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Imagination. *Innovation.*

How Deloitte embedded innovation in its DNA



Innovation is this
amazing intersection
between someone's
imagination and the
reality in which they live.

Deloitte acknowledges that this case study will also be published by the Australian Business Foundation in 2008.

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How Deloitte embedded innovation in its DNA

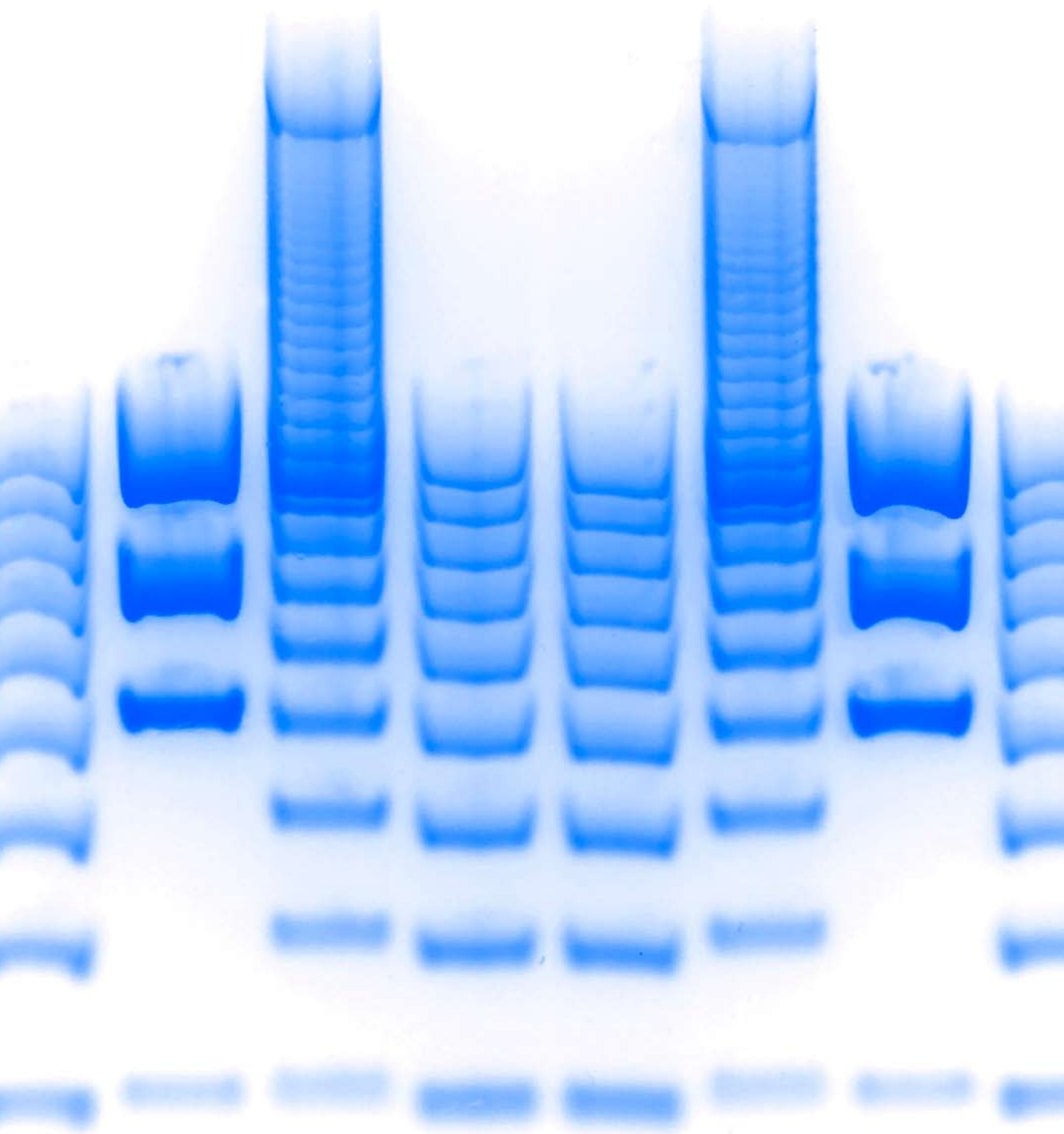
*Gerhard Vorster and Jenny Wilson

For an organisation to become truly innovative, it has to transform the way it is structured and organised in order to foster innovation at every level.

