



How competencies are developed that enable exploration: a case study of First National Bank

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i

Abstract

This research considers how competencies are developed that allow for a firm to explore. Limited empirical studies exist on how these competencies are developed and how they evolve. Utilising a single case study research methodology approach, this research looks at a single case event at South Africa's third biggest bank, First National Bank (FNB). In 2012, FNB was awarded the title of Most Innovative Bank in the World at the 2012 BAI –Finacle Global Banking Innovation Awards, recognising their contributions to radical banking solutions. Considering only one such innovation, the Smart Device offering, this research places into context how FNB have evolved the competencies to radically innovate in a world of scarce resources. The fundamental outcome of this research is that competencies take considerable time and resources to develop and as such, firms must make intelligent choices about their strategic competitive path. The research also highlights that the competency to explore requires a coalesce of many factors that when aligned with that strategic path, ready the firm to execute on opportunities that are outside of their relevant knowledge distant domain. FNB's "customer eco-system" model has ensured congruence with existing competencies and upstream processes while engaging their employees in natural collaboration across business units. This research considers these and other factors that have led FNB to position themselves for exploration.

Keywords: Innovation; Exploration; Competencies; Capabilities; Case Study

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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Date

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Contents

Abstract	ii
Declaration	iii
Acknowledgements	iv
Contents	v
Contents: Tables and Figures.....	x
Chapter 1: Introduction	1
1.1. Introduction	1
1.2. Research Scope.....	2
1.3. Research Motivation	3
1.4. Research problem.....	4
Chapter 2: Literature Review	5
2.1. Resource based theory	5
2.2. Core competencies of a firm	7
2.3. Dynamic capabilities theory.....	9
2.4. Innovation and knowledge.....	13
2.5. Exploitation and the competency trap	15
2.6. Exploration	17
2.7. Knowledge diversity	20
2.8. Conclusions.....	22
Chapter 3: Research Questions	24
3.1. Research Question One.....	24
3.2. Research Question Two.....	24

3.3.	Research Question Three	24
Chapter 4: Research Methodology		25
4.1.	Introduction	25
4.2.	Informed Consent.....	26
4.3.	Scope	27
4.4.	Theoretical Constructs	27
4.5.	Research design	30
4.5.1.	Phase 1: Literature review	31
4.5.2.	Phase 2: Desk review	31
4.5.3.	Phase 3: Archival study	31
4.5.4.	Phase 4: Interviews	32
4.6.	Population and sampling	33
4.7.	Research limitations	34
Chapter 5: The FNB Story		36
5.1.	Kartik Mistry	36
5.2.	First National Bank.....	37
5.2.1.	First National Bank	37
5.2.2.	FirstRand Bank Limited	38
5.2.3.	The South African banking sector.....	38
5.3.	FNB's strategic choice, the basis for differentiation.....	40
5.4.	FNB Smart Device Offering	42
5.4.1.	Idea generation.....	42
5.4.2.	The refinement process	43
5.4.3.	Objectives and rationale for the Smart Device offering.....	46
5.4.4.	Alignment to strategic objectives, competencies and networks	47

5.4.5.	FNB approval and roll-out.....	48
5.4.6.	A strong customer value proposition.....	49
5.4.7.	Demand unexpected - uptake hugely successful	51
5.4.8.	New skills to learn.....	53
5.4.9.	Above the line marketing	57
5.4.10.	Finalist in the FNB Innovators Awards 2012	60
5.5.	Other FNB innovations	61
5.5.1.	Cellphone Banking.....	61
5.5.2.	FNB online banking	62
5.5.3.	E-wallet.....	63
5.5.4.	FNB Connect	63
5.5.5.	FNB paperless branches and dot.FNB branches	64
5.5.6.	FNB banking app	65
5.6.	Innovation at FNB	67
5.6.1.	Innovation as a value and a core strategy	67
5.6.2.	Campaign-driven innovation culture	67
5.6.3.	Support from leadership	68
5.6.4.	Categorising innovations	69
5.6.5.	Judging Framework drives quality and consistency.....	70
5.6.6.	Rewards to match.....	71
5.6.7.	Motivational programme drives innovation success.....	72
5.7.	Companywide practises	73
5.7.1.	FNB values and culture	73
5.7.2.	Recruitment	74
5.7.3.	Structure and collaboration across segments.....	74

5.7.4.	Rewards and recognition	77
5.7.5.	Resource allocation	77
5.7.6.	An appetite for risk.....	79
5.7.7.	Learning and knowledge management.....	80
5.8.	FNB results (2012) show payoff	83
5.9.	The world's most innovative bank	85
Chapter 6: Discussion of findings		87
6.1.	Becoming ambidextrous – exploiting and exploring in a world of limited resources.....	87
6.1.1.	Introduction.....	87
6.1.2.	Get the basics right.....	88
6.1.3.	A flexible strategy and fit of knowledge.....	90
6.1.4.	Actor diversity drives knowledge diversity	90
6.1.5.	Utilising outside knowledge with skills and competencies	91
6.1.6.	Conclusion.....	92
6.2.	Developing and adapting competencies to explore.....	94
6.2.1.	Introduction.....	94
6.2.2.	Path	95
6.2.3.	Positions	96
6.2.4.	Processes.....	98
6.2.5.	Competitive advantage	101
6.2.6.	Conclusion.....	102
6.3.	Learning mechanisms that support the search and use of new knowledge	104
6.3.1.	Introduction.....	104
6.3.2.	The “unspoken philosophy” of mistake making.....	105

6.3.3. Natural collaboration.....	106
6.3.4. All the eggs in a couple of baskets?	107
6.3.5. Conclusion.....	107
6.4. Conclusion	108
Chapter 7: Conclusion	110
7.1. Main findings from research.....	110
7.2. Recommendations to stakeholders and managerial implications....	112
7.3. Recommendations for future research	113
References	115
Appendices.....	121
Appendices 1: First Rand Bank market statistics and key ratios 2006-2011	121
Appendices 2: First National Bank (South Africa and Africa) financial performance 2011/2012	122
Appendices 3: Slide from 2012 FSR results presentation – Innovation continues to attract and retain customers (FNB).....	123
Appendices 4: Interview consent form.....	124
Appendices 5: Interview guide - general.....	125
Appendices 6: Interview guide – Raj Makanjee, CEO Wealth	126

Contents: Tables and Figures

Figure 1 FNB Smart Device sales by month (not actuals, rounded to nearest thousand).	52
Figure 2 FNB sales by lead type (new vs. existing)	52
Figure 3 Smart devices from FNB linked to their online banking tools	53
Figure 4 Snapshots of customer complaints listed on www.hellopeter.com	54
Figure 5 Complaints compared to deliveries, YOY improvement (Sept month only)	55
Figure 6 FNB billboard advertising	58
Figure 7 FNB Facebook advertising	58
Figure 8 Free online PR and marketing example: http://www.hotsadeals.co.za/2011/10/deals-fnb-is-offering-up-to-35-discount.html	59
Figure 9 FNB advertising and promotion on Samsung website	60
Figure 10 FNB Cellphone Banking Customers	62
Figure 11 Picture of dot.FNB branch in Nicolway Shopping Centre	64
Figure 12 Screenshots: FNB Banking App	66
Figure 13 FNB Innovators Rewards Scheme	72
Figure 14 FNB New Customer Growth	84
Figure 15 FNB Products per Customer	85
Table 1 Market Share based on individual bank assets as at June 2010	39
Table 2 Retail price and FNB price - discounts to customers (this is sample data and does not include all options from FNB)	50
Table 3 The roles of a BU Champion (FNB Innovation)	68
Table 4 FNB Framework to Guide Innovation	69
Table 5 Implemented FNB Innovations: Exploit versus Explore	87

Chapter 1: Introduction

1.1. Introduction

The primary task of an executive in a downturn is to protect the business (Reeves & Deimler, 2009, p. 10). Most companies are tackling the downturn with the traditional, tried and tested strategies such as cost cutting, downsizing, price cuts and so forth (Pant, 2009, p. 33). Reeves and Deimler (2009) argue however, that survival is not good enough and that in an extended downturn, such as the one the world is currently experiencing, companies need to strategise to ensure that they come out of the downturn with a strong competitive advantage (Reeves & Deimler, 2009, p. 10).

Companies can no longer rely on their market share to ensure future revenues and profits (Reeves & Deimler, 2009, p. 15). As rival companies seek to ensure their own survival and long term competitiveness, business leaders can be assured that the competitive landscape will continue to change. Companies perceived to be weak or without a competitive advantage are sure targets for take-overs (Pant, 2009).

Other considerations for company executives include removing weaker competitors from the market, looking to new territories for growth opportunities, innovating new products and services, focusing market spend (Pant, 2009) and narrowing product ranges (Moin & Gabbe, 2009). Pant (2009) reminds us that some of the most successful companies and products were launched in past recessions; successful companies including GE, Disney, HP and Microsoft who rose out of a recession (Pant, 2009, p. 33).

What is the organisational capability required for companies to succeed in a sustained, slow growing economy? Available academic literature discusses the concepts of competencies and dynamic capabilities, but very the literature exists on how competencies and capabilities may be evolved in a firm. The purpose of

this research is to add insight to this discussion through the study of a real life event at one firm, which combined in time with other studies, may shed additional insights into how competencies are developed.

1.2. Research Scope

Gavetti and Levinthal (2000) found that shifts that allow for innovation are based on social learning's and knowledge diversity. This research will specifically consider how the competencies to explore are developed and will consider topics related to competencies and capabilities (these terms are used interchangeably in this research), innovation, bounded rationality, exploration, exploitation, competitive advantage, knowledge diversity and learning mechanisms. Leadership as a topic has been excluded from the scope of this research.

The research will use theoretical constructs that have been synthesised from the literature on the topics above and include the role of:

- i. Managers;
- ii. Employees;
- iii. Resource allocations;
- iv. Organisational culture;
- v. Organisational size;
- vi. Ambidextrous organisations;
- vii. Collaboration and associations;
- viii. External factors;
- ix. Marketing, and
- x. Knowledge management

A single case study research methodology has been utilised for this research and will primarily consider one real life event at First National Bank (FNB) in South Africa, while looking to companywide practises that drove the development of competencies that allowed FNB to radically innovate in the market place.

1.3. Research Motivation

Birkinshaw, Probst, Raisch, and Tushman (2009) state that the long term success of a business depends on its ability to exploit its current capabilities, while simultaneously exploring for new opportunities and capabilities for the firm (Birkinshaw, Probst, Raisch, & Tushman, 2009, p. 685). Garud, Joel and Arun (2011) in their study of innovation at 3M Corporation attribute the company's sustainability over the last 100 years and its ability to weather out the recent recession to their ability to inculcate and maintain innovation in the fabric of the organisation. And Burgelman's (1994) review of Intel's strategic shift away from memory and into microprocessors posits that organisations who continue to survive, are those that can use "intraorganisational ecological processes" that are related to the external environment to cope with the ever changing external demands of the market by learning and utilising newly acquired competencies (Burgelman, 1994).

But innovation is not easy to sustain, primarily due to the complex nature (Garud et al., 2011, p. 737) and the contradicting knowledge processes required to both exploit and explore new knowledge and opportunities (Li, Schoenmakers, & Vanhaverbeke, 2008). Both exploitation and exploration are the fundamental themes for learning and strategy in an organisation and many authors (e.g. Gibson and Birkinshaw 2004; He and Wong 2004; Birkinshaw et al 2009; Andriopolos and Lewis 2009; Calantone, Griffith, & Yalcinkaya, 2007) have argued that organisations need to develop the competencies to both exploit and explore (Jansen, Van Den Bosch, & Volberda, 2006, p. 1661) in order to prosper or survive (Andriopoulos & Lewis, 2009, p. 696). Superior performance is expected from such ambidextrous firms (Birkinshaw et al., 2009, p. 685) while focusing on only one may drive the other out, which in turn may lead the firm into either a competency trap or a series of failure traps (Andriopoulos & Lewis, 2009, p. 697).

An extensive search of available academic literature on the competencies and how they are developed, specifically the development of competencies to explore, reveals only a handful of cases and academic research, none of which are within the South African context. While the academic research on competencies, dynamic capabilities and ambidextrous organisations contain multiple propositions on how these are developed, little empirical research has been conducted that can contribute to further this study in the strategic management field of academia.

1.4. Research problem

Wernerfelt (1984) and Pisano, Shuen & Teece (1997) found that the basis of the resource based theory exists in the firm's ability to exploit existing resources and capabilities while at the same time developing new ones. Innovation can be defined by its two components, namely the ability to exploit existing opportunities while simultaneously exploring for new opportunities that can lead novel product and service designs.

This research aims to consider how competencies are developed to explore which from a resource based perspective requires the development of new competencies. The foundation of the dynamic capability theory is that dynamic capabilities reflect the firm's ability to achieve new and innovative ways of achieving competitive advantage. This research attempts to determine how firms develop competencies and how these competencies evolve that in turn drives competitive advantage for the firm.

Chapter 2: Literature Review

2.1. Resource based theory

In 1984 Birger Wernerfelt proposed the resource based view of the firm. His fundamental argument is that viewing a firm from the perspective of its resources gives a fundamentally different insight compared to looking at the firm from the perspective of its products (Wernerfelt, 1984, p. 172). Wernerfelt (1984) defined a resource as anything, being either tangible or intangible, that could be considered a strength or a weakness of a given firm (p. 172).

Hamel and Prahalad (1990) in their analysis of what the core competence of a corporation is carried forward the thinking of distinguishing between a portfolio of products versus a portfolio of competencies (Hamel & Prahalad, 1990, p. 81). Barney (1991) defined the firm resource to include "... all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness" (Barney, 1991, p. 101).

The product portfolio theory suggests that strong products supply weak products with cash; Wernerfelt (1984) however argues that a business is related in more ways than just financially and as such, the joint cost subsidy from resource relation would be substantially more "potent" than product to product cash subsidies (Wernerfelt, 1984, p. 178). He argues that this perspective will in turn open new growth opportunities and trajectories (p. 178).

The basis of the resource based theory lays in the firm's ability to exploit existing resources and capabilities and at the same time to develop new ones (Wernerfelt, 1984; Pisano, Shuen, & Teece, 1997). Exploitation of resources captures entrepreneurial rents through firm level efficiency advantages (Pisano et al., 1997, p. 513-514), whereas firms with valuable and rare resources will

engage and conceive of strategies that others cannot because these firms lack the required organisational resource to explore and innovate outside of their knowledge domain (Barney, 1991, p. 107).

Competitive advantage is sustained if other competitors are unable to obtain the same resources (Barney, 1991, p. 107). Barney (1991) suggests that resources only endow sustained competitive advantage if 1) they are valuable in that they exploit opportunities and neutralise threats in the firms environment, 2) these resources are rare amongst current and potential competitors, 3) they are perfectly imitable, and 4) there are no strategically equivalent substitutes for these resources that are valuable, rare or imperfectly imitable (p. 105-106). Eisenhardt & Martin (2000) refers to these attributes as VRIN (valuable, rare, inimitable and non-substitutable) (p. 1105).

It is the nature of resources that drives competitive advantage (Wernerfelt, 1984; Hamel & Prahalad, 1990; Barney, 1991; Pisano, Shuen, & Teece, 1997; Eisenhardt & Martin, 2000)). Resources are heterogeneous across firms (Barney, 1991; Pisano, Shuen, & Teece, 1997; Eisenhardt & Martin, 2000) and because these resources are not perfectly mobile between firms, such heterogeneity can be long lasting (Barney, 1991, p. 101). Competitive advantage is achieved when resources are utilised to implement value creating strategies that existing and potential competitors can not (Barney, 1991, p. 173; Eisenhardt & Martin, 2000, p. 1105)). Indeed, Wernerfelt (1984) found that the ability to substitute resources will tend to reduce returns to the holder of a given resource (p. 173).

Barney (1991) states three reasons why resources may be perfectly inimitable, namely: 1) the acquisition of resources is dependent on unique historical conditions (or paths), 2) the link between the firm's resource and its sustained competitive advantage is causally ambiguous, and 3) the resources are socially complex (p. 107). Competitive advantage therefore lies upstream with difficult to imitate resources (Pisano et al., 1997, p. 513).

Wernerfelt (1984) describes the attractiveness of a resource with regards to its ability to create a resource barrier (p. 174). Being analogous to a barrier to entry as described by Porter (1980), a firm should seek to create a resource position *vis a vis* other holders of such a resources that make it difficult for such holders to catch up (Wernerfelt, 1984, p. 173). Because resources are not homogenous and are not mobile, resource barriers are created by applying firm resources in a way that new entrants, or competitors, are not able to replicate (Barney, 1991, p. 104).

Barriers are also created by the first mover advantage (Wernerfelt, 1984; Barney, 1991). But to be the first mover, a firm requires insights about the opportunities associated with implementing a strategy that is not possessed by other firms (Barney, 1991, p. 104). First movers have multiple associated benefits, namely, the firm gains a learning curve advantage, they gain higher returns, keep better people due to the stimulating environment so that the organisation can develop and calibrate more advanced ideas (Wernerfelt, 1984, p. 174), they gain access to distribution channels, goodwill with customers and a positive reputation (Barney, 1991, p. 104), to clearly name just a few.

2.2. Core competencies of a firm

Hamel & Prahalad (1990) in the seminal work on NEC further developed the resource based thinking into what they called the core competencies of a firm. A core competencies is defined as "... the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies" and they continue by including in the definition "... the organization of work and the delivery of value" and state that it is about "...communication, involvement, and a deep commitment to working across organizational boundaries. It involves many levels of people and all functions (p. 82).

They definitively state that core competencies are corporate resources that can be reallocated by corporate management (Hamel & Prahalad, 1990, p. 90), thus resources are under the control of the firm. Competencies are not bought, but rather need to be built (Pisano, Shuen, & Teece, 1997, p. 518), but at the same time, core competencies are unlike tangible assets in that they do not deteriorate if they are shared and applied, but rather they grow (Hamel & Prahalad, 1990, p. 82).

Hamel & Prahalad (1990) find that core competencies can be identified in that they should 1) provide access to a wide variety of markets (that is that they are applicable across markets and not only within a particular market), 2) make a significant contribution to the perceived benefits of the end product, and 3) it should be difficult for competitors to imitate (pp. 83-84). These identifiers are in line with Eisenhardt & Martin's (2000) VRIN attributes.

What Hamel & Prahalad (1990) add to the resource based view of the firm is that these resources alone are not what gains the firm competitive advantage, it is rather the assimilation of knowledge and use thereof, the coordination and allocation of resources across the organisation and inevitably the structure, leadership and culture of the firm that drive these resources to form core competencies. Unlike the resource based view of the firm that terms resources as all tangible and intangible assets, Hamel & Prahalad (1990) find that only a few firms will have between four and six core competencies and that firms need to make a decisive choice about the core competencies that they want to develop (p. 84). Leadership therefore needs the vision to build core competencies and the administrative means for assembling resources spread across multiple business units (p. 86).

Hamel & Prahalad (1990) study on NEC concludes with the recommendation that leadership therefore needs to build a strategic roadmap for the future that identifies which core competencies to build and develop, the outcomes of which

should include; 1) making resource allocation priorities transparent to the entire organisation, 2) a template for the allocation decisions of top management, 3) that will help lower management to understand the logic of resource allocations, 4) a disciplined senior management team that is consistent, 5) that yields a definition of the company and the markets it serve, and finally 6) to establish linkages across strategic business units (Hamel & Prahalad, 1990, p. 89). All of this with the aim to create a managerial culture of team work that facilitates sufficient capacity for change and a willingness to share resources, to protect proprietary skills and to think long term (p. 89).

Once again, the distinctiveness of these core competencies relative to the firms' competitors and how difficult it is for them to replicate them are what drive competitive advantage (Pisano et al., 1997, p. 516). For sustained competitive advantage, a firm needs to keep pace with the changing environment in which it operates and as such requires a focus on the firms capabilities to renew all or part of its managerial competencies and then to create radically new ones (Calantone, Griffith, & Yalcinkaya, 2007, p. 68). Core competencies are developed through a continuous process of improvement and enhancement that may span a decade or more and those that have not invested in the development of core competencies will find it difficult to enter emerging markets (Hamel & Prahalad, 1990, p. 84).

2.3. Dynamic capabilities theory

Pisano, Teece & Shuen (1997) introduced the concept of dynamic capabilities in 1997. Dynamic capabilities reflect the firm's ability to achieve new and innovative ways of achieving competitive advantage (p. 516). The term "dynamic capabilities" is formed from the separate definitions of dynamic and capabilities that when read together define the theory. By "dynamic" the writers mean "... the capacity to renew competences so as to achieve congruence with the changing business environment..." and by "capabilities" they include in the definition "... the key role of strategic management in appropriately adapting, integrating, and

reconfiguring internal and external organizational skills, resources, and functional competences to match the requirements of the changing environment” (p. 515).

Specifically, the dynamic capabilities view consists of specific strategic (higher order competencies related to understanding trends and possessing strategic agility) and organisational processes (lower order competencies which drive implementation) that create value for firms by manipulating resources into new value creating strategies. Therefore, dynamic capabilities are shaped by processes, positions and paths (Pisano et al., 1997, pp. 518-519).

Pisano et al. (1997) define processes as the way things are done at a firm which includes their routines or patterns of current practises and learning (p. 518). These processes have three functions, namely to coordinate or integrate, to learn and to reconfigure (pp. 518-519). Processes are embedded in the organisation (Eisenhardt & Martin, 2000, p. 1106) and are influenced by the culture of the organisation, the congruence within and between processes and the willingness to change and adopt best practises (Pisano et al., 1997, pp. 518-519). All of this is underpinned by the organisations learning mechanisms that guide the evolution of dynamic capabilities, such as practise, codification, formulisation, making mistakes and managing crises (Eisenhardt & Martin, 2000, pp. 1110-1115). Therefore, dynamic capabilities vary due to their reliance on existing knowledge (p. 1110). Learning enables new opportunities to be identified, which in turn leads to innovation; the ability to learn however involves both organisational and individual skills and is itself a highly social process (Pisano et al., 1997, p. 520).

By positions, Pisano et al. (1997) are referring to the firm’s specific assets, such as technology, complementaries, capital, structure, markets and market structure (p. 521). Pisano et al. (1997) define path as the “... strategic alternatives available to the firm, and the presence or absence of increasing returns and attendant path dependencies” (p. 518). Pisano et al. (1997) state that where a

firm can go is a function of their current position and the paths ahead (p. 522), and Eisenhardt & Martin (2000) contribute to this by finding that the order of implementation of dynamic capabilities is sequential in that dynamic capabilities are usually a combination of smaller capabilities and routines, some of which are foundational to others, and must therefore be learnt first (p. 1116).

While Pistano et al. (1997) suggest that the real key to success lays in the development of truly unique capabilities (p. 513), because to replicate a firm's capability requires that they are understood (p. 517), Eisenhardt & Martin (2000) posit that the existence of best practise means that these capabilities can in fact be duplicated across firms, and therefore, the dynamic capabilities itself cannot be the source of competitive advantage (Eisenhardt & Martin, 2000, p. 1106). Eisenhardt & Martin (2000) argue that competitive advantage rather exists in the configuration of resources (p. 1106). The fundamental outcome of this, according to Eisenhardt & Martin (2000), is that these dynamic capabilities exhibit commonalities across firms (p. 1106) and are therefore more “fungible” and “substitutable” across firms (p. 1110). The authors recognise that they are however idiosyncratic in their details (p. 1109) and are referred to in the market as “best practise”. According, they believe that dynamic capabilities should therefore be developed and used to enhance existing resource configurations in pursuit of long term competitive advantage (Eisenhardt & Martin, 2000, p. 1106).

