

Market Leader

NEW THINKING, DIFFERENT PERSPECTIVES

High growth firms: the vital 6%

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What management heretics believe in

SAVE FOR a few high-tech gadgets and other electronic perks, an executive from the 1970s would feel quite at ease in a state-of-the-art professional services company of today. In fact, when it comes to managing these kinds of organisations the executive's role has changed little in a century and is still largely defined as Frederick Taylor set it out in his seminal 1911 treatise *The Principles of Scientific Management* – the manager plans, sets objectives, coordinates activities, controls outcomes, and measures performance.

Yet what if an organisation were to challenge these accepted axioms of management practice? This was what the Australian firm of global accounting network Deloitte asked itself – with startling results, and surprising implications for management practice both for professional services and more widely for organisations in other sectors.

THE CURIOUS ORGANISATION

In early 2003, Deloitte Australia's outlook was deeply worrying to both its partners as well as to other firms within Deloitte's global network. As South African CEO Giam Swiegers took the helm, his ailing firm lacked direction and ideas. Years of haemorrhaging clients, staff and revenue had left Deloitte lagging far behind its local 'Big Four' competitors in revenue, and low in collective self-esteem.

Swiegers used his first national meeting for Australian partners as a wake-up call. Instead of a plush, tropical corporate retreat, he chose the freezing climate of remote Hobart as the event's venue. The powerful image of a herd of wildebeest crossing a crocodile-infested river illustrated the conference's key message vividly: those who hesitate and wait on the sidelines become the crocodiles' preferred meal. Vision, courage, speed and determination was the best life insurance.

At that point, Deloitte embarked on a journey to become a curious organisation – a firm that would value preparedness more

Martin Kornberger and **David Redhill** describe how Deloitte Australia turned the management rule-book upside down, emerging with a heretical approach that not only solved the problem of haemorrhaging clients but became a template for professional services marketing

than predictability; that would favour intelligent and rapid trial and error over linear, rational planning; and that would appreciate dissonance over synchronised accordance. In short, Deloitte became a heretic, experimenting with everything that looked like the antidote to what

you think about is going to be wrong in any case. I watched our peers in the profession and business going through scenario planning just before the financial crisis. And you know what? Every single minute was wasted.'

Instead of trying to predict the future, Deloitte invested in an agile, flexible and responsive organisational design. Key to this was the recognition that in fragmented environments, monolithic operating structures do not connect well with market opportunities. One of the Deloitte strategy's chief architects, consultant Mehrdad Baghai, introduced the principle of granularity, breaking the organisation into molecular 'clusters' of product and service capability, aligned to 'patches' of market opportunity.

Baghai explains: 'We created an operating system and an architecture that allows the 66 cluster leaders and 150 patch-

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we know as an organisation, let alone a professional services firm.

APPS ARCHITECTURE

The default mode of management problem solving is planning – a fascinating social ritual that (like its other more tribal versions) helps sooth hesitant souls facing ambiguous environments and uncertain futures. It is frequently most useful as a corporate placebo.

Swiegers' scepticism of planning saw him and his team eschew paper-based roadmaps. Asked today where he sees Deloitte in five years, he shrugs and admits: 'I've got no idea. And I spend no time thinking about it because whatever

owners to make independent decisions. They do strategy. We do architecture.'

Rather than losing itself in arcane strategies and implementation challenges, Deloitte created an architecture from which strategy could emerge naturally. Baghai uses the brain as metaphor: as Deloitte consists of an array of granular cells, the task of management is to create a context for the brain to wire itself. Turning Alfred Chandler's famous dictum on its head, strategy follows structure.

This organisational rewiring cut the organisational Gordian Knot of differentiation versus integration. Usually this is thought of as trade-off: the more >

differentiated an organisation, the less integrated it becomes, while specialisation and local market focus is paid for with lack of internal cohesion.

Yet granular design avoids this trade-off: while allowing for high degrees of local specialisation by individual cells, the wiring of the cells represents a common infrastructure or platform that the cells share. Think of an organisation as app store – a potentially infinite supply of highly specific, localised offerings developed by multiple author(itie)s running on a shared operating system.

