EXPLORING THE ELEMENTS OF STRATEGIC INNOVATION DRIVERS IN SOUTH AFRICAN BANKS

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Abstract

Understanding the key elements of the drivers of strategic innovation remains elusive. Limited research has been conducted on the drivers, namely strategy processes, people, culture, and resources, in a South African context. In this study, semi-structured interviews were conducted with innovation specialists of five participating banks to explore the key elements that constitute the drivers of strategic innovation in South African banks. The findings indicate that the elements of the drivers of strategic innovation, as outlined in the literature, were evident in the participating banks and that the exploration of these elements provides a good starting point for South African financial service companies to build innovation capacity.

Keywords

Strategic Innovation, Drivers, Strategy processes, People, Culture, Resources

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1. INTRODUCTION

Strategic innovation is often regarded as an unfortunate collision of two management disciplines: strategic planning, on the one hand, and innovation and creativity, on the other (Schlegelmilch, Diamantopoulos & Kreuz, 2003, Aasen & Johannesen, 2005). This collision provides a company with the opportunity to reconsider traditional industry and market structures (Schlegelmilch et al., 2003). To date, there has been little empirical research in the South African context that explores the drivers of strategic innovation, namely strategy processes, people, culture, and resources. Consequently, a comprehensive understanding the drivers of strategic innovation remains both elusive and of empirical concern. Such an understanding may guide innovation capacity enhancement in South African financial organisations.

The drivers of strategic innovation have been explored theoretically and warrant a discussion as background to the empirical study reported in this article. Over time, the concept of strategic innovation has been discussed under several different titles such as 'Value innovation or blue ocean strategy' (Kim & Mauborgne, 2004; 1999a; 1999b), 'Strategy innovation and non-linear innovation' (Hamel, 1998a; 1998b), 'Competitive innovation' (Hamel & Prahalad, 1994a; 1994b) and 'Strategic innovation' (Markides, 1999a; 1999b; Pitt & Clarke, 1999; Tushman & Anderson, 1997). However, despite these different titles, three common themes are noticeable in the literature. Firstly, all forms of strategic innovation have, at their core, the idea of innovating, and therefore the goal to transform, the company's business model (Baden-Fuller & Haefliger; 2013; Chesbrough, 2010; Doz & Kosonen, 2010; Lehmann-Ortega & Schoettl, 2005; Schlegelmilch et al*.,* 2003). Secondly, there is the common thread of changing the existing market and challenging the prevailing status quo and norms. In effect, this implies changing how a company competes (Charitou & Markides, 2007; Schlegelmilch et al*.,* 2003; Anand & Peterson, 2000). Thirdly, strategic innovation yields substantial value creation, for both the customer and the company, by means of growth and increased profits (Adner & Kapoor, 2010; Teece, 2010; Schlegelmilch et al*.,* 2003; Kim & Mauborgne, 1999a, 1999b). Against this background, this study adopts the following definition of strategic innovation: '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' (Berghman, 2006; Schlegelmilch et al*.,* 2003; Kim & Mauborgne, 1999a; 1999b; 1997; Markides, 1999a; 1999b; 1998; 1997; Pitt & Clarke, 1999; Hamel, 1998a; 1998b; Tushman & Anderson, 1997; Hamel & Prahalad, 1994a; 1994b; 1993). The drivers of strategic innovation are identified in the literature by Schlegelmilch et al*.* (2003) as: strategy processes, people, culture and resources. The authors aver that these jointly foster strategic innovation in a company.

The first driver, 'strategy processes', refers to the strategic development and controlling processes in a company. An assessment of this driver requires a critique of the generic strategy development process, in line with the history of strategy as a business practice (Hough, Thompson, Strickland & Gamble, 2011; Mintzberg & Lampel, 1999; Mintzberg, Ahlstrand & Lampel, 1998). This analysis identifies the role of strategy, strategic frontiers, and the process of strategy development as the three relevant elements in strategy processes. The first element in strategy process is the role of strategy. Strategy is both an ex ante and ex post process, just as it is both normative and positive. This postulation corresponds with the perceptions of Skarzynski and Yates (1999) and Hamel (1996). In Skarzynski and Yates's (1999) view, strategy should actively probe and question the choices made in the past, as well as possible future choices. In addition, strategy needs to challenge the norms and biases that comprise the present market and industry, and how it functions (Skarzynski & Yates, 1999; Hamel, 1996). Challenging these norms and biases fosters a learning component in a company's strategy processes, which is crucial to effective strategic innovation (Aiman-Smith et al., 2005; Burgelman, 1983).

