Gordon Institute
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Transforming financial services by partnering with technology start-ups

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Abstract

In the changing and competitive landscape of financial services in South Africa, there is an emerging force that is challenging the existing operational processes of the major corporations. This force is a group of skilled entrepreneurs with the technical skills and in-depth process knowledge, that are targeting existing processes, redesigning the rules and in some cases creating new rules. Advancement in technology enables these start-ups to disintermediate existing business and offer personalised niche offerings.

Financial services corporates are in a unique strategic position where the business environment and industry forces are changing, bringing the risk of new entrants that are competing for market share in an economic climate that is influenced by many factors outside of the businesses control. Deficiencies in internal capabilities coupled with a historical rigidness in change execution, are creating the opportunities for the start-ups to compete or partner. The focus of this research is on the transformation of financial services by partnering with start-ups. Data was collected through in-depth, semi-structured interviews with leaders from four financial services corporations. The researcher analysed the benefits of this relationship, evaluated the decision-making factors and identified design patterns that can be applied to these partnerships.

This study contributes to the literature and management practice of assessing and implementing strategic partnerships with entrepreneurs to create capabilities and competitive advantage, to generate value for the corporate's stakeholders.

Keywords

Financial services, Start-ups, Fintech, Insuretech, Partnership factors, Capability

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Chapter 1: Introduction to Research Problem

Introduction

In the changing and competitive landscape that businesses operate in today, disruption is an emerging force that might deliver new competitors or products and services to the market. Change is a feature of the economy that shifts the way business is executed (Pisano, Pironti, & Rieple, 2015). To protect organisation relevance and stakeholder value, companies turn their attention to entrepreneurs in the digital economy to identify alternate business models that enhance their value proposition and improve the competitive advantage of their companies. These technology-driven entrants can exploit technology with little to no business process constraints and do not have to manage the financial strain of legacy technology that many of the financial services companies do (Gomber, Kauffman, Parker, & Weber, 2018). The digitisation of products and services allows organisations to leverage greater flexibility by delivering the contents of the products or services through different channels (Yoo, Henfridsson, & Lyytinen, 2010).

Who are the key role players in the current business environment?

Economic conditions within South Africa are challenging, and business impact is exacerbated by market conditions, global and local competition, declining GDP growth, rising debt levels and rising unemployment. The resultant impact of the economic climate is threatening the downgrading of the credit rating to below acceptable investment grade 'junk status' (Cotterill, 2019). The focus of this study is placed on organisational senior leadership teams and technology start-ups as there is an apparent rise in investment appetite of the private sector to exploit these possible relationships in the pursuit of building capabilities that offer the opportunity to create competitive advantage and generate value (Teece, Peteraf, & Leih, 2016). In the global and local business environment, senior leaders are at a constant challenge to continue delivering value to stakeholders, which is primarily delivered through company performance. Growth is pursued through two measures: firstly, increasing revenue through innovation and secondly, delivering efficiency in the form of cost reduction. Technology start-ups leverage new technologies or apply technologies in a new or different manner to deliver value to the end-user (Nylén & Holmström, 2015).

Both actors have unique challenges that must be overcome to succeed and deliver value to stakeholders. Organisation senior leaders have the weight of decision making to utilise the available resources in the best way for the stakeholders as well as operating their respective businesses within the rules and constraints that exist for the company, industry and government. Start-ups have the enormous task of navigating the complex life cycle that an entrepreneurial firm must progress through. Picken (2017) proposes four key stages of development that must be progressed through: start-up, transition, scaling and exit. The valuable learning from this research is that the foundation that must be laid to enable successful scaling.

What role do incubators play in the growth needed?

Technology business incubators are recognised globally in many forms or mechanisms: incubators, innovation centres, science parks, seed accelerators (Mian, Lamine, & Fayolle, 2016). These mechanisms are crucial in supporting innovation and technological entrepreneur growth. Given the National Development Plan (NDP) target of job creation by 2030 (Government, 2015), it is imperative that the efforts are genuine, as small to medium enterprises (SMEs) and small, medium and micro-sized enterprises (SMMEs) growth is vital for achieving this objective.

Mian et al. (2016) performed a study where they analysed the research performed on business incubators, and their findings show the evolution of the business incubator industry over the past 70 years. As at 2016, they reported 7000 incubators globally, a third of this population being technology-oriented. Kelly and Firestone (2016) from the World Bank reported in the World Development Report that 117 technology hubs across the African continent had brought success in the form of new ideas, job creation and company formation but they also have a high failure rate. The resulting incubator mechanisms will be studied in more detail to assess the application across Africa.

Significant resources have been invested in incubator programmes by government and private firms. These incubators aim to expose and develop innovative start-ups to either self-sustain and grow or to be integrated into established organisations (Lose & Tengeh, 2015). The impact on SMEs, though, is not well documented in the context of South Africa.

What role do senior leaders play in addressing the challenge?

Senior leaders that are accountable for their company's growth and delivering stakeholder value are key decision-makers with the responsibility of exploiting and leveraging the capabilities that exist or the identification and creation of new capabilities. The intent is to drive the creation of dynamic capabilities that deliver competitive advantage and the respective growth for stakeholders (Teece et al., 2016). Rapid technological change is forcing the product development lifecycle to be reduced and hence, the option of innovation through start-ups is attractive. Start-ups have the contextual advantage of not harbouring legacy challenges and positioned to exploit greenfield application of technology-oriented solutions to solve customer needs.

The business environment is not forgiving and will not wait for innovative products to scale, this pressure in all likelihood, forces senior leaders to be more demanding and less forgiving when the time to scale does not align to their business needs. Even with substantial funding, venture-backed firms are still failing (Picken, 2017; Ruhnka, Feldman, & Dean, 1992). Picken (2017) proposes that there are foundation layers that need to be addressed in the early stages of a start-up's development. The author will assess these as potential contributors that influence the demise of start-ups, and this will be linked to the organisational constructs that guide these partnerships or investments.

Incubators aim to assist start-ups to survive, scale and grow, but does the model in South Africa enable the investing company to partner and help grow the founder and business to create a more proper fit when the venture has reached its ability to scale as a commercially viable product or service? Senior leaders could play a pivotal role in developing a healthy pipeline of research and development that affords alternative business growth options as well as reasonable speed to respond to competitive forces that are continuously changing in the business environment

What is the current state in financial services?

The South African financial services companies offer some of the most advanced products and services that compete globally. Established companies across banking and insurance dominate the industry. The competitive landscape is in a state of change as new entrants are embracing digital-led business models and cross border partnerships. In a saturated market, competition is high with consumers having a low cost of switching service providers across the retail sector. Companies are moving at a pace to meet or exceed new market offerings that are expected over the coming years. The traditional competitors are grappling with similar issues of legacy-based cost as well as high regulatory and compliance cost that is common to this industry.

One of the notable compliance cost that is being dealt with a strong focus across financial services is the broad-based black economic empowerment (BBBEE) codes of good practice. This act influences the organisational structure, leadership and ownership construct as well as the enterprise and supplier development obligation of the industry. For this research, BBBEE Enterprise and Supplier Development will be assessed as a driver of decision making for investing in innovation outside of the company.

The proliferation of knowledgeable start-ups targeting the profitable portions of the value chain that have low regulatory requirements is increasing on an annual basis (Lee & Shin, 2018). The dominant players are in a state of rapid competitive change where consumers have access to an improving service offering that attracts competitive pricing. Will these companies maintain and grow their position by creating the requisite dynamic capabilities and competitive advantage (Teece et al., 2016)? How much of this change will be delivered from internal development, and how much will emanate from the start-up industry that is increasing across the continent?

Conclusion

With the increase in new entrants to the financial services industry from 2018, it is of importance to the author to obtain a deeper understanding of the strategies being employed to protect customer base and differentiate service offerings with an innovative offering that delivers value to customers and stakeholders. By building on existing research on dynamic capabilities, business incubators and technology innovation, the author aims to offer a practical model that can be used in conjunction with existing constructs by senior leaders to improve these partnerships and success rates as the growth in SMME’s is critical to the South African business environment.

Chapter 2: Literature Review and Research Questions

The Rise of Fintech globally

Fintech is an industry that has spurred into existence over the last few decades, consisting of ventures in start-up areas that focus on utilising technology to offer services in different ways to traditional financial services companies. Gomber, Kauffman, Parker, and Weber (2018) discussed the Fintech Revolution and used an authoritative definition of financial service, adopted from Hatzakis, Nair, and Pinedo (2010), as firms that operate across retail banking, commercial lending, insurance and asset management. These firms are significant contributors to the global gross domestic product; in 2016, they accounted for 7.3% in America and 5.1% in Europe (Gomber et al., 2018). Significant investment in the fintech industry is stimulated by the growth opportunities that exist, and start-ups can design and implement new solutions to meet customer needs in different ways to big financial services companies. This attractiveness is quantified by growing investment in the industry, as at the last quarter of 2017, it was noted that $80.4 billion was contributed globally (Gomber et al., 2018).

The start-ups are leveraging "technology innovation, process disruption and service transformation" (Gomber et al., 2018, p.224). Technology innovation refers to the rapid and ever-changing technology environment, and process disruption is a result of the start-up founders having an in-depth understanding of the legacy business process and customer need and tackling this in more direct and accessible manners. Service transformation is a resultant effect of the application of the previous two focus areas, setting the path to operate and access financial services in innovative ways. Advances in infrastructure, data and mobile device technology enable start-up's to disintermediate financial services by leveraging this technology to offer personalised niche offerings (Lee & Shin, 2018). The challenge with the aggressive advancement in the start-up's offering is the customer uncertainty that was raised, as they may be worried about the security of the solution or be unsure about their knowledge and skills when consuming the offering.

FinTech's usually transfer traditional banking services or portions of the value chain onto digital platforms, by breaking bank processes into components and introducing savings in the redesigned processes (Königsheim, Lukas, & Nöth, 2017). Start-ups do not have the constraint of legacy technology, business model and process, sizeable salary bills and other respective costs that resulted from the evolution of financial services from the 1970s. The cost and risk associated with developing value-creating innovative products or services are high, and financial services firms cannot compete with the agility that start-ups have. Gomber et al. (2018) suggest outsourcing this activity to leverage the benefits that start-ups have.

Capability building and competitive advantage

Financial markets were affected by the internet revolution in the 1990s, this revolution brought about technological advances that changed the face of financial services and led to the development of e-finance. E-finance means offering banking, insurance, stock trading and other services through electronic methods linked to the internet (Lee & Shin, 2018). The growth of the smartphone user base facilitated the growth in mobile finance which enabled the developments in mobile payments and other banking services (Lee & Shin, 2018). These ordinary capabilities (Teece et al., 2016) have primarily been developed and owned within the financial services organisation. Lee and Shin (2018) argue that fintech innovation emerged after the 2008 financial crisis, where founders combined e-finance, mobile technology, social networking, big data analytics and other emerging technologies to differentiate and offer personalised niche offerings that challenge big financial services products and services. Nylén and Holmström (2015) suggest that these enhanced offerings deliver a richer user experience.

Managers in prominent financial services firms are being challenged to hone in on new skills to manage higher levels of uncertainty as rules are being challenged and in some cases, rules are being rewritten by the start-up’s (Teece et al., 2016). Financial services have also embarked on the journey to introduce organisational agility, the ability to redirect its resources to value-creating, protecting and capturing initiatives (Teece et al., 2016). Kock and Georg Gemünden (2016) propose a model that could improve organisation agility, suggesting that decision making of leaders should factor in strategic clarity, process formality, controlling intensity and the risk climate where turbulence in the organisation or market is known. These aspects are enabling financial services firms to focus on assessing current capabilities and addressing gaps through internal development or partnering with specialists that have the capabilities.

Major financial services have implemented strategic responses that range from collaborating, competing and even coexisting. When engaging with these start-ups collaboratively, they have drawn on the capabilities that have been developed in exchange for funding in varying forms (Lee & Shin, 2018). This change in approach enabled the building of dynamic capabilities (Teece et al., 2016) where industry players can sense, seize and shift more rapidly as the business environment changes. Depending on the strategic fit, the collaboration also created more opportunities for integrating these capabilities into the more prominent firm's business.

A supportive innovation environment requires continuous learning of new technologies to understand their uniqueness (Nylén & Holmström, 2015). Firms and staff should focus on this vital factor to prepare internal talent as well as identify opportunities to augment with external skill and create dynamic innovation teams with the skills to match the requirement of a project.

Entrepreneurial behaviour of start-up's

Sarasvathy (2001) proposed a theory on effectuation, which guides the thinking that entrepreneurs display behaviour patterns that align closer to effectual reasoning than causation. The four principles that she suggested are affordable loss, strategic alliances, contingency exploitation and controlling an unpredictable future, and this aligns to the start-up's industry that is focussing on financial services. Fisher (2012) further compared the theories of effectuation and causation and added bricolage, in his study he furthered the thinking that the entrepreneur's progress is centred around actionable opportunities, action orientation, communities and resource constraints. These constructs enrich the behavioural patterns that start-up's display in their chosen markets.

Entrepreneurs are more likely to focus on the actions that can be achieved through the resources they can control, and these actions often result in testing ideas and solutions with customers as soon as possible to overcome hurdles in the process of creating the start-up's (Fisher, 2012). Naumann (2017) performed a textual analysis and identified five core attributes of the entrepreneurial mindset that influence and shape their behaviour. The core attributes are goal orientation, heuristic decision logic, alertness, prior knowledge and social interaction. Naumann (2017) further proposed the linkage of the entrepreneurial mindset to entrepreneurial trait theory, resource-based theory, strategic entrepreneurship and entrepreneurial education. These linkages all propose that various factors influence the mindset as an individual develops, creating the cognitive ability and confidence to take action.

Business incubator – overview

Technology business incubation began when the Stanford Research Park was opened in California (1951) and the first incubator program, Industrial Centre of Batavia, was founded in New York (1959). The possible mechanisms that exist are incubators, innovation centres, science parks or seed accelerators, and their objectives are defined by the scope and location of the initiative. These initiatives are property-based, providing tenants with office space and business support services and ecosystem integration (Mian et al., 2016). Accelerators emerged as a new mechanism of technology-based incubators emerged around 2005, and by 2013 this number rose to 213 across the world.

Business incubators have been studied extensively over the past 70 years, as noted in the study by (Mian et al., 2016). By combining the learning about the mechanisms that exist and financial services benefits and challenges, the author aims to address the first research question:

> *R1 – Analyse the benefits for financial services companies entering into relationships or partnerships with start-ups?*

Start-up foundation layer and strategic execution

Picken (2017) consolidates the input of academics before him on the life cycle that start-ups follow, and presents a flow of start-up, transition, scaling and exit. The founder of the start-up defines and validates the concept they aim to focus on with both a commercial and technical mindset. Transition is the time when the start-up gains momentum in a chosen market. This is the point when the product or service offering is completed to a useable and saleable level. This period should deliver the opportunities for scaling the business concept, hence entering the next phase of the lifecycle. In a growing start-up, this would be the time when resources are added to the venture to support the realised business plan. Consistency in performance and profitability should lead to what the author calls exit, and this would be through a sale, acquisition, integration, or leaving the support of an incubator to operate as a self-sustaining company.

The transition phase is positioned as one of the most critical phases of the life cycle because this is when the founder with the support of the incubator would be laying the foundation that would set the venture up for success. Activities focussed on in this stage would be establishing credibility and acquiring of resources to scale. Management team dependency grows significantly from this point onwards, and founders tend to need to adjust leadership style and behaviours as their actions now impact the brand and product or service being offered. Leadership inability to meet rising challenges, and management inexperience, is often cited as leading contributors to failed start-ups (Picken, 2017). This phase is also the point when investors can flex their voting right (generally associated with equity in the start-up) or influence on the leadership to steer the performance of their investments (Ewens & Marx, 2018).

The eight hurdles that Picken (2017) suggests should be addressed to create a strong base to scale from were compared in table 1, simply albeit, to the eight managerial tasks that impact strategic execution (Thompson, Strickland, & Gamble, 2008). The author attempted to identify if there were similarities, and it was evident that there were actions in both lists that were very similar. Notable items were setting direction and exercising strong leadership; building and shaping culture as well as building financial capability. These activities are critical and form the basis of the company being built, missing any of these hurdles would inevitably expose the start-up to elevated risk as the effort to scale grows.

Table 1: Comparison of hurdles and managerial tasks

#	Picken's hurdles	Thompson et al. managerial tasks
1	Setting direction and maintaining focus	Exercising strong leadership
2	Positioning products/services in an expanded market	Install systems and process that enable successful execution of activity
3	Maintaining customer/market responsiveness	Tying rewards to achievement
4	Building an organisation and management team	Adopting best practice and continuous improvement
5	Developing effective processes and infrastructure	Building an organisation with competencies and capabilities to execute strategy
6	Building financial capability	Marshalling finances and people
7	Developing an appropriate culture	Shaping the work environment and culture
8	Managing risks and vulnerabilities	Implementing policies and procedures

Financial services industry forces

The author focussed on the financial services industry to develop a thematic view of the current industry forces (Porter, 2008). Financial services are highly regulated businesses, the established dominant companies have flourished in this position, as the barriers to entry are high due to the cost of compliance, infrastructure and required business processes. Changes in the competitor landscape of the preceding decade (from 2010) indicate that the risk of new entrants has been rising. Consumers have low switching cost, and due to product and service similarity, the impact to the customer is low enough that it affords the buyers as a collective high power. Supplier bargaining power and substitute products have remained low, though new technologies like distributed ledgers (the technology that cryptocurrency is developed on) are elevating risk to the point where the banking and insurance industry are actively pursuing research and development to prepare their offerings that would protect their current position, possibly even create competitive advantage. The effect of this simple analysis indicates and supports the view that rivalry amongst the industry competitors is high, and market share in specific segments would be targeted consistently, creating an overserved market.

The sources of competitive advantage are a function of low cost and differentiation. The author considers the dominant financial services firms in South Africa as mostly performing activities efficiently, and to a lesser degree offering products and services that deliver customer value in manners that exceed those of competitors (Porter, 1986). Financial services are embracing digitisation as a channel that could increase the distribution and consumption options available to customers (current and future). This activity links to the practice of business model innovation, a topic that has been studied extensively from 2000 (Foss & Saebi, 2017). Activity in financial services pursuing similar objectives could be classified as adaptive business model innovation, where the architecture introduced or changed is not new to the industry, but for the company. This experimentation where digital service is combined with the business value chain results in a digitally enabled business model that creates a possible competitive advantage for the company.

