Shifting perspectives

VAT changes
Not just a tax concern

Born to be digital
Preparing for transformation
The impact of digitization on the global economy is undeniably significant. A recent Forbes article stated that, in 2011, digitization added US$193b to world economic output and created six million jobs. And yet, many businesses are still grappling with the impact and effects of an increasingly digital world.

One industry that the digital evolution has transformed is media and publishing. “From print to digital: the changing face of the media in Italy” examines what media companies have to do to innovate, and attract and retain readers.

There’s plenty of opportunity for those companies selling digital content but, with such new technology, the danger is in overlooking changes that could have a massive impact on revenues and customer satisfaction. Read “VAT changes to online sales: not just a tax concern” to find out more.

Digital technologies can be disruptive but, for digital-ready CIOs, these technologies represent enormous opportunity. “Born to be digital: how leading CIOs are preparing for a digital transformation” examines the crucial characteristics shared by these individuals.

“Change 3.0: using social media to engage your workforce” argues that, as people become ever more engaged with social media, companies must keep pace or lose a valuable opportunity to gain insight, innovation and feedback.

Innovation is perhaps nowhere more important than in the health care environment. Sweden’s Karolinska University Hospital is using innovation procurement as a means to provide quality health care at a lesser cost and with increased patient benefit. The full story is in our article: “Innovation procurement: bridging the health care gap.”

While organizations strive to grapple and grow from the challenges and opportunities examined in our articles, there is an overarching question that all organizations should have in mind: what makes an organization valuable to society? Our opening article responds to this question and introduces the Public Value Scorecard to help organizations understand and increase their value to society.

Other articles examine the positive changes the new CEO of Australia’s Western Power has brought to the company and the impact of an innovation value chain in the Chilean mining industry.

I hope the articles in this edition of Performance provide valuable insight and information to help your business innovate, grow, optimize and protect.

Enjoy reading this issue!

Markus Heinen
Chief Patron, Performance

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The Public Value Scorecard: what makes an organization valuable to society?

What value are large organizations bringing to society? And, when they are getting it right, how can and should corporations build trust and gain legitimacy within society? The University of St. Gallen in Switzerland has developed a “Public Value Scorecard” (PVSC) to help organizations understand and increase their value to society.
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The first decade of the 21st century witnessed a tremendous challenge for our capitalist system. Its basic pillar of a healthy balance between freedom and responsibility was contested in a way that has not been seen since the fall of the iron curtain. Not only management scandals at large corporations, but also a sovereign debt crisis followed by a global economic downturn put fundamental premises of the market economy at stake. It is, no longer, a matter of some non-governmental organizations (NGOs) capitalizing on the negative side effects of globalization. Rather, it is a deeper alienation between the world of corporations and the wider public. Business takes place in a society that no longer trusts its economic leadership cadre. Issues of corporate reputation are clearly on the CEO’s desk.

No single paradigm will do the trick

Everywhere, we are seeing a societal discourse about normative premises for business. Neither the notion of shareholder value nor customer value, nor any other existing paradigm for business, enjoys automatic acceptance. Each paradigm faces attack and controversy. Typical solutions calling for more sustainability or for more corporate social responsibility also fall short for two reasons. First, they are viewed as being “nice-to-have” – isolated from the value chain and arbitrary in the way they are measured. Second, any one-sided approach misses the point of the full roundedness of human nature. Figure 1 illustrates the merits and risks of established paradigms about the things business is there to do.

From a CEO’s perspective, shareholder value is clearly key. The other paradigms might even be considered as lever or boundary conditions for increasing profits. This is, however, probably a risky view in today’s contested business world. In reality,

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**Figure 1. Merits and risks of established business paradigms**

<table>
<thead>
<tr>
<th></th>
<th>Customer value</th>
<th>Shareholder value</th>
<th>Stakeholder value</th>
<th>Corporate social responsibility</th>
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<tbody>
<tr>
<td>Justified focus</td>
<td>Customer orientation</td>
<td>Value for owners</td>
<td>Claims of interest</td>
<td>Side effects</td>
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<tr>
<td>Risk</td>
<td>Too much focus on “satisfaction”</td>
<td>Dominance of financial performance</td>
<td>Unmanageable integration of heterogeneous expectations</td>
<td>No relevance for core business</td>
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<tr>
<td>Consequences</td>
<td>Unbalanced view of societal consequences</td>
<td>Single-minded quantitative approach</td>
<td>Paralysis by conflicting expectations</td>
<td>Loss of credibility</td>
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<tr>
<td>Primary value orientation</td>
<td>Hedonistic-aesthetical</td>
<td>Instrumental-utilitarian</td>
<td>Political-social</td>
<td>Moral-ethical</td>
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Public value redefines the entire idea of value creation by taking into account moral and political, as well as utilitarian and hedonistic, aspects of value creation.

It is much more complex: similar to an iceberg, you only see a small proportion of the value creation on the surface, a major part remains below the surface – unseen. In other words: a corporation’s profit-seeking builds on a much bigger commitment to society. As long as things run smoothly, a corporation is directed toward achieving sustainable profits based on useful products and services. The CEO is only confronted with more fundamental questions if things go wrong or are challenged. Then they are forced to engage with deeper questions, such as political issues and moral conflicts. It is about basic legitimacy.

The only way to foster legitimacy in a modern democratic society is to engage in dialogue with societal actors and groups over and over again. Such a quest is not arbitrary, but a call for a systematic outside-in perspective. In particular, the many different varieties of capitalism call for a context-sensitive model, which is adaptive to local conditions – be it new forms of state capitalism in emerging countries or social market economies in Central Europe.

It’s public value

Legitimacy is a matter of cultural acceptance. Very early on, Peter Drucker, the father of modern management, saw management as a “social function” in society, since managers essentially coordinate how people are integrated into a larger system of labor division. By doing so, the individual becomes a member of society and acquires status and function. Here, we believe, lies an attractive answer to how corporations can and should build trust and gain legitimacy, contingent on the societal order. “Free enterprise cannot be justified as being good for business. It can be justified only as being good for society.”