The second element is 'strategic frontiers', which represents areas with the potential for new growth (Bate & Johnston, 2005). The key to a company's strategic frontiers is a strategic focus that considers the future, while further strategising for the driving forces present in an industry, and maintaining ambidextrous strategy processes that balance alignment and adaptability (Bate & Johnston, 2005; Brinkshaw & Gibson, 2004; Stopford & Baden-fuller, 2001).

The last element, the strategy development process, should be a transparent process within the entire company (Hamel, 1996). Companies should be encouraged to use an experimentation and selection approach in support of implementation, which will lead to a further critical review of the role of strategy (Barsh, Capozzi & Davidson, 2008; Hamel, 1996; Burgelman, 1983). Once made, strategic choices need to be widely communicated throughout a company and should have the full endorsement and support of top management (Schlegelmilch et al., 2003; Hamel, 1996; Burgelman, 1983).

The second driver of strategic innovation, people, focuses on two components: internal people and external people (Markides, 2013; Schlegelmilch et al*.,* 2003; Cohen & Levinthal, 1990). The internal component of people driver comprises the firm's ownership and internalisation advantages, which reside in managerial influences, management practices and the company's employees. Since the company's innovation potential is determined by the way in which its employees think and act (Dobni, 2008), employees need to receive the appropriate support and leadership from top management of a company, which is displayed by means of both a formal and an informal commitment to innovation (Bel, 2010; Lyons, Chatman & Joyce, 2007; Bartlett & Ghoshal, 1995). To elicit the desired employee traits to foster strategic innovation, a company may use a variety of management practices such as human resource planning, organisational structuring, performance appraisals and reward systems (Ritter, Wilkinson & Johnston, 2004; Collins & Clark, 2003; Wright, Dunford & Snell, 2001; Gupta & Singhal, 1993). Two aspects, namely employees' competencies and employees' behaviour, should be considered when employees are assessed as an element of the people driver. Employees' competencies embody the maintenance of the correct mix of specific knowledge, skills and abilities (Quinn & Strategy, 2012; Prahalad & Hamel, 1990), and these are complemented by the appropriate employee behaviour (Wright et al., 2001).

The external component of the people driver deals with the element of networks. It refers to the company's network of multiple relationships, which include customers, competitors, suppliers and various other entities (Ritter et al., 2004). These networks provide access to complementary and different knowledge sets, new markets and technologies and the pooling of complementary assets and skills, as well as the reduction of risk (Tidd & Bessant, 2009). In order to exploit the various advantages created by networks companies need to maintain the appropriate level and type of networks while extracting the valid information from these networks (Tidd & Bessant, 2009; Ritter et al., 2004).

The third driver of strategic innovation, culture, refers to an individual's views, interpersonal dynamics and social rules that characterise a group of people in a particular environment (Ball, McCulloch, Geringer, Frantz & Minor, 2010). An organisational culture, which influences an individual's culture, further infuses the symbols, values, myths, vocabulary, methodology and the rules of conduct of a company (Morris, Kuratko, & Covin, 2011). As such, culture will ultimately influence the implicit beliefs, values, and assumptions of employees. Furthermore, culture will have an impact on the behaviour of individuals in a company, as well as how they interact outside the company - all of which play a defining role in a company's innovation potential (Martins & Terblanche, 2003).