Eisenhardt & Martin (2000) state that when resources have resource complementarities, there is the potential to create sustained competitive advantage (pp. 1105-1106). Addressing the first mover advantage, they continue to say that long term competitive advantage lies in using dynamic capabilities sooner than the competitors, more fortuitously or more astutely to create resource configurations that have a competitive advantage; this even more so when the combinations of resources are tightly woven, synergistic activities (p. 1117).

Interestingly, Eisenhardt & Martin (2000) find that competitive advantage in dynamic markets is short lived; firms compete in these markets by creating a series of temporary advantages (p. 1117). They found that persistent high performance is driven by temporary advantages and that creating a series of moves and counter-moves to out-manoeuvre competitors led to superior performance (p. 1118).

Pisano et al. (1997) maintain however, that it is the imitation of the processes that is the challenge for competitors, in that while these processes may be observable, it is the routines themselves that are not imitable (pp. 524-526). Routines are defined as “when firm specific assets are assembled in integrated clusters spanning individuals and groups so that they enable distinctive activities to be performed, these activities constitute organizational routines and processes” (Pisano et al., 1997, p. 516); specifically, routines related to coordination are firm exclusive (p. 519). And therefore, for a dynamic capability to be strategic it must be honed to a user need, it must be unique and difficult to replicate (pp. 516-517).

The consequence thereof is that dynamic capabilities can not be bought; they must be developed (Pisano et al., 1997), contrary to Eisenhardt & Martin (2000) view on the existence and adoption of “best practise”. The non-tradability, according to Pisano et al. (1997), of dynamic capabilities is attributable to the soft assets that give dynamic capabilities their power, such as values, culture and organisational experience (p. 528).

Dynamic capabilities are best described as the manipulation of resource configurations (Eisenhardt & Martin, 2000, p. 1118) in order to create difficult to imitate advantages (Pisano et al., 1997, p. 528). The emphasis is placed on management capabilities, difficult to imitate combinations of organisational, functional and technological skills (Pisano et al., 1997, p. 510). Hamel & Prahalad’s (1980) work confirms the view of Pisano et al. that real competitive

advantage lays in the core competencies of a firm that are unseen by its competitors (Hamel & Prahalad, 1990, p. 82). Barney (1991) maintains that a firm achieves sustained competitive advantage when they possess a competitive advantage that other firms are unable to duplicate the benefits of, when resources are not evenly distributed and when these resources are not highly mobile (Barney, 1991, p. 102). The essence of capabilities is that they can not be readily put together through markets (Pisano et al., 1997, p. 517) and they refer to the development of organisational, functional and technological skills to gain and sustain competitive advantage (Calantone, Griffith, & Yalcinkaya, 2007, p. 66).

Dynamic capabilities reflect the firm's ability to achieve new and innovative forms of gaining competitive advantage given their path dependencies and market position (Pisano et al., 1997, p. 516). It is the capability to learn that enables new opportunities to be identified combined with firm specific processes, its position and its path that leads to innovation (pp. 518-523). Viewing a firm from the perspective of Pisano et al. (1997) means that while the behaviour and performance of a firm is observable and seemingly coherent, it is hard to replicate due to the soft assets possessed by the firm and difficult to imitate due to the firm-specific nature of routines (pp. 518-523). Competitive advantage therefore lies upstream of product markets and can be found in the "difficult-to-imitate" resources (p. 513). The ability to achieve congruence with the changing business environment (that is, being dynamic) requires innovative responses when time-to-market and timing is critical, when the rate of technological change is rapid and when the nature of future markets and competition is difficult to determine (p. 515).

2.4. Innovation and knowledge

The critical task for management is to permeate products with irresistible functionality or to create new products that customers need but have as yet not even imagined (Hamel & Prahalad, 1990, p. 80). Product innovation enhances a

firm's overall performance by satisfying customers' needs and wants (Calantone et al., 2007, p. 66). The path to industry leadership is to have an independent view of the future opportunities and then to develop the capabilities to exploit them (p. 86).

Innovation in the business context can be defined as an "intricate knowledge management process of identifying and utilizing ideas, tools, and opportunities to create new or enhanced products or services" (Andriopoulos & Lewis, 2009, p. 696). Prior knowledge and experience (or skill) allows actors within a firm to make linkages and associations that may have not been made before (Cohen & Levinthal, 1990, p. 130). It is the ability of being able to recognise the value of information, to absorb it and to apply it to commercial ends that drive innovation (Cohen & Levinthal, 1990, p. 128).

Cognition is forward looking intelligence that is based on the actor's analysis of the choice to be made and the likely possible outcomes as a result thereof (Gavetti & Levinthal, 2000, p. 113) and is limited by the knowledge and experiences available to the actor at that point in time (bounded rationality along the temporal dimension) (Li et al., 2008 and Burgelman, 1994). Similarly, firms tend to look to existing and most recent acquired knowledge to solve current problems (Li et al., 2008, p. 116) and knowledge fades if it is not used (Hamel & Prahalad, 1990, p. 82). This cognitive limitation is referred to as bounded rationality; being an imperfect cognitive representation formed by mental models created by the actors within a firm and which limits the extensiveness of alternatives considered as well as the originality of the alternatives relative to current behaviour (temporal and spatial dimensions of bounded rationality) (Gavetti & Levinthal, 2000).

Experimental wisdom compliments cognitive abilities through the accumulation of positive and negative corroboration of prior choices (Gavetti & Levinthal, 2000, p. 113). Experiential choices are different from cognitive choices in the alternatives

considered, the location of those alternatives and the method of evaluation (Gavetti & Levinthal, 2000, p. 114). It is within these dimensions that we find the two complimentary yet different components of innovation being exploitation and exploration; exploitation utilises knowledge which can be termed as familiar, mature, current and proximate and which capitalises on current capabilities, whereas exploration utilises knowledge that is unfamiliar, distant and remote and which forms new capabilities for the organisation (Li et al., 2008, pp. 115-116).

Considering the limitations of bounded rationality and that strategy is often a by-product of actor's within a firm's representations (usually management), it is vitally important for a firm to manage its choices and actions (Gavetti & Levinthal, 2000, p. 113). The role of management is to match distinctive competencies with business opportunities (Burgelman, 1994, p. 25). Dynamic capabilities are formed when management successfully adjusts the strategic combination of resources to the unique characteristics of the market (Calantone et al., 2007, p. 66).

Viewing the firm in terms of core competencies widens the domain of innovation, limiting the impact of the so called "bounded innovation" (Hamel & Prahalad, 1990, p. 89). Ambidextrous firms possess the competence to simultaneously exploit current capabilities while exploring for new ones with equal agility (Andriopoulos & Lewis, 2009, p. 696) and superior performance is expected from ambidextrous firms (Birkinshaw et al., 2009, p. 685; Andriopoulos & Lewis, 2009, p. 697). From a resource based perspective, strategy for larger firms should involve striking a balance between the exploitation of existing resources and the development of new ones (exploration) (Wernerfelt, 1984, p. 172).

2.5. Exploitation and the competency trap

Exploitation builds on the existing capabilities of the firm through incremental innovation that helps meet the needs of existing customers or markets (Jansen et al., 2006, p. 1662). Exploitation builds on existing resources, assets and

capabilities (Calantone et al., 2007, p. 67). Firms “... exploit by search[ing] for knowledge within the organizational boundary and knowledge that is local to their existing knowledge...” (Li et al., 2008, p. 119).

Existing knowledge and capabilities are expanded on through the process of exploitation (Jansen et al., 2006, p. 1662) which seeks to refine, reduce variety and create efficiency through considering production, selection, implementation and execution (Li et al., 2008, p. 107). It is the local search of knowledge that defines exploitation which is measured by the so called “knowledge distance domain” (Li et al., 2008, p. 118); knowledge that is familiar and proximate to current capabilities (p. 115).

Exploitation on its own however comes with inherent risks; while it may lead to immediate profits (e.g. through efficiency enhancements or through the acquiring of refined process) such profits are usually short lived and result in long term stagnation which in turn may leave the firm vulnerable or which may lead the firm into a competency trap (Andriopoulos & Lewis, 2009, p. 697). This competency trap occurs when external pressures lead to the need to evaluate the firm’s ability to respond to or improve their performance, but due to the lack of knowledge beyond the local knowledge domain, the firm is trapped by their current knowledge and competencies – but where a more global evaluation may reveal superior alternatives (Li et al., 2008, p. 121). The lack of knowledge does not allow the firm to expand their dimensional thinking which includes multiple interactions (or opportunities) (Li et al., 2008, p. 21).

Burgelman (1994) in his study of Intel found that firms with distinctive competencies are even more inclined to this competency trap as they have a stronger tendency to continue to rely on that competency, even in the face of a changing competitive landscape (pp. 47-48). Gavetti et al (2000) find that the worse off a firm’s performance, the more likely they are to explore alternatives, and firms that do shift outperform those that don’t, and those that shift

intelligently outperform those that shift randomly (Gavetti & Levinthal, 2000, p. 129). Exploitation is however, the foundation to exploration (Calantone et al., 2007, pp. 71-72); exploitation activities generate financial assets for exploratory work and exploratory activities provide technological assets and capabilities for the renewal of exploitative work (pp. 67-68).

2.6. Exploration

Exploration looks at more radical innovations, those that are designed to meet the needs of new or emerging customers and markets (Jansen et al., 2006, p. 1662). Exploration is achieved by searching for distant knowledge in terms of the knowledge distance domain (Li et al., 2008, p. 119). The knowledge sought for exploration is unfamiliar, cognitively distant and remote which seeks to create new capabilities for the firm (Li et al., 2008, p. 107).

The ability to evaluate and utilise outside knowledge is a function of prior related knowledge, and it is this together with experience and skills that allows linkages and associations that are unique and rewarding to be formed (Cohen & Levinthal, 1990, pp. 128-129). Fit of this distant knowledge is important to the alternative search processes; fit is the degree to which the new knowledge is related to current organisational knowledge (Gavetti & Levinthal, 2000, p. 118). It is the correlated nature of the alternatives that gives exploration its power (Gavetti & Levinthal, 2000, p. 118). Conversely, lack of fit may result in the loss of organisational wisdom (Gavetti & Levinthal, 2000, p. 129) in that current actors within the organisation will not be able to absorb or transfer the knowledge (language barriers are created), leading to the not invented here syndrome (Cohen & Levinthal, 1990, p. 133). Indeed, Eisenhardt & Martin (2000) find that the development of dynamic capabilities involves the creation of new and situation specific knowledge, which through learning mechanism such as experiential actions, can help firms learn quickly and therefore compensate for the limited relevant existing knowledge (p. 1110).

Cognitive limitations (bounded rationality) narrows the terrain of search by a firm, that is, firms tend to vary factors one at a time as their cognitive limitations limit their ability to search multiple factors away from their current position (Gavetti & Levinthal, 2000, p. 123). While this search is deemed local, improved performance forms the basis for the next search leading to exploration; whereas reduced performance will move the firm back to the starting point, albeit with new knowledge (p. 123). Cognition combined with experiential search is better than a purely random experiential search as they enhance the adaptive behaviour (through the utilisation of prior related and newly acquired knowledge) (p. 124). Moving to a completely new terrain (randomly) results in the loss of current wisdom and the inapplicability of current competencies (p. 126) and remaining in your current terrain (exploitation) does not lead to peak terrain where superior performance can be expected (p. 129).

Innovation leads to innovation; exploration is a continuous cycle of learning which includes both failure and success (Garud et al., 2011). It is this cycle of learning that enables the acquisition of new competencies. These competencies are however subject to the application of temporality in that the competencies obtained are not necessarily applicable to the present time. 3M's success lay in their ability to "stretch time out" which built experience, competencies and problem solving abilities that were applicable to the future (unknown to them however) (p. 754). A direct citation from an interview between Garud et al (2011) and Cobb of 3M summarises this nicely: "... we never found its niche, the niche found us..." (p. 753).

Rules and routines that are consistent with exploration, that encourage a culture of exploration within an organisation and which aid in the selection process of alternatives have been found to be integral to the innovation practises at both Intel and 3M (Burgelman, 1994; and Garud et al., 2011). What seems to be an extremely diversified portfolio of business at 3M, as an example, is actually

underpinned by only a few shared core competencies (Hamel & Prahalad, 1990, p. 82).

Hang and Yu (2010), in their study of disruptive innovation theory, highlight the enablers and inhibitors of disruptive innovation (which could be applied in exploration activities) and which include matters related to managers, employees, culture, resource allocation, organisational structure, context and the environment, customer orientation and technological strategies (p. 446-447). It is the combination of all of these routines or strategic management practises that give rise to innovative opportunities across the temporal and spatial continuum. In his study, Burgelman (1994) found that “important events are often the result of the accumulation of smaller steps that are mixed with the multitude of routine events at any given time” (p. 42). Therefore, the firm should evaluate their resources in terms of their ability to function as a stepping stone for further expansion (Wernerfelt, 1984, p. 179).

D’Aveni (1999) avers that the ability to create the rules of the game at any given point in time and to control evolution is a requirement for obtaining strategic supremacy (p. 128). He defines strategic supremacy as the ability to make competitors play catch up against “a powerful new enhancement of the value proposition” (p. 127). Hang and Yu (2010) define disruptive innovation as “a powerful means of broadening and developing new markets and providing new functionality, which, in turn, may disrupt existing market linkages” (p. 435). Barney (1991) found that firms with imperfectly imitable resources are likely to be strategic innovators; these firms will engage in and conceive of strategies that others can not (Barney, 1991, p. 107)

Firms that are lacking the capabilities to succeed or who are looking to improve their performance should shift to new competencies (D Aveni, 1999, p. 128). As new knowledge is acquired, so capabilities are developed to explore (Calantone et al., 2007, p. 73). Shifts in cognitive representations may be necessary for

organisations that are not performing well, but shifts that allow for innovation are based on social learning's (Gavetti & Levinthal, 2000, p. 129) and diversity of knowledge (Cohen & Levinthal, 1990, p. 133).

2.7. Knowledge diversity

Knowledge diversity is important in the assimilation process (Cohen & Levinthal, 1990, p. 131) and in the on-going adaptation processes of firms (Garud et al., 2011, p. 738). Garud et al. (2011) find that the diversity of actors within an organisation and a few simple routines or rules to pull it all together can give rise to a diversity of innovative outcomes (p. 746). Cohen et al (1990) place the importance of diversity of knowledge to innovation most eloquently:

“While some overlap of knowledge across individuals is necessary for internal communication, there are benefits to diversity of knowledge structures across individuals that parallel the benefits to diversity of knowledge within individuals. ... Assuming a sufficient amount of knowledge overlap to ensure effective communication, interactions across individuals who each possess diverse and different knowledge structures will augment the organization's capacity for making novel linkages and associations – innovating – beyond what any one individual can achieve.” (p. 133)

Well known learning mechanisms guide the evolution of dynamic capabilities (Pisano et al., 1997, p. 512); while acquiring and exploiting diverse knowledge internally is achieved through inter alia, the internal connection of experts (Garud et al., 2011, p. 754), job rotations, hiring new personnel, outsourcing, acquisitions and utilisation of consultants (Cohen & Levinthal, 1990, pp. 134-135), knowledge does not necessarily only have to come from within the organisation (Cohen & Levinthal, 1990; and Garud et al., 2011). Cohen et al (1990) state that most innovation results from borrowing of knowledge from others (p. 128); gaining knowledge from spill-overs from competitors, extra-industry knowledge (Garud et al., 2011, p. 138) and so forth. Hamel & Prahalad's (1990) study of NEC found

that they successfully entered into more than one hundred strategic alliances with the intention to build core competencies quicker and at a lower cost (Hamel & Prahalad, 1990, p. 80). More importantly for innovation, however, is the ability to evaluate and exploit distant knowledge in a way that is not limited by the cognitive abilities of the individual actors within a firm (Cohen & Levinthal, 1990).

This competence is achieved through a combination of efforts related to the structure of the organisation, simple rules and routines, communication networks, knowledge collection processes, allocation of resources and culture (Cohen & Levinthal, 1990; Burgelman, 1994; Garud, Gehman, & Kumaraswamy, 2011; Jansen, Van Den Bosch, & Volberda, 2006; Hamel & Prahalad, 1990; and Birkinshaw, Probst, Raisch, & Tushman, 2009). Innovation involves actors across all levels of a firm that interact with each other across networks (Garud et al., 2011, p. 129). The extent of the social relations determines the extent to which explorative innovation is developed in a firm; while the level of interconnectedness of internal business units and departments is what helps to combine knowledge to form new knowledge that can be used for exploration (Jansen et al., 2006, pp. 1662-1663). These networks aid in the adoption of new knowledge and develop trust and co-operation (Jansen et al., 2006, pp. 1663-1664). Collaboration leads to the development of a multitude of core competencies for a firm (Hamel & Prahalad, 1990, p. 80).

More importantly, if you do not have prior knowledge, you will not be able to appreciate the new knowledge (Cohen & Levinthal, 1990, pp. 135-136). Cultures that support the search for new knowledge, the retention, sharing and use of such knowledge, are better able to sustain and exploit that new knowledge to the benefit of the firm - even over the temporal and spatial challenges associated with exploration (Burgelman, 1994 and Garud et al., 2011).

2.8. Conclusions

- i. Competencies are developed over a period of time and include the tasks of learning, co-ordinating, allocating, integrating, organising, reconfiguring, co-operating, collaborating and committing resources that add value.
- ii. Competencies are influenced by knowledge management (existing and new), leadership, processes, values, firm experiences, culture, strategy and more importantly firm routines that pull it all together.
- iii. It is the distinctive and embedded nature of competencies, called routines, which drives competitive advantage. But sustaining that competitive advantage requires the continuous development and adaptation of firm competencies to the changing environment of business and to the changing needs of new and existing customers. This is referred to as dynamic capabilities.
- iv. The ability to disrupt the market through innovation leads to superior performance and when complemented by the first mover advantage or by a resource barrier, can lead to sustained superior performance.
- v. Firms are constrained by their existing knowledge and experiences (bounded rationality) which limits competitive advantage (competency traps), possibly leading to stagnation and lower performance. While resources are heterogeneous across firms, best practise does exist, and therefore evolution is achieved through acquiring new, relevant knowledge.
- vi. The development of core competencies is achieved through firm level learning mechanisms that encourage the exploitation of existing knowledge and the exploration for new knowledge. These learning processes are highly social.
- vii. Innovation is driven by the firm's ability to absorb knowledge, link that knowledge to opportunities and by exploiting those opportunities. The absorption and utilisation of new knowledge is once again dependent on the learning mechanisms and routines embedded in the firm.
- viii. Exploitation relates to existing, familiar knowledge whereas exploration relates to unfamiliar, distant knowledge assimilation and use. Both

exploitation and exploration are considered as dynamic capabilities and both require firm resources. Firms that can simultaneously exploit and explore (ambidextrous firms) are expected to achieve superior performance. But building competencies is about making choices and those firms that choose wisely outperform those that choose randomly. The capability to explore however is path dependent on the capability to exploit.

- ix. Exploration requires the ability to accumulate a diverse range of knowledge and the capability to pull it all together through rules, routines and processes in a way that new opportunities, products or customers are identified and exploited.
- x. Routines that encourage a culture of exploration drive innovation processes. Such routines are influenced by managers, employees, the culture of the firm, the firm's resources, its structure, the context and environment in which the firm finds itself, its strategies and their customers' orientation. The capability to explore is developed over many years through the accumulation of knowledge, skill and experience that is supported by these firm level routines.
- xi. New knowledge is acquired from within and from outside the firm. Learning mechanisms should enable the absorption of knowledge from a variety of sources; best practise learning mechanisms speed up the innovation process.
- xii. The extent of the learning mechanisms in the firm, the ability to work across teams and the culture of the firm are vital to achieving explorative capabilities.

Chapter 3: Research Questions

3.1. Research Question One

How do ambidextrous firms achieve a balance between exploiting existing knowledge and acquiring and taking advantage of new knowledge in a world of limited resources?

3.2. Research Question Two

How is the competency to explore and to utilise distant knowledge developed and adapted so that competitive advantage in a dynamic market is achieved?

3.3. Research Question Three

How are learning mechanism and routines evolved to support the absorption and utilisation of new knowledge that drives innovation in a firm?

Chapter 4: Research Methodology

4.1. Introduction

This research has been conducted as a single case study; a case study is defined by Yin (1994, p. 13) as:

“... an empirical enquiry that investigates a contemporary phenomenon within its real life context, when the boundaries between phenomenon and context are not clearly evident, and in which multiple sources of evidence is used.”

As a research methodology, the case study approach can be used in a variety of situations and is used to contribute to the knowledge pool of individual, group, organisational, social, political and related phenomenon (Yin, 2009, p. 4). This approach is distinctively empirical in nature (p. 14). The case study methodology copes with situations where there are many more variables of interest than there are data points, where there are multiple sources of information that need to be triangulated in order to converge and where there are existing theoretical propositions to guide the data collection and analysis process (p. 18).

The case study is single in nature as only one subject has been selected. This research can be considered as *instrumental*, in that the case study is being conducted to investigate a phenomenon of interest, being how competencies are developed to explore (Rosenberg & Yates, 2007, p. 449). The case study approach is an appropriate methodology to answer the research questions and propositions in that a holistic view and analysis of the event is required in order to unearth how the competency to explore has been developed by the subject (Verschuren, 2003; Yin, 2009). The holistic design is appropriate when the relevant underlying theory of the case is of a holistic nature (Yin, 2009, p. 50).

Case studies are preferred when the researcher is looking to answer the “how” or “why” research questions (Jones, McFonnell, & Read, 2000, p. 385), when the researcher has little control over events and when the focus is on a contemporary phenomenon within a real-life context (Yin, 2009, p. 2). The event selected is a real life phenomenon, recent to the subject, takes place outside of the control of the researcher, and will require a variety of data sources to determine how and why the subject achieved the success that they have (Yin, 1994, p. 1).

The research is exploratory in nature utilising qualitative primary data sourced through a desk review of the case study subject, through documentation and data collected from the subject and followed up by a series of semi-structured interviews (refer to research design below). Documentation related to the strategy development and implementation of the smart device product offering at FNB, as well as other documentation related to the constructs as listed below have been sourced from the subject directly.

The nature of the data required was not fully understood at the inception of the research project. A case studies research design can remain flexible throughout the data collection period (Jones, McFonnell, & Read, 2000; Yin, 2009) and therefore the research design was fully developed throughout the course of the study.

4.2. Informed Consent

The CEO of the subject company was requested via email for the firm to participate in the research. A letter outlaying the intent of the research, the methodology and the requirements from both the researcher and researched was then accepted and signed by the subject and submitted for ethical clearance.

All data collected has been catalogued and electronically stored, while maintaining the confidentiality of company sensitive information. Interviewees were requested to consent to their participation in the research (participation was

therefore voluntary), to consent to the interview being recorded and they confirmed their preference with regards to their individual confidentiality, that is the use of their names in this case.

4.3. Scope

A case study can be about some event or an entity (Yin, 2009, p. 29). The research will however only focus on one public South African company, First National Bank (FNB). To limit the scope of the research due to time constraints, a single case study design was adopted to ensure that a detailed analysis of the real life phenomenon could be thoroughly investigated. To represent the abstraction, a specific, real-life case needs to be defined (Yin, 2009, p. 32); a single real-life event, the FNB smart device offering, has been selected by the researcher to limit the breadth of the study and to properly answer the research questions and propositions.