CODING

Deloitte discovered the need for a shared vocabulary to allow its cells to communicate with each other on the platform – in effect, a new operating system to match its new infrastructure.

In the years following the infamous Hobart conference, Deloitte’s leadership team issued one Reflection Paper every year to introduce layers of new concepts to the firm.

Sounds philosophical? Well, Deloitte’s chief strategy officer Gerhard Vorster does not exactly convey the image of an armchair philosopher. He explains how new ideas continually could change the firm, sketching them out on any piece of paper he can get his hands on. He resembles a free-roaming constructivist rather than some fact-driven manager.

The unbalanced scorecard is one of those ideas that brings out the heretic in Vorster. An organised network of semi-autonomous cells that make their own strategic decisions cannot be evaluated according to one balanced scorecard, he explains. The whole idea behind granularity – to allow for flexibility – would be undermined through a homogeneous evaluation system. Like a wet blanket, it would kill every new spark.

Different cells following varying growth trajectories, require a flexible monitoring system. That’s where the unbalanced scorecard comes in: each cell is evaluated according to criteria aligned with its own situational needs and circumstances. Because a young cell developing a new service in a regional city cannot be compared with a mature cell servicing global audit clients in a metropolitan centre, Deloitte realised that it was not only monetary performance that should be valued: qualities such as innovation, market profile, and growth rate should also be considered.

Language isn’t merely about concepts though – it is also always symbolic



A common infrastructure gives a basis in which the separate elements – managers – can overturn conventional thinking

action. Vorster explains how he banned the words ‘if’ and ‘they’ from meetings, because ‘if’ propels events into the realm of the conditional and ‘they’ serves as an anonymous placeholder for everything that neither ‘I’, ‘you’ nor ‘we’ want to act upon or be accountable for.

Custom-designed coasters used at Deloitte internal events say ‘No alibi zone’. Simple proverbs communicate Deloitte’s expectations of its employees. For instance, Swiegers asks those in leadership roles three simple questions: do your people feel they have something they believe in, someone they believe in, and someone who believes in them?

Deloitte’s operating system consists of a code, a language that is conceptual and symbolic. Like any other knowledge-intensive firm, Deloitte cannot own what drives value creation: it’s the employees’ ability to make sense and act. Yet the firm can offer a shared language and shared mental maps showing points of connectivity between employees, external partners, (potential) clients, and technology.

The firm becomes a somewhat anarchic network of elements that share vocabulary and grammar, allowing them to develop meaningful and mutually intelligible

interpretations of the world, that in turn function as springboards for action.

EXPERIMENTING

Once Deloitte’s architecture and operating system started to talk to each other, sparks began to fly. Nobody loves playing with fire more than Pete Williams, Deloitte’s *enfant terrible* when it comes to social media, digital delivery and unconventional leadership. Williams would fit neatly into a Silicon Valley start-up, yet surprisingly he feels at home inside Deloitte – or, rather, he has made Deloitte his home.

‘People have started to realise that the best way to learn is by experimenting, just like we learn as babies,’ Williams reflects. ‘Experimentation is a key part of learning and if you want to be innovative you’ve got to be prepared to try new things and see how they go. That’s been a cornerstone of becoming a successful professional services firm – the prevalence of words like “experiment” and “learning” as opposed to “certainty” or “outcome”.’

Part of Williams’ philosophy is rapid prototyping of ideas (rather than investing in them heavily before realising they don’t work out) and working on portfolios of new ideas simultaneously. Williams and his team have been working on how digital technologies will transform

existing customer data available to the client. By merging our analytics and our consulting teams, we're doing those types of things in some cases in one-tenth of the time, reaching deeper into the customer data available to the client and in the market to deliver more insight than has ever been achieved and then saying "you know what? This shouldn't be static. Let's make it dynamic."

Deloitte is now capable of studying consumer behavior that is data-driven and dynamic as opposed to the traditionally hypothesis-driven, static boxing-in of customers. Tim Phillipps, former police officer, then head of forensics at Deloitte, and now the firm's global data analytics leader, hints at a fundamental tenet within the firm that allows rhizomatic growth: the Deloitte brand. He says: 'We have brand permission, based on our accounting rigour that allows us to competently and confidently branch out into new markets.'