On a managerial level, the idea of “being good for society” has recently been discussed as value creation directed at public value. Originally developed by Harvard Professor Mark Moore for public administration; the idea of public value has also been redefined and operationalized for the private sector. In its most general form, public value is defined as a contribution to society and its functioning. Public value represents impacts on wider society including, but not limited to, economic results or financial gains. It redefines the entire idea of value creation by taking into account moral and political, as well as utilitarian and hedonistic, aspects of value creation. In other words, value is not just about money, it is about a change in peoples’ perception of living in a community and society. Can corporations, let’s say, create moral values? Yes, they can, and they do so on a daily basis, externally, in customer interaction as well as, internally, in their corporate culture.

This perspective is at the very heart of Drucker’s notion of a “social function.” The modern corporation is a major coordination mechanism of society. There is no such thing as a super control power for the “right” value. It is neither the market nor the state, but a process of joint activity. A viable society is the result of interaction, where corporations play an increasingly important role.

It is a core premise of public value to rediscover this function, exploit and develop it. Such a perspective turns the entire discussion about business in society upside down. It takes away false attributions of responsibility, on the one hand, and, on the other hand, it draws attention to corporations as engines to maintain and drive societal progress. Why? First, public value is always created or destroyed. Corporations contribute to public value more than they know and, often, more than anybody else knows. Second, public value is not created or delivered – it is perceived. Actually, no value can simply be “created,” it always needs an audience to appreciate it. It is in the sphere of mind-set and behaviors where we need to look for sources of legitimacy. As such, they are closely associated with intangibles, with public opinion, embracing the full roundedness of human nature. But how do we capture these contributions?

A Public Value Scorecard for management

Corporations need a better sense of society’s expectations. They need management tools to treasure public value and constantly monitor how things evolve over time. In particular, a common framework is needed that allows for a language that is robust enough to systematically give different world views and value systems.

1. P. Drucker, Management tasks, responsibilities, practices, Routledge, 1973
Research shows that executives vary considerably in how they construct their world view and how they deal with complexity. One way of framing this differing perspective has been provided by the ancient Greek poet Archilochus, who, famously, wrote: “The fox knows many things, but the hedgehog knows one big thing.” In a Swiss-German study, two out of three C-level managers assumed their company was totally “in sync” with the wider public. These executives viewed the world from a true or false perspective that can be likened to the “hedgehog” in Archilochus’ metaphor. The other third of managers in the study were more inclined to allow for plurality, multiple realities and conflict. Following the same line of thinking, they can be regarded as “foxes.”

Needless to say, each type of value consciousness has its strengths and weaknesses. If we continue to use Archilochus’ metaphor, then it is about helping hedgehogs to see plurality and supporting foxes not to be paralyzed by complexity. A number of measures have already been developed, such as the triple bottom line (TBL) or the Global Reporting Initiative (GRI). While these approaches opened the door toward a more holistic perspective of a corporation’s social impact, they do not focus on value creation for society as a positive force. Besides, on the instrumental level, they are not constructed as dialogue tools to inspire the strategy process. Other management tools, such as an integrated risk assessment, are “strategic.” They, however, lack a rigorous assessment of public value issues.

At the University of St. Gallen in Switzerland, a Public Value Scorecard (PVSC) has been developed that exactly fills this gap and helps organizations to understand and increase their value to society. This scorecard is based on psychological needs theory and allows for tailor-made indicators in five dimensions (see Figure 2).

Let’s assume the PVSC is employed for a new car development. Clearly, in addition to the core business case drivers of usefulness and profitability, other factors will play a role in the development’s success, such as the moral consequences and the political implications, as well as the potential for a positive experience. No single positive element can outperform or simply substitute failure in another area. Conversely, one single failure can threaten the entire concept. For example, even if it is politically acceptable to search for better ecological measures, it may not lead to a positive experience for the customer. It may even be morally doubtful to call for alternative mobility concepts, if nobody can really assess the new, associated side effects. The car development example serves as a useful case in point, but a

Corporations need a better sense of society’s expectations. They need management tools to treasure public value and constantly monitor how things evolve over time.

Figure 2. Public Value Scorecard

Chances

Is it politically acceptable?

Risks

Is it profitable?

Is it useful?

Is it a positive experience?

Is it decent?

Source: Authors’ own.

similar analysis can be applied to any product, service or project that is subject to public opinion. An integrated public value assessment is currently not part of a due diligence exercise or a compliance effort. And, even if it is done, standards are missing that could systematically investigate the trade-offs and trigger a productive dialogue.

The PVSC is applied both for internal or external groups, stakeholders, investors or customers. It systematically generates management information on what it means to contribute to society at large. Following current insights in academic psychology, it measures impacts against people’s basic needs that cannot otherwise be captured. In this way, public value is created when a firm’s action (e.g., via its products or services) leads to a positive evaluation of needs fulfilment.

Organizations discover their public value
The scorecard does not only identify “blind spots,” it also contextualizes value creation in the societal sphere. Thereby, it fosters new forms of internal and external dialogue that can strengthen the ties between a corporation and its environment. A corporation might, for example, discover that customers are not prepared to pay a premium for sustainable products. They may also learn about the opportunities and risks of strategic moves.

For example, a major Swiss insurance company recently used the PVSC to better understand the societal implications of a specific M&A transaction; information that was, otherwise, not available. Fresenius Medical Care, a leading provider of dialysis products and services, used the scorecard to analyze the public value of its clinics, as perceived by major stakeholders (please refer to the case study at the end of this article). As a consequence, the PVSC is seen as the next improvement for the existing balanced scorecard. The soccer club FC Bayern Munich employed the PVSC to identify public values that may both foster and hinder growth in the next few years. As a Champions League winner, the club aspires to grow substantially, while maintaining its roots in the region.

It is easy to understand how an insurance company, a provider of medical products or a soccer club contribute to public value. The results in all cases are highly relevant for strategic decision-making. Other examples include the Federal Employment Agency in Germany, one of the largest public administrations in Europe, which discovered a discrepancy between customer satisfaction and public value creation,
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and ORF, the Austrian public service broadcaster, which uses the notion of public value to justify its business model.