Leadership as a topic has been excluded from the scope of this research all together. Leadership is a very broad topic in its own right and to limit the scope of this research, has been specifically excluded.

4.4. Theoretical Constructs

Yin (1994) states that the formulation of the methodology, the data collection plan, the interview guides and other related research tools benefit from the prior development of theoretical propositions. The literature review led to the development of the research questions and propositions, and subsequently the constructs to be used in this case study. The constructs aid in focusing the research on propositions already contained in academic literature.

Utilising academic theory on competencies, dynamic capabilities, resource based theory, innovation, knowledge diversity, exploration, exploitation and selected

case studies, the following constructs (and sub-components of these constructs) were utilised to scope this research and the data collection:

INTERNAL / HUMAN RESOURCES / MANAGER

- 1 Senior managers are entrenched in their current views and experiences
- 2 Senior managers are hired / trained to manage well-defined product lines and to serve established markets
- 3 Middle managers have the most to lose if their resources are allocated to projects that do not serve their immediate targets and goals
- 4 Managers follow existing business routines to manage established business
- 5 My Organisation has a core team to collect innovative ideas and put them into implementation
- 6 Our reward and incentive programme is long-term-oriented, subjective-based instead of short-term-oriented formula-based for key executives.
- 7 The Executive and/or Board Members comprise of some or all of the founders of the Organisation

INTERNAL / HUMAN RESOURCES / EMPLOYEES

- 8 Employees in our Organisation have a risk-averse attitude
- 9 Outside consultants and analysts are used to capture new ideas for the business only
- 10 The brain drain of talent has led to disruption from outside and disruptive ideas
- 11 Team members are composed of carefully selected risk-takers
- 12 New ideas from Customer / Market facing employees are captured

INTERNAL / RESOURCE ALLOCATION

- 13 Structured routines (the methods used to evaluate projects) are used to evaluate both emerging innovative (exploratory) projects and existing businesses projects
- 14 Emerging innovative (exploratory) are evaluated utilising financial return calculations and traditional market research reports
- 15 When threatened by external factors, more resources are allocated to existing businesses, even those that have sufficient resources
- 16 The evaluation of emerging innovation is less formal, allowing managers to proceed intuitively rather than having to be backed up by careful research and analysis
- 17 Strategic buckets are used to manage sustaining and innovative (exploratory) projects separately
- 18 My organisation manages large projects as the sum of several sequential mini-projects
- 19 Resources have been allocated to investigate, develop and implement new products and services
- 20 Talent is specifically hired from outside of the organisation for new skills and competencies that complement new emerging customer needs, markets, products or services
- 21 Risk taking is a core competence sought when hiring new talent (especially managers)
- 22 Resources have been allocated for sustaining projects and innovative projects (i.e. it is not the same resources)
- 23 Shareholders have explicitly requested and/or approved resources for innovation that leads to new emerging customers or markets

24 Specific finances have been allocated to the exploration of new products or services
25 Employees that possess key knowledge and competencies are identified and retention plans are in place

INTERNAL / ORGANISATIONAL CULTURE

26 When great change is required, the cumulative culture causes cultural inertia which is so difficult to overcome that the change is not implemented timeously or substantially
27 When engaged in change, we prepare for instituting organisational change and unlearn our deeply entrenched values that constrain us from achieving our goals
28 Entrepreneurship, risk-taking, flexibility and creativity are preserved and valued as an important part of our culture
29 Employees are encouraged to submit innovative ideas and all ideas are explored
30 Entrepreneurship is encouraged in the Organisation
31 Risk taking is encouraged in the Organisation
32 A culture of change has been encouraged in the Organisation and employees are equipped with the necessary tools for change
33 Managers are encouraged to use intuition and company resources to develop innovative ideas for the Organisation that are not related to the current business
34 We have implemented a R&D department
35 All levels of management are involved in innovating. It is not just the function of Senior or Executive Management

INTERNAL / ORGANISATIONAL STRUCTURE / ORGANISATIONAL SIZE

36 The size of the business units within our organisation are kept sufficiently small so they can continue to have decision-makers who can become excited about emerging opportunities

INTERNAL / ORGANISATIONAL STRUCTURE / SPIN-OFFS OR AMBIDEXTROUS ORGANISATION

37 In our organisation, autonomous organisation means geographical separation and/or ownership structure
38 Implementing new and emerging innovation is the task of an autonomous business unit, separated in process and values and whom have unfettered freedom to forge an appropriate business model for the product or service
39 In our Organisation, Managers have sufficient capacity and knowledge to give the required attention to projects aligned to existing customers and to projects aligned to new and emerging customers and markets

INTERNAL / ORGANISATIONAL STRUCTURE / COLLABORATION & ASSOCIATIONS

40 My Organisation strategically considers collaboration between incumbents and start-ups in various forms such as licensing IP, alliances, market transaction and acquisition at different stages of innovative projects.

EXTERNAL

41 Our Organisations is locked into relationships with resource providers (e.g. shareholders, analyst, the public) and/or suppliers which prevent us from developing innovative and disruptive projects

42 Marco financing and economic conditions in South Africa negatively impact our ability to innovate or to implement innovations

MARKETING

43 Our Organisation focuses too much on existing customers and high-margin opportunities and too little on emerging customers and low-margin opportunities

44 Our Organisation focuses on what is happening with customer and operational needs

45 Our Organisation has an emerging customer orientation, always looking for non-consumption opportunities in emerging markets

46 Our Organisation utilises techniques (insourced or outsourced) to truly understand the needs of new customers, rather than just listening to what customer say their needs are

KNOWLEDGE MANAGEMENT

47 Collaboration with start-ups are actively sought after

48 We collaborate with suppliers to identify new or emerging products / services or new customers or markets

49 Customer needs data is collected, analysed and utilised as a business tool

50 Emerging customer needs data is collected, analysed and utilised as an innovation defining tool

51 Informal social interactions between employees and BU's is encouraged and facilitated

52 Knowledge sharing is encouraged and facilitated between departments and BU's

53 We seek to supplement our existing knowledge with knowledge not directly related to our current service / product offerings

54 New knowledge, ideas, products and service opportunities that are not implemented when discovered are maintained for future reference.

55 Knowledge management and assimilation is a key strategic driver for our Organisation

4.5. Research design

The study is based on an exploratory approach (Saunders & Lewis, 2012, p. 110). The case study comprise of a literature review, desktop review of FNB, archival research, semi-structured interviews and a analysis and write up phase. The distinctive strength of the case study approach is its ability to deal with a variety of data and data sources (Yin, 2009, p. 11). The case study researcher selects the methodology best suited to answer the research questions (Rosenberg & Yates, 2007, p. 448) and is influenced by theoretical and pragmatic considerations (Jones et al., 2000, p. 384).

To limit the scope of the research, only one explorative innovation at FNB has been considered. The case will however highlight other innovations at FNB to

give the reader broader context of the innovativeness at FNB. For the purposes of this research, FNB's Smart Device Offering has been used as the target explorative innovation due to the recent implementation thereof (to gain advantage from fresh institutional memory) and due to the success of the offering.

4.5.1. Phase 1: Literature review

The case study process begins with a literature review (Yin, 2009, p. 3). In this phase, literature was sourced from academic sources, including journals, articles and books. An in-depth study of current academic knowledge on the various themes of the case study was conducted. This set the foundation for the remainder of the research design and informed the constructs used to refine the data collection plans.

4.5.2. Phase 2: Desk review

This phase involves a self-study of the FNB. Public records, reports, news reports and other public domain data is collected and studied. This phase provides the researcher with a basis for the research, places the event under study within context and sets the foundation for the development of the data collection plan, including phases three and four (see below). Primary source of information was obtained through internet search engines and the FNB website.

4.5.3. Phase 3: Archival study

Consent by FNB to conduct this case study included access to FNB information; the initial request to FNB included strategy documents, presentations, minutes, marketing plans, HR policies, company orientation and a variety of information supplied by FNB that related specifically to the smart device strategy and product, the development of the strategy, its deployment and policies related to the constructs of this research. This phase requires the collection of a multitude of descriptive data. The initial stage of data collection involved FNB supplying

data deemed relevant by FNB. A study of the data supplied then spurred requests from the researcher for additional information that would answer questions raised through the analysis of the data, that was required to fill gaps in the analysis and which the researcher required to analyse the event in terms of the constructs.

The time frame supplied to FNB for documentation was backward looking; from inception of the idea up to and including the date at which consent was given to conduct the case on FNB. This focused the research by bounding the frame of analysis in terms of time and in terms of the activity (Verschuren, 2003, p. 122). This ensured some form of confidentiality for FNB in relation to their future direction and strategy of the smart device product. Firm documents, such as HR policies, recruitment and retention policies, induction and other firm wide evidence was requested at the time of data collection for the policies and documents currently in place. Thus, a review of any changes over time related to these documents and policies has not been assessed,

4.5.4. Phase 4: Interviews

FNB was informed at consent stage that a host of interviews would need to be conducted in order to not only verify the findings, but to supplement the analysis to date. Interviews were semi-structured (based on learning's from phases two and three) and in-depth. Interviews ranged between one and two hours per interview, and in some cases multiple interviews were required.

The interview schedule was unknown at the start of the research. FNB was informed that the business owner: smart devices (Kartik Mistry), CEO of Banking Products (Raj Makanjee) and CEO FNB (Michael Jordaan) would be preferred interviewees, but that additional interviews will be necessary; these would come to light as the research process unfolded.

In-depth and semi-structured interviews allow for a richer, more comprehensive analysis of the event under study. Interviews ensure that the findings generated through data reviews are confirmed and that the analysis itself is comprehensive in terms of its timelines, accuracy and content. Data collected through the interview phase allows the researcher to draw on multiple perspectives; a form of triangulation is thus achieved. Combining the findings of all phases in the research approach can also be considered as triangulation (Jones et al., 2000, p. 387).

4.6. Population and sampling

A case study researcher intends studying a single case or phenomenon (Verschuren, 2003, p. 123). This research on how competencies are developed to explore was intended to focus on a single subject and a single event in order to maximise the opportunity for an in-depth study. The requirements set by the researcher for the subject included: 1) physical access to the subject (i.e. within Gauteng, South Africa), 2) a sizeable firm, recognised as a key player within the industry that they operate, 3) an established firm, 4) who has innovated in terms of a product or service which can be termed as outside of the expected knowledge domain of such an industry, 5) where the innovation was recently launched (within the last twelve months), and 6) the product or service was successful in terms of its uptake by the intended consumers.

The population size of companies that meet the above criteria are unknown. The researcher engaged in multiple discussions with colleagues, reviewed press articles in business and financial publications and engaged with innovation and strategy consultants to find an appropriate subject for this case study.

The unit of analysis is the firm; the firm has been selected as the unit of analysis so that a comprehensive analysis of the constructs could be carried out. The constructs in particular that are impacted by at the firm level include resource allocation, organisational culture, organisational structure and knowledge

management. In addition, this is appropriate as we are attempting to determine strategic intent and firm-wide practises that drive knowledge diversity, assimilation and use for explorative purposes.

4.7. Research limitations

Due to the limited time and resources available to conduct the study, the following limitations have been identified:

- a. The utilisation of a single case has several limitation related to the analytical power of the study (Verschuren, 2003, p. 123). Yin (2009) states that case studies are generalisable to theoretical propositions and not to populations or universes (Yin, 2009, p. 15). The researcher acknowledges the limitation related to a single case and the ability to extrapolate the results outside of the single subject of the case. The goal however, according to Yin (2009), is that the case study will expand on and generalise existing theories, which Yin (2009) calls “analytic generalisation” (Yin, 2009, p. 15). Analytic generalisation is defined by Yin (2009) as when “... a previously developed theory is used as a template with which to compare the empirical results of the case study” (p. 38) and it can be used when the case involves one or several events or units (p. 39). The single case can significantly contribute to knowledge and theory building and can even refocus future studies in the field of study (p. 47). It is acknowledged that there is limited research on how competencies are developed, and the contribution of this case to the academic study of strategy management will hopefully lead to a more integrative analysis of single case studies on the subject.
- b. The analysis is conducted on a South African company and more specifically a company in the banking sector. Applicability across industries and between countries may need to be considered.
- c. Obtaining access to a company and informed consent from interviewees is a well-documented limitation of qualitative research. Due to the nature of the case study research methodology, the researcher is unable to

determine upfront the exact extent of access required and neither is the researcher positioned to inform the interviewees exactly of what can be expected, asked or discussed (Jones et al., 2000, pp. 385-386). Consent by FNB to conduct the case study has however been given with an understanding that the methodology will evolve as the research is rolled out and interview participants were informed that they can opt out of any particular question or the interview itself at any given time.

Chapter 5: The FNB Story

“Innovation is fundamental to the way we think. I believe that innovation is critical to FNB’s success. Companies that fail to innovate will not only fall behind their competitors, they are unlikely to survive in an intensely competitive economy.”
Michael Jordaan, CEO of FNB (FNB, 2011)

5.1. Kartik Mistry

Kartik Mistry is the Head of Smart Device Offerings at First National Bank (FNB) in South Africa. Kartik’s work experience has been in the banking and insurance industry; first with the Standard Bank of South Africa, followed by a short stint at Liberty Life before he joined FNB. In his previous role, Kartik worked in process optimisation for FNB Branch Banking and specialised in costing and productivity improvements. In 2010 Kartik moved to FNB Core Banking (CBS) after being appointed by Irlon Terblanche, Head of Strategic Appointments, to work in project management and process optimisation.

It was during this time at CBS that Kartik and Irlon developed CVOCC (comprehensive view of the CBS customer) and “innovation sparked in [Kartik’s] body”. CVOCC was designed and implemented by Kartik and Irlon utilising Kartik’s IT background. For the first time in banking in South Africa, call centre agents had a single page view of a customer’s product portfolio with the bank. More importantly however, CVOCC shifted the call centre from being a service desk to being a value management and selling centre; CVOCC allowed agents to engage with customers in how they are transacting on their accounts, to identify and communicate with customers how they could better manage their accounts to save on banking fees, how they could maximise their rewards and when they qualified for new products or upgrades (K. Mistry, personal communication, October 4, 2012).

It took approximately three weeks to design and implement CVOCC at FNB. Kartik attributes the short implementation time to FNB's owner-manager culture stating that "if the innovation makes sense, it's easy to implement".

"Customers loved it, for the first time a bank was telling customers how to save money" (K. Mistry, personal communication, October 4, 2012); CVOCC not only empowered customers but also call centre agents, driving customer retention and cross-selling in the bank. In 2011, Kartik and Irlon won the FNB Innovation Awards (overall winner) with a cash prize of R1million.

5.2. First National Bank

5.2.1. First National Bank

Established in 1838, First National Bank (FNB) is South Africa's oldest banking institution and is today the third largest bank in South Africa. A wholly owned subsidiary of FirstRand Bank limited, FNB has operations in South Africa, Botswana, Namibia, Swaziland, Lesotho, Zambia, Mozambique, Tanzania and India.

Consistently the cheapest bank in South Africa, FNB pricing strategy of increasing below official inflation rates has ensured price competitiveness within the South African consumer banking market. Their business model includes an extensive array of rewards for customers that returns value to their customers in the form of e-bucks (points earned through point of purchase spending that are converted into tradable currency with selected retailers in South Africa), fuel cash back rewards and data rewards through their FNB Connect product range. Their deliberate incentivisation of electronic banking solutions has gained them extensive market presence in the electronic banking market and coupled with their philosophy of returning the benefits of any economies of scale achieved through their innovative initiatives to their customers, FNB has been recognised as the bank with the best reputation in South Africa and the bank with the

strongest brand in the mind of the consumer in 2012 by RepTrak Pulse Survey and the Mail and Guardian Top Companies Reputation Index (FNB, 2012).

5.2.2. FirstRand Bank Limited

FirstRand Bank Limited (FRB) is the holding company of FNB, Rand Merchant Bank (RMB) and Wesbank. Formed through the amalgamation of Rand Merchant Bank Holdings and Anglo Americans financial interests in 1998, the bank boast a fully integrated services portfolio of brands and products.

Employing in excess of 43,500 employees, the consolidated portfolio consists of 700 branches and 5,250 automatic teller machines (ATM's) in South Africa. FRB's three brands are well recognised and highly regarded in the South African banking sector ("FirstRand Bank," n.d.).

5.2.3. The South African banking sector

With 17 registered banks in South Africa (down from 41 in 2001), the South African banking industry is recognised worldwide for their conservative, yet successful banking model, supported by sound regulatory and legal frameworks. The sector comprises of one central bank (The South African Reserve Bank – SARB), a few large, financially strong banks, investment institutions and a host of smaller banks, both local and international. The South African banks have presence in five continents and compares favourably with banks in industrialised nations, boasting the highest BMI score in the EMEA for market structure and ranking fourteenth overall (worldwide) in the BMI Commercial Banking Sector Report of Q3 2012 (Business Monitor, 2012).

Comprising 83.7% of market share based on assets (June 2010), the so called Big 4 in South Africa are The Standard Bank of South Africa, ABSA, FirstRand Bank and Nedbank (Business Monitor, 2012):

Table 1 Market Share based on individual bank assets as at June 2010

Bank	Assets (R'bn)	Market Share
The Standard Bank of SA	781 947 804	25.5%
ABSA	663 076 327	21.6%
FirstRand Bank	578 078 265	18.8%
Nedbank	546 961 735	17.8%
Other institutions (28)	499 872 732	16.3%

Total assets for the sector increased by 9% year-on-year in December 2011 despite the slower, yet steady growth expected from the sector following the deceleration of the South African economy. The 2008/2009 global economic crisis's highlighted weaknesses in the presumably low risk, high return international banking model, although the South African banking sector came out somewhat unscathed by what was happening around the world; primarily due to their limited portfolio risk in impacted markets. In March and October 2012, rating agencies downgraded the outlook of South African banks (including FNB), principally following the downgrade of South Africa rather than due to concerns about the banks themselves. South African GDP growth is expected to further slow down to 2.7% in 2012, as a result of headwinds from the on-going global economic crises, and is not expected to exceed 4% by 2016 (Business Monitor, 2012).

Matters of risk remain high on the agenda for banking executives and at the same time the challenge for South African banks are to increase revenue, remain profitable and to ensure long term sustainability. The competition for online and mobile banking channels is fierce as market trends move towards more cost effective banking channels, value driven products and convenience for the consumer. Innovation in technology and more specifically mobile banking is becoming critical to future revenue growth for the banking sector (Nedbank, 2012).

5.3. FNB's strategic choice, the basis for differentiation

With a vision to be the predominant South African financial services player and a growing force in other targeted African markets, FNB's strategic core revolves around the retention of existing and the acquisition of new core transaction customers, with a strong emphasis on maximising customer value and changing customer behaviour towards electronic banking channels. Their stated intention is to achieve net growth through differentiation that offers customers a compelling value proposition underpinned by continuous and game changing innovations of their products and channels (FirstRand Bank, 2012).

Raj Makanjee, CEO at FNB Wealth (and previously CEO at FNB Core Banking Solutions) identifies two key challenges the bank had to deal with some four years ago (R. Makanjee, personal communication, November 1, 2012):

- i. The amount of new customers joining banks in South Africa had skewed downwards. Job losses and the global economic crises had exasperated this decline; and
- ii. Over the years, the number of banking channels proliferated, and customers had multiple options ranging from branches to ATM's, online transactions to call centres, to name but a few. Each channel had a unique cost structure with online channels being the most cost effective and branches and ATM's being the most expensive.

With declining new banking customers, FNB realised that their growth strategy had to be supported by switching customers from competitor banks to FNB and retaining existing customers. The key question was how to switch customers from other banks; with a realisation that the switching process involved "a series of lots of actions" for the customer, the bank identified the need for a superior value proposition and a switching process that was simple, easy and hassle free for the customer.

FNB, with some 600 branches, has the smallest footprint of branches and ATM's when compared to their top three competitors, ABSA, Standard Bank and Nedbank. Identifying that competing on footprint would increase their cost to revenue ratio's, the bank had to identify how much they wanted to invest in infrastructure (for traditional banking channels) versus how much they would want to spend on electronic channels. Their view was not to compete on footprint and as such they opted to compete on electronic channels, which were more cost effective to both the bank and the customer, which were easy to use and efficient and which presented the opportunity for a differentiated value proposition. The decision had been made to allocate scarce financial resources to electronic channels. The primary challenge the bank then identified was how to change customer behaviour from traditional banking channels to electronic channels.

Raj describes the banks value proposition as creating a “customer eco-system”; “... Customer has the faith in us to deposit their salaries, we see all their transactions, how do we build an eco-system that gives people more reasons to stay with us, because we are giving them value...” (R. Makanjee, personal communication, November 1, 2012). Identifying a trend that a large portion of customers discretionary spend is spent on cellular contracts and data, the bank positioned their strategy to unlock this value for the customer through technology enabled services and customer rewards that at the same time will drive customers to electronic banking channels. This path defined the basis on which the bank would differentiate themselves on: “... it's all part of creating an ecosystem, and ideally over time, we want that ecosystem to grow, ...to get people to want to join this ecosystem because there is more value than just banking” (R. Makanjee, personal communication, November 1, 2012).

5.4. FNB Smart Device Offering

5.4.1. Idea generation

In 2010, FNB restructured some of its business units and an opportunity arose for Kartik to join FNB's product development within CBS. Kartik's role in product development focused on FNB's key products; their Gold and Platinum product ranges with the task of developing these products to meet the ever-changing market demands. It was during this time that Kartik came to realise that "banking is not sexy"; being a grudge purchase, rarely did customers shop around for alternative service providers, yet banks experienced attrition in the very high first quartiles.

Being that the bank is "naturally innovative", Kartik started looking to other industries for retention strategies. Focussing on cellular providers in South Africa, with traditionally low attrition rates, Kartik determined that the reason for the cellular industries low attrition rates were as result of these cellular providers locking customers into two year contracts. Building on this thought, Kartik applied his personal experiences with regards to handsets that can only be replaced at contract renewal stage with cellular providers, whereas in reality, new devices were continuously being offered and he, and certainly other customers, were left with the option to either wait out their two year contract or to outright purchase a new device.

Kartik and his team started building on these thoughts with the critical question being how to link these insights to FNB's strategy of obtaining new customers, retaining existing customers and changing the banking behaviour of these customers to more electronically based transactions. With a three year strategy plan already mapped out by the CBS CEO, the team set out to achieve all three high level strategic objectives by taking a traditional grudge purchase and adding a sense of excitement and adventure to it.

The idea was simple but unique to the banking industry world-wide: give customers the option to take up a smart device (either a smartphone or tablet) with FNB on their existing accounts and have them pay it off over a 24 month period. The pay-off of the device creates the lock-in for the customer for at least a 24 month period, similar to the cellular provider business model on prepaid contracts. The offering would leverage retail retention learning's with banking, while at the same time adding value for FNB customer. Not being a device supplier, the team simply had no idea of what the demand and uptake would be for such an offering and the go to market had to be developed.

5.4.2. The refinement process

Any person can log an innovation at FNB, but due to the size and resources required to implement the Smart Device offering, Kartik and the team needed to work through the FNB hierarchy; first presenting to the business unit Exco in March 2011 and then to the segment Exco at the end of March before presenting to the FNB One Exco in September. Working through the hierarchy on this project allowed for refinement of the idea before being presented to the top structure within the bank.

