

Winning in a Changing World

'Innovation is the strategy to accelerate growth'

RIK VANPETEGHEM AND KOEN DE STAERCKE ON FUNDAMENTAL INNOVATION AT DELOITTE BELGIUM

The current economic context demands a focus on growth. Innovation is the preeminent strategy for this. At Deloitte, they have been scrutinising their own innovation. An internal audit showed the company that innovation was only incremental and that fundamental innovation was badly needed. "But we made a virtue of necessity, rethought the business strategy and culture, and immediately extended this to the clients. We have noticed that this approach to innovation appeals to our clients." We spoke to Rik Vanpeteghem, the CEO of Deloitte Belgium, and Koen De Staercke, who is leading the 'Winning in a Changing World' programme for the company.

Why is innovation crucial at this particular moment?

De Staercke: "The world was fundamentally shaken up in the past year. Now that the dust has settled a bit, a number of forces that every business needs to take into account are emerging. First of all, the global economic balance has fundamentally shifted. The BRIC countries expect growth percentages of 9 to 10 percent this year, while the world average is hovering around 4 percent. There are no longer any western countries among the top ten fastest growing economies. Things are now fundamentally different. Concretely, this not only means potential new competitors, but also the development of new markets and the influx of foreign capital. A clear vision and clear decisions are therefore necessary. What is the competition doing? What is the best response to the new circumstances? Every self-respecting company has to think about this and take a position."

"Regulation is a second trend. The government intervened drastically after the financial crisis. There are more rules, more auditing. That also demands the necessary vision and adjustment."

"The third trend is sustainable enterprise and corporate responsibility. The summit in Copenhagen was not a great success. The governments did not agree on measures to combat global warming, but the public demand is louder than ever. Businesses will now have to take matters into their own hands to meet the demands of the public. That also requires a serious exercise."

ideas to deal with a specific tax dossier. To meet the new market demand, it is not enough to simply come up with a new product. What is needed is a fundamentally different approach."

What was lacking in your approach then?

Vanpeteghem: "I have been at Deloitte since 1985, and I have seen a drive towards ever-increasing specialisation. A recent graduate who comes here is often employed in a super-specialised team from day one. That model was pressed too strongly, which has led to a new challenge: how can we have these specialists work together on specific solutions? A wider horizon is needed for that, and a sort of mental click. That sounds simple, but when you realise that we have 2,000 specialists in Belgium, you can see the challenge. But if we do succeed in having them work together effectively, our success is guaranteed. It is positive that incremental innovation is embedded in our DNA. We deliver custom work, and always look for the perfect solution in each case. That is particular to consultancy. But that is still not the same as fundamental innovation. To be able to innovate fundamentally, you have to think outside the box. You also have to be able to consider the long term, and dare to stick your neck out to invest. That is the challenge!"

You seem to have questioned yourselves?

Vanpeteghem: "That is true. We thought that we were successful, and that was true: for years we have been posting double-digit growth percentages. And last year we still grew by 3%, which was actually an achievement in such a turbulent year. We have worked hard on the question: how do we ensure a return to sufficient growth?"

De Staercke: "This is why Deloitte has developed a tool that is now also being offered to clients: the Innovation Maturity Assessment. We have gone through the exercise of looking at how mature our organisation was in the area of innovation. We were 'heroic and tribal', as the tool calls it: if we happened to renew something, we would use it, but that was where it ended. We did not provide enough resources for innovation, and barely encouraged innovative behaviour internally at all."

"Tom Heyman, CEO at Janssen Pharmaceutica, saw innovation take on a new dimension with the Open Innovation model. Open Innovation means welcoming other cultures and ideas at Johnson & Johnson/Janssen Pharmaceutica. It means learning together and creating added value together, without rigidly sticking to the constraints of IP ownership. We have to create networks with our colleagues on the market (large pharmaceutical partners & biotech), as well as with governments and academic centres. Everybody will benefit from a well-balanced contribution to a 'healthy' society. There are still many challenges ahead, both for our own organisation and for the others. This model is vital to the further development of better drugs, diagnostics and vaccines. This should be our answer to the present economic pressure and globalisation."

"It is no longer knowledge that generates value, but ideas and creativity."

Rik Vanpeteghem



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EVOLUTION

Vanpeteghem: "There are therefore three major challenges, and you need growth to be able to stay on top of them. And what is the growth accelerator par excellence? Innovation! But incremental innovation, where you renew step by step, will not be enough. What is needed now is disruptive, fundamental innovation. To put it simply: it is not enough to come up with the next new product or the next new service, the business model itself has to be renewed."

"You can compare the evolution from incremental to fundamental innovation with the evolution of a knowledge driven economy to an idea driven economy. Knowledge is now very immediate and available in a structured way through the internet. The rise of social networks and the rapidly converging technology has greatly accelerated this process. It is no longer knowledge that generates value, but rather the idea, the creativity."

"We also notice this internally. Customers no longer come to us to find the right legal texts for a specific tax problem. Their demands have changed: they want new

Towards a balance between incremental and fundamental innovation

	INCREMENTAL INNOVATION	FUNDAMENTAL INNOVATION
Strategy	Profit/costs	Growth
Leadership style	Authority	Visionary
Product	Service	Idea
Values	Predictability/reliability	Diversity/mobility
Organisation	Formal/mechanistic/discipline	Flexible
Culture	Risk-averse	Risk taking/speed/experimentation
Reward	Margin/productivity	Growth
Critical	Efficiency/incremental innovation	Breakthrough innovation/creativity
Key competency	Operational manager	Entrepreneur
Professional type	Technical expert	Mix of technical expert and generalist



Koen De Staercke and Rik Vanpeteghem

How did you respond to the assessment on innovation at Deloitte?

