Developing Leaders. Achieving Outcomes.

Three business leaders – Gerhard Vorster, chief strategy officer at Deloitte Australia and Asia Pacific; Andrew Stevens, managing director of IBM Australia and New Zealand; and George Frazis, CEO of St George Banking Group – share their insights into embracing the challenges of innovation, now and into the future.

Gerhard Vorster, chief strategy officer at Deloitte Australia and Asia Pacific, believes that innovation “needs to wear overalls” and “overalls that are different to what you have been wearing”. In order to be effective, these “overalls” must blanket an organisation. Innovation is all about trying new things and it has to be entrenched in business plans - in the way business people think - and should be explored using concepts such as design thinking.

At the heart of Deloitte’s business strategy is a belief that 30% of its revenue every year should come from substantially different activities to those of the previous two years. “This means that if you are the strategy guy, your job is to innovate,” Vorster says. “You have to change a lot of the things that you do now.”

To drive innovation, Deloitte favours preparedness over prediction to go with “the swings and roundabouts and to be opportunistic when you have to shift focus, [which] is at the core of being an agile organisation”.

It also takes a change in mindset. “Constantly questioning what is done and how it is done is treated as an asset at Deloitte,” Vorster says. “That is at the heart of innovation - challenging everything you do, not just challenging from a big perspective. It’s in everything we do and that dissatisfaction with the status quo is inherently a wonderful feeder for innovation in its own right.”

Implementing innovation in business can be hard work. It demands new ways of thinking not only today, but tomorrow and beyond.
Retaining Core Beliefs

Andrew Stevens, managing director of IBM Australia and New Zealand, shares a similar vision. He believes the essential ingredients of an innovative company over the long term involve deep scientific research driven by ideas that are not limited by current products, while sticking to core beliefs in the midst of widespread change. Since 2000, the global company has invested almost US$70 billion in R&D, generating more than 47,000 patents.

“The person who has to justify that kind of investment is [senior vice-president] John Kelly, our head of research,” Stevens says. “John says that the reason our competitors have tended to fail to make it through major technology transitions is that they were not doing the research to know what the technology was going to do next. That’s a profound idea. It’s a good question to ask yourself in your business: do I really know what is coming? Deep research allows you to foresee new markets and to play a part in inventing them. It is also true in the long run that innovation is the only true source of differentiation.”

IBM is studying biological systems because they feature a level of complexity that “we believe we will see in business and society in just a few years. By working at the frontier of science, we are gaining access to the insights and technologies that we can’t get anywhere else,” Stevens says.

It also pays to avoid being limited by existing products. Instead, be defined by ideas.

“IBM’s core idea is to create and provide innovative solutions [for] our clients that they can’t get from anyone else,” Stevens says. “This has meant making some hard decisions from time to time, like selling our personal computer business in 2004. That might have seemed crazy at the time but the reality was that PCs were becoming commoditised and we are not a commodity player. We are a high-margin innovator.”

IBM rates itself as a future-focused company with its sights set on three key technology trends that it believes will shape business and society during the next 15 years: nanotechnology, which will pack huge computing power into tiny devices; exascale, which will make larger computer systems at least 1000 times more powerful than at present; and systems that can learn for themselves.

But the most important lesson from the IBM story is that even if you change your entire business every decade or more, something must remain the same “That something is your core beliefs. It’s what makes you you. Or, in our case, it’s what makes IBM us,” Stevens says.

Core values are also at the forefront at Westpac, which has recently introduced a new one - courage - based on the need to be more innovative and open to change. “It is saying to our 40,000 people that we want them to be courageous in how they approach their job and be able to take perceived risk in terms of change,” says George Frazis, CEO of St George Banking Group, a subsidiary of Westpac.

