capacity, and utilised theory from Berghman (2006) to develop questions to gain a qualitative understanding of a company's strategic innovation capacity. First the number of innovative initiatives a company undertook in a given time period was gauged,

then the number of these initiatives that could be defined as strategic innovation initiatives was determined, after being given a definition of a strategic innovation initiative.

4.6.2.2 Pilot testing

Given that Mouton (2008) warns against the dangers of not pre-testing or piloting a research instrument, the interview guide underwent five separate rounds of pilot testing. The pilot testing ensured the validity, wording, ordering and clarity of questions, as well as the overall quality of the interview guide, and prevented any omissions (Manson, 2004; Tull and Hawkins 1993). The pilot tests consisted of mock interviews conducted with individuals with various areas of expertise and backgrounds. Mock interviews were undertaken with individuals in senior management positions in various industries, to ensure tone, wording and relevance of questions, with individuals involved in the South African banking sector to ensure validity of content and wording, and with professional researchers, to ensure order, wording, content and address any other research-related issues. The pilot testing allowed for the refinement of the questions contained in the interview guide, with the wording, ordering and clarity of the questions being adjusted as indicated.

4.6.2.3 Data collection

Being mindful of the sampling methods described above, as well as the research instrument to be used, it was decided to conduct the semi-structured interviews either telephonically or face-to-face, with experienced senior managers as identified by each company's CEO. These individuals were identified by each CEO as being the most knowledgeable about the subject matter relating to the study, and consequently provided the researcher with a reasonable period of uninterrupted time in which the interview could be conducted.

In order to allow respondents some time to formulate their responses, an interview guide tailored to each individual bank was e-mailed to each respondent at the time of setting the interview (see Appendix III). The interview guide was accompanied by a cover letter from the

research promoter (see Appendix II) and a confidentiality agreement to ensure the appropriate use of any sensitive information (see Appendix I).

The Individuals interviewed were the following:

- **Paul Steenkamp** – Head of Innovators and Employment Branding at FNB (Interviewed on 09/05/2013);
- **Magnus Taljaard** - Global Head, Client Access, Corporate and Investment Banking at Standard Bank (Interviewed on 09/05/2013);
- **Eugene Booysen**- Co-Chief Risk Officer and Growth Unit CEO at ABSA Corporate Investment Banking and Wealth (Interviewed telephonically on 23/05/2013);
- **Kobus Burger**- Former National Head of Private Banking at Investec (Interviewed on 09/05/2013);
- **Soemaya Boomgard**- Group Strategy Consultant at Nedbank and **John Bestbier**- Group Executive for Strategic Planning at Nedbank (Interviewed together on 09/05/2013).

All the interviews were personally conducted by the researcher, during which the interview guide was used to direct the conversation to the appropriate topics. During this time the researcher further probed the answers provided by respondents to generate greater insight, so as to answer the formulated research objectives. Each interview was recorded and transcribed for analysis at a later stage. This was supplemented with notes taken by the researcher during the interview, as well as the collection of any relevant documentation provided by the respondents to facilitate understanding.

4.6.3 Analysis

Data analysis is seen as the application of reasoning to understand gathered data (Babin and Zikmund, 2011). This analysis aims to understand the various elements that make up the collected data through inspecting the various relationships between concepts, constructs

or variables, so as to identify any trends and patterns, or to establish themes in the data (Mouton, 2008).

4.6.3.1 Thematic analysis

In analysing qualitative data, various authors (Vogt, 2005; Weber, 1990; Druckman, 2005) advocate the use of content analysis in order to systematically analyse and interpret data. Content analysis is promoted as it allows researchers to “make inferences by objectively and systematically identifying specified characteristics of messages” (Holsti, 1969:14). For the purposes of this study, such an approach was refined to include thematic analysis, a variation of content analysis, which allows a researcher to segment, categorise, summarise, and reconstruct data in a way that captures the important concepts within the data set (Ayres, 2008b; Lapadat, 2010). The process of thematically analysing a data set begins with the development of a coding list used to segment and categorise the data (Ayres, 2008b). This process of coding the data allows the researcher to de-contextualise and group various data segments together, creating descriptions of themes (Ayres, 2008b; Lapadat, 2010; Schwandt, 2007). These descriptions are then analysed to create holistic understandings of the themes searched for in the data sets.

Each driver of strategic innovation was treated as a separate theme, with a coding list being developed in conjunction with the compiled literature (see Table 4.3). In consideration of the objectives, as well as the supportive role of the first phase of research, the coding list was kept to a small number of codes, also allowing for a greater breadth of interpretation. The coding allowed for the creation of a comprehensive categorisation and segmentation of the data set into elements that reflect the drivers of strategic innovation. By creating descriptions of the drivers of strategic innovation as themes in the data set, a genuine perception of the elements which constitute the drivers in banks was created, hence facilitating an assessment of the congruency in the compiled literature. Further, as noted by Ayres (2008b) during the coding process, coding categories are constantly reconceptualised, renamed,

reorganised, merged, or separated as the analysis progresses. Codes are seldom static, but rather volatile in nature, as they search for alternative interpretations or disconfirming evidence. In accordance with this, any development within the codes for analysis was documented, and analysed to determine if the new codes might be representative of new elements to the drivers of strategic innovation, and consequently new theory. Intercoder reliability was further addressed through having the coded transcripts appraised by two separate parties.

Table 4.3: Themes and codes for analysis

Qualitative Data Analysis Codes	
Themes	Codes
<i>Strategy Processes</i>	<ul style="list-style-type: none"> • Role • Frontiers • Development Process
<i>People</i>	<ul style="list-style-type: none"> • Top Management/ Leadership • Staff Characteristics • Staff Management • Networks
<i>Culture</i>	<ul style="list-style-type: none"> • Management • Values • Beliefs
<i>Resources</i>	<ul style="list-style-type: none"> • Technology • Financial
<i>South African Specific</i>	<ul style="list-style-type: none"> • Factors • Influence

The process of coding and analysing the data was aided by the use of ATLAS.ti, qualitative analysis software designed to support the interpretation and analysis of a variety of data sources. ATLAS.ti further allows for the effective management of codes, providing visual representation of the relationships between various codes, as well as providing summaries of the codes utilised. This use of software to assist in the analysis of the gathered data offers the benefits of reducing the time needed to analyse the data, while further adding to the validity of the results, as the use of software ensures a lower margin of error on the researcher's part (Popping, 2000).

4.6.3.2 Reliability and Validity

Reliability broadly describes the dependability, consistency, and repeatability of a project's data collection, interpretation, and analysis (Vogt, 2005; Blumberg *et al.*, 2011; Miller, 2008a; Kramer and Miller, 1986). While reliability has congregated to a uniformed definition and measurement in quantitative research, due to the various methodological and paradigmatic dimensions that comprise qualitative research, such a uniform definition and measurement is yet to be reached (Miller, 2008a). Various advocates state that the concept of reliability is in fact counter-intuitive to research of a qualitative nature, given qualitative research's subjective and interpretive nature (Miller, 2008a). Reliability in qualitative research is rather approached through the concepts of credibility, dependability, confirmability, and consistency (Miller, 2008a), all of which have been addressed by the researcher for this qualitative research. Both credibility and dependability have been catered for through the use of multiple rounds of pilot testing and development of the interview guides as well as through the use of multiple methods of recording the interviews. Accordingly, the manner in which the interviews and analysis were carried out caters for consistency in the research initiative, with the results of the research promoting the confirmability of the research.

Although a measure may be consistent in its results, i.e. is reliable, if the results themselves cannot be shown to be correct, i.e. are valid, then the measure is worthless. For this reason, validity, broadly describing the extent to which a measure can be shown to measure what it intends to measure, is crucial for any study (Cramer and Howitt, 2004; Kramer and Miller, 1986; Miller, 2008b). In defining validity for qualitative research, once again owing to the various methodological and paradigmatic dimensions that comprise qualitative research, the creation of all encompassing criteria for validity is challenging (Miller, 2008b). It is argued that a researcher gives consideration to the concepts of trustworthiness, credibility, authenticity, transferability, and plausibility as criteria for valid research (Miller, 2008b). The selected executives interviewed largely represented the views of their firms, so that their responses represented a credible, as well as authentic picture of the drivers of strategic

innovation from within their companies. Furthermore, given the comparability of the interview guides used during the semi-structured interviews, a level of transferability, as well as plausibility was maintained in the research.

However, it is important to note that as the sample for the qualitative research was limited, due to the nature and purpose of the first phase of primary research, it is not scientifically possible to extrapolate the findings to all banks in the South African financial industry. The first primary phase of research does however serve as a valid indicator and confirmer of the drivers of strategic innovation in banks in the South African financial industry, therefore allowing the quantitative phase of research to be undertaken.

4.7 Quantitative research design

As noted, the first phase of research was used to develop and refine both the theoretical model compiled through the literature, and the sample for the consequent second phase of research. Through meeting the first two secondary objectives, namely confirming the elements which constitute each driver of strategic innovation, and testing for any new elements within each driver, the analysis of the qualitative phase has contributed to developing the drivers of strategic innovation as testable constructs. For these constructs, measurement instruments were developed, allowing for the testing of the hypothesised model and the resolution of the primary and additional secondary research problems. Hence, the second phase of research focuses on primarily determining, empirically, what the relationship between the drivers of strategic innovation and the strategic innovation capacity of selected banks is. In pursuit of this objective the second phase will additionally evaluate the strategic innovation capacity of South African banks, determine which driver of strategic innovation has the greatest effect on strategic innovation capacity, and utilise the gathered data to synthesise management recommendations in regard to the drivers of strategic innovation.

As this second phase of research seeks to statistically test the relationship between the drivers of strategic innovation and strategic innovation capacity, numerical data is needed (Garwood, 2006; Daly, 2003; Vogt, 2005). For these reasons, the methodology applied to the second phase of research is firmly quantitative in nature, as the ability to test these relationships is only made possible with quantitative data.

The following section details the research design elements to be utilised to meet the research specifications and objectives, as set out above.

4.7.1 Target population and sampling

4.7.1.1 Target population

As explained, a motivation for the usage of a mixed-methodology approach was the use of the first phase of research to develop the target population and sampling frame for the consequent phase of research. Hence, where the first phase of research focused on banks operating in the financial services industry of South Africa, given the objectives of this phase of research, the target population was refined to *individuals working in the selected banks in the South African financial services industry*.

4.7.1.2 Sampling

Through analysing the qualitative phase's data, the researcher realised that although innovation is a company-wide initiative, very few individuals, if any, are employed at banks specifically for the purpose of managing innovation. This creates the challenge of structuring a sample frame which specifically targets individuals with both dependable and credible knowledge. For these reasons the following distinction is made now. Although the sample size constructed for this phase of research may be small, the researcher has undertaken sampling processes to ensure that the gathered data is of the highest validity.

Consequently, the sampling frame, referring to a list of the target population from which the sample is drawn (Vogt, 2005; Cramer and Howitt, 2004), utilised for this phase of primary

research was a non-probability sampling frame, also referred to as a non-random sample (Vogt, 2005; Davidson, 2006). A purposive non-probability sampling frame was utilised, referring to a sample chosen on the basis of accessibility to the researcher and respondents particular knowledge, while meeting parameters defined by the purposes of the research (Boslaugh and McNutt, 2008; Vogt, 2005; Salkind, 2010; Palys, 2008). Such a sample was levied because of the number of respondents with the applicable knowledge needed to provide valid data, hence preventing the use a probabilistic sampling sequence.

In accordance with the selected sampling frame, a judgement sampling method, describing the actual process used to select a sample (Cramer and Howitt, 2004) was used for this research phase. Such a sampling method describes the use of judgement to determine the respondents comprising the sample frame (Cramer and Howitt, 2004; Blumberg *et al.*, 2011). This method was appropriate given the use of the respondents from the qualitative phase of research to determine the most appropriate participants for the quantitative phase.

In line with the specifications set out above, the sample for the quantitative phase was constructed by firstly consulting with the respondents of the qualitative phase. These respondents were asked to identify individuals in their companies who possess the necessary knowledge. Consequently, each respondent from the qualitative phase was sent a cover letter containing a link to the developed questionnaire (see Appendix IV), which they then distributed to the relevant parties for completion. Sending the questionnaire from a senior executive in each company helped affirm the credibility of the research, ensuring a higher response rate.

4.7.2 Data collection methods

In order to statistically test the relationships between the drivers of strategic innovation and strategic innovation capacity, numerical data is needed. The second phase of this research is squarely quantitative in nature. According to Mouton (2008), there are three basic types of research techniques for collecting and analysing primary data that is quantitative in nature,

namely surveys, laboratory experiments, and field experiments. Consistent with the need to gather numerical data from a dispersed sample of individuals, a survey technique was selected as the means for data collection. A survey technique is further appropriate given the time and cost constraints imposed on this study, as well as the non-experimental nature of the research design.

4.7.2.1 Developing the research instrument

In line with using a survey technique, data was to be gathered from the sample by means of a questionnaire (Punch, 2003), but no existing questionnaire met the requirements set by the study. This created the need to develop a questionnaire geared towards gathering the numerical data needed to evaluate the relationship between the drivers of strategic innovation and strategic innovation capacity.

Mindful of the research objectives, it was decided to design the questionnaire to specifically collect interval data, given its incorporation of nominal and ordinal data types, as well as its ability to provide comparative scales for each construct, while using the mean as a measure of central tendency (Blumberg *et al.*, 2011). In order to provide a quantifiable assessment to respondents' answers, a summated rating scale, in the form of a 5-point Likert scale, was chosen (Spector, 1992, 2006; Blumberg *et al.*, 2011). Accordingly, the questionnaire utilised a structured format, separating each construct into a separate section, providing respondents with a set list of close-ended statements, to which they indicated their level of agreement via the 5-point Likert scale. Respondents' levels of agreement were rated from 1, representing strongly disagree, to 5, representing strongly agree. In answering the questionnaire each respondent therefore provided a composite measure of the level of each driver of strategic innovation, as well as strategic innovation capacity, which could then be analysed.

The questionnaire (see Appendix V) commenced with a brief introduction explaining the concept of strategic innovation, followed by an explanation of the research being

undertaken, and lastly guidelines for completing the questionnaire. The following four sections each related to an individual driver of strategic innovation, with the ordering of the drivers being taken into consideration so as to present the most business-orientated and formal driver first. Each driver was first given a brief description, followed by guidelines for answering the section. A set list of statements was provided under each section, to which the respondents indicated their level of agreement. As no existing operationalisation of each driver existed, a process of defining each driver and its underlying constructs was undertaken through the literature review, and refined through the first phase of primary research and consultation of existing research instruments (Berghman, 2006; Schlegelmilch *et al.*, 2003; Morris *et al.*, 2011; Aiman-Smith *et al.*, 2005; Brinkshaw and Gibson, 2004; Chen *et al.*, 2009; McKenzie 2012). A reliable list of statements was generated to test each driver as a construct. The first driver, Strategy Processes, consisted of 14 items, the second driver People, 11 items, the third driver Culture, 14 items, and the final driver Resources, 7 items. The wording and length of each statement was further taken into consideration and refined by pilot testing, to reduce respondent fatigue. The fifth section of the questionnaire focused on strategic innovation capacity, and adapted the reliable instrument developed by Berghman (2006). Berghman's (2006) instrument consists of 8 items, each also utilising a 5-point Likert scale to determine a numerical score for strategic innovation capacity in a company. The final section of the questionnaire gathered demographic information from respondents, and was left till last so as to not alienate respondents before completing the questionnaire. Respondents were also invited to leave an email address at the end of the questionnaire if they wished to receive a copy of the results of the research.

4.7.2.2 Pilot testing

For quantitative studies a pilot study typically is conducted to test for weaknesses in the research instrument, and also to provide proxy data for the selection of a probability sample (Cooper and Schindler, 2008). Given the use of a non-probability sample, as well as time constraints and the nature in which the questionnaire was developed, a small-scale pilot test

was used to ensure the structuring, wording, length and appropriateness of the questionnaire. Senior executives, professional researchers, and individuals employed in the target banks were all consulted to ensure the validity of the questions being posed, as well as to ensure the questionnaire was of an appropriate length and structure.

4.7.2.3 Data collection

Being mindful of the sampling methods and research instrument, it was decided to administer the questionnaire electronically. This was further deemed appropriate given the time constraints that individuals face during the working day, as well as the dispersed nature of the sample. In order to distribute the questionnaire electronically, Qualtrics software was used to host the questionnaire online, and capture responses in real time.

The respondents from the qualitative phase of the research were sent a cover letter containing a link to the developed questionnaire (see Appendix V), which they then distributed to the relevant parties for completion. Sending the questionnaire from a senior executive in each company helped affirm the credibility of the research, ensuring a higher response rate. All responses were sorted and cleaned by the researcher with the aid of pre-coding, allowing for the analysis of the gathered data.

4.7.3 Analysis

All the responses were first digitally captured by the online survey software Qualtrics. Upon the completion of the second phase of research the gathered data was downloaded and exported into Microsoft Excel. The results were then cross-checked by the researcher, removing all incomplete responses and further cleaning the data for statistical analysis with SPSS.

4.7.3.1 Descriptive statistics

Descriptive statistics generally refer to procedures for summarising, organising, graphing, and describing quantitative information (Vogt, 2005; Cramer and Howitt, 2004). In doing so

descriptive statistics enable the researcher to describe the sample variables numerically, by describing the central tendency of the data, as well as the shape and spread of the data. For the purposes of this study, the descriptive statistics of mean and standard deviation were used.

4.7.3.2 Inferential statistics

Inferential statistics refer to statistics used that allow one to draw conclusions or inferences from a sample data set to the population, as well as the calculation of significances for hypothesis testing (Vogt, 2005; Cramer and Howitt, 2004; Blumberg *et al.*, 2011).

This study made use of an inferential analysis to test the previously developed hypotheses. In other words, the study made use of multiple regression analyses, perhaps the most widely used data analysis technique for measuring linear relationships (Hair *et al.*, 2011), in order to determine the statistical significance between the independent variables of the drivers of strategic innovation, and the dependent variable of strategic innovation capacity. The statistical significance of the regression coefficient, calculated between 0 and +1, of the relationships, as well as their calculated probability-values, served as an indicator of whether or not to reject the null hypothesis.

4.7.3.3 Reliability and validity

In order for any social science research to be both precise and of practical use to other researchers, the two criteria of reliability and validity need to be considered.

Reliability broadly describes the dependability, consistency, and repeatability of a project's data collection, interpretation, and analysis (Vogt, 2005; Blumberg *et al.*, 2011; Miller, 2008a; Kramer and Miller, 1986). In assessing reliability, one assesses whether or not measuring the same object, or phenomenon, with the same measuring instrument gives results that are as similar as possible (Drucker-Godard *et al.*, 2001).

Four methods exist for testing the reliability of a research instrument – the retest method, the alternative form method, the split-halves method, and the internal consistency method (Carmines and Zeller, 1979). For this study the internal consistency method was used. Internal consistency is measured using a coefficient, most often referred to as Cronbach's alpha or the coefficient alpha, to measure the degree to which the questionnaire items are homogeneous and therefore reflect the same underlying constructs (Cooper and Schindler, 2008). A specialised correlational formula is used to calculate the alpha, with a value of 0.7 and above indicating a satisfactory level of reliability.

Validity broadly describes the extent to which a measure can be shown to measure what it intends to measure (Cramer and Howitt, 2004; Kramer and Miller, 1986; Miller, 2008b). In regard to research, there are three main types of validity – content validity, criterion-related validity and construct validity (Carmines and Zeller, 1979). Each is discussed briefly below.

Content validity measures the degree to which the content of items adequately represents the universe or total number of all relevant items in the study (Carmines and Zeller, 1979; Drucker-Godard *et al.*, 2001). Criterion-related validity measures the degree to which a predictor is adequate in capturing the relevant aspects of the criterion (Carmines and Zeller, 1979; Drucker-Godard *et al.*, 2001). Lastly, construct validity measures the extent to which a particular measure relates to other measures, consistent with derived hypotheses regarding the concepts being measured (Carmines and Zeller, 1979; Drucker-Godard *et al.*, 2001).

Given the small size of the sample for this study, it is not possible to test for these validities, therefore the researcher considered internal validity. Internal validity, which involves being sure of the relevance and internal consistency of the results produced by a study, is achieved through the removal of identified biases (Drucker-Godard *et al.*, 2001). These biases are relevant to the context of the research, the collection of data and the sampling, and need to be addressed throughout the study (Drucker-Godard *et al.*, 2001). Validity has been ensured for this research phase by the use of the first phase to develop items and the

sampling frame, by the use of the qualitative respondents to build the sample, and lastly by the use of pilot testing the questionnaire to ensure validity of the research instrument.

4.8 Conclusion

This chapter has provided an overview of the research methodology used for this study. The direction and needs of the research were first highlighted by the clarification of the research problem and objectives, leading to the formation of testable hypotheses for the study. A brief summary of the secondary research carried out in the form of a literature review was then provided, further justifying the research objectives and contextualising the primary research to be undertaken. A general explanation, as well as a rationale, for the use of a mixed-method research design in the study, highlighting the perceived benefits associated with such an approach, was then given. A description of each research phase was then undertaken, each providing an explanation and justification of the various design elements considered. This included the target population and sampling methods to be used, the data collection processes and instruments used in each phase, and lastly the means and processes used to analyse the gathered data from each research phase. The following chapter discusses the results of these two phases.

Chapter 5 : Results

5.1 Introduction

This chapter presents and discusses the empirical results for this study. First the results for the qualitative phase of research will be discussed, focusing on the thematic analysis of the interview transcripts. Next the quantitative research results will be reviewed through a discussion of the reliability assessment, and the descriptive and inferential statistical analysis. The chapter then concludes with a brief synopsis of the research results.

5.2 Qualitative results

The qualitative phase of research was designed specifically to meet the first two secondary objectives, in order to develop the research instrument and sample for the subsequent phase of quantitative research. The thematic analysis undertaken served to confirm the elements that constitute the drivers of strategic innovation. It further decided, given South Africa's unique context, whether there were any unidentified elements that constituted the drivers of strategic innovation in South African banks. The qualitative phase also provided insights into strategic innovation in South African banks, probing the processes undertaken and the perceived strategic innovation capacity present, as gauged by the key individuals. The following section first discusses the thematic analysis of the drivers of strategic innovation, while developing theory on the elements comprising the drivers. Next, the South African specific elements will be discussed, and the additional key insights garnered by the research will be considered.