All efforts to implement public value ideas in a corporate context are driven by an organization’s need to better legitimize its actions. It concerns almost any business process up to human resource management and tax policies. Public value also challenges existing ideas of corporate social responsibility and sustainability, because it bluntly asks whether those activities add public value or not.

Managing public value is, first of all, about preventing it from being destroyed. Then it’s about identifying it and, ultimately, exploring new ways to create it. Figure 3 highlights the different stages and imperatives.

The many areas where a PVSC can be applied point to a straightforward call: business should not simply ask whether something is sustainably profitable or whether it is tainted. It should concern itself with bold questions about its contribution to society by its core business, even though answers are in areas where business is often silent today. There is really no need to remain defensive or passive!

Public value as a positive force for society

Let’s be clear: public value is not about redistribution of wealth. It is also not another version of Michael Porter’s idea of shared value, which is primarily concerned with economic value creation. Also, the opposite of public value is not private value in the sense of individual gain. Rather, public value points to impacts on the perception of community and society. If we think, again, in terms of metaphor: so long as a product or service stays on the kitchen table without leaving the house, it has no impact on the broader public’s perception. It is isolated from the social context, as the wider society is never invited to the immediate family’s kitchen table.

Think of highly gifted inventors, who never get market access — they fail to create any value, including public value. Since a corporation is essentially an invention of culture and civilization, it cannot but create or destroy public value. It interacts in many ways with society and, by doing so,
it also stabilizes or destabilizes a societal order. To come back to our metaphor: for a corporation, society is always at the kitchen table and, because of this, a corporation brings something to the table of society.

High-performing organizations are ahead in treasuring their public value. They not only use it for their risk management, but also link it to their value proposition. In summary, public value is a major chance to improve resilience and to grow and develop. On a personal leadership level, public value offers a solid compass for managers who wish to develop the competencies that will enable them to fulfill Drucker’s assignment of management’s social function. What could be more attractive for leaders than to make a difference to society?

Case study
Evaluating how the public value of an insurance company could be impacted by a potential acquisition

By using the PVSC, we recently helped a Swiss insurance company to evaluate and anticipate the opportunities and risks of a potential acquisition. The board’s question was whether such a move could impact the company’s public value. Given the confidential context of an acquisition during the due diligence phase, we first discussed questions and indicators only with internal experts. Then, we selected a number of national opinion leaders, ranging from high-ranking politicians, scientists, journalists, industry experts and managers. During 30 personal interviews, we applied the PVSC without disclosing our actual customer. To our interviewees, we circumscribed the context by strictly keeping to confidentiality rules.

The result of our inquiry was an individual and case-specific PVSC, which was then presented to the board. It turned out that our analysis substantially changed the board’s viewpoint. Hot topics included ambivalent expectations about cost synergies and layoffs, the fear of extended market power and the risk of jeopardizing the company’s reputation of embodying Swiss values. As one member commented, “If we really go ahead, we will have to carefully take into consideration potential reputational risks.” Another one was surprised how closely linked opportunities and risks seem to be: “We have a lot to lose but not much to win concerning our public value.”

The exercise clearly raised awareness about issues on which everyone had an opinion. But, only the PVSC provided a fact-based starting point to make the top management reflect on these issues. Over time, the company has successfully integrated the insights and is now driving the process forward based on a managerial notion of public value.
VAT changes to online sales: not just a tax concern

Unless you work in a company’s tax function, a value added tax (VAT) change that’s almost a year away is unlikely to keep you awake at night. But if that change means a 3.85% reduction in your annual net sales, or an opportunity to take a strategic look at your whole business, then maybe it’s time to think again.
Tax regulations are changing for the online sale of telecoms, broadcasting and digital content to private individuals who are resident in the European Union (EU). At present, VAT is paid in the country of the supplier. But from 1 January 2015, it will become payable in the country where the customer resides. Anyone selling digital products such as newspapers, music, software and games within the EU will be affected. Overnight, the VAT on content delivered from a supplier in, say, Luxembourg to a customer in Hungary will rise from 15% to 27%.

This change clearly has wide-ranging implications for the tax requirements of affected companies. But there are also much wider cross-functional business implications. EY has identified five key areas where the businesses affected are most likely to feel the impact of the 2015 VAT change. These are: taxation, pricing and channel to market, dealing with third parties, systems and customer experience.

A shift from one tax authority and one VAT rate to many

At present, many suppliers of digital goods in the EU consider basing themselves in countries such as Luxembourg, where they pay a flat rate of 15% VAT on all of those sales, regardless of the country in which they are sold. But from 1 January 2015, being based in Luxembourg will have absolutely no VAT benefit at all. Companies will be required to charge VAT and account for VAT in the country where their customer is based.

For example, currently, if a company selling digital movies across the EU is based in Luxembourg, it is likely that it will be dealing only with a single tax authority that is reasonable, stable and predictable. But from next year, this same company is going to have to deal with every tax authority into which it sells digital products. And these countries have different VAT rates. For example, when the company sells into Germany, it will pay 19% VAT. When it

Figure 1. What’s changing?

Source: EY.

EY has identified five key areas where the businesses affected are most likely to feel the impact of the 2015 VAT change. These are:

1. Taxation
2. Pricing and channel to market
3. Dealing with third parties
4. Systems
5. Customer experience
sells into Hungary, it will pay 27% VAT, the highest rate in the EU. Also, the different jurisdictions will have very different levels of aggression toward compliance and collection. For example, countries such as Greece and Italy, which still have some way to go to repair their public finances, may take quite an aggressive view toward collecting what is, in effect, a brand new source of revenue that they could never have banked before.

In summary, the tax effect of the 1 January 2015 changes is a shift from dealing with a single tax authority with one registration, one filing, a single compliance burden and a predictable VAT liability, to dealing with many tax authorities with varying characteristics and fluctuations in VAT rates.