Innovate or Bust…continued from cover

Innovate or Bust…continued last page

Number Crunch

71% of organisations said without embracing new technology, they risk losing market share

2% have delivered on all their innovation projects

7% said they’d made no progress at all

Source: Harvey Nash CIO Survey, 2012

“Innovate or Bust…”

There are three significant shifts in learning that I took away from the Creativity and Strategies for Innovation program:

1. People are creative when you give them the right environment/space;
2. Taking the moment to observe, develop insight and point of view and reiterate and test as necessary, without simply jumping straight to what you think is the solution;
3. In facilitating brainstorming, no idea is too silly and to defer judgement in “Yes, AND” and not “Yes, BUT”.

Vishal Chopra
Senior Product Manager
BT Financial Group

In the News

AGSM Executive Education ranks in world’s top 50 for Open and Custom Programs - Financial Times Rankings (2005-2013)
Retail, entertainment and finance businesses are the most likely to be developing apps. Only 5% of businesses take mobile payments but this is forecast to increase almost fivefold. According to the Optus Future of Business Report.

Businesses need to think about how they take advantage of the trend to increased smart-phone usage, says Jeffrey Tobias, program director of Creativity and Strategies for Innovation at AGSM Executive Education. “People used to talk about ‘my mobile phone’, now people talk about ‘my mobile device’, ” he says. “It’s a device as opposed to a phone because the functionality of mobile devices has increased enormously.”

Tobias claims the days when a company could simply spend a few hundred dollars turning their websites into apps are long gone. “It reflects badly on the business,” he says. “It’s like having a shop front that isn’t enticing to the customer, so why would you do it?”

Good apps are intuitively easy to use and make use of the capabilities of the device they’re running on. They also deliver value, says Tobias, be it entertainment value, transactional value or information value.

Frontrunners among organisations that can most obviously make use of apps are banks, which are using them to facilitate easy mobile transactions, and media companies, which use them to push out news and entertainment. However, other businesses with a less obvious need for apps are also developing them.

Alan Thorogood, senior visiting fellow in strategy and entrepreneurship and leader in IT strategy at the AGSM, highlights the “co-creation” of apps as an emerging trend. This is where a company works closely with customers to explore what would be useful to them as it develops an app.

“Customers don’t always know what they want. You need to ask them what it is they’re trying to do and explore with them, so these applications end up being co-created,” says Thorogood. “You need to work out what people are doing differently when they are using a handset interface.”

The concept of co-creation brings with it profound changes for firms’ IT departments, which traditionally seek certainty over innovation. Their natural inclination is to produce something inexpensive and reliable, not necessarily what the customer wants. In the past, IT departments have typically designed inward-facing systems, to digitise internal processes and supply chains. For the first time they are being forced to think of the customers’ needs.

“The focus previously has been the digitising of the back-office process, but with the advent of technology in the customers’ hands, it’s now moving to the front end,” Thorogood says. “The very widespread adoption of technology allows customers to interact easily with firms, so interfacing with customers is now very clearly an area of great interest.”
Yet, the world of advertising is in a state of flux, with traditional forms of print and television gradually giving way to online campaigns and social media marketing.

“The effectiveness of advertising, both online and offline, is a concern for all marketers,” says Liem Viet Ngo, a senior lecturer in marketing at the Australian School of Business (ASB).

Ngo points out that companies may have different objectives for an online campaign, such as increasing the number of unique visitors, conversation rate, search-term usage, enhancing brand awareness, generating stories about the brand, launching causes and sponsorship. Many firms and metrics exist for measuring the effectiveness of online campaigns, such as Nielsen Buzz Metrics, Google Analytics, Omniture, Alexa and Compete.

“Nevertheless, how to measure the return on investment of an online campaign remains a challenge for marketers,” says Ngo. “Importantly, it is still difficult to compare the effectiveness of one interactive media over another as well as [with] traditional media.

“Technological advance is creating a new market reality, with the emergence of a new generation of engaged customers. They are better informed, more empowered, and more willing to engage in the co-creation of value with firms, and also with other customers.”