Considering the common challenge that financial services face in digital enablement, there is surprisingly a low amount of academic input on the factors (Königsheim et al., 2017). The author aspires to contribute to the knowledge base by defining the factors of the current environment and address the second research question:

> *R2 – Evaluate the factors driving this decision, particularly in relation to changing industry forces and the competitive landscape?*

Start-up management – innovation, founders' roles, funding sources and venture capital decision making

One of the possible factors that contribute to the rising level of entrepreneurs entering the start-up space is the overly optimistic and confident opinion these founders hold about their view on a product or service offering and the success that will follow

(Dubard Barbosa, Fayolle, & Smith, 2019). The innovativeness of the founder could also be a determining characteristic that influences success or failure (Hyytinen, Pajarinen, & Rouvinen, 2015). The balance required across the strategic implementation capability is delicate and requires experience and knowledge. Start-ups need to focus on building a company while creating the required capabilities with typically limited resources. As the scaling phase approaches their choices for funding this growth approaches. Once self-funding has been exhausted by the founder(s), equity and debt financing are the next options available, and each comes with their benefits and disadvantages. How can financial services deliver against strategic challenges using these characteristics, and what relationship is needed with start-ups to help grow the venture, in so far as the capability that can be leveraged enhances the competitive position for the company?

Traditional project portfolio selection methods rely on cash forecasting and the utilisation of financial management calculations like the internal rate of return or net present value to measure if an initiative generates value (Firer, Ross, Westerfield, & Jordan, 2012). Nawaz (2018) performed a study on value creation in banking and utilised 'Return on Assets' as a preferred profit measure, and this was used to compute the contribution on human capital, organisational capital and financial capital when the assets were completed and utilised to capture value through business operations.

Leaders of the start-up generally wear multiple hats (Mathias & Williams, 2018) and these change as the venture grows. Lack of skills or knowledge could adversely affect the outcomes at growth milestones. While incubators aim to provide support to bridge this potential gap, there is evidence that shows active investors can force the changing of hats (Mathias & Williams, 2018). In the early and scaling phases of the start-up, founders affiliate to the various roles they fulfil, the changes expected and enacted are a result of what they enjoy, and what they are successful at. This realised path is one that sets the venture up for success and also creates the opportunity for financial services firms to help grow the start-up in a way that creates cultural similarity. The author will test for the applicability of this relationship and journey in successful integration to the value chain of the financial services provider.

Culture and the effect on decision making

As highlighted in Table 1 above, founders need to focus on building a culture that fosters achievement but the impact of culture on the decisions made by the founder and funder has not been understood sufficiently (Laskovaia, Shirokova, & Morris, 2017). In their study, Laskovaia et al. (2017) draw on the causation and effectuation theory (Sarasvathy, 2001) and assesses how country culture influences the founders' decision making. A proposed model by Laskovaia et al. (2017) is tested where countries can have either a performance-based culture or a socially supportive culture and this, in turn, influences the causation or effectual reasoning that ultimately influences the performance of the start-up. The reasoning used should not be viewed as a simple dichotomy, and the ability to be ambidextrous in approach is crucial as start-ups engage with varying contexts and process challenges (Laskovaia et al., 2017).

Corporate have their own culture that exists and need to focus on the environment needed to enable successful engagement in creating new capabilities or enhancing current capabilities. Each organisation will have their own design and history of experienced through managing change, Christenensen (2001) proposed that culture results from assumptions and beliefs that are formed by staff and leaders over their history in the organisation. Change can follow two approaches as Beer and Nohria (2000) argue, Theory E focusses on economic value, and Theory O is based on organisational capability. Financial services have faced declining shareholder value in a harsh economic climate thereby favouring leaders that employ Theory E approaches to enhance shareholder value with tactics that largely involve cost reduction activities (Beer & Nohria, 2000).

Financial services corporates have significant scale contributing to the global gross domestic product; in 2016, they accounted for 7.3% in America and 5.1% in Europe (Gomber et al., 2018). The organisational structure employed to deliver on innovation varies per business and Hashimoto and Nassif (2014) suggest design principles that reduce hierarchical levels to accelerate decision-making, leaner structures that increase information flow and less centralised structures to promote manager autonomy and resource control.

The author aspires to address the third research question by defining the relationship patterns and cultural influence that exists or is needed to influence the business model that start-ups could utilise to improve their performance and integration opportunities.

> *R3 – Identify optimum patterns that can be applied to grow and integrate start-ups into the business model?*

Chapter 3: Research Methodology

The research problem and resulting research questions required the author to obtain the social actors' interpretations of the event and actions in their world (Saunders, Lewis, & Thornhill, 2009). The complexity of business situations and the uniqueness required the author to adopt an interpretivist philosophy to the study. The study was primarily inductive, due to the interest in the reasons as to why the actions and behaviour are the way they are, and to better understand the problem. The qualitative method was used to analyse the data collected. The context surrounding the decisions and actions was essential, hence, the variety that was available in qualitative methods allowed the author to establish different views of the problem (Saunders et al., 2009).

The study was qualitative as there was limited technology start-up and financial services research performed in South Africa, resulting in insufficient established frameworks to test. The opportunity this provided to the author was one where richer and more profound understanding could be obtained by utilising the qualitative approach. The author adopted a mono-method as the preferred choice and obtained data through interviews with senior leaders and decision-makers in the chosen sample and then combined this with qualitative data analysis procedures (Saunders et al., 2009).

The explorative study was valuable for identifying the situation, the context at that time and looking at the events in a different way (Robson, 2002). The expected outcome was to consolidate the author's understanding of the problem and build a more nuanced view of the trends in the industry. The search of the literature and 'expert' interviews was performed to derive the research (Saunders et al., 2009).

The case study strategy was used to gain a rich understanding of the context and the actions taken in the sample cases, which enabled the author to better understand the 'why', 'what' and 'how' in the respective contexts (Saunders et al., 2009). The intention was to adopt a multiple case approach to establish if the findings from one case appeared in the others, and this positioned the author to generalise across the population (Yin, 2003).

The study was cross-sectional as it was a study of the event at a point in time. Case study data was based on information from interviews over a short period in 2019. Interviews were the primary technique used, specifically semi-structured and in-depth interviews were required to obtain clarity of the problem and the context. The author utilised observation, documentary analysis and an interview guide when assessing the cases as this assisted the author to triangulate multiple sources of data. Triangulation assisted in ensuring that when analysing the data, comfort could be placed on the validity of the insight being formed.

Population

The industry that this study focussed on was financial services (specifically the commercial firms in banking and insurance), the author analysed holistic cases that were available (Saunders et al., 2009). The commercial financial services firms in South Africa were limited, and a population of circa 12 cases was identified.

Unit of analysis

Yin (2003) suggested that for case studies, the unit of analysis could be either holistic or embedded. The author treated each case as a whole, therefore the holistic case strategy was used. This choice enabled the author to perform analysis that informed the research questions at the organisation level and define the unit as views from the participants in the research.

Sampling method and size

The population and strategy required the author to utilise non-probability sampling techniques based on the authors' subjective judgment. By using the decision flow for selecting a sampling technique proposed by Saunders et al. (2009)**,** the author arrived at purposive heterogenous sampling. This technique was useful for the strategy, purpose and research questions as the outcome will be that of identifying key themes, a strength as noted by (Patton, 2002).

The sample size of five cases was selected from the population of 12 for the study, and this conformed to the assumed population and likely cases needed for analysis in the time frame that was available. This approach resulted in a collection of 10 interviews across the case sample, which allowed for saturation in the study, as per Guest, Bunce, & Johnson (2006).

Measurement instrument

The measurement instrument was an interview schedule which had the critical characteristics that the study aimed to explore, as per Annexure A (interview guide that was utilised in the research). This schedule was designed and tested, explicitly avoiding closed, leading, ambiguous and unanswerable questions. Sequencing was finalised pre-interview, and the guide was shared with the interviewee in advance to ensure s/he was aware of the expectations of the researcher.

A pilot interview was conducted with a stakeholder (who had previous exposure to the research problem and activity), that the author had access to, as a result of convenience to test the content and formulation. To address validity, the author was descriptive to ensure factual accuracy was documented. Triangulation was executed to enhance the validity of the data from the interviews, incorporating observation and documentary analysis.

Data gathering process

Data were collected through semi-structured, in-depth interviews that were conducted with various stakeholders from the five cases. These interviewees included senior leaders and decision-makers that have been involved in partnering with technology start-ups. This approach was followed to obtain rich insights into the context (Saunders et al., 2009).

Face to face interviews were conducted, and a structure was followed to guide the conversation and make the most efficient use of the time that was made available by the interviewee. The author believes that the method was essential, as fully understanding the context required more than just words. The objective was to obtain quality responses to the questions and not to rush through all the questions in the initial meeting. A letter of advice and request for permission to record the interview was sent to the interviewee in advance. The option for anonymity to the respondent and organisation was offered and accepted by all participants. All of the participant's names and company names were removed to meet the commitment of the author to retain anonymity.

Table 2: Participants, Industry and Role

Company Pseudonym	Industry	Role	City
Alpha 1	Banking	Managing Executive	Johannesburg
Alpha 1	Banking	Head of Digital	Johannesburg
Alpha 1	Banking	Chief Information Officer	Johannesburg
Alpha 1	Banking	Managing Executive	Johannesburg
Beta 1	Insurance	Chief Operations Officer	Johannesburg
Beta 2	Insurance	Business Manager	Johannesburg

Alpha 2	Banking	Head of Digital	Johannesburg
Alpha 2	Banking	Head of Change	Johannesburg
Beta 1	Insurance	Chief Information Officer	Johannesburg
Beta 2	Insurance	Chief Operations Officer	Johannesburg

The author needed to be actively aware of the potential interviewer and interviewee bias. The interviewer should have no bias as he was not actively involved in events of that nature in his career. The interviewer prepared adequately (specifically having reviewed knowledge about the research topic and the organisation or situational context) and paid attention to issues like timekeeping, professional attire and factual accuracy driven conversation to try and eliminate any potential cause of bias on the part of the interviewer. The researcher ensured that the location of the interview was set to be convenient and comfortable for the interviewee. The agreed locations were quiet enough to be able to have a detailed conversation.

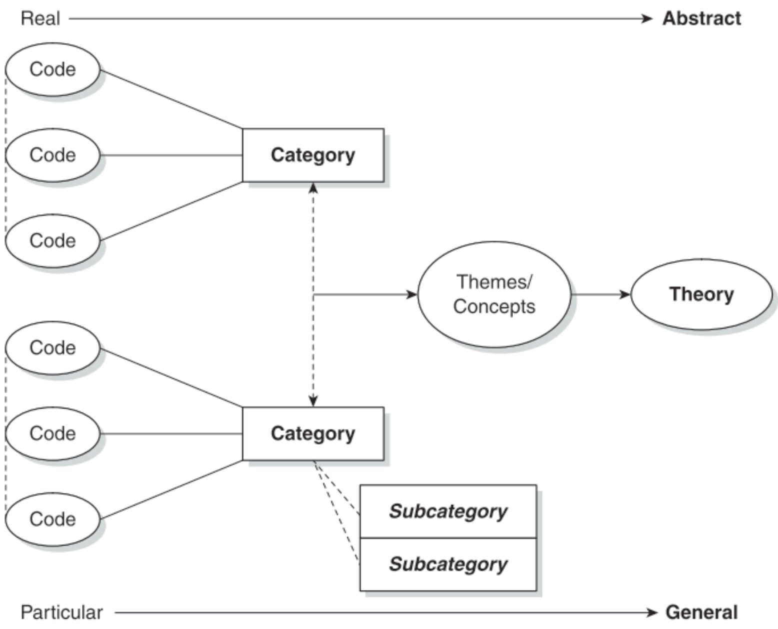
Data Analysis

The analysis was concerned with the identification and documentation of key themes and uniqueness about the cases (Patton, 2002). Details from the interviews were recorded and transcribed. The exploratory study required the author to make adjustments and not be fixed to a single direction or planned outcome. The interactive nature of data collection and analysis allowed for the comparison of data already collected, as well as an adjustment to the approach for proceeding data collection to test if data did exist on the theme.

A primarily inductive approach was executed using the research purpose to centre the data collection and analysis process. Qualitative analysis was performed by utilising Atlas.TI once the transcripts were checked and uploaded, for the purpose of deriving theory. The flow that was followed was as cited by Saldana (2015), by identifying codes, grouping those codes to categories and then establishing themes (refer to Figure 1).

Analytical induction was a process that would help the author to analyse and compare themes across the case study from the data that was collected (Saunders et al., 2009).

Figure 1: A streamlined codes-to-theory model for qualitative inquiry



Reliability and Validity

Reliability of the study was addressed by ensuring the standardisation of the data collection techniques chosen, and interviews were directed at a similar organisational level across the organisations. This enabled the capturing of data that was at a similar level regarding the impact and strategic insight. Golafshani (2003) suggests that the inspections and analysis of raw data (interview transcripts for this research) contributes as a measure to achieve consistency, and this consistency relates to the validity of this qualitative study.

It was further noted that the generalisability of results increases the validity of the research, and this was further linked to the reliability of the study. Given the population of 12 financial services corporates in South Africa and the low product and service differentiation, the author believes that it may be possible to generalise across the industry. The researcher utilised multiple methods in the data collection and analysis process incorporating observation, interviews and recording, and this approach increases the validity, reliability and diversity of the results that were constructed (Golafshani, 2003).

Limitations

- The completeness of the holistic view per case study could be enhanced by interviewing different levels from the chosen participant organisations. The author aimed to interview leaders and senior management to inform this study.

- The assumed population consists of the prominent commercial financial services firms in South Africa, and the sample was four of these firms. The ability to generalise across the financial services industry may be possible, but a study of the effect of strategic response that may be implemented and the fact that new entrants are joining the industry would need to be performed.
- The quality of the data extracted may be lacking as a result of the choice to conduct face to face interviews, which required a significant level of competence (Saunders et al., 2009), the author was not formally trained in this skill.

Chapter 4: Results

Introduction

This chapter presents the findings from the interviews conducted with the financial services participants. The key findings are presented and aligned to the research questions posed in the earlier chapter. The results are presented based on codes and categories that were identified by the researcher in the qualitative analysis of the interview transcripts (Saldana, 2015), the author identified 116 codes and 18 code groups (categories). Refer to Annexure C for the codebook from Atlas.TI. This process provides insights into the benefits for financial services companies entering into relationships or partnerships with start-ups, factors driving this decision in an environment where industry forces and the competitive landscape are changing, and patterns that can be applied to grow and integrate start-ups into the business model.

Description of participants

Participants that were targeted to participate in this study occupied senior roles within the South African corporate financial services sector, focusing on banking and insurance providers. The participants roles ranged from Managing Executive, Head of Digital, Chief Information Officer and Chief Operating Officer and where either involved in decision making or leading and executing innovation that involved partnering with technology start-ups. These start-ups were companies that operated across the finance, insurance and regulatory technology disciplines.

A total of 10 interviews were conducted across four financial services companies. Two were from the banking sector and the other two were from the insurance sector. All participants that were interviewed were based in Johannesburg, South Africa. All interviews were done at the participants place of work to assist in the researcher minimizing impact to their daily business and schedule. All interviews were scheduled for 60 minutes, and each participant received the interview guide beforehand to give them insight about the intent of the research questions before interviews occured.

Results: Research Question 1

Analyse the benefits for financial services companies entering into relationships or partnerships with start-ups?

This research question aimed to understand the business challenges and the problems that have been identified for solving, then focussing on which problems were being addressed through partnerships with start-ups. These approaches were then probed further to obtain deeper insights on the perceived or realised benefits from the partnerships.

<u>Attractiveness to corporates</u>

Most participants spoke about the uniqueness of the start-up's products and services and the need for it to be tested in market. Corporates appear to want to engage with businesses that know what they are doing both at a technical and business operations level. There appears to be low appetite for idea sponsoring, working offerings with active customers appear to be what is targeted.

> *"unique proposition or technology that it's using."*
>
> *"doesn't necessarily have to be a unique technology, but it might be in the way that it's packaged"*
>
> *"It's not just about the solution, you're not buying only a solution from them. But you also buying capability, and relationship"*
>
> *"they also come with a very deep-rooted expertise, and they come already with the product that they've already pivoted in the market."*
>
> *"I want to have a proven track record that they've build a product that they have tested the market, I have a very low affinity for engaging a start-up's or a FinTech, that is pitching an idea."*
>
> *"We still going to ask have you piloted. Have you touched, targeted that market or what does it markets size look like and what is the take up rate on that? We're still going consider our appetite for risk on it."*
>
> *"So I think the technology needs to be proven. So it needs to be productionised."*
>
> *"What we would look at is applicability and accessibility to our market, their uniqueness and skillset. If they could provide unique products and are effective, that will make us consider them."*

A success factor that was noted some of the participants was the potential opportunity of a start-up's offering and their readiness to scale once they have access to a customer base, a few participants were direct and concise about their expectations.

> *"They literally can come in and white label it tomorrow"*
>
> *"I look at how resilient the start-up's is. So is this a scalable solution?"*

“how scalable is that business?”

“We had a group of actuaries come sell us a product. And back at the ranch, they were managing it, you know, four or five actuaries on a spreadsheet. And, the solution was not scalable, you need to actually build a system to manage it.”

All of the participants made specific note of the speed that start-up’s can develop at, often contrasting this against the time taken within their corporate entities to progress in internal development. This speed is influenced by the differences in governance and standards employed.

“start-ups are generally quicker with delivery; they are hungrier than corporate staff.”

“we normally want to engage a start-up’s because you want them to do something and their velocity of building the capability is in many instances quite fast, because they are not locked in the bureaucracy that normally exists within an enterprise.”

“it's the agility that you get out of those businesses more than anything else”

“I think start-ups are nimble. They're not bogged down with corporate structures, bureaucracy, they are able to focus better, I think they're also able to get better skilled, able to attract talent.”

“I think one of the reasons, predominantly, most banks engage with the start-up’s is ease of access in terms of technology, as well as the pace at which we can actually develop a new system outside of governance and regulation, before implementation.”

“proof of concepts and proof of solution, which kind of helps us understand, before we embark on any solution, whether or not the solution will work in solving a business problem.”

“To a great extent as they are sometimes, quicker and faster in they are offering.”

“What is important to look at is the cost of engagement and to analyse the capability. If they can provide quality products that is cheaper than developing in-house, we would consider a start-up.”

“It will definitely be their ability to understand, analyse and solve complex problems in the industry”

“it will allow us the speed to market that will be quicker”

All participants were positive in providing their opinions on how start-ups could be augmented into the business and what they found attractive. These reasons ranged from technical skills, entrepreneurial mindset, mutual benefits, capability building and the fact that the corporates are more focussed on running their current businesses while needing to build their future businesses.