The first iteration of the idea was presented to the segment executive team on 23 March 2011, which received support to continue with the refinement and study of the offering. The concept at this stage involved supplying second generation devices to customers with a voice and data contract. The critical question to be answered however was whether to partner with cellular providers or to keep the initiative in-house.

Over the next few months, Kartik and his team engaged with cellular providers. Key constraints listed by the team primarily related to the cellular providers themselves; including the limited selection of devices between these different providers (e.g. 8ta only offers an HTC smartphone and no other), that by working with these providers FNB would be left with very little room for value

management and due to the size and nature of the cellular industry, these service providers would certainly lead the negotiations. By May 2011, the team presented possible offerings, pricings and high level processes required to implement the product offering.

At end of June 2011, the team had determined that the two biggest cellular providers (MTN and Vodacom) were not interested in working with FNB on this product; only Cell C and Altech Autopage showed interest. At this point, the team had still not determined whether to partner with a cellular provider or to keep the product in-house; both options were presented to the executive team with their own businesses cases and SWOT analysis for three separate options:

Stock Management

FNB holds stock of physical handsets, purchased close to cost. Handsets are sold to customer based on process structures determined by FNB.

<p>Strengths</p> <ul style="list-style-type: none"> - FNB able to determine stock purchased and sell with every account - FNB can price within margin - Ability to preload FNB banking app - Customers will be more susceptible to electronic banking - Purchase old stock - Eliminates in-contract costs - Easier contact with customer 	<p>Weakness</p> <ul style="list-style-type: none"> - Economies of scale - Warehousing, logistics and stock management - Billing constraints - Currently being done on small scale by FNB - Warranty issues when packaging is opened - Defect management - Networks hold very little "old stock" - No guarantee that this will be the primary account holder
<p>Opportunities</p> <ul style="list-style-type: none"> - Exploit cheaper handset - Exploit NFC opportunity 	<p>Threats</p> <ul style="list-style-type: none"> - Theft - Obslenscence - Does not align with NFC strategy - Customers walking away with handsets - no way to block

On-billing

FNB becomes an independent service provider. Deal structures, credit vetting, criteria and billing left to FNB to manage.

Strengths

- FNB's own vetting process
- Less dependency on networks
- More control over contract and account
- Same time delivery

Weakness

- Not yet launched at FNB
- FNB exposed to risk of contract
- Stock management
- Billing system

Opportunities

- Flexibility around pricing
- Easier package flexibility
- Creation of a new brand
- Exploit NFC opportunity

Threats

- Directly compete with other independent service providers (e.g. Nashua, Altech Autopage etc.)

Service provider

Utilise the current network's infrastructure. Network structures the deal. Process between bank and network runs independently. FNB simply seen as a sales channel, which utilises their systems.

Strengths

- No credit risk to FNB for handsets and contracts
- Stock and service availability
- Priced below market
- No need for system development
- Push sms'es for banking app

Weakness

- Can not link bank and contract
- Delivery of handset delayed
- No guarantee of salary being deposited in FNB bank account

Opportunities

- Additional leads
- Collaboration with networks
- Banking app opportunities
- Exploit NFC opportunity
- Cell Phone Banking Solutions can ensure banking app is loaded correctly

Threats

- Other banks could copy this model

By August 2011 the CBS team had determined that it was best to go it alone. With a deep understanding that their core competence was that of banking, the team set out to complete the business case and the final proposal was prepared for presentation to the FNB One Exco.

5.4.3. Objectives and rationale for the Smart Device offering

Over the same period, March to August 2011, the objectives and rationale for the innovation were fine-tuned and added upon. As the team worked through the idea, they started to collaborate with other FNB teams including the FNB Connect and Cellphone Banking teams (see below for other innovative products from FNB). Presenting their ideas to these teams expanded upon the objectives and placed the rationale for doing the project in greater context.

The objectives to be achieved were:

- I. Develop a product that incorporates cellphone banking and core banking services;
- II. Create a dynamic product that catered for the needs of all FNB customers, from student account holders to platinum account holders;
- III. Create a new acquisition model that will help FNB gain market share;
- IV. Create a product that locks customers in, thereby impacting positively on attrition;
- V. Add value to FNB's existing pre-paid offering (FNB Connect) to prevent these customers from switching to post-paid service providers;
- VI. Be the first to market to offer this as a banking solution;
- VII. Provide innovative solution where it counts;
- VIII. Capitalise on the existing value-add offered by FNB Connect;
- IX. Offer convenience to FNB customers;
- X. Create a product that will change the transactional behaviour of customers;
- XI. Create additional channels of accessibility for FNB customers;
- XII. Improve cross-selling opportunities, and
- XIII. Capitalise on dot.FNB stores.

The rationale for the innovation included:

- I. To promote day to day banking via electronic banking channels (cashless banking);

- II. To enhance current innovative offerings from FNB in the technology space, and
- III. Improve accessibility of smart devices to FNB customers (existing and new) at affordable prices.

Irlon Terblanche summarised the offering succinctly from a customer and FNB perspective on 6 December 2011 after the launch of the product: “It’s a winning solution for our customers; they acquire one of the latest top-end mobile devices at a reduced rate with 24 months to pay. At the same time, we are able to attract and switch customers to FNB’s low-cost banking” (FNB, 2011).

5.4.4. Alignment to strategic objectives, competencies and networks

Identifying that the rate of growth of smartphones was massive and increasing, the Smart Device offering offered FNB an opportunity to join the smart device market and get ahead of this growth curve. The offering tied in well with FNB’s objectives to retain existing customers and switch over new customers by adding value to their offerings and expanding the customer’s ecosystem with FNB.

As a key strategic objective, FNB had spent years streamlining the process of switching for customers, which included a simple online process and a debit order switching facility by the bank itself. But switching is a cumbersome process for customers and between 10 and 20 percent of customers who start the switching process abandon their attempt. FNB realised that Smart Devices had the potential to improve the drop off rate of switching customers by changing the psychology of the process from being a grudge switch to one that involved the excitement of receiving a new smartphone or device at the end of the process (R. Makanjee, personal communication, November 1, 2012).

The offering seemed to be the logical next step for FNB to address the challenges the bank were facing and to add even more value for their customers.

Core Banking Solutions (CBS) identified their core competencies and realised that the offering fits well with these:

- I. Scoring of customers from a credit perspective to manage the risk of whom devices are given to;
- II. Strong online application processes and technologies; and
- III. The ability to execute and manage large scale transactions.

Similarly, they identified early on that they did not possess the competencies to deal with physical devices and as such they would work closely with suppliers and providers, linking in to their supply and value chains rather than creating their own; "... we work very closely with them. We are not in the business of it [device management], we just want to give our customers access through our network" (R. Makanjee, personal communication, November 1, 2012).

5.4.5. FNB approval and roll-out

On 7 September 2011, Kartik Mistry presented the proposal to the FNB One Exco with the knowledge that they had a sound business case for the product. With rumours of competitors working on a similar offering, approval from the executive team was given at the very same meeting and the project plan was placed into action for press release on 19 September.

Shane French, Head of Projects, Operations and Systems at FNB CBS recalls the 14th September when he was informed that the first press release was due in five days: "we had no processes; we had not engaged with couriers, we had absolutely nothing" (S. French, personal communication, October 23, 2012). The product, marketing and processes would first be tested internally by offering the Smart Device product to FNB employees; essentially the team were required to build the processes and go live at the same time. Roll out to the customer base was planned for 1 October 2011 through direct channels and above the line marketing in November 2011. On 19 October 2011, FNB announced the launch

of the product offering: “This is another in a series of bold moves in innovations in electronic banking and mobile payments” Irlon Terblanche, Head of Products, Debit Cards and Analytics (FNB, 2011), and within the first day they had received one and a half thousand orders.

5.4.6. A strong customer value proposition

FNB’s value proposition to customers is that they help them by putting the power of smart device banking in their hands. Existing and new customers can take up the Smart Device Product offering with the following requirements:

- I. Must be an FNB account holder;
- II. The account holders salary must be paid into the account;
- III. A minimum deposit amount required per account type (inclusive of salary deposit), and
- IV. Debit order transactions should be done on this account.

Customers have a choice of a variety of smartphones, tablets, Windows laptops and MacBooks at reduced rates. Products include ranges from Apple, Samsung, HTC, Blackberry and Acer. The devices are paid off over a 24 month period via direct debit on your FNB account together with your monthly service fee (the device amount is fixed and based on the price of the device at the time of completing the purchase), below retail price and interest free for the full 24 month period. FNB understood that customers do not have the resources to “just fork out R4,000” and have developed a payback model that benefits the customer completely:

Table 2 Retail price and FNB price - discounts to customers (this is sample data and does not include all options from FNB)

Device	Retail Price	FNB Price	Savings	Discount %	Pricing at (date)
iPad 16G wifi	R4,999	R4,649	R350	7%	28/02/2012
iPad 32G wifi + 3G	R6,499	R6,010	R489	8%	28/02/2012
iPad 16G wifi + 3G	R7,599	R7,007	R592	8%	28/02/2012
MacBook Air 968	R9,999	R9,360	R639	6%	14/02/2012
MacBook Air 965	R13,965	R12,840	R1,125	8%	14/02/2012
MacBook Pro 313	R12,999	R12,216	R783	6%	14/02/2012
iMac	R12,499	R11,640	R859	7%	14/02/2012
Acer S3 v1	R10,199	R8,400	R1,799	18%	14/02/2012
Acer S3 v2	R12,499	R10,080	R2,419	19%	14/02/2012
Blackberry 8520	R1,680	R1,560	R120	7%	16/03/2012
Blackberry 9360	R3,024	R2,856	R168	6%	16/03/2012
Blackberry 9380	R3,136	R2,880	R256	8%	16/03/2012
Blackberry 9810	R5,880	R5,496	R384	7%	16/03/2012

Being the “more for less” bank and placing the customer at the centre of their value proposition, FNB has passed on its purchasing benefits to the customer directly. As a large bank, FNB has utilised their purchasing power to purchase directly from the device suppliers; the cutting out of the proverbial middle man ensures that FNB can purchase devices below the retail prices available in South Africa and then passes this benefit on to their customers. Their perspective on pricing of the devices and FNB’s commitment to staying true to their strategic objectives and company philosophy is summarised by Kartik: “... the key thing when we priced the device is can our device stand on its own..., ...[be]cause we are not here to make money off the device, we are here to make money off the banking. You don’t want to add margin to this, as this is secondary to our banking. From a banking perspective it is banking revenue and then device revenue... . I don’t think we ever said go above retail or match retail, I don’t think

anyone mentioned that, none of the executives mentioned it... ” (K. Mistry, personal communication, October 4, 2012).

Aveen Singh, Product Manager for Smart Devices, is tasked with keeping close contact with suppliers and keeping the FNB product range up to date with trends in the smart device market. Devices are continuously changing and the bank is committed to offering their customers the latest in smartphone, tablet and laptop product ranges. New product decisions are made at segment level, ensuring that the introduction of additional devices meet the tight market timelines from announcement to launch while redundant stock risks are carried by the suppliers themselves (N. Singh, personal communication, October 31, 2012).

This product is geared to incentivise customers to move to electronic banking methods, rather than utilising branch and ATM banking channels, which from a cost perspective, cost both the bank and the customer more to use than electronic channels. Purchasing of a device from FNB gives the customer free access to online and mobile banking and the FNB banking app. Devices can be taken up at FNB’s dot.Mobi branches or can be delivered to the customer at a cost of R150. Where the devices can be pre-loaded with the FNB banking app by the supplier, they are.

5.4.7. Demand unexpected - uptake hugely successful

With an innovation well outside of the core competency of the bank and being the first bank to market such a product worldwide, FNB was unsure of the potential demand and uptake of their new product offering. Their initial purchase of 5,000 i-Pads and 10,000 smartphones, thought to last three to six months, sold out within the first week.

By 6 December 2011, one month after launch, FNB were receiving 4,000 orders per week and had sold in excess of 20,000 devices. At record levels, FNB

received 1,000 orders per day. By 26 January 2012, FNB was considered a major seller of Apple i-Pads in South Africa (FNB, 2012) and by March 2012 (5 months after launch), had sold in excess of 55,000 devices. At the time of FNB's financial year end on 30 June 2012, smart device sales had exceeded 78,000 units and by the end of September had breached the 100,000 mark. FNB had invested more than R300million in funding these sales to customers (K. Mistry, personal communication, October 4, 2012) and the drop off of switching customers had reduced from the teens to well below one percent (R. Mankanjee, personal communication, November 1, 2012).

Figure 1 FNB Smart Device sales by month (not actuals, rounded to nearest thousand)

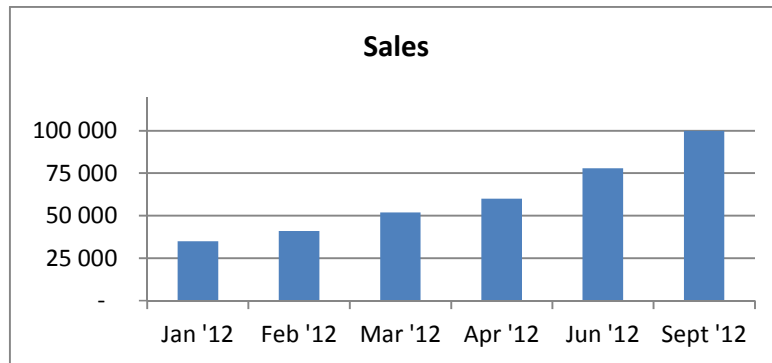


Figure 2 FNB sales by lead type (new vs. existing)

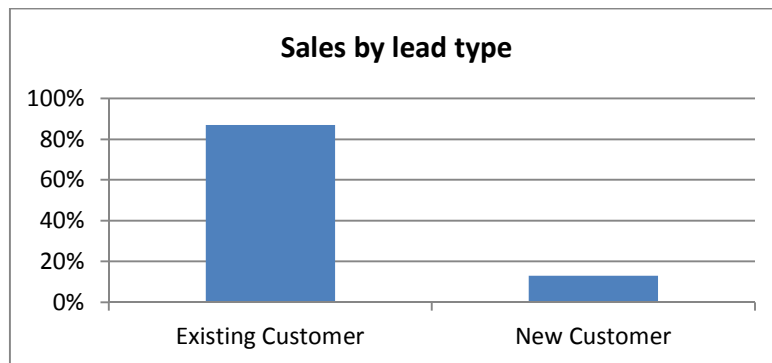
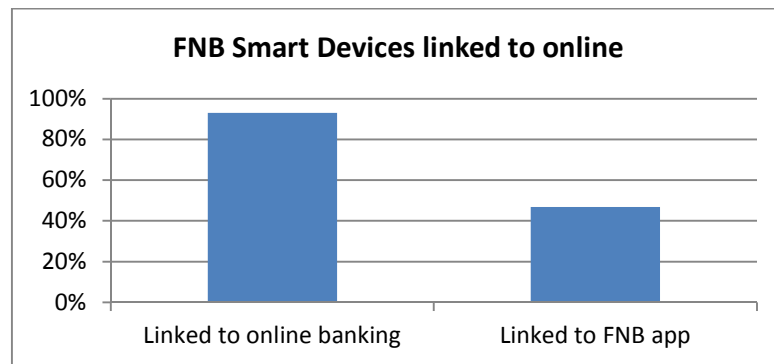


Figure 3 Smart devices from FNB linked to their online banking tools



5.4.8. New skills to learn

The team identified early on that in order for FNB to successfully deploy this product that they would need to understand and be able to implement a process that included procurement of retail stock, warehousing, order taking and delivery to the customer. Well outside the knowledge domain of a bank, the team set about working out the deliverables of the process. Delivery firms would be utilised to store and deliver the devices, but order process and management of stock would remain in-house. With no bank systems that catered for these type of retail processes, the order fulfilment process were manual and comprised of over 40 excel spreadsheets that tracked order through to delivery. The lead and sales processes are integrated into FNB's CRM and website, allowing customers to either purchase online, through the call centre or in a branch; orders are received from the website and captured into the excel spreadsheets manually.

As expected, the delivery of devices to customers created excitement and anticipation; with a public commitment to deliver the device to customers within ten working days, FNB has taken some flak from customers while they learn to manage the order fulfilment process:

Figure 4 Snapshots of customer complaints listed on www.hellopeter.com

<input checked="" type="checkbox"/>	SUPPLIER	First National Bank	INDUSTRY	Banking
	BRANCH / AREA	National	COUNTRY	South Africa
	TIME / DATE	12:05 Mon 31 Oct	PERSON RESPONSIBLE	FNB Direct Sales
	CUSTOMER	hugo_za	View all reports by user	0 1
	PROBLEM	Late / No Delivery	email report post report Like	6
	INCIDENT	Mon 31 Oct	view customer feedback rating & analysis	
	HEADLINE	FNB Smart Device Offer		

Dear FNB,

While I believe that the smart device offer from FNB is a great step forward in terms of value added service, I do have to say that FNB has not managed the situation very well. I placed my order on Friday, 21 October, and confirmed that it had been placed on Monday, 24 October. It is now 10 days later and FNB has not yet even sent my device (Apple iPad 2) to UT! So much for the promised time frame advertised on the website. What's even more frustrating is that there are people who ordered much later (like Wednesday last week) who have already received their devices (Apple iPad 2). Surely the first in first out rule would apply? Sadly this does not seem to be the case. Calling FNB Direct Sales and FNB Dispatch does not yield any joy either since these two departments clearly do not speak to each other, as one does not know what the other is up to.

Come on FNB! Your amazing offer is being undermined by rather poor execution and while I understand the logistics of the situation there are other people who are a lot less sympathetic. Negative word of mouth advertising is very hard to undo.

I look forward to your response.
Hugo

<input checked="" type="checkbox"/>	SUPPLIER	First National Bank	INDUSTRY	Banking
	BRANCH / AREA	national	COUNTRY	South Africa
	TIME / DATE	20:19 Wed 22 Aug	PERSON RESPONSIBLE	
	CUSTOMER	Big K	View all reports by user	0 1
	PROBLEM	Late / No Delivery	email report post report Like	0
	INCIDENT	Wed 22 Aug	view customer feedback rating & analysis	
	HEADLINE	Waiting for Smart Device from beginning of August		

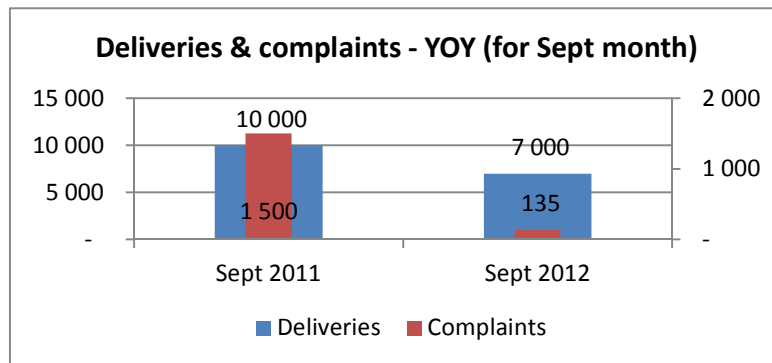
I had placed an order for my FNB Smart device at the beginning of August. I was told on the 9th August I would receive it the following week. It is now 2 weeks since they called me and have kept getting it wrong with my delivery of device. The whole week this week, I was promised a delivery, to no avail, once again, more confusion. I have even gone as far as offering to fetch it myself of which I'm still awaiting confirmation of this. Poor poor customer service. FNB cannot handle the demand and supply of their own product. I'm thinking of changing banks after this experience. Pathetic really.

<input checked="" type="checkbox"/>	SUPPLIER	First National Bank	INDUSTRY	Banking
	BRANCH / AREA	Online	COUNTRY	South Africa
	TIME / DATE	08:41 Wed 19 Sep	PERSON RESPONSIBLE	
	CUSTOMER	bushwack	View all reports by user	1 1
	PROBLEM	Late / No Delivery	email report post report Like	0
	INCIDENT	Tue 18 Sep	view customer feedback rating & analysis	
	HEADLINE	No order yet		

I placed an order for a smart device using FNB's website on the morning of the 4th of Sept. According to FNB's website I should receive a call from the delivery company, or a notification if there is going to be a delay, within 10 days. So I was given that story when I enquired yesterday morning and after explaining the 10 days had lapsed, they told me that they had sent the device to the delivery company, Brightpoint, on the 6th of Sept. So after a bit of back and forth with the call centre I was given the number of the delivery company. Upon enquiring with the delivery company they said they haven't received an order from FNB yet. So I again phoned FNB and they said they'll investigate the matter urgently. I phoned the delivery company again today, and they have still not received the order.

With the unexpected demand placed on the process and delivery time's not meeting expectations, the team were overwhelmed with both orders and complaints. Complaints diverted scarce resources to resolving customer issues, Shane French reflects, "we were so desperate at one stage, we had a small team at that stage, ..., one guy acted as a personal driver, climbing in his car and delivering iPads to complaint customers" (S. French, personal communication, October 23, 2012). The team responded with a daily "war room" meeting to review and deal with any issues. Key project team members continuously tracked progress across the entire value chain on a daily basis, taking action where necessary. Complaints from customers were used as a key analysis tool; back-tracking the process from order date, the team were able to determine key process failures and fix them before occurring again: "we make mistakes every day in this business, with any projects that we run. That is how we learn" (S. French, personal communication, October 23, 2012). The frequency of meetings decreased as they processes became more robust and are no longer held.

Figure 5 Complaints compared to deliveries, YOY improvement (Sept month only)



Utilising UTI for deliveries, a long standing partner of the bank, the team soon realised that the courier services were unable to effectively manage the volumes being generated by the Smart Device offering. Shane French reveals that their initial assumption was that "a courier is a courier" and UTI had successfully delivered bank cards for the bank; however, the Smart Device offering had additional courier requirements, such as stock returns (reverse distribution), for

which the traditional services offered by UTI to the bank did not cater for. In April 2012, UTI and FNB were unable to balance the stock and the Smart Device team decided to change couriers.

The team sought a courier partner that specialised in the delivery of devices with the hope of strengthening the stock processes but at the same time improving on delivery times to customers. Average delivery time over the period was sitting at 7.6 days from order to delivery. FNB had delivered within 10 working days 80.41% of all orders over this period.

Reflecting on the delivery woes, Kartik Mistry still considers delivery to be the biggest hurdle, but believes that they have been given the space to learn through a culture that is tolerant of mistakes, as long as they are not repeated or “stupid” mistakes. Strong relationships between team members and across teams combined with a willingness to collaborate are reinforced by a leadership team that is tough on action yet supportive. Commenting on the initial processes for the offering, Shane French believes that while the “processes were not ideal”, it was still the right thing for the bank to implement when they did and had they opted to design processes and integrate these into their systems, launch would only have happened more than a year later.

Initial orders of devices from customers revealed another interesting retail learning for FNB; “We thought the [purchase] skew would be on the lower end devices... . One interesting thing that we found is that I want to walk around with the best device because I put this on the table and my mates will [comment]. We learnt that aspirational devices are the devices we want to offer to our customers. ...We thought the high-end customers would spend more, but the split is 50/50. ... How would you predict that?” (K. Mistry, personal communication, October 4, 2012). Initial orders placed emphasis on lower end devices whereas actual order revealed the aspirational value of the device to the customer. This learning has dictated order quantities by type and product additions for FNB.