Vanpeteghem: "We decided to have a team of our most talented employees study innovation of our consulting service for a year. This was not an easy decision: this is a team that cannot be used in the field. Moreover, you cannot reap the fruits right away; it is really about fundamental innovation on the long term. But there have been some results: we are ready for a new approach, and we are planning a 'road show' soon. Initially internally at Deloitte, as always, and then with clients."

MODEL

How do you do that concretely, prepare your organisation for fundamental innovation?

Vanpeteghem: "To start with, you have to have the ambition to grow. That goes hand in hand with less of a narrow focus on costs, profit, margins and productivity, but also a different leadership style. We operated with a more "top-down" leadership style and a well-functioning control structure, with trust and predictability as core values. The new model demands

"The culture of an organisation must enable the taking of risks intelligently."

Koen De Staercke



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more visionary leadership, and also puts high value on characteristics like mobility and diversity. For this, you have to move away from a more formal, mechanical organisation and build in more flexibility, working more in interchangeable teams. Concretely, we will now much more readily have someone who works for the consulting department work together with a highly specialised tax team for half a year, for example."

"This demands a radical cultural change. Innovation has to be democratised: innovation is necessary in everything, everywhere and with everyone. This leads to excitement and it can certainly be fun. This doesn't work in a control organisation. You also cannot be afraid to take risks. The main thing that is needed is to dare to experiment, and to be quick to respond to changing circumstances. That is often where a twinge is felt: service companies are often risk-averse by their nature."

De Staercke: "Recently I learned that at a big American technology company, an award is given for the 'Failure of the year'. The employee who launched the boldest project, even if it failed, is praised highly. That's what I call a clear message to really stimulate taking risks."

Vanpeteghem: "We need to see ourselves more as entrepreneurs, and less as operational managers. Fortunately, at Deloitte our structure is optimal for this: our partners are shareholders in the firm where they work. If they want to see returns, they have to take risks. SMEs are also good for setting up this kind of entrepreneurial culture. That is why you also see that at a lot of large companies, large departments are often split into many smaller units to stimulate intrapreneurship. Because before you know it, bureaucracy creeps in. The design-consultant Ideon has handled this nicely. When a team gets bigger than 40 employees, it is split up immediately. We need such examples here. It is a whole cultural attitude that has to change."

INNOVATION FOR CLIENTS

You have also examined the services range. What was the result?

Vanpeteghem: "We have implemented a structure that should ensure that innovation in our consulting service becomes daily business and that we can regularly take breakthrough offerings to the market. Two services are already in the pipeline. However, this is just the start of the process. We mean to go much further. Innovation is a constant practice."

What are these two fundamental innovations?

De Staercke: "Right now we are working hard on developing E-Accounting and Cloud Computing."

"With E-Accounting we are focusing on a completely new market. Small but successful SMEs have long been part of our clientele, in fact as one of the few large consultants. But now we have developed an innovative extra online-tool that allows entrepreneurs to enter their book-keeping entries directly online. Our role is therefore limited to validating and checking the entries, and primarily to give relevant advice. And this works very well."

"A second example is Cloud Computing. The core idea is that it no longer matters how, where and by whom applications are run. They run 'somewhere' in the 'cloud' of the internet. In other words, software becomes a service that you pay for per user and per year. Last year we invested heavily in research and new projects surrounding Cloud Computing. And our conclusion is that this is no hype, but that it is here to stay enabling agility and quicker time-to-market."

Vanpeteghem: "But we are also applying innovation internally and sharing this with our clients. A nice example is Wings, an application for staff management. We first tested this internally. That was a success, and now we invite clients to visit us to see how it works. Another example is Office Communicator, a programme that provides streamlined communication and simple connectivity for users, regardless of their location and the chosen communication method. Our clients also benefit from our experiences in this."

Vanpeteghem: "Another interesting approach is co-creation with clients. For instance there is now a project in the works with one of the largest companies in

Deloitte in a snapshot

- ▶ Deloitte is organised as a partnership. There are over 100 partners in Belgium with the function of 'owner/operator'. This model paves the way for entrepreneurship.
- ▶ Deloitte is a 'people business': the employees are the most important asset. Attracting and developing top talent is essential.
- ▶ Deloitte is a 'relationship business'. Building deep and long-lasting relationships with clients is crucial. The reputation of Deloitte is of vital importance.
- ▶ In comparison with the other three 'Big Four' consultants, Deloitte has a number of advantages. For instance the company has a full consultancy department which, together with 4 other core activities (Audit & Enterprise Risk Services, Tax & Legal, Accounting, and Financial Advisory Services), covers every market segment, including SMEs and the public sector.

Belgium. We made the agreement with the top management that for a week, the 2,000 employees of Deloitte would send creative ideas on the strategic challenges that the company is faced with. That means 2,000 people thinking outside the box in a structured way. It is a first for our country, but I am sure that it will result in creative and relevant results."

"In Australia, our colleagues have already shown that this approach works. For example for Qantas, a large airline company, a similar project resulted in free e-learning modules onboard flights. You can be sure that this is good for customer loyalty."

Isn't it dangerous to take too many risks?

Vanpeteghem: "Of course fundamental innovation has to be done in a balanced way. It is not that we were too careful so we should suddenly be reckless. The whole art is finding the right balance between the long and short term, between incremental and fundamental innovation."

The series 'Winning in a Changing World' is realised by Deloitte.