Lastly, In order to guard against any preconceived biases that may be associated with any of the respondent banks, all quotes used will be referred to as Bank 1 to Bank 5. Due to confidentiality and anonymity agreements (see Appendix I) the transcripts of the interviews will not be available in the appendixes.

5.2.1 The drivers of strategic innovation

Previous research by Schlegelmilch *et al.* (2003) provided and also conceptually linked the drivers of Strategy Processes, People, Culture and Resources to fostering a company's ability to strategically innovate. However, Schlegelmilch *et al.* (2003) did not fully operationalise each driver, and further highlighted the need for future research to fully determine the elements that comprise each driver, in doing so creating composite measures for testing. The previous literature review commenced this process, with the following results serving as an indicator of the applicability and legitimacy of the determined elements.

5.2.1.1 Strategy Processes

As reiterated by Mintzberg in various works (Mintzberg, 1990b; Mintzberg *et al.*, 1998; Mintzberg and Lampel, 1990), strategy is a vital element to any company and is crucial to its future success. As explained by Bank 1, "Strategy is the touchstone against which every decision has got to be tested... Strategy sets the direction of where the business is going." In assessing the literature on traditional strategy processes, it was determined that strategic innovation asserts its differentiation from traditional business strategy in three areas: the presumed role of strategy, the frontiers pursued by strategy, and the actual development of strategy.

I. The role of strategy

The first concern regarding strategy processes is that of the presumed role of strategy. Particularly, where traditionally the role of strategy focuses on planning and coordination (Garcia, 2012), strategic innovation, as advocated by Christensen (1997), places a strong emphasis on questioning – namely a questioning of the norms, biases and past company choices. Such a sentiment is widely agreed upon in the context of banking in South Africa. Bank 2 explained that:

“You have to be willing to ask the questions, why is this done this way, isn’t there a better way, because I think sometimes what happens is in an organisation is that there are so many rules and processes and if you take everything at face value you will be very constrained. So you almost need to push back a bit and give some resistance”.

Such a view is further supported by Bank 3 who maintains that: “It’s important to challenge information and ideas coming from the clusters,” so that strategy has a “constant questioning... Of why and how can we do it better... So you get that sort of friction and communication and dialogue”. Subsequently, Bank 4 also valued “instilling a kind of questioning attitude”, focusing on “what are we doing, asking questions and being relentless about the status-quo”. As argued by Kim and Mauborgne (1999a, 1999b), by incorporating such a questioning attitude into strategic processes a company is more likely to be able to conceive and reinterpret industry paradigms, hence creating the opportunity for strategic innovation.

However, such a questioning role needs to be complemented by both a learning orientation and proactivity. As motivated by Aiman-Smith (2005), Burgelman (1983) and Wright *et al.* (2001), a learning orientation facilitates the assimilation of the information garnered through questioning, and hence allows for the development of the strategies towards strategic innovation. The results of the study found that both a learning orientation and proactivity are observable in the South African banking context, as encapsulated by Bank 1, who has a “healthy appetite for what we call market prescience,” particularly creating knowledge of events or actions before they happen. Bank 1 further motivates the importance of learning, as in regard to their specific strategy, “it’s been a learning curve in how we measure our progress”. Proactivity, which is catered for in all considered banks, ensures that strategies actively probe and question their antecedent elements, as well as how to meet their objectives, as stated by Bank 1: “You have to proactively strategise around how to deliver”.

II. Strategic frontiers

The second area of differentiation from traditional strategy processes is that of strategic frontiers, which capture the concept of having a future-orientated strategic perspective by strategising around the driving forces of an industry (Bates and Johnston, 2005). Strategic frontiers are vital to a company's future survival and success, being representative of new areas for growth (Bates and Johnston, 2005). This impetus is reinforced by Bank 5, who observed that "your efficiency drivers only compensate you to a certain extent and then you actually have to engineer something new, or just establish something new, otherwise you just mature, margins compress, markets saturate and you experience client fatigue". Although not explicitly referred to as strategic frontiers, it was found that the core elements of the concept are catered for in the South African banking context, although through different means.

The first component of strategic frontiers, namely a future perspective, was widely acknowledged and referred to, as portrayed through Bank 4 who specifically emphasise a "focus on future value, new things, new sources of revenue and commercialising opportunities". Alternatively, Bank 5 undertakes a much more formal and driven approach to encouraging a future perspective in strategic discussions:

"We got leading experts from around the world just to come to speak to the management team on a monthly basis around various topics, and they were only allowed to speak to the management team on the basis that they were living in the world of 2020. They had to paint that experience, and what it was about; what were the macro trends in 2020, in terms of innovation, in terms of exponentials that were driving the business. What were the big macro trends in terms of economics, macro trends in strategy, macro trends in technology, resources, land, you name it, politically, that are likely to be driving the world in 2020."

As alluded to above, the second component to strategic frontiers, namely strategising around an industry's driving forces and macro trends, is also clearly observable within the South African banking context. Such strategising is to be expected given the research-laden processes that characterise strategy formation in South African banks. As explained by Bank 3:

“There’s a lot of research, particularly from our department, you know, what is topical, what are the key risks that banks are facing... What’s happening in the environment in which we operate, the key drivers of the industry, whether its legislation or politically, whether it’s what clients are demanding... There’s a very broad environmental scan that takes place, but it’s also very detailed in what could impact the bank both today in the short term and in the long term... Big changes in strategy normally come from big changes in technology and big changes in the environment”.

This combination of a future-orientated strategic perspective and a strategising around an industry's driving forces allows a company to identify the boundaries of their strategy (Bates and Johnston, 2005). This in turn facilitates the process of questioning described in the previous paragraph, furthering a company's ability to perceive the unique innovative strategic options for growth, which have come to be associated with strategic innovation (Bates and Johnston, 2005; Christensen, 1997; Markides 1999).

Given the ability of strategic frontiers to seemingly create new opportunities for growth, a company needs to be strategically ambidextrous so as to quickly pursue any new market spaces (Brinkshaw and Gibson, 2004; Stopford and Baden-fuller, 2001; Kim and Mauborgne, 2004). Despite the preconceived notion that companies as large as banks are strategically slow-moving (Chen and Hambrick, 1995), the study found that mechanisms are indeed put in place to encourage swiftness. As Bank 3 explains, “We’re constantly monitoring and measuring to be more flexible and agile to make those changes when they need to be made”. Similarly Bank 1 emphasises the role technology has played in

streamlining strategy as explained, “We've just become more mature around the kind of measures that are in place, because, I think from a systems perspective were able to generate data and insights that maybe nine years ago we couldn't have”.

III. The strategy development process

The final area in which strategic innovation differentiates itself from traditional strategy processes is in regard to the actual development process of strategies (Schlegelmilch *et al.*, 2003). Whereas the traditional development process of strategy is considered to be hierarchical and exclusionary, strategic innovation advocates the use of a democratic and open model for development (Hough *et al.*, 2011; Hamel, 1996; Schlegelmilch *et al.*, 2003). The study found that for the most part, the company-wide or group strategy of each bank was still an executive process handled by top management. However, the banks consequently refer to using a federal model of strategy development, as explained by Bank 3: “So you have top down in terms of broad strategic objectives that are set, you've got bottom up in terms of details and strategic initiatives that support the strategic objectives that have been set at board level”. Hence, strategy development in the South African banking context can be seen to be moving towards a more democratic system. Focusing on the lower levels of strategy development, a highly collaborative approach is emphasised, as explained by Bank 4 in regard to their development: “It's not hierarchical, it's not command and control, but very process driven and collaborative in terms of arriving at a decision”. Bank 5 also describes a highly collaborative environment around innovation initiatives;

“We sometimes run interviews within the firm, so getting more direct feedback from people based on ideas... We sometimes get opinions from the rest of the firm, in that we ask for their views, and we sometimes pull together teams within the firm to do some temperature tests on some of the ideas, etc. and bounce it off them, and use it for enrichment... We leverage what we call the hive zone, we go talk about the

business of today, we run through ideas, we brainstorm around it, see what we can do, test ideas on them, we leverage the firm to test those underlying proposals”.

This approach is further reinforced by the use of various parties for strategic information, particularly the front-facing employees. As Bank 2 explains, “People are a lot closer to the markets and the customers, and they’re probably best placed sometimes to get those insights.” This viewpoint is emphasised by Bank 5 who maintain: “They’re the ones who experience the clients, really at the end of the chain, because it tends to be those frontal facing people, those people who are sitting working through the processes, because when you’re sitting in management you’re far removed from the chaos and the entropy in the system”.

Various authors also recommend using an experimentation and selection approach to complement this style of strategy development, given its ability to facilitate the previously discussed questioning and learning elements to strategy (Burgelman, 1983; Hamel, 1996; Krinsky and Jenkins, 1997; Barsh *et al.*, 2008). This recommendation gets mixed support in the South African banks, with various banks actively pursuing an experimental approach, and others believing that owing to their experience and loss of first-mover advantage, such an approach has inherent limitations.

The strategy development process needs to culminate in the communication of the strategic choices throughout a company, while having the full endorsement of top management (Burgelman, 1983; Hamel, 1996; Schlegelmilch *et al.*, 2003). This was found to be highly fitting in the South African banking context, with an emphasis being placed on formal communication of the strategy. As explained by Bank 1, “The overall strategy is communicated once a year at a leadership conference... About six hundred people out of the twenty eight and a half thousand people, so they are essentially people with budget and they are managers of managers, of practices and functions and so on”. Alternatively, various banks take a more informal approach, as noted by Bank 4, when describing strategy

communication: “So just a lot of proactive communication I would say, so its opportunistic, let me put it that way, we don't go and have a big strategy launch”.

5.2.1.2 People

The sentiment that people are the most important factor for success in a company is widely held in the South African banking industry, with each bank citing people as the most important tangible resource they possess. The significance of people is also held in regard to strategic innovation, with people having an influence through both internal and external means. Internally, people affect a company's strategic innovation potential through the characteristics of staff, the consequent management structures around them, and the leadership provided from top management (Schlegelmilch *et al.*, 2003). Externally, people have an influence through the various networks and relationships a company holds, which provide resources, strategic information and opportunity (Schlegelmilch *et al.*, 2003).

I. Staff characteristics

The human resource pool maintained by a company affects a company's strategic innovation potential through both the competencies and the behaviours of staff (McKelvey, 1982; Wright and Snell, 1991; Wright *et al.*, 1993). With regard to the competencies and behaviours required in staff, it is not possible to conclude a single set of ideals for both. Rather, the challenge relates to creating a diversity of skill and competency mixes, which is supported by staff behaviours and reconciled with a company's strategy (Gupta and Singhal, 1993; Hough *et al.*, 2011). Creating the correct skill mix is a widely held belief in South African banks, as explained by Bank 4: “Everyone talks about the best talent, and banks are driven by people, and you have to have the right talent on board, creative, resilient... So you need the artists and the engineers... It's that diversity again being key”. This point is emphasised by Bank 5, who further touch on the behavioural aspects of staff, explaining that, “Contemporary business has transitioned to a state where teamwork and collaboration between skilled and informed individuals has become the order of the day”. The concept of

teamwork and collaboration as encouraged behaviours is widely held in the South African banking context, as indicated by Bank 1 who explain that, “I think the person who can drive collaboration across the company and the group will be, in the context of the organisational story, a real hero”. This emphasis on behaviours is further highlighted by Bank 2, in that, “Whatever your role is, there is a skill set, a competency set, but then as important to us are the personal attributes”. The alignment between these competencies and behaviours towards a company’s strategy is also well supported, as described by Bank 1: “You need to be able to credibly reconcile ideas against the strategy, or you’re on the back foot”.

II. Staff management

Given the ability of management structures and process to affect both the human resource pool and the behaviours exhibited by staff, they have a significant influence on a company’s strategic innovation potential (Wright *et al.*, 2001; Schlegelmilch *et al.*, 2003). Specifically, a company needs to instil the relevant structures and processes that will encourage the desired competencies and behaviours in staff (Gupta and Singhal, 1993).

The first area through which management can influence staff competencies and behaviour is through hiring and talent acquisition, which directly influences staff competencies (Smith *et al.*, 1992). As previously mentioned by Bank 4, “Everyone talks about the best talent, and banks are driven by people, and you have to have the right talent on board”. More so, in order to recruit this talent, all banks cite the existence of extensive hiring processes. For example, Bank 3 mentions that their “HR has established a robust screening process for new hires, including personal interviews, assessments, qualifications and experience checks in line with the requirements of the role”.

Management can elicit the desired staff behaviours through the physical structuring of the actual company and work environment (Dalton *et al.*, 1980; Faems *et al.*, 2005; Powell *et al.*, 1996). Such a concept is supported in the South African banking context in regard to both the physical work environment and hierarchical structuring. The influence of the physical

work environment is demonstrated by Bank 4, in that, “We don’t have offices, so there’s a big social component to the work life here. You’re encouraged to talk to your peers, we sit in clusters, no walls, no partitioning, no nothing; open plan up to the exec level”. Bank 2 similarly explains that, “If you have a formal hierarchical organisation where it’s a lot more formal it’s a lot more structured, I think that there’s a risk that you suppress innovation... You’re not going to get anywhere, so I think it’s probably the lack of a negative hierarchy”.

A last measure which management can undertake to elicit the desired competencies and behaviours in staff is to formally recognise and reward them (Gupta and Singhal, 1993; Collins and Clark, 2003). Using means such as performance appraisals, reward systems, incentives, and formal recognition, it is possible for a company to elicit the employee traits that they deem important (Collins and Clark, 2003; Chen and Huang, 2009). Such a tactic is widely undertaken in South African banks, with all banks carrying out formal reward and recognition programmes around innovation. As Bank 1 asserted, one of the first initiatives to encourage innovation was to, “start formalising recognition and reward around innovation”.

III. Top management and leadership

The top management and leadership of a company play an invaluable role in defining the direction, operations, and structure of a company, and as such are vital to fostering a company’s strategic innovation capacity (Bartlett and Ghoshal, 1995; Lyons *et al.*, 2007). As emphasised by Bank 3, “one thing that is key, especially in a big organisation, is to get buy in, and there’s a lot of leadership required to do that”. The top management and leadership of a company can particularly influence their strategic innovation potential by both formal and informal means, with both being equally crucial (Daellenbach *et al.*, 1999; Carmeli *et al.*, 2010; Barsh *et al.*, 2008).

Formally, the top management and leadership of a company are responsible for the crafting of appropriate strategies, and the consequent instalment of the mechanisms, processes and structures to be used as a means to facilitate a desired outcome (Bel, 2010). The formal

commitment that top leadership and management display will have various manifestations, hence playing a large role in fostering strategic innovation potential (Von Stamm, 2009; Carmeli *et al.*, 2010; Bartlett and Ghoshal, 1995). In the South African banking context a formal commitment of top management and leadership is well demonstrated. Bank 1 demonstrates, in terms of strategy, that leadership's commitment to a vision has positive connotations, visible in the importance of "being part of an organisation where the leadership backed their vision and haven't reinvented the strategy often". Bank 5 further demonstrates the importance of a formal commitment, commenting that "CEO and Exco support also mitigates any negative pressure that may be exerted from entities and individuals that may not be supportive". The point of the enabling effects of leadership is further demonstrated by Bank 4, in that, "This is all happening under new leadership, so there are a lot of enabling processes, there's the establishment of a formal innovation process".

Informally, in regards to fostering innovation, it is noted that without a commitment which extends beyond the formal, any innovation is set to fail (Barsh *et al.*, 2008). Bank 1 supports this by: "As head of Innovation you have to walk the talk". This view is reiterated by Bank 3, who, when referring to leadership, discuss the importance of "the signals that you send, so people can see that their opinion is valued". Bank 1 further comments that leadership's role in innovation pertains to "legitimising it, by making it clear to everyone that it's important, and that it's non-negotiable, but they also celebrate, reward and recognise it".

IV. Networks

Every company forms part of a wider network comprised of multiple relationships that create a wellspring of resources and knowledge, which may further be used to foster greater strategic innovation capacity (Håkansson and Ford, 2002; Ritter *et al.*, 2004; Tidd and Bessant, 2009; Schlegelmilch *et al.*, 2003). For these reasons, as emphasised by Bank 4, "External relationships always have an impact, absolutely, and a big impact". Accordingly, the South African banking context is highly supportive of the utilisation of networks and

relationships for knowledge and resources. Bank 2 further contributes: “We’re fortunate enough with our scale to have resources to pursue our ideas and then I think because of your size, you have relationships with some of the leading organisations in the world... I think there is the realisation that we can create partnerships and leverage skills and experience that other organisations have, so we don’t have to do it all ourselves”. Similarly Bank 3 motivates outside networks as a source of “New ideas and knowledge”, however Bank 1 supported little use of third-party involvement for innovation:

“I think we have tended not to, by design, not be into open innovation per se. I mean I know there are some exceptions... I don’t think they’ve been hugely important for our innovation success up until now; we’ve tended to be quite self-sufficient as it were. Our philosophy is the voice of the customer is in the room because we tend to reflect our customer segments ourselves... Also sometimes the opportunity cost of educating third parties around what your strategy is, and why that idea is or isn’t aligned to that, is much higher than the benefit you would get of holding their hand and then partnering them, and sometimes those things become litigious... The last thing to say on that is very often ideas that are suggested are things that we’ve tried and they haven’t worked for whatever reason, so it’s something that we have to look at formalising moving forward, you know third party engagement and third party innovation, but up until now it’s played little to no role”.

Interestingly, the South African banking context further motivates regulators as exerting an influence on innovation activities, with the influence being both positive and negative. As Bank 4 stated, “Regulation in many cases restricts you, so it has more of a hampering effect... But at the same time it drives innovation... In a positive sense, as well as a negative sense”. Accordingly Bank 1 summarised that, “It’s almost like regulation is the mother of innovation in the banking context”.

5.2.1.3 Culture

As Markides (1998) explains, creating an innovative culture, referring to the individual views, interpersonal dynamics and social rules that characterise a group of people in a particular time and place (Ball *et al.*, 2010), is a steady tactic for fostering strategic innovation capacity. By actively managing an organisational culture, a company is able to influence the beliefs, values, and consequently the behaviours of staff, hence creating an environment conducive to the creation of innovative rule-breaking strategies, namely, strategic innovation (Martins and Terblanche, 2003; Markides, 1998). For these reasons culture is seen as an increasingly important aspect to company success, as supported by Bank 3 commenting: “Culture is a permanent differentiator, and the one thing this group has done is spend a huge amount of time on culture”.

The study found that culture is a broadly recognised and catered for concept in the South African banking context, with all banks actively attempting to manage and measure their individual cultures in order to achieve predetermined goals. This management and measurement of culture fluctuates between formal and informal means of structured events and roll outs, to informal discussions and thinking shifts, as supported by Bank 2, explaining:

“To create a culture of innovation, so you need to probably have a combination of structured events, of things that you do, have ideation workshops, give people exposure to market intelligence, you know go to conferences for these kind of things, but most valuably make it part of peoples mindsets”.

Bank 3 similarly elaborates, “We really go about measuring culture... Staff behaviours are assessed and monitored against these values... We try to look at matching characteristics, and innovation would be one of those characteristics... Creating a unique and innovative culture is one of our strategic objectives”. Consequently, the South African banking context places a prominence on the creation and facilitation of an innovative culture as a means to create innovation. Such a culture is described through the use of certain beliefs and values

associated with innovation (Tidd and Bessant, 2009; Ahmed, 1998; Martins and Terblanche, 2003; Cormican and O’Sullivan, 2004). Table 5.1 provides a summary of these cultural elements and their interpretations among the various banks.

Table 5.1: Observations of cultural elements in South african banking context

Cultural elements	Interpretations
Openness	<ul style="list-style-type: none"> - “You can’t innovate in a very structured environment, it needs to be free-flow and collaborative and very inviting of sharing... People are encouraged to share and ask for help” - “We foster a strong culture of tolerance and approachability... We aim to have an ‘approachable’ culture of innovation and learning” - “We try to give people the free space and openness they need” - “Constructive feedback, encouraging them to get other views, involve other people who have relevant skills and experience”
Trust	<ul style="list-style-type: none"> - “We’re very trusting, as long as there’s collaboration and you’ve heard my say... Building trusting relationships is key” - “It comes down to a trusting atmosphere... We’re good like that, there is a lot of discretion given to people”
Responsibility	<ul style="list-style-type: none"> - “Meritocracy, performance and I mean, it’s not laissez-faire, so there is definitely a performance orientation, client centricity, meritocracy... You will be accountable” - “Who has final say on the strategy, whoever is accountable for delivering that piece of strategy, and they will lose that accountability if they don’t deliver”
Encouragement & support for ideas	<ul style="list-style-type: none"> - “Explore and be research minded, so investigate new things” - “Conducive to and to encourage innovation and a can-do attitude”. - “A very entrepreneurial, owner-management culture is encouraged”

<p>Encouragement & support for ideas (cont).</p>	<ul style="list-style-type: none"> - “Encourage them to be curious about things, to have a finger on the pulse and then give them the opportunity to bring ideas into it” - “Encourage a interest in the world, being curious, what’s happening out there, who’s doing what”
<p>Debate</p>	<ul style="list-style-type: none"> - “Very process driven in terms of discussion and collaboration in terms of arriving at a decision, but it’s not consensus” - “Once that I’ve felt you’ve heard me, and now you make a different call, I respect the fact that you have a certain role and you made that call, but I might still not agree with you” - “There’s an emphasis on collaboration, it’s not a command and control hierarchy, it’s a far more collaborative environment”
<p>Risk taking</p>	<ul style="list-style-type: none"> - “Take risks, and explore, and be research minded, so investigate new things, so not closed and risk averse” - “You have to tolerate failure, be willing to take risks to gain” - “A mindset that says failure is not fatal” - “We’re trying to legitimize failure and a part of that is asking for help”
<p>Attitude to mistakes</p>	<ul style="list-style-type: none"> - “In a way you have a culture saying don’t make mistakes, but then you have a counter culture which is saying you need to innovate” - “Not a blame culture, obviously within reason, but it’s okay to make mistakes”
<p>Autonomy</p>	<ul style="list-style-type: none"> - “There is a lot of discretion given to people, so it’s clear contracting in terms of what is the outcome, and the outcome is usually measurable, but you can colour in how you get there” - “Ideally as a leader you’re successful if you’re seen as an enabler, so if you give people the ability to do their job and reach their targets, and for them to have ideas to innovate on” - “You are given outcomes to pursue, but you’re not micro-managed and you have quite a flexible working relationship with the business”

5.2.1.4 Resources

Strategic innovation argues that a company needs to actively look beyond its current resource constraints, maintaining a willingness to reinvent their capabilities and strategic resources in line with strategic innovation opportunities (Schlegelmilch *et al.*, 2003; Hamel, 1996; Kim and Mauborgne, 1997; Krinsky and Jenkins, 1997). With regard to resources as a driver of strategic innovation, particular emphasis is placed on the technological and financial resources of a company, given the attention afforded to other resources via the additional drivers (Schlegelmilch *et al.*, 2003; Barney, 1991).