Thus, an innovative culture is characterised by four elements (Tidd & Bessant, 2009; Aiman-Smith, 2005). Firstly, the presence of a level of openness and trust is conducive to open communication which, in turn, fosters innovative culture (Tidd and Bessant, 2009; Aiman-Smith, 2005). Secondly, innovation challenges and involvement are a routine part of culture to help motivate and drive innovation (Tidd & Bessant, 2009; Aiman-Smith, 2005). Thirdly, an innovative culture needs to create a level of support and space for ideas, leading to a learning culture that is ambidextrous (Tidd & Bessant, 2009; Brinkshaw & Gibson, 2004; Calantonea, Cavusgila & Zhaob, 2002). The last element that characterises an innovative culture is an appropriate mix of freedom and encouraged risk-taking (Tidd & Bessant, 2009). By developing the right mix of these elements, a company will develop a culture that is not only unique, but also valuable and impossible to imitate, resulting in a source of competitive advantage (Bock, Opsahl, George & Gann, 2012; Barney, 1991).

Resources are the fourth driver of strategic innovation. According to Barney (1991), company resources are divided into three categories, namely, physical capital resources, human capital resources, and organisational capital resources. Since the first three drivers of strategic innovation embody elements of both organisational and human capital resources (Schlegelmilch et al*.,* 2003; Barney, 1991), this study focuses specifically on two distinct dimensions or elements of physical capital resources, namely, technological and financial resources. 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 (Lee et al., 2012; Brem and Voigt, 2009; Chau & Tam, 2000;), while financial resources form a critical aspect of any company, as per the premium placed on financial performance and profitability (McWilliams & Siegel, 2001; McGuire et al., 1988).

The first element, technology, is widely recognised as a driving force of innovation, producing either a so-called 'market-pull' or a 'technology-push' on companies (Morris et al*.,* 2011; Brem & Voigt, 2009; Chau & 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 (Sawhney, Verona & Prandelli, 2005; Rinne, 2004; O'Connor & Veryzer, 2001; Hamel & Prahalad, 1994a). The second element, financial resources, forms a critical part of any company (McWilliams & Siegel, 2001). Given that the financial resources available to a company are finite, it is important that a variety of evaluation techniques are implemented in order to best apportion the limited financial resources available and maximise company performance (Wernerfelt, 1984).

Against this background, this study seeks to examine this contextual issue. Given the lack of context-specific research on the drivers of strategic innovation in South Africa, the purpose of this study is to explore the elements that constitute the drivers of strategic innovation in selected banks in the South African financial sector. The underlying premise of the study is that by exploring the key elements of the drivers in financial service, South African financial service organisations may have a good starting point from which to build innovation capacity. The modern market trends which justify a need for strategic innovation are especially visible in the South African banking sector, 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.

This article proceeds with an outline of the methods used to explore the key elements of the drivers in the participating banks. Thereafter, the findings are discussed, and implications and recommendations for practice provided. The article concludes with an overview of the study, the contribution it makes and suggestions for further research.

2. METHODS

This study provides a detailed account of the drivers of strategic innovation and the elements thereof, while concerning itself with the discovery or generation of new theory (Blumberg, Cooper, & Schindler, 2011; Collis & Hussey, 2009).

2.1 Design

A qualitative study of five South African banks was conducted. Qualitative research explores participants' views to understand meanings and experiences, which can help to investigate strategic implications (Collis & Hussey, 2009; Given, 2008). This research approach allows us to explore and reflect upon how innovation specialists perceive and experience the drivers of strategic innovation in their work environment. In the light of this, the broad objective of this study was to explore the reality of the drivers of strategic innovation in South African banks.

2.2 Setting

The following process was used to select the participating banks. Firstly, we identified banks in the South African financial sector representing commercial and retail banks, private banks and corporate and investment banks. Secondly, each bank was identified as suitable by an assessment of its innovation reputation using the Accenture Innovation Index (Accenture Innovation Index, 2013), as well as its market presence, judged by total assets as of 2012 (reported in their 2013 annual reports) in the following banks: ABSA, Standard Bank, Investec, and Nedbank.

2.3 Participants

The participants in this study were six innovation specialists nominated by the CEOs of the five selected banks. (Bank 4 identified two individuals who qualified to participate.) Purposive sampling was used because of the need for a small informative sample (Leedy & Ormrod, 2001). Despite the criticism that such a sampling frame does not yield a representative response from the population, Davidson (2006) maintains that some of the most influential and interesting qualitative research studies have nevertheless been conducted on such a basis. Participants were chosen on the basis of their particular knowledge and innovation skills (Salkind, 2010; Boslaugh & McNutt, 2008; Palys, 2008; Vogt, 2005).