> *“there are lots of guys with great technology and smart stuff, but many of them can’t scale and industrialize and become attractive to a corporate because they haven't fixed those problems”*
>
> *“could add a lot of value in the sense that it helps you to very quickly implement new technologies and new ways of doing things into an existing business”*
>
> *“It's the skills that are coming out of start-up’s now that you might not have in your corporate environment. The entrepreneurialism mindset, and the tech capability is coming up in start-up’s and incubators.”*
>
> *“Let me actually be your underwriter for now, because most of these start-up’s don't have the right licenses to go to market. So they will bring them in from a licensing perspective and help them to go quick to market because the regulators are not going to continuously entertain licenses.”*
>
> *“So, if we want to ride the wave in the future, more effectively, Then we should take notice of these start-up’s, partner and work with them”*
>
> *“So, we don't have time to think about horizon three, and disruption, where the world is going, so it isn't focused there. So, what we've done is we've said, Okay, let's partner with Fin-techs, and then provide some venture capital, and see how we can bring some of those learnings back back into our business.”*
>
> *“So it's difficult to kind of target customers, when you don't necessarily have the capability but looking to build or acquire the capability, the FinTech space kind of helps you to get the capability a lot faster, and also allows you to test that capability.”*

Most of the participants supported the view that commercial benefits to the corporate links ultimately with financial output as an outcome of partnering with start-ups. Careful selection and partnering could afford the corporate business the leverage needed in a competitive and saturated market to gain market share and deliver on growth objectives.

“So the value is in them, obviously building the product, that you can leverage. But selfishly slow as an enterprise, the value comes from, you want to see how that adds into your bottom line”

“So the risk factors associated with insurance on demand is ridiculous but idea sounds phenomenal.”

“The value is innovation at our fingertips without a huge injection of cash into restructuring and reshaping the business to cater for this need.”

“What will make us want to engage with a start-up is for them to give us some sort of leverage over our competitors and to grow and retain our client base.”

“There is not so much that we can differentiate with our products so it’s the unique customer experience that we have to constantly improve.”

<u>Lessons learnt from engaging with start-up’s</u>

Most of the participants suggested that partnering with start-up’s must be driven by an underlying need to solve a problem in an innovative way. Leveraging capabilities that do not exist within the current company or at a cost benefit that they are not capable of delivering just yet.

“always look at it from a customer perspective. Is it enhancing two things, either customer experience, or improving my efficiency?”

“So normally, we want to engage a start-up’s, because they are things that you want to solve”

“innovate, but you don't innovate in the constraint of a large enterprise.”

“there is other economic factors, macro and micro that's impacting those consumers to even contribute to this market and protect themselves, but they end up in a worse of situation, when they are faced with this with the loss. And we not bridging that gap in the insurance space, we are not figuring out how to contact or to solve for that market”

“What you kind of trying to do is we don't get tech and then look for problem, you have an opportunity or problem and then get some innovation to solve for it.”

“Absolutely, It must solve a problem that we have in the country versus I've got a great idea, Don't just have a great idea, this makes logical

sense about how to monetize, versus actually is the need in the South African market for it."

"so how we could engage with our customers better, so instead of sending out a paper statement, we send out a video statement, maybe explain the whole thing."

Most participants had a common view on the hunger and entrepreneurial mindset that the start-up's brought to the equation on tackling a business or industry challenge. They have an approach that embraces a growth mindset and failure is a learning opportunity for them. A thinking pattern and behaviour that most corporate leaders spoke about in an aspirational manner.

"So, engaging them, the start-up's is obviously engaging them for the mindset. The entrepreneurial spirit that start-ups have."

"often, we need to try and 20 or 50 things, and maybe one or two is going to be a winner. So, you gotta have that mindset."

"So, it's not only the fresh thinking, but the ability to spend time after work on these things, The guys have an idea, and they want to, They want to make it work. So, they happy to sit here 6 to 7 o'clock at night to make these things work."

"They often bring fresh ideas and out of the box thinking to approach problems that face the industry."

A few participants raised that corporates are hungry to engage with start-ups for the value that can be extracted but they added that start-up's get frustrated by corporates speed. This could be because these start-up's where more than likely ex-employees of big corporates or they are more comfortable with the speed then can ideate and deliver at. The corporates have a clear understanding though that these start-up's do not have the full value chain as yet.

"Start-up's get tired of corporates and corporates dont get tired of start-ups. They get tired because of the red tape that you tried to take them through in your structures and organization for them to become successful and they just don't understand it."

"the ship is really big. So, to try and move this big ship, it takes a lot of time."

"these companies have just been launched; I think only naked is actually operational. Even then, they haven't, they haven't managed to build the entire value chain just yet"

Capability needed to grow

Most participants shared similar opinions on the deficiency in internal capability and this was on both technology skill and business readiness. Most of the leaders had a common objective of enhancing the value chain, some even consider that partnering could introduce new business lines and target markets. In some cases, the goal is to also supplement and even introduce new value chains to the existing business.

> *"We've even looked now at engaging start-up's where they have a full value chain in place that we can't necessarily build quickly"*
>
> *"Extremely behind the curve. I think we can only go as fast as what we can understand and unfortunately, if you look at what's happening in the industry that is growing faster than the rate at what this organization can understand"*
>
> *"we need to stop integrating into legacy. The only way you're going to move forward and really, truly transform is if you create new not necessarily integrate."*
>
> *"we will take an end to end provider with a full solution, white, label it and deploy it"*
>
> *"So one of the reasons for engaging with these individuals is to sort of trying to invent stuff yourself. Understand what problems have already been solved by these guys. And then tap into that, To make your overarching value proposition better."*
>
> *"you also want to partner with them, because some of them you want to learn from, how they do stuff. With the intention of potentially building or buying them out. And then insource that capability within the firm."*
>
> *"which means there is a need to revitalize some of our services to become proper digital services, that could be embedded with other services that are not necessarily banking services. I think it's a key thing to say banking as a service is is still a high demand from customers, but banks themselves or financial services themselves are not."*
>
> *"in my specific situation, I'm trying to solve for the entire value chain by plugging enough of these guys into each step, you get the solution for the whole."*

Culture considerations

When engaging on the cultural aspect of partnering and integrating start-up's, the responses from the participants ranged from doing this with much care all the way to this was not prioritised. Information was obtained on the environment needed to support success as well as the culture needed to introduce value to the corporate. Communication and buy in was raised by a few participants as crucial to success, as resistance can lead to sabotage and failure.

> *"Change management is not always successful and can sometimes hinder productivity. The business also worked in silos and each business line competed against each other. We also have a more mature workforce. So, we had to restructure and reshape the business to breakdown silos, we had to invest in skills development to upskill staff."*
>
> *"This has not been an active task as such within programmes, but we do hire the right people to make sure that our approaches appear to be a natural occurrence. Culture is built over time; it doesn't appear after that one magic partnership."*
>
> *"one of the biggest issues with technology is generally when you introduce it, it means you're impacting the number of people in that area. So they don't see it as a positive, they see it as a negative and that's where the culture issue comes in."*
>
> *"I think the main integration of culture is the way you think and is to allow the people the flexibility to think that way. But being in a bank, you always tied down from a governance and legislative perspective, I think the ecosystem culturally has to change to enable the banks to move forward in the digital age, not just the bank itself."*
>
> *"what we have not been able to build is the digital native culture, where as much as we build stuff, you need to have a bravado to market these things, to land them in the market and to commercialize them."*
>
> *"we are quick to build this engine and build stuff, but we were still lacking culturally, the killer instinct. We seem to overcomplicate and put barriers for ourselves. Some of our competitors don't do that."*
>
> *"you can communicate, and you can try and up skilled people are used systems like natural attrition and stuff. But when I look at technology for it to work and have an impact, as quick as possible. Sometimes you*

have to make the tough call to say, well, we spent the money on the technology it is working. Why are we not keeping the old resources?"

"The impact is that obviously a lot of people lose jobs. Invariably, when those people lose jobs, it means you kill the demand market, the very same people, therefore, can't afford to become your client anymore."

"we are also letting go of a lot of people who potentially where existing customers who in the future because they don't have employment, cannot afford to continue to be our customers. So, it's a double edged sword."

<u>Ownership of relationships</u>

There appeared to be consensus across the participant group in supporting that ownership of the relationship is at a senior level in the corporate, reasons for this was decision making had to occur swiftly to support the progress needed. Leaders needed to have a vested interest in the success of the partnership, so it has morphed over the years from a technology owned relationship to one that is closer to business profit and loss owners.

"you have to have leaders that are au fait with technology, if you don't have a leader that understands technology it is extremely unlikely to implement technology solutions."

"And then technically, you have to have people within the business that are deep technology experts who understand how the waves of technology are developing and have some understanding about architecture that bridges legacy systems, as well as what is happening in the future"

"CEOs actually need to be CIOs first before they become CEOs, because understanding technology and how it's going to help your business, it's at the forefront of everybody's mind at the moment."

"you need decision makers, you need somebody who can sit with the start-up's, listen to the value proposition and make a call."

"it's depending on how vital the start-up's is to the direction the organization is taking. It will be a relationship that needs to be owned by the CEO, if it's to grow legs. Because if the relationship based on the product that they have, that the firm wants to take to market in partnership, you need ownership from that level"

“If there's an appetite to actually get this thing to market, because eventually when it goes to market, the brand name and the brand equity of the firm is on the line.”

“I guess you need especially in the start-up’s space, and when it comes to funding into decision making, and going to market at the compliance and legalities, you need someone really senior to make a final decision”

“I think people now seem to understand that this should be a business owner, at the exco level because we trying to solve business problems. We're not trying to solve technology problems. And I think if you have a business strategy behind the acquisition of these FinTech or collaboration, it stands in better stead.”

“Generally this is a close partnership between business P&L owners and the technology teams. Ultimately the business lines own this as they are the owners of the customer relationship and servicing. It has to be close to them if we expect the partnership to grow legs.”

Technology start-up’s offering to corporates

Some participants shared the view that technology start-up’s often run the risk of being very resource light and this creates a risk of the intellectual property being limited to a few people and the continuity of the venture is questioned. The corporate participants want surety that they are investing in strong codified products or services. There is an appetite for players that are in the partnership for the long haul. Corporates are also using these partnerships as a method of learning and enhancing their internal capabilities when possible. The start-up’s need to be well into their growth curve as the corporates need to see that the team is capable of running a business not just technology.

“Does the IP sit with one or two guys, if a bus knocks them over, there goes our business. How do I have resilience in their business in terms of an ongoing initiative should anything happen?”

“You also need to look at resourcing, and the impact on IP sustainability”

“Its important to understand the ability and capability of the start-up’s- they need to be in the game for the long run and it’s key to us that the continuity of their business is not pegged on key people. It should be codified into their strategy and product and service design.”

> *"So what we have seen, though, is, learnings in terms of horizon three, so we know where we need to go, We've seen where companies need to go and platform type of business within these platforms, and such things. And then we've also been able to get our hands, hands dirty, with some really cool technology."*
>
> *"So I wouldn't partner with somebody I think is not going to be around in five years or who doesn't have the drive that I believe you should have to deliver things"*

A few of the participants mentioned that Fintechs are disrupting financial services and this is through a deep understanding of the operating models, allowing them to reduce the non-value adding and make it lean enough to operate with less people and leveraging newer technology.

> *"the space of digital commerce, whether that being rethinking how to do insurance business, operating models, we have engaged a couple of them, because they are lean, They are flexible in creating new operating models that are very difficult for... either difficult or we haven't thought of."*
>
> *"We have also engaged in the space around where start-ups are building marketplaces. So these are digital marketplaces to disintermediate third party firms meaning they're taking the middle men out of the the process. So those type of partnerships, we're engaging quite aggressively, primarily, because give us the market base for us to onsell some of our other products."*
>
> *"It's the market segment, which is the profitable market segment, that's the problem. More affluent, high LSM between maybe five and seven and that's where the start-ups are targeting, because that's where there's revenue to be made."*

There was a common trend noted from some of the banking participants about the rising success of fintechs that were disrupting payment and payment distribution services. These services have historically been a significant cash generator of banks and enabled through expensive legacy infrastructure. This is the type of environment that the start-ups are targeting actively and making progress as they have access to the skills both old and new.

> *"the payment space and payment distribution. Those have got a huge impact because they deal with the switch effects of how to move funds*

around and fintechs have mastered a very lean distribution capability and that is something that a behemoth firms like this, It takes time to get something on the ground, whereas for them, It's quick"

"from a industry perspective is the payments fintechs, the guys that are looking at advancing how we do cross border payments in particular, as well as offshore payments."

"there's a lot of investment in terms of the blockchain capability and how that will advance payments and particularly ease of payments across borders."

<u>What is the need?</u>

Most of the participants shared that their companies have a shared aspiration to be digitally enabled, this appeared to be driven by customer preference changes as well as the respective benefit of reducing the cost to serve.

"we want to become more digitally enabled"

"So once we tested here, we can then take it across. The other thing we did do is where we could auto fulfill certain questions. We use automation, instead of asking the individual, you can pull it from a database."

"strategy, is to ultimately become a digital bank. Now, in that journey, because we want to accelerate it, there's a consideration or there is a conscious understanding that you can't do it yourself with the necessary velocity that is required. So some of the capability you will have to partner with people who are already doing that."

"So It's one thing to transform, but they actually need to be digital organization, primarily because the market or the consumer is moving away from going to the bank. It's happening, it's not that is going to happen, It has already started."

An influencing factor that supports the start-up's environment is the South African broad based black economic empowerment act, that companies are obliged to comply to. Some of the participants raised that their spend on small and medium sized enterprises entitles them to their enterprise development points. While it is broadly accepted as the leader's responsibilities in South Africa, there is a clear angle where this is supported as the benefits directly influence the firms continued business with existing and new customers.

"I think, also from a social aspect, as an organization, One of the reasons you want to collaborate with start-up's is you are also cognizant of the market construct and the history in the country. So there's a need to open up the environment and allow start-up's as a way to opening it up for the small SME, that previously would have been disadvantaged to play in the space."

"So there's an enterprise development angle as an as an organization, which we benefit. So it's not like we do it because we are very good people, we do it because they are points as an organization we get from an enterprise development point of view."

"There are obviously the enterprise development points. We take calculated risks on the opportunity that fintechs bring to our business."

Most participants responded that their companies have been making significant investment in building competitive advantage. This happens through education spend, innovation projects, merger and acquisitions as well as internal research and development.

"The reasons why we did that was, for instance, we take quoting, we cant buy something off the shelf, other people are trying to do it. So you got to apply your mind to see how you can it best."

"So I think the firm is quite aggressive but where we lack, we lack the adoption and commercialization of marketing capability… in that order."

"So I think there will always be a mix. an you should so if you only going to internalize everything, you're going to move too slow. If you only going to externalize everything, you're going to be pie in the sky all the time"

"We've always built our own platforms, we will never bought platforms before and the reason we build platforms is we see that there actually is a competitive advantage, IT is seen as a partner to the business and that is the one thing that differentiates us from our competitors."

"all the banks provide the same sort of products and coverage from a customer perspective. So insurance is insurance, transactional banking is transactional banking, investment banking is investment banking, what separates them apart is the value proposition associated to the products."

> *“Product innovation is key to our success. People are willing to try something new, even if it’s just a make-up change. Creating a hype around niche products are key to attracting customers.”*
> *“It’s fundamental in our investment decisions, we don’t compromise on quality and don’t compromise the customer service.”*

<u>Summary of the findings for Research Question 1</u>

The findings for research question one highlighted the opportunities and challenges faced by corporate financial services companies as well as the benefits that have been expected or realized through the partnerships with technology start-ups. Benefits are reciprocal as it is not only the corporate that grows. Start-up’s have unique solutions and approaches to offer the company and industry challenges. Culture approaches appear to still be loosely defined and understood. Ownership of these collaborative partnerships succeed when close to decision makers that have vested interests in the outcomes of successful execution. The corporates that participated all appear to be heavily focused on building competitive advantage to be future fit as the world of banking and insurance changes.

Results: Research Question 2

Evaluate the factors driving this decision, particularly in relation to changing industry forces and the competitive landscape?

This research question aimed to obtain a deeper understanding of the factors that influence and shape decision making in the business environment. The business environment was also explored to understand the changes occurring in the financial services industry forces and the change experienced or expected in the competitive landscape. Participants where also engaged to understand how they keep current with business and technology trends as well as how this is used to shape their businesses strategic actions both in planning and current execution.

<u>Business environment</u>

The human capital market was noted as a risk to achieving strategic intent by a couple of the participants. Access to competent and capable skills in the South African market was noted as being scarce, leading to the premium associated to those individuals that do have the skill. The pace of technology development appears to be exceeding what businesses can keep up to as well as what local technologists can deliver in. A participant spoke about the need for the local knowledge workers to shift into a personal investment drive in preparing themselves for the world that will exist in the approaching years.

> *"So there's a shortage of tech skills in the market, because everybody wants to do this new cool stuff"*
>
> *"the level of drive and work ethic has been reduced, you can see it people don't take their jobs as seriously as they used to."*
>
> *"Staff need to be upskilled to keep up with trends and have access to an environment where they can test these technologies and potential methods. There is a culture change that is needed in the knowledge economy in South Africa, we need more skills and people need to be investing in themselves to be ready for the future world of business."*

A common theme emerging from participants was that the economic environment in South Africa is proving to be challenging for most of the corporates, this is not limited to financial services and is a shared opinion that it affects the broader business environment. Quite a few participants raised this as key challenges facing their business revenue preservation and growth objectives. Some of this group added further that the innovation that is needed in one that addresses the broad-based consumer needs and not just targets the affluent consumer segment in the country.

> *"Regulations, legal environment, economy (It's at a very downward trend)"*
>
> *"where the market is now people are focused on, they call it household necessaries. Literally the bread and butter stuff that they need…spending patterns and preferences are changing now. And I don't think is necessarily supportive of innovation unless you innovate to create low cost-efficient solutions."*
>
> *"the biggest thing facing all the banks at the moment, is the economic climate and the growth associated towards the banking sector, or pretty much all sectors."*
>
> *"I would have to say economic instability. The markets are very volatile. There are also lots of competition."*
>
> *"the business environment is clearly challenging all industry players. We are influenced by so many factors that we can't control"*

Further to the business environment opinions, a few of the participants alluded to the constraint that the South African market poses as the size doesn't match that of larger economies and competition in the country is high but focus from the corporates as well as many of the technology start-up's is on the same market segment. A segment that can afford the products and services as well as potentially already being serviced.