I. Technological resources

Technology is widely recognised as a driving force of innovation, and consequently of strategic innovation (Morris *et al.*, 2011). This impetus of technology is created through its ability to drastically alter the value proposition in a market through novel solutions, or to create new markets in their entirety (Brem and Voigt, 2009; Chau and Tam, 2000; Lee *et al.*, 2012). As reiterated by Bank 3, “big changes in strategy normally come from big changes in technology and big changes in the environment”. In order to extract the full potential from technology, a company needs to actively engage in customer interactions, future forecasting, and visioning (O’Connor and Veryzer, 2001).

Listening to one’s customers has become a key facet of innovating as a modern company, especially when attempting to foster strategic innovation (O’Connor and Veryzer, 2001). Such a proposition is well supported in the South African banking context, as motivated by Bank 5: “Pain points for clients are a very a good place to start around innovation, so if you can create ease of use or if you can facilitate something faster or you can introduce a higher degree of leisure time into clients or staff, I promise you, you are onto something, and that’s where you have to start”. Bank 3 supports this, stating, “The decisions around innovation are actually driven by the industry, by the clients”. Bank 2 similarly supports this stance, while emphasising technology’s role: “You have to use technology to make it more personal... So

how do you use this technology properly, to actually make sure you engage your customers properly”.

Future forecasting and visioning are inherently linked concepts, with one describing forecasting technology trajectories to anticipate future markets, and the other describing actively envisaging future markets in order to determine the competencies and technologies needed to move towards this market scenario (O'Connor and Veryzer, 2001; Hamel and Prahalad, 1994a). The use of future scenarios to anticipate needed technologies and strategies is well practised in South African banks. As explained by Bank 5, “We got leading experts from around the world just to come to speak to the management team on a monthly basis around various topics, and they were only allowed to speak to the management team on the basis that they were living in the world of 2020... what were the macro trends in 2020, in terms of innovation, in terms of exponentials that were driving the business... macro trends in technology, resources, land, you name it”. This commitment to using future planning to determine technologies is supported in Bank 3, who explain, “You might think all we doing is absolutely focused on mobile, but I mean it's very very topical, how it's changing the landscape. If I look at the whole mobile thing, for example, it was a very conscious decision that we had to win at mobile, we set aside funds”.

II. Financial resources

Financial resources form a critical aspect of any company, as per the premium placed on financial performance and profitability (McWilliams and Siegel, 2001; McGuire *et al.*, 1988). Given the finite nature of these resources, the management of financial resources in order to maximise return is a pertinent issue in any company (Wernerfelt, 1984). In order to ensure the best possible outcomes, as well as to mitigate the inherent risks associated with innovation, the use of multiple financial analysis methods for innovations is recommended (Tidd and Bessant, 2009).

Such an approach is frequently practised in the South African banking context with each bank maintaining its own approach to financial appraisal for innovation, but commonalities are nevertheless present. The most simplistic model and means for evaluation that are used by various banks relate to building a business case and subsequent prioritisation. As Bank 4 explains, “We look as which project will have the greatest impact, and those will probably get more resources. So it’s a prioritisation type of exercise, evaluating against your objectives”. Bank 3 similarly states, “Projects are prioritised and resources allocated based on priority and impact on the business”. However, Bank 3 uses a more formal process-driven method, where, “an investment board will look at the competing investment opportunities and then decide on that basis which one to back or not... the project would be assessed in terms of potential business worth, and then obviously that comes with a business model, so you try to quantify as far as possible the net present value of the costs and the benefits”. A similarly structured, but more in-depth process for innovation assessment, is taken by Bank 5, maintaining: “A systematic approach that mines and ranks opportunities in terms of size, value and complexity of implementation, to reduce a large number of ideas to a small set of high value, low risk opportunities”. This systematic approach uses a stage gate model with governance stage gates that move projects from initial value propositions, to value propositions, to realistic investment cases. Alternatively, Bank 1 uses a less structured approach to analysis, citing, “We almost have a venture capital kind of model, in that there aren’t necessarily innovation budgets within the business... If the idea is not very good you’re never going to get funding for it because remember that funding would have already been assigned to another priority... The idea needs to be sold to the right people at the right time as being something worth pursuing and investing in”.

The previous section has reviewed the elements representative of the drivers of strategic innovation, as compiled from the relevant literature, against the reality presented in the South African banking industry. This analysis has provided conclusive evidence that the identified elements are both present and applicable to the South African banking context.

The following section presents the evidence for uniquely South African elements, which may then be used to fully develop the research instrument for the quantitative phase of research, and to resolve the main research objective.

5.2.2 South African elements for consideration

The second objective of the qualitative phase of research was to determine, given South Africa's unique context as a business market, whether there were any unidentified elements that constitute the drivers of strategic innovation in South African banks. The study found that there were indeed elements that were described as being unique to the South African context, which may be broadly categorised into groups reflecting macro characteristics, demographic characteristics and cultural characteristics.

5.2.2.1 Macro characteristics

The first set of elements unique to the South African context relates to the macro environment, referring to the environment outside a company's sphere of influence in which they operate (Hough *et al.*, 2011). There were specifically two macro characteristics mentioned during the research; the scalability available in the South African market and the conditions created by government. The first characteristic of scalability refers to the lack of potential market size in South Africa as a potential hurdle to innovation; however, the following rationale was provided: "With the proposition of Africa as a market place, as opposed to South Africa as a market place, your underlying potential scale to any of the innovations you come up with becomes that much bigger, which means the underlying cost argument becomes a lot more feasible relative to the underlying build". As such, the element of market scalability is no longer a valid factor. The second macro characteristic mentioned was, "that government doesn't create the kind of environment that's entrepreneurial or innovation friendly". This again is representative of a potential hurdle to the innovation process, over which a company has little control.

5.2.2.2 Demographic elements

The second section of elements unique to the South African context relates to the demographic characteristics of the South African population. The first cultural element mentioned related to the multi-cultural nature of the population. Specifically, “Our multi-cultural nature means that people come from very different backgrounds and cultures and ways they see the world”. Such diversity has both positive and negative connotations for strategic innovation. As mentioned, “There’s strength in that diversity, but there’s also communication challenges in understandings and paradigms in that, and sometimes, just because of history, a bit of a lack of trust”. The second demographic element also relates to South Africa’s unique history, and is that of “transformation and BEE”. Given the legacy of apartheid, redistributive policies and procedures have been put in place to promote the economic prosperity of the previously disadvantaged; as such these policies have the potential to affect the people driver of strategic innovation.

5.2.2.3 Cultural elements

The final section of elements unique to the South African context relates to the culture shared by individuals, as visible through their behaviours, psychologies and beliefs (Ball *et al.*, 2010). As regards the behaviours of South Africans, it is believed that, “We’re a friendly nation... quite informal and friendly”. This conclusion carries forward into the manner in which South Africans interact and form relationships. However, although there is a friendly demeanour to South Africans, it was alternatively noted that:

“There is a little bit of a psychology around ideas, there is not as much transparency and openness around what people are doing, it still tends to happen under a veil of secrecy... We haven’t quite seen that democracy around ideas in South Africa, people tend to think they need to keep it to themselves and that’s not the way that you get ideas to conclusion or implementation... I think that you find it to be a little bit South

African, that people tend to be guarded and veiled, and much more closed off, ideas aren't democratised and because of that you're not able to put people together”.

These traits act to counter the trust and openness characteristics of an innovative culture, and hence hamper the ability of a company to perceive strategic innovation opportunities. An additional cultural aspect that was mentioned on several occasions was the, “n Boer maak 'n plan" philosophy being pervasive among people. This philosophy refers to a general resourcefulness and approach to problems fostered among South Africans, and may generally be considered a positive trait. Accordingly, this philosophy will have a positive influence on the Strategy Processes and Culture drivers of strategic innovation through the way opportunity and problems are dealt with.

The previous section has reviewed the elements described as being unique to South Africa in relation to the drivers of strategic innovation. It was found that the elements could be grouped into macro, demographic and cultural elements, with each group having a relation to the drivers. However, in reviewing the cited characteristics the conclusion is reached that rather than representing unique elements for the drivers of strategic innovation, that the cited characteristics present unique circumstances for consideration. Such a view is summarised by one bank, stating, “We do things that are consistent with the best practices around the world, but take into account the unique South African circumstances”. Therefore, although there are elements which may be considered unique to South Africa, they are not considered unique elements comprising the drivers of strategic innovation, precluding the addition of any uniquely South African elements to the questionnaire.

5.2.3 Key insights

In addition to the main focus of appraising the elements constituting the drivers of strategic innovation, the first phase of research pursued additional insights. Specifically, the first phase of research was used to develop the sample frame for the next phase of research, test the perceived importance of each of the drivers, and gain a perceived understanding of

strategic innovation capacity in the South African banking context. The following section presents these additional findings.

5.2.3.1 Sample development

A dual methodology was used to develop the sample frame for the next phase of research. This was achieved through questioning the respondents about the number of individuals they employed to manage innovation activities. The study found that for the most part very few, if any, individuals were employed at any bank solely for the purposes of innovation management, with banks saying that “Innovation is over and above our day jobs, so we don’t have a single person employed specifically for innovation”. Consequently it was divulged that although the number of individuals who were employed specifically for innovation was non-existent, there were individuals employed for whom innovation played a larger role in their daily activities. These select individuals, representing various leaders and facilitators of innovation within the banks, were therefore selected as the target sample for the second phase of research. For these reasons, although the total sample size of the second phase may be relatively small, care has been taken to select the individuals who could provide the most reliable and valid representation of their respective companies.

5.2.3.2 Opinions of the drivers of strategic innovation

During the resources section of questioning, respondents were asked to motivate what they believed was the most important resource, and consequently driver of strategic innovation. Respondents were further asked to distinguish between these resources from both a tangible and intangible resource viewpoint. Tables 5.2 and 5.3 summarise the results.

Table 5.2: Tangible resources for strategic innovation

Bank	Most important tangible resource
Bank 1	“Technology, because technology facilitates transactions and transactions create data, and when you start stringing data together you start getting insights and wisdom”
Bank 2	“I think it’s the people that you try to keep.”
Bank 3	“Our people and their can-do attitudes towards innovation.”
Bank 4	“People, everything stems from that.”
Bank 5	“The people... how do you tap into them... they’re the ones who experience the clients... so how do you create a mechanism where you recognize those ideas, and you create the empowerment where you can put these people who are coming up with ideas together with enablers”

Table 5.3: Intangible resources for strategic innovation

Bank	Most important intangible resource
Bank 1	“Well I hadn’t actually considered people as a tangible resource, I was thinking more in terms of bricks and mortar kind of stuff, it might be clichéd to say that people are the most important resource but it’s true”
Bank 2	“I think it’s probably, if it’s clear that it’s something that’s valued, so if there’s encouragement and then there’s reward for the fact that this is actually important, that’s probably the most important one, and then the second one is that there’s not a blame culture”
Bank 3	“Our ‘approachable’ culture of innovation and learning”
Bank 4	“Culture is the differentiator, the sustainable competitive advantage”
Bank 5	“I find that bit of psychology and culture is one of the more important levers and drivers.”

As summarised by Tables 5.2 and 5.3 the most cited important resources for strategic innovation are those of People and Culture. These results shape the expectations around which drivers will display the strongest relationship with strategic innovation capacity, with the expectation that Culture and People should display the highest correlations. The next phase of research will evaluate these expectations.

5.2.3.3 Strategic innovation capacity

The final section of the semi-structured interviews probed the respondents about their perception of strategic innovation initiatives in their company. This was achieved first by discussing the number of innovation initiatives that a company embarked on in a given time frame, and then probed as to how many of those they could associate with strategic innovation initiatives. The findings, summarised in Table 5.4, show that the perceived number of strategic innovation initiatives was fairly modest. However, the impact of these innovations was striking: “They are awesome, I mean a tiny percentage but their impact is huge, this is innovation that takes you into a new sector”. These results lead to the expectation that the strategic innovation capacity of the banking sector will also be fairly modest. The next phase of research will test this expectation.

Table 5.4: Perception of strategic innovation initiatives in selected banks

Bank	Number of strategic innovation initiatives
Bank 1	“So very strategic innovations, I would say this is a tiny percentage”
Bank 2	“If you’re then looking at ones that probably change the business model, I think that’s probably, you know, I don’t know, less than 5”
Bank 3	“Very few – less than 10%”
Bank 4	“There's not very many, so very few I'd say about 5, maybe”
Bank 5	“We have the goal of launching between 6 and 8 businesses”

5.3 Quantative results

The quantitative phase of research was designed to meet the primary objective of the study, as well as several secondary objectives. The following section will commence with the reliability assessment of the quantitative phase, ensuring the soundness of the results. Following this the descriptive analysis of the data will be explained, addressing the secondary objective of assessing the strategic innovation capacity of South African banks. The results of the inferential analysis will then be detailed, providing the information necessary to resolve the main research objective: to determine the relationship between the drivers of strategic innovation and strategic innovation capacity in South African banks, as well as the remaining secondary objectives.

The questionnaire was distributed to a small but well-informed sample of 125 individuals, who subsequently returned 53 completed responses, eliciting a response rate of 42.4%. Both Excel and SPSS were used to store and analyse the data, and produced the following results.

5.3.1 Reliability assessment

Reliability broadly describes the dependability, consistency, and repeatability of a project's data collection, interpretation and analysis (Vogt, 2005; Blumberg *et al.*, 2011; Miller, 2008a; Kramer and Miller, 1986). In assessing reliability, one assesses whether or not measuring a different object or phenomenon, with the same measuring instrument gives results that are as similar as possible (Drucker-Godard *et al.*, 2001).

For the purposes of this study, internal consistency was tested with the use of the coefficient alpha, also known as Cronbach's alpha. This alpha measures the degree to which the questionnaire items are homogeneous and therefore reflect the same underlying constructs (Cooper and Schindler, 2008). The coefficient alpha of each driver of strategic innovation and strategic innovation capacity was calculated, with an alpha higher than 0.7 (>0.7) being

accepted as reliable, as suggested by Zikmund, Babin, Carr, and Griffin (2010). Table 5.5 summarises the results of the reliability assessment.

Table 5.5: Cronbach's alpha results

Construct	Cronbach's Alpha
Strategy Processes	0.870437
People	0.901954
Culture	0.928448
Resources	0.893381
Strategic Innovation Capacity	0.957643

The coefficient alpha for the constructs of the drivers of strategic innovation and strategic innovation capacity were calculated so as to determine their reliability. As can be seen in Table 5.5, the calculated alphas for the constructs were all determined to be above 0.7, with the lowest alpha measuring 0.870437. As such, all the constructs were accepted as valid and reliable measures.

5.3.2 Descriptive statistics

Descriptive statistics generally refer to procedures for summarising, organising, graphing, and describing quantitative information (Vogt, 2005; Cramer and Howitt, 2004). For the purposes of this study, descriptive statistics were used to gain insight into the demographic information of the sample, and to explore the central tendency, shape and spread of the interval-scaled data.

5.3.2.1 Sample profile

The final section of the questionnaire asked respondents to provide demographic information in regard to their managerial level, functional area and the company for which they worked. Respondents were presented with either an option list or a blank box to record their answers.

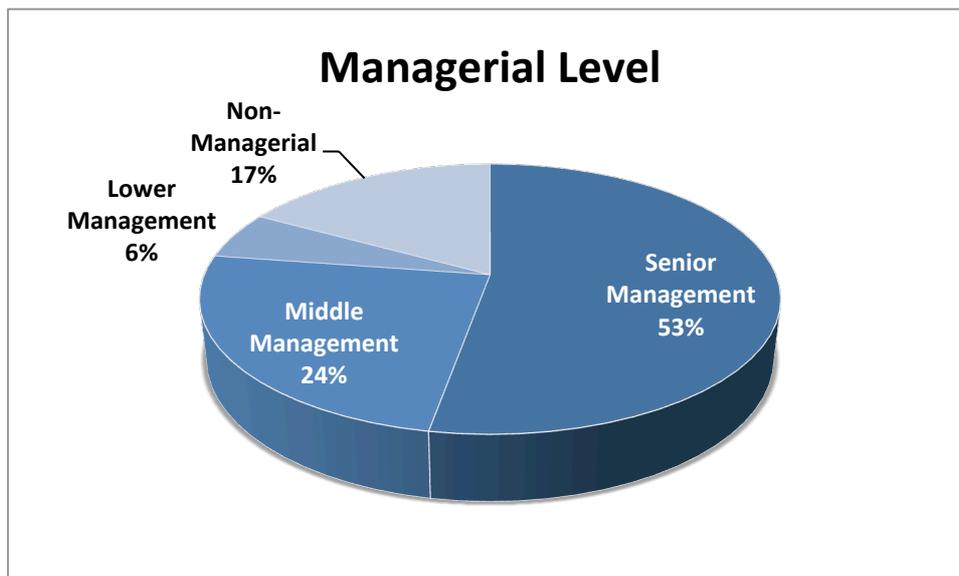


Figure 5.1: Managerial level of respondents

The results for respondents' managerial level are illustrated in Figure 5.1, and shows that a fair spread of managerial levels was sampled. The highest responding managerial level was that of senior management, representing 53% of the sample, followed by middle management at 24%. Those at the non-managerial level followed at 17%, and lastly the lowest responding managerial level was that of lower management at 6% of the sample. These results assist in confirming the validity of the data, given the legitimacy associated with senior managerial responses. Sufficient responses from lower managerial levels ensure that the results are not overly biased, hence providing a holistic data set.

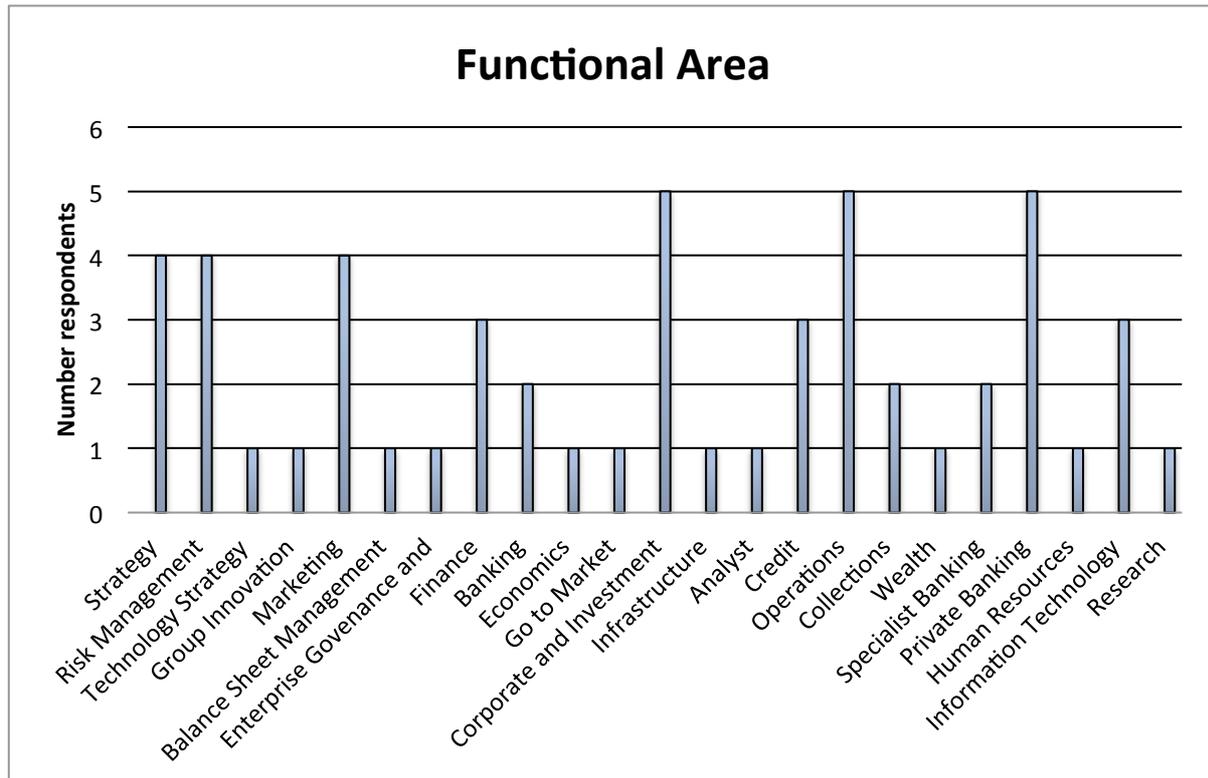


Figure 5.2: Functional area of respondents

The results for the functional area of respondents are displayed in Figure 5.2, and show that a large number of functional areas provided responses to the questionnaire. The three highest responding functions were those of corporate and investment banking, operations, and private banking, with 5 responses from each function. Strategy, risk management, and marketing were the next highest responding functions, followed by finance, credit, and information technology, while the rest of the sample was comprised of other various functions. These results again add to the reliability and validity of study, as they demonstrate that the collected information came from varying areas of the banks, providing a comprehensive observation of the tested constructs.

The final demographic question asked respondents to indicate the bank for which they worked, with the results being illustrated in Figure 5.3. As illustrated in Figure 5.3 Investec was the highest responding bank, representing 26% of the sample. Nedbank was the next highest at 25%, with the rest of the banks all being represented fairly equally. These results

add to the reliability and validity of the study, demonstrating that the results obtained equally represent the opinions of the sample, not being highly skewed to reflect the opinions of only one bank.