At the personal level, talented individuals need to be attracted to the organisation and given permission to be different. Teams need to be formed that tap into the power of 'tribal' communities and cut across hierarchies and business units. And at the highest organisational level, traditional relationships between customer, supplier and even competitor need to be redefined to facilitate the emergence of unique corporate capabilities. In this way, an organisation can embed innovation in its very DNA.



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Introduction

Weaving together the rich strands of many cultures, societies, intellects and behaviours to grow and work together to form a functional body takes a very special kind of alchemy – some call it magic. At Deloitte we call it innovation.

Deloitte's story is one of finding the courage to support intersections of corporate, team and personal DNA to cause a cultural shift internally. And then to build this collective intelligence and collaboration to create a paradigm shift in market demand.

In this paper we will illustrate the powerful impact of innovation by sharing three stories showing how the innovation 'gene' truly pushes the boundaries at Deloitte and creates the opportunity to achieve market exclusivity in service.

DNA [deoxyribonucleic acid] is often described as the blueprint of an organism because it enables various cells to develop and work together to form a functional body ...

(Biotechnology Australia website)

Personal DNA: unique talent and choice – why a physics genius chose Deloitte

This story captures the importance of understanding who an individual is, as opposed to what he they do. Giving an individual permission to be different enables an organisation to truly extract unique innovations. In a market where scarce talent has the privilege of choice, giving individuals permission to contribute becomes paramount to retaining the talent essential for sustained innovation.

Team DNA: re-shaping the institution

The rediscovery of the power of tribal communities in an organisation stimulates the culture for successful innovation. The power of combining individual intellect and talent across hierarchies and business units helps evolve, develop and accelerate innovations.

This story follows a journey from forensic accounting to SleepWorks™ to Deloitte Digital. Deloitte in Australia becomes adept at breaking down and reforming operating models. Transitioning from mere product and technology innovation through to true business model innovation requires a shift in financial, political and cultural modes of operation. By embracing the interactive world of change, or as Deloitte Digital Chief Peter Williams says, by leveraging it, we explore its infinite possibilities.

Corporate DNA: the organisation as a networked model

This is the story of what the accounting industry, a university, and an iconic Australian airline have in common; where innovation pushes the boundaries of the organisation and redefines the traditional relationships between customer, supplier and even competitor to facilitate the emergence of unique corporate capabilities.

Innovation is this amazing intersection between someone's imagination and the reality in which they live. The problem is, many companies don't have great imagination, and their view of reality tells them that it is impossible to do what they imagine. (Senior Vice- President, Retail Operations, Apple)

Personal DNA: unique talent and choice – why a physics genius chose Deloitte

The unfortunate reality for many organisations is that innovation often sits with individuals or in a single business unit as an isolated competency. It rarely evolves and develops into an organisational capability. Existing operating models often stifle an individual's movement and interactions across the organisation, tying a person to a prescribed role and responsibilities that pre-define their potential to contribute.

Why does this matter? Because it is the unique talent of individuals that enables an organisation to differentiate itself from its competitors, to harness the currency of its ideas and to be innovative.

Let us take Duc Ngo as an example. Duc's everyday job is as a software engineer in the Melbourne office of Eclipse, Deloitte's online strategy, design and development group.

Duc went to a primary school in Vietnam that specialised in advanced mathematics. He was the silver medallist in the International Physics Olympiad in his final high school year. Duc founded a technology company that pioneered text messaging on interactive TV as part of a university assignment, and co-developed a technology that takes pulses from the brain for computer gaming.



Recognising and then fostering this unique individual talent in Deloitte adds real value to the organisation. It leverages the currency of ideas. Organisations need to create an environment that fosters passionate entrepreneurship.

At Deloitte, Duc became famous for the innovative interactive SMS technology now marketed as J-Mango™. He now plays a critical role in furthering many of Deloitte's technology-based innovations.

So how does someone like Duc get attracted to Deloitte? Firstly, he was mentored prior to joining Deloitte by Peter Williams, then CEO of Eclipse and the present CEO of Deloitte Digital. Peter took a special interest in Duc because he could see Duc's unique talent. This mentoring led Duc to consider Deloitte as a place to work, and he joined Eclipse as an engineer.