> *"The insurance market is very small, the insurable consumers market is limited. Everyone is eating from the same pie basically, and we are not penetrating, the larger South African base, that's my biggest challenge"*
>
> *"I believe they still targeting the same 30%, they're trying to play in the same space with similar product with some new features and technology added to it, but they know which consumers have revenue, they still can only tap into a market that has that surplus revenue."*

A few participants spoke about the opportunity that exist in the South African market, as consumers are still quite traditional. Businesses can leverage developments from other developed and emerging markets to shorten this gap and serve an unmet need or be ready for a future need that they are confident is approaching their market.

> *"our industry until very recently, I mean, you can't even you can't buy a policy online, immediately. In the industry, 'naked insurance' is only one that has launched that and you can only buy a motor policy online in the whole industry. Think about that. Whereas if you go to the rest of the world there's many companies where you can buy your entire policy online…quote, buy, and do your claims. So I think we are getting there. But we still far behind."*
>
> *"The lag that SA has to the international western world affords us the opportunity to sense and seize. The luxury of SA being a more traditional market is coming to an end, we have many bets in play currently that we think are the right way to protect our bottom line."*
>
> *"the business models in SA are very traditional and this is a result of what customers want, they look at traditional companies for the assurance that if there was a claim it would be paid out as we have the balance sheet."*

Vendor engagement was raised by a participant, for their industry expertise and enhancing their understanding of what is coming in terms of both what is possible with technology and how they are meeting customer needs in other markets both local and abroad.

“the vendor, the OEM market. So there's a lot of engagement with the OEM in terms of what they are building, what is their roadmap, especially in the next year to three years, things that are coming, so that you can almost ready yourself, those things are coming and they're going to hit you. It's not like it might, it's already a known fact, so engaging our vendors much earlier, so that we got a preview of those things that are coming. So you can see those things much earlier. And then alter the operating model.”

<u>Change in industry forces</u>

Embracing technology and leveraging customers comfort within new non-traditional platforms must be approached with a commercial mindset. A couple of participants spoke to the advantage that is created by being first on a platform that has wide adoption with the right mix of services that can create value for customer and corporate. These platforms appear to influence customer behaviour and can be used to attract a new market or retain the current customer base.

“WhatsApp is like probably one of the biggest sort of communication platforms now on the planet. So it would make sense that if you could get some sort of banking functionality into that, you'd be amazing”
“So technology has improved and advanced to such an extent where if you don't follow it, you tend to lose your business pretty much.”

Development in corporate governance, regulation and internal policies and procedures have created an environment that aims to keep the corporate and their customers safe, this inadvertently has a direct impact on constraining the businesses. A participant was very confident when he proposed that this was now self-inflicted, *“the red tape and this is the internal red tape that is self-inflicted, so those are some of the things that impact us.”* Consequently, this very governance is meant to assist this sector to build or rebuild trust with their customers. One participant stated: *“for the most part, in South Africa, it’s all about encouragement, there is very little trust in financial services”*, his reference was in line with global and local events where big financial services corporates acted in unethical manners causing loss to their firms and customers.

Another participant noted development in technology and the start-up’s ideas and approaches to solve problems is exceeding what regulators can keep up with. He said that *“if the regulator says we'll tick X, Y & Z boxes for you to operate, you have* *to comply, and how far is regulation versus where innovation is. The regulators are a minimum five years behind where innovation is. So now you want to innovate today, and you want this 20 more products and the regulator says I'm still here you hang 10."*

Emerging threats however are emanating from new entrants to the industry and these are non-traditional competitors. A banking participant made note of the new digital banks that obtained licenses in South Africa, but they appear to be more concerned with advances that could come from big technology and platform companies:

> *"So we have this comfort, we think we know our competitors. I think the operating models that is coming will be very hard, we are going to be competing with the large ecommerce players like Amazon, Apple, Google, Alibaba. They have mastered the distribution game and at global scale. What they're learning now is how to do banking, and once they have mastered that, and they have already established brand equity, so they won't struggle."*

<u>Innovation culture and practice</u>

Most of the participants shared their opinion on the respective firms investing significantly in innovation, the responses were mixed in terms of the effort being significantly apart of their way of doing business, on the surface level or as an act to create a 'halo effect'. The halo effect was explained to be investing in something that may not generate significant revenue but will attract customer to lower cost products and services just due to the brand being known as a market leader in technology and innovation.

> *"It's a halo effect. It's a vanity project for this business now but it's going to draw all of those guys that are sitting in the competition and say, these guys don't know anything about technology"*

A participant explained that innovation effort should be closer to teams that are running and transforming the business, he stated that it would be on the surface level if the only effort was performed by an innovation team that was not close enough to the business.

> *"They are also caught up in the quagmire of innovating in a very aloof level, meaning they are working on things that are not real, because they don't get a sense of the real marketplace where the normal day to*

day, frontline are dealing with. But it is something that is high on the agenda of the organisation."

Most of the participants that responded that their innovation effort was a significant part of their ways of working, spoke about the collective ownership and measurement practise that in some cases go all the way to business or function scorecard as well as that of individuals. Some of the companies have dedicated events that inspire innovative activity and the expectation is that all staff at all levels in the organisation participate, using competition to build a culture that attracts and retains staff that want to be associated with this method of operations.

"they have a competition with millions of bucks for the winner. In the competition the execs, get involved and assist the guys to improve their submission"

"It's engrained in the DNA of the firm"

"as an organisation is heavily focused on innovation as most of these financial services institutes at the moment. It is on the group strategy, its a focus from a scorecard perspective, there is potential revenues that's already been carved out in the market and is associated and aligned to what you can do through innovation and technology"

"its within everything that employees do. I will not say that they are enabled, but I think because of our culture, people are allowed the freedom to innovate."

"we have something called innovation days and it's one day a month where developers are given the freedom to explore any idea that they want. And it kind of followed on from the hackathon idea."

"An extreme drive towards changing how the bank operates, especially competing in a digital space."

"one of the forms is transforming the way that you actually work and operate as an organisation. So bringing about innovation in operations, the other innovation is probably around the technology itself to allow and enable the operations to work the way you want it to work."

"this is engrained in all we are as a business. This must be a collective approach and cannot be run in isolation. The business commits to this right from the CEO to the cleaners and we even made this a pillar in the company strategy."

A couple of participants differed from their peers as their experience led them to think that their respective firms were in the early stages of innovation, and still need to mature their approach to one that had more efficiency and linked to a larger shared vision and strategy.

> *“That first phase in the sense that they know there's a need for innovation. But they haven't learned how to do it efficiently. So we're still in the learning phase”*
>
> *“the way we are influencing is that because in a structural level we not there, its is in the bigger a book of work budgets when they are approved, We are always building a buffer of enough funds that we could use for internal innovative projects. So that they then don't have the the glaring view of being overly monitored.”*

A few participants viewed their businesses effort as lacking in terms of quality and impact, one even went as far as referring to it as ‘gimmicky’. Businesses need to be deliberate in the innovation being used to generate value for the organisation and their method of implementing this would depend heavily on the existing culture within the organisation as well as the aspired culture, if the maturity of staff and leadership does not deal well with competition and change it could lead to unintended consequences that could be as serious as internal sabotage.

> *“I think it's like we go after a couple of gimmicky stuff. Once off little things, right. But I don't think culturally, we set ourselves up as an innovation culture”*
>
> *“It's not structured here, everybody's doing things and where's the role up into group where all these things compete side by side?”*
>
> *“If you want that outcome you need to put the enablers in place, enablers are not in place now.”*
>
> *“the thinking is around, how do we land solutions, but doesn't talk about how do we activate, industrialised and commercialise solutions.”*
>
> *“Confused, on a personal note, and based on my experience, I'm not a fan of innovation departments because I think they breed separatism. Innovation doesn't become something that is embedded across the group.”*
>
> *“then you end up with two companies that are innovating, the people that deals with the day to day things and because they don't belong to that group, they sabotage the other one.”*

The perception of innovation is that it is externally focused and client facing but a few participants clearly viewed an internal focus as one that can make a significant impact on growth aspirations as significant efficiency can be delivered to business operations thereby reducing the business cost to serve. This cost change can be of value to both the firm's shareholders by increasing profit and customers by reducing cost or improving quality.

> *"reducing the cost to serve, which perfectly aligns to the fact that we need to reduce the cost of operating through innovation i.e. digitisation of a business"*
>
> *"We have implemented robotics in back office processing and this has proved to bring significant benefits in processing time. These benefits ultimately allows us to decrease our cost to serve and this ends up as an advantage for the customers."*

Understanding the risk associated to investing in innovation could bring about ideas and solutions that can solve a specific problem but the likelihood that the market demand does not exist or realisation of the need has not been formed. A participant stated that innovation approaches probably need to extend beyond just developing an offering and also focusing on commercialisation and creating awareness of the need and value.

> *"I don't think so because I think some stuff in the conceptualisation and ideation seem great, if you build your solution and everything and it doesn't succeed in the market, because it might be ahead of its time, or there just isn't a customer appetite for it."*

Some participants shared a view that corporates need to be deliberate in their approaches and organise their teams to succeed, this included team setup within the organisation as well as budget expectations. Global successors in innovation have one common characteristic, they have many failures that allowed them to get to the point of succeeding. With the challenging economic climate in South Africa and the cost pressures facing financial services, innovation needs an appetite for some loss and the selection and screening processes needs to be more robust to ensure the pipeline being invested in has merit in terms of opportunity in a market and realistic benefits forecasting. Each corporate will have their own patterns for setting up how to execute innovation and this needs to be aligned to business culture and leadership ownership.

“you need to ring fence this within your organization, you cannot do innovation on the side of your desk”

“Your current business must continue with the business of running while you build the future on the side with a dedicated team and dedicated budget.”

“need to be a culture of willing to invest. And with any investment, if you know, it's not every investment you do that is successful. So if you're investing in 10, pots, they need to understand that Out of those 10 pots three might be successful seven might fail.”

“How much of investment capital are they willing to put behind the one of the challenges that you face that are you correctly invested into it, because it does not happen as BAU and alot of people believe that innovation is going to happen as part of evolution of the business through existing budgets, and business as usual.”

A couple of participants spoke to the drivers that motivate staff to think differently and engage, this came down to reward, more specifically for successful innovation. A participant stated that he had observed that businesses had not linked reward to the benefit generated for the company and another participant spoke about tangible benefits over a long term that could positively influence staff to participate and engage at a level that was required for success.

“In many instances it does not, you cannot compare it with the input that was done because there's always this mentality that they work for us, then they innovated because they work for us. There was a reward in terms of yes, they were given bonuses, acknowledgement but I don't think it was commensurate with their level of innovation that they provided.”

“I think those are areas where they need to study a better model. Because I've got a sense that if employees are aware that if they can innovate, and it benefits the company and there was something tangible in the long run for them, you can get that drive.”

<u>Investment management</u>

Investment decisions amongst the participants appeared to take on various forms from being business unit driven to an approach where the group had a venture funding division. Assessing start-up’s is a complex process that has both objective and subjective approaches. A participant added that he spends time with the start-up’s team to: “*understand what drives them, and look at how they deliver things, in that period, you can then make out if these guys are going to last or not.”*

When discussing terminating investments most participants spoke about regular monitoring to gauge progress and to inform the decision makers in the businesses. A participant was very confident in the process his firm utilised as he believed that they have made calculated investment decisions.

> *“very rarely have a situation like that because if you've done your work properly up front and you've assessed your capability and everything”*

This response did seem to be an exception as some participants spoke about the process being frequent and some decision making was dependant on experience of the decision makers and the culture of the organisation in trusting their business leaders.

> *“It's not a simple answer in is a period of time, after six months, who doesn't want to cut it off, maybe it needs more room to grow, maybe there's certain solution that you should have seen take up in the first month and it's time to cut the cord.”*
>
> *“So I think there's a, it depends. So It depends if you gave it the right, effort, if you gave it the right investment, time, and how dedicated are you to making this work.”*
>
> *“So there needs to be a proper business case. So we'll follow you know, agile in principles, an MVP business case with an MVP, What do you do in production? We evaluate, and then we continue that process. So the minute we see issues, we terminate.”*
>
> *“The management team make a call and the decision is implemented. There are lots of times when there are back and forth – debating decisions but at the end of the day if the team feels that something is not working the plug is pulled”*
>
> *“we are not romantic when reviewing these programmes. If we don’t collectively believe the trajectory is appropriate or can be brought in line we cut, it’s not good business to pump resources into scenario that is clearly dull.”*

Conversely other participants appeared to view these decisions as being delayed by the decision makers resulting in further investments that exceeds the initial investment appetite.

“We have an innate need, that once we have invested money, even if it looks like it's not working, we think pumping more money will solve the problem. I've seen a number of initiatives that instead of cancelling it, we will rather pour more money and more resources and more people with the hope that by doing that, that in somehow will then fix the problem.”

“we ended up having so many projects in one year and big projects, rather than to focus on the few and execute them very well. So we still a long way.”

“Very difficult, because I haven't seen it done successfully. So I'd be lying to you if I told you that the banks do it successfully in terms of terminating initiatives, I think once the bite is there, they continue right to the end, even though it ends up being as a white elephant.”

“I think there's deep pockets in the banking industry at the moment. And that's kind of stopping them from making the right decisions.”

Business cases for innovation appear to be the common process to inform decision makers at before inception and used for tracking progress across most of the corporates. The premise being that a team completes this investment request with forecast commercial data. A couple participants noted the flaw or reality in the process, where a current market is used to generate the data in the business case and this market is the same market used across financial services leading to a potentially overserved community.

“build up a business case, on imagining how many people from the new market is going to consume your product, you have to use your use facts and figures from your existing consumer.”

“traditional competitors are in the same boat also. Its tech companies and digital hubs that are slowly rising, unfortunately they are all targeting the same portion of the market. Real opportunity lies in the unserved and historically unfavoured market.”

Criteria used to measure progress are the commercials per the business case and in some cases, participants noted that there will always be a subjective element as it takes time for some initiatives to make a market impact. Regular monitoring seems positive through the building phase of the initiatives, but it becomes more challenging as time to release to customers or users approaches.

“When are we going to deliver it, is it going to be disruptive. What are the commercials around this thing? As soon as it starts to weaken from a point of view is, we've missed opportunity, we might not be able to make money, it's costing us too much”

“We have to cull it because we have to prioritize and understand the opportunity cost of still being involved with that, versus doing something else.”

“Over a period, you look at the cash flow statement that they would have provided before. So that we're doing to say, okay, year one you've brought in 20. So that's a good start, or you've brought in five, so normally it starts low. So that's an acid test that, indeed, this initiative is bringing revenue in. Now we need to pump in commercialization to make it grow. So that keeps growing the curve.”

A participant spoke to prioritisation needing a balance between tactical and strategic needs of the corporate. Innovation investments may not always deliver high returns in the early years as there is a growth curve the offering needs to traverse and due to this low return in the short to medium term it could lead to termination if the metrics do not show the opportunity over a period that links to the lifetime of the product.

“I have a target and that target always linked to that money that's coming in and that is today's factor. Now to kill yourself and create a new channel that in day one is at zero amount. Normally, those initiatives are the first initiatives people kill when they are prioritising, because I've got a digital initiative that brings R0.5 million today and I'm saying in 10 years or 15 years, this will be bringing the billion rand versus someone with an initiative that today brings R2 billion. The likelihood of me being killed is still high today than the guy who was bringing in R2 billion”

A participant noted that prioritisation also needs to keep in mind that there may be scenarios where there will be ‘creative destruction’ at play and the consequences of this requires the decision makers to be clear about the strategic intent and where they as a business want to win in the future.

“the new channel takes business away from the guy who was making R2 billion. So, if you are taking business from the guy or lady who's running a R2 billion business. They don't necessarily support your strategy, because it's eating away.”

Most of the participants spoke about ownership within the corporate being a big influencer of survival. When an innovation shows significant opportunity internal political debates for ownership slows the process for customer release, a particular participant noted in an example that their business failed to launch for this reason.

> *"it failed at an operating model where different business units now fighting for ownership and the longer people fight, the longer the appetite from the doers to stay along in the journey. People became despondent, we spent time innovating…then other competitors ended up launching much quicker than us."*

A couple participants stated that when pursuing a technology driven solution through internal development or with a start-up's, there must be commercial value to the business and their customers. Businesses also have to keep a focus on the ecosystem that the offering will be a part of, as the developed corporates have processes and systems that collectively enable customer service.

> *"how the decision is made is the first thing is assessing it and saying could this add value to my business"*
>
> *"what has been learned is the fact that there's always an ecosystem associated towards providing digital products, you know, digital products are not necessarily alone, and does not necessarily sit on the platform itself. But there's a lot of operational elements, a lot of backend and middle end elements that need to be taken account."*

Mindsets employed for success

The author noted that all of the participants, as corporate business and functional leaders, employ various methods to keep current with industry trends and changes in customer needs. Academic research and subscribing to market research services was noted by a few of the participants as a key source that informs their view of the world and influences decision making.

> *"We also belong to research papers. So there's a need to read what other markets are doing and these are academic feedback that are coming from the market. So that's key."*
>
> *"from an academic perspective because it's circular. One is that academics tries to solve business problems. So therefore, they advance capable abilities, but those capabilities then get morphed into the ecosystem from an organization perspective."*

"Analysing thought leadership papers and invest in research both locally and internationally."

"Things are moving so fast that you have to constantly be looking out, you know, looking at this as I subscribe to certain articles that talk about insuretech and also gives you the information of what's happening"

"So research papers, we subscribe to Gartner, Forrester and other research companies."

"We have a research and analytics team that is responsible for this. They go into the market and do field research and report to us."

Further to this approach industry conferences also appeared to be a common activity that was used to inform some of the business leaders, as this creates an environment where like-minded people facing similar challenges can engage on industry advances.

"these conferences, insuretech conferences and stuff. Every time I go for this, there's a whole new lot of people, and they're presenting a whole different set of things."

"engaging with those people at conference and different events, you start to hear what people are doing in the market, because the speakers there will tell you what you're doing"

"Mainly international, because they are ahead of us from it from a digital perspective"

"I think social media, attend conferences, tech conferences"

"We attend conferences as this is a great way to understand what is rising through start-up's and big vendors."

Professional networks are an asset that most of the participants spoke about directly as this allows them to sense what is happening in other businesses as well as test their own thinking in a comfortable environment with trusted peers.

"So we belong to a couple of chapters in the space, both from a banking point of view, but also from a technology point of view. So the chapter environment allows you to meet with like-minded colleagues, Okay, so that's key, so that you can have a very strong social network, and face value to test with peers what they're doing. And not necessarily in the financial services, but also other almost similar industries."