5.4.9. Above the line marketing

At the time of approval of the offering by One Exco, there were no firm plans for above the line marketing. Marketing the offering was integrated with existing marketing efforts, including bill boards, TV, digital, branch marketing and press releases. The offering was merged with existing campaigns, including the FNB app initiatives (see below on other innovations at FNB), but emphasised the offering as a first and only from FNB. The FNB message was consistent with their current marketing philosophy of translating the messages of value-adding, “more give bank”, caring, relationship building, open, direct and proudly South African (FNB, 2011). The concept of “help” is central to the FNB brand and the Smart Device offering enhanced this brand image through their objective of “helping to put the power of banking in the hands of the customer”.

FNB’s marketing strategy pivots off their brand promise of “how can we help you?”. Marketing’s primary task in the last two years has been to take this ten year old promise to a new level of awareness and attractiveness within the South African consumer market. Utilising a “one brand” marketing approach, FNB has aligned their innovations in products and services to their extensive marketing presence and has reinforced, with existing and potential customers, the innovativeness of the bank and their philosophy of having their customers’ central to their value proposition (FNB, 2011).

Figure 6 FNB billboard advertising

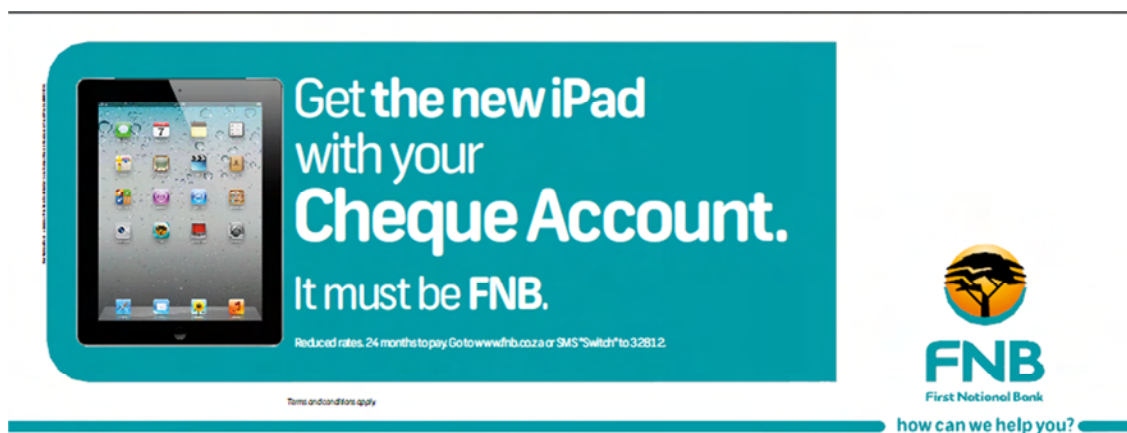


Figure 7 FNB Facebook advertising



Commenting on FNB receiving the bronze APEX awards in 2012, the only award that honours effectiveness and creative innovation in the advertising and communication sector, Fay Mfikwe, Head of Marketing at FNB Personal Banking, reinforces the marketing and innovation links at FNB: "... We continue looking forward to building campaigns that deliver great results and at the same time truly represents the innovativeness of FNB" (FNB, 2012).

FNB has gained valuable PR and marketing value from their innovativeness: "one of the key advantages [of the Smart Device offering] is from a PR and marketing perspective. Our PR to date [August 2012] is sitting close to R10m,

just PR exposure, without doing anything” (K. Mistry, personal communication, October 4, 2012). Technology websites and blogs have also, of their own accord, promoted the Smart Device offering, primarily due to its innovativeness and value that it gives to customers:

Figure 8 Free online PR and marketing example: <http://www.hotsadeals.co.za/2011/10/deals-fnb-is-offering-up-to-35-discount.html>

WEDNESDAY, 19 OCTOBER 2011

DEALS: FNB is offering up to 35% discount on tablets and smartphones (16% on iPads)



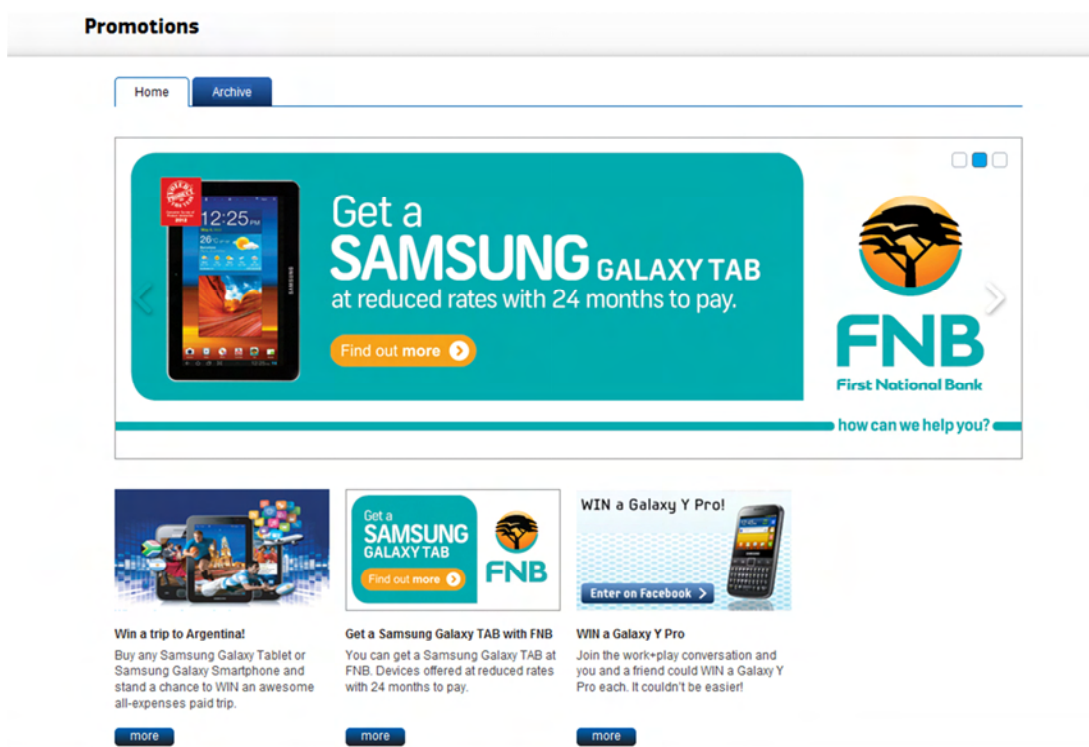
FNB is offering their gold and platinum cheque account holders the option to purchase a tablet or smartphone at a discounted interest free rate. See pricing below:

Handset	Retail Price*	Discounted Price	Fee (24 months)	Interest	Account Type
Apple iPad 2	R5,699	R4,800 (16% off)	R200	0%	Platinum & Gold Cheque Accounts
HTC Sensation	R5,900	R4,800 (19% off)	R200	0%	Platinum & Gold Cheque Accounts
BlackBerry Curve 8120	R1,999	R1,698 (15% off)	R70	0%	Platinum & Gold Cheque Accounts
HTC Flyer	R6,900	R4,800 (30% off)	R200	0%	Platinum & Gold Cheque Accounts
HTC Wildfire S	R2,600	R1,680 (35% off)	R70	0%	Platinum & Gold Cheque Accounts

We can deduce that the iPad on offer above seems to be the 16GB 3G version by the listed Retail Price.
All the devices will be preloaded with FNB's smart devices app.
To access the deal SMS "phone" or "tablet" to 32812. Normal network rates apply.

This information was extracted from an article posted earlier today on mybroadband.co.za.
Link to original post:
<http://mybroadband.co.za/news/gadgets/36466-cheap-smartphones-and-tablets-from-fnb.html>

Figure 9 FNB advertising and promotion on Samsung website



But the sales and marketing team themselves have had to learn new marketing skills that were previously not relevant to the bank, such as how to address the buying behaviours of customers in the retail space (that is, how to convincingly market a tangible product) and how to effectively use imagery in their marketing material to sell a device (N. Harka, personal communication, October 31, 2012). To support the sales channels and customers, a call centre was established within three weeks of launch with full end to end query resolution and support skills. The Smart Phone call centre would support sales and distribution channels forming an integral connection with customers.

5.4.10. Finalist in the FNB Innovators Awards 2012

Entry to the FNB Innovators awards closed on 30 June 2012 and in next three months, three rounds of judging will determine business unit, segment and the overall FNB winners. Kartik and his team are in the draw and with the opportunity

to win another R1m or even the grand R3m prize, the team waits in anticipation for the outcome.

5.5. Other FNB innovations

“The spirit of innovation is driven by the need to provide our customers with the best possible banking experience. For us to remain as leaders in the innovation race we need to rapidly adapt to the constant changes in our environment.”
Ravesh Ramlakan, CEO FNB Cellphone Banking, 19 July 2012 (FNB, 2012)

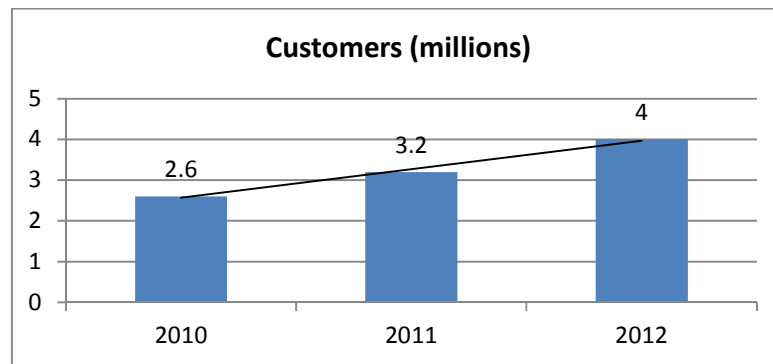
To truly understand the innovativeness of FNB, to place into context the role that innovation has played in this banks success and how the “customer eco-system” has been developed, a view of other innovations is required:

5.5.1. Cellphone Banking

Launched in 2005, cellphone banking gives true meaning to the “anywhere, anytime” concept of banking at FNB. While all banks in South Africa offer cellphone banking, FNB has by far the largest share of the cellphone banking market in South Africa at 33% according to the All Media and Products Survey (AMPS) 2011 (FNB, 2012).

FNB focusses not only on the technology itself but in the adoption thereof: “Adoption has been rapid because the service is designed with our customers in mind. Customers expect to be able to bank anywhere, at any time and in order to ensure that our customers are provided with the best possible experience, innovation plays a vital role” Diane Samkar, COO FNB Cellphone Banking Solutions (FNB, 2012).

Figure 10 FNB Cellphone Banking Customers



FNB mobi sites fall within the ambit of the Cellphone Banking segment at FNB. Visitors to the FNB.mobi sites tally to approximately 700,000 users per month: “Cellphone banking remains at the forefront of innovative banking ...” Ravesh Ramlakan, CEO FNB Cellphone Banking, April 2012 (FNB, 2012).

5.5.2. FNB online banking

FNB has been as successful with their online banking product, with nearly one third of all online banking customers in South Africa using the FNB product (AMPS 2011 survey). “Brick to click is a core strategy for us and it allows our clients to facilitate all their banking via this self-service channel, removing the need to ever visit a branch should you choose so” Lee-Anne van Zyl, CEO FNB Online, 18 June 2012 (FNB, 2012).

FNB’s online banking site ranks third on the list of top sites hosted in South Africa and sixth in Africa under the banking industry category; the other Big 4 South African banks rank 7th (Standard Bank), 9th (ABSA) and 50th (Nedbank). With 1.2million users, FNB has experienced a 98% increase in customers opening up new accounts via the online banking channel (FNB, 2012).

5.5.3. E-wallet

E-wallet was designed to transcend banking boundaries, allowing FNB customers to send money to any person with a valid cellular telephone number. The receiver of the transfer is then able to draw the money, transfer it or buy pre-paid airtime. All transactions are conducted at FNB ATM's without the need for an ATM card (cardless transactions) or an FNB account. In 2011 alone, 580,000 e-wallet accounts were opened (FNB, 2012).

5.5.4. FNB Connect

FNB is the only South African bank to hold an Electronic Communication Services and Electronic Computer Network System licenses. FNB Connect is a unique offering to FNB customers and offers customers data and airtime (via VOIP) at greatly reduced charges.

FNB also offers their customers, as reward, free data allowances (up to 5 gigs ADSL data and 100mg 3G data per month) on qualifying cheque accounts. Customers have free access to FNB online banking and their banking app (see below), free access to YouTube, Facebook and Twitter between 7pm and 11pm and all of this to make FNB customers “the most rewarded customers in the data market” (Stephan Bothma, Data Product Owner at FNB Connect) (FNB, 2012).

Keeping true to FNB's philosophy of creating value for their customers, FNB was the first data provider in South Africa to pass on the lower costs of wholesale IP costs when the prices dropped by 30% in April 2012. FNB has seen a 70% growth at the end of 2011 in FNB Connect customers (FNB, 2012).

Collaborating with Incredible Connection to install and set-up for free their customers ADSL routers, FNB has been able to extend their already generous data value chain. Tapping into Incredible Connections extensive technical

expertise and national footprint, FNB has moved closer to making it easier and more convenient for customers to choose FNB Connect as their preferred ISP provider.

5.5.5. FNB paperless branches and dot.FNB branches

In another first for banking in South Africa, FNB has moved their branch network to become a paperless environment. Utilising biometrics, forms are limited in the branches and for customers convenience, every branch is a home branch.

FNB opened their concept dot.FNB store in April 2012 in the Nicolway Shopping Centre, Johannesburg. FNB views these branches as the future of banking, offering customers the opportunity to experience first-hand online solutions and to video conference with financial experts at FNB. The branch boasts a unique interactive mechanism, called the interactive surface, a first in South Africa. These branches are cashless, except for deposits, and customers who order their smart devices from these branches can walk out with their devices on the same day.

Figure 11 Picture of dot.FNB branch in Nicolway Shopping Centre



5.5.6. FNB banking app

In another first for South African banking, FNB launched the FNB banking app on 20 July 2011. The application was developed in-house by the FNB Connect team and was available on all mobile platforms within three months of launch.

Once again remaining true to the “anytime, anywhere” banking philosophy, the app is packed with all the usual online banking tools and more, widening the application of online banking and adding more convenience for customers:

- i. View and transact from accounts;
- ii. Open new accounts;
- iii. Switch to FNB for non-existing customers;
- iv. Obtain forex rates;
- v. Make free calls to FNB and other FNB customers with the app;
- vi. Make cheap calls using VOIP to any other contact;
- vii. Send sms'es at reduced costs;
- viii. Buy airtime, and
- ix. Location based services to find the nearest ATM and branch.

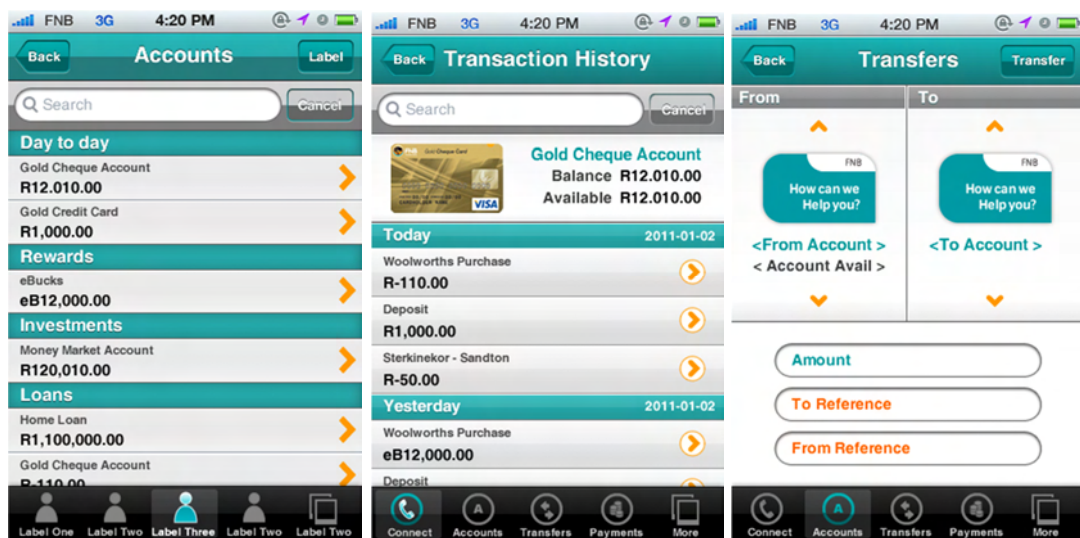
The app has been hugely successful, charting in the top 10 free applications since its launch. Within two months of launch, 30,000 customers paired their device to the FNB app and by July 2012 that number had shot up to 220,000 with the total transactional value exceeding R2billion within the first eight months (March 2012) (FNB, 2012).

In May 2012, the FNB Connect team launched Geo-payments on the FNB app; using geo-location services to locate other FNB app users within close range, customers can make safe and secure cashless payments to one another without requiring bank details. The functionality merges location based services with person-to-person payments; “... we believe that it will not only offer clients

additional convenience, but will also unlock strategic potential for cashless payments going forward” Michael Jordaan, CEO FNB, 9 May 2012 (FNB, 2012).

On some of the Smart Devices supplied by FNB, such as on the Galaxy Tab 10.1, the device comes pre-loaded with the FNB app, showing clear collaboration between the FNB Connect and FNB Smart Device teams. On-going innovation is expected from both teams; Kartik states that only 10% of the Smart Device offerings has been launched and the FNB Connect team are as excited by future developments, “... we have a roadmap of innovations on the app which extends to 2013. ... Some of our imminent innovations will be not only a first-to-market but a first to South African banking and will position FNB for the new wave of mobile payments” Farren Roper, Head of Products and Markets FNB Connect, 24 January 2012 (FNB, 2012).

Figure 12 Screenshots: FNB Banking App



5.6. Innovation at FNB

5.6.1. Innovation as a value and a core strategy

“The increased emphasis on digital is deliberate and in line with our overall approach.” Farron Roper, Head of Products and Markets at FNB Connect, 5 September 2011 (FNB, 2011)

Innovation is a stated core value at FNB and is considered the “fundamental way they think”, “the oxygen of their customer relationships” and “the tool that changes the strategic direction of the bank” (FNB, 2011). It forms part of the broader culture, value set and approach at the bank (R. Makanjee, personal communication, November 1, 2012). At the core of their innovation strategy lies their purpose; to use innovation to pioneer new and convenient services and products that help empower and equip people to take control of every aspect of their lives. Their intent to become the strategic leader in innovative banking by using technology is as clear and is what drives this continuous pursuit of technological advancement.

5.6.2. Campaign-driven innovation culture

Innovation at FNB is campaign driven; through a structured annual programme employees can submit their ideas, have them implemented and stand to be rewarded in one of many categories with cash incentives that exceed many people’s annual salaries. The programme was implemented in 2004 with the challenge to find a way to engage and excite FNB employees to submit their innovative ideas for the bank. Running over a full year, teams have this time to fully develop and implement their ideas for submission to the competition. Contestants roll up through the business unit to the segment and the top 50 segment winner’s progress to the company wide competition.

Entry to the competition is not only achieved through the submission of the idea via FNB's online innovation portal, but through implementation and tracking of benefits for the bank; FNB defines innovation as "idea + implementation". Michael Jordaan, FNB CEO, places the programme in context best: "... Implemented innovations change the strategic direction of the bank. Effectively, every employee can be an innovator and change the way we conduct business. This is inversion of the historical top-down application of corporate strategies" (FNB, 2011).

Employees are required to log their ideas on the innovation portal and to approach their line managers, area manager or evaluation committee to present and persuade them as to the value of the idea for the bank. This process allows for resource allocation at business unit level for ideas that align to the business unit and FNB's strategic objectives.

5.6.3. Support from leadership

Innovators are not left to their own accord, segment CEO's nominate Business Unit Champions who dedicate one to two hours of their time a week to innovation. They are expected to assist innovators through the course of the competition by being mentors and helping to develop and administer the implementation of the innovation. The role of the Champion is clearly defined in terms of two primary roles by FNB:

Table 3 The roles of a BU Champion (FNB Innovation)

Mentor / Support Role	Administrative Role
<ul style="list-style-type: none"> • Provide support to innovators in logging of ideas and during implementation • Collaborate with the BU CEO / area manager to set and measure innovation objectives for the segment. This includes 	<ul style="list-style-type: none"> • Manage the BU CEO's / area manager's innovation budget (cost for BU / branch workshops, prices and other specific innovation costs) • Plan and manage BU / area specific communication

<p>setting a minimum target of ideas to be implemented</p> <ul style="list-style-type: none"> • Work with the BU CEO / area manager to facilitate brainstorming sessions with staff • Motivate colleagues in BU regarding innovations being implemented and/or previously implemented • Assist innovator in properly capturing benefits of innovation 	<ul style="list-style-type: none"> • Form an evaluation committee to evaluate new ideas, approve or decline ideas, monitor progress of ideas being implemented, and make suggestions to assist innovators during implementation • Assess each new entry and approve or decline it at the implementation stage, while also including relevant and detailed comments to the approval or decline decision • Organise and administer the judging process in the BU / specific area
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5.6.4. Categorising innovations

Innovations are categorised according to the FNB Framework for Innovation. Innovation ideas are required to align to the strategic direction of the bank by enhancing the customers experience or by growing the business:

Table 4 FNB Framework to Guide Innovation

Innovation Category	Definition
Enduring Rewarding Relationships	<ul style="list-style-type: none"> • Sales – includes new projects • Marketing – positively impacts FNB's brand perception • Service – improving service to customers which positively impacts sales
Efficiency	Benefits the bank by reducing costs and being more efficient (i.e. improved processes)
People	Improves the working environment, aligned with the FNB HR strategy. "Creating an environment where great people deliver great results and share in the value they create"
Sustainability	Helps to create a better world by focussing on, for example, consumer education, environmentally friendly and socially responsible initiatives
Expander	Allows for the unimplemented ideas to be adopted and implemented. It also encourages people to

	adopt and implement innovations that won prizes within another business unit or segment.
New Technology and Social Media	Leverages off of existing technology, (e.g. open source software) and/or existing social media (e.g. Facebook, Twitter etc.) in ways that benefit the bank / support our strategy

5.6.5. Judging Framework drives quality and consistency

FNB has developed an Innovators Judging Model that is designed to ensure consistency in judging for the innovation competition across the bank. As winners roll up from judging in the business unit to judging in the segment competition, it was imperative for FNB and the innovation panels to understand what “good” looks like.