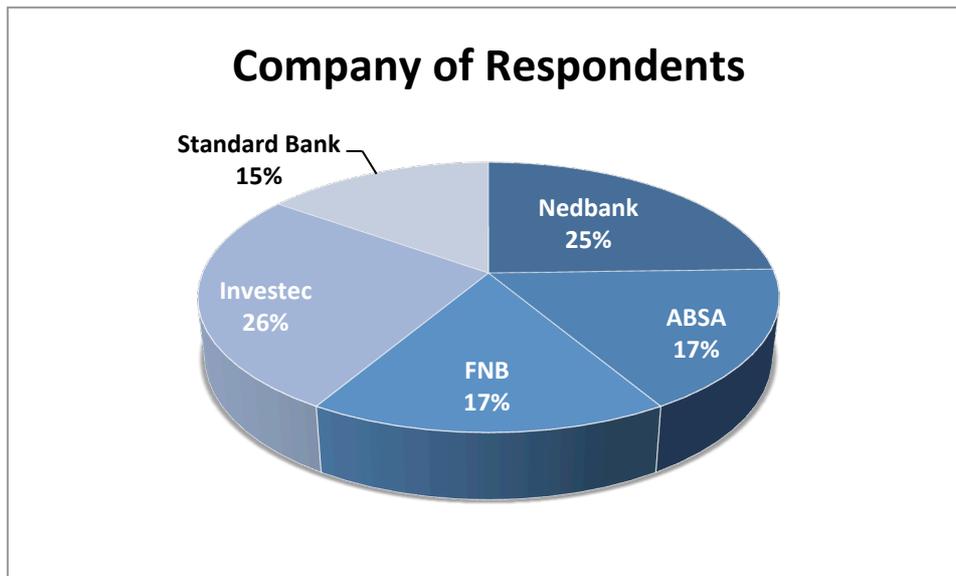


Figure 5.3: Company of respondents

5.3.2.2 Interval-scale data

Sections A-E of the questionnaire gauged respondents' attitude towards the drivers of strategic innovation and strategic innovation capacity in their respective companies. Respondents made use of a 5-point likert scale to indicate their level of agreement with provided statements. After cleaning the data, and adjusting for the reversely coded items, both the mean and standard deviation for each item were calculated. Table 5.6 provides a summary of the results.

Table 5.6: Descriptive statistics

Descriptive statistics for interval data		
Construct/ Question	Mean	Standard Deviation
Strategy Processes	3.76	
A1	4.32	0.87
A2	4.08	0.96
A3	3.68	1.03
A4	3.87	1.04
A5	3.66	1.06
A6	4.21	0.84
A7	4.30	0.80
A8	4.28	0.84
A9	3.21	1.23
A10	3.36	1.18
A11	3.32	0.98
A12	3.21	1.15
A13	3.43	1.18
A14	3.74	0.96
People	3.39	
B1	3.74	0.92
B2	3.81	0.79
B3	3.06	0.99
B4	3.30	0.99
B5	2.94	1.12
B6	2.89	1.24
B7	3.42	0.93
B8	3.51	1.03
B9	3.43	0.99
B10	3.74	0.81
B11	3.49	0.87
Culture	3.64	
C1	4.13	0.83
C2	4.06	0.74
C3	3.96	0.71
C4	3.74	0.96
C5	3.45	0.91
C6	3.53	0.89
C7	3.92	0.76
C8	3.89	0.89
C9	3.25	1.14
C10	3.43	0.95
C11	3.70	0.97
C12	3.04	1.11
C13	3.36	0.81
C14	3.45	0.93
Resources	3.36	
D1	2.96	1.11
D2	3.60	1.01

D3	3.38	0.92
D4	3.11	1.10
D5	3.28	1.04
D6	3.72	1.04
D7	3.47	1.07
Strategic Innovation Capacity	3.09	
E1	3.06	1.12
E2	2.87	1.19
E3	3.04	1.04
E4	3.13	1.09
E5	3.28	1.03
E6	3.34	1.14
E7	2.89	0.99
E8	3.15	1.18

The "mean" refers to the average of the distribution of the data; specifically it represents the average response to a question by the sample group. The results show that the mean ranged from 4.32 (item A1, the pro-activeness of strategy development) to 2.87 (item E2, untraditional collaborations with individuals outside the supply-chain).

Table 5.6 further indicates that the driver of Strategy Processes was most positively experienced, followed by Culture, then People and lastly Resources. Within Strategy Processes the most positively experienced elements were pro-activeness in strategy development, questioning of status-quos in strategy development, the use of strategy to search for new growth areas, as well as looking past the existing business model for growth, and lastly the consideration of driving forces in strategy development (Items A1, A2, A6, A7 and A8). The two lowest scoring areas of Strategy Processes indicated the perception that strategy development was a "top-down, executive activity", and that experimentation was not used in strategy development (Items A9 and A12). The driver of People did not record any mean scores above 4.0, indicating the lack of any highly positive perceptions of the elements of the driver. However, the driver of People did record two mean scores below 3.0, indicating the perception of a lack of reward and recognition for innovative activities among staff (Items B5 and B6). The driver of Culture recorded two mean scores above 4.0, indicating the belief that organisational cultures were actively shaped, and that common values were created

among employees. The driver of Culture, however, did not record any mean scores below 3.0, indicating a neutral to positive perception of an innovative culture within the respective companies. The final driver of Resources, while not receiving any mean scores above 4.0, did receive one mean score below 3.0. This score indicates the belief that resources constrain the strategic direction of a company.

Table 5.6 indicates the overall mean score for strategic innovation capacity to be 3.09; this is to be expected given the results of the qualitative phase of research. As indicated in the qualitative phase, the general perception is that the number of strategic innovation initiatives in all companies is low; hence it is appropriate that the perceived strategic innovation capacity is too low. The lowest scoring elements of strategic innovation capacity indicate little untraditional collaboration with parties outside the traditional supply-chain, and a small number of initiatives aimed at breaking the traditional power relationships among parties in the supply chain.

The standard deviation refers to the measure of the spread, or dispersion, of the responses in relation to the mean. A lower standard deviation indicates less discrepancy in relation to the mean, and therefore less spread in the data. As indicated by Table 5.6 the standard deviation displayed by all the questionnaire items is of a satisfactory level, with no item displaying a standard deviation in excess of 1.25. These results suggest relatively consistent responses from the sample group.

The following section will present the findings on the inferential statistics of the data.

5.3.3 Inferential statistics

To meet the objectives of this study, as well as test the developed hypotheses, inferential statistics were used. In keeping with the scope of the study, multiple regression analyses were utilised to calculate the significance of the relationships between the developed variables. This allowed for the confirming of the developed model upon which the

hypotheses and objectives were set, creating a platform from which future studies using more complicated statistical analysis may be commenced.

In order to determine the significance between two variables it is necessary to calculate a correlation coefficient. Zikmund *et al.* (2010) define a correlation coefficient as a statistical measure of co-variation, or the measure of association between two variables, such that the extent to which a change in one variable corresponds systematically to a change in another. The correlation coefficient, r , ranges from -1.0 to +1.0, with a correlation of +0.5 being considered a significant positive correlation.

A significance level is calculated through the computation of a probability-value (p-value). This value is defined as a critical probability, associated with a statistical hypotheses test, which indicates how likely it is that an inference supporting a difference between an observed value and a statistical expectation is true. The calculation of the p-value allows the researcher to assess the validity of a null hypothesis, assisting in rejecting or accepting the hypothesis.

The following section will first present the regression analysis of the drivers of strategic innovation as a construct against strategic innovation capacity. This will allow for the assessment of the first null hypothesis of this study. Following this, the relationships between each driver of strategic innovation and strategic innovation capacity will be expanded on, with the aid of scatter plot graphs as a graphical representation. The relationships between the drivers of strategic innovation will then be explored, and the results summarised in a regression table. Lastly, all the relationships will be combined to create a model detailing the relationships between all the variables of this study.

5.3.3.1 The drivers of strategic innovation and strategic innovation capacity

The first section of the inferential analysis is undertaken to assess the first null hypothesis of the study, and provide the information needed to achieve the primary objective. By treating

the drivers of strategic innovation as a single dependent variable, it is possible to analyse them against the independent variable of strategic innovation capacity. In doing so, it is possible to gauge the significance of the relationship between the two variables, allowing for the assessment of the null hypothesis. Figure 5.4 graphically summarises the analysis.

H_{0:1} - The drivers of strategic innovation have no effect on strategic innovation capacity

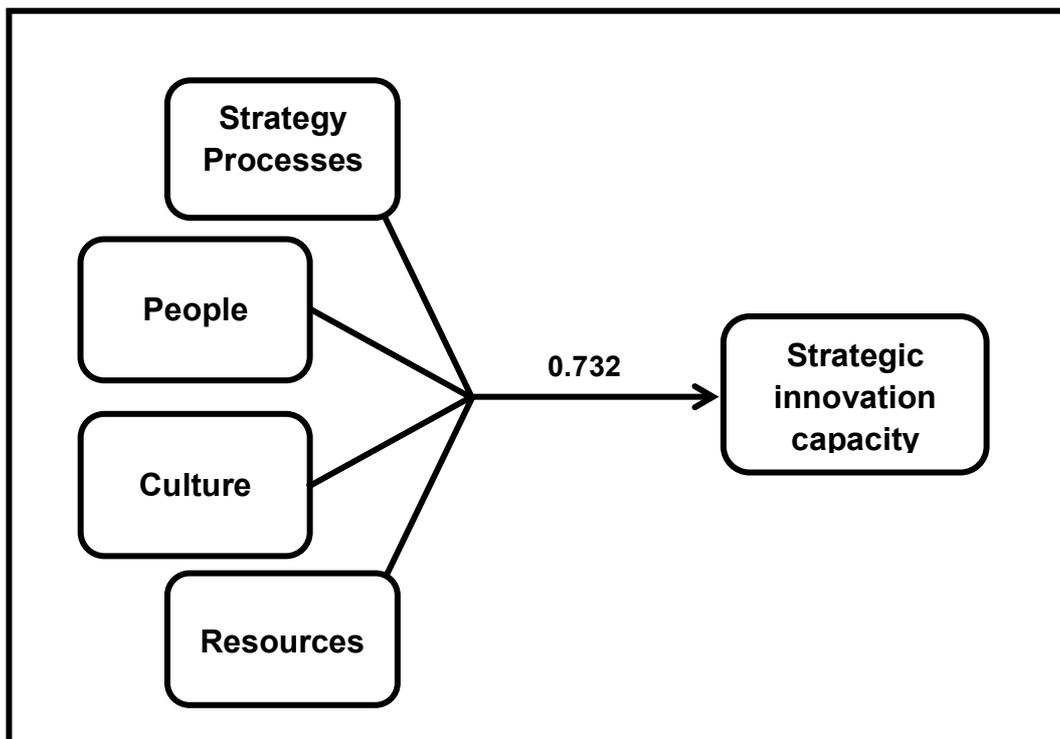


Figure 5.4: The drivers of strategic innovation vs. strategic innovation capacity

As seen in Figure 5.4, the analysis yielded a correlation coefficient of 0.732, indicating that the drivers of strategic innovation have a significant positive relationship with strategic innovation capacity. The correlation coefficient was further calculated to have a p-value where $p < 0.01$, allowing for the rejection of the null hypothesis at a 95% confidence level. These results allow for the conclusion that the drivers of strategic innovation have a significant positive effect on strategic innovation capacity (Schlegelmilch *et al.*, 2003). The

rest of this section will further evaluate the relationships between the drivers of strategic innovation and strategic innovation capacity.

I. Strategy Processes and strategic innovation capacity

The first inferential test of the drivers was calculated for the driver of Strategy Processes against strategic innovation capacity (shown on Figure 5.5 as SIC). The results of the correlation test produced a correlation coefficient of 0.53, calculated with a p-value of $p < 0.01$, which is significant at a 95% confidence level. Given these results, hypothesis $H_{0,2}$ is rejected, with the alternate hypothesis being accepted. That is, the driver of Strategy Processes is confirmed to have an effect on the strategic innovation capacity of a company.

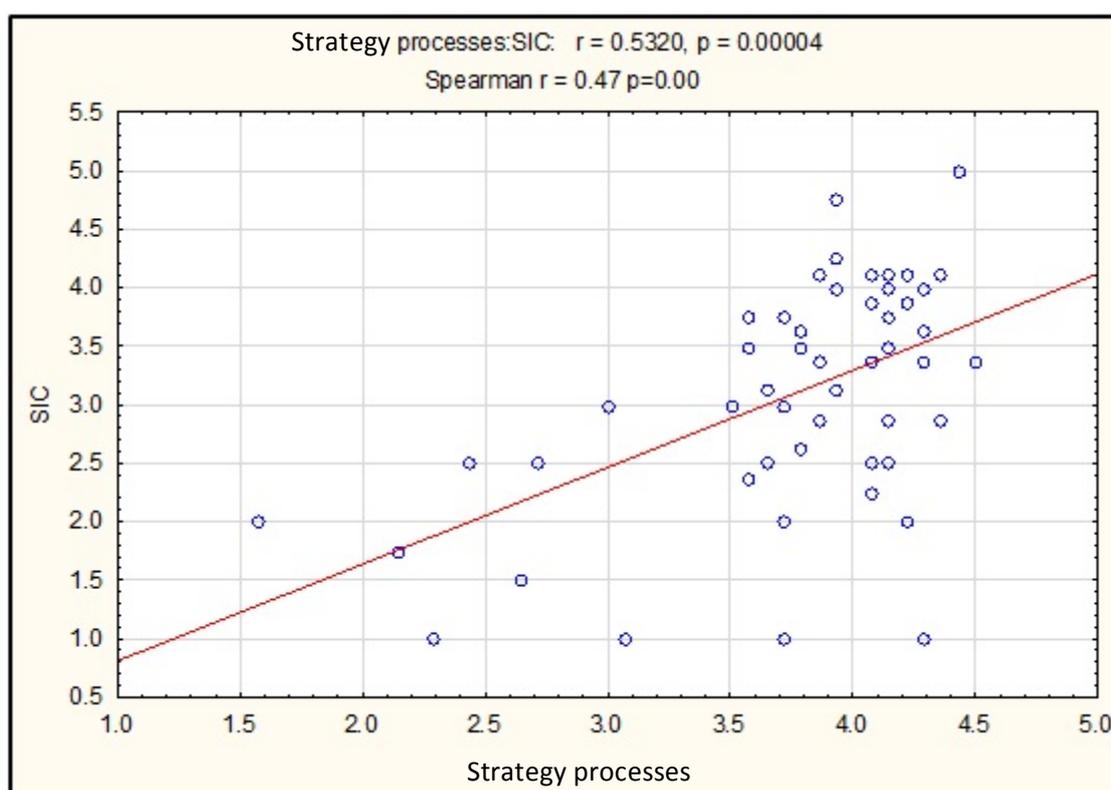


Figure 5.5: Strategy processes vs. strategic innovation capacity

Figure 5.5 provides a graphical representation of the relationship between the two constructs. As can be seen, the data points are clustered in a left to right upwards gradient, creating a positively sloped line of best-fit, explaining the positive relationship. However, the

data points are fairly dispersed around the top portion of the line, as opposed to being clustered tightly to the line, explaining why the correlation coefficient is only 0.53, the lowest of all the correlation coefficients.

II. People and strategic innovation capacity

The second inferential test was calculated for the driver of people against strategic innovation capacity. The driver of people was shown to have a correlation coefficient of 0.63, calculated with a p-value where $p < 0.01$, hence being significant at a 95% confidence level. As such, hypothesis $H_{0.3}$ is rejected and the alternate hypothesis is accepted, namely, the driver of people is confirmed to have an effect on the strategic innovation capacity of a company.

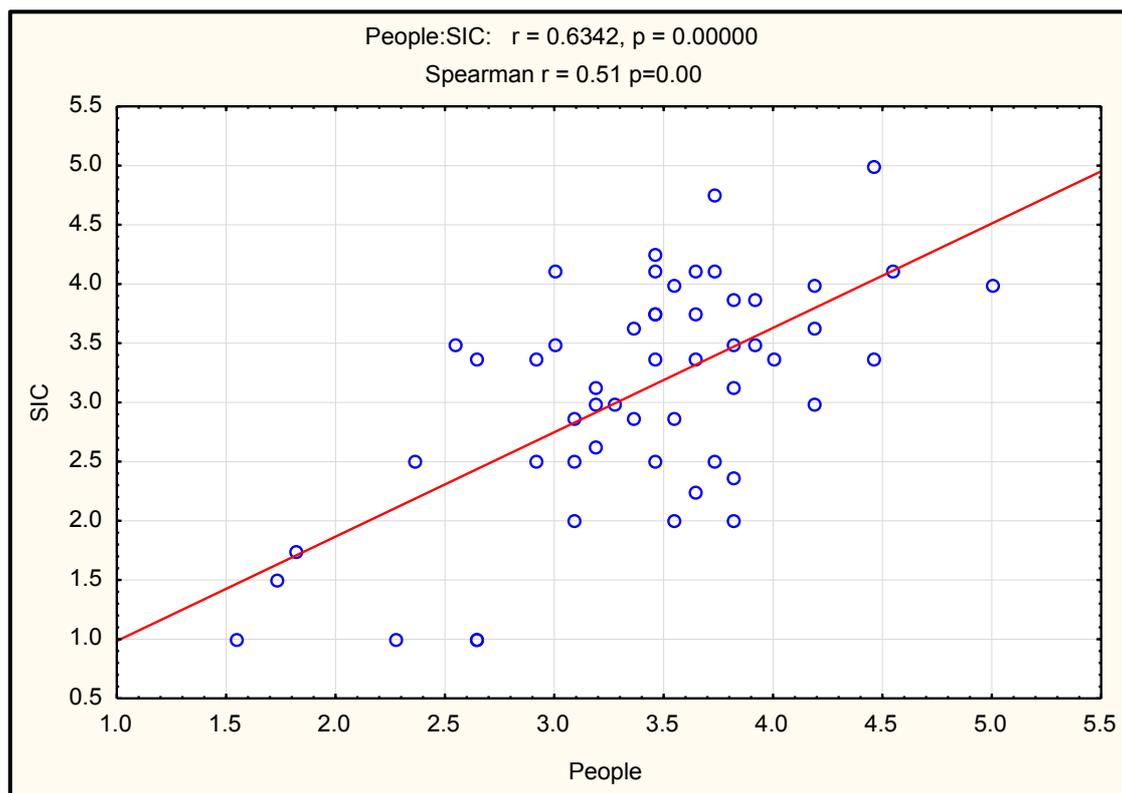


Figure 5.6: People vs. strategic innovation capacity

Figure 5.6 provides a graphical representation of the relationship between the two constructs. As can be seen, the data points are clustered in a left to right upwards gradient, hence creating a positively sloped line of best-fit, explaining the positive relationship. The

data points display a much closer grouping and positive shape than in Figure 5.5, explaining the stronger correlation exhibited by people. A stronger correlation is however to be expected given the findings from the qualitative phase, which cited people as a crucial resource in banks. Interestingly, though, people only display the third highest correlation, being succeeded by both resources and culture.

III. Culture and strategic innovation capacity

The third inferential test was calculated for the driver of Culture against strategic innovation capacity. The results of the test produced a correlation coefficient of 0.73, the highest r value of all the regressions, and was calculated with a p -value where $p < 0.01$ and is therefore significant at a 95% confidence level. These results allow for the rejection of null hypothesis $H_{0,4}$, and it is confirmed that the driver of Culture has an influence on the strategic innovation capacity of a company.

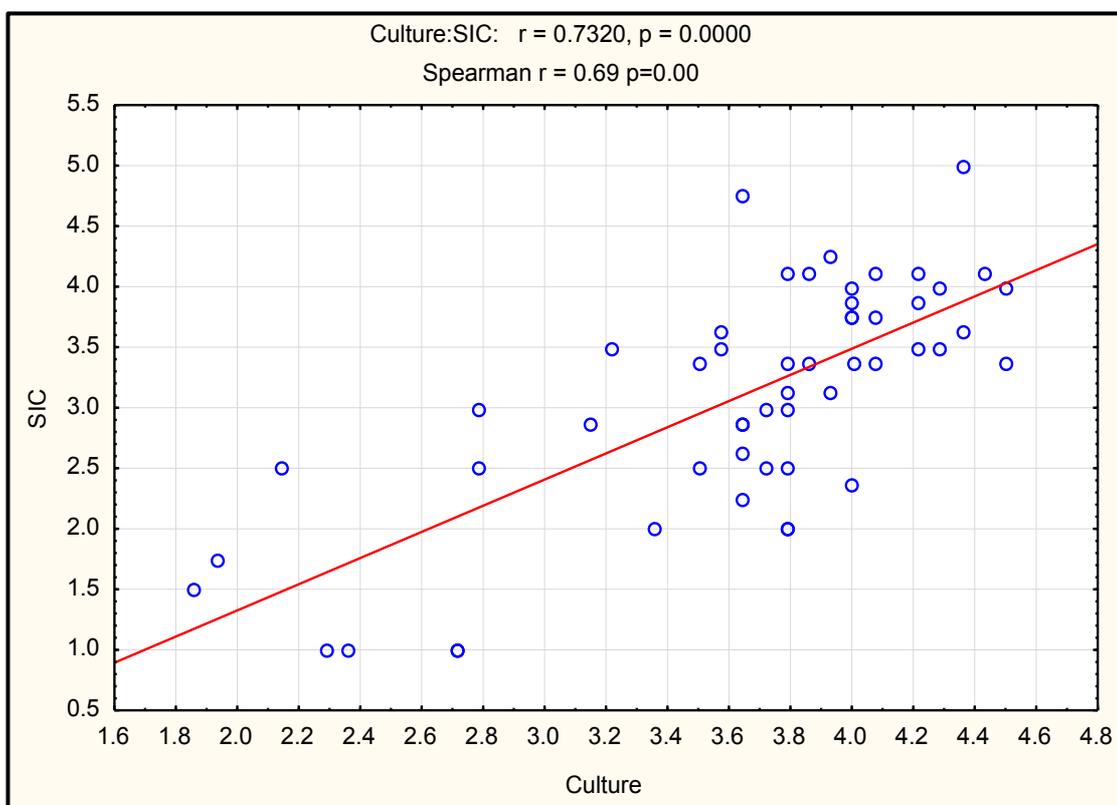


Figure 5.7: Culture vs. strategic innovation capacity

Figure 5.7 provides a graphical representation of the relationship between the two constructs. The data points are clustered in a left to right upwards gradient, more so than the two previous scatter plots, hence creating a positively sloped line of best-fit. The data points displayed are also much more grouped around the line of best-fit at all differing values, hence explaining the stronger correlation between Culture and strategic innovation capacity, than any of the other drivers.