"So I think you need to be well endowed in terms of your networks."

“I think there's a lot of space, especially around the social network environments to keep yourself abreast”

“engage a lot in things like open network conversations, because those are the things that kind of keep you abreast and keeps you surveying the land when it comes to technology advancements.”

“We attend chapter group sessions that allow for us to relate to like-minded people in similar businesses.”

“Our team is diverse and highly skilled; many belong to different bodies that congregate to share information and this filters back into our business.”

A participant was very passionate with his opinion on corporates needing to spend less time obsessing about the big technology companies’ ways of working and focus on what is needed in their business and local industry environment.

“But I think the biggest trend that one needs to do is probably create your own. I mean, you will never ever find an Amazon speaking about a transformation program, you'll never find a Google speaking about a transformation program. Yet everybody who is embarking on digital, figures that they need to do a transformation. So, the question that you have got to ask yourself is why then are we following Google and Amazon when they haven't done it themselves.”

“I think we need to move away from this paradigm where everything needs to be transformed, and create a new trend where everything needs to be focused around how then do we enable growth for an organisation? Be it transformation, evolution, revolution doesn't really matter.”

The start-up’s community that is specialising in fintech or insuretech provides a key link to understanding the trajectory that could evolve in the industry. Some participants stay actively involved in the fintech market and engage proactively to identify developments for partnering or responding to.

“So we do keep quite close to this incubator and start-up’s environment, the insurance sector actually sponsors to lots of the initiatives that are running in the South African market, Start-up’s Bootcamp Africa”

“the FinTech market, the linking up with the FinTech or the start-up’s. Since I came to this side of the organisation, almost every two weeks

I'm meeting one or two new start-ups with an idea that in itself challenges some of the things we're doing."

A participant had a unique view that focussed on learning from and trusting new staff that joined his teams or the business at large. He appeared to show a specific interest in the value that can be obtained from engaging diverse opinions when problem solving.

> *"there's a lot of IP and knowledge that comes from the new employees that we are onboarding, especially the young ones because of their thinking pattern, their way of thinking is completely contrast to what somebody like myself at my age, I think I'm digital, but the way they approach things. So, there's always a step back approach to observe how they approach things and challenge each other."*

All participants had their own approach and mentality in their direct teams or their larger business that assisted to create an environment where innovating could thrive. These approaches focus on being open to different ideas for solving problems, being close to industry developments (business and technology), making informed decisions (ignore, react, lead) and influencing budgets in a way that enables the business and their teams to be deliberate about innovation investment.

> *"let's look at how we can do everything differently. In order for this to succeed and get to market"*
>
> *"So the trick here is to actually find technologies that other people haven't seen. They only know about it once you go live with it."*
>
> *"testing it to make sure that what the person is telling you it can do versus what it actually does, works. And in that process, you can assess whether it meets the criteria you expected to meet"*
>
> *"we run a pilot or a POC very quickly. At that point, you can see whether this thing is going to work or not. If it's not, can it move on to the next, if it shows potential, but you need to tweak a few things, invest more time, and then try and see how you can get it to work."*
>
> *"You have three choices, you can do nothing, bury your head in the sand and hope thing doesn't take off. that'll probably result in you being obsolete in the future. You can decide to do this incrementally. And what that will do is it will actually keep your position in the market or somebody else leapfrogs. Or thirdly, you can be the disruptor in the*

industry, and actually go after the industry, to grow yourself exponentially."

"they did that in their spare time. it's not like they did it because there was a project and whatever. It's something they did over a weekend and then says we want to show you something that we think you should consider, as you consider all the other plans. And upon demonstrating what they have done. Obviously, then it opens every mindset to see, this could actually work."

"Your company looks at the last year's budget and gives you inflationary increase on this year's budget. Where's that big, big investments that says we're going to innovate, and we're going to put some real focus onto it."

<u>Strategic goals</u>

A participant stated that when assessing strategic fit of partnering with start-up's the enterprise architecture (technology and business) is critical to establish alignment and more importantly gaps that could exist.

"what is the architecture in that business from not just the technology point of view, but from the actual business model, the management and stuff like that"

A strategic plan of action needs to exist to guide decision making and execution, some participants noted that the strategic focus of business players differs from running the business and building the business of the future. Both of these focus on critical business objectives, as the income from today's business funds the building of the future business.

"So we have to run two streams: one, we've got to do fast follower, and catch up with the leader and in parallel, look at things that are different to strategically leapfrog and catch up where you think that they are going to be in 2 to 3 years from now."

"If you aren't able to satisfy them for the insurance piece, they'll go somewhere else"

"one or two that kind of took off. But like I said, for the most part, it's very difficult to get buy in from the businesses, because it's been seen as this island and there is a mismatch between you know, what the horizon one business thinks what it wants to solve versus what this entity thinks they should be solving."

Having a strategy and having a supported strategy are two distinctly different artefacts. Some participants shared that the business stakeholders need to have a vested interest in the strategic direction of the corporate. This interest aids to curtail one of the biggest constraints or drawbacks noted in innovation effort. Communication that was consistent and clear to all stakeholders stood out as a needed action within corporates to facilitate shared understanding and hopefully buy in if the messaging aligned to the individual receiving the communication.

> *"the understanding is that this means we have to now change our lifestyle. So, there were there were many factors that I think they acknowledge, that I'm sure the guys thought I don't want to work double shifts. And then just prompted them, to think of a much clever way"*
>
> *"Buy in is the most important. Buy in from all stakeholders. If this is not done efficiently then it's no point. Resistance and fear of something new is what we faced by employees. Also, current resources have to adapt and sometimes finance to follow through is impacted"*
>
> *"For me communication is king. The more transparent one is with staff, the more they buy in to your vision."*
>
> *"Sometimes people are just not motivated do change. And sometimes the resistance is overwhelming. If people don't believe in the strategy and don't understand how it works, they won't engage."*

Communication and culture must align and support strategy

A participant noted that his experience has shown that the environment has a significant impact on the success of innovation effort. It has to be embedded in the processes and procedures of the organisation to impact the strategy.

> *"So my view is that where innovation thrives, is where goals and challenges within the firm are publicly engaged and shared. When I say publicly engaged, I don't mean sharing them in a once a month email, I mean sharing them on a daily basis with the staff, the more vulnerable around the challenges of how we make the P&L with the rest of the staff."*

A few participants eluded to the innovation and partnering effort as actions needed to create aspirational propositions. These investment bets are aimed to attract the customer to the organisation, and this does not always have to be the product or service that ends up being purchased, linking back to the 'halo effect' one participant explained earlier.

"Yes, because you got to take some bets for the future, you got to create some aspirational propositions to make those people come to you."

"Today, we don't have those things that and it's not just a product thing. It's a channel thing."

"if I want to attract competitors' customers. They can't interact with me, unless I have something, the rails for them to navigate."

All the financial services corporates have their own identity, and this implies that they have a specific market or customer profile that they aim to serve. Some participants spoke about why they believed certain firms are making better progress with the solutioning and customer attraction. Those firms know who they are aiming to serve and take planned steps to attract and serve that customer.

"Exactly, it's behavioural economics, because I know I behave in a certain way. The proposition is designed to maximize value for somebody that behaves like me, I have to go there."

"you can currently see it advertised everywhere, on billboards, in terms of having one of the easiest accounts, free accounts that can be open from a transactional perspective online, fully online, fully digital."

All participants made many references to value creation through innovation, and this was backed up by either having their own experience in succeeding or referencing the many cases globally where this was achieved through innovating and expanding the value for business and customers. In the challenging business environment the corporate participants in the research all shared similar firm objectives to grow and this requires them to have a succinct value chain and execute their offerings in a manner that assisted achieving the goals, this supports the need for their innovation efforts to be commercially beneficial.

"it's about having an integrated value chain"

"have a team that has a playbook on what is successful"

"businesses that are successful, have teams in place that know how to do the entire value chain"

"If you don't drive behaviour in a certain way, you don't get the outcome that you need."

"If you can go to market quickly, you can see this thing works, you can make changes quickly. And that's how you keep a competitive advantage."

“the metric is gross. And it's double digit. And that CAGR is well known that everything you need, you need to always to link it back to see how does this link back to our ambition to grow”

“The value comes through in our product capability, client retention and growth in market share new or existing.”

A couple of participants were cognisant that value from innovation was also more than commercial benefit as this would also position growth in the brand identity and for some businesses within the corporate it was as dire a situation as ensuring survival.

“First it will position us as an innovator and set us apart from our competitors in the market. And so there's value to that. The second thing is that in time everybody will gravitate to that proposition”

“I think it's one facet that is sparking the decision or obviously the need to stay afloat is a call.”

<u>Trends that can’t be ignored</u>

As all participants noted in the interviews, the rapid pace of change and advances in technology deliver a complex business environment where innovation ideas and start-ups are in abundant supply. Trends are rising as fast as they are disappearing but there are some trends that have risen that cannot or should not be ignored by the corporates.

African focussed accelerators are generating movement in development but are operating under different conditions to their counterparts in the more developed nations. Start-ups are in many cases turning to these accelerators and incubators for the link to the corporate industry. A few participants noted that financial services are leveraging this to tap into the opportunity that exists and reduce the risk and added oversight as the intermediary accelerator performs this with the start-ups.

“In the South African market at the moment, one of the predominant start-up’s is 'start-up’s bootcamp Africa'. They are incubating a lot of financial services, banking and insurance.”

“most of the sponsors for the initiatives have become financial institutions”

“instead of investing into start-up’s independently, they found institutionalized start-up’s incubators, and they just invested.”

“Another huge one currently, runs in Bryanston, 20 on Sloan.”

Start-up’s that survive through the initial stage of development and land with financial backing are emerging risks to the bigger corporate players as they are targeting a specific segment, and this is generally the affluent and profitable segments of the market.

“they have money as well and the truth is you do need money because of the ‘get to market’ activities.”

The complex and connected business environment brings new risks for traditional financial businesses as the rise of cybercrime requires that organisation build and enhance capabilities that they have only invested in over the past few years. A participant raised this as an area of concern as her company invested in innovation and some partnering opportunities.

“Cybercrime is definitely something that keeps us busy and on our toes.”

<u>Fourth industrial revolution technologies</u>

All of the participants raised the buzzword trends that have entered the complex business world, and many of them were engaging in or have utilised some of it on their businesses. This technology offers significant business value opportunities for the business that can leverage and commercialise into business operations.

“need to embrace the fourth industrial revolution”

“The financial services industry also needs to embrace that what they've considered to be the norm, all these years is changing credit score, banks use credit score to give you a loan. And then they swear by it, it's like their core right. The way you come up with the credit score for an individual is being changed by start-up’s, they are disrupting the industry.”

“one of the things that impacts us is the fourth industrial revolution that is going on. The impact for us, I think, I think it's a concept that is not well understood.”

“I think we still haven't mastered the first, the second and the third.”

“So most industries, or most developed industries where they are On the fourth R, It's where their 3rd R is a bedded down.”

“So for example, laying down fibre, I think fibre is quite big in the metro areas. But in the rural areas where there are lots of people still not there, and we need to wire the entire country, for 4IR to actually make effect.”

"AI is a key technology that has got a huge impact on us. Especially because it's impacting us, we are reducing workforce in the contact centre back office, because we are putting the robots, fancy AI's that are doing most of the stuff, then you don't need a huge workforce. So, there are all these cool things we're doing"

"We brought in RPA and put into one of our key processes, focussed on delivery, we've reduced turnaround time from days to seconds on some of it, because now its bot running through cases,"

"The fact that data has now surpassed Oil in price means that the world realized that they needed to collect data so that they can personalize something for us."

"it is data driven. I mean, that's actually what underpins what we do. And I think that's why, for the most part, we are so successful, is that we have this bank of data that we are drawing from."

"So, everybody likes to follow, at the moment, the whole 4IR digital transformation trend, everybody's also on the hype of agile."

"AI combined with big data is an untapped opportunity, big techs built their businesses on this…financial services have the data but don't know how to use this to bring commercial benefit to the organisation."

Some participants rated 'Omnichannel' and 'Singleview' of the customer as top challenges that need resolution to offer the level of service that met the needs of the market. A participant also mentioned that the big technology companies have mastered this.

"I also believe that omni channel and single view of the customer, no one has got it right yet."

"omni channel has been discussed for years but very few can offer what companies like Alibaba and Amazon can do."

Personalisation is emerging as a future trend for financial services as a participant noted that they are seeing start-up's exploring these ideas and testing it with a small market segment. The needs and buying behaviour of the customers are forcing corporates to change the way they view their business.

"Personalization is something that's important. I mean, I want something that's fit for me, a product that's made for me, I don't want to just buy a commodity anymore."

“Absolutely, and that is where the start-up’s have their competitive advantage right now. They don't have legacy systems and processes and procedures to deal with. Therefore, they can become more personalized or customized in their offering, the challenge that they face is the bouquet of services is limited.”

Some participants spoke about their approach as being more aligned to the venture capital funding model, they build companies around them that can be a part of the larger group and if growth reaches the point where integration make sense, they only considering it at that stage. Through the early years they support the growth trajectory of the start-up’s and guide decision making, the ventures are intended to operate on their own.

“they are going more into this VC model, and let me buy a stake in you, let me help fund you.”

“in our perspective, we've actually partnered with some of the key start-up’s in the industry, and more specifically, sometimes if you wanted to target a new market”

“So, we as a financial services provider, we provide venture capital to start-up’s Fin-techs. And we are looking at how to leverage from, you know, technology from these fin-techs and basically collaborate with”

<u>Summary of the findings for Research Question 2</u>

The findings for research question two elevated the challenges and opportunities that exist within the business environment from economic concerns, market size, skills availability and suitability. The changes occurring in the industry forces are introducing new complex systems that are to be navigated and exploited to create value. Rapid technology advances and business readiness are not aligned and further to this there is an opinion that regulators are further behind leading to a difficult scenario for the corporates and the start-up’s incumbents. New entrants have emerged in both banking and insurance industries introducing competition, but leaders appear confident in their current position and value chain, there is a shared uncomfortable outlook on global technology firms that are focussing on financial services.

Culture within the firms and the practises needed to create an environment where innovation effort can thrive, and grow was informed by many diverse opinions. Businesses appear to be investing significant capital and effort to innovation but the maturity of the effort when self-assessed by the participants ranged from early stages, surface level to deeply engrained in the business's way of working. Creating awareness of successful innovation attracts a specific target market to the new product as well as the full suite of products and services offered by the corporate.

Setting up the business to advance innovation effort differs from company to company and needs to match the specific situation or support the culture the business was aiming to build. Stakeholder support is a crucial lever that needs to be managed closely in the large corporates as it can block or aid success.

Investment management appears to view business as usual projects and innovation projects as the same, this could be influencing the outcomes where insufficient or excessive investment is associated to innovation. Measuring value adopts traditional methods that may not raise the correct view, commercials are critical but building capabilities is what builds competitive advantage and participants did not link this aspect to their success. Monitoring seems to be a consistent practise but precise decision making seemed to occur in pockets across the sample. Ownership within the corporate was also raised as an important theme in the corporates as a weak stance or one that was open to interpretation created lag in the ability to release to customers.

Participants were senior leaders in their organisations and shared the various methods they follow for staying abreast with the development in the market and global industry. These approaches ranged from attending conferences, subscribing to industry research services, staying connected with vendors and start-up's and establishing diverse teams that solve problems in a collective manner. Adopting ways of working that break down the legacy approaches used for solution development to ones that enable agility. A participant challenged this as an obsession on how big technology firms work, and South African corporates need to apply their minds and build ways of working that are fit for the environment and skill levels available.

Partnering with start-ups to embark on innovation journeys requires a clear strategic fit to ensure that focus and prioritisation is applied taking the tactical and strategic objectives into account. Stakeholder support of the strategy was raised as critical in enabling successful execution. This could be achieved through executing communication and creating a culture that aligns and supports the strategy. Protecting current market share or growing the share of the market was a common goal amongst the participants and innovating through partnering was a consistent approach signalling the awareness that strengths exist with both parties and required to achieve the outcomes needed in the country.

Trends occur in the industry at an increasing rate year on year and making an already complex environment more complex. Some trends are making such an impact that the participants shared their opinions on what cannot be ignored. Maturity of ideas and execution by start-ups across the African continent are increasing in quantity and quality, those that get to the right funding or backing raise significant threat to the existing market share. These corporates are becoming the largest funders of these relationships and engaging through an intermediary that reduces some of the risk associated with the relationship.

The adoption of the fourth industrial revolution technologies was raised as a consistent theme, where all corporates have some level of investment in process automation, big data enablement or machine learning. This is being done to either introduce smarter solutions or reduce cost to serve, but interestingly this focus is on a segment of the market that is probably overserved and in a business environment that operates where infrastructure does not exist to target or benefit the larger population of the country.

Results: Research Question 3

Identify optimum patterns that can be applied to grow and integrate start-ups into the business model?

The third research question explored the design and execution of corporate innovation approaches. Participants were probed on current and alternate operating models entering into financial services as well as understand their investment threshold setting process. Value creation was a common interest through the earlier research questions and the researcher aimed to obtain insights on the processes or methods used for measuring this value and ultimately establish how the benefits were distributed when engaged in a partnership with start-ups.

<u>Managing resistance</u>

Resistance to progress linked to two strong themes, one being governance that enabled speed and the second being staff support. Governance in financial services specifically those concerned with new product offering and technology has evolved over the last decade into a tricky process that appears to slow down teams that don't have a firm understanding of the reasons for this governance. Product development teams and start-up's need to improve their understanding or operate within an environment that alters the governance while building the minimum viable product. Staff need honest, consistent and fit for purpose communication that enables them to understand the why, when and consequences of not succeeding to enable them to align with the purpose of the innovation. These two themes collectively contribute to the culture needed to enabling success and growth of innovation activity as noted in the interviews with three of the participants.

> *"To make this thing work and get to market faster, you should then also create a separate set of governance around that, like a sandbox environment with sandbox governance, to let them go to market quick."*
> *"sometimes the only way you can do it is to take that whole, call it an incubator because that's what it is, and move it outside the organization. So fully funded by the company but plays by different rules to the company as a group."*
> *"culture. So, remember when you are building something new within a corporate right, as I said, some people are not happy with change. Especially when you start talking about affecting other businesses to some degree."*
> *"I have to constantly go out there because technology is now constantly moving. So, we have to go and look out. Okay, how can I further improve this."*

<u>Measuring success</u>

Measuring value generated and even progress in innovation appeared to be consistent across the corporates, adopting programme management office (PMO) processes and controls. Some of the participants noted that they recognise the flaw in their approach as they don't adopt a lens of an incubator or accelerator but focus heavily on the commercial measures, due to the internal control framework for investment management. Businesses adopt mechanisms that factor in qualitative measurements and quantifiable outcomes that can be tracked against commitments in the business cases.