The judging panel has absolute discretion to change the classification of the entry should they believe it is better suited to compete in a different category. Assessment of the innovation and its implementation is adjudicated in terms of its context and its impact on the bank. To ensure consistency in judging, guiding questions for each of these has been developed:

Context

These questions and factors that are to be considered have been developed for the judges to ask the competing individuals or teams and include:

- i. Were you told to do this?
- ii. Did you go above the call of duty?
- iii. Access to resources
- iv. Would we expect this of you anyway?
- v. Business, social, environmental, economic context alignment
- vi. Does it show the FNB values?
- vii. Is it innovative? (considered in context of both local and international competitors)

Impact

In order to assess the impact of the implemented innovation on the bank, the following criterion is adjudicated:

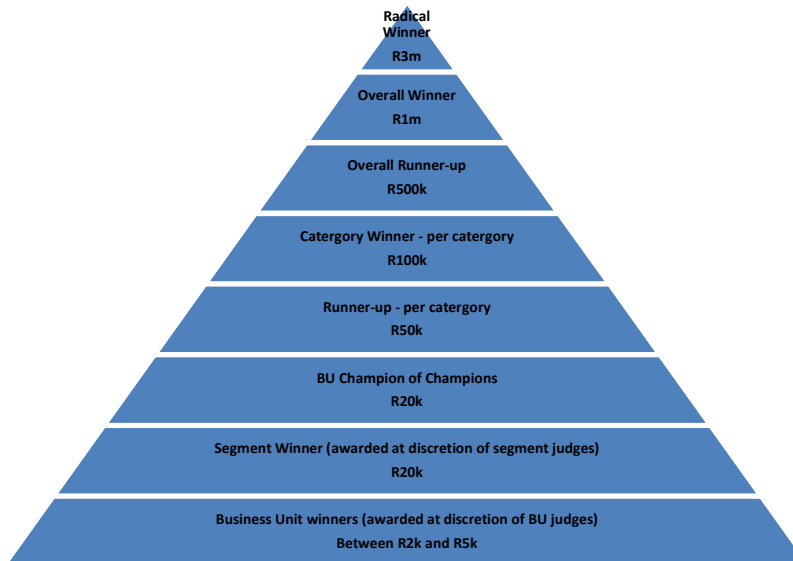
- i. Impact on achievement of FNB strategy and segment / BU strategy
- ii. Impact on FNB, segment / BU performance
- iii. Hard measures, proof of benefit realisation

The company wide adjudication panel is chaired by the CEO of FNB, Michael Jordaan. Michael commits three to five days per year to the programme to review and adjudicate contesting innovations. By his involvement, Michael is able to determine the applicability of innovations to other business units and will reach out to business unit CEO's to consider cross-implementation of ideas.

5.6.6. Rewards to match

In 2011 FNB paid out a total of R9m worth of innovation rewards to 20 winners chosen from 46 finalists. The reward structure is tiered with 8 levels for innovators and one for champions. The tiering of rewards increases participation as rewards are more attainable. Rewards are budgeted for each year at business unit / segment and firm level:

Figure 13 FNB Innovators Rewards Scheme



5.6.7. Motivational programme drives innovation success

The 2012 submission of innovation ideas ended on 30 June 2012; over the year preceding the cut-off a total of 10,850 ideas had been logged by FNB employees. Of these, 1,416 ideas were implemented, up from 877 in 2011 and 740 in 2010. FNB achieved their target of implemented innovation for the year of 1,015.

The programme is not only a win for employees of FNB; FNB itself has been publicly recognised for its innovative ways:

- i. South Africa's most innovative bank (2011 & 2012) – Technology Innovation Agency of South Africa;
- ii. South Africa's coolest bank (2012) – Sunday Times Generation Next Survey;
- iii. One of the top techno brands in South Africa (2012) – 2012 BMI Tech Knowledge Digital Lifestyle Predictor;
- iv. South Africa's leader in online banking (2011) – AMPS 2011 RB Data Release; and

- v. South Africa's leader in cellphone banking (2011) – AMPS 2011 RB Data Release.

5.7. Companywide practises

5.7.1. FNB values and culture

The FNB values are accountability, innovation, respect, pride and accountability. The culture of FNB is driven by four key components:

- i. The customer is central to everything they do. FNB actively seeks to be responsible and fair to their customers;
- ii. Constant scoping for innovative ideas, looking for ways to do things better and looking for new things to do;
- iii. A bent for action; and
- iv. Establishing endearing and rewarding relationships, internally and externally; critical to the FNB culture according to Tracy de Goede, HR Lead for CBS (T. de Goede, personal communication, August 8, 2012).

Emphasis is placed on taking action within FNB, with a strong sense of 'if it's the right thing to do then simply just do it'. Being careful not to over analyse everything, Tracy describes the culture of execution: "We do analysis, then draw a line in the sand and then execute. We don't look back to check that we are doing the right thing" (T. de Goede, personal communication, August 8, 2012). This trust is reinforced by the strong relationships that FNB encourages and fosters amongst peers.

Accountability is driven through an "owner-manager" culture and is supported by a culture of empowerment with "very loose direction" set by the CEO, Michael Jordaan. There is no top-down approach to management, with CEO's driving their business units almost autonomously. Raj Makanjee, CEO of FNB Wealth, believes that this culture of empowerment and accountability sits at the heart of the innovative culture at FNB.

Change management in FNB remains unstructured and rarely do they utilise 'textbook change methodologies'. Seeking not to complicate and draw out change initiatives and remaining true to their propensity towards action, FNB tackles change intuitively. Doing what is required to make the change happen while keeping their employees informed. Change management remains flexible within FNB by doing what makes sense for the business at that point in time.

5.7.2. Recruitment

Recruitment at FNB is similar to most corporates in that adjudication is based on the technical/competency match of the applicant and the individuals fit to the values of the organisation. At lower levels, applicants are sought through employment agencies who know FNB and their culture well. Moving up the ranks, FNB looks more to proven track records to effectively execute; not looking to qualifications alone, they actively seek individuals who are qualified with experience. Tracy de Goede summarises this by saying, "The emphasis is on what you can do, rather than what is on your CV".

Key attributes looked for from more senior recruits include:

- i. Not overly hierarchical;
- ii. Does not need a title to execute;
- iii. Will not abuse his/her position;
- iv. Works well in a flat structure;
- v. Is innovative;
- vi. Has a "can do" approach (action orientated), and
- vii. Can make a decision.

5.7.3. Structure and collaboration across segments

Over the last two years, onlookers have witnessed a host of innovations from FNB all based on advancements in technology and new technology related

products and services. At a top-down view, these innovations would seem to have been master engineered from the perspective of how they are all interconnected. While collaboration certainly has occurred in the development of these services and products, their genesis and ultimate development are housed in independent business units within the bank; summarised by Kartik, “each area worked individually and it all just came together”.

FNB’s structures are best described as “product houses”, based on an owner / manager culture, with each product segment CEO responsible for their own profit and loss. Each segment comprises of multiple business units, each with their own CEO and each responsible for their own financial performance. According to Tracy de Goede, while the bank has an hierarchical structure, this hierarchy is “flattened” by the culture of the bank; “... that, I think, makes a huge difference – that anybody, right from the cleaner, can pop into Irlon’s [CBS CEO] office and say ‘do you have a minute for me, I want to chat to you about an idea’ without getting chased away”. It is not desirable within FNB to “pull rank”, and is only resorted to if all else fails.

With the product house structure and close on 60 autonomous business units, the business units are small. FNB realises that it is difficult not to have siloes within the organisation and CEO’s are not incentivised to work with other business units and as such collaboration is achieved through a business case approach where both segments should benefit from the collaboration. Shane French and Tracy de Goede explain that there are “no holly cows” in FNB, with Shane commenting that “it’s amazing how the different areas gel, I won’t tell you it’s ‘kumba ja’ all the time, there is hardy debate, [we] debate the hell out of it. And nothing forces you to work through somebody...” (S. French, personal communication, October 23, 2012).

The business units structure together with the ‘owner-manager’ culture of the bank helps facilitate quick decision making processes in the bank. Ownership is

driven down the line, allowing the organisation to do what it needs to do to achieve their objectives. Michael Jordaan, FNB CEO, has been described as 'non-dictatorial', driving autonomy through the structure with only loose direction. The structure however is not without criticism, with financial analysts commenting that the structure forces unnecessary layering, increasing the banks costs structures and is what drove FRB's share underperformance in the past. Raj Makanjee disagrees and believes the benefit of small profit and loss centres allows the bank to isolate poor performing business units and take the necessary action, freeing up the rest of the organisation to concentrate their resources on innovation while at the same time breaking down the approval phases. Today, FRB has the highest ROE, highest profit share and the best cost ratios in the industry (R. Makanjee, personal communication, November 1, 2012).

Collaboration is achieved through an understanding that each business unit has developed their own set of core competencies, for example, the FNB Connect team have software development skills, whereas the E-bucks team have developed competencies to manage online ordering processes. This understanding drives business units to share tasks that relate to their own competencies and is defined by Raj as an "internal ecosystem" that allows collaboration to occur naturally. There is an understanding however that there may need to be a trade-off and the challenge for segment leaders is to balance their own business objectives against the greater good of the bank.

Collaboration is achieved within this structure, as is the case with the Smart Device offering. It is this understanding of the core competencies amongst the segments that drives collaboration within FNB; Kartik and his team collaborated with FNB Connect for the FNB app and data rewards and the FNB Cell Phone banking segment assisted with customers needing guidance to set their devices up (to name but a few collaborative partnerships). Kartik confirms the business case approach to collaboration by stating that "... they saw a great thing and joined us". Collaboration with suppliers and customers is as important to the

implementation of FNB's innovations; for Smart Devices, the collaboration with their courier partner is vitally important to ensure that customer expectations are met, and for FNB Connect, their collaboration with Incredible Connection added customer value to their product offerings.

5.7.4. Rewards and recognition

FNB's rewards are underpinned by the 'pay for performance' principle. Bonuses are paid to "out-performers", including those innovative members of staff, while from middle management and up there are opportunities to be awarded FirstRand shares; this all over and above the rewards available through FNB's Innovation Programme.

Recognising that recognition is an on-going discipline, ad-hoc incentives can be awarded by managers when employees have gone the extra mile or have excelled at something; these rewards may include a meal voucher, a day off or even a paid weekend away for the employee and a partner, to name but a few. They also recognise that recognition in the form of a 'thank you' or by talking to others about someone's stellar performance is as important and rewarding to employees as receiving a tangible reward.

Twice a year, FNB conducts the "Butt Kicker Awards" where employees that have gone above and beyond the call of duty are recognised. The awards have three categories, namely, collaboration, outstanding achievement and an overall winner who walks away with a R20,000 post-tax reward. Innovation has been excluded from these categories as the Innovation Programme sufficiently covers innovativeness within FNB.

5.7.5. Resource allocation

The FNB Innovation Programme places selection and resource allocation within the segments themselves. Innovation Champions lead selection within their

respective segments and ensure that resources, including finances and manpower, are allocated for implementation.

Selection is based on alignment with segment and FNB strategy, but at all times places the customer central to the decision making process. Alignment may also exist between segments, such as Smart Devices alignment to Cellphone Banking and FNB Connect. Not all innovations need to go through the hierarchical approval phases that Smart Devices did; in the case of the Smart Device project, the requirements for funding necessitated approval at Exco One, but for smaller, less cost intensive innovations, decision rights remain at segment level.

The allocation of employee resources to lead an innovation is based on the individual's ability and skills to develop and implement the idea. Smaller initiatives may not need full time leaders, but as is the case with Kartik and the Smart Device offering, this may be the same person that initiated the idea, but is not always necessarily so. Tracy de Goede mentions that should the person have the required skill to lead the innovation, that there is a very good chance that he/she will lead it, and if not, they will still be given the credit for the idea. But there is a caveat to this; it all depends on the trade-off between what 'hole' will be left behind by the person leaving a certain position against the opportunity to be created if the person does move to the new position. Tracy does see mobility of talent in the organisation but not at the expense of some other task or business unit / segment.

Raj Makanjee believes that FNB are able to explore for new innovative practises and products because they have the basics right; "There is a strong correlation between a business unit's innovation and where their basics are working". Having worked for several years on the ability to switch customers efficiently, the bank has dealt with many basic process and technology issues; "you can't innovate on top of a base that is not working" (R. Makanjee, personal communication, November 1, 2012).

The IT core infrastructure is stable and large chunks of the system do not need to be replaced to incorporate new products or services, freeing up valuable time and capital usually required to implement innovations. IT is decentralised and resources sit within the business units allowing IT and the business unit to work together on new initiatives rather than a centralised IT managing projects through a pipe-line that usually frustrate business units and timelines. This deployment model drives the ability to innovate into the business unit itself. Raj concludes that “technology enablement is very powerful” but the key challenge for IT is how to keep up with the rate of change in an environment that is continuously innovating (R. Makanjee, personal communication, November 1, 2012).

Funding decisions for innovations sit at business unit level and is based on an economic business case approach that highlights benefits to the income statement and trade-off's. Business units will develop their business cases for presentation to Exco, but rarely does Exco intervene in funding decisions. There is general acceptance of “short term pain” for longer term gains when aligned to the banks strategic objectives; sufficient checks and balances ensure that challenges are properly dealt with (R. Makanjee, personal communication, November 1, 2012). With a much localised structure, leadership can very quickly see which business units have economic challenges and where they can and can no innovate.

5.7.6. An appetite for risk

With great risk comes great reward and FNB's innovativeness has certainly come with its fair share of risk. Committing R300million cash for the Smart Device offering, without any interest to be earned on it, and taking on a process that remains outside the knowledge domain of a bank, FNB clearly has an appetite for risk. Kartik explains that while they do have an appetite for risk, it is not “reckless risk” and risk is acceptable if understood and managed.

An innovative culture creates more opportunity for risk, but risk at FNB is considered to be a judgemental process, a process of continuously weighing up alternatives. The philosophy at FNB is to balance risk rather than being risk averse which leads to never executing on ideas.

FNB's bent towards action is a reflection of their attitude towards risk, Tracy de Goede explains: "... [there] is no need for analysis for a year; do some analysis, build the business case and then execute". Referring to other large corporates as "elephants [that] don't gallop", Tracy highlights that over analysis and corporate bureaucracy can easily frustrate an organisation, strangling it in a sense. This ability to deal with risk is a function of FNB's desire to do what is right and good for the business and its customers. Reflecting on the warehousing and delivery competencies required for Smart Devices, Kartik places emphasis on risk taking that allows for the first mover advantage "... with this bank, if there is something great, go for it, and then we will try to manage it. And that can be misconstrued into many things, we don't do things blindly, but it's basically quicker to get to market in that way". In upholding their strategic drive to be the most innovative bank, first to market advantage is "extremely important" to FNB.

5.7.7. Learning and knowledge management

Tracy de Goede highlights that an important aspect of FNB's culture is their tolerance for "learning on the go". With an appreciation that certain competencies need to be learnt to execute, the banks executives allow for mistakes through the learning process; "your best ideas come from people who have made mistakes, rather than people that have made no mistakes" (R. Makanjee, personal communication, November 1, 2012).

The unspoken philosophy to allow people to make mistakes drives both innovation and accountability within the bank; "... we are not going to do it

perfectly, but we will never mess it up to the extent of having complete service failure, damage to the brand or have customer fall out. As with the Smart Device deliveries process, we are learning and there is progressive improvement. What you see today is vastly different to last year” (T. de Goede, personal communication, August 8, 2012). Being tolerant of employees learning, FNB’s learning approach is one of “figure it out”; understanding that they do not have all the answers, bank Executives are prepared to make the decision and learn through the process, “If you have something and it doesn’t work, then stop... . We have learnt a lesson and in a few years’ time we may revisit the idea” (S. French, personal communication, October 23, 2012).

The use of external consultants for knowledge is limited and not preferred within the bank. While processes are mapped and stored in FNB’s archives, no formal knowledge management programme exists; the more subtle knowledge is housed in individual’s heads which does create dependencies for the bank. Tracy concludes on knowledge management that FNB knows where their talent lies and with whom the knowledge exists and that they place strong emphasis on talent retention. Ensuring that the FNB talent is happy and not looking around for other jobs is critical to the retention of knowledge in the bank.

The process of talent retention is informal and usually takes the form of casual conversations from time to time. Issues requiring actioning are dealt with and employees followed up with after a couple of weeks. Retention is also directly driven by the entrepreneurial culture in FNB; “One of the biggest challenges people have of why people want to leave corporates is because they want to become entrepreneurs. So we are saying why go take the risk of starting a business, all the capital risks, sales; here we allow you to be an entrepreneur within the confines of a structure that allows for capital and risk taking, which obviously comes with accountability” (R. Makanjee, personal communication, November 1, 2012). The bank believes that this entrepreneurial culture will keep

innovation in the DNA of the organisation, rather than having employees who are just waiting out for their pensions.

5.7.8. “Fixing the plane while flying it”

With some one thousand plus innovations implemented in the 2011/2012 year, FNB has been able to innovate within its knowledge domain (exploitation through process improvement and optimisation) while simultaneously exploring new products and services outside of their knowledge domain; learning new competencies in the process. Referring to this as “fixing the plane while flying it”, Tracy believes that this ambidextrous ability is due to three core abilities:

1. There is recognition of the value of both, that is to “keep the engine running” but to also really innovate;
2. Resources are allocated to both exploitation and exploration, and;
3. Both are managed.

FNB’s ability to exploit and explore at the same time is directly related to their innovation programme in that everyone at FNB is innovating; there is essentially a 360degree view of opportunities, expanding the search terrain significantly. “Minivations” was introduced to ensure that smaller innovations are also logged; this increases the pool of employees participating in the innovation programme because they believe they can also get something through the programme, rather than just the large innovations winning top prizes: “The beauty of the model is that you got so many different pockets thinking and looking at angles that not any one team can all do”. Having come from a centralised R&D approach, FNB quickly recognised that this approach took away the ability for normal people to do “cool things” and that by embedding the ability to innovate and differentiate in the business units, they are driving the innovative behaviour and culture they are after (R. Makanjee, personal communication, November 1, 2012).

Raj does not believe that different skills sets are required to simultaneously exploit and explore, but rather he believes they are built on the same skill set and that managers will be able to realise the benefits of innovation where the basics are right. FNB's preference towards an unstructured approach to innovation (but with a structured programme to manage innovation) allows employees to think past their own business unit, driving out-the-box innovation and expanding on their available opportunities (R. Makanjee, personal communication, November 1, 2012).

Doing what is right and keeping true to their overarching vision and strategy has allowed all of FNB's innovations, both exploitive and explorative, to flourish; the NPV for the top 50 innovations in 2011/12 are all healthy and on track (R. Makanjee, personal communication, November 1, 2012). In determining the factors of success for FNB over their seven year innovation journey, Tracy concludes by saying, "I think it would be too simplistic to distil it down to one thing, I think it's the coalescences of a number of different things; its leadership with a disposition towards innovation, with the appetite for risk, it's having the right people, it's retaining and rewarding them appropriately, it's the culture – which is sometimes hard to define, it's that unspoken but known attributes of the organisation, gees [translation to English is "spirit"] kind of, being in the right place at the right time, coming into the market with the right products at the right time – getting the time right is important".

5.8. FNB results (2012) show payoff

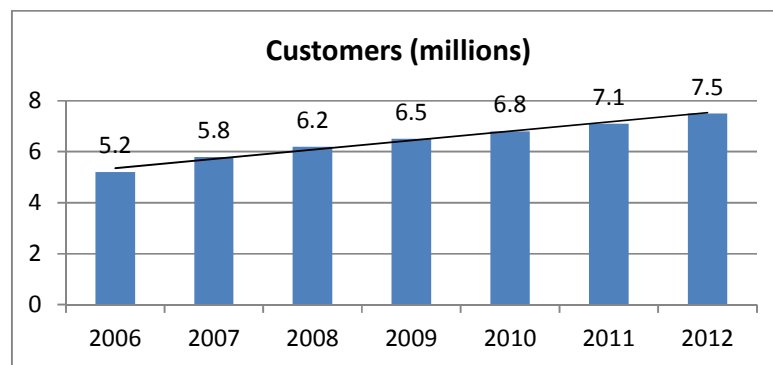
FirstRand Bank's 2012 results announced in September highlighted the impact of FNB's aggressive pursuit of their strategic objectives. Commenting on the group's results, FirstRand CEO Sizwe Nxasana said that "(t)he most significant driver of earnings was the very strong operational performances from FNB and WesBank, both of which showed excellent top line growth. In the case of FNB this was the result of specific strategies to acquire customers, grow loans and

deposits, and drive transactional volumes across all of its platforms, particularly electronic...” (FirstRand Bank, 2012).

Highlights of the interim results for FNB included (financial and non-financial) – refer to appendix 2 for FNB financial reports 2011 and 2012 (FirstRand Bank, 2012):

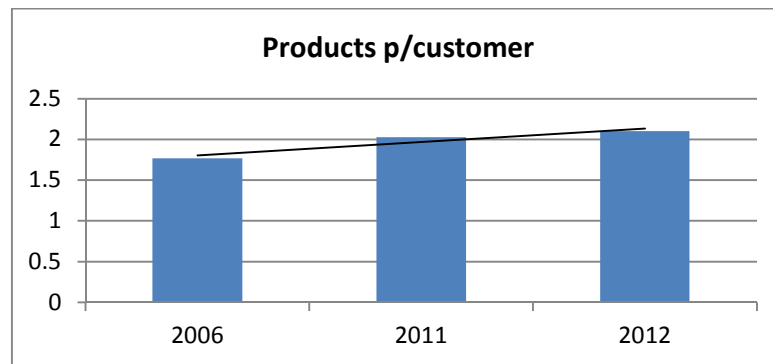
- I. Pre-tax profits increased by 27% (from R6,529m in 2011 to R8,293m);
- II. Non-interest revenue growth of 14%;
- III. Client income grew by 16% from R12,352m to R14,367m (representing 65% of FRB's client income);
- IV. ROE of 38.7%;
- V. Net increase of 1.3m active customers and a 5% growth of total customers (7.5m customers);

Figure 14 FNB New Customer Growth



- VI. Products per customer increased from 2.03 to 2.10;

Figure 15 FNB Products per Customer



- VII. Manual transaction increased by only 0.2% while electronic transaction increased by 12.3%, and
- VIII. Core cost growth of only 9%, with branch costs remaining flat as customers move to more electronic based transaction methods.

5.9. The world's most innovative bank

On 9 October 2012 in Washington DC, USA, BAI and Infosys hosted the 2012 BAI –Finacle Global Banking Innovation Awards. Now in its second year, the global awards program recognises and supports innovation in the retail banking industry. The winning financial institutions were chosen among more than 150 entries from over 30 countries for breakthrough innovations that positively impact banks and their customers. The award winners were selected by a third party, independent judging panel consisting of prominent industry thought-leaders, academics and retail banking professionals.

The Most Innovative Bank of the Year Award was awarded to First National Bank. In their press release the judging panel commented that the award honours FNB's "culture of innovation and advancement of retail banking. As part of their innovative culture, the bank holds an internal competition, called "Innovators," that formally encourages and supports the process of innovation

and related competencies. Business units within FNB are empowered to innovate through leadership buy-in and advocacy” (Bremmen, 2012).

Michael Jordaan commented that “[The award] is a well-deserved recognition of our ongoing commitment to being an innovative bank. Running since 2004, and through the FNB Innovators Programme 5,585 innovations have been implemented to date, which has contributed towards the strategic direction of the bank” (Bremmen, 2012).

Chapter 6: Discussion of findings

6.1. Becoming ambidextrous – exploiting and exploring in a world of limited resources

6.1.1. Introduction

An ambidextrous organisation is one that can simultaneously exploits existing capabilities (exploitation) while simultaneously exploring for new ones (exploration) (Andriopoulos & Lewis, 2009, p. 696). FNB can be described as an ambidextrous organisation, exploiting existing opportunities for efficiencies gains while simultaneously exploring for new value adding innovations that expand their customer eco-system. Consider the following table of implemented exploitative innovations in the bank over the last three years as compared to new product launches (considering all other implemented innovations as exploitative; utilising Jansen et. Al. (2006) definition of exploration that exploration relates to radical innovations that are designed to meet the needs of new or emerging customers and markets):

Table 5 Implemented FNB Innovations: Exploit versus Explore

Year	# Implemented Innovations	New Products & Services	Exploitative Innovations
2009/2010	740	E-wallet FNB Connect	738
2010/2011	877		877
2011/2012	1,416	FNB App Smart Device dotFNB store Geopayments	1,412

In total, FNB has implemented 5,585 innovations in the last 8 years; more than half of those were implemented in the last 3 years, with only 8 truly radical innovations (cell banking, online banking, e-wallet, FNB connect, dot.FNB, FNB app, geo-payments and smart devices). The question may not be of how one balances exploitative and explorative capabilities, but rather how a company positions themselves to explore.