**Taking the hit to margins or varying prices per country?**

At present, a company selling digital movies across the EU probably sells at a single price in all Member States. Let's say that it charges €5 per movie, regardless of where the consumer is located. If the company chooses to maintain this pricing policy after 1 January 2015, then any increase on VAT incurred by selling into a country with a different level of VAT from where the company is currently based is, in effect, a direct hit on its margin. Taking the example of Hungary, if today a company is selling to a consumer in Hungary but paying 15% VAT in Luxembourg, after the VAT changes, it will pay 27% VAT in Hungary. Should the price remain the same, it will come directly out of its margin.

Companies will need to decide whether they are prepared either to take a margin hit or to vary their pricing. If they choose not to take the hit, then they must ask themselves a series of questions: how do we change our pricing? Do we increase prices for everyone and still have a single price? Do we start to charge different prices in different countries? If we change prices, what is the impact on our margin? How elastic is the price of the goods that we’re selling?

Overnight, the VAT on content delivered from a supplier in, say, Luxembourg to a customer in Hungary will rise from 15% to 27%.

There is also an important market consideration. If the company has to pay 27% VAT on each sale in Hungary, then they need to ask themselves whether they have enough customers in that market to make it viable to operate there. They may decide that it is better to shut down operations in that market and divert resources to finding new customers in a country that charges less VAT.

EY has produced a case study based on a fictitious company. This company provides digital content to customers based in France, Germany, Hungary, Italy, Luxembourg, Spain and the UK. It is headquartered in Luxembourg, where the company takes advantage of the favorable tax and VAT regime. Customers are able to stream movies at a cost of €5 (VAT inclusive) per movie. In 2012, the company sold 10 million films to customers across its seven target countries. France, Germany and the UK each provides 20% of the company’s sales. Hungary, Italy, Luxembourg and Spain each provides
VAT changes to online sales: not just a tax concern

10%. Based on these percentages and the existing VAT rates in these countries, should the company choose not to change their pricing, the impact of the 2015 changes would represent a €1.7m reduction, or 3.85% fall, in net yearly sales.

Although the changes come into force on 1 January 2015, the clock is already ticking. Anyone selling, for example, a 12- or 18-month subscription to an online movie service is already in the danger zone. The portion of the subscription that falls after the changes come into force will attract the new VAT level. Those who have already sold subscriptions that stretch beyond 1 January 2015 are, in effect, already accepting the hit on their margin – because they cannot go back and change the contracts. So, companies need to think about their pricing immediately.

Dealing with third parties: legal, commercial and practical issues

A lot of businesses sell digital products through third parties, such as Apple or Google. Businesses that provide these services need to ensure that all parties within their supply chain clearly understand where responsibility lies for accounting for VAT as of 1 January 2015.

Businesses need to consider the legal, commercial and practical issues relating to their supply chain. For example, from a legal perspective, contracts will need to support the correct VAT reporting position, and VAT legislation regarding intermediary supplies will need to be considered as part of this review. From a commercial perspective,
all parties within the supply chain should understand the commercial impact of VAT reporting in all EU countries. VAT increases could decrease the margin achieved on sales to the consumer, and thereby have a knock-on effect on the commission that other parties in the supply chain will receive. From a practical perspective, information about the customer will have to be collected and stored by the entity responsible for accounting for VAT. This may not always be the entity that has a direct relationship with the consumer.

For businesses that use intermediaries to reach their customers, it would be prudent, where possible, to check contractual terms or initiate discussions with the consumer-facing entity within the supply chain, in order to clarify who will be responsible for accounting for VAT. Suppliers should be cognizant of special rules in the VAT legislation, determining when businesses will be deemed to be acting in their own name where services are supplied through a telecoms network, interface or portal (such as an app). If they do not seek clarity, some businesses risk being taken by surprise if they are unexpectedly held responsible for accounting for VAT on supplies to consumers. They may be subject to audits, assessments, penalties and interest if they have not correctly accounted for VAT.

Suppliers should also consider their commercial arrangements. Even where the supplier receives commission only – and has no direct relationship with the consumer – the business should ensure that the 2015 changes will not significantly affect the net income that it will receive.

### The impact on a company’s systems is far-reaching and significant

Making the purchasing process simple for customers is an important way of gaining competitive advantage when selling goods digitally. Most providers have developed a “one-click” purchasing system.

However, should a company wish to charge different prices based on where the customer resides, it will have to provide two pieces of non-contradictory evidence of address to the tax authorities. So, if the customer is using a mobile phone to order, the provider could capture the SIM card and the country where it is registered. They could also use the billing address of a credit card or IP address if the order is made online.

From a systems point of view, every site or app through which a company sells has to identify where each customer is based, capture two pieces of evidence that prove residency and also show the correct price. Previously, some companies may have simply hard coded pricing into their website. However, a modern, flexible pricing engine will be required to deal with dynamic pricing. Storing proof of customers’ location in a manner that complies with EU data privacy rules requires a strong customer relationship management (CRM) system. Storing the location is not enough. Proof must also be stored in case the tax authority demands to see it.

Finally, there’s the back end, the finance aspect. The tax engine and enterprise resource planning (ERP) system must be capable of calculating and filing tax in all of the different Member States into which the company sells.

In summary, there is a top-to-bottom impact across the IT estate: the front-end user experience across the apps and ecommerce sites, the transactional pricing and ecommerce engines, the CRM systems that are storing customer master data and the back end finance and ERP systems.

### A more complex customer experience may lead to consumer anger

As we have seen, companies attract and retain customers by making the purchasing process as simple as possible. But the impending VAT changes mean that this simplicity can expose companies to new risks.

If a company decides to vary its price to take into account the different VAT rates
applied to its products, then customers may try to cheat the system. For example, a consumer in a high-VAT country such as Hungary may try to use virtual private network (VPN) software to mask their actual location and pretend that they are based in a lower-VAT country, where the price they pay will be lower.

The company is responsible for applying the correct amount of VAT. To avoid punitive measures from a tax authority, the company will need to introduce steps that demand proof. But these steps will interrupt the simple purchasing experience that the company has tried to create: they could require customers, for example, to register their bank details and provide proof of address. The result is that the purchasing experience will become less straightforward for the customer.