2.4 Data collection

In May 2013, data was collected for each participating bank from the six identified participants, using semi-structured interviews lasting between 60 and 80 minutes per participant. Semi-structured interviews give the researchers the chance to maintain control over the topics covered in an interview, while allowing for flexibility in responses (Ayres, 2008a). This characteristic was well suited to the researchers' need to explore each driver of strategic innovation as a separate topic.

Mouton (2008) warns against the dangers of not pre-testing a research instrument, so five mock interviews were conducted to ensure tone, wording and relevance of questions as well as to provide training opportunities for the interviewer (Manson, 2004; Tull & Hawkins 1993).

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 participants (Ayres, 2008a; Morgan & 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. To allow participants some time to formulate their responses, an interview guide tailored to each individual bank was e-mailed to each participant at the time of making the appointment for the interview. The interview guide was accompanied by a cover letter and a confidentiality agreement to confirm the appropriate use of any sensitive information.

All the interviews were personally conducted by one researcher to ensure consistency in both the use of words and body language, using the interview guide to direct the conversation according to relevant topics. To be sure, where interviews are conducted on a number of homogeneous participants, it is desirable to have one interviewer both to ensure consistency in the interviews and to attenuate the proclivity of bias that may arise from phraseology and body language. Interview bias can arise from either the way in which things are expressed in words or the interviewer's behavioural pattern during the interview. Interview bias is bound to arise when two or more researchers interview the same set of respondents or interviewees for the reasons provided above, namely: different phraseologies and different physical expressions. The researcher further probed the responses provided by the participants to generate a better insight, and to answer the formulated research objectives. Each interview was recorded and transcribed for further analysis. This was supplemented with notes taken by the researcher during the interviews. Further analysis and the researcher's notes were used to validate the responses gained during the interviews.

2.5 Data analysis

Data analysis is the application of reasoning in order to gain an understanding of the gathered data (Babin & Zikmund, 2010). For the purpose of this study, a thematic analysis was followed. 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). Each driver of strategic innovation was treated as a separate theme, with a coding list developed based on the literature review. The themes and their respective codes are listed in TABLE 1. Given the objectives of this study and in order to allow for a greater breadth of interpretation, the coding list was kept to the barest minimum. ATLAS.ti was used for coding and analysing the data, as it allows for effective management of codes, providing visual representation of the relationships between various codes, as well as providing summaries of the codes utilised (Popping, 2000).

TABLE 1: Qualitative data analysis codes

Themes	*Codes*
Strategy processes	Role Frontiers Development process
People	Top management/Leadership Staff characteristics Staff management Networks
Culture	Management Values Beliefs
Resources	Technology Financial

Source: Authors' analysis

3. FINDINGS

We specifically set out to explore the opinions of the selected innovation specialists in each participating bank regarding the elements that constitute the drivers of strategic innovation. The thematic analysis of the data confirmed that the four drivers – strategy processes, people, culture, and resources – were indeed present in the investigated banks and that the elements of the drivers of strategic innovation play a role in the strategy of the five participating banks. A discussion of the findings for each of these drivers will now follow.

3.1 Strategy processes

Strategy processes refer to the strategic developments and controlling processes in the company that are crucial to its future success (Mintzberg, et al*.,* 1998; Mintzberg, 1990; Mintzberg & Lampel, 1990). Bank 1 confirmed this notion by saying, 'Strategy is the touchstone against which every decision has to be tested ... Strategy sets the direction of where the business is going.' Strategic processes manifest in three areas: the role of strategy, the frontiers pursued by strategy, and the actual development of strategy.

3.1.1 The role of strategy

Traditionally, the role of strategy focuses on planning and coordination (Garcia, 2012), although it also places a strong emphasis on an inquisitive (curious) attitude. Such a sentiment is widely accepted in the context of banking in South Africa. Bank 2 expressed the view 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 in an organisation is that there are so many rules and processes, 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.