Whether developing an analysis of product shrinkage, employee turnover or the movement of goods, services and finance across a continent, Deloitte's core skill in deriving meaning from numbers allows it to grow in conjunction with the sprawl of digitisation. As the world liquifies into a database, applications for this skill set grow exponentially.

Phillipps adds: 'We interrogate a data set and say "tell us what you know". We have little structure around the questions we ask, and actually ask very few questions. We allow it to expose itself.' In an information-driven, digital society where everything is coded as 0 or 1, accounting is becoming the art of analysing data and translating it into narratives that guide action.

BREEDING BLACK SWANS

While it's hardly news to state that knowledge and learning are key organisational capabilities for survival, the consequences of a knowledge-based organisation approaching its future in a relatively organic and unstructured way like Deloitte, are potentially unsettling.

In essence, the challenge at the core of every knowledge-intensive firm is that the organisation does not own its principal means of production – the human mind's infinite capacity to solve problems. The organisation's role morphs into the ability to provide intellectual infrastructure that semi-autonomous cells need to hardwire with each other. Rather than planning its future and casting it into a hierarchical order, Deloitte focuses on designing a heterarchical network that is connected through shared language and symbols.

Of course, this leads to new challenges: true to the nature of infrastructure, its potential as a platform is not likely to stop at arbitrary boundaries, including organisational ones. Infrastructures spill over. Unforeseen applications sometimes cause more pain than pleasure. Creative users appropriate content. Hence, life on open platforms requires a degree of comfort in living with uncertainty and dissonance. It might also result in the gradual erosion of management authority.

Authority relies on an author – a central commanding voice. In an organised anarchy the voice of every single author is just an element of a polyphonic sound collage. The resulting dissonance can be productive: if we retire the idea of a central voice prioritising what to do, then multiple projects can be pursued simultaneously, without knowing which one will succeed. If we do not know what we are looking for (isn't this the hallmark of every genuine innovation?) it is a rational decision to rely on randomness, serendipity, and trial and error.

'We've become a laboratory for ideas,' Swiegers summarises. Somehow he sounds surprised. After all, accounting firms are notoriously conservative. They get paid by their clients because they are critical and risk averse. They are society's guardians of rationality, keeping watch over businesses that follow nothing but their self-interest.

At least, that's the myth that made accounting a profession (with all the associated privileges such as state-regulated market entry criteria). After a decade that started with Enron and finished with the global financial crisis, trust in the profession is eroding. Yet in a move that may be both symptom and solution of the problem, Deloitte celebrates its 'appetite for disruption'.

One recent partner conference concluded with a supersized projection of a Black Swan, as a metaphor for meeting unforeseen challenges and opportunities. Partners received badges announcing 'I am breeding Black Swans'. Swiegers explains: 'We are not waiting for the black swans to arrive for us to react. We are now becoming the disrupters.'

Organisations, those manifestations of social order and bedrocks of stability in society, mobilise the very forces they were invented to protect us from. That this is part of the solution, and not the problem, is what managerial heretics believe in. ■

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accounting practices. The impact will be profound and sizeable, says Williams. 'We're experimenting with online accounting where accountant and client can look at the same data simultaneously, as opposed to the current situation where a client has their data sitting on a system in their office and maybe once a year they send it over to their accountant.'

'Having the data in a central model where you can collaborate across the whole year suddenly, fundamentally changes the role of the accountant as tax preparer to the accountant as ongoing adviser relationship.'

Seeing the world as digitised streams of information, and oceans of untapped data, has opened up other opportunities for Deloitte. Using client data drawn from sources such as airline frequent flyer and retailer shopping reward databases, the firm has developed detailed market segmentation capabilities.

Deloitte consulting partner Jenny Wilson says: 'Usually a consulting house would go in and conduct a "point in time" segmentation exercise, often with a preconceived hypothesis of the segmentation for analysis. This would be quite significant in revenue for the consulting house and quite costly for the client, and often fail to tap into the