Remember, customers are not tax experts. When they are used to paying just €5 to download a film, many will be confused, even angry, when they are
asked to pay €5 plus 23% VAT. And they may not understand why their friend across the border is paying €5 plus 17% VAT. Customer services should prepare to receive additional calls from customers querying and complaining about price rises. Social media is an expanding repository for consumer anger. So, companies that choose to alter their prices should expect a backlash on social networking sites.

One way of reducing the negative impact from a price increase is to prepare consumers for it. Companies should consider how to communicate to their customers that a VAT-driven price increase is coming, that prices will vary across EU Member States, and that customers will have to provide information proving where they live.

Adding value to your business
It’s clear that the impact of these VAT changes reach much further afield than a company’s tax function. And by looking at the wider implications, another important insight becomes clear. Preparing for the VAT changes is not just a piece of compliance. It is an opportunity for the providers of digital services to improve their pricing strategy, re-evaluate the markets in which they operate, work better with third parties, upgrade their systems and re-engage with their customers. In short, it is an opportunity to recalibrate their whole business. And if they take this opportunity, come 2015, they can ensure that a new year’s resolution to carve out competitive advantage is fulfilled on day one.

Every site or app through which a company sells has to identify where each customer is based, capture two pieces of evidence that prove residency and show the correct price.
A new way of working at Australia’s Western Power

Western Power transmits and distributes electricity to a large section of Western Australia. Over the past 18 months, the company has seen an extensive transformation led by new CEO Paul Italiano.
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Since Paul Italiano was made Western Power’s CEO in February 2012, he’s overseen extensive changes in the organization’s values, operating model and business approach – and the process is far from complete. Italiano’s appointment was unusual: he doesn’t have a background in power and utilities, though he has worked in a wide range of sectors for companies such as Wesfarmers General Insurance, HBF Health Fund and EY.

But Italiano’s lack of experience in utilities does not mean he’s lacking ambition for Western Power. “Western Australia is a small space. But what we’re trying to do is to tap into global best practice,” he told Performance. “Small” is a relative term. Western Power covers an area of about 10,000 square kilometers, but with only around 2 million customers, demand peaks at about 4,000 megawatts (MW). To put things into perspective, for each kilometer of cable, most electricity distributors have thousands of customers – Western Power has approximately 10.

In one form or another, Western Power has been providing electricity to Western Australia for more than a century. In
2006, the company was dissolved as a vertically integrated state utility, and the generation and retail elements spun off, leaving Western Power in its current form responsible for transmission and distribution. And today, although it is still owned by the Western Australian state government, both Western Power’s new ethos and operating model are intensely focused on the delivery of customer outcomes and moving the organization toward a private enterprise model.

Time for change

When Italiano became Western Power’s CEO, the company was facing a number of challenges that needed to be tackled in order for the organization to meet the expectations of its customers, stakeholders and regulators.

Under its previous operating model, Western Power’s direction and purpose had not kept pace with a changing customer environment. The workforce of highly trained electrical engineers was extremely capable but, overall, there was a lack of cohesion. Areas of specialism built up that were sometimes at odds with the function of the business. Key processes became inefficient and ineffective, and the business lost focus. In addition, decision-making was not always being driven by business acumen. This meant that technological resources weren’t being exploited to drive efficiency and value, and the firm’s key metrics and priorities became misaligned. Finally, there was a lack of clarity about customer and stakeholder needs.

Western Power was also facing significant external pressure. The company had a tarnished image, was in the press for all the wrong reasons, and was struggling to meet the terms of its regulatory contract. Western Australia’s Economic Regulation Authority’s funding forecasts also fell substantially below the company’s projected requirements, amounting to a total shortfall for 2013–17 of AUS$1.08b (US$0.96b).

To address these problems, Italiano initiated an ambitious program of change designed to improve key operational processes and work practices, and realize cost savings of more than AUS$25m (US$22.2m) in the 2012–13 financial year.

Getting back to basics

Italiano realized that, to underpin these changes, Western Power needed a new operating model. But he also realized that it was important not to rush headlong into change. First, he worked with his team to provide a simple definition of Western Power’s key strategic outcomes. These were ultimately defined as:

► Its role in the community: to connect people with electricity
► Its measures of success: safe, reliable and affordable

Once this was done, the team was able to set about designing an operating model that could achieve these aims. Italiano’s decision to take this back-to-basics approach helped persuade him to bring EY on board. EY’s global reach and extensive range of existing utilities customers were important factors in the decision. But it was EY’s Power and Utilities Maturity Model and Architecture (PUMMA) program that most attracted Western Power. PUMMA is designed to help large utilities to optimize their process value chains, maturity models, risks and controls, key performance indicators and IT environment. The model offers access to a large volume of constantly updated data that utilities can use to make transformations as cost-effective as possible. In addition, PUMMA can be easily aligned with existing business models, helping to highlight potential issues and

One of the rules that we established early on was that people will not find out about a change in their role electronically or in writing. They will hear about it from their manager – in person. And I think that 99% of the time we’ve achieved that.
problems. The model has been successfully applied in the past with EY’s large utility clients, such as the UK’s National Grid. Ian Rakich, the Partner leading EY Australia’s engagement with Western Power, explained: “PUMMA is a process-centric model that has a customer orientation and is functionally aligned. It puts the customer at the center and it brings through end-to-end processes: the business functions fall out of that.”

PUMMA aligned with Italiano’s objectives. He believes it works well for Western Power because it tightly describes the processes and functions necessary to run a utility, and it allows the company to see the level of resources other firms around the world allocate to these processes. “Previously, we were only comparing our performance with where we had come from – we weren’t working to an accurate benchmark,” Italiano explains.

Developing a new operating model

The first step in Western Power’s transformation was the strategic plan for 2013–17. Designed to deliver key business outcomes and to show management the scale of the projected transformation, the plan set out three phases of development: improving the organization’s business structure and processes; changing culture and capability; and building branding and customers (see Figure 1).

The next step was to design a new operating model, with the focus firmly on the company’s purpose: connecting people with electricity.