This opinion is supported by Bank 3, who maintained that, 'It's important to challenge information and ideas coming from the clusters,' so that strategy has a 'constant questioning ... of why and how we can do it better ... So that one gets 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'. By incorporating such a questioning attitude into strategic processes, a company is more likely to be able to conceive and reinterpret industry paradigms, creating the opportunity for strategic innovation (Kim & Mauborgne, 1999a, 1999b). However, such a questioning role needs to be complemented by both a learning orientation and proactivity (Aiman-Smith, 2005; Wright et al., 2001; Burgelman, 1983). Bank 1 emphasised the importance of learning with regard to its specific strategy, stating: 'It's been a learning curve in how we measure our progress'.

3.1.2 Strategic frontiers

Strategic frontiers capture the belief of having a future-oriented strategic perspective by strategising around the driving forces of an industry (Bates & Johnston, 2005). Bank 4 specifically emphasised a 'focus on future value, new things, and new sources of revenue and commercialising opportunities'. By contrast, Bank 5 adopted a management-driven approach to encourage a future perspective in their strategic discussions:

> We had leading experts from around the world just to come and speak to the management team on a monthly basis about various topics. They were only allowed to speak to the management team on the basis that they were living in the world of 2020.

Strategising around an industry's driving forces and macro trends was also clearly observed within the South African banking context. As outlined by Bank 3:

> There is a lot of research, particularly from our department: what is topical, what are the key risks that banks are facing ... what is happening in the environment in which we operate, the key drivers of the industry. Big changes in strategy normally come from big changes in technology.

This combination of a future-oriented strategic perspective and strategising around an industry's driving forces allows a company to identify the boundaries of its strategy, which, in turn, facilitates the process of questioning described previously.

3.1.3 Strategy development

The actual development process of strategies within strategic innovation advocates the use of a democratic and open model for development (Hough et al., 2011; Schlegelmilch et al., 2003; Hamel, 1996). However, the banks subsequently referred 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, and you've got bottom-up in terms of details and strategic initiatives that support the strategic objectives that have been set at board level.

It can thus be seen that strategy development in the South African banking context is moving towards a more democratic system. Bank 5 also described a highly collaborative environment around innovation initiatives:

> We sometimes run interviews within the firm; getting direct feedback from people based on ideas ... We sometimes get opinions from the rest of the firm, in that we ask for their views. We

> sometimes pull together teams within the firm to do temperature tests on the ideas, and bounce it off them ... We leverage the firm to test those underlying proposals.

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 (Schlegelmilch et al., 2003; Hamel, 1996; Burgelman, 1983). This was found to be particularly appropriate in the South African banking context, with the emphasis being 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, other banks adopted a more informal approach, as noted by Bank 4 when describing its strategy communication: 'It's just a lot of proactive communication, I would say. So, it's opportunistic, let me put it that way, we don't go and have a big strategy launch'.

3.2 People

The people driver is significant for the company internally and externally. Internally, a company's strategic innovation potential is affected by the competencies and behaviours of employees, management practices and managerial influences while externally the people driver is affected by the company's networks (Schlegelmilch et al*.,* 2003).

3.2.1 Employees

The competencies and behaviours required of employees present the challenge of creating a diversity of skill and competency mixes (Hough et al., 2011; Gupta & Singhal, 1993). Creating the correct skill mix is a popular strategy in South African banks, as stated 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. So you need the artists and the engineers ... diversity again key.

The importance of talent is emphasised by Bank 5, who commented on the behavioural aspects of employees, 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'. This emphasis on behaviour is further highlighted by Bank 2: 'Whatever your role is, there is a skill set, a competency set, but what is important to us are the personal attributes'. The alignment between these competencies and behaviours towards a company's strategy is well supported by Bank 1: 'You need to be able to credibly reconcile ideas against the strategy, or you're on the back foot'.

3.2.2 Management practices

The first area where management can influence employees' competencies and behaviours is via effective hiring and talent acquisition (Ritter et al., 2004). As previously mentioned by Bank 4, '... you have to have the right talent on board'. All participating banks cited the existence of extensive hiring processes in their company. For example, Bank 3 mentioned that: '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'.