But it was Deloitte's Innovation Program that enabled the firm to get to know and benefit from Duc's talents as an inventor. Duc had an idea and needed the infrastructure and support to build a prototype of an SMS-based technology. Duc and Deloitte, through the Innovation Program, were able to explore and develop J-Mango™. In this way the firm and the individual both benefited from a unique and special talent.

J-Mango™ sits on your mobile phone to enable you to send or respond to option-based messages. This means that you can tick the box for your favourite pop idol, fill out a marketing questionnaire, do your footy tips, complete a time sheet or pick the winning horse all within seconds.

Developing the functionality into a commercial application may have started with Duc the individual, but was moved forward by a team of equally talented individuals.

Today, Duc has a dual role: as a traditional employee within Eclipse and the role he plays across Deloitte through access to the accelerated program of work within Deloitte's Innovation Program.

The Innovation Program includes an online tool to capture ideas – the Innovation Zone – and a process for managing the innovation and growth of those ideas. Where appropriate ideas are converted into a business case and funded to take to market.

The Innovation Program provides support and development for employees to dream up new products and services to bring to market as well as to generate innovative ideas about how to improve internal processes and service delivery to clients.

This program enriches Duc's work and challenges him. In return it gives his ideas 'legs' and helps them grow. Duc teams with others across Deloitte to help develop new innovations that are technology-orientated and need his unique insight. As Duc's contributions develop Duc, they also enrich Deloitte and Deloitte's innovation DNA.

Recognising and then fostering this unique individual talent in Deloitte adds real value to the organisation. It leverages the currency of ideas, and in the words of the authors of the book *Funky Business*, Jonas Ridderstrale and Kjell Nordström: 'Talent makes capital dance'. (Title and Page 200)

Too often, both competition and the need to contain costs will drive organisations to give up on harnessing their talented individuals to bring innovative ideas to the fore. These competitive pressures tend to encourage copycat strategies in product and price, causing differentiation based on cost. Without realising it, organisations commoditise their industry and, tragically, breed a task-orientated culture that has no room to think innovatively.

These organisations lose two-fold: their potential for growth stagnates and they lose the interest and talent of their people. In a time where talent is become increasingly hard to find, this is a dangerously myopic approach to business.

Maximising the use of talent – a scarce resource for future growth – will be the economic prize of the few. To get talent to choose them, organisations need to create an environment that fosters passionate entrepreneurship and a drive for change.

Team DNA: re-shaping the institution

Extending from the individual to the organisation, Deloitte's Innovation Program tests the status quo. It builds communities of individuals who seek each other out and form 'tribes': communities of diverse and passionate individuals whose cumulative capabilities sustain innovations that are truly breakthrough in thinking and application.

Deloitte's tribes cut across service lines and its hierarchy to form a unique blend of individual talents. The Innovation Acceleration Team (IAT) is a good example. Its combination of talents and shared passion for innovation cements its tribal sense of belonging. For Deloitte, this interesting and innovative tribe of innovators is a competitive advantage that clients are now seeking to leverage. For the IAT team their productive talents are beginning to cause Deloitte's capital to dance.

The IAT is charged with developing ideas that demand innovation at all levels of product, process and business model innovation. The skill of exploration, prototyping and commercialisation are core capabilities of a team required to nurture innovation. In fact the IAT could be described as a protected haven for innovative development.

Team-based innovation, however, goes beyond the boundaries of the IAT. Deloitte's innovation approach, including its funding model, encourages such teams in or across existing businesses to collaborate and explore on an approved project basis.

There are currently 20 such teams in action, and progress is tracked and managed by the Innovation Program under the executive leadership of Gerhard Vorster and his Innovation Executive.

The challenge is that combining a group of individuals in this tribal form is not easily defined by role or position in an organisational hierarchy. Nor is the process of value creation easily identified by the organisation. Ambiguity is prevalent, and it can be tempting at times to devolve rather than evolve the unique combination of skills.

However, ambiguity for the organisation is also ambiguity for competitors and is a key means to obtaining sustained market differentiation.

Innovations that are truly breakthrough in thinking and application

Deloitte's challenge, and that of any organisation pursuing innovation, is that tribal communities require unique performance measurement and value analysis. Measures such as failure rates will exist within a team of this nature, but they must be structured within measurable drivers of value. These measures of value are best defined against the innovations being managed and commercialised by the team; at Deloitte such teams are not constrained by timesheet entries for value measurement, but bound to create value through ideas.