> *"ROI wasn't defined strictly in terms of profit, but also in terms of learning, okay, how are we getting the learning in terms of where we want to go out of that process"*

“we have different measures for ROI so it’s not only money. We also want to measure things like engagement, so things that we never traditionally measured”

“We also have NPS scores that are assessed and monitored.”

“When it comes to defining investment threshold, we had to do this, we had to come up with a business case to say, if we invest this money in building this thing, where what do we think the financial projections will look like? So how much of growth, how much of profitability and you have to do that.”

“the one lens you've got to put on is, sooner or later, everyone's going to go there. So, can you afford not to invest.”

“*in saying that my experience across all organizations I've worked with business cases are written for success, the actual implementation, and the value generated through the implementation does not necessarily meet up the business case.”*

The quantifiable outcomes from innovation projects, noted by most of the respondents were directly linked to the PMO in the business and were viewed as the traditional approaches that were required at a minimum.

“Just commercials, purely commercial”

“true innovation in this part of a commercial enterprise has to make money.”

“Traditional typical return on investment and potential for growth”

“We need to evolve the way we think even on the financials around this.”

“we've got our typical PMO running projects, Traditional project, even if it’s an innovation piece of project.”

“net present value. So that's how they measure whether a project is viable or not. So obviously, the higher the positive value, the better the project, the lower the lower the value, the more likely it is to be cut.”

“Data checks, target checks, status checks. We track spend and ROI, we track time taken, look at the trajectory of the project.”

“We apply our normal PMO processes and measurements to our projects, unfortunately this doesn’t change based on the type of project. Innovation or normal enhancement projects are all measured in the same manner.”

An additional area in value measurement was discussed at business specific levels and all participants spoke about the quantitative commercial measures that exist as they are running a business that has commitments that must be met. This approach was deemed to add value as it encourages the leaders to think entrepreneurially, assisting to reduce the ‘fat wallet’ approach in financial services. Businesses are also forced to apply effort beyond managing accounting processes to enhance the value chain and extract value that contributes to growth, either by increasing revenue or decreasing cost.

> *“We got a business case, we had to put financial indicators in, and we are measuring it across that. Okay, reduction in cost, increasing gross written premium (GWP), or increase in revenue. So standard measurements, cost, revenue, efficiency, and then obviously, customer service.”*
>
> *“So, one is your normal project measurements like delivery to timelines. And then second is your benefits. You know, like with anything you come up with the business case you measure yourself against that.”*
>
> *“So, I think right now we're taking a hard-fast metric view that the benefits must touch the income statement, and they must be growth based or they must actually reduce our cost base in a meaningful manner.”*
>
> *“my view is that whether it's an innovation initiative, or it's a traditional initiative, the metric discipline must be applicable without fail because if you don't do that it does not allow people to be entrepreneurial, and also doesn't allow people to understand that if people waste time, time is equal to the money that is being thrown down the drain.”*
>
> *“there is a growth factor. There's also a huge factor around cost reduction.”*
>
> *“I think we manage by accounting. So, if we managed by accounting, you're not necessarily going on and how to leverage certain capabilities to enable growth. because not everything is about accounting.”*
>
> *“This is definitely done with numbers- this will be the growth in revenue YOY.”*
>
> *“YOY revenue growth, employee engagement and retention. We measure the growth of revenue and clients.”*

All participants confirmed that their investment monitoring processes were performed regularly and used to inform decision makers.

“So, the team will access on the time limes and look at progress, if there is potential to continue – then they do, if not, project is canned.”
“This is based on a case by case basis; the opportunity is what influences our investment appetite.”

A couple participants added that in the quest to internally monitor innovation effort, there is a culture that must exist where approach and diligence is consistent and objective to counter the lack of accountability when failure occurs and support failure in a positive manner to foster the environment that supports altering the mindset needed to succeed. Benefits tracking needs to be a clear process that applies over the lifetime of the offering, a weakness in current practise in the industry. The process also adds mental barriers as objectives are changing to making in year benefits a higher priority than building capabilities that could add significant value in future years of operation.

“there's an amnesia that normally encroaches when people need to be held accountable for how to commercialize”
“everyone wants a benefit for each and every rand. And then people innovate with a barrier already in mind. They don't go full Monty, which will then limit the number of innovative ideas that you actually will drive in at any point in time.”

Financial services corporates have strong balance sheets that enable significant investment in technology and business innovation, but the speed of delivery raises concerns for external stakeholders as time often has a direct link to cost. A participant noted that balancing investment against the benefit was critical.

“the biggest challenge that I've seen, when it came to innovation was the pace at which to deliver innovation. It became the hampering factor where it ran for too long costs too much money, they needed to back away because now one, you trying to innovate on the same idea. Cost of innovation came more that the innovation idea itself.”

<u>Mutual benefits</u>

Benefits that emanate from partnerships between corporates and start-ups are qualitative in terms of growing the brand for each involved party and leveraging strengths of the respective firms to deliver against a customer need. Many participants shared similar opinions about the mutual benefits that exist.

“it’s a win-win because you've got a start-up’s, who's trying to grow, but then you got a corporate who's got a lot of money, but not agile”

“the start-ups have a customer, big customer, one who gives them credibility”

“benefits are broader than just the transactional costs behind the agreement”

“get the marketing out there to make people aware of this new disruptive thing but it's supported by old and trusted brand. So, you get the best of both worlds.”

“It's also good thing, if they grow with us than if they grow and then we go for them. Then the school fees they have paid influence what we have to pay to partner with them (becomes even higher). It lowers, the potential investment benefits that we are likely to accrue on our side.”

The corporates have a crucial asset that start-up’s want access to and this is the history in the industry and the data that exists on the significant customer base that they all own. A particular participant was very aware of this position.

“they also get access to certain data points that they wouldn't normally get access to”

A couple of participants spoke about the big cost bases of their firms and related this to the complexity of the system, offering end to end servicing has a price tag associated to it and start-ups understand this. Thereby influencing their focus on chipping away at the system.

“So, if you want to own the whole value chain, you have to have quite a big complex bank”

“These new technologies coupled with old technologies is introducing a new level of complexity in our technology estate.”

Global technology players are a risk to financial services in South Africa and a few participants referred to this risk as one that’s more about timing than likelihood of entering the market. They are focussing on strategies that enable partnership or building capabilities with local start-ups to respond in advance and claim a significant portion of the target market.

“an ecosystem. So that's what you're going to go to, we'll have to watch out. If they can get that ship right. They're coming up with a huge buying power, they are liquid, they know how to distribute, and they are already digital natives. So, they're not going to transform to the digital

organization. They already know the customer more than we do at a behavioural and social level. So, they have got all this data and they know how to execute"

"we need to consider to either partner with them before they actually wipe you out, or you need to do what they're doing."

"bring what they currently don't have with the idea that in the long run, then you become embedded in the ecosystem."

"lemonade is going from one country to the other. So potentially, it might land here one day and threaten incumbents"

A couple of participants raised that their weakness with internal skill levels is motivating the increase in appetite to partner with start-ups to build or enhance the current ecosystem to leverage technology driven opportunities.

"if group tech isn't at a point where it can comfortably deal with a new technology, a business unit can ever use that"

"we didn't have, we didn't have the ecosystem to even support. We tried to innovate, add to the toolkit and then include into the standard operating ecosystem and that just killed it immediately."

<u>Setting up for success</u>

Participants had differing opinions on setting up teams that focussed on innovation and these approaches altered from being within the business that was closest to the customer to being separated from the group's daily operations. A participant with a more aggressive and successful venture funding division stated:

"So, the innovation business is funded by the holding company, funded as a start-up's, so they were allowed to go, and they're not managed by our business exco. Exactly with their own CEO and run it as a start-up's."

Distribution of benefits from collaboration between the corporates and start-ups have many forms and a few participants specifically noted that profit sharing, subscription models and acquisition could result, depending on the fit with the corporate and the link to the strategic objectives.

"Profit share is a popular one where you sell captives and stuff like that, which is a financial mechanism to allow a non-insurer to participate in insurance and do the business of an insurer and share profits."

“I prefer a subscription-based model, because it scales according to usage.”

“We will go for anything where we think we can make money and how certain that returns.”

“So, one is user based one, so subscription model, and a profit share. Those are the two most dominant ones”

“the insource model. They're looking at small disruptors, and they are providing funding and taking a share, and then they are looking at which one will be able to scale, and then there you have it. You own the disruptor and you are the incumbent”

“So that also helps them grow. And they've got you know, the experience that they can get from their corporate partners, and the corporate partners get the thing where they don't have”

“If something's in the market and working, they just have to go and buy it and they have the balance sheet for that”

The general consensus from all participants was that negotiation happens before inception of the relationship and they rely heavily on the commercial agreements for benefits distribution. Risk exposure was raised by a few participants as an influencer on the benefits distribution. A subjective point was one that relied on the ethical approach and mindset adopted by the individuals performing the negotiations to agree terms that were beneficial to both parties growing together.

“You can do a subscription-based model. So, there's multiple, right, so one is a pure profit share. One is a user based, sort of share. So, every subscriber you get onto the proposition, you share it on a user base thing where you elect royalty kind of thing, where they pay you a fixed sort of thing. Or you can pay like a retainer, for use of whatever the technology provides you technologies, you pay them a retainer. On annual basis. There's multiple commercial agreements,”

“they get income, which helps stabilize their business, and gives them foundation for further growth”

“So, the benefits normally negotiated up front. From the different engagements and models that we have engaged.”

“I have no appetite to do what they do. I'm quite cognisant that the idea is not to copy them, and replace them, the idea is for them to continue doing what they do. But there is also a value add that we as a bank have, which they don't have. So, when we get into that relationship is

to first articulate that benefits and then negotiate upfront, how the resultant benefits will be shared between us and them."

"there is a huge benefit that some of these fintech's that we can partner with, there is a huge affinity for them to bring us new to bank customer."

"there is a market which you can give to the FinTech, which they wouldn't be able to acquire, noting that obviously, they don't have a brand equity, to even tackle that market, which the bank or the firm has built over the number of centuries."

"we have a strategy called the 'win-win-win' mentality, methodology, principles that we apply, and it means everyone must share equally, in this benefits that come out of any innovation or collaboration."

"Every agreement is structured differently. And it all depends on value for the service delivery."

"Dependent on how much of the risk they willing to take, depending who put the capital upfront. So there's a lot of ifs and buts depending on how the joint ventures are actually constructed."

"when you're trying to integrate any innovation and trying to embed any innovation to create value, because innovation is just that. It's has a proof of concept, and it has a commercial aspect to it."

"This must be done upfront and negotiated as part of the project. The danger of doing this during process is that if there are altercations, this can impact productive."

"All dependant on the engagement contract. There are different models that can be applied, it comes down to who carries the most risk."

Summary of the findings for Research Question 3

Managing resistance to innovation raised two strong themes that are impacting the financial services corporates. Governance needs to be tackled in two ways, one being that product development teams need to understand the requirements in greater detail and the rules and standards need to be reviewed given the advances in technological change. Staff support of the innovation effort can be managed consistently through communication of the why, when and consequences of failing.

Measurement of value adopts both qualitative and quantitative methods but is still quite generic across the firms and may not be the best fit for efforts when partnering with start-ups to build capabilities that enable competitive advantage in the medium to long term. Business cases was a common method employed for funding requests, progress tracking and benefits realisation assessments. Though accepted as a common practise, it was noted that this may be the wrong method to use when gauging performance and success.

Processes to monitor investments are regularly executed to inform decision makers but may also inadvertently creating mental barriers as start-up's and corporates are shaping their thinking to commercial benefits in year, not necessarily what the benefits could be in three to five years from now. There is a perception that these corporates have 'fat wallets' due to the balance sheets they have access to but leader accountability is morphing to one were they are treated as an entrepreneur to utilise a growth mindset that understands time is money, this signifies a potential change in culture is occurring across the corporates.

Strategic partnerships with start-up's is a viable strategy to create and deploy technology services and products that can match or exceed those of global firms and obtain their share of the available or future market. Each party has strengths that need to be leveraged, as an example, corporates have history and data and start-ups have skills and low technology boundaries. Big technology companies are viewed as a risk as they are platform specialists and now how to commercialise data and the single view of the customer and turning their focus to banking and insurance.

Various forms exist for setting up for success in the corporates ranging from internal innovation divisions, innovation teams on the boundaries of the corporate or start-up's that operate externally to the corporate under their own governance and standards. This would be dependent on the business, staff and leadership maturity to innovation as well as the culture surrounding change and competition. Benefits distribution can follow many different models and there are preferences that protect both the corporate and the start-ups. Negotiation of the commercial contracts requires ethical stakeholders that have a common interest in shared growth.

The following chapter will proceed with a discussion of these results.

Chapter 5: Discussion of Results

Introduction

In this chapter, the research findings from the analysis of the interviews performed will be discussed. The structure followed is aligned with the research questions and literature, as presented in chapter two, as well as the constructs identified in the analysis that is presented in chapter five. This chapter builds on the current literature that exists on the corporate factors that influence innovation through partnering with technology start-ups.

Discussion of Research Question 1

Analyse the benefits for financial services companies entering into relationships or partnerships with start-ups?

This research question identified the business challenges that were being experienced by South African financial services corporates and developed an understanding of the problems that were being solved through partnerships with technology start-ups. Deeper insights were formed on the benefits expected or realised through these partnerships.

<u>Attractiveness to corporates</u>

All participants confirmed that the attractiveness of start-ups to corporates centred around key attributes such as their technical skill, ability to focus on understanding and solving specific problems and their position to leverage new technologies in an agile and responsive manner. This is confirmed in Gomber et al., 2018 study, where they stated that start-ups are leveraging ‘ technology innovation, process disruption and service transformation. The author found this consistency in understanding from the participants surprising as it appeared that the big corporates where targeting this group for the strengths that they have as a community.

An additional skill that most of the corporate participants valued about the start-ups was their entrepreneurial mindset and urgency in behaviour that was described as being 'hungrier' than the corporates. This mindset corroborates with the entrepreneurial behaviours that were proposed by Sarasvathy (2001) and enhanced by Fisher (2012), where he added bricolage as a further construct. When contrasting this corroboration, it encourages the thinking that the financial services firm’s reason more closely to causation, whereby the means are available, and the outcome is known. Leaders within these firms are potentially bridging this behavioural gap to achieve their growth aspirations.

<u>Capabilities and competitive advantage needed to achieve growth</u>

All of the participants raised that their efforts in innovating either internally or through partnerships with start-ups were linked to market share preservation as well as aggressive growth ambitions in the current economic climate. To achieve this, their investments are on developing capabilities that can be exploited to create a competitive advantage in a target market, thereby achieving growth. This series of thinking and execution is confirming the findings by Teece et al. (2016). The author understands that this position is probably due to businesses focusing on running their current business, and as some participants noted it is likely that their efforts are focussed on investing in staff with skills for the current business.

Most of the participants in the study shared an opinion where they had a low affinity for engaging with start-ups that had ideas only. Their preference was for products or services that have been developed and tested in the market with customers. This preference provides the corporate with a primary assurance that the start-ups have the technical ability to build their prototype to a state that it is saleable to customers. The secondary benefit is that the start-ups have the skills to operate a business. Collectively these benefits could mean that the start-ups are a safer bet with the aptitude to engage with a corporate business that requires scale in the business model or potentially integration. This preference and requirements of the corporates require that the start-up has traversed across the lifecycle proposed by Picken (2017) and are in the scale or exit phase. This would mean that the start-up has invested significant effort in the transition phase to address the challenges or hurdles as proposed by Picken (2017), in creating the processes and setting focus on the entrepreneurial enterprise that can deal with the increase in demand from scaling.

Corporates were very aware that the start-ups generally offer pieces of the value chain and don't have the capability or resources to offer full end to end services, this appears to be where the mutual benefit arises as the corporates have the full value chain but it probably one that attracts high cost or is too slow to meet the standards their customers require. Working with start-ups to enhance the value chain requires the decision-makers to act swiftly to ensure that time to market is achieved, as start-ups are used to the speed in development and testing and may get tired of extended delivery timelines and compliance. This collaborative effort between both partners supports the drawing on capabilities, as discussed by Lee & Shin (2018).

Most participants raised that the deficiency in internal capability in terms of technical skills and business readiness. When these factors are examined closer, it appears that this deficiency could be a result of insufficient investment in capability building and confirms that the cost and risk associated with developing value-creating innovative products or services are high. With the pressure on financial performance, financial services firms cannot compete with the agility that start-ups have. Gomber et al. (2018) suggested outsourcing this activity to leverage the benefits that start-ups have, but corporates appear to be opting with a partnership or acquisition approach.

Creating the culture needed to promote success

When discussing cultural considerations associated with innovation or partnerships with start-ups, the responses from the participants were mixed as some said it was approached carefully, and some said it was not done at all. These inputs show that it is inconsistently approached and leads the author to assume that the possible causes could be the experience of the implementors or the lack of understanding on what culture is and the strategic implementation thereof. Most participants spoke about two crucial factors that are needed: staff and leadership support and an environment that supports innovation success. These two findings lead the author to deduce that the participants know what they need or what they do not need but are not able or empowered to implement these actions to create the artefacts that lead culture change. This correlates with the underlying assumption and beliefs are learnt by the teams over their history in the organisation (Christenensen, 2001), and leaders need to challenge these with bravery. If staff and leaders are resistant to change, then there is a high probability that there have been experiences that have shaped the current culture, and this needs to be managed carefully by the corporates.

An additional aspect that the author considered is that the participants from the corporate companies were senior leaders that may be too far separated from the implementation and details in the initiatives. These corporates generally favour the Theory E (Beer & Nohria, 2000) approach to change implementation. Nevertheless, the symptoms they raised about requiring staff buy-in and an environment that fosters innovation success could be achieved by adopting more Theory O approaches (Beer & Nohria, 2000) where capability building was the prioritised goal, and the corporate culture was built by focussing on behaviour and attitudes needed to experiment and enable innovation success.