III. Resources and strategic innovation capacity

The last inferential test was used to calculate the correlation between the driver of Resources and strategic innovation capacity. The results of the test produced a correlation coefficient of 0.68, with a corresponding p-value, where $p < 0.01$, and hence significant to a 95% confidence level. These results allow for the rejection of null hypothesis $H_{0:5}$ and the acceptance of the alternate hypothesis, confirming that the driver of Resources has an influence on the strategic innovation capacity of a company.

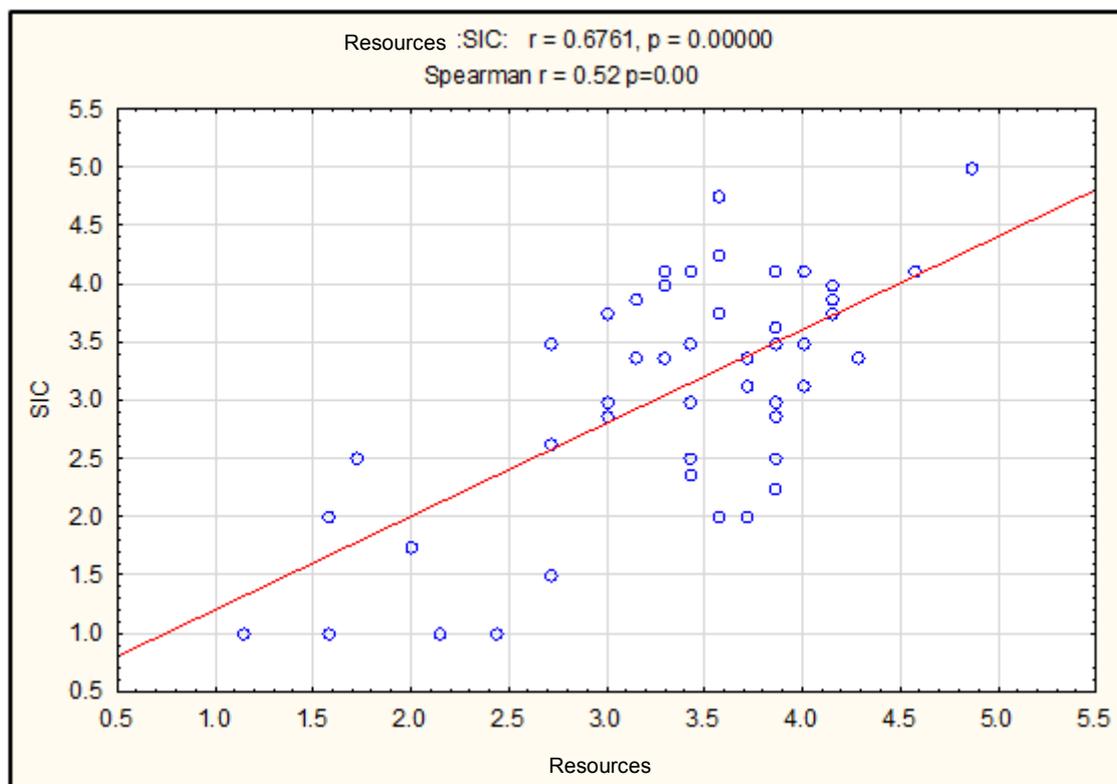


Figure 5.8: Resources vs. strategic innovation capacity

Figure 5.8 provides a graphical representation of the relationship between the two constructs. The data points are also clustered in a left to right upwards gradient, hence creating a positively sloped line of best-fit. The data points here also display a closer grouping around the line of best-fit at differing values, hence explaining the stronger correlation between Resources and strategic innovation capacity, than other drivers.

5.3.3.2 Inter-relationships between the drivers of strategic innovation

The final component of the inferential analysis aimed to assess the relationships present between each driver of strategic innovation. This analysis also made use of regression analyses to calculate the correlation coefficients and appropriate p-values for the drivers. Table 5.7 summarises the correlation coefficients between the drivers, and also provides the correlations for each driver against strategic innovation capacity.

Table 5.7: correlations for the drivers of strategic innovation

	Resources	Culture	People	Strategy Processes	Strategic innovation capacity
Strategy Processes	0.65	0.72	0.53		0.53
People	0.69	0.77			0.63
Culture	0.78				0.73
Resources					0.68

In Table 5.7 all the drivers of strategic innovation exhibit significant positive relationships between one another, with the correlation coefficients ranging from 0.53 to 0.78. For all the calculated values the p-values were determined as $p < 0.01$, indicating a significance at a 95% confidence level.

Table 5.7 further indicates that the driver of Culture displays the strongest relationship with the rest of the drivers, displaying correlation coefficients of 0.72, 0.77 and 0.78. This result is

consistent with the previous inferential tests which indicated that the driver of Culture had the strongest relationship with strategic innovation capacity, at 0.73. The descending order of the rest of the drivers is also consistent with the previous inferential tests. The second strongest driver was Resources, with correlation coefficients of 0.66, 0.69 and 0.78. The next strongest driver was People, with correlation coefficients of 0.53, 0.69 and 0.77. Lastly, the driver that displayed the weakest relationship with the other drivers was Strategy Processes, displaying correlation coefficients of 0.53, 0.65 and 0.72.

5.3.4 Empirically evaluated model

An appraisal of the calculated correlations, combined with the theorised relationships between the developed constructs, allows for the compilation of a final model, as depicted in Figure 5.9.

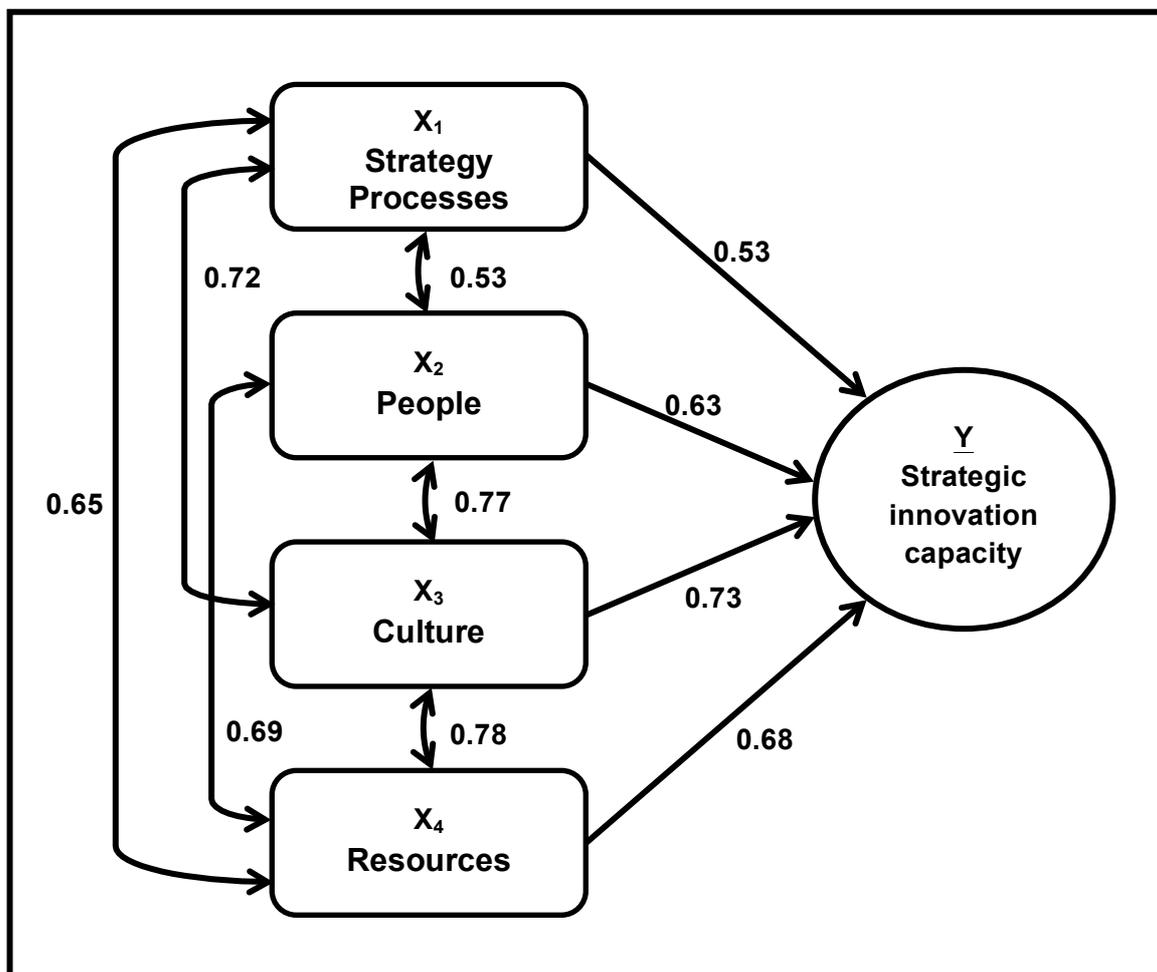


Figure 5.9: Relationship evaluated model

Figure 5.9 denotes an empirically evaluated representation of the drivers of strategic innovation and strategic innovation capacity. The direct relationship between the drivers of strategic innovation and strategic innovation capacity are represented by the straight single-headed lines protruding from each driver towards strategic innovation capacity. The numbers alongside each line correspond to the calculated correlation coefficient between the variables and signify the strength of the relationship between each driver and strategic innovation capacity. The inter-relationships between the drivers are further displayed in Figure 5.9 by the curved double-headed lines between the drivers. The curved lines signify a correlation between the drivers, and the lack of a direct effect taking place amongst one another. The numbers beside each curved line signify the calculated correlation coefficients, and hence the strength of the correlations between the drivers. Figure 5.9 serves to confirm the developed model upon which the hypotheses and objectives were set, and in doing so creates a platform from which future studies using more complicated statistical analysis may be commenced.

5.4 Conclusion

This section provided the results and analysis of the qualitative and quantitative phases of research. First the qualitative phase was discussed. This discussion began with the thematic analysis of the data, showing that the compiled elements of the drivers of strategic innovation from the literature were indeed applicable and legitimate. Subsequently, the South African specific elements were highlighted and discussed, leading to the conclusion that although South African specific influences did exist, that they were not representative of new elements to the drivers of strategic innovation. The final section of the qualitative results discussed the sample development, the perceived importance of the drivers, and the perceived strategic innovation capacity. It was found that the potential sample for the quantitative phase would only be comprised of a relatively small group of individuals, but that their opinions and insights could be viewed as highly valid and reliable. People were perceived to be the most important tangible resource, while an organisational culture was

perceived to be the most important intangible resource. Lastly, it was found that the perceived strategic innovation capacity of the banking sector was fairly modest, therefore creating expectations for the quantitative phase of research, which will be discussed next.

The next section presented the results and analysis of the quantitative phase of research. Firstly, the reliability of the constructs was measured and discussed with the aid of Cronbach's alpha. The results of the reliability assessment showed that all the constructs were reliable, making further statistical analysis possible. The descriptive analysis was then discussed in relation to the sample demographics, as well as the interval data. The demographic statistics assisted in assuring the reliability and validity of the gathered data, revealing that a holistic data set had been compiled. The descriptive statistics of the interval data provided the mean and standard deviation of the constructs and their items and proceeded to discuss the significance of these results. Lastly, inferential statistics were used on the data, allowing for the calculation of the statistical relationships between the constructs of the study. These results allowed for the rejection of the null hypotheses, hence confirming that the drivers of strategic innovation have an influence on the strategic innovation capacity of South African banks. Subsequently, the relationships between the drivers of strategic innovation were evaluated. Lastly, all the results of the inferential analysis were used to create a comprehensive figure detailing the relationships between the drivers of strategic innovation and strategic innovation capacity, as well as the inter-driver relationships.

The following chapter provides a summary of the study before discussing the conclusions and recommendations drawn from these results.

Chapter 6 : Summary, Conclusions and Recommendations

6.1 Introduction

Strategic innovation as a concept first emerged in academic circles in the late 1990's, and provides a company with the opportunity to re-conceive traditional industry and market structures (Hamel, 1996, 1998a). Through redefining itself and their business model, a company may alter the established competitive formula of an industry, and generate a sustainable source of value creation (Kim and Mauborgne, 2004; Schlegelmilch *et al.*, 2003).

In creating the capacity for strategic innovation, a company needs to consider two sets of antecedents – the process aspects and the content aspects (Berghman, 2006). The process aspects, defined as the learning mechanisms required to foster strategic innovation, have been well researched in regard to their effect on strategic innovation capacity. However, relatively little empirical research has been undertaken in regard to the content aspects of strategic innovation capacity, otherwise known as the drivers of strategic innovation – Strategy Processes, People, Culture and Resources. Therefore, the purpose of this study was to address this lack of empirical research, and determine the relationship between the drivers of strategic innovation and strategic innovation capacity.

In this chapter a synopsis of the study is provided, the findings are summarised and the conclusions presented. The recommendations are discussed, followed by the limitations and opportunities for future research. The chapter concludes with an overview of the contributions made by this study.

6.2 Theoretical overview

A literature review was conducted for numerous reasons. First, the literature review allowed for the investigation of strategic innovation as a topic, identifying the antecedents to; the results of; and motivations for strategic innovation. Subsequently, a theoretical link between

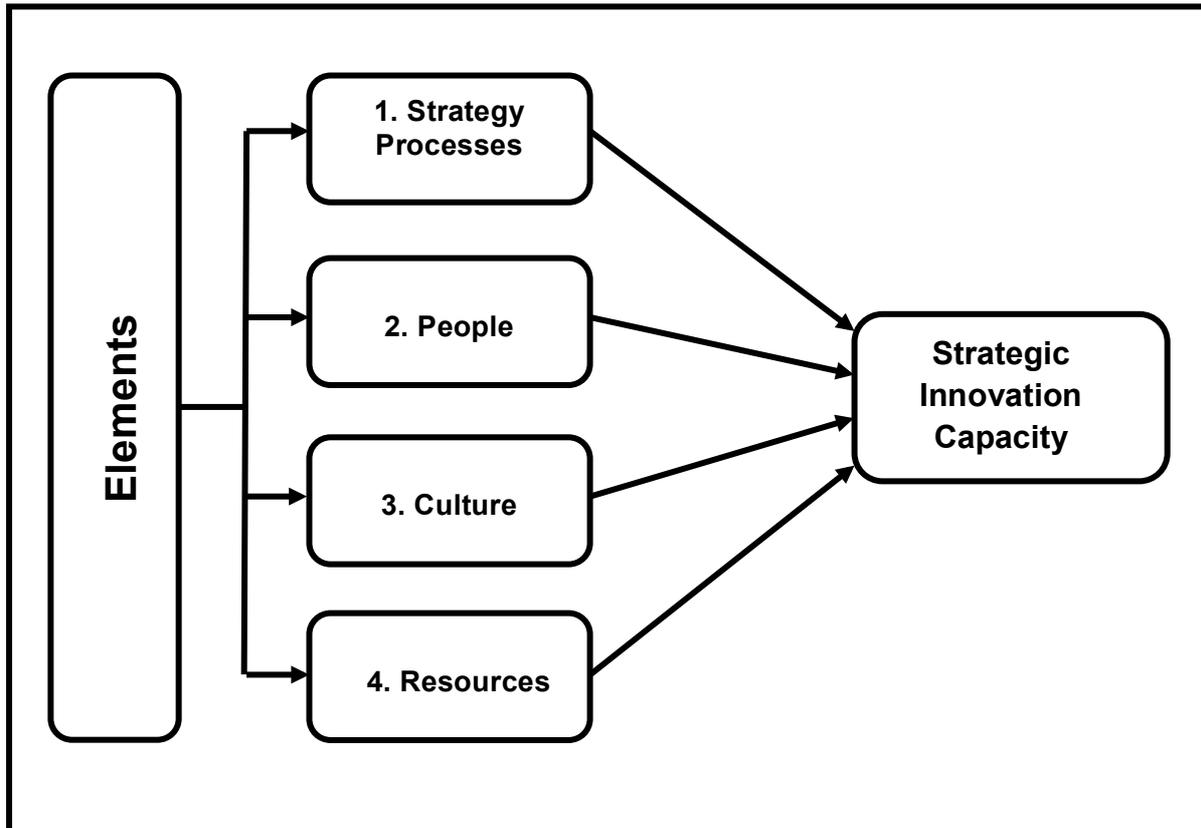
strategic innovation capacity and the drivers of strategic innovation was established. Lastly, the literature review began the operationalisation of the drivers of strategic innovation.

The review of the existent literature established that despite the importance and growth of strategic innovation as a research field, strategic innovation is still an emerging field of academic inquiry. Thus the first section of Chapter 2 appraised several research paradigms creating a foundation for this study. Strategic innovation was defined as: *“the process of innovating a company’s business model for either the company as a whole, or for a specific offering, in an attempt to re-conceive existing markets so as to alter the competitive formula for an industry.”* It was shown that the necessity for strategic innovation is created through the modern trends of hyper-competition, convergence and commoditisation. The appropriateness of the study’s population was then justified by arguing that the South African financial services industry exhibits these modern trends. The latter sections of Chapter 2 explored the concept of strategic innovation capacity, defined by Berghman (2006:33) as: *“an organisation’s capacity to systematically create strategic innovation initiatives.”* The antecedents to strategic innovation were explored under the categories of the process aspects and the content aspects. The process aspects refer to the organisational learning mechanisms required to foster strategic innovation and are; recognition capacity, assimilation capacity and transformation capacity. Alternatively, the content aspects refer to the fundamental elements and characteristics needed in a company’s resource base to foster strategic innovation. Using Barney’s (1991) organisation resource typology, the content aspects of strategic innovation capacity were then argued to be representative of the drivers of strategic innovation. This established the theoretical link between the drivers of strategic innovation and strategic innovation capacity, which this study sought to empirically evaluate.

Chapter 3 explored the drivers of strategic innovation to begin their operationalisation. Each driver was theoretically appraised to contextualise the identification of the elements needed to foster strategic innovation capacity, as laid out in figure 6.1.

Figure 6.1: Layout of Chapter 3

Source: Own compilation



The driver of Strategy Processes was explored by first discussing the history of strategy development processes using the ten schools of strategy (see Table 3.1). The features of all the schools were then assessed in a single strategy process (see Figure 3.2) and used to justify a generic strategy development process (see Figure 3.3). This generic process was then critiqued, identifying the role of strategy, strategic frontiers and the process of development as relevant areas for strategic innovation. Table 3.2 lists the specific elements needed in Strategy Processes for strategic innovation.

The driver of People was explored from the perspectives of people inside and people outside the company. People inside the company refer to the competencies and behaviours of staff, the management practices used in a company, and the leadership exerted from top management through formal and informal means. Alternatively, people outside the company make reference to the networks maintained and used by a company, and the type of

resources afforded to a company through these networks. Table 3.3 provides a summary of the People elements for strategic innovation.

The driver of Culture was analysed by first appraising the components of an organisational culture using Schein's (1999) three levels of culture as a departure point. The role of culture in a company was then discussed, focusing on the influences exerted by culture as well as the functions it fulfils in a company. The rationale of why an innovative culture is essential for strategic innovation was then provided, followed by an exploration of the values associated with an innovative culture. The cultural elements necessary for strategic innovation are summarised in Table 3.4.

The final driver of Resources was appraised by first assessing the traditional, resource-based view of a firm. This theory was then critiqued against the view of resources provided by strategic innovation identifying the relevant elements needed to foster strategic innovation. It was also found that the previous drivers of strategic innovation comprise the resource categories of human and organisational capital resources, resulting in the Resources driver only focusing on physical capital resources. Consequently, the physical capital resources of a company were explored, focusing on the appropriate management of technological and financial aspects. Table 3.5 provides a summary of the resource elements needed for strategic innovation.

6.3 Objectives of the study

The main objective of this study was to address the research gap in the field of strategic innovation, by answering the research question: *How do the drivers of strategic innovation affect the strategic innovation capacity of selected banks?*

In order to facilitate the achievement of the primary objective of this study, as well as generate additional insight, secondary objectives were set. First, owing to the limited extent of context-specific research on the drivers of strategic innovation in South Africa, the two

following objectives were set: *To confirm the elements that constitute the drivers of strategic innovation in South African banks, and; To determine whether there are any unidentified elements that constitute the drivers of strategic innovation in South African banks.* These two objectives were set specifically for the qualitative phase of research, and allowed for the operationalisation of the drivers.

The remaining secondary objectives aimed to generate additional insight into the drivers of strategic innovation and strategic innovation capacity, with the intention of producing greater findings. As such, it was decided to:

- *Determine the strategic innovation capacity amongst the selected banks in South Africa;*
- *Determine which driver of strategic innovation has the greatest effect on the strategic innovation capacity of South African banks;*
- *Determine the relationships present between the drivers of strategic innovation in South African banks, and;*
- *Determine how South African banks should manage their internal and external surroundings to best influence their own strategic innovation capacity.*

6.4 Research methodology

The research problem was investigated by applying the methodology outlined in Chapter 4. This study was an empirical cross-sectional mixed-method study conducted in two phases.

The first phase of research used semi-structured interviews to develop the research instrument and sample for the subsequent phase of research. The semi-structured interviews were used to assess the legitimacy of the cited elements under each driver of strategic innovation. The assessment of any new elements unique to the South African banking context, and development of the sample for the next stage of research was also undertaken during the interviews. The findings of the first phase of research allowed for the

refinement and operationalisation of the drivers of strategic innovation into measurable constructs. These constructs were then administered to the sample developed from the first phase by means of a questionnaire, along with a measurement item for strategic innovation capacity adapted from Berghman (2006).

The sample for the first phase of research was compiled through first selecting banks according to their innovation reputation, as judged by the Accenture Innovation Index (Accenture Innovation Index, 2013), and market presence as judged by total assets contact was made with the chief executive officer (CEO) in each company via email explaining the premise of the research to be conducted and seeking their support and endorsement. Once accrued, the CEO's were then asked who they believed would be most appropriate for the researcher to liaise with. As such, the sample for the first phase of research consisted of six individuals most knowledgeable about the innovation activities across the 5 participating banks. The development of the semi-structured interview guide is detailed in Section 4.6.2.1. The interviews were conducted, recorded and transcribed by the researcher before being subjected to thematic analysis using ATLAS.ti.