The internet, computer technology and new media have allowed customers to become producers (user-generated content) and distributors (via media such as YouTube). According to Ngo, in this digitally empowered world, a customer’s ability to search for information, review and rate products and services, and interact actively with firms and other customers has fundamentally changed the way the customer makes purchasing decisions. This has created an increasing number of communication touch points that are beyond marketers’ control.

“Brand equity is now increasingly built by activities outside a company’s direct control – and that’s challenging,” Ngo says.

Engagement, Participation and Sharing

For Vicki Arbes, CEO of market and social research company Hall & Partners / Open Mind, “the new model of advertising is all about engagement, participation, and sharing information”.

Arbes cites the so-called “NAB breakup campaign” in 2011 as a benchmark for what can be achieved. The bank campaign combined print, social media and guerilla marketing (including singing stunts and ads towed behind helicopters), and was widely recognised throughout the industry as being hugely successful, with viewers repeatedly sharing and re-tweeting content.

“Engaging with customers online requires the utmost transparency,” says Arbes. “If not, the opportunities for failure, such as the recent Qantas Twitter competition, are enormous.” (Qantas invited customers to share their thoughts on a luxury holiday, but instead received a litany of complaints about the company. Qantas subsequently closed their Twitter account.)

According to Nitika Garg, also a senior lecturer in marketing at the ASB, online ads have the ability to target consumers that marketers of a previous generation could only dream about. “Facebook, for example, looks at your profile information, and [also] that of your friends,” she says.

So does this ability to target mean that the days of...
traditional advertising are numbered? Garg thinks not. “As long as people are watching TV or picking up a magazine, there’s a place for traditional advertising. And in general, online ads are less attention-getting than, say, TV ads. It’s about the way the space is utilised. Online, the ad is juxtaposed to something else,” she says.

Garg believes TV advertising is still one of the most effective forms of advertising, as measured by a consumer’s ability to recall a campaign in surveys, and ultimately in increased sales. The pinnacle of TV advertising remains the Superbowl in the US (with the broadcaster charging as much as $US3m for a 30-second slot).

“The Superbowl has a very large, captive audience, who all want to see the show live,” notes Garg.

“Companies frequently place new ads [in Superbowl slots], and consumers are often curious about these. Research shows that the more involved the audience is with a TV program, the better their recall of an ad, the more positive evaluation of that ad, and the greater the purchasing intent.”

Product Placement and Live Feeds
An alternative to TV advertising is product placement. “[It] has always been a part of marketing,” says Arbes, “but if it’s not done subtly and/or transparently, it can be irksome.” Indeed, product placement has found its way into unlikely places, such as the ultra-violent zombie apocalypse TV series The Walking Dead, where Hyundai cars feature prominently. “Perhaps they’re saying, these cars will survive anything,” suggests Arbes.

For Garg, the desire in some consumers to avoid ads altogether – aided as it is today by technologies such as Foxtel IQ – is rooted in their psychology. “If we had unlimited capacity to process information, it wouldn’t be a problem,” she says. “But given our limited capacity, we are very protective of it. We want to preserve our cognitive resources, and only spend it on things we care about.”

Tim Vincent has been producing and directing TV content for 21 years. His work with the Ford Motor Company supplies some fascinating insights into how traditional advertising is being supplemented by non-traditional forms.

“Ford came to me in 2009, prior to a product launch, for a media drive, where about 140 journalists from around the world are assembled, to show them the car,” says Vincent. “Engineers and designers are available to chat, and then journalists get to try out the cars. What we do is to supply all the video content, which includes interviews, shots of the car, highlighting all the high points of the new product.”

So far, so traditional. But now Vincent’s content is also supplied to Ford’s social media site.

“The content that was previously just available for mainstream media – in the hope that they would disseminate it to the consumers in a positive way – is now on offer direct to the consumer,” he says.