6.1.2. Get the basics right

Calantone (2007) finds that exploitation forms the foundation for explorative innovation, generating assets that can then be utilised for exploration. Raj Mankanjee's view is that the business unit's ability to explore is a direct function of them having their basics right, and that one can not innovate on top of a dysfunctional base. These propositions are in support of one another.

Considering the number of innovations implemented in FNB over the last 8 years and compared to new, radical innovations that are customer facing, one clearly understands that the FNB Innovators Programme has weighed heavily, and still does, to exploitative activities. This fixing of the foundational base not only creates short term benefits for the bank through efficiency enhancements, but has ensured that resources can be appropriately allocated when new opportunities for radical innovations arise.

The business unit structure, made up of 60 odd profit and loss centres with full autonomy to deliver on their objectives, allows the bank to isolate underperforming businesses. This granular view of the business frees up the rest of the business units to focus their resources in different ways. Understanding that we live in a world of scarce resources, this ability to isolate underperforming business units ensures that resources are freed up to more value adding activities in well performing business units rather than having to be limited by the resource allocations to fix the underperforming unit. Wernerfelt (1984) found that

firms (or business units in this case) are related in more ways than just financially, and the cross subsidisation of resources is more powerful than pure financial cross-subsidisation; by isolating under-performing business units, FNB can ensure that firm resources are appropriately utilised to drive either the requirements of explorative activities or exploitative activities, dependent on the need per business unit.

But having the basics right also means that the base on which the exploration is built is sound and ready for new innovation. In considering the readiness of the Smart Device team to launch the product within 5 days of receiving approval from One Exco, the question is what drives an Executive team to commit extensive resources in one meeting and to approve the launch of a product that is completely unknown to the bank. There are multiple factors to this answer, many of which will be covered in discussions below, but one being that the CBS team had identified that their core competencies were applicable to this product and they were able to integrate these competencies into the process. This would not have been possible if the basics of the CBS business were not sound. Understanding that they possess the competencies to execute large volume projects, the team were confident that they could execute on the objectives and where new competencies were required, that they would be able to network to obtain these.

Another example of having the basics right is FNB's core IT infrastructure that has been described as stable and scalable. This not only allows business units to utilise the infrastructure without requiring extensive changes, but has allowed FNB to deploy their IT personnel into the segments and business units. By freeing up their IT resources to work with business units, FNB has moved critical skills to where it matters most and has gained considerable advantage by having IT involved with the business at design stage of all innovations, gaining valuable time to market.

6.1.3. A flexible strategy and fit of knowledge

Cognitive limitations are considered to be one of the driving factors limiting explorative activities (Li et al., 2008; Burgelman, 1994; and Gavetti & Levinthal, 2000). These limitations, referred to as bounded rationality, not only limit the search for new and unfamiliar knowledge and opportunities, but also limits the strategic direction that a firm may pursue as actors within a firm that define strategy are limited by their own cognitive boundaries (Gavetti & Levinthal, 2000). FNB's stated strategic approach is bottom-up, allowing employees to dictate the direction of bank through submission and implementation of their ideas.

Strategic flexibility is key to the Innovators programme at FNB. This flexibility is achieved by guiding the organisation with a high level strategic direction and vision, but not limiting the organisation with specific strategic actions and tasks. By understanding their strategic alternatives and with foresight on banking trends, they consciously decided to pursue differentiation on the basis of electronic banking channels and technology based innovations. This loose yet focused direction has enable them to allocate firm resources to these banking channels rather than on channels in which they would not be able to easily differentiate themselves on. It has at the same time set the overarching strategic direction of the bank without limiting the search terrain for new opportunities, thus not strangling the innovative processes with confined guidelines but ensuring that fit with relevant knowledge and competencies is maintained. This unstructured approach to innovation is supported by the autonomous structure of the bank, a leadership culture that is described as owner-manager, a bent towards action and a strong sense of accountability.

6.1.4. Actor diversity drives knowledge diversity

Diversity of knowledge is critical to explorative abilities; the search for new knowledge that is evaluated and used in a novel way is a function of prior related

knowledge (Cohen & Levinthal, 1990). Considering that individual actors are constrained by their own bounded rationality, diversity in actors is important in achieving true knowledge diversity. Indeed, Garud et. al. (2000) find that diversity of actors and a few simple routines to pull it all together gives rise to diverse innovative outcomes.

There is an acceptance in the bank that the contributions of all will well exceed the contributions of a few. Moving away from a centralised R&D function to the Innovators programme where all staff participate in the innovative processes, has allowed the bank to expand on their search for knowledge and to find new novel ways of servicing their customers; achieving a 360degree view of opportunities. The deliberate categorisation of innovations, the awarding of category rewards and the introduction on “Minivations” is all geared to driving inclusion in the innovative process at FNB by all 28,000 employees. The firm wide approach to innovation has enabled individuals within the bank to innovate beyond the boundaries of their own business units, while the natural collaboration and diverse competencies housed in the bank allows for the implementation of innovations that span the individual competencies of a specific business unit (limiting the impact of the bounded innovations dilemma).

6.1.5. Utilising outside knowledge with skills and competencies

Hamel & Prahalad (1990) found that viewing a firm from the perspective of competencies widens the opportunities for innovation and limits the impact of “bounded innovation”. Competencies at FNB are housed within the individual business units, giving the bank multiple areas for competency development. This wide set of competencies are understood and through natural collaboration, the bank is able to utilise these competencies across business unit boundaries to develop innovative products and services. This limits the “bounded innovation” dilemma in that the business units are not confined to their own competencies,

but are able to pool competencies from other business units to deliver on truly radical opportunities.

Cohen & Levinthal (1990) finds that for firms to explore, they need to be able to evaluate and utilise outside knowledge and then use their experience and skills to form linkages and associations that are novel. While innovations are primarily developed and housed within business units at FNB, there is sufficient evidence of strong collaboration across business units. The sense of partnering with other business units for their competencies expands on the experience and skill available to individual business units and it is through this process of cross-competency collaboration, that the bank is able to utilise distant knowledge to develop new linkages that bring traditional banking practises and technology together.

6.1.6. Conclusion

As mentioned, the question seems not be how an ambidextrous firm balances exploitation and exploration, but rather how a firm positions itself to be ready to take advantage of the opportunities that may arise from exploratory searches. Explorative activities are limited by two forces, namely, the inability to search for new knowledge that is complementary to either the firm itself or its strategy and secondly, the lack of skills or competencies to utilise the new knowledge to form linkages that are novel.

FNB has been recognised as the most innovative bank in the world, not because of their exploitative activities, but because of the unique and radical innovations that they have introduced, and the next section will discuss how they developed the competencies to achieve that. But to answer how a firm balances exploitation with exploration, the simple answer is, you don't. There is however a requirement to position the firm to look out for opportunities and to be ready to take advantage of those opportunities when they present themselves. In the case of FNB, by

involving all employees in the search for new opportunities and distant knowledge and by having the basics in place, they were able to innovate beyond their own knowledge domain. Simply put, but not simply achieved, this means that their innovation programme has weighed heavily to exploitative activities that has freed up business unit and firm resources but has been flexible enough to encourage employees to look beyond the bank today.

Exploitation generates the resources for exploration as found by Calantone (2007); exploitation ensures that the basics of the business are functioning optimally and allows business to release resources, that would usually crisis manage or continuously develop/manage internal processes, to work on more value adding activities. This is not however a short or easy journey; FNB has implemented more than 5,000 exploitative projects in the last 8 years alone. And they continue to exploit opportunities as new competencies and technologies provide resources and assets to further enhance the existing business.

Expanding the search terrain and limiting the impact of bounded rationality is critical to the innovation process. Through their campaign driven Innovators programme, FNB has been able to generate in excess of 10,000 ideas in one year. While only a little more than 10% of these are actually implemented, the number of ideas reflects the amount of terrain that is covered through their inclusion of all staff. Achieving a diversity of actors in the process widens the possibilities for both exploitative and explorative ideas, as Raj Mankjee put it; let the people do cool things. Being able to use 10% of all ideas generated is not a bad result either; by focussing the search terrain through a loose vision and purpose, supported by flexibility in strategy, firms are able to gain valuable insights from their employees that fit with the strategic direction or competencies of the bank.

6.2. Developing and adapting competencies to explore

6.2.1. Introduction

Limited academic research is available on how competencies are developed; the work of Burgelman (1994) used 'ecology' as the lens through which he viewed the development of competencies whereas, Pisano et. al. (1997) used the dynamic capabilities view and considered that capabilities are shaped by paths, position and processes. This research will utilise the views of Pisano et. al. (1997).

Placing Burgelman's study into context is critical in this decision; Burgelman's study of Intel and the development of the intra-organisational ecology view occurred when Intel found themselves defeated in the semi-conductor industry. Intel could easily have been locked-in to a strategy due to their reliance on the semi-conductor product; instead, middle management shifted the business into the microprocessor business over time. The Intel story and Burgelman's study relates well to underperforming businesses that find themselves intrinsically linked to a failing product line and the consequent ability to exist that business using core competencies to shift the business to a more suitable and profitable market.

FNB's strategic shift to competitive advantage based on innovation and technology is not based on the need for the bank to substantially change their core products or services. Their view is one of creating a value adding ecology of service for their customers that will drive differentiation and competitiveness. FNB is the third largest bank in South Africa and they are clear that banking remains their primary market. As such, Pisano et. al.'s (1997) view of dynamic capabilities is more suited to the FNB story, allowing the researcher to break the development of competencies down by using paths, position and processes as the guiding lens.

6.2.2. Path

Hamel & Prahalad (1990) state that firms need to make a decisive choice about the core competencies that they want to develop. Pisano et al. (1997) term this as selecting the “path”, that is to determine the strategic alternatives available to the firm, the presence or absence of increasing returns and related dependencies, so that a choice can be made about what competencies to develop. These are higher order abilities that entail reviewing the trends in the market, determining the alternatives available to the firm and then possessing the strategic agility required to make the change.

FNB’s strategic intent to differentiate based on innovation and technology based products and services were as a result of such a process. Identifying the two core issues banks were facing, FNB was able to decide on a path that they would be able to compete on and that would differentiate them in the market. Reviewing that new account growth had slowed and that the opportunity for non-banked customers was growing smaller, the bank identified the need to be able to switch a customer from a competitor. The ability to switch lay in two core requirements; first, for customers to switch they needed a differentiated and superior value proposition, and secondly, they required a process that made switching less cumbersome for the customer. An improved value proposition would also ensure retention of existing customers.

On reviewing the basis for differentiation, FNB considered the banking channels available to customers. With the smallest footprint of their three biggest competitors, the bank chose to differentiate their services based on mobile banking channels. These channels were more cost effective for both the bank and the customer which fit well with the banks philosophy of being the cheapest bank in South Africa and offered the opportunity for more margin absorption if they could change the customer’s behaviour towards these channels. By

consequence, the choice to differentiate on mobile channels required competencies that relate to technology.

Both of these choices required innovation; to make switching less cumbersome, exploitation of existing processes and technology was required, and to enhance their value proposition they required radical innovation. Over time, FNB's strategic agility led to the deliberate incentivisation of customers to use mobile channels and the subsequent development of the "customer ecosystem" strategy.

By defining their strategic path and basis for competitiveness, FNB purposefully set into motion the renewal of their competencies based on the changing business environment and the competitive landscape. Calantone (2007) wrote that the path to industry leadership is to have an independent view of the opportunities that exist and then to set out to exploit those opportunities. Clearly, the starting point must be to intelligently choose a path and in so doing, chose the competencies that need to be developed.

6.2.3. Positions

Positions refer to firm specific assets and include technology, complementaries, capital, structure and so forth. The firms position should support the achievement of the strategic path and in so doing help achieve development of the competencies required to execute on that strategy path.

Banks are traditionally well endowed with capital and invest heavily in assets that support the business trajectory. In the case of FNB and its chosen path, technology plays a crucial role. The bank identified that their core IT systems gave them a competitive advantage over other banks in that the systems were stable and already integrated across the business, while other banks are trying to consolidate their legacy systems today still. Their choice to pursue mobile

banking channels versus brick and mortar channels also ensured that capital is directed to technology rather than building new branches or expanding their ATM networks.

The technology position did not only help accelerate innovation in the bank but also set the foundation for the customer eco-system philosophy. The FNB Connect product, introduced in 2009, was implemented as a result of two findings, the first being that customers spent a large proportion of their discretionary spend on voice and data and secondly, that the banks IT infrastructure and data was not being optimally utilised outside of office hours. This position was enhanced by the bank obtaining an Electronic Communication Services and an Electronic Network Systems license that enabled them to offer data services to their customers. In the case of the banks IT infrastructure, they used their assets in a novel way to add value to the customer which kicked off the ecology strategy.

FNB's value adding services, such as data services and smart devices, do not generate revenue for the business. Their strategy is to extract value for customers utilising their resources and assets and to pass those benefits on to the customer, thereby creating more value for customers to bank with FNB. This thinking is in line with their strategy of creating a superior value proposition and is aligned to the strategic path selection.

This thinking was further expanded on with the Smart Device offering; by not charging customers interest on the devices they purchase and by passing on the full discount benefit to the customer, FNB is utilising its capital strength to support the value proposition development and the strategy of moving customers over to mobile banking channels. This is an excellent example of using a firm's position to drive the strategic direction of the firm and to aid in the development of other competencies (in this case, competencies related to retail).

Despite criticism that the small size of the business units layered additional costs for the bank, FNB maintained the structure with the view of isolating underperforming units and freeing up resources in others to work on value adding activities. Over time, this structure has paid dividends and is considered one of the key drivers in their ability to innovate.

To drive the Innovators programme into the fabric of the organisation, significant rewards are offered for winning implemented innovations. In 2011 the bank paid out a total of R9m in rewards. This is a significant allocation of funds to the programme and is made possible by their profit and cash position.

6.2.4. Processes

Processes create value for the organisation by manipulating resources into new value adding activities. Pisano et. al (1997) define processes in terms of the way things are done at the firm and include routines, current practises and learning. These processes are embedded in the organisation and are influenced by many factors. Processes have three key functions according to Pisano et. al (1997); to co-ordinate and integrate, to learn and to reconfigure resources.

These processes are considered lower order abilities and are what drive actual implementation of innovation. The overarching mechanism in FNB is the Innovators programme which is strongly supported by the values and culture that one finds at the bank. A lot of a firm's culture is unwritten, but to truly instil a new element to the culture, it must be stated with intent and driven down through strategic management practises; FNB's values specifically include innovation and accountability and both represents the cornerstone of their value proposition. While this research has excluded the contribution of leadership to the success of innovation at FNB, it must be mentioned that the role of leadership in driving this culture and ultimately the innovations themselves is critical, as has been the case at FNB.

The role of the Innovators programme is to create excitement and involvement in the innovative processes at FNB. While the philosophy of how ideas are generated remaining unstructured, the programme itself is very structured in how implementation is supported and achieved. From the role of business unit Innovation Champions to the requirement of innovations needing to be implemented, the programme is ultimately designed to drive execution in the organisation.

Coordination starts at business unit level with Champions reviewing all ideas submitted but is rolled up through the year to firm level. With a single online portal for all innovations to be captured on and the classification of innovations standardised, FNB is coordinating the ideas and at the same time they are collecting valuable knowledge. With the programme embedded in the business unit and the autonomy within the structure, decisions are quickly taken and integration at business unit levels happens almost naturally, removing the burden of the “not invented here” syndrome. The loose strategic vision and high level strategic objectives that are applicable to all business units in the bank allow for quick acceptance of ideas that supports the achievement of these objectives.

Resource allocation decisions are taken at business unit level with the acceptance of ideas at that level in the organisation. The bank considers a longer term perspective to resource allocations, primarily driven by the nature of their strategic objective of switching new customers and retaining existing (pay back is viewed over the potential customer life cycle with the bank). An example of this longer term view is the commitment of R300m to the Smart Device offering with zero returns on the device itself.

The culture of execution is supported by a higher propensity to risk than one would expect to find at a bank, but the business case model that is used to support ideas, and the role of the champion and business leaders in refining

these business cases, serve as a risk model built into the process. The owner-manager culture pushes business case and resource allocation decisions into the ranks of the organisation, and with full end-to-end P&L ownerships and the 'reward for performance' principle, the culture supports a responsible response to matters of risk. Risk is viewed as a judgemental process at FNB and leaders are given sufficient room to make decisions. This empowerment is supported by the unspoken learning culture of allowing people to make mistakes. With innovations that move through the hierarchical process, business cases are rarely questioned, further instilling the culture of accountability into the business units.

The Innovators programme allows for expanded learning for the organisation through involving all employees in the search process. This 360degree view of opportunities allows the bank to learn from other markets and industries and then apply and integrate those learning's into their own business model (as was the case with Smart Devices). The bank learns through analysis of customer data, such as the buying behaviours on their accounts. Partnering with external service providers is encouraged where core competencies are not housed within the bank, preferring to link to others value and supply chains that enhance the value of their offerings (such as with the use of Incredible Connection on the Connect product).

The bank has however developed additional competencies internally versus outsourcing them, an example is the FNB Connect team that have IT development capabilities and who developed the FNB app internally. By decoupling FNB Connect from existing product lines, the bank created the opportunity for this team to develop competencies applicable to their specialised needs rather than competing against established product lines for resources; this move remains in line with their move to more granular business units that can be viewed independently of one another.

6.2.5. Competitive advantage

Pisano et al. (1997) state that dynamic capabilities reflect the firm's ability to achieve new and innovative ways of achieving competitive advantage and that this competitive advantage lies in the routines of the firm (Pisano et al., 1997). Applying this to the drivers of dynamic capabilities as discussed above, competitive advantage therefore sits in the processes; any bank could choose the path that FNB did and all banks have many of the assets that FNB possess (bar perhaps the technology assets), but yet FNB has been able to disrupt the market with radical innovations that the other banks have not been able to.

There is without a doubt unseen processes at FNB that help drive their competitive advantage, but none more so that their ability to identify an opportunity, to integrate the idea into their business model and then most importantly, to execute. Eisenhardt & Martin (2000) wrote that competitive advantage lies in using the firm's capabilities sooner than their competitors, that is, gaining the first mover advantage. It then follows that execution should be efficient, something that FNB considers a valuable capability themselves.

To be the most innovative bank, time to market is critical; you can not be innovative if you are merely replicating other competitor's ideas. This vision therefore drives what they call their "bent towards action" and their propensity for more risk. The most important competency that they have developed must be their ability to assimilate new knowledge and execute on their learning's quickly. This is however not achieved with a dysfunctional business; coming back to Raj Mankanjee's finding that innovation is directly correlated to having the basics right at FNB.

As discussed above, FNB has spent many years and expended many resources in exploiting their existing opportunities, fixing the basics over the last 8 years. Driven by their objective to be positioned to switch customers over, the bank has set a foundation for themselves that allows them to assimilate, integrate and

execute timeously. This is driven by their Innovators programme, in its design and requirement for implementation, but most importantly by their routines and culture as discussed above that have been developed over the years. Viewed differently, the rate of radical innovations has increased year on year, from two in 2009, one in 2011, to three in 2012; innovation leads to innovation, it's a cycle of success and failure that develops explorative capabilities (Garud et al., 2011). The capability to explore is path dependent on the ability to exploit.

Consider the power of the “customer eco-system” model that builds innovation upon innovation. Not only does this model drive collaboration in the bank, but it drives the building of innovation on top of already deployed innovations (first FNB connect, then the FNB app and the logical next step would be to give customers a device). Again, this is supported by the loose strategic direction of the bank, but by building on the “customer eco-system” the bank maintains consistency in their innovations and congruence with their upstream processes and competencies.

Wernerfelt (1984) and Barney (1991) write that the first mover advantage creates resource barriers by giving new insights into other opportunities and other associated benefits such as goodwill with customers and a positive reputation. Looking at all the recognition that FNB has received over the last two years and their recent customer growth, this clearly supports Wernerfelt and Barney's findings in terms of other associated benefits. But the resource barrier is not created by the new insights gained, but rather, as Pisano et al. (1997) found, in the routines and processes that lay upstream and which are unseen and difficult to replicate.

6.2.6. Conclusion

D'Aveni (1991) found that strategic supremacy lays in a firm's ability to create the rules of the game and to control the evolution of the market. FNB's stated intention is to introduce continuous and game changing innovations of products

and services that not only disrupt the banking sector, but as shown, will disrupt other sectors in order to add value to their core banking products for their customers. These are bold moves, as mentioned by many of the FNB leadership team in press releases, but this boldness is not without preparatory work.

Pisano et al. (1997) write that competencies need to be developed; the first step must however be to identify the strategic path and then to align all assets and resources to achieve that strategic path. By identifying the competitive gap, FNB has been able to utilise its time and resources on developing competencies that will truly help them gain competitive advantage over the long run, rather than just competing on the same dimensions as their competitors (short run advantages).

Calantone (2007) found that the capability to explore will be developed as new knowledge is acquired. The capability to explore, as found with FNB, is developed by building upon exploitative capabilities that allows the firm to hone specific competencies that in turn will support explorative innovations. FNB's Innovators programme continues to weigh heavily to exploitation, but what is evident from their recent performance is that the number of radical innovations is edging up as they fix their basics and develop the competencies to utilise new knowledge, to assimilate it and to timeously execute on their new learning's. This finding is line with the literature that states that the capability to explore is path dependent on the capability to explore.

Burgelman (1994) and Garud et al. (2011) found at both Intel and 3M that rules and routines that are consistent with exploration, that encourages the culture of exploration and which aid in the selection processes of alternatives is critical to the development of explorative capabilities. This holds true at FNB as well; innovation and accountability as values are upheld in all aspects of the bank, from their structures to their culture and it is all supported by a comprehensive Innovators programme. By defining rewards for innovations the bank drives the innovative behaviour into the culture of bank, supported by strong leadership

involvement in the programme (Michael Jordaan allocating three to five days to adjudicate for the awards). The selection criteria is defined by the categories of innovations as described in the Innovators programme and the adjudication criteria is clear and concise, ensuring consistency across the various business units. Meeting these functional requirements for exploration drives knowledge diversity through involving all organisational role-players. FNB's Innovators programme has achieved this consistency with explorative requirements through their campaign driven approach to innovation in the bank.

Having the functional basics right is critical to the ability to explore. From freeing up resources to ensuring that new ideas can be integrated with an already working process ensures that innovation cycles are achieved, whether a failure or success, the learning's add to the pool of knowledge that is assimilated and used in some way by the firm. Exploration naturally introduces higher levels of risk, and risk adverse organisation will find it difficult to implement radical innovations, essentially frustrating the innovation culture. The culture and strategic management practises of an organisation can inculcate a sense of accountability that in itself can mitigate risk. Trust and empowerment are critical to achieving this as is the acceptance that mistakes lead to learning's that can propel the organisation forward along the explorative journey.