Working with EY, Italiano and his team first defined the principles that would underpin the new operating model. These would help to answer key questions about the company’s processes and functions. The design principles stated that the change process would:

- Ensure that future design addressed all aspects of the case for change
- Resolve conflicting stakeholder priorities

Figure 1. Implementing Western Power’s strategic plan required three phases of activity

<table>
<thead>
<tr>
<th>Set foundation</th>
<th>Build capability</th>
<th>Transform practices</th>
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<tbody>
<tr>
<td>When</td>
<td>Focus</td>
<td>Key milestones</td>
</tr>
<tr>
<td>January–June 2013</td>
<td>Organization: structure and processes</td>
<td>Organizational design</td>
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<tr>
<td>July–December 2013</td>
<td>Culture and capability</td>
<td>Asset management improvement plan</td>
</tr>
<tr>
<td>January–June 2014</td>
<td></td>
<td>Implement brand strategy</td>
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</table>

Design the business from an outside-in perspective to deliver customer and stakeholder outcomes.

Continue to enhance the operating model to be “future proof” by monitoring external factors and responding to them.

Develop a low-cost business through focusing on simplicity and ensuring that spending is aligned to value drivers.

In addition, it was important that the change process would:

- Integrate across the business with common end-to-end processes.
- Incorporate (where possible) requirements of other strategic themes.
- Be bold in design by developing high-impact ideas in addition to low and moderate options.

Once again, Italiano’s approach was to get the core principles and desired outcomes firmly in place before working on the operating model and the organizational changes. The first step was to define Western Power’s value drivers, which had to address the problems identified by the case for change. During the planning process, it became clear that regulators, customers, employees and other stakeholders were at the heart of value for Western Power. In the end, three key value drivers were settled on:

1. **Stakeholder management**: understanding what stakeholders want and managing their expectations.

2. **Spend management**: securing funding, prioritizing work and allocating spending.

3. **Delivery execution**: effectively and safely delivering integrated business services to meet stakeholder expectations.

Having decided how value is driven at Western Power, Italiano and his team were able to envisage a value chain that would be tightly aligned to the value drivers. Among other priorities, the value chain highlights end-to-end processes that always focus on customers, an integrated business that facilitates rapid responses to external pressure, and the development of common processes that drive low costs to maximize financial return. In the end, Western Power drew up a streamlined, process-centric operating model that would deliver a safe, reliable and affordable supply of electricity and always keep the customer in sight (see Figure 2).

To fit with Italiano’s aim of introducing business management techniques and frameworks, the model was designed to focus on the management of the utility as a whole, rather than on particular technical functions. And the model had to apply to both Western Power’s transmission and distribution functions in order to provide the economies of scale that would be lost if the functions were separated.

### Changing mind-sets

Implementing such extensive changes to an organization relies on employees being flexible enough to accept changes to their working practices. And making a public utility run more like a private business required changes to both individual and collective mind-sets.

![Figure 2. Western Power’s operating model](image-url)
Due to the technical complexity of operating an electricity network, Western Power is staffed from top to bottom by highly skilled engineers. A focus on technical issues, rather than the business as a whole, meant that over time, areas of specialty emerged and the business wasn’t operating as a cohesive unit. “Implementing the new operating model has really been about encouraging people to buy into working collaboratively — like a well-oiled machine,” Italiano explains.

Not only was Italiano trying to implement a new operating model, he was also imposing a more defined structure than the company had previously seen. “You couldn’t go to five people and ask them, ‘How does work flow through the business?’ and get a single answer,” he says. Inevitably, apart from getting people to think in new ways, a streamlining process involves restructuring. Since Italiano took over, executive headcount has fallen from nine to six, level three managers from 47 to 26, and level four from 171 to 111.

In addition to a reduction in size, the new executive team has a very different composition. In the past, it was dominated by electrical engineers; today, Western Power’s leadership has diverse experience across a number of industries.

**Communicating the change**

Over the last 18 months, Western Power has become a very different place to work and many employees have seen their roles altered. But with the kind of cultural shift that Italiano is driving, there has to be employee support to ensure success.

The first thing that Italiano stresses is that there has been little resistance to change: “Most people see a new way of going forward and really want to apply it,” he says. In part, this success has been down to the CEO’s respect for good communication. “One of the rules that we established early on was that people will not find out about a change in their role electronically or in writing. They will hear about it from their manager — in person. And I think that 99% of the time we’ve achieved that,” he explains.

Another key aspect of driving successful change has been what Rakich and Italiano call a “leader-led” approach. This means changing culture and mind-set at the top first and letting this trickle down through the business. Under the new model, managers’ success is ultimately measured in terms of the delivery of leadership and required changes, rather than on technical outcomes.

This gets to the heart of the change that Italiano is driving at Western Power. It’s about getting back to basics — moving away from a technical mind-set and focusing on the final user. “We try to remind people that our job is to connect people with electricity, that the only things that customers should experience are safety, reliability and affordability. We’re here to provide a service to the community — and to customers — rather than focusing on the network or the technology,” he says.

**New methods, new results**

Western Power is really only at the beginning of its change process. But it’s
remarkable how tangible the results of the new strategy have been already. You only have to glance at the company’s annual report to see this. In the financial year 2012–13, Western Power reduced operating costs by AUS$25.5m (US$22.7m). On top of this, the time lost to workforce injury is down 50%. Reinforcement of the aging wood-pole infrastructure is up an incredible 96%. In addition, the company has established 23,993 new customer connections.\footnote{Western Power Annual Report 2013, available at www.westernpower.com.au/documents/reportspublications/annualReports/wp-annual-report-2013.pdf, accessed 15 November 2013.}

“It’s amazing what happens when you actually get a clearer focus on what’s core to the business. And when you do that, performance does start to improve,” Italiano says.

Next steps
Nevertheless, the organization is only partway through its transformation. With the new strategy and desired working culture established and the new operating model implemented, the next big step is to initiate programs that will improve work practices by mapping current performance and benchmarking this against global best practice.

“There are three main areas for improvement: planning and scoping the work that Western Power does; scheduling and dispatching work – how work is scheduled and how people are applied to it; and field force productivity – how we can increase the productivity of the people working in the distribution lines in the main business support through better processes,” Rakich explains.