The big plan for the future is for a product launch to feature a live feed, where consumers can interact directly with engineers and designers. “The hope is that this will go beyond the traditional fan base for a car, and engage aspirational consumers – those who don’t just buy a car out of brand loyalty, but are looking to see what a car can offer,” Vincent says.

This idea of expanding the fan base for Ford and their vehicles – particularly among younger consumers – has been behind rally driver Ken Block’s promotion of the Ford Fiesta, and also Ford’s involvement with the NBC reality TV show Escape Routes, featuring the Ford Escape.

Ford recently demonstrated an imaginative addition to traditional advertising with an app that encouraged people to customise a Mustang online. Unbeknown to the people who posted their designs, Ford selected four of them, built the actual cars, and then delivered them to the lucky customisers.

Listen to the Customer
Vincent is fond of quoting Sheryl Connelly, manager of Ford global trends and futuring, with what might become the byword for the future of advertising – “Trust is the New Black”.

“Previously, the marketer used to shout at the customer in one-way communication,” says Ngo. “Now the marketer needs to stop yelling and needs to listen to the customer. Then they must make the decision at which communication touch point the customer is most open to influence, and spend their marketing dollar accordingly.

“What the marketer is concerned about today is not that we are behind the technology, but that we are behind our customers.”

Source: Knowledge@ Australian School of Business
Frazis agrees with Stevens that clarity on the true purpose of the organisation is a critical element.

“What happens with organisations is that the core purpose gets muddled up and gets quite complex. Complexity is a big stifler of innovation,” he says. “[At] St George, we got back to the core of what we were about. To a certain extent, we lost our way [during the past] two years because we tried to be a big bank and tried to be what we were really not about. [But] if you think about St George’s heritage, it is very simple: we help people save to get into their homes, then secure their future. As simple as that. Providing that core purpose, that noble purpose, means people can innovate and provide clarity.”

**Solutions and Diverse Input**

Like Vorster, Frazis acknowledges the importance of a culture open to change, everywhere. For him, service improvement is critical. And time - how to speed up decisions - is a key measure.

“The critical thing when you are looking at time is that you only get innovative solutions if you have stepped changes in that time,” Frazis says. “So if a home loan takes two weeks to approve, which is roughly what it used to, reducing that to one week provides absolutely no benefit. The customer hardly notices it and, effectively, processes don’t really change. To reduce it to an hour, that requires innovation. That requires real change.”

Frazis believes that from an organisational perspective, there is logic behind being a quick follower. But a number of firsts are also needed. He reels off how St George was the first to introduce internet banking in Australia, and the second worldwide, in 1995; how St George was the first to introduce [the use of] SMS texts in 2010; and the first to enable customers to open an account via their mobile phones.

“Having those firsts actually does create a culture of innovation but you [also] have to be really quick at following,” he says.

Diversity is another essential ingredient and the youth sector plays an important role in St George’s understanding of digital and mobile trends. Frazis has formed a youth network led by the company’s top 10 under-30-year-olds who attend core leadership meetings.

“Effectively, it is a signal to the organisation that we are prepared to listen to an under-30-year-old as much as our senior leaders in terms of strategy and direction of the organisation. At the end of the day, innovation actually attracts the best talent. And it is a much more exciting organisation to work in than one that is static,” Frazis says.

**Source:** *Knowledge@ Australian School of Business*

---

### Upcoming Open Programs

#### Career Transitions
- Middle Manager Program 26-30 August
- General Manager Program 17-22 November

#### Leadership
- The Authentic Communicator 25-26 July

#### Capability and Skills Development
- Leadership Decision Making 29-30 July
- The Effective People Manager 02-04 September

#### Strategy, Change and Innovation
- Creativity and Strategies for Innovation 18-20 September
- Social Media Strategy 24-25 October
- Developing the Strategic Manager 30-31 October

#### Business and Operational Excellence
- Green Belt  Mod 1: 30 October

Find out more or book online: [agsm.edu.au/open](http://agsm.edu.au/open)