Seeking operational innovation

The Innovation Program is also testing the operational status quo within Deloitte – politically and operationally. The program is seeking out new business models, new leadership roles and new means of earning and recognising revenue.

Not the sort of innovation* (*according to CFO magazine) that fantasizes that ‘it is a live beast stalking the corridors and pinning down partners by the weight of projects and ideas’ . . . but the sort that requires leadership courage to give people permission to play and ‘think up ideas that the market wants to buy’.

In fact, CFO magazine awarded Deloitte ‘Accounting Services Firm of Year’ largely for its demonstration of, and its commitment to, innovation.

Some of the innovative ideas penetrating the market include an Anti-Money Laundering / Counter Terrorist Financing compliance tool from the Deloitte Forensic practice, AMLcheck™, and SleepWorks™, a facility that makes money while we sleep!

SleepWorks™ is an alternative business model where new online products are developed such as Deloitte Forensic’s whistle blowing service which uses a 24/7 operations centre supported by the state of the art technology of SleepWorks™. It has been invaluable in assisting corporations better manage their corruption, fraud and integrity risks.

The revenue is earned in a per-transaction setting as opposed to the more traditional total service. The operation includes a 24/7 support desk, and Deloitte is learning what it means to market and sell products rather than **traditional professional** services.

The new Deloitte business, Deloitte Digital, recognises the need to take innovations like SleepWorks™ and **XBRL** or eXtensible Business Reporting Language, a globally accepted data standard for financial reporting, to a new level. Deloitte Digital is extending the alternative online business models of functions like these across the whole organisation and delivering professional services online to **existing and new customers**.

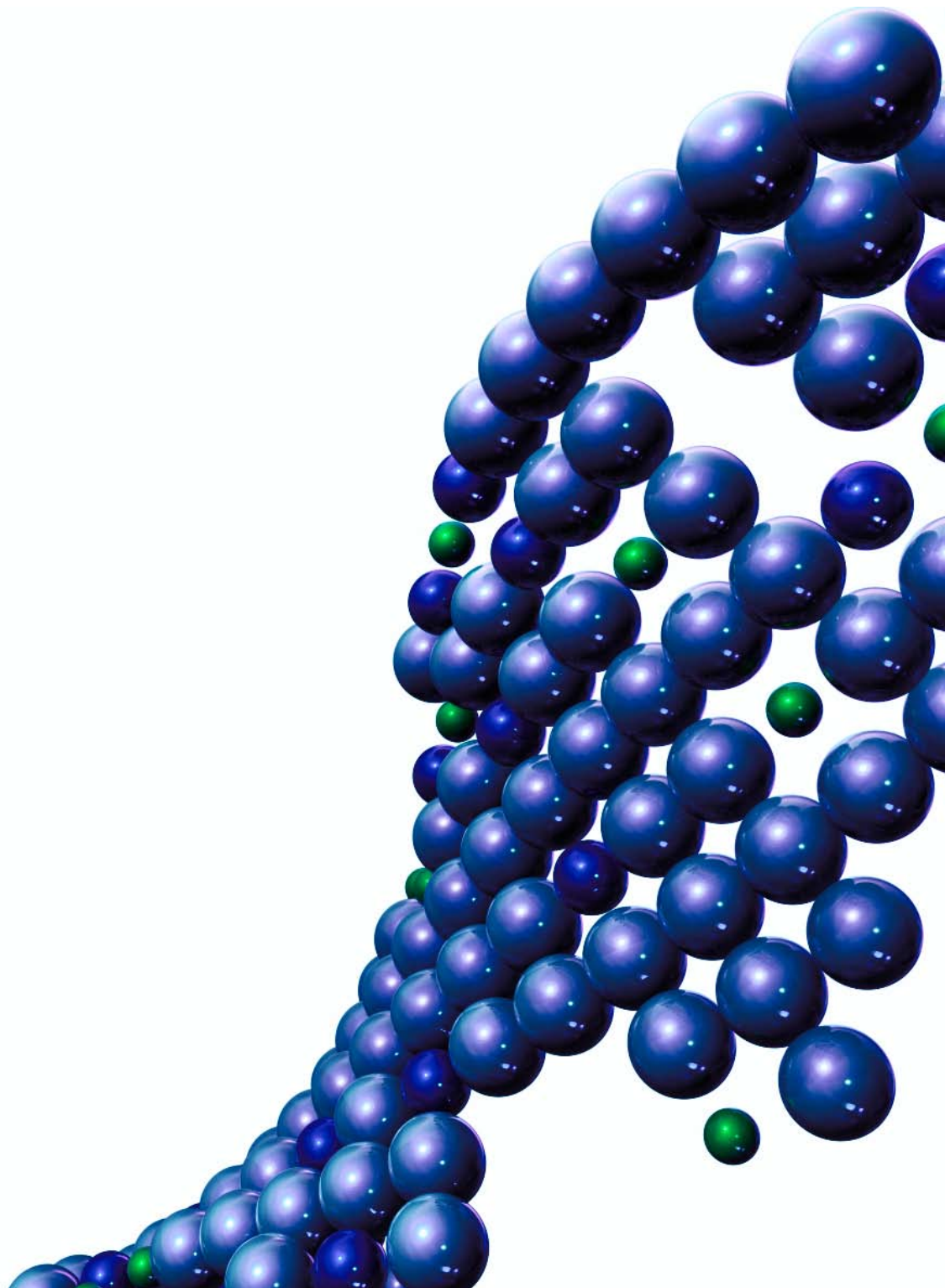
'A place where talent wants to live; where ideas happen'