Summary of the Discussion of Research Question 1

Research question one looked at the benefits for corporates seeking to or currently partnering with a start-up. The attractiveness of these smaller companies is primarily linked to their technical expertise, deep product and process expertise, ability to focus on specific problem statements and their ability to leverage new technologies in unique manners to solve these often complex problems. The participants shared the understanding of the strengths but also have a full appreciation for the benefit that stems from an end to end value chain that they possess as corporates. The interest and investment in these relationships are needed as there is a self-identified gap in the current capabilities of the corporates and this avenue is a more prudent manner to build these capabilities and enhance their existing value chain differing slightly to the suggestion from Gomber et al. (2018) to outsource this to start-ups. While technology-driven solutions are driving the engagement, a crucial aspect that enables success is a corporate culture that supports change and competition. Surprisingly to the author, this key factor was not consistently prioritised and actioned in the corporates.

Discussion of Research Question 2

Evaluate the factors driving this decision, particularly in relation to changing industry forces and the competitive landscape?

This research question obtained a deeper understanding of the factors that influence and shape decision making in the business environment. The business environment was explored to understand the changes occurring in the financial services industry forces. Participants methods followed to keep current with business and technology trends was discussed as well as how they used this knowledge to shape their businesses strategic actions both in planning and execution.

The Financial Services Business Environment

The rapid pace of technology advancement and the access to this technology is occurring at a pace that the corporates cannot match nor is there an appetite to adopt every new emerging trend. This finding aligns with the start-ups offering as they have designed new services on new technology for the industry and it is different from what the corporates have been able to offer, addressing customer needs in future-forward ways that offer value in a direct manner as outlined by (Gomber et al., 2018). The participants' appetite to invest in new technologies is influenced by skills availability in South Africa. A participant stated that the knowledge workforce needs to invest in personal skills development to meet these new technologies. This supports the finding that continuous learning is an area that firms and staff need to focus on to build their capabilities and approach innovation confidently (Nylén & Holmström, 2015). The size of the market in South Africa does not compare to the scale that exists in the more developed economies across the world, so return on investment is an additional challenge.

Participants raised that the serviced market is as low as 30% of the potential market in the country, but this segment is historically profitable, and innovation is needed to deliver low-cost solutions that include the greater market. Gomber et al. (2018) suggest that this finding can also be addressed through start-ups as they are transforming business models and improving accessibility outside of the normal channels and operating hours. This finding was of interest to the author as the growth aspirations in the corporates is high on the agenda with most of the participants, but their consistent focus is to compete in a saturated and overserved segment of the market that they referred to as traditional in terms of their needs and buying behaviour.

<u>Changes being experienced in the industry forces</u>

New entrants have been entering into financial services over the recent years in South Africa. In banking, there were three banking licenses issued to new businesses that are aiming to claim market share from the big corporates. The barriers to entry have historically been very high, but with the advances in technology, many of the expensive processes that banks have can be performed at significant cost reduction. The participants were all very aware of these moves in the local environment but seemed quite confident in their current position. Some of them stated that they were more worried about the strategic advances' big technology firms like Amazon and Alibaba are making in these business processes. A key asset that financial services have is their data that has been built over decades, and they turn to start-ups to learn how to leverage this for competitive advantage creation. Big technology companies, however, have built their businesses on data and knowing how to leverage it, turning their sights to the more procedural world of banking and insurance now. This concern supports Porter's (2008) statement that high entry barrier industries are often more profitable and have fewer competitors.

Participants stated that their investments in innovation and partnerships with the start-ups is to embrace the right technology platform with the right product and service mix that can address customer needs in a meaningful manner. Differentiation amongst the financial services players is low, and the leaders of these corporates are turning their attention to capabilities that enable them to differentiate on the customer experience that can be offered. The intent of the corporates aligns closely to a key area proposed by Nylén and Holmström (2015), where digital products and services need to provide a rich user experience.

With the pace of technology advancement, participants noted that their internal skills and business readiness were lagging hence their investment and focus, but an interesting point raised by a participant was that the regulators appeared to be lagging businesses position. This creates a challenging environment to innovate within as financial services are highly regulated, and this condition could hamper the progress planned by the start-ups and corporates. Regulators need to be investing in better understanding these rapid advances and can only fulfil their mandate if they have suitable and modern tools, frameworks, and approaches that help them to generate real information that improves the financial services offerings (Gomber et al., 2018).

Innovation design and practice

Participants raised innovation as a discipline as an area of concern in their businesses. Aside from the cultural constraints, the effort that does exist ranged from being deeply ingrained in the ways of working to being surface-level initiatives. Participants spoke about current and previous organisations approaches comparing their experiences. It was evident that they believed some organisation were more deliberate in their goals and have set up to achieve this from the top of the organisation down to their most junior staff. Outputs of this activity link to generating shareholder value as well as building capabilities, blending the goals of Theory E and O (Beer & Nohria, 2000). The author was intrigued by a participants view on some initiatives creating a 'halo' effect, which was explained as a means of attracting certain types of customers, his drive was to attract them to the business but was aware that the product is not for all customers, but he can meet their needs with the broader product and service suite within business.

Building the mindset needed in the business environment

As the business environment advances continuously into more complexity, the participants provided insights into what they do to keep current with industry trends. Many participants spoke about the value they attain from industry-specific conferences. These conferences, as well as experience, enables participants to build their professional network. This network was also referenced as it is needed for testing thinking with colleagues that are trusted. Some participants also spoke about the benefit of being registered to research companies and staying in touch with academic literature from their preferred journals. A few participants were close to the start-up community to sense the thinking and developments that were occurring. These efforts enable the leaders to sense the environment and develop their strategic actions as suggested by (Teece et al., 2016), as well as perform the skills assessment (approach to learning, roles needed and what they have, team configuration) of the organisation to meet the demands of the changing technology and business world as proposed by Nylén & Holmström (2015).

Investment Management

When discussing investment management approaches, it was clear that the goal for most participants was capability building or enhancing but the reason for this goal linked to the broader imperative of generating shareholder value. This value can be delivered through increasing revenue and decreasing cost. Participants raised that the economic climate showed many signals of decline, referring to gross domestic product, unemployment levels, the rising level of the country and consumer debt. In this challenging environment, the need to deliver shareholder value requires leaders to have a firm grasp on the organisations' capabilities and leverage them within the market to generate value.

The goal of value creation drives many of the corporates to favour the commercial lens and guides internal processes. Assessment of start-ups has an underlying need for surety and the ability to scale and integrate. This is a complex task, but the participants spoke mostly about the financial aspects. The business case method appears to be widely adopted and used to support investment funding requests and after that used for tracking progress and benefits. This is supported by the proposed theoretical model from Kock and Georg Gemünden (2016), that suggests decision making should be broader factoring in strategic clarity, process formality, controlling intensity innovation and risk climate in an environment where the turbulence is known or assessed. Collectively these information points would influence the quality of the decision making and further improve the businesses agility, being able to pivot to investments that align strategically.

Regular monitoring against implementation plans and benefits is performed, to inform decision-makers. Surprisingly participants had mixed opinions on the efficacy of decision-making regarding continuation or termination of investments. Some believed their firms were thorough and decisive, and some thought that the firms had a bias and access to resources that enabled poor decision making. These processes all had an element of subjectivity that would depend on the organisation and the experience and skill of the decision-makers.

Prioritisation of investments was a common area that was discussed, and opinions from most participants were consistent where strategy and tactical plans had to be balanced when prioritising. The need for businesses to focus on the revenue-generating daily business appears to have the higher priority against capability building that could generate value in the medium to long term. This prioritisation comes from senior leadership in the corporates and is dependent on their goals as a business as well as the strategic clarity that exists across the business. Strategic clarity means that the business has a clear strategy, and its formulation is understood well due to it being communicated broadly across the business as per (Kock & Georg Gemünden, 2016). If this was true, it could position both decision-makers and their teams to engage in valuable debate before making decisions that could harm strategic delivery.

Trends that can't be ignored

"Technology innovation is widely recognised as being the main engine behind economic growth and industrial transformation." (Gomber et al., 2018, p. 224), this rapid pace of change is supported due to the experience shared by most of the participants, where technology introduces trends that are entering the industry as fast as they are exiting the industry. The high cost associated with selecting and adopting a trend forces the participants and their firms to be very detailed in their selection process. Start-ups have the advantage of not bearing legacy technology and the costs associated and can utilise newer technology (like open-source software, software as a service and infrastructure as a service) at significant cost advantages. One participant challenged this stance as it is true, but very few South Africa start-ups have been able to prove the benefit as they do not have the millions of records in their databases that the financial services firms have in their datacentres across the country.

The participants have identified the advances being achieved by accelerators and incubators across the African continent, as strategic partners or investment opportunities, these intermediaries minimise the management and coaching risk that corporates appear to have a low affinity to provide themselves. Accelerators and incubators provide a critical service for start-ups guiding and facilitating their progress over the development hurdles that need to be overcome to build a strong business base in the transition phase to scale from successfully (Picken, 2017). Most of the participants shared that they are involved in these business relationships and fund initiatives that show potential for their industry, this approach enables the corporate to grow with the start-ups and enables earlier integration at cost benefits to the corporates.

The fourth industrial revolution and more specifically the technology industry provides this pace in technology change, the relentless advancement and the transformative effects coupled with the entrepreneurial mindset of the start-ups founders delivers a plethora of new services as posited by (Gomber et al., 2018). These new services offer unique propositions that can be consumed to enhance the value chain of the corporate as well as improve the value delivered to the consumer. Businesses are adopting robotic process automation, machine learning, artificial intelligence and internet of things, these services are being used to reduce the cost of previously expensive and resource-intensive processes as well as introduce smarter products and services to the customer at lower price points.

The challenge with this advancement introduces customer uncertainty, as they may be worried about the security of the solution or be unsure about their knowledge and skills when consuming the offering (Königsheim et al., 2017). It appears to the author that these challenges are being mitigated currently by adopting a strategy that leverages customer-facing technology once there is significant adoption by the market segment, only once that assessment has been made will the corporate invest more significant effort and resources into the platform.

<u>Summary of the Discussion of Research Question 2</u>

Research question two identified the change in industry forces that were impacting the financial services industry as well as the competitive forces that are impacting the environment. The business environment is challenging from two viewpoints: one being that shareholders expect stability and growth in financial performance and the second being that customer needs and buying behaviour is changing. These expectations need to be delivered within an economic climate that is influenced by many factors outside of the control of the corporate entities. The potential market shows significant opportunity due to this being as large as 70% unserved, but the approach to serve these markets has to be fit for purpose. Industry forces are primarily impacted by the reduction in the barriers to entry and advancements being made by global technology firms that have their attention on the profitable businesses in financial services. Investment in innovation is being made to build capabilities and the underlying intent links to the commercial value goals of the corporates. Regulatory and business readiness as well as local technical skills are not at the supply level required to engage and scale more aggressively with new technology-driven solutions. Investment management processes apply a single view to these initiatives, and this is potentially influencing the outcomes that are being observed across the corporate entities in South Africa. The corporates have to advance their effort sizing processes, benefits measurement criteria and the procedures surrounding decision making. Technology trends have blurred the complexity of the financial industry even more now, as historical approaches to serve customer needs can be done utilising newer and cheaper technology while addressing personalisation of service, comfort in the platform used to consume the service and price.

Discussion of Research Question 3

Identify optimum patterns that can be applied to grow and integrate start-ups into the business model?

This question identified the methods followed by the participants when measuring value from their innovation projects and possible options utilised to distribute the benefits within the partnership. These factors have a direct impact on the operating models that have been implemented within the corporates. No significant alternate operating models where identified that could influence the design of innovation approaches.

<u>Managing resistance</u>

Two strong themes were identified, firstly the culture required to succeed (this was discussed earlier in research question one) and secondly the governance required to enable speed and quality. Participants opinions were split between governance needing to change and teams needing to be more competent and aware of standards and processes to develop products with this in scope. Governance within financial services has evolved over the last decade to be very stringent, and financial services firms and regulators have had to increase their capacity to manage the compliance effort. Start-ups and financial corporates find that there is more agility in developing outside of the corporate standards that aim to protect the broader business estate. In a ring-fenced environment that is outside of the corporate network, teams can exploit technology and experiment in a more aggressive manner but keeping security, information and privacy requirements prioritised as this must apply due to the nature of data processed by financial services providers. This requirement would need technical teams to be competent in industry standards and the respective legislature that is intended to protect the customer.

<u>Mutual benefits</u>

Participants shared the view that the partnership model between a corporate and start-ups offers benefits to both parties that are greater than if they attempted on their own. In their effort to innovate and commercialise the output, both brands of the parties grow together. Leveraging each other's strengths is the core of the engagement, where start-ups benefit from the corporate's financial resources, data and customer reach and the corporate benefits from the technology, agility and entrepreneurial approach of the start-ups. Start-ups also gain the opportunity to fit their innovative solution into an end to end value chain enabling their offering to scale with a sizeable customer base that would be difficult to obtain without the corporate. These partnerships contrast from the suggested outsourcing by Gomber et al. (2018) as the risk to the corporate on outsourcing core components of the value chain is not within most participants appetite.

<u>Measuring success and benefit distribution</u>

The corporates that were represented by the sample appeared to have a minimum standard employed to measure value extracted from investment in change projects, and project management offices primarily executed this. Their processes for funding requests followed business case preparation with financial forecasts, and the returns followed methods like net present value or the internal rate of return to inform decision-makers. There was no distinction in the process applied for innovation or regular service sustaining projects. The value was measured against the business case forecasts, which have an inherent flaw, based on some of the participants' opinions, the data that informs the market is the overserved portion that all of the financial services firms target. One participant also added that business cases are generally very positive and present a best-case leading to misleading benefits tracking. Nawaz (2018) utilised 'Return on Assets' in the study performed on banking and value creation, proposing that this profit measure could be used to compute the contribution on human, organisational and financial capital. The underlying assumption was that the innovation was commercialised and capturing value. The author believes that an approach like this if supplemented with the existing practice could be more beneficial to the corporates as it links the business case with the benefits forecast, human capital, organisational capital and links it more clearly to the financial results of the organisation.

Some of the participants noted that they were changing their approach to hold business owners or sponsors accountable as the entrepreneurial head of the initiative to reduce the prevalence of the ‘fat wallet’ trend noted in their business. Commercial measurements appear to be the primary means available or used to gauge the effectiveness or success in building capability through innovation. The culture and nature of the businesses does not allow them to stockpile research and development in the hope of utilising it at some point in the future as most investments were capitalised and had an impact on the financial processes of the businesses.

All participants noted that monitoring of progress was performed frequently in their organisation but also highlighted that the diligence and consistency had to improve to hold the right people accountable. This was linked to a cultural gap that some participants experienced where monitoring was positive until key milestones or customer launch dates approached. The purpose of regular monitoring of progress and benefits was understood, but some participants added that the expectations of realised benefits in the short to medium term could influence the types of projects being implemented. The approach could be inducing mental barriers as business owners prioritise initiatives that offer medium-term growth over the risk of long-term capabilities and growth.

Distribution of benefits from innovation with partners appears to take a more clinical approach where all participants noted that negotiation is done at an early stage in the relationship. Subscription-based models, user-based, retainer-based, and profit share were noted as prevalent or preferred by the participants. The notable influencer of the negotiation was the risk exposure, and this exposure informed the expectations of the participants. There was one participant that stated his company approach was more aligned to joint venture creation, this method removes the profit share negotiation and makes the process one of financial treatment based on the percentage of equity owned by the corporate.

<u>Setting up for success</u>

Participants shared different opinions on the organisational structure that was necessary to enable innovation. Some preferred for the team or unit to be on the outside or edge of the organisation to adopt a more aggressive build that was not constrained by organisational governance, but some preferred for it to be as close to the corporate customer and staff servicing that customer to leverage ‘real world’ feedback and input in developing the offering. In support, Hashimoto and Nassif (2014) proposed that organisational structure had impacts on entrepreneurial behaviour, fewer levels in hierarchy reduced approval and facilitated speed in delivery, rigorous centralised structures constrict actions and are likely to experience impediments. Irrespective of structure there is an underlying management behaviour that is needed to promote the actions and thinking of innovators and raise this to senior leaders to assist in sponsoring or steering towards enhancing and developing further in the business.

<u>Summary of the Discussion of Research Question 3</u>

Research question three identified the methods followed by the participants' firms to measure value creation which seems to be very traditional in approach leveraging project management office processes that align with financial management requirements. The measurement of capability building is subjective and qualitative, and the ultimate measure is the quantification through the commercial value created. Distribution of the benefits are also commercial in approach, as the potential models that can be utilised are driven by the party’s risk exposure which appears to be mostly linked to financial and brand risk. The governance approach and treatment as well as the operational setup required to enable successful innovation highlighted areas that require improvement or attention by leaders and staff.

Conclusion

This chapter has presented a discussion of the results of this study. It has been identified that the participants have a consistent understanding of the benefits that can be achieved through partnering with start-ups. The corporates share an approach of partnering with start-ups where capability gaps exist in their value chain or to build a capability to offer a new value chain or enter a new target market. Start-ups offer unique benefits to a corporate and their agility, technical expertise and ability to focus on problems were the essential characteristics raised by the participants. Within the corporates, there is a potential gap in the culture needed to enable success, specifically a focus on supporting change and competition.

The business environment was under significant change where new entrants have launched in a previously small group of significant competitors, and global technology companies have been making advances in financial services profitable businesses. The economic climate was influenced by many factors at both a macroeconomic and microeconomic level, influencing customer buying behaviour and needs. All participants shared that their companies had growth expectation despite the economic situation. A surprising finding was the served portion of the potential market and the realisation that the opportunity existed but not with current products and services. Investment in innovation and partnerships appeared to be consistently to build capabilities that could be leveraged to create competitive advantage and generate value for the business's stakeholders.

Investment decisions adopt traditional approaches and link to strategy, the difference in the prioritisation approach is contextual per business as those decisions are dependent on the responsible leadership and their experience. Technology trends that can't be ignored by the financial services firms were identified, and the understanding across the participants appeared to be consistent.

Monitoring of value generated adopted methods that were executed by project management offices, and the approach was consistent across the corporates. The focus was placed mainly on the financial measurements and to a lesser degree, there were qualitative methods in some of the corporates to measure the capabilities built. Distribution of benefits resorted to commercial negotiations that were engaged and concluded when initiating the relationships with the start-ups and driven by risk exposure that informed expectations.

The following chapter presents the conclusions to this research paper.

Chapter 6: Conclusion and Recommendations

Introduction

This study set out to explore the probability and intent of major financial services corporates partnering with technology start-ups in the South African market. Global investment in the technology start-up environment has been growing annually (Gomber et al., 2018). The declining local business environment and the changing competitor landscape are introducing a mix of challenges that the corporates have not dealt with in their past. Start-ups are classified as SMMEs according to South African legislation and could play a critical role in addressing the challenge of rising unemployment.