6.3. Learning mechanisms that support the search and use of new knowledge

6.3.1. Introduction

Eisenhardt & Martin (2000) state that learning mechanisms guide the evolution of dynamic capabilities and that innovation itself is a knowledge management process of identifying and utilising ideas, tools and opportunities and then applying them to commercial ends. Learning is however limited by bounded rationality and the purpose of learning mechanisms should be to help

organisations deal with their cognitive limitations by allowing them to learn quickly and thereby compensating for their limited knowledge.

6.3.2. The “unspoken philosophy” of mistake making

While all interviewees referred to the acceptance of mistake making at FNB, as long as it was neither a stupid mistake nor a repeated one, Raj Makanjee referred to this as an “unspoken philosophy”. There is an acceptance that the bank and its employees do not possess all the competencies required to execute projects flawlessly all the time and this acceptance seems to be further driven by the banks bent towards action and quick execution when new opportunities arise.

Considering the implementation of the Smart Device offering within five days of approval from Exco One, without any finalised processes or third party services confirmed, the inference that is drawn is that the learning mechanism of trial by error (or mistake making) is readily accepted by the senior leadership of the bank, even with significant commitment to resources. A large amount of work had been completed with regards to the actual product offering, the devices and the overall business case; with the overall model accepted, the team were trusted with implementing the processes while rolling out the product itself. It should be noted that Kartik Mistry remained to lead the Smart Device offering, and therefore the selection of the resource may dictate the level of non-financial risk the bank may accept.

Learning mechanisms should help organisation learn quickly, and no more greater learning's are experienced than when the process is implemented. Utilising process information and customer complaints, the Smart Device team utilised the “war room” tool to identify, root cause and fix process problems.

Projects at FNB, including the Smart Device offering and other organisational change projects, do not utilise any text book change methodologies and neither

are there stock standard process improvement methodologies used (such as lean, six sigma, total quality). This 'just do it' culture furthers the entrepreneurial culture that exists at FNB. Recognising that the entrepreneurial culture helps retain key talent within the organisation, there is call to talent to use their entrepreneurial skills and use the confines of the FNB structure "that allows for capital and risk taking" but which comes with accountability for ones actions. This model requires maturity from business leaders.

6.3.3. Natural collaboration

Garud et al. (1990) found that sufficient knowledge overlap will aid communication and collaboration across between actors that will aid in forming novel linkages and associations. There is no formal collaborative approach at FNB, but has rather been described as on a case by case basis and is dependent on the benefit the collaborator will gain from the collaboration.

There is however clear evidence of collaboration in many of the radical innovations that the bank has implemented; Smart Devices collaborated with both FNB Connect and FNB Cellphone banking is development and implementation of the offering; Kartik Mistry described it as "... they saw a great thing and joined us". This collaboration clearly had benefits for all parties involved (FNB Connect to make data and their app available to customers and FNB Cellphone banking could drive online banking); what drives this "natural collaboration" seems to be the "customer eco-system" approach at FNB which builds innovation upon innovation and as a natural consequence, all parties in the bank playing in this space, have something to gain from adding additional value to this eco-system.

6.3.4. All the eggs in a couple of baskets?

Other, more formal, learning mechanisms were not found at FNB. There is recognition that more subtle knowledge may be sitting in the minds of key talent across the organisation and therefore emphasis is placed on identifying and retaining key talent within the bank. The retention approach is informal, but the bank does endeavour to uphold the values and working environment that would retain such employees, such as the entrepreneurial culture that they support and want to exist.

The collection of ideas on the innovation portal does represent an opportunity to deal with the temporality issue of ideas that are not possible to implement or relevant at the given time and is a method to collect both local and distant knowledge. With 10,000 ideas in one year, this portal represents a critical knowledge accumulation tool, which may at the current time not be utilised to its full exploitative potential.

6.3.5. Conclusion

Viewing mistake making as key learning's for the bank, FNB has instilled a culture of calculated risk taking that is critical to the explorative process. This culture of risk taking, 'just do it' and learn through doing, brings strong experimental wisdom to the bank, that when combined with cognitive abilities, will further enhance the banks' ability to explore.

While no formal learning mechanisms are evident at FNB, the bank has done exceptionally well in accumulating knowledge through their Innovators programme, identifying its relevance and usefulness to the banks current requirements and then executing on relevant opportunities. With more than 10% of all ideas implemented, the bank does not need to look around for more projects to implement. The caveat to this limited formalisation of learning

mechanisms is that tacit knowledge could easily be lost to the business as talent moves on to greener pastures.

The evolution of learning mechanisms at FNB that has enabled it to effectively explore lays squarely in the entrepreneurial culture that they have developed to retain key staff. Entrepreneurship, risk-taking, flexibility and creativity are preserved and valued as an important part our culture, with new hires requiring evidence of execution and the ability to make a decision (otherwise referred to as risk takers). The risks associated with this entrepreneurial culture and empowerment that one finds in the ranks at FNB is essentially managed by their owner-manager management style and the approval or rejection of innovations at business level which itself drives accountability. This is why one finds that business cases are rarely challenged when presented to Exco One.

6.4. Conclusion

A previously stated, the intention of this research is to expand on the existing theory of how competencies are developed and more specifically the competencies related to exploration. This research is conducted in the hope that one day there will be a sufficient number of case studies for further comparison and analysis that will aid both academics and business leaders to identify the key requirements and steps for developing competencies. This case study specifically considers how competencies were developed to explore at one South African business and while this single case study approach is recognised as an appropriate research methodology to study a real life event, extrapolation outside of this single case is not necessary possible.

The research questions were designed to drive the research and to aid in the narrowing of a vast amount of quantitative data that could have been collected on the topics of competencies and innovation alone. The focus on an ambidextrous

organisation, how the competency to explore is developed and learning mechanisms was deliberate. It is the view of the researcher that these research questions have been answered with an appropriate amount of depth considering the time constraints associated with an MBA research.

Chapter 7: Conclusion

7.1. Main findings from research

The following represents the main findings of this research:

- i. The firm must as a first step choose their strategic path by considering trends and alternatives based on achieving competitive advantage.
- ii. Assets and resources must then be aligned to this path. Consider how assets can be complemented to further enhance the value they add to the strategic path.
- iii. The firms stated intention, objectives, vision and values must be aligned to the strategic path chosen. This helps embed it in the culture.
- iv. Being able to simultaneously exploit and explore is not a function of balancing the two forms of innovation, but is rather a function of being positioned to execute on explorative ideas when the opportunity arises. The ability to exploit is foundational to the ability to explore. Exploitation allows the firm to ensure that “the basics” are right upon which the explorative idea will be built. By aggressively exploiting, the firm will free up critical resources to effectively explore. It is therefore likely that the firm will have more exploitative projects as compared to explorative projects, and it may take a few years before the competency to exploit is sufficiently developed to truly free up resources to explore.
- v. Having “the basics” right speed the time to market of explorative innovations.
- vi. This research confirms the findings of both Burgelman (1994) and Garud et al. (2011) that rules and routines that are consistent with exploration, that encourages the culture of exploration and which aid in the selection processes of alternatives is critical to the development of explorative capabilities.
- vii. There are benefits to innovation associated to having small business units, especially if each business unit has full end-to-end P&L responsibility.

Small business units allow the firm to identify underperforming business units and to isolate such business units so that they do not absorb performing business unit resources. Performing business units will then have available resources to allocate to more value adding activities, such as implementing explorative ideas. End-to end P&L responsibilities drives accountability into the ranks by being able to identify the impact of initiatives more immediately.

- viii. Small business units combined with autonomy at business unit level speeds up decision making, aids in managing risk and drives resource allocation appropriate to the project benefits. It can also facilitate long term thinking when driven by carefully selected high level strategic objectives.
- ix. You do require some degree of fit or congruence of the radical innovation to the current competencies and processes of the firm if existing resources are to implement these innovations.
- x. The deployed IT model facilitates innovation at the business unit level and speeds up time to market.
- xi. Flexibility in strategy is required to be really positioned to take advantage of opportunities when they arise. Flexibility in strategy can be achieved by having an overarching guiding vision and a few loose (yet focused on the path selected by the firm) objectives that will not unnecessarily limit the search terrain for innovative ideas and novel linkages.
- xii. The contribution of many outweigh the contribution of a few. An innovation programme that encourages all employees to participate in idea generation and which drives participation through appropriately scales rewards will increase the search terrain for new opportunities and novel ideas. Rewarding different types and levels of ideas encourages cross-boundary idea generation.
- xiii. If you want to explore, you must be prepared to accept more risk. Empowerment, accountability and a culture of entrepreneurship will drive natural risk management into the organisation.

- xiv. You will not possess all the competencies required to execute an explorative project flawlessly. Learning mechanisms are important; trial by error as a learning mechanism works if the explorative project is congruent to some degree with your existing competencies and processes.
- xv. Partnering or alliancing with third parties that have the competencies required to execute on the exploration enables quick learning of new competencies and bridges the gap for execution of explorative project.
- xvi. You do not need process improvement methodologies or change management methodologies to effectively exploit and explore. These may increase time to market. Manage exploitation and exploration projects on a business case basis.
- xvii. Decouple successful innovations from the business unit in which it was developed. This aids the new business unit to develop competencies specific to that innovation further without having to compete for resources with another business unit. Building new competencies supports further explorative activities.
- xviii. Competitive advantage sits upstream in the hard to see processes and routines of the firm.
- xix. The ability to be first to market is itself a competency that requires development – the ability to assimilate new knowledge and apply it to commercial means needs to be learnt.
- xx. Creating a firm “eco-system” approach to exploration ensures that new innovations build on existing innovations which aids in ensuring congruence with upstream processes and it drives collaboration across business units.
- xxi. Disrupting the market may mean disrupting multiple markets as novel linkages are made with distant market products or services.

7.2. Recommendations to stakeholders and managerial implications

The ability to simultaneously exploit and explore is a capability that takes years to achieve. Realising that competencies are developed and not bought,

stakeholders should apply sufficient time to critically think about the competencies they want to develop. Changing course is not as easy as pulling a strategy presentation together. The commitment of time and company resources to the development of competencies is significant. For firms that have not intelligently selected their path, the time to start is now.

Research to date, including this research, highlight that the capability to successfully explore can not be pinpointed down to one or two key steps that a firm can take. It is the combination of hard and soft assets that coalesce through a focused drive to achieve the sought after competency that creates the ideal environment in which exploration can flourish. This does not mean that a firm can not take an explorative idea and simply just implement it, but what this does say is that for sustained explorative activities, and in return possible sustained competitive advantage, the approach is not top-down one. Flexibility in strategy is vital to the explorative process.

Dealing with bounded rationality and bounded innovation syndrome is critical to the search process and ultimately the breadth of opportunities available to the firm. The ideas of many are far more reaching than the ideas of a few. Programmes that include all employees and which properly reward the right behaviour are more probable to generate vast amounts of ideas.

7.3. Recommendations for future research

The contribution of leadership to developing the competencies to explore has been excluded from the scope of this research. Leadership in its own right is a vast field in academia and additional research is required to fill the gap. The role of leadership has been highlighted through this research process on multiple occasions.

There was an expectation that more formalised learning mechanisms would be found at FNB, this was however not the case. Further research on how trial and

error relates to specific learning outcomes that can then be utilised in the organisation is required. This research was unable to identify how these learning's are translated across business units, if this happens at all.

Additional empirical research is required to determine the correlation of competitive advantage and sustained competitive advantage with radical innovations. Research available today supports the notion that superior performance is expected from ambidextrous organisations, but empirical studies are required to confirm this proposition.

FNB's eco-system approach to innovation facilitates natural collaboration across business units. Research on how effective collaboration is achieved, either mechanically or naturally, can be expanded on.

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Appendices

Appendices 1: First Rand Bank market statistics and key ratios 2006-2011

Table: Stock Market Indicators

	2006	2007	2008	2009	2010	April 20 2012
Market Capitalisation ZAR	125,077.48	111,305.47	90,827.24	103,399.85	109,996.24	116,930.91
Market Capitalisation US\$	17,899.15	16,221.74	9,649.13	14,010.82	16,699.24	14,480.43
Share Price ZAR	1,729.33	1,645.55	1,342.27	1,528.07	1,883.36	2,074.00
Share Price US\$	2.47	2.40	1.43	2.07	2.86	2.57
Share Price, % change (eop)	9.13	-3.09	-40.54	45.20	38.09	-10.17
Change, year-to-date						2.77
Shares Outstanding (mn)	5,184.43	5,171.05	5,180.88	5,637.94	5,637.94	5,448.92

Source: FirstRand, Bloomberg

Table: Balance Sheet (ZARmn)

	2006	2007	2008	2009	2010	2011
Total Assets	579,787.00	721,559.00	823,944.00	809,851.00	845,240.00	697,927.00
Loans & Mortgages	297,122.00	387,020.00	446,286.00	416,488.00	434,793.00	464,593.00
Total Deposits	309,304.00	421,568.00	488,423.00	478,083.00	512,469.00	553,657.00
Total Shareholders' Equity	39,504.00	47,220.00	51,066.00	52,097.00	58,963.00	64,219.00
Earnings per share (ZAR)	1.72	2.23	2.18	1.25	1.80	3.73

Source: FirstRand, Bloomberg

Table: Balance Sheet (US\$mn)

	2006	2007	2008	2009	2010	2011
Total Assets	80,930.63	102,221.20	105,369.07	104,564.36	110,426.82	103,240.58
Loans & Mortgages	41,474.32	54,828.02	57,072.74	53,775.08	56,803.76	68,724.74
Total Deposits	43,174.76	59,722.33	62,461.38	61,727.95	66,951.78	81,899.50
Total Shareholders' Equity	5,514.24	6,689.52	6,530.51	6,726.53	7,703.25	9,499.57
Earnings per share (US\$)	0.27	0.31	0.30	0.14	0.24	0.53

Source: FirstRand, Bloomberg

Table: Key Ratios (%)

	2006	2007	2008	2009	2010	2011
Return on Assets	1.75	1.82	1.52	0.85	1.18	
Return on Equities	30.88	33.39	28.17	15.54	20.20	37.69
Loan Deposit Ratio		91.80	91.37	87.12	84.84	85.36
Loan Asset Ratio		53.64	54.16	51.43	51.44	67.72
Equity Asset Ratio	5.52	5.41	5.36	5.62	6.08	8.11
Total Risk Based Capital Ratio	12.80		13.75	11.70	13.50	16.50
Tier 1 Capital Ratio	9.00		11.13	12.30	13.50	15.00

Source: FirstRand Bloomberg

Appendices 2: First National Bank (South Africa and Africa) financial performance 2011/2012

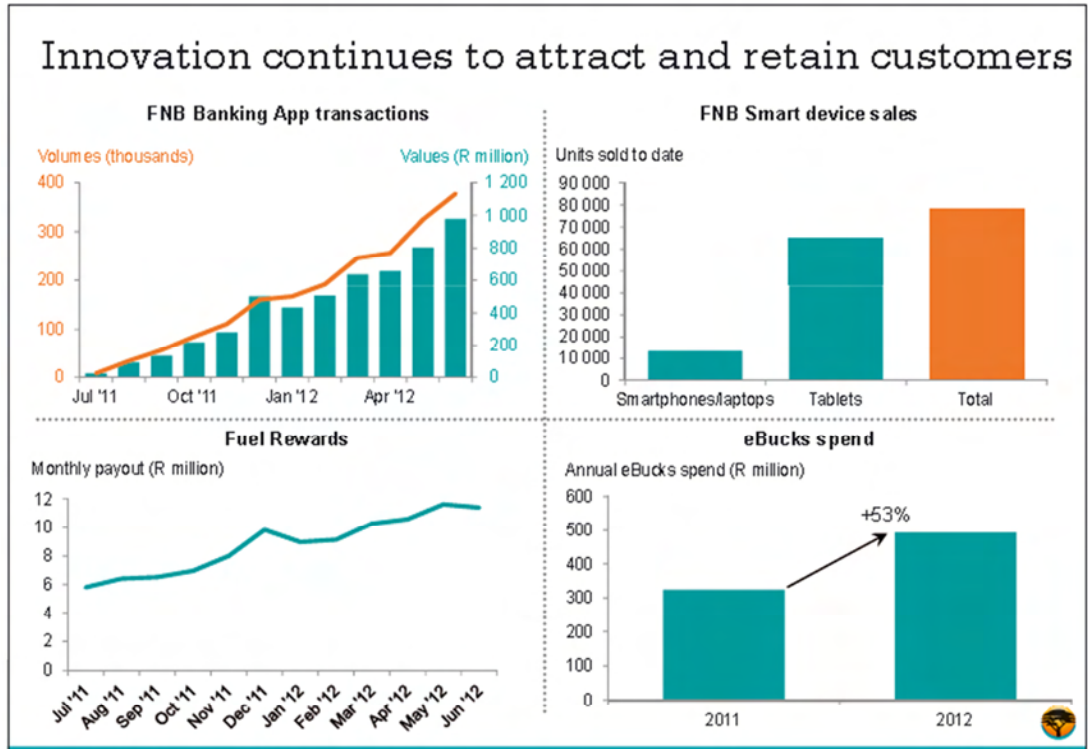
Financial performance

R million	FNB South Africa			FNB Africa		
	Year ended 30 June		% change	Year ended 30 June		% change
	2012	2011		2012	2011	
Net interest income	11 072	9 276	19	2 132	1 821	17
Non-interest revenue	14 742	12 889	14	1 476	1 340	10
Operating expenses	(14 429)	(12 963)	11	(2 061)	(1 719)	20
Income before indirect tax	8 675	6 876	26	1 432	1 385	3
Indirect tax	(382)	(347)	10	(47)	(35)	34
Income before direct tax	8 293	6 529	27	1 385	1 350	3
Normalised earnings	6 157	4 787	29	516	540	(4)
Advances	220 638	206 183	7	25 420	22 639	12
Total deposits	216 136	181 809	19	33 403	28 166	19
Assets under management	42 567	44 005	(3)	1 967	1 540	28
Assets under advice	28 297	14 521	95	-	-	
Assets under execution	35 864	30 546	17	-	-	
NPLs (%)	5.26	6.42		1.37	1.63	
ROE* (%)	38.7	34.9		16.2	19.6	

* Based on normalised earnings.

Source: FirstRand Bank FSR analysis of financial results – June 2012

Appendices 3: Slide from 2012 FSR results presentation – Innovation continues to attract and retain customers (FNB)



Source: FirstRand Bank FSR results presentation – June 2012

Appendices 4: Interview consent form

Consent Form #: _____

Date & Time of Interview: _____

Dear _____,

RE: INFORMED CONSENT TO CONDUCT INTERVIEW AND USE INFORMATION OBTAINED THROUGH INTERVIEW PROCESS

My name is Theunis Kotze and I am a final year MBA student at the Gordon Institute of Business Science (GIBS). As part of the requirement for the completion of my studies, I am required to conduct research on an academic subject. First National Bank (FNB) has been kind enough to permit me to conduct a case study on FNB. My research will be focusing on how competencies are developed to innovate through exploration; more specifically, my study at FNB will focus on the smart device offering.

The study will be backward looking at how FNB engaged in the idea of supplying smart devices, how it designed and implemented the strategy and most importantly, what allowed FNB do this successfully.

Our interview is expected to last between one and two hours and will help us ascertain the key driver of FNB's successful new product.

Your participation is voluntary and you can withdraw at any time without penalty. Of course, all data will be kept confidential. Please tick the boxes below if you agree to the following aspect of the interview and the use of the information:

- I agree to conduct the interview with Theunis Kotze on the research topic as described above
- I agree that the interview may be tape recorded, a copy of which will be electronically stored by myself in compliance with University requirements
- I agree that my name may be used in the case study (no agreement means that names will be omitted from the research outcome)

If you have any concerns, please contact either myself or my supervisor. Our details are provided:

Theunis Kotze (Researcher)
tkotze@adt.co.za
073 235 2834

Dr. Raj Raina (Supervisor)
rainar@gibs.co.za
073 777 4649

Signature of participant: _____

Date: _____

Signature of researcher: _____

Date: _____

Appendices 5: Interview guide - general

RESEARCHER INTERVIEW GUIDE

Research: How competencies are develop that enable exploration: a case study of FNB

Researcher: Theunis Kotze (GIBS 98150759)

Respondent Name / Interview Identifier:	
Designation at FNB:	
Date of interview:	
Time of interview:	
Recording (if consented to) reference:	
Consent Form:	
Approval to record	Y N
Approval to utilise name in research	Y N
Consent form signed	Y N

Tick if construct is applicable to respondent

HR / Manager	<input type="checkbox"/>
HR / Employee	<input type="checkbox"/>
Resource Allocation	<input type="checkbox"/>
Culture	<input type="checkbox"/>
Org Size	<input type="checkbox"/>
Ambidextrous / Spin-off's	<input type="checkbox"/>
Collaboration / Association	<input type="checkbox"/>
External	<input type="checkbox"/>
Marketing	<input type="checkbox"/>
Knowledge Management	<input type="checkbox"/>

If construct is applicable to respondent, utilise items related to construct to lead conversation. Ensure that learning's from phases 2 and 3 are incorporated into construct discussion.

Utilise opportunity to confirm and expand on learning's from phases 2 and 3. Lead interview to uncover root causes.

Appendices 6: Interview guide – Raj Makanjee, CEO Wealth

Semi-structured interview questions: Mr. Raj Makanjee

1. FNB has developed and launched a multitude of technology based products, all in line with your stated strategy and values. When and how did the strategic intent to become the leader in innovative banking come about and what other paths were considered (and discarded)?
2. Which competencies were required to deliver on this strategy and how did the bank go about identifying and building them?
3. FNB's Innovation Programme is a phenomenal success – I know that this has been a long journey since 2004 to get the programme where it is. What were some of the challenges, from an Executive point of view, and how did FNB go about driving the culture of innovation into the organisation?
4. What underlying strategic management practises has driven the entrepreneurial/innovation and action orientated culture that one finds at FNB?
5. If one considers Smart Devices, the decision to implement when the proposal was presented to Exco One, happened the same day with the first launch in just over weeks' time from that meeting. The investment required for this project, although actual demand was unknown at that time, was very large and there was no company to benchmark against in terms of what you could have expected from the offering. From an Executive point of view, how is it that such decision can be taken in the same meeting, what dynamics exists at Executive level that allows this to happens and how did they come about?
6. Michael said in a press statement last year that 'implemented innovations change the strategic direction of the bank..., the bottom up approach' – what are the decision criteria for innovations that make their way to Exco One (other than those stated in the innovation programme)?
7. Funding for innovations is done at business unit level – how are resources allocated/coordinated and integrated to deliver on innovations and with particular reference to funding, how are innovations budgeted for?
8. First mover advantage is clearly important to FNB, especially considering you stated strategic intent - how would you describe FNB's appetite for risk and has this evolved over the years based on prior learning's?
9. FNB can be described as an “ambidextrous” organisation, simultaneously exploiting existing opportunities and exploring for new ones – what competencies has the bank had to develop to be able to manage and implement both types of innovation?
10. Collaboration across business units has been described as “on a business case basis” – when you look at all the innovations that have come from FNB, and from different business units, one would think from an outside perspective that they were all master planned, but this is not the case – how is collaboration across business units achieved and considering that each CEO is accountable for their own P&L, how does the bank ensure that what is best for FNB overall is implemented (perhaps at the expense of another BU)?
11. The bank has developed a few key competencies over the years – how have the learning mechanism (such as trial by error) evolved and adapted over the last couple of years?
12. From your perspective, why does all of this happen at FNB and not at other banks?