The sample for the second phase of research was created with assistance from the respondents of the first phase of research. Each individual was asked to identify relevant individuals with the applicable knowledge to answer the questionnaire, and assisted in distributing the questionnaire. It was found in the first phase of research that the sample would be small given the number of employees responsible for the management of innovation, the sample size was however still adequate for the aims of this study. The questionnaire was distributed by each respondent of the first phase of research, a total of 125 questionnaires were distributed with 53 complete responses returned, creating a response rate of 42.4%. The development of the questionnaire is detailed in section 4.7.2.1. The data collected from the questionnaire were analysed using descriptive and inferential statistics. The inferential statistics used multiple regression analyses to assess the

hypotheses and achieve the objects of the study. Reliability and validity issues pertaining to the questionnaire items were addressed in Section 4.7.3.3.

6.5 Summary of the main findings

The main findings are summarised in this section and address the hypotheses and objectives of this study.

6.5.1 Qualitative findings

The findings for the qualitative phase of research were created with the use of a thematic analysis using ATLAS.ti. The findings discuss the confirmed elements encompassing the drivers of strategic innovation, the uniquely South African elements in regard to the drivers, and the other key insights generated.

6.5.1.1 The elements comprising the drivers of strategic innovation

In their discussion on the drivers of strategic innovation, Schlegelmilch *et al.* (2003:128) outline the need for the development of “psychometrically sound composite measures (i.e., multi-item scales) of each strategic innovation driver.” In order to meet the main objective of this study it was therefore necessary to operationalise each driver. This operationalisation was undertaken through first using a review of literature to compile a list of elements encompassing each driver; which were then tested for and refined through the use of semi-structured interviews.

The findings of the semi-structured interviews indicate that the elements encompassing the drivers of strategic innovation, as determined through the literature review, were accurate. All the compiled elements were identified in the transcripts allowing for their confirmation as antecedents to the drivers. Additionally, no new elements were identified for consideration, indicating the comprehensiveness of the compiled literature. These findings support the

claims of Schlegelmilch *et al.* (2003) who maintain the drivers of strategic innovation as consistent in differing industries.

Consequently, these findings were used to develop multi-item scales for each driver of strategic innovation, as outlined in Section 4.7.2.1, facilitating the achievement of the main objective of this study.

6.5.1.2 Uniquely South African elements comprising the drivers of Strategic innovation

During the semi-structured interviews respondents were asked if they perceived any uniquely South African elements in regard to the drivers of strategic innovation. Upon analysis of the transcripts a variety of elements, which may be categorised into macro, demographic and cultural characteristics in South Africa, were found.

The macro characteristics identified were the limited scale of the South African market and the market conditions perpetuated by government. The scale available in the South African market was however recognised to be changing, as motivated by the proposition of Africa as a market place providing a vast scalability for potential innovations (Chironga, Leke, Lund and van Wamelen, 2011).

The demographic characteristics identified were the multi-cultural nature of the South African population and the role of transformation and BEE. The multi-cultural characteristic was to be expected given South Africa's history, and was motivated to have both positive and negative connotations for strategic innovation. Transformation and BEE, which ties in with South African history, was seen to have an effect on the driver of People given its influence on hiring policies.

The cultural characteristics identified were the general demeanour amongst South Africans, as well as the existence of the “n Boer maak 'n plan” philosophy. It was generally noted that South Africans exhibited a friendly demeanour which encourages beneficial values, such as openness and trustworthiness (Tidd and Bessant, 2009). However, despite this friendly

demeanour it was noted that the South African psychology around ideas was more guarded and closed off. Such a characteristic creates inherent limitations for strategic innovation through the driver of Culture (Schlegelmilch *et al.*, 2003). The last noted cultural characteristic was the “n Boer maak ‘n plan” philosophy, referring to a resourcefulness and approach to problems and opportunities. This philosophy is beneficial to strategic innovation, as it may affect the drivers of Culture, Strategy Processes, and Resources.

In reviewing the cited characteristics it is concluded that rather than representing unique elements for the drivers of strategic innovation, that the cited characteristics present unique circumstances for consideration. Such a view is summarised by one bank, stating, “We do things that are consistent with the best practices around the world, but take into account the unique South African circumstances”. Therefore, although there are elements which may be considered unique to South Africa, they are not considered unique elements which comprise the drivers of strategic innovation, precluding the addition of any uniquely South African elements to the questionnaire..

6.5.1.3 Key insights

Three key insights were found during the thematic analysis of the interview transcripts, namely, the composition of the sample for the second phase of research, the cited importance of the drivers of strategic innovation, and the perceived strategic innovation capacity in each bank.

During the interviews respondents were asked about the number of individuals they employed to manage innovation activities. The study found that for the most part very few, if any, individuals were employed at any bank solely for the purposes of innovation management. Although the number of individuals employed specifically for innovation was small, there were individuals employed for whom innovation played a larger role in their daily activities, these individuals comprised the sample for the next research phase.

Respondents were further asked to motivate what they believed to be the most important tangible and intangible resources for innovation. The findings show that People were believed to be the most important tangible resource, while Culture formed the most important intangible resource. This finding created expectations for which drivers would display the highest correlations in the next phase of research.

Lastly, respondent's perception of their company's strategic innovation capacity was tested by determining how many of their innovation initiatives could be classified as strategic innovation initiatives. Respondents uniformly stated that the number of strategic innovation initiatives in each of their companies was low, they did however emphasise the importance and impact these initiatives held. This finding helped create expectations around the level of strategic innovation capacity to be tested in the next phase of research.

6.5.2 Quantitative findings

The findings from the quantitative phase of research were created with the use of multiple regression analyses, with the results being summarised in Table 6.1. The findings discuss the multiple relationships present between the constructs of this study.

Table 6.1: Correlation coefficients between constructs

	Resources	Culture	People	Strategy Processes	Strategic innovation capacity
Strategy Processes	0.65	0.72	0.53		0.53
People	0.69	0.77			0.63
Culture	0.78				0.73
Resources					0.68
<i>The Drivers</i>					0.732

6.5.2.1 The influence of the drivers of strategic innovation on strategic innovation capacity

The drivers of strategic innovation were found to have a statistically significant positive relationship with strategic innovation capacity, displaying a correlation coefficient of 0.732. This finding corroborates with the theory, which suggested that the drivers of strategic innovation may be considered as the content aspects of strategic innovation capacity. As such, it is possible to recognise the drivers of strategic innovation as the fundamental elements and characteristics needed in a company's resource base to foster strategic innovation.

This finding empirically validates the argument of Schlegelmilch *et al.* (2003) that the drivers of strategic innovation jointly foster strategic innovation in a company. The high correlation value shows that the drivers of strategic innovation jointly have a large influence on the ability of a company to create strategic innovation initiatives, and emphasises the importance of investing and managing the drivers of strategic innovation (Schlegelmilch *et al.* 2003).

6.5.2.2 Strategy Processes influence on strategic innovation capacity

The driver of Strategy Processes showed a statistically significant positive relationship with strategic innovation capacity. With a correlation coefficient of 0.53, the relationship between Strategy Processes and strategic innovation capacity is however the weakest of all the drivers. As strategy sets the overall direction of a company and is essentially where strategic innovation initiatives originate from, this finding is counter-intuitive (French, 2009; Mintzberg and Lampel, 1999). Nevertheless, a positive relationship between the two constructs still exists, signifying that an investment in Strategy Processes will have a beneficial effect on strategic innovation capacity,

This finding reinforces the various arguments (Schlegelmilch *et al.*, 2003; Krinsky and Jenkins, 1997; Skarzynski and Yates, 1999; Hamel, 1996) that strategy needs to develop

into a growth-visioning, analysis-supported creative process, in order to best exploit new opportunities. By reinforcing a future-orientated questioning role in a strategy development process that constantly involves and communicates with staff, a company will be better poised to perceive strategic innovation opportunities.

6.5.2.3 People's influence on strategic innovation capacity

The driver of People also showed a statistically significant positive relationship with strategic innovation capacity. With a correlation coefficient of 0.63, People had the third strongest influence on strategic innovation capacity. This finding is in contrast to previous research, which has cited People as one of the most crucial drivers (Schlegelmilch *et al.*, 2003; McKenzie, 2012). This finding is also in contrast of the findings of the first phase of research. Specifically, respondents of the first phase of research cited People as the most important tangible resource of a company, creating the expectation that People would exhibit one of the strongest relationships with strategic innovation capacity. However, the driver of People still displays a statistically significant positive relationship with strategic innovation capacity, signifying that an investment in human resources and their correct management, as well as networking will facilitate strategic innovation.

This finding supports various arguments surrounding human resources. Firstly, the creation of a highly qualified and motivated human resource base comprised of both diverse and complementary individuals is reinforced (Wright *et al.*, 2001). Credibility is also given to the use of rewards and recognition to align, as well as motivate employees to innovate (Gupta and Singhal, 1993; Collins and Clark, 2003; Chen and Huang, 2009). The role top management plays in leading innovation is also supported, emphasising the need for a commitment through formal and informal means (Bartlett and Ghoshal, 1995; Barsh *et al.*, 2008; Carmeli *et al.*, 2010). Additionally, arguments for maintaining intra-firm and inter-industry networks are supported by this finding, emphasising the use of these networks for innovative purposes (Tidd and Bessant, 2009; Håkansson, 1987).

6.5.2.4 Culture's influence on strategic innovation capacity

The driver of Culture showed the strongest statistically significant positive relationship with strategic innovation capacity, maintaining a correlation coefficient of 0.73. This finding is consistent with the findings of the first phase of research, as respondents cited Culture as the most important intangible resource in a company. The strong relationship exuded by Culture further emphasises the importance that intangible resources possess in regard to the facilitation of innovation and the building of competitive advantage in modern markets (Hall, 1992, 1993).

This finding also reinforces the argument of Markides (1998) that creating an innovative culture is a steadfast tactic for fostering strategic innovation capacity. In other words, by creating a shared set of values and beliefs, which have been shown to facilitate innovation amongst staff, a company will be more consistent in their ability to create strategic innovation initiatives. As such, the investment in and continuous management of a company's organisational culture is justified.

6.5.2.5 Resource's Influence on strategic innovation capacity

The final driver of Resources also showed a statistically significant positive relationship with strategic innovation capacity. With a correlation coefficient of 0.68, Resources exhibited the second strongest relationship with strategic innovation capacity. This finding emphasises the need for companies to make resources available, especially technology, for innovation. This finding also reinforces the use of multiple analysis techniques when evaluating an innovation initiative.

Particular emphasis is given to the argument that a company needs to look beyond the constraints imposed by their current resource base (Schlegelmilch *et al.*, 2003; Hamel, 1996; Kim and Mauborgne, 1997; Krinsky and Jenkins, 1997). A company must maintain a willingness to reinvent their capabilities and strategic resources in line with strategic

innovation opportunities, as opposed to matching internal systems and capabilities with outside opportunities. Through the use of technology as starting point for innovation discussions, as well as thoroughly appraising innovation initiatives, a company will be more consistent in their ability to create strategic innovation initiatives.

6.5.2.6 The inter-relationships between the drivers of strategic innovation

Overall, the drivers of strategic innovation showed statistically significant correlations with one another. This finding is consistent with the theory presented by Schlegelmilch *et al.* (2003), and with the findings of McKenzie (2012) who also demonstrated statistically significant positive relationships between the drivers of strategic innovation. These findings suggest that an investment in any driver will have a positive influence on all other drivers, and hence strategic innovation capacity.

Amongst all the drivers of strategic innovation, Culture showed the strongest statistically significant positive relationships with the other drivers, maintaining correlation coefficients of 0.72, 0.77 and 0.78. This finding is in contrast to the findings of McKenzie (2012) who found that People maintained the strongest correlations with the other drivers. This discrepancy may however be a result of the differing sample compositions of each study. Nonetheless, this finding reiterates the importance of creating an innovative organisational culture, as is evident by the high level of influence a culture will have on other organisational functions and elements.

The driver of Resources showed the second strongest statistically significant positive relationships with the other drivers, maintaining correlation coefficients of 0.66, 0.69 and 0.78. This finding shows that the use of technology and multiple analysis techniques for innovation will have beneficial effects on the strategy processes, as well as the human resources of a company. Additionally, the use of technology as a discussion point for innovation may influence the networks maintained by a company, and also stimulate an innovative culture.

People retained the third strongest statistically significant positive relationships with the other drivers, displaying correlation coefficients of 0.53, 0.69 and 0.77. This finding is in contrast of the previous findings of McKenzie (2012), who found that the driver of People displayed the strongest correlations with the other drivers. However, the driver of People still displays positive correlations with the other drivers, indicating that an investment in the human resources base of a company will have beneficial effects on the other drivers. This finding also demonstrates that the use of networks for innovation will also have beneficial consequences.

Lastly, the driver of Strategy Processes held the weakest statistically significant positive relationships with the other drivers, showing correlation coefficients of 0.53, 0.65 and 0.72. Despite having the weakest correlations, this finding still shows that having a future orientated and questioning strategy development process, which involves and communicates with the rest of a company, will be beneficial to the people employed, the culture fostered, and the resources appropriated.

6.6 Recommendations

This study contributes to supplementing strategic innovation theory, specifically in the South African banking context. The managerial value is found in the following recommendations underpinned by the findings of this study.

The findings of this study underline the importance of investing in the drivers of strategic innovation in companies pursuing business model innovation. Managerial interventions to improve the levels of strategic innovation capacity need to focus on the antecedents of the drivers, as verified in the study.

In regard to the Strategy Processes of a company it is recommended that strategy development is handled proactively through maintaining a future orientated and questioning attitude within strategy discussions. More so, the driving forces of an industry need to be

actively analysed and interpreted, providing an insight into potential opportunities for strategic innovation. It is further recommended that strategy formation is treated as a company-wide process, involving and engaging staff within reason, as well as communicating strategic decisions.

In regard to People, the sufficient investment in the human resource base of a company is recommended so as to create diversity in staff competencies, which are aligned to strategic needs and objectives. Staff moreover need to receive rewards and recognition for innovation, so as to encourage such behaviours. It is further recommended that top management form an integral part of formalising innovation initiatives through both formal and informal means. Lastly, intra-firm and inter-industry networks need to be carefully selected and managed effectively, to allow access to innovation facilitating resources.

It is highly recommended that a company invests in the creation of an innovative organisational culture. Given the findings relating to the driver of Culture, the investment in an organisational culture aligned to innovation will have highly beneficial consequences. The findings indicate that the encouragement of the values such as openness, trust, support, freedom, risk taking, debate, and challenge and involvement will lead to increased innovative behaviours amongst staff, and consequently a higher strategic innovation capacity.

In regard to the driver of Resources, the maintenance of a mind-set that looks beyond the constraints imposed by the current resource base of a company and that makes resources available for innovation is recommended. It is further recommended that a company keeps abreast of the latest technological trends that may potentially influence them and use these technologies as a departure point for innovation discussions. The use of multiple forms of innovation analysis is also recommended, as through the application multiple forms of screening and analysis only the most promising initiatives will move forward, increasing the ability of a company to systematically produce strategic innovation initiatives.

Finally it is recommended that managers, management consultants, industry bodies or other researchers make use of the research instruments developed and verified in this study. This research tool will allow a company to assess their own strategic innovation capacity, as well as the strength of the drivers in their company. This will allow for the identification of weak areas, and facilitate management interventions to improve the levels of strategic innovation capacity.

6.7 Limitations of the study and opportunities for future research

Although the present study aimed to contribute to the body of knowledge on strategic innovation capacity and the drivers of strategic innovation, certain areas still need to be explored or expanded. Based on the outcomes of this research, the following limitations are stated and followed by suggested opportunities for future research:

- It is possible to consider that additional individuals should have been interviewed during the first phase of research. This would have potentially allowed for the confirmation of the information provided by the initial respondents and provided a greater breadth of understanding. However, as the initial respondents were selected by each company's respective CEO, the information garnered may be seen as highly valid and appropriate for the purposes of this study.
- An additional limitation presents itself in the context of the study being restricted to banks in the South African financial industry. It is possible that alternative industries might experience the drivers of strategic innovation differently, and there may be other South African elements not accounted for in the financial industry. As such, caution should be exercised in generalising the findings of this study.
- Another limitation presents itself in the sampling used for the quantitative phase of research. Although convenience sampling was appropriate given the difficulty encountered in identifying and contacting persons with the required skills and willingness to partake in the study, a more representative sample of the banks could

have been drawn. A future study could adopt a more representative method of sampling.

Based upon the identified limitations of this study, the following areas for future research are identified:

- It may prove useful to refine the operationalisation of the drivers of strategic innovation in differing contexts. Given the specifics of the sample, refining the drivers of strategic innovation in another context may generate new antecedent elements of the drivers.
- Similarly, an area for future research may be replication of this study in an alternative industry. A study of this nature will be valuable in confirming that the link between the drivers of strategic innovation and strategic innovation capacity exists outside of the South African banking industry. Such a study will also be valuable in confirming the different relationships between the drivers and strategic innovation.
- This study may also be replicated in an alternative country's financial sector; a study of this nature would help to contextualise the results of this study, and further establish the link between the drivers of strategic innovation and strategic innovation capacity.
- Future studies may also be conducted around strategic innovation capacity. Given that strategic innovation capacity has now been individually assessed from the sides of the process and content aspects, a study that uses both aspects as independent variables will have inherent value in creating a holistic understanding of strategic innovation capacity.
- This study focused only on strategic innovation in the broad sense and did not take into account strategic innovation at an individual or functional level. A future study which explores strategic innovation at differing managerial or functional levels would be valuable in creating a more comprehensive understanding of strategic innovation.

- With the antecedents to strategic innovation capacity now being empirically understood, further research that explores the potential barriers to strategic innovation could be of potential value.
- As the perceived results associated with strategic innovation can only be observed over the long term, a longitudinal study that examines whether high levels strategic innovation capacity lead to high levels of future performance is recommended.
- Although this study achieved its objective of determining the relationship between the drivers of strategic innovation and strategic innovation capacity, given the sample limitations, only a basic statistical analysis could be undertaken. Future research may make use of more complex statistical modelling in analysing the developed variables and constructs.
- Lastly, given the strong relationships present between the drivers of strategic innovation, a study which investigates the mediating effects each driver has on the others' relationship with strategic innovation capacity would hold inherent value. A future study of this nature would help determine the actual mechanisms through which strategic innovation capacity is influenced by the drivers of strategic innovation, and prove to be valuable.

6.8 Conclusion

The main contribution of this study is the empirical evaluation of the drivers of strategic innovation in the South African banking context. The managerial implications of this study are created through the validation of a measurement tool for the drivers of strategic innovation. This tool not only gives management a means to assess the levels of the drivers, but also provides antecedents on which to focus when staging managerial interventions for the improvement of the drivers. The findings also indicate the importance of creating an innovative organisational culture, showing that management needs to actively shape and manage their culture to include innovative values. Such efforts will have the greatest impact on their company's ability to systematically create strategic innovation initiatives.

A contribution to academia is also made through empirically evaluating the relationship between the drivers of strategic innovation and strategic innovation capacity. The establishment of this relationship creates a solid platform upon which future studies may build, using different research methods and examining the constructs of strategic innovation in different contexts. Future researchers are encouraged to replicate this study in different circumstances and to use the validated operationalisation of the drivers as a means for more complicated statistical analysis. Longitudinal studies and studies assessing both the content and process aspects of strategic innovation capacity will also offer interesting avenues for future research.

Strategic innovation constitutes an increasingly important concept given the ever increasing hostility and competitiveness shown in markets. Through innovating the business model for either a specific offering or the entire business, a company is presented with the opportunity to create a significant source of value. This value comes to benefit not only the company, but all stakeholders, indicating the ability of strategic innovation to contribute to the economic growth of a country. This study has shown that by investing in the drivers of strategic innovation, recognised as the fundamental elements and characteristics needed in a company's resource base to foster strategic innovation, a companies' ability to systematically create strategic innovation initiatives will increase.

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Appendix I: Confidentiality Agreement



UNIVERSITEIT · STELLENBOSCH · UNIVERSITY
jou kennisvenoot · your knowledge partner

To whom it may concern,

I do hereby, as the respondent to this semi-structured interview, acknowledge my voluntary participation and signify the information given to be accurate. I further give my permission for the information yielded in the interview to be used solely for academic purposes, on the basis that all information is treated with strict confidentiality, anonymity, and is not disclosed to any outside parties.

(Respondent)

(Researcher)

Appendix II: Introductory Letter for the Semi-Structured Interviews



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Dear _____,

Due to the compelling effects of forces, such as globalization and digitization on the business world, one is increasingly seeing innovation as a key function for business success, especially in sectors such as banking. These forces are too affecting us here in South Africa, however there is a lack of South African specific research that explores and details how the different aspects of innovation function in our business markets.

Against this background, Mr Kieran McKenzie, a Masters student at the University of Stellenbosch, is conducting research to determine the strategic innovation capacity of companies in the South African banking sector, as well as how the drivers of strategic innovation (Strategy Processes, People, Culture, and Resources) affect their capacity.

Accordingly, we would like to thank you for giving up your valuable time to assist Mr Kieran McKenzie in his research. We truly appreciate your invaluable contribution to the knowledge base on strategic innovation in South Africa.

Thank you once again,

Sincerely,



L. Maree

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Appendix III: Interview Scripts

ABSA

This is the scheduled semi-structured interview with ABSA, undertaken in assistance of the completion of the degree Masters of Commerce, Currently being pursued by Kieran McKenzie.

Today I am talking to Mr. Eugene Booysen, a managing principle at ABSA CIBW, if Mr. Booysen could please confirm this for the record.

The research I'm undertaking explores the concept of strategic innovation, a term which refers to how a company can innovate its business model to create opportunity and advantage. I'm specifically looking at the capacity that companies in the South African banking sector have to strategically innovate, and how the drivers of strategic innovation (People, Culture, Strategy Processes, and Resources) affect this capacity.

The reason I'm looking at the banking sector of South Africa is due to its economic importance, given its total contribution to GDP as well as the significant number of individuals the sector employs. Further, literature describes that markets characterised by hyper-competition, convergence and commoditization are in the most need of strategic innovation, and given that these characteristics are all visible in the South African banking sector this research will be of value.

The purpose of this interview is to probe into the drivers of strategic innovation in the South African banking sector, so as to look at the congruency displayed between the literature and the actual South African banking sector. This will allow me to determine if all the elements of the drivers are present as well as if there are any additional elements present in the South African banking sector.

The interview is structured in such a way that I will be asking you questions in six sections, starting with a few introductory questions and then moving onto the following four sections, with each relating to a driver of strategic innovation, lastly I'll be asking about the strategic innovation capacity of ABSA.

1. Introductory Questions

- 1.1 What's your take on the history of innovation at ABSA?
- 1.2 Why would you say innovation has come to play such a crucial role in your business sector?
- 1.3 How does innovation happen at ABSA, What's the process from start to finish?
- 1.4 How many people would you say are employed at ABSA specifically for innovation?