Secondly, management can elicit employees' behaviours by means of the organisational structuring of the actual company and the work environment (Faems et al., 2005). The importance of considering both physical work environment and hierarchical structuring are relevant in the South African banking context with regard to both the physical work environment and hierarchical structuring. The influence of the physical work environment was expressed by Bank 4 in the following way:

> 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 executive level.

Bank 2 similarly elaborated that:

> If you have a formal hierarchical organisation it's a lot more structured. I think that there's a risk that you suppress innovation ...

A final measure that management can undertake to obtain the desired competencies and behaviours in employees is to formally recognise and reward them for their innovativeness (Collins & Clark, 2003). By using approaches such as performance appraisals, reward systems, incentives, and formal recognition, it is possible for a company to elicit employee traits that are deemed important (Collins & Clark, 2003). Such a tactic seems to be widely used in South African banks, with all the participating banks offering formal rewards and recognition programmes to encourage innovation. As Bank 1 asserted, one of the first initiatives to encourage innovation was to 'start formalising recognition and reward around innovation'.

3.2.3 Managerial influences

The top management of a company plays an invaluable role in defining its direction, operations, and structure and, as such, is vital in fostering a company's strategic innovation capacity (Lyons et al*.,* 2007; Bartlett & Ghoshal, 1995). As emphasised by Bank 3, 'one thing that is key, especially in a big organisation, is to get buy-in, and a lot of leadership is required to do that'. The top management of a company can strongly influence its strategic innovation potential by both formal and informal means, with both being equally crucial (Carmeli, Gelbard & Gefen, 2010; Barsh et al., 2008; Wright et al., 2001).

The formal commitment that top management displays will have various manifestations, playing a large role in fostering strategic innovation potential (Carmeli et al., 2010; Von Stamm, 2009; Bartlett & Ghoshal, 1995). In South African banks, the formal commitment of top management and leadership is well demonstrated. Bank 1 showed, in terms of strategy, that its leadership's commitment to a vision had 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 emphasised the importance of a formal commitment, commenting that 'CEO and Exco support also mitigate 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, who responded 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'.

According to Barsh et al. *(*2008), without a commitment that extends beyond the formal, any innovation is doomed to fail. Bank 1 supported this notion: 'As head of Innovation you have to walk the talk'. This view is reiterated by Bank 3, who, when referring to leadership, discussed the importance of 'the signals that you send, so people can see that their opinion is valued'. Bank 1 further commented that the leadership's role in innovation pertained 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'.

3.2.4 Networks

Every company forms part of a wider network consisting of multiple relationships that create a wellspring of resources and knowledge, which may be used to further foster strategic innovation capacity (Tidd & Bessant, 2009; Ritter et al., 2004; Schlegelmilch et al., 2003). For these reasons, as emphasised by Bank 4, 'external relationships always have an impact, absolutely, and a big impact'. Similarly, the South African banks that participated in this study appreciated the importance of the utilisation of networks and relationships for knowledge and resources. Bank 2 elaborated:

> We are 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.

However, Bank 1 saw little value in the use of third-party involvement for innovation:

> I think we have tended not to, by design, be into open innovation per se. 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 - third party engagement and third party innovation, but up until now it's played little to no role.

3.3 Culture

Culture is a tactic for fostering strategic innovation capacity. By actively managing an organisational culture, a company is able to influence the beliefs, values, and consequently the behaviour of employees. In doing so, an environment conducive to innovative rule-breaking strategies is created, namely strategic innovation (Martins & Terblanche, 2003). For these reasons, culture is seen as an increasingly important aspect for company success, as confirmed by Bank 3: 'Culture is a permanent differentiator, and the one thing this group has done is spend a huge amount of time on culture'.