Being willing to re-shape Deloitte is much like pulling apart and re-assembling blocks. This is inevitable if, in the words of the *Funky Business* authors: 'we want to be in a place where people can be creative risk-taking entrepreneurs; a place where talent wants to live; where ideas happen and exciting products happen even faster; and then change.' (P152)

It also means that as an organisation we must welcome the discomfort of ambiguity that innovation will inevitably promote. The systems architecture of Deloitte, from how revenue is measured to how staff members are deployed, is tested in an environment of business model innovation.

Coping with ambiguity requires strong collaboration built on trust. Such trust is needed if an organisation is going to really change the game for its clients. Deloitte believes it must be ready to break the rules to drive innovation, and support its colleagues as it invests in unique options for future growth. This requires constant communication, reinforcement and accountability for the investment made.





Corporate DNA: the organisation as a networked model

The accounting firm, the university and the airline

At the corporate level Deloitte sees its responsibility to entrench innovation as threefold:

- To act as a corporate network maker
- To manage innovation and its outcomes as a primary value driver in the business
- To play a leading and defining role in the economic and political agenda for innovation in Australia.

Within this third layer of DNA, let's explore the responsibility of Deloitte as a corporate network maker, in other words as a market *maker* rather than market *follower*.

Like most of Deloitte's innovation stories, this one begins with individuals. There were two individuals in this case, who separately submitted a very similar idea to Deloitte's Innovation Zone: Tom Richardson, a partner in Consulting who worked with the Australian airline Qantas, and Jay Claringbold, a business analyst in Eclipse with expertise in online business models.

Their idea was to bring in-flight learning into Qantas' in-flight entertainment program, and was lodged in the Innovation Zone when all employees were encouraged to think of ways to leverage Qantas' offering in the market, whether on the ground, in flight and or online.

In other words as a market maker rather than market follower.

With a good incentive offered by Qantas, almost 1,000 of Deloitte's people entered their ideas into the Innovation Zone during 'Qantas Week'. This intellectual energy resulted in many good ideas in addition to that of Tom and Jay.

Through the Innovation Program, Tom and Jay were connected. With the support of senior partners within the firm their idea was taken to Qantas, which saw its value and put the idea to tender.

Driven by a passion for the idea, Tom decided he needed to do more than just respond to the tender and went to Harvard University to see if together they could provide Qantas with an exciting offer. The proposal was that Harvard University would provide learning content and Deloitte and Eclipse would provide the design and build the in-flight learning system. The resulting networked model created was a market maker.

Innovation to transform the accounting industry

Some 30 separate ideas were submitted to the Innovation Zone on a core issue besetting accountants: the complexity of financial reports and tax returns preparation. The Deloitte Innovation Program gave Bevan McLeod from Deloitte Australia, one of those who had submitted ideas, the task of developing a streamlined online financial reporting system using the global XBRL® accounting standard.

Initially developed in 2000 by the American Institute of Certified Public Accountants, XBRL® is a standardised way of representing financial data electronically. It is set to transform the accounting industry, because it enables financial reports from any number of systems to be prepared, analysed, verified and shared with a standard set of tools. It is already being used by a number of governing regulatory bodies around the world.