2. Strategy Processes

Strategy processes refers to how the development of strategy proceeds within a company, and the characteristics of this process.

- 2.1. What would you describe as ABSA's organisational drivers?
- 2.2. What would you motivate as being the main elements that drive strategy at ABSA?
- 2.3. Where does innovation fit into ABSA's One Africa strategy?
- 2.4. Does ABSA's One Africa strategy define specific targets for innovation?
- 2.5. Given that strategy can be developed at many differing organisational levels, do these different levels of strategy set innovation targets?
- 2.6. Does ABSA have a specific innovation strategy?
- 2.7. If yes, how would you describe this strategy?
- 2.8. Moving on to the actual process, from your experiences in ABSA, how would you describe the typical process of strategy development?
- 2.9. Who is involved in the process?
- 2.10. Would you describe this strategy process as being proactive?
- 2.11. How are strategies communicated to the rest of the organisation?
- 2.12. Innovation literature suggests that when dealing with innovations, small and inexpensive experimentation plays a key role, as through developing small prototypes and proving concepts many benefits can be realised. Would you say an experimentation approach similar to this can be found in the strategy development process of ABSA?
- 2.13. If it is present, would you say that this type of approach is encouraged?
- 2.14. Who ultimately has the final say on strategies?
- 2.15. And what happens if their choice isn't always the preferred one?
- 2.16. What, given the opportunity, would you change about your specific strategy development process?
- 2.17. Does creating strategy in South Africa present any unique challenges?

3. People

People as a driver of strategic innovation refers to both people inside and outside a company. Here we are looking at the characteristics of staff, top management, and organisational networks and relationships, and how all of these influence innovation practices at ABSA.

- 3.1 As the person in charge of innovation for the wholesale side of ABSA bank, how does innovation fit into your role?
- 3.2 How do you manage a team to help achieve this?
- 3.3 How are innovation goals set for your team?
- 3.4 Ideally, what kind of a manager do you want your team to see you as?
- 3.5 Do you try to maintain a more formal or informal relationship with your team?
- 3.6 What do you believe to be the important characteristics required for a top manager, such as yourself, to facilitate this innovation?

- 3.7 Looking specifically at your team, when appointing new members, what do you look for in a candidate?
- 3.8 What makes someone stand out as a potential innovator?
- 3.9 What are the greatest internal challenges to innovation your team faces?
- 3.10 In your position at ABSA do you find there to be any uniquely South African challenges related to people and innovation?
- 3.11 Having touched on innovation in your role and your team, would you say that other top management positions are supportive of innovation?
- 3.12 What do they do to specifically facilitate innovation?
- 3.13 Is innovation part of their role description?
- 3.14 Your annual report talks about ABSA operating as a fully integrated organisation, how does cross-functional communication play a role in this?
- 3.15 Looking now at the external relationships of your company, given that regulation is set by external parties, does regulation in the industry affect your innovation prowess?
- 3.16 Through regarding your annual report it's clear that ABSA has a large number of external relationships, what would you motivate as the purpose of these external relationships?
- 3.17 Most literature suggests that the more a company pursues external relationships, be they with customers, suppliers, or other members of the industry, that they are generally more innovative. Would you say this is the case at ABSA?
- 3.18 How important would you say these relationships are in regards to ABSA's Innovation success?
- 3.19 Lastly, do you think there are any other important factors with regard to people that affect innovation at ABSA?

4. Culture

Culture as a driver of strategic innovation refers to how the characteristics and values of an organisations' culture affects innovative potential.

- 4.1 How would you describe the personality of ABSA?
- 4.2 How does this personality manifest itself in your work environment?
- 4.3 Talking about your work environment, what would you say is the "ABSA way" of doing things?
- 4.4 What separates this "ABSA way" of doing things from any other bank?
- 4.5 And how does this way of doing things allow innovation to happen?
- 4.6 As a manager, what type of environment do you try to create to facilitate innovation amongst your team?
- 4.7 What type of environment and attitude do you try to create around the discussion and development of ideas?
- 4.8 What typically happens when a member of your team or staff needs help?
- 4.9 In your annual statement your previous chairman, Garth Griffin, talks about driving new behaviours through new purposes and values. What types of new behaviours are being encouraged at ABSA?
- 4.10 How do your values of "respect", "integrity", "service", "excellence" and "stewardship" drive this behaviour?

- 4.11 What about the “ABSA way” do you think should never be changed?
- 4.12 How does being a South African company affect your way of doing things?
- 4.13 Is there a process in place to determine fit with the “ABSA way” when hiring and why?
- 4.14 Is there anything about the “ABSA way” that you would say is unnecessary?

5. Resources

Resources refer to the base of resources, being both tangible and intangible in nature, that are leveraged to create innovation. We also look at the manner in which resources are deployed and the characteristics of the resource base.

- 5.1 What would you motivate to be ABSA’s most important tangible resources linked to innovation, and why?
- 5.2 And then, what would you motivate to be ABSA’s most important intangible resources linked to innovation, and why?
- 5.3 As a resource, how important is technology’s role in your company?
- 5.4 How is the amount of resources allocated to a project determined at ABSA?
- 5.5 Would you say you’re given access to ample resources for innovation?
- 5.6 How do you determine any shortcomings in your resource base for innovations?
- 5.7 What is the process in place to address any shortcomings that are discovered?
- 5.8 Do you think the process in place to gain more resources has a hampering effect on Innovation at ABSA?
- 5.9 Do your relationships with outside parties give you access to more resources?
- 5.10 If yes, how do you utilise these additional resources?

6. Strategic Innovation Capacity

Strategic innovation capacity refers to a company’s ability to systematically create strategic innovation initiatives. To measure this capacity it is necessary to first determine the overall number of innovative initiatives a company has, and then determine what number of these can be defined as strategic innovation initiatives.

- 6.1 As such, could you describe the number of innovative initiatives ABSA undertakes in a given year?

Strategic innovation can be defined as the process of innovating upon a company’s business model for either the company as a whole, or for a specific offering, in an attempt to reshape existing markets so as to alter the competitive formula for an industry.

- 6.2 What proportion of these initiatives would you say are in line with the definition provided above?
- 6.3 What would you say is ABSA’s greatest innovation to date?
- 6.4 And lastly, what do you think is the next big innovation that the South African Banking sector needs to see?

INVESTEC

This is the scheduled semi-structured interview with Investec, undertaken in assistance of the completion of the degree Masters of Commerce, Currently being pursued by Kieran McKenzie.

Today I am talking to Mr. Kobus Burger, One of the heads for banking at Investec, if Mr. Burger could please confirm this for the record.

The research I'm undertaking explores the concept of strategic innovation, a term which refers to how a company can innovate its business model to create opportunity and advantage. I'm specifically looking at the capacity that companies in the South African banking sector have to strategically innovate, and how the drivers of strategic innovation (People, Culture, Strategy Processes, and Resources) affect this capacity.

The reason I'm looking at the banking sector of South Africa is due to its economic importance, given its total contribution to GDP as well as the significant number of individuals the sector employs. Further, literature describes that markets characterised by hyper-competition, convergence and commoditization are in most need of strategic innovation, and given that these characteristics are all visible in the South African banking sector this research will be of value.

The purpose of this interview is to probe into the drivers of strategic innovation in the South African banking sector, so as to look at the congruency displayed between the literature and the actual South African banking sector. This will allow me to determine if all the elements of the drivers are present as well as if there are any additional elements present in the South African banking sector.

The interview is structured in such a way that I will be asking you questions in six sections, starting with a few introductory questions and then moving onto the following four sections, with each relating to a driver of strategic innovation, lastly I'll be asking about the strategic innovation capacity of Investec.

1. Introductory Questions

- 1.5 What's your take on the history of innovation at Investec?
- 1.6 Why do you think innovation has come to play such a crucial role in your business sector?
- 1.7 How does innovation happen at Investec, What's the process from start to finish?
- 1.8 How many people would you say are employed at Investec specifically for innovation?

2. Strategy Processes

Strategy processes refers to how the development of strategy proceeds within a company, and the characteristics of this process.

- 2.1. What would you describe as Investec's organisational drivers?
- 2.2. What would you motivate as being the main elements that drive strategy at Investec?
- 2.3. Where does innovation fit into your long term strategy of building a diversified portfolio of businesses and geographies to support clients through varying markets and economic cycles?
- 2.4. Would you motivate that this strategy defines specific targets for innovation?
- 2.5. Given that strategy can be developed at many differing organisational levels, would you further motivate that these different levels of strategy set innovation targets?
- 2.6. Does Investec have a specific innovation strategy?
- 2.7. If yes, how would you describe it?
- 2.8. Moving to the actual process, from your experiences in Investec, how would you describe the typical process of strategy development?
- 2.9. Who is involved in the process?
- 2.10. Would you describe this strategy process as being proactive?
- 2.11. How are strategies communicated to the rest of the organisation?
- 2.12. Innovation literature suggests that when dealing with innovations, small and inexpensive experimentation plays a key role, as through developing small prototypes and proving concepts many benefits can be realised. Would you say an experimentation approach similar to this can be found in the strategy development process of Investec?
- 2.13. If it is present, would you say that this type of approach is encouraged?
- 2.14. Who ultimately has the final say on the strategy?
- 2.15. And what happens if their choice isn't the preferred one?
- 2.16. What, given the opportunity, would you change about your specific strategy development process?
- 2.17. Does creating strategy in South Africa present any unique challenges?

3. People

People as a driver of strategic innovation refers to both people inside and outside a company. Here we are looking at the characteristics of staff, top management, and organisational networks and relationships, and how all of these influence innovation practices at Investec.

- 3.1 As one of the heads for banking, how does innovation fit into your role?
- 3.2 How do you manage a team to help achieve this?
- 3.3 Do you set innovation goals for your team?
- 3.4 Ideally, what kind of a manager do you want your team to see you as?
- 3.5 Do you try to maintain a more formal or informal relationship with your team?
- 3.6 What do you believe to be the important characteristics required for a top manager, such as yourself, to facilitate this innovation?

- 3.7 Looking specifically at your team, when appointing new members, what do you look for in a candidate?
- 3.8 What makes someone stand out as a potential innovator?
- 3.9 What are the greatest internal challenges to innovation your team faces?
- 3.10 In your position at Investec do you find there to be any uniquely South African challenges related to people and innovation?
- 3.11 Having touched on innovation in your role and your team, would you say that other top management positions are supportive of innovation?
- 3.12 What do they do to specifically facilitate innovation?
- 3.13 Is innovation part of their role description?
- 3.14 Your annual report reiterates that key to your success as an international business is a high level of integration, how do cross-functional communications play a role in this?
- 3.15 Looking now at the external relationships of your company, given that regulation is set by external parties, does regulation in the industry affect your innovation prowess?
- 3.16 Through again regarding your annual report it's clear that Investec has a large number of external relationships, what would you motivate as the purpose of these external relationships?
- 3.17 Most literature suggests that the more a company pursues external relationships, be they with customers, suppliers, or other members of the industry, that they are generally more innovative. Would you say this is the case at Investec?
- 3.18 How important would you say these relationships are in regard to Investec's Innovation success?
- 3.19 Lastly, do you think there are any other important factors with regard to people that affect innovation at Investec?

4. Culture

Culture as a driver of strategic innovation refers to how the characteristics and values of an organisations' culture affects innovative potential.

- 4.1 How would you describe the personality of Investec?
- 4.2 How does this personality manifest itself in your work environment?
- 4.3 Talking about your work environment, what would you say is the "Investec way" of doing things?
- 4.4 What separates this "Investec way" of doing things from any other bank?
- 4.5 And how does this way of doing things allow innovation to happen?
- 4.6 As a manager, what type of environment do you try to create to facilitate innovation amongst your team?
- 4.7 What type of environment and attitude do you try to create around the discussion and development of ideas?
- 4.8 What typically happens when a member of your team or staff needs help?
- 4.9 What types of behaviours are encouraged amongst staff at Investec?
- 4.10 How do your values drive this behaviour?
- 4.11 How does being a South African company affect your way of doing things?

- 4.12 Is there a process in place to determine fit with the “Investec way” when hiring and why?
- 4.13 What about the “Investec way” do you think should never be changed?
- 4.14 Is there anything about the “Investec way” that you would say is unnecessary?

5. Resources

Resources refer to the base of resources, being both tangible and intangible in nature, that are leveraged to create innovation. We also look at the manner in which resources are deployed and the characteristics of the resource base.

- 5.1. What would you motivate to be Investec’s most important tangible resources linked to innovation, and why?
- 5.2. And then, what would you motivate to be Investec’s most important tangible resources linked to innovation, and why?
- 5.3. As a resource, how important is technologies role in your company?
- 5.4. How is the amount of resources allocated to a project determined at Investec?
- 5.5. Would you say you’re given access to ample resources for innovation?
- 5.6. How do you determine any shortcomings in your resource base for innovations?
- 5.7. What is the process in place to address any shortcomings that are discovered?
- 5.8. Would you say that the process in place for acquiring more resources hampers your innovation at Investec?
- 5.9. Do your relationships with outside parties give you access to more resources?
- 5.10. If yes, how do you utilise these additional resources?

6. Strategic Innovation Capacity

Strategic innovation capacity refers to a company’s ability to systematically create strategic innovation initiatives. To measure this capacity it is necessary to first determine the overall number of innovative initiatives a company has, and then determine what number of these can be defined as strategic innovation initiatives.

- 6.1. Describe the number of innovative initiatives Investec undertakes in a given year.

Strategic innovation can be defined as the process of innovating upon a company’s business model for either the company as a whole, or for a specific offering, in an attempt to reshape existing markets so as to alter the competitive formula for an industry.

- 6.2. What proportion of these initiatives would you say are in line with this definition provided above?
- 6.3. What would you say is Investec’s greatest innovation to date?
- 6.4. And lastly, what do you think is the next big innovation that the South African Banking sector needs to see?

FNB

This is the scheduled semi-structured interview with FNB, undertaken in assistance of the completion of the degree Masters of Commerce, Currently being pursued by Kieran McKenzie.

Today I am talking to Mr. Paul Steenkamp, the head of Innovation and employment branding at FNB, if Mr. Steenkamp could please confirm this for the record.

The research I'm undertaking explores the concept of strategic innovation, a term which refers to how a company can innovate its business model to create opportunity and advantage. I'm specifically looking at the capacity that companies in the South African banking sector have to strategically innovate, and how the drivers of strategic innovation (People, Culture, Strategy Processes, and Resources) affect this capacity.

The reason I'm looking at the banking sector of South Africa is due to its economic importance, given its total contribution to GDP as well as the significant number of individuals the sector employs. Further, literature describes that markets characterised by hyper-competition, convergence and commoditization are in the most need of strategic innovation, and given that these characteristics are all visible in the South African banking sector this research will be of value.

The purpose of this interview is to probe into the drivers of strategic innovation in the South African banking sector, so as to look at the congruency displayed between the literature and the actual South African banking sector. This will allow me to determine if all the elements of the drivers are present as well as if there are any additional elements present in the South African banking sector.

The interview is structured in such a way that I will be asking you questions in six sections, starting with a few introductory questions and then moving onto the following four sections, with each relating to a driver of strategic innovation, lastly I'll be asking about the strategic innovation capacity of FNB.

1. Introductory Questions

- 1.9 What's your take on the history of innovation at FNB?
- 1.10 Why would you say innovation has come to play such a crucial role in your business sector?
- 1.11 How does innovation happen at FNB, What's the process from start to finish?
- 1.12 How many people would you say are employed at FNB specifically for innovation?

2. Strategy Processes

Strategy processes refers to how the development of strategy proceeds within a company, and the characteristics of this process.

- 2.1. What would you describe as FNB's organisational drivers?
- 2.2. What would you motivate as being the main elements that drive strategy at FNB?
- 2.3. Innovation is obviously crucial to your strategy as it is mentioned as core to your value proposition, which helps drive your strategy, given this where would you say innovation fits into FNB's overall strategy?
- 2.4. Does FNB's overall strategy defines specific targets for innovation?
- 2.5. Given that strategy can be developed at many differing organisational levels, would you motivate that these different levels of strategy set innovation targets?
- 2.6. Does FNB have a specific innovation strategy?
- 2.7. If yes, how would you describe it?
- 2.8. Moving to the actual process, from your experiences in FNB, how would you describe the typical process of strategy development?
- 2.9. Who is involved in this process?
- 2.10. Would you describe this strategy process as being proactive?
- 2.11. How are strategies communicated to the rest of the organisation?
- 2.12. Innovation literature suggests that when dealing with innovations, small and inexpensive experimentation plays a key role, as through developing small prototypes and proving concepts many benefits can be realised. Would you say an experimentation approach similar to this can be found in the strategy development process of FNB?
- 2.13. If it is present, would you say that this type of approach is encouraged?
- 2.14. Who ultimately has the final say on the strategy?
- 2.15. And what happens if their choice isn't the preferred one?
- 2.16. What, given the opportunity, would you change about your specific strategy development process?
- 2.17. Does creating strategy in South Africa present any unique challenges?

3. People

People as a driver of strategic innovation refers to both people inside and outside a company. Here we are looking at the characteristics of staff, top management, and organisational networks and relationships, and how all of these influence innovation practices at FNB.

- 3.1 As the head of innovation and employment branding at FNB, how does innovation fit into your role?
- 3.2 How do you manage a team to help achieve this?
- 3.3 How are innovation goals set for your team?
- 3.4 Ideally, what kind of a manager do you want your team to see you as?
- 3.5 Do you try to maintain a more formal or informal relationship with your team?
- 3.6 What do you believe to be the important characteristics required for a top manager, such as yourself, to facilitate this innovation?

- 3.7 Moving on to your team, when appointing new members, what do you look for in a candidate?
- 3.8 What makes someone stand out as a potential innovator?
- 3.9 What are the greatest internal challenges to innovation your team faces?
- 3.10 In your position at FNB do you find there to be any uniquely South African challenges related to people and innovation?
- 3.11 Having touched on innovation in your role and your team, would you say that other top management positions are supportive of innovation?
- 3.12 What do they do to specifically facilitate innovation?
- 3.13 Is innovation part of their role description?
- 3.14 As FNB operates as part of a wider franchise being able to operate as an integrated organisation is fairly important, as touched on by Laurie Dippenaar in his chairman's statement. How would you say cross-functional communication plays a role in this?
- 3.15 Looking now at the external relationships of your company, given that regulation is set by external parties, and also given Mr Dippenaar's appeal for banks to build bridges with their regulators. How would you say regulation in the industry affects your innovation prowess?
- 3.16 Through regarding your annual report it's clear that FNB has a large number of external relationships, what would you motivate as the purpose of these external relationships?
- 3.17 Most literature suggests that the more a company pursues external relationships, be they with customers, suppliers, or other members of the industry, that they are generally more innovative. Would you say this is the case at FNB?
- 3.18 How important would you say these relationships are in regards to FNB's Innovation success?
- 3.19 Lastly, do you think there are any other important factors with regard to people that affect innovation at FNB?

4. Culture

Culture as a driver of strategic innovation refers to how the characteristics and values of an organisations' culture affects innovative potential.

- 4.1 How would you describe the personality of FNB?
- 4.2 How does this personality manifest itself in your work environment?
- 4.3 Talking about your work environment, what would you say is the "FNB way" of doing things?
- 4.4 What separates this "FNB way" of doing things from any other bank?
- 4.5 And how does this way of doing things allow innovation to happen?
- 4.6 As a manager, what type of environment do you try to create to facilitate innovation amongst your team?
- 4.7 What type of environment and attitude do you try to create around the discussion and development of ideas?
- 4.8 What typically happens when a member of your team or staff needs help?
- 4.9 What kind of behaviours would you say are encouraged amongst staff at FNB?
- 4.10 How do your values of "Pride", "Respect", "Accountability" and "Ubuntu" drive this behaviour?

- 4.11 What about the “FNB way” do you think should never be changed?
- 4.12 How does being a South African company affect your way of doing things?
- 4.13 Is there a process in place to determine fit with the “FNB way” when hiring and why?
- 4.14 Is there anything about the “FNB way” that you would say is unnecessary?

5. Resources

Resources refer to the base of resources, being both tangible and intangible in nature, that are leveraged to create innovation. We also look at the manner in which resources are deployed and the characteristics of the resource base.

- 5.1. What would you motivate to be FNB’s most important tangible resources linked to innovation, and why?
- 5.2. And then, what would you motivate to be FNB’s most important intangible resources linked to innovation, and why?
- 5.3. As a resource, how important is technologies role in your company?
- 5.4. How is the amount of resources allocated to a project determined at FNB?
- 5.5. Would you say you’re given access to ample resources for innovation?
- 5.6. How do you determine any shortcomings in your resource base for innovations?
- 5.7. What is the process in place to address any shortcomings that are discovered?
- 5.8. Would you say that the process in place for acquiring more resources hampers your innovation process?
- 5.9. Do your relationships with outside parties give you access to more resources?
- 5.10. If yes, how do you utilise these additional resources?

6. Strategic Innovation Capacity

Strategic innovation capacity refers to a company’s ability to systematically create strategic innovation initiatives. To measure this capacity it is necessary to first determine the overall number of innovative initiatives a company has, and then determine what number of these can be defined as strategic innovation initiatives.

- 6.1. As such, would you still say that FNB produces roughly 70 000 innovative ideas a year?

Strategic innovation can be defined as the process of innovating upon a company’s business model for either the company as a whole, or for a specific offering, in an attempt to reshape existing markets so as to alter the competitive formula for an industry.

- 6.2. What proportion of these innovative ideas would you say are in line with this definition?
- 6.3. And of the 5 600 ideas that you say translate into actual initiatives, how many would you say are in line with the definition provided above?
- 6.4. What would you say is FNB’s greatest innovation to date?
- 6.5. And lastly, what do you think is the next big innovation that the South African Banking sector needs to see?

NEDBANK

This is the scheduled semi-structured interview with Nedbank, undertaken in assistance of the completion of the degree Masters of Commerce, Currently being pursued by Kieran McKenzie.

Today I am talking to Mr. John Bestbier, the group executive for strategy, and Mr. Soemaya Boomgaard a strategy consultant for Nedbank, if both parties could please confirm this for the record.

The research I'm undertaking explores the concept of strategic innovation, a term which refers to how a company can innovate its business model to create opportunity and advantage. I'm specifically looking at the capacity that companies in the South African banking sector have to strategically innovate, and how the drivers of strategic innovation (People, Culture, Strategy Processes, and Resources) affect this capacity.