With so many changes made, and so many still ahead, how will the new CEO know when the transformation is complete? And more importantly, how will he know that his work has been successful? In keeping with Western Power’s clear new direction, Italiano says that it will not be material tests or complex metrics that ultimately indicate success to him: “Like any other company, we will know that we’ve been successful when the customers perceive that they are getting value for money for the service that we offer,” he says. ■
Born to be digital: how leading CIOs are preparing for a digital transformation

Digital technologies are increasingly disruptive forces in our industries and economies. For CIOs, these technologies represent an enormous opportunity to forge a new role as drivers of transformational change in their organizations. To seize this opportunity, CIOs will need to learn new skills, approaches and attitudes.
New research from EY\textsuperscript{1} identifies the attributes to which digital-ready CIOs should now be aspiring. Based on quantitative and qualitative research conducted with CIOs who are already especially engaged on the strategic elements of their roles, especially at IT-intensive companies, it paints a portrait of the mind-set needed by CIOs who are determined to embrace the shift to digital.

The lessons from those CIOs who can justifiably claim to already be digitally ready are clear, and they apply across all organizations, no matter what their level of IT intensity. In particular, these digital-ready CIOs share six crucial characteristics:

1. **A strategic vision for how technology will transform the business, and a road map for implementing that transformation**

Digital-ready CIOs can articulate a vision of how their business needs to develop and the role that new technologies will play in that evolution. They understand what digital means for every area of the business, whether operational or customer-facing, and they make convincing arguments for why their organizations should embrace these opportunities.

In practice, this means that digital-ready CIOs must have a strong grasp of their company’s business model – its products and services, and how these get to market. In short, says Lars Mathiesen, the CIO of Danish financial services group Nykredit, they must think like commercial executives who are focused on strategic thinking, rather than technologists who are concerned with operations or kit.

“I am not an IT guy,” says Mathiesen. “In my younger days, I was a strategic

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\textsuperscript{1} Born to be digital: how leading CIOs are preparing for a digital transformation, EY, 2014.
man and at one stage I was CEO of a real estate agency; I have also been chief of retail business in a company. That makes it much easier for me to combine the business issues with IT, and I think we will see more of this in the future.”

Part of the strategic challenge facing CIOs is to communicate the vision. Almost 9 in 10 (87%) digital-ready CIOs are especially focused on setting out a vision of how IT can drive business transformation, compared with only 72% of CIOs generally.

Having set out this vision, however, CIOs must also be able to implement it. More than 8 in 10 (82%) digital-ready CIOs stress their focus on the need to design and execute business strategy, compared with only 64% of typical CIOs.

These are exacting demands, says Bruno Ménard, the CIO of French pharmaceutical giant Sanofi. “The core expectation of the CEO will be that their CIO is a good manager who can control costs but, in businesses embracing digital, they also want much more than this – someone who can push change management as a real business partner.”

2. A relentless commitment to innovation

Digital-ready CIOs are obsessed with innovation: they are constantly on the lookout for opportunities for IT to cut costs, boost revenues, create efficiencies or facilitate the development of new products and services. They look across the business in order to seek out and grasp as many of these opportunities as possible.

“If I look at the expectations of my board members, they are really around innovation,” says Bruno Ménard of Sanofi. “What does digital mean for my business, how can I create competitive strengths, how can I create resource from digital, how do I manage a digital transformation? How do I help my business teams to really shift or integrate digital in what they do?” A CIO able to demonstrate excellence in these areas – and more – will be seen as a crucial agent of change, Ménard suggests.
Born to be digital: how leading CIOs are preparing for a digital transformation

Digital-ready CIOs understand the need to take charge of the innovation pipeline. More than 7 in 10 digital-ready CIOs (71%) strongly agree that they are responsible for driving the adoption of disruptive technologies within their organizations – particularly in areas such as cloud, mobile and analytics – compared with 51% of CIOs generally.

These CIOs are also notably more comfortable with driving innovation throughout the business, rather than simply in IT itself. Some 65% of digital-ready CIOs devote time to discussing how IT can research and develop new products and services for the business, compared with only 50% of typical CIOs.

Part of the challenge, adds Ménard, is to build organizational structures that ensure IT can go on delivering innovation consistently day after day. “There is still a need to improve the maturity of IT governance as it relates to innovation,” he says. “We are currently reorganizing IT to split the roles of delivery and demand – the demand part is about being a business partner and organizing for that. We’re trying to prepare, so that IT can be very astute in what it proposes and how it answers questions – we come to the conversation with thought-out proposals in terms of time lines and resources.”

3. A close focus on how IT can drive growth – and strong relationships with business partners, such as the front office, that enable this

In the past, CIOs have sometimes acted as gatekeepers, sanctioning projects, or not, on the basis of their technological viability and cost. Today, digital-ready CIOs recognize they need to be the ones pushing the projects – and to work more closely with business partners in order to turn their hopes into reality.

“All this talk that ‘the CIO is dead’ is sort of silly, but the role is going to change – I can sit here and say ‘you have to ask me’ but, if I say no too often, I am not going to be asked. And vice versa, I have to provide solutions and act proactively.”

Philipp Erler, CIO, Zalando

4. An ability to communicate the potential of IT to key business partners

Nine out of 10 digital-ready CIOs say that skills, such as communication and the ability to influence people, are especially important in their role, compared with 79% of CIOs generally. No wonder: it is one thing to have a vision of what digital technologies might offer the company, but quite another to set out that vision to colleagues – many of whom may be less IT literate – in such a compelling way that they are willing to sanction investment in it.
Eighty-two percent of digital-ready CIOs stress their focus on the need to design and execute business strategy, compared with only 64% of typical CIOs.

Lars Mathiesen of Nykredit says that CIOs have to learn how to inspire both those around them and the key decision-makers at the business. “Closer collaboration with the business and its management is going to become more important for IT in the future,” he says. “We’ve got to get into the front office and we’ve got to get to the management team – inspiring the whole management group is going to be a vital role for CIOs in the future.”

Part of the challenge will be to learn how to speak the language of the rest of the business – and to become more familiar with the politics that operate within all organizations. “It’s the area where I have to develop most,” says Philipp Erler of Zalando. “It’s not necessarily a matter of social competence but about how to reach political understandings and to forge alliances.”