The Deloitte XBRL® team is currently rolling out the program in industry as the new technology, combined with XBRL® standards, is reducing times by 86% and transforming the current clunky year-end financial reporting process into a streamlined system.

However, the team is not working alone; it has identified software partners in the market to assist in the development of an XBRL® solution, and as a result has spawned additional commercialisation opportunities as part of the wider solution. The team has also collaborated with other Deloitte member firms across the globe to share and gain knowledge.

Corporate DNA: managing outcomes as a primary value driver in the business

This third layer of DNA, the concept of Deloitte as a networked model, as a market maker rather than follower, is made possible through building on the individual, the team and the broader network of market alliances and capabilities.

In both of the examples described above, Deloitte in Australia is shifting the boundaries of what it defines itself to be – how it interacts with the market and who it interacts with – to create value.

The example of Deloitte, Qantas and Harvard working together to offer in-flight training demonstrates a unique combination of capabilities to create new value. And it differentiates all three players from their respective competitors in the market.

Leveraging network models in this way creates exclusivity from competitors. And in essence it helps an organisation take its place as market maker – thinking and acting innovatively to create value that sets it apart.

Leveraging network models creates exclusivity





Creating a unique and innovative space

The corporate world has to be a more interesting place to be. A place where people can be creative risk taking entrepreneurs; a place where talent wants to live; where ideas happen and exciting products happen even faster; and then change.

(Ridderstrale and Nordström, Funky Business) (P152)

Innovation starts with understanding and attracting the unique talent of individuals; secondly, it involves re-shaping the way an organisation is structured and operates; and thirdly it means exploring a new way of interacting with the market – with clients, alliances and even competitors.

The effectiveness of this sort of approach in attracting talented staff is shown by the fact that graduate applications to Deloitte have increased threefold over the last two years as the Innovation Program, along with cultural initiatives like 'Inspiring Women' and 'Cultural Diversity', gain recognition in the market.

It is the very real emphasis that Deloitte is placing on innovation that scores the most interest from graduate applicants.

Innovation at Deloitte is firmly based on a culture that encourages people to explore innovative ways of thinking and different perspectives for solving business issues. Some of its most senior managers in Australia – Giam Swiegers, Chief Executive Officer; Keith Skinner, Chief Operating Officer and Consulting Managing Partner; Gerhard Vorster, Head of Innovation – together with the rest of leadership team, are all passionate advocates for the Innovation Program, which was started by the Australian firm in mid 2004.

They have invested considerable resources and time into ensuring the awareness and penetration of innovation across the company. Swiegers and Vorster see the commitment as a long-term strategic focus that offers sustainable growth for the company.



Innovation winning the war for talent

Innovation is fundamentally a personal thing. Embedding innovation in organisational DNA requires a shift in mindset for an organisation; it is a matter of capability development, not the competency of the few. Correctly managed, innovation will deliver differentiated growth, and this means understanding the implications at an individual, organisational and market network level.

Contrary to the widely held view that people are no longer loyal to an organisation, innovation has the power to win the war for talent by fostering individual contributions and a community of passionate innovators. Increasingly, Deloitte is bucking the trend of staff attrition as the Innovation Program retains talent that was at risk of choosing to work elsewhere.

Loyal talent will be the platform for sustaining innovative and differentiated growth. To achieve this means investing in the innovative DNA of your organisation.

As people move through their career journeys they need to know that their organisation cares about their individual talents. At Deloitte, the innovation story is told, honed and retold. The leadership is encouraged to challenge each team and share this story to retain talented individuals.

If your organisation wants to identify whether it has innovation embedded in its DNA, it should challenge itself with the following questions:

- Are you seeking out individual talent – observing, learning and providing the opportunity for people to use their greatest strengths?
- Are you providing the flexibility for tribal exploration, facilitating communities that cut across service lines and geographies to bring unique sets of capability to bear?
- Are you embracing new business models for growth that extend and open the boundaries of your existing organisation?
- Are you creating market making opportunities that change rather than conform to traditional rules of the game?

The answers to each of these questions will give you a clear indicator as to your organisation's capability to innovate effectively. If you are not there yet, then building this capability will require a framework that encourages, invests in and measures the innovative performance of your organisation.

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