The reason I'm looking at the banking sector of South Africa is due to its economic importance, given its total contribution to GDP as well as the significant number of individuals the sector employs. Further, literature describes that markets characterised by hyper-competition, convergence and commoditization are in the most need of strategic innovation, and given that these characteristics are all visible in the South African banking sector this research will be of value.

The purpose of this interview is to probe into the drivers of strategic innovation in the South African banking sector, so as to look at the congruency displayed between the literature and the actual South African banking sector. This will allow me to determine if all the elements of the drivers are present as well as if there are any additional elements present in the South African banking sector.

The interview is structured in such a way that I will be asking you questions in six sections, starting with a few introductory questions and then moving onto the following four sections, with each relating to a driver of strategic innovation, lastly I'll be asking about the strategic innovation capacity of Nedbank.

1. Introductory Questions

- 1.13 What's your take on the history of innovation at Nedbank?
- 1.14 Why do you think innovation has come to play such a crucial role in your business sector?
- 1.15 How does innovation happen at Nedbank, What's the process from start to finish?
- 1.16 How many people would you say are employed at Nedbank specifically for innovation?

2. Strategy Processes

Strategy processes refers to how the development of strategy proceeds within a company, and the characteristics of this process.

- 2.1. What would you describe as Nedbank's organisational drivers?
- 2.2. What would you motivate as being the main elements that drive strategy at Nedbank?
- 2.3. Where does innovation fit into Nedbank's overall strategy of building Africa's most admired bank through your retail repositioning, portfolio tilt, growing your non-interest revenue and plans for the rest of Africa?
- 2.4. Would you say that this strategy defines specific targets for innovation?
- 2.5. Given that strategy can be developed at many differing organisational levels, would you say that these different levels of strategy set innovation targets?
- 2.6. Does Nedbank have a specific innovation strategy?
- 2.7. If yes, how would you describe it?
- 2.8. Moving to the actual process, from your experiences in Nedbank, how would you describe the typical process of strategy development?
- 2.9. Who is involved in this process?
- 2.10. Would you describe this strategy process as being proactive?
- 2.11. How are strategies communicated to the rest of the organisation?
- 2.12. Innovation literature suggests that when dealing with innovations, small and inexpensive experimentation plays a key role, as through developing small prototypes and proving concepts many benefits can be realised. Would you say an experimentation approach similar to this can be found in the strategy development process of Nedbank?
- 2.13. If it is present, would you say that this type of approach is encouraged?
- 2.14. Who ultimately has the final say on the strategy?
- 2.15. What happens if their choice isn't the preferred one?
- 2.16. What, given the opportunity, would you change about your specific strategy development process?
- 2.17. Does creating strategy in South Africa present any unique challenges?

3. People

People as a driver of strategic innovation refers to both people inside and outside a company. Here we are looking at the characteristics of staff, top management, and organisational networks and relationships, and how all of these influence innovation practices at Nedbank.

- 3.1. As the executive for strategic planning and as a strategy consultant, how does innovation fit into your roles?
- 3.2. How do you manage a team to help achieve this?
- 3.3. Do you set innovation goals for your team?
- 3.4. Ideally, what kind of a manager do you want your team to see you as?
- 3.5. Do you try to maintain a more formal or informal relationship with your team?
- 3.6. What do you believe to be the important characteristics required for a top manager to facilitate this innovation?

- 3.7. Moving on to your team, when appointing new members, what do you look for in a candidate?
- 3.8. What makes someone stand out as a potential innovator?
- 3.9. What are the greatest internal challenges to innovation your team faces?
- 3.10. In your positions at Nedbank do you find there to be any uniquely South African challenges related to people and innovation?
- 3.11. Having touched on innovation in your role and your team, would you say that other top management positions are supportive of innovation?
- 3.12. What do they do to specifically facilitate innovation?
- 3.13. Is innovation part of their role description?
- 3.14. Taking a look at the information provided online about your strategy, the concept of integration is reiterated fairly frequently as key to delivering on your strategic focus areas, what role does cross-functional communication play in this?
- 3.15. Looking now at the external relationships of your company, given that regulation is set by external parties, does regulation in the industry affect your innovation prowess?
- 3.16. Again, through looking at information provided online it's clear that Nedbank has a large amount of external relationships, what would you motivate as the purpose of these external relationships?
- 3.17. Most literature suggests that the more a company pursues external relationships, be they with customers, suppliers, or other members of the industry, that they are generally more innovative. Would you say this is the case at Nedbank?
- 3.18. How important would you say these relationships are in regards to Nedbank's Innovation success?
- 3.19. Lastly, do you think there are any other important factors with regard to people that affect innovation at Nedbank?

4. Culture

Culture as a driver of strategic innovation refers to how the characteristics and values of an organisations' culture affects innovative potential.

- 4.1 How would you describe the personality of Nedbank?
- 4.2 How does this personality manifest itself in your work environment?
- 4.3 Talking about your work environment, what would you say is the "Nedbank way" of doing things?
- 4.4 What separates this "Nedbank way" of doing things from any other bank?
- 4.5 And how does this way of doing things result in what is described online as a unique and innovation culture?
- 4.6 As a manager, what type of environment do you try to create to facilitate innovation amongst your team?
- 4.7 What type of environment and attitude do you try to create around the discussion and development of ideas?
- 4.8 What typically happens when a member of your team or staff needs help?
- 4.9 What types of behaviours are encouraged amongst staff at Nedbank?
- 4.10 How do your values of "Accountability", "Integrity", "Pushing beyond boundaries", "Respect" and "People-centred" drive this behaviour?
- 4.11 What about the "Nedbank way" do you think should never be changed?

- 4.12 How does being a South African company affect your way of doing things?
- 4.13 Is there a process in place to determine fit with the “Nedbank way” when hiring and why?
- 4.14 Is there anything about the “Nedbank way” that you would say is unnecessary?

5. Resources

Resources refer to the base of resources, being both tangible and intangible in nature, that are leveraged to create innovation. We also look at the manner in which resources are deployed and the characteristics of the resource base.

- 5.1. What would you motivate to be Nedbank’s most important tangible resource linked to innovation, and why?
- 5.2. And then, what would you motivate to be Nedbank’s most important intangible resource linked to innovation, and why?
- 5.3. As a resource, how important is technologies role in your company?
- 5.4. How is the amount of resources allocated to a project determined at Nedabnk?
- 5.5. Would you say you’re given access to ample resources for innovation?
- 5.6. How do you determine any shortcomings in your resource base for innovations?
- 5.7. What is the process in place to address any shortcomings that are discovered?
- 5.8. Do you think the process in place to gain more resources has a hampering effect on Innovation at Nedbank?
- 5.9. Do your relationships with outside parties give you access to more resources?
- 5.10. If yes, how do you utilise these additional resources?

6. Strategic Innovation Capacity

Strategic innovation capacity refers to a company’s ability to systematically create strategic innovation initiatives. To measure this capacity it is necessary to first determine the overall number of innovative initiatives a company has, and then determine what number of these can be defined as strategic innovation inanities.

- 6.1. As such, could you describe the number of innovative initiatives Nedbank undertakes in a given year?

Strategic innovation can be defined as the process of innovating upon a company’s business model for either the company as a whole, or for a specific offering, in an attempt to reshape existing markets so as to alter the competitive formula for an industry.

- 6.2 What proportion of these initiatives would you say are in line with this definition provided above?
- 6.3 What would you say is Nedbank’s greatest innovation to date?
- 6.4 And lastly, what do you think is the next big innovation that the South African Banking sector needs to see?

STANDARD BANK

This is the scheduled semi-structured interview with Standard Bank, undertaken in assistance of the completion of the degree Masters of Commerce, Currently being pursued by Kieran McKenzie.

Today I am talking to Mr. Magnus Taljaard, an executive for Digital Banking, if Mr. Taljaard could please confirm this for the record.

The research I'm undertaking explores the concept of strategic innovation, a term which refers to how a company can innovate its business model to create opportunity and advantage. I'm specifically looking at the capacity that companies in the South African banking sector have to strategically innovate, and how the drivers of strategic innovation (People, Culture, Strategy Processes, and Resources) affect this capacity.

The reason I'm looking at the banking sector of South Africa is due to its economic importance, given its total contribution to GDP as well as the significant number of individuals the sector employs. Further, literature describes that markets characterised by hyper-competition, convergence and commoditization are in the most need of strategic innovation, and given that these characteristics are all visible in the South African banking sector this research will be of value.

The purpose of this interview is to probe into the drivers of strategic innovation in the South African banking sector, so as to look at the congruency displayed between the literature and the actual South African banking sector. This will allow me to determine if all the elements of the drivers are present as well as if there are any additional elements present in the South African banking sector.

The interview is structured in such a way that I will be asking you questions in six sections, starting with a few introductory questions and then moving onto the following four sections, with each relating to a driver of strategic innovation, lastly I'll be asking about the strategic innovation capacity of Standard Bank.

1. Introductory Questions

- 1.1 What's your take on the history of innovation at Standard Bank?
- 1.2 Why do you think innovation has come to play such a crucial role in your business sector?
- 1.3 How does innovation happen at Standard Bank, what's the general process?
- 1.4 How many people would you say are employed at Standard Bank specifically for innovation?

2. Strategy Processes

Strategy processes refers to how the development of strategy proceeds within a company, and the characteristics of this process.

- 2.1. What would you describe as Standard Bank's organisational drivers?
- 2.2. What would you motivate as being the main elements that drive strategy at Standard Bank?
- 2.3. Where does innovation fit into Standard Bank's overall Africa-centred strategy of building the leading African financial services organisation?
- 2.4. Would you motivate that this overall strategy defines specific targets for innovation?
- 2.5. Given that strategy can be developed at many differing organisational levels, would you further motivate that these different levels of strategy set innovation targets?
- 2.6. Does Standard Bank have a specific innovation strategy?
- 2.7. If yes, how would you describe it?
- 2.8. Moving to the actual process, from your experiences in Standard Bank, how would you describe the typical process of strategy development?
- 2.9. Who is involved in the process?
- 2.10. Would you describe this strategy process as being proactive?
- 2.11. How are strategies communicated to the rest of the organisation?
- 2.12. Innovation literature suggests that when dealing with innovations, small and inexpensive experimentation plays a key role, as through developing small prototypes and proving concepts many benefits can be realised. Would you say an experimentation approach similar to this can be found in the strategy development process of Standard Bank?
- 2.13. If it is present, would you say that this type of approach is encouraged?
- 2.14. Who ultimately has the final say on the strategies?
- 2.15. What happens if their choice isn't the preferred one?
- 2.16. What, given the opportunity, would you change about your specific strategy development process?
- 2.17. Does creating strategy in South Africa present any unique challenges?

3. People

People as a driver of strategic innovation refers to both people inside and outside a company. Here we are looking at the characteristics of staff, top management, and organisational networks and relationships, and how all of these influence innovation practices at Standard Bank.

- 3.1. As an executive for digital banking, how does innovation fit into your role?
- 3.2. How do you manage a team to help achieve this?
- 3.3. Are innovation goals set for your team?
- 3.4. Ideally, what kind of a manager do you want your team to see you as?
- 3.5. Do you try to maintain a more formal or informal relationship with your team?
- 3.6. What do you believe to be the important characteristics required for a top manager, such as yourself, to facilitate this innovation?
- 3.7. Looking specifically at your team, when appointing new members, what do you look for in a candidate?

- 3.8. What makes someone stand out as a potential innovator?
- 3.9. What are the greatest internal challenges to innovation your team faces?
- 3.10. In your position at Standard Bank do you find there to be any uniquely South African challenges related to people and innovation?
- 3.11. Having touched on innovation in your role and your team, would you say that other top management positions are supportive of innovation?
- 3.12. What do they do to specifically facilitate innovation?
- 3.13. Is innovation part of their role description?
- 3.14. Your annual report mentions the importance of operating as an integrated organisation to achieve your Africa-centred strategy, how does cross-functional communication play a role in this?
- 3.15. Looking now at the external relationships of your company, given that regulation is set by external parties, does regulation in the industry affect your innovation prowess?
- 3.16. Through regarding your annual report it's clear that Standard bank has a large number of external relationships, what would you motivate as the purpose of these external relationships?
- 3.17. Most literature suggests that the more a company pursues external relationships, be they with customers, suppliers, or other members of the industry, that they are generally more innovative. Would you say this is the case at Standard Bank?
- 3.18. How important would you say these relationships are in regards to Standard Bank's Innovation success?
- 3.19. Lastly, do you think there are any other important factors with regard to people that affect innovation at Standard Bank?

4. Culture

Culture as a driver of strategic innovation refers to how the characteristics and values of an organisations' culture affects innovative potential.

- 4.1 How would you describe the personality of Standard Bank?
- 4.2 How does this personality manifest itself in your work environment?
- 4.3 Talking about your work environment, what would you say is the "Standard Bank way" of doing things?
- 4.4 What separates this "Standard Bank way" of doing things from any other bank?
- 4.5 And how does this way of doing things allow innovation to happen?
- 4.6 As a manager, what type of environment do you try to create to facilitate innovation amongst your team?
- 4.7 What type of environment and attitude do you try to create around the discussion and development of ideas?
- 4.8 What typically happens when a member of your team or staff needs help?
- 4.9 What types of behaviours are encouraged amongst staff at Standard Bank?
- 4.10 How do your values of "Serving your customers", "Growing your people", "Delivering to your shareholders", "Being proactive", "Working in teams", "Guarding against arrogance", "Respecting each other" and "Upholding the highest levels of integrity" drive this behaviour?
- 4.11 What about the "Standard Bank way" do you think should never be changed?
- 4.12 How does being a South African company affect your way of doing things?

- 4.13 Is there a process in place to determine fit with the “Standard Bank way” when hiring and why?
- 4.14 Is there anything about the “Standard Bank way” that you would say is unnecessary?

5. Resources

Resources refer to the base of resources, being both tangible and intangible in nature, that are leveraged to create innovation. We also look at the manner in which resources are deployed and the characteristics of the resource base.

- 5.1. What would you motivate to be Standard Bank’s most important tangible resources linked to innovation, and why?
- 5.2. And then, what would you motivate to be Standard Bank’s most important intangible resources linked to innovation, and why?
- 5.3. As a resource, how important is technologies role in your company?
- 5.4. How is the amount of resources allocated to a project determined at Standard Bank?
- 5.5. Would you say you’re given access to ample resources for innovation?
- 5.6. How do you determine any shortcomings in your resource base for innovations?
- 5.7. What is the process in place to address any shortcomings that are discovered?
- 5.8. Would you say that the process in place for acquiring more resources hampers your innovation process?
- 5.9. Do your relationships with outside parties give you access to more resources?
- 5.10. If yes, how do you utilise these additional resources?

6. Strategic Innovation Capacity

Strategic innovation capacity refers to a company’s ability to systematically create strategic innovation initiatives. To measure this capacity it is necessary to first determine the overall number of innovative initiatives a company has, and then determine what number of these can be defined as strategic innovation initiatives

- 6.1. As such, could you describe the number of innovative initiatives Standard Bank undertakes in a given year?

Strategic innovation can be defined as the process of innovating upon a company’s business model for either the company as a whole, or for a specific offering, in an attempt to reshape existing markets so as to alter the competitive formula for an industry

- 6.2 What proportion of these initiatives would you say are in line with this definition provided above?
- 6.3 What would you say is Standard Bank’s greatest innovation to date?
- 6.4 And lastly, what do you think is the next big innovation that the South African Banking sector needs to see?

Appendix IV: Cover Email for Questionnaire



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Dear Sir/Madam,

I am a post-graduate student at Stellenbosch University and currently reading a Masters of Commerce in Strategy and Innovation, to be completed by December 2013. Funded by both the University of Stellenbosch and the National Research Foundation (NRF), the research explores strategic innovation within banks in the South African financial services industry. I am drawing from all the major banks in South Africa in order to create a holistic perspective on how the drivers of strategic innovation affect a bank's strategic innovation capacity.

This questionnaire forms the final phase of my research project and will ensure my successful graduation later this year. If you could please complete the questionnaire (see link below) it would be greatly appreciated. This will not take more than ten minutes of your time.

https://qtrial.qualtrics.com/SE/?SID=SV_eURCZhlUCUf0KwZ

If you would like to receive a copy of the results of the study please feel free to submit your email address at the end of the questionnaire and I will gladly send through a copy upon the conclusion of the study. If you have any enquiries in regards to the study or problems in accessing the questionnaire, please feel free to contact me at 15710831@sun.ac.za or on 0832949804.

Confidentiality and anonymity of your responses is guaranteed.

Many thanks and kind regards,

Kieran McKenzie

Appendix V: Questionnaire

Introduction

Strategic innovation is the process of innovating upon a company's business model for either the company as a whole, or for a specific offering, in an attempt to re-conceive existing markets, so as to alter the competitive formula for an industry.

This study is undertaken to specifically gauge the perceptions of key individuals in regards to the relationship between the four identified drivers of strategic innovation (Strategy processes, People, Culture, and Resources) and a company's strategic innovation capacity.

Please be sure to read through all instructions provided in the pre-amble of each section. All responses will be treated with the utmost confidentiality, and your anonymity is guaranteed. Please answer all questions: there are no right or wrong answers.

Section A: Strategy Processes

Strategy processes as a driver of strategic innovation refers to the strategy development and implementation processes maintained by a company.

To what extent do you agree with the following statements in regards to your company.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Strategy development is a proactive activity	1	2	3	4	5
Strategy development questions the status quos relating to our company	1	2	3	4	5
Strategy development questions the beliefs relating to our company	1	2	3	4	5
Strategy development questions past strategic decisions made by our company	1	2	3	4	5
Strategy development improves on past strategies	1	2	3	4	5
Strategy development is used to continually search for new growth opportunities	1	2	3	4	5
Strategy development looks beyond our current business model for growth	1	2	3	4	5
Strategy development considers the driving forces of our industry	1	2	3	4	5
Strategy development is an exclusive 'top-down' executive activity ^R	1	2	3	4	5
Strategy development is inclusive of employees	1	2	3	4	5
Strategy processes are single-mindedly focus on our company's future	1	2	3	4	5
Strategy implementation utilises experimentation	1	2	3	4	5
Implemented strategies are clearly communicated to all employees	1	2	3	4	5
Implemented strategies receive full senior management support	1	2	3	4	5
R= reversely coded item					

Section B: People

People, as a driver of strategic innovation, fulfil a dual role within companies. Firstly, they refer to the internal individuals employed by an organisation, as well as the management practices around employees. Secondly, they hold an influence through the external networks and relationships maintained by a company and their employees.

To what extent do you agree with the following statements in regards to your company.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The human resource base of our company is highly qualified	1	2	3	4	5
A diversity policy that ensures the continuous investment in people is in place	1	2	3	4	5
Human resource planning proactively meets our company's requirements	1	2	3	4	5
Our organisational structures support internal collaboration	1	2	3	4	5
Our performance appraisals include evaluation criteria for innovation	1	2	3	4	5
Our reward systems actively reward innovation	1	2	3	4	5
Management aligns employee behaviours with our strategies	1	2	3	4	5
Senior management displays a formal commitment to innovation	1	2	3	4	5
The informal management practices of senior management reflect a commitment to innovation	1	2	3	4	5
Our company actively participates in relevant industry networks	1	2	3	4	5
Industry networks are used to gain access to various resources	1	2	3	4	5

Section C: Culture

Culture as a driver of strategic innovation refers to building an organisational culture which encourages innovative traits and behaviours amongst employees.

To what extent do you agree with the following statements in regards to your company.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Culture is actively shaped by management	1	2	3	4	5
A common set of values are created amongst employees	1	2	3	4	5
A common set of beliefs are created amongst employees	1	2	3	4	5
Our organisational culture is aligned with our organisational strategy	1	2	3	4	5
Trust is observable amongst co-workers	1	2	3	4	5
Openness is observable amongst co-workers	1	2	3	4	5
Employees responsible made for challenging tasks	1	2	3	4	5
Employees are loyal to the company	1	2	3	4	5
Employees are encouraged to spend time developing ideas	1	2	3	4	5
Employees receive support for their ideas	1	2	3	4	5
Healthy debate is encouraged amongst employees	1	2	3	4	5
Employees are encouraged to take risks in their work activities	1	2	3	4	5
Mistakes are dealt with constructively	1	2	3	4	5
Employees are given autonomy in completing tasks	1	2	3	4	5

Section D: Resources

Resources as a driver of strategic innovation refers specifically to the physical capital resources available to a company, with emphasis being placed on the technological and financial aspects of the resource pool.

To what extent do you agree with the following statements in regards to your company.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Resources constrain the strategic direction of our company ^R	1	2	3	4	5
Our company makes a conscious effort to keep up with technological trends	1	2	3	4	5
Stakeholders are used as a source of information to develop innovations	1	2	3	4	5
Technology forecasting is used to determine future resource requirements	1	2	3	4	5
Future scenarios are used to create action plans for change	1	2	3	4	5
Financial resources are made available for innovation	1	2	3	4	5
Innovations undergo multiple forms of analysis for investment requirements	1	2	3	4	5
R= reversely coded item					

Section E: Strategic Innovation Capacity

Strategic innovation capacity is defined as a company's capacity to systematically create strategic innovation initiatives, and serves as an indicator of a company's likelihood and ability to strategically innovate.

To create new and substantial value, we take, *in comparison to our competitors*:

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
... More initiatives to collaborate in an untraditional way (i.e. unusual in our industry) with parties in our supply chain.	1	2	3	4	5
... More initiatives to collaborate in an untraditional way (i.e. unusual in our industry) with parties <i>outside</i> our supply chain.	1	2	3	4	5
... More initiatives to change the traditional roles in our industry.	1	2	3	4	5
... More initiatives to change the traditional relationships in our industry.	1	2	3	4	5
... More initiatives to change our business model.	1	2	3	4	5
... More initiatives to create a market approach that is unusual in our industry.	1	2	3	4	5
... More initiatives to break the traditional power relationships among the different parties in the supply chain.	1	2	3	4	5
... More initiatives to deviate from the traditional rules of the game	1	2	3	4	5

Section F: Demographics

Functional Area						
Managerial Level		Senior	Middle	Lower	Non-Managerial	
Bank	ABSA	Capitec	Investec	FNB	Nedbank	Standard Bank

Thank You for Your Participation

If you'd like to receive a copy of the results of this study please provide an email address below