Culture is a broadly recognised and accepted concept in South African banks, with all the participating banks actively attempting to manage and measure their individual cultures in order to realise predetermined goals. This management and measurement of culture fluctuates between formal and informal ways of structured events and roll-outs, to informal discussions and thinking shifts, as supported by Bank 2:

> To create a culture of innovation, you need to probably have a combination of structured events, of things that you do, have ideation workshops, give people exposure to market intelligence, go to conferences for these kind of things, but most valuable, make it part of people's mind-sets.

Bank 3 elaborated:

> We really go about measuring culture ... Employees' behaviour is 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, South African banks focus on the creation and facilitation of innovative culture to foster innovation capacity.

3.4 Resources

The focus of resources is on the physical capital, namely, technological and financial resources, available to the company.

3.4.1 Technological resources

Technology is widely recognised as a driving force of strategic innovation. The motivation for technology usage is created by its ability to drastically alter the value proposition in a market by means of novel solutions, or to create new markets in their entirety (Lee, Kim & Lee, 2012; Brem & Voigt, 2009; Chau & Tam, 2000). 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 & Veryzer, 2001).

The commitment to use future planning to determine technologies was supported by Bank 3:

> You might think all we are doing is absolutely focused on mobile, but 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.

3.4.2 Financial resources

Financial resources constitute a critical aspect of any company because of the premium placed on financial performance and profitability (McWilliams & Siegel, 2001). In order to ensure the best possible outcomes, and to mitigate the inherent risks associated with innovation, the use of multiple financial analysis methods for innovation is recommended (Tidd & Bessant, 2009).

Such an approach is frequently practised in the South African banking sector, with each bank implementing its own approach to financial appraisal for innovation, but commonalities are nevertheless present. The most simplistic model and means for evaluation used by some banks relate to building a business case and subsequent prioritisation. As Bank 4 explained:

> We look at which projects 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 agreed, but also used a more formal process-driven method, where:

> An investment board will look at the competing investment opportunities ... the project would be assessed in terms of potential business worth ... so you try to quantify as far as possible the net present value of the costs and the benefits.

Bank 5 followed 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. Alternatively, Bank 1 followed a less structured approach to analysis, remarking:

> We almost have a venture capital kind of model, in that there aren't necessarily innovation budgets within the business. ...The idea needs to be sold to the right people at the right time as being something worth pursuing and investing in.

4. CONCLUSION

The dearth of empirical research on the drivers of strategic innovation in South Africa prompted this study. Yet, innovation potentially galvanises product/service differentiation, which, in turn, enhances competitive advantage and market share. Furthermore, because of the importance of banks and financial services provision in national and global economic development, this study focuses on South African banks. The findings of this study corroborate the elements of the drivers of strategic innovation, as outlined by the literature review. All the expected elements were identified in the transcripts, confirming their relevance in the South African banks studied. The exploration of these elements provides a good starting point for financial service companies in South Africa to build innovation capacity. To improve the levels of strategic innovation capacity, the companies' focus should be on the following key elements:

- Strategy processes: Maintain an inquiring and future-oriented attitude during innovation strategy discussions.
- People: Consider sufficient investment in the human resource base to create diversity in employee competencies, which are aligned to strategic needs and objectives.
- Culture: Create an environment that supports and fosters innovative employee behaviour that becomes a source of competitive advantage.
- Resources: Stay abreast of the latest technological trends that may potentially influence the company and use them to exert immense technological leverage in innovation discussions.

The qualitative nature of this study restricted it to a purposively selected group of innovation specialists in South African banks. The authors acknowledge that alternative financial sectors may experience the elements of the drivers of strategic innovation differently. For this reason, caution should be exercised in generalising the findings of this study. However, this limitation provides two areas for future research. Firstly, a replication of this study in an alternative sector of the financial service industry offers a fruitful research avenue. Secondly, replicating this study in a different geographical context will help to validate or refute the findings of this study. Such replication studies will help to build a literature on comparative national studies of the elements of strategic innovation drivers, which is presently scanty.

Strategic innovation has increasingly become important in the increasingly hostile and competitive global markets. Companies leveraging the drivers of strategic innovation have the opportunity to create a significant source of value. This value will benefit not only the company, but all stakeholders, thus confirming the ability of strategic innovation to ultimately contribute to the economic growth and development of a country.

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