Financial services corporates are perceived to be slow to change as they have invested large sums in the business solutions over the preceding decades, and now have an opportunity to engage these nimble partners to leverage technology that is more than likely not a part of their current architecture. This choice could enable meeting changing customer needs and buying behaviour in a novel and meaningful way (Nylén & Holmström, 2015). To achieve a successful outcome requires identifying and addressing potential capability gaps that exist in their current value chains and may open avenues to new markets.

This chapter presents the conclusion to this research paper by summarising the research findings and proposing the potential impact on business practice. The author then concludes this chapter by highlighting the limitations of this research and suggests areas for future research.

Research Findings

This study has addressed the research problem summarised in chapter one. Specifically, the strategic drivers and methods followed when partnering with start-ups to enhance the competitive advantage of the organisation. The significant findings of this study can be viewed in three groups. Firstly, benefits to the corporate are initiated by criteria that attract the corporate to the start-up, and the underlying objective is the establishment of capability and competitive advantage in an environment that is conducive to innovation. Secondly, the factors influencing the decision making, and methods employed to manage the associated decisions were established. Thirdly, the likely patterns were evaluated to direct management approaches in a focussed manner to improve success rates and improved value generation.

Benefits and precursors to start-up partnership

The attractiveness of start-ups is centred on the strengths they introduce, and the corporate businesses can leverage that. Technical expertise, problem-solving focus and ability to employ new technology in an agile manner stand out as crucial attributes for the corporate participants. These attributes are confirmed in Gomber et al. (2018) study of the fintech revolution. A core finding identified, was the engagement with start-ups for their entrepreneurial mindset, which the participants believe differs from their current business leaders thinking. The likelihood of the start-up founders to employ effectual reasoning and bricolage introduces novelty and uniqueness in problem-solving (Fisher, 2012).

Most participants highlighted that their internal capabilities were aligned to the business they operate daily and are engaging in these relationships to bridge the gap between the skills and technology needed for the business of the future. The investment in building capabilities that improve the likelihood of establishing competitive advantage is prioritised, and this approach offers agility (Teece et al., 2016). The preference for start-ups that have developed a solution that is working and tested in a market provides corporate leaders with the assurance that the foundations of a healthy business model have been established and operational (Picken, 2017). The corporates want a partner that can protect the current brand exposure by pivoting and enhancing the existing value chain to meet the demands of scale given the increase in the customer base that

is on offer.

All participants raised a critical theme of the corporate having the culture and change management processes to engage in this level of innovation. This was noted as one of the significant environmental needs to improve the likelihood of success. All businesses will have their own existing culture that is influenced by staff experiences when introducing innovation and change (Christenensen, 2001), the author noted that an additional aspect that could assist the corporates, is internalising the approaches used when implementing change. Theory E and O from Beer and Nohria (2000) could be useful to understand the current state of change implementation and guide changes in approach where correction is needed.

Factors influencing strategic decision making

The pace of technology advancement is a clear driver as the appetite to adopt new technology by customers exists, but the internal skills and business readiness to leverage these new technologies or platforms is deficient. Nylén and Holmström (2015) suggest that firms and staff have to change their approach to continuous learning to bridge the gap in skills needed and engage with the new technology landscape with confidence. The opportunity in the existing servable market requires innovation to deliver solutions that meet the needs of the broader market, and this could be achieved through the customer-led development process that the start-ups employ (Gomber et al., 2018).

The most significant change that is occurring in financial services is the reduction in the barriers to entry (Porter, 2008), bringing in new entrants to a historically closed community that compete amongst a highly serviced segment of the market. In addition to these changes, some of the participants were wary of the advances the global technology companies were making into financial services, focussing their efforts on high profit and low regulatory portions of the value chain. Leaders appear to be immersing themselves in the industry and engaging with fellow change leaders, but this approach needs to extend to take the organisation at large on the journey of the change needed to preserve and succeed in the future world of financial services (Teece et al., 2016).

The goal in the challenging business environment is consistent, the corporates' stakeholders expect value creation. Decision making must be broad enough to not only balance strategic and service sustaining investments but introduce agility for the business, enabling them to pivot to investments that support strategic delivery (Kock & Georg Gemünden, 2016). Trends in technology have increased the complexity financial services, and the new services that offer unique propositions must align to the strategic direction of the business and influence growth by reducing the cost to serve or positively influence revenue creation.

Pattern considerations to guide management approach

Partnerships with start-ups offer benefits to both the financial services corporations and the start-up. Brand equity grows for both parties if the output is successfully commercialised. Start-ups can grow their intellectual property by being integrating into an end to end value chain that has exposure to an extensive customer base, and the corporates can expand their customers' experience and value by leveraging the technology, agility and entrepreneurial approach of the start-up. Leveraging strengths of each actor should be the core premise of the engagement.

Measurement of success and value captured adopts a risk reduction and commercial approach, which has a direct influence on the distribution of benefits. While this is the accepted business practice, some participants noted that the approach might need to be altered to one that adopts more than just risk exposure to influence benefit share. The measurement of success is based on positive business cases and forecasts, a project office practice that is consistently applied in the corporates' businesses. The value generated though could be enhanced by augmenting this practice with measures that factor in human, organisational and financial capital employed to generate the value (Nawaz, 2018). The method and outcome of monitoring should be clarified as this process can influence idea generation, and organisations should guard their innovation pipeline from ventures that favour short to medium-term benefits.

Organisational setup for successful innovation was topical and perceived to influence the success rates significantly. Participants' had preferences that varied from being close to the customer to deliver meaningful products or services, to structures that were external from the organisation to benefit from lighter governance and standards that introduce self-inflicted barriers. Hashimoto and Nassif (2014) proposed that organisational structure had impacts on entrepreneurial behaviour and offer guidance on principles that can improve the environment to reduce the symptoms noted by the participants. They further argued that there is a management behaviour that must exist to support innovation success, promoting idea generators and supporting the development of these ideas.

Contributions of the study and implications for business practitioners

This section presents practical guidance for participants that are on the financial services side of the relationship when partnering with technology start-ups.

Assessment of start-ups should be inclusive in approach, where the solution and business model are interrogated. The technical solution and business process should be codified with the intellectual property, thereby reducing the risk of continuity resting on the tacit knowledge of the founder. The business operations of the start-up should have the foundations in place that enable them to scale as demand increases (Picken, 2017). If the start-up has been or is affiliated with an incubator or accelerator, the design of the prospectus should be assessed to verify if the required operational processes are in scope in the start-up's development journey.

A capability mapping can be executed to link current capability to existing and planned solutions. This view can be useful to inform the evaluation of gaps that exist, and this information should be used when engaging start-ups. The inherent capabilities that enable innovative solutions can be critical to bridging the gap in the corporate's capabilities. This approach can enable the corporate to leverage the enhanced value chain to create competitive advantage and deploy this in a manner that capture value (Teece et al., 2016).

Culture and change implementation would vary per organisation, but the common areas that should have leader focus are the existing learned culture (Christenensen, 2001) and the change implementation approach preferences of the leaders (Beer & Nohria, 2000). By understanding the benefits and disadvantages of the theories and combining the approaches with a sincere and honest view of the existing culture, leaders can shape the culture needed to support and enable innovation in their organisations.

Factors driving decision making must aim to understand the changes in industry forces (Porter, 2008), and sensing beyond the known business must be performed to develop a deeper understanding of the environment. Business leaders should enhance the skills assessment plan addressing learning, roles needed, and team configuration to meet the demands of the strategic choices (Nylén & Holmström, 2015). The continuous learning approach should be at both a technology and governance dimension to empower moving quickly and safely, as trust is based on the security of a service (Königsheim et al., 2017).

Investment management decisions have an established consistent procedure, but leaders need to enhance the information used when making strategic decisions. Strategic clarity must permeate within the organisation so that decisions are not unilateral and involve debate with leaders and business owners or innovation implementors. In addition, decision making should enable organisation agility by factoring in the turbulence in the internal and external business environment.

Technology start-ups offer immense opportunity to transform financial services from the client servicing solutions through to the back-office processing that enables the business. Leaders must ensure that all engagement in partnerships with start-ups links to specific problem statements that directly impact customer experience and value creation.

Measurement of success and value creation need to advance from assessments against business case forecasts and incorporate methods that enhance the value creation view, for example, the use of "return of assets' was used as a profit measure and compute the contribution from human, organisational and financial capital (Nawaz, 2018). Distribution of benefits should be a process that develops as the partnership, and the output develops to aid negotiations that are linked to direct and indirect value created by the relationship.

Organisation design to enable innovation should adopt design principles that reduce approval levels, induce speed in delivery and deliver pathways that product development teams can turn to for impediment removal. Most importantly is a behavioural change needed in the managers in the business, as they should be measured on promoting idea generation and supporting the progress through to development and commercialisation.

Limitations

The study was exploratory, and therefore the applicability across the varying business context is limited. Further limitations of the study comprise:

- The completeness of the holistic view per case study could be enhanced by interviewing different levels from the chosen participant organisations. The author aimed to interview leaders and senior management to inform this study.
- The assumed population consists of the prominent commercial, financial services firms in South Africa, and the sample was four of the 12 firms identified. The ability to generalise across the financial services industry may be possible due to product and services similarity, though this should be done with caution as context differs.
- The quality of the data extracted may be lacking as a result of the choice to conduct face to face interviews, which required a significant level of competence (Saunders et al., 2009), the author was not formally trained in this skill.

Recommendations for future research

The insights obtained from this research were of value to the author in understanding the South African corporate leaders’ perceptions and expectations from partnering with start-ups. The following are suggested as further research options:

- Further research could explore the success achieved in specific financial services firms. Such a study could utilise a detailed case study approach to further identify the intricacies in strategic implementation when engaging with SMMEs.

- The study of the start-up progression from SMME to SME to greater enterprise size could be performed. A study of this nature could add significant value to the entrepreneurial body of knowledge in an emerging market context, highlighting the nuances in growing a business through challenging economic conditions.
- To improve the generalisability of the research, students could study the effect of strategic responses that have been implemented within financial services from the period of new entrants increasing the competitive landscape.

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Annexure A: Interview Schedule and Consent Form

Informed Consent Letter

Transforming financial services by partnering with business incubators and technology start-ups.

Researcher: Jerome Naidoo, MBA Student at the Gordon Institute of Business Science, University of Pretoria

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I am performing research on financial services in South Africa and exploring the relationship incubators and start-ups can fulfil in the transformation process. Our interview is expected to last an hour and will help us understand the dynamics of your approach and the role these potential partners play or could fulfil to achieve transformation. Your participation is voluntary, and you can withdraw at any time without penalty. The interview will be recorded to enable accurate transcribing, transcribed notes will be saved as part of the research process and the academic institution's requirements. All data will be reported without identifying your name, nor the name of your organisation.

If you have any concerns, please contact my supervisor or me. Our details are provided below.

Researcher	Supervisor
Jerome Naidoo	Hugh Myres
Researcher	Research Supervisor
18378294@mygibs.co.za	myresh@gibs.co.za
071 485 2588	083 302 3802

I agree to my participation and to have the interview recorded

Signature of participant: ________________________

Date: _______________

Signature of researcher: ________________________

Date: _______________

Interview Guide

Research Question	Interview questions
R1 – Analyse the benefits for financial services companies entering into relationships or partnerships with start-ups	• What are some of the reasons you would consider for engaging with a start-up? • To what extent would this collaboration/partnership add value to your company? • Who would own these relationships in your company and why? • What initiatives are you aware of regarding start-ups or incubators that impact your business? • Is your company taking any steps in response to these? • What do think are the most important criteria when considering integrating or introducing a technology driven solution in your business? • To what extent does your company maintain or build competitive advantage in products or services? • To what extent would/have you integrated cultural changes across business units?
R2 – Evaluate the factors driving this decision, particularly in relation to changing industry forces and the competitive landscape	• How would you describe your organisation's current stance on innovation? • Do you have any cases of innovation (successful or attempted)? Can we explore one to understand what worked or what was learnt? • What are some of the critical business challenges you are experiencing in your industry? • To what extent is the rise of technology-driven service providers or products influencing your business? • Can you describe what methods you follow for scanning developments in your industry that influence your business? • How and when is the decision made to continue or terminate investment on initiatives? • What are the most important trends that you think financial services need to embrace? • How would you deliver this within your organisation?
R3 – Identify optimum patterns that can be applied to grow and integrate start-ups into the business model	• To what extent have you experienced challenges in your company driven internal innovation? • How would the benefits of the collaboration/partnership be distributed?

	• Are there any alternative business models observed or leading in your industry? • To what extent is value creation measured from innovation effort in your company? • How do you define your investment threshold? • Do you apply any measurements to monitor your projects?

Annexure B: Ethical Clearance

Gordon Institute of Business Science
University of Pretoria

31 July 2019

Naidoo Jerome

Dear Jerome

Please be advised that your application for Ethical Clearance has been approved.

You are therefore allowed to continue collecting your data.

Please note that approval is granted based on the methodology and research instruments provided in the application. If there is any deviation change or addition to the research method or tools, a supplementary application for approval must be obtained

We wish you everything of the best for the rest of the project.

Kind Regards

GIBS MBA Research Ethical Clearance Committee

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Annexure C: Atlas.TI codebook

Individual codes

R1 A unique product or service tested in market

R1 Ability to scale

R1 Africa focussed accelerator

R1 Agility in development

R1 Assessment is a combination of both formal and informal methods

R1 At early stage, details are confidential due to competitive positioning

R1 Attractiveness to corporates

R1 Become digitally enabled

R1 Business continuity, is the IP accessible within the start-up's

R1 Commercial benefit to corporate

R1 Confident in current position and emerging risk exposure

R1 Corporates are learning from fintechs

R1 Cultural change is implemented carefully when introducing innovation to business

R1 Cultural change is not considered when introducing technology solutions

R1 Culture needed to introduce value to the corporate

R1 Deficiency in internal capability

R1 Enhance value chain

R1 Enterprise architecture (technology and business)

R1 Enterprise development responsibility of South African

R1 Environment and culture that promotes innovation

R1 Established business plan and strategy in start-up's

R1 Fintechs are disrupting financial services operating models

R1 Fintechs are disrupting payment and payment distribution

R1 Impact on staff in company that is innovating

R1 Imposing corporate standards on a start-up's inhibits agility

R1 Introduce new business line

R1 Introduce new target markets

R1 Leaders must have technology understanding

R1 Leverage to exploit opportunities

R1 Ownership of the initiatives must be the person accountable for the outcomes

R1 Primary focus of corporates is running existing business

R1 Product or channel head

R1 Reduce cost to serve

R1 Significant investment in building competitive advantage

R1 Solve a customer problem

R1 Speed to market

R1 Start-up’s mindset and entrepreneurial approach

R1 Start-up’s get frustrated by corporates speed

R1 Supplement or introduce a value chain

R1 Technology or Digital officer

R2 A strategic plan of action needs to exist.

R2 A vested interest from the relevant stakeholders

R2 Academic research

R2 Access to and quality of skills in SA market

R2 Alternate technology platforms for servicing

R2 An optimist in cost associated to innovation spend

R2 Aspirational propositions as bets to attract the customer

R2 Business cases for innovation target an oversupplied market

R2 Business economic environment

R2 Communication and culture must align and support strategy

R2 Constrained by internal governance

R2 Corporates should spend less time obsessing about the big tech ways and focus

R2 Creative destruction and the consequences

R2 Criteria to measure against and inform investment decisions

R2 Customers don’t trust financial services

R2 Cybercrime and the impact on our business and customers

R2 Does the company know who it is targeting?

R2 Emerging threats are emanating from non-traditional competitors

R2 Engaging with the fintech community

R2 Fourth industrial revolution technologies

R2 Gap between start-up’s thinking and regulator readiness

R2 Halo effect

R2 Industry conferences

R2 Innovation effort is on the surface level

R2 Innovation effort is significant in ways of working

R2 Innovation is in the early stages of development

R2 Innovation is lacking

R2 Innovation ownership is crucial for survival in corporate

R2 Introduces significant efficiency to business operations

R2 Investment changes are subjective

R2 Investment changes made to late in the process

R2 Learning from and trusting our new staff

R2 Market research services

R2 Mentality to embrace innovation

R2 No repeatable recipe for successful innovation

R2 Omnichannel and Single view of customer

R2 Organise the team to succeed

R2 Personalisation is emerging as a future direction

R2 Prioritisation must link to the strategy not just tactical

R2 Professional network for sensing and testing

R2 Pursuing a technology driven solution must have commercial value

R2 Regular monitoring against business cases

R2 Reward for successful innovation

R2 Senior level executive

R2 South African market is small

R2 South African market is still quite traditional

R2 South African start-up’s do not have the full value chain

R2 Start-up’s with financial backing are emerging risks

R2 Stays actively involved in the fintech market

R2 Value creation through innovation

R2 Value from innovation is more than commercials

R2 VC/Innovation funding initiatives

R2 Vendor engagement assists with understanding what is coming

R3 Access to data to further improve the start-up’s offering

R3 Alternate where start-up’s and corporate engage outside of company structure

R3 Business defines qualitative subjective measures

R3 Buying technology start-up’s and white labelling within organisation value chain

R3 Commercial agreements for benefits distribution

R3 Cost outweighed anticipated benefits

R3 End to end financial services is complex and expensive

R3 financial players can follow an insource approach

R3 Governance needed to enable speed to market

R3 Growing demand for peer to peer solutions

R3 Internally constrained by lack of technology and business readiness

R3 Investment management is assessed at regular intervals

R3 Investment is assessed against business value and capabilities

R3 Large technology players are real risk to financial services

R3 Normal project measurement like IRR, NPV, break even

R3 Profit share method for tech start-up’s that want to do finance or insurance services

R3 Qualitative benefits from collaboration

R3 Staff are resistant to new technology driven solutions

R3 Subscription model enables scaling with usage increase

R3 Succeeding enables the culture to continue innovating

R3 Tracking progress need to extend beyond project phase

R3 Value creation tracking introduces barriers

R3 Value is measured through quantitative commercial measures

Code Groups

R1 Attractiveness to corporates

R1 Benefits for both parties

R1 Capability needed to grow

R1 Culture considerations

R1 Ownership of relationships

R1 Technology start-up's offering to corporates

R1 What is the need?

R2 Business environment

R2 Change in forces

R2 Innovation culture and practice

R2 Investment management

R2 Mindsets employed for success

R2 Strategic goals

R2 Trends that can't be ignored

R3 Managing resistance

R3 Measuring success

R3 Mutual benefits

R3 Setting up for success