CIOs who establish their credibility will find they are more likely to be listened to, Erler adds. “At our company,
leadership and acceptance derive from competence,” he says. “So that’s about the projects that I have done and completed successfully on the one hand, but on the other hand, it’s also about the way you are able to participate in discussions with the business.”

5. A determination to move beyond the operational elements of the CIO role

EY’s survey results reveal that digital-ready CIOs are far less likely to report that they have increased their prioritization of basic IT operations. Instead, issues such as change management and process improvements are more likely to be consuming their time. This reflects an important characteristic of digital-ready CIOs: they see their role as being much wider than delivering operational excellence.

This is not to say that digital-ready CIOs do not understand the importance of “keeping the lights on.” Instead, the key is to move beyond the operational elements of the CIO role and focus on broader issues such as change management and process improvements.

As CIOs and CMOs move closer together, their shared expertise can be a powerful voice for monetizing customer insights.
I work in financial services, which is highly regulated, so I have to be cautious, but all CIOs have to be prepared to experiment more.

Herman de Prins, CIO, UCB

how they prioritize their responsibilities. Many have appointed key lieutenants in order to free up their own time for more strategic concerns.

Philipp Erler of Zalando says that he would not have been interested in the CIO role if it did not encompass this strategic element. “I was not the kind of person who did, for example, office networking projects — that seemed relatively unexciting to me,” he says. “Much of what I did in the past was really product development, and now I see my role as strategic — how do I structure my platform so that it supports the goals of the company, how do I actively drive it forward, and how do I ensure that IT is in a position to help enable new business models?”

Sanofi’s Bruno Ménard also believes that this broader responsibility is what makes the CIO role so attractive. “It is a great position because you need to have an understanding of the entire company – on the one hand, you must supply the services, so it’s very operational, but on the other, it’s increasingly strategic and innovative, and it’s also about people management.”

Digital-ready CIOs are comfortable looking outward from the summit of IT, rather than at what lies beneath them. They recognize that, while incremental improvements within their own departments will deliver benefits to the business, the more valuable prizes are to be found in using disruptive technologies to develop better business models throughout the organization.

6. The courage to take calculated risks

Making the leap to become a digital-ready CIO requires courage. There is a need to step out of established comfort zones, learn new skills, forge new relationships and try to take advantage of opportunities that simply did not exist when most CIOs began their careers. For these reasons, digital-ready CIOs are more likely to be risk-takers — and that is important, since many of the technologies they are now exploring are relatively untested. There are risks involved in adopting them — both for the business and for CIOs themselves, who put their credibility on the line by making the case for these technologies.

Herman de Prins, CIO of Belgium pharmaceutical company UCB, says that too many CIOs are risk averse. “I talk often to my colleagues at other companies and often they are hesitant to experiment. More than ever, in any business, the relevance of IT comes from innovation with technology and that implies risk and the willingness to take it,” he says. “I work in life sciences, which is rewarding and complex, yet that doesn’t mean we can’t experiment.”

Digital-ready CIOs do not have different concerns from their colleagues — indeed, EY’s research shows that they share the same anxieties as their peers about issues ranging from resources to innovation. The difference is that they are more willing to try out different solutions. With initiatives such as small-scale pilot studies, they take calculated risks. Sometimes those projects fail, but that is part of the learning process. Digital-ready CIOs accept that, without these setbacks, they will never reach the transformational targets they have set for themselves.
Innovation procurement: bridging the health care gap

Growing pressures on the health care sector are stretching resources thinly, as society, through politicians, is expecting more for less. In the processes of constructing a brand-new site, Karolinska University Hospital is taking on this challenge, using innovation procurement as a means to providing the quality health care in demand, at a lesser cost and with increased patient benefit.
The gap between the demand for health care and available resources has been growing rapidly. The drivers behind such a widening gap include an aging population, growing regulatory pressures and resource constraints. One solution to bridge this gap is innovation. Health care organizations are, for the most part, unaware of the benefits that a proactive approach to procurement of innovative new solutions can bring.

Nya Karolinska Solna (NKS) is a new state-of-the-art hospital currently under construction next to the existing Karolinska University Hospital in Solna, Sweden. NKS is being built to meet the demands of the future of health and medical care — with a greater focus on patient needs, faster provision of care and increased patient safety, with single rooms for all inpatients. Construction of the new facility began in June 2010 and will continue until 2017. The new hospital facilities will consist of approximately 330,000 square meters total gross area.

An innovation is something that people have put to practical use, while an invention can be solely a documented theoretical thought.

► The innovation is the result of an innovation process and could be either a new product, service or process.
► An innovation could also be the application of existing solutions or technology with the purpose of addressing new challenges.

The vision is for it to be a “hospital of the future.” NKS will provide highly specialized health care and conduct academic research, patient-focused clinical research and education. This new location, to open its doors to the public in 2016, is pioneering innovation procurement as an answer to the challenges facing the sector.

Furthermore, NKS will be part of a whole new care system in the greater Stockholm region based on all parts interacting with each other. The demanding, highly specialized care at NKS is complemented by extended emergency hospitals and specialist care outside these hospitals.

In collaboration with the existing Karolinska University Hospital and Stockholm County Council, EY has worked to help the new hospital adopt an approach for equipping it with medical technology equipment (MTE) that supports innovation. This approach requires close collaboration, research and knowledge, but also funds and commitment.

Karolinska University Hospital has a strategic focus on innovation and innovation procurement, aiming to create initial, continuous and sustainable improvements regarding the cost and quality of care, so patients can expect greater-value health care. It is, therefore, important that each procurement package of MTE for the new hospital reaches its full potential for innovation.

As innovation is a key enabler to cost savings, increased quality and increased patient benefit, it is vital to ensure that the innovation potential in each procurement package is identified and adhered to.
The “innovation potential” in each procurement package is identified and assessed through innovation workshops that EY arranges together with key client stakeholders. For example, when identifying innovation potential in x-ray machines, workshops would be held with, for example, radiologists, radiology nurses, medical technicians, medical physicists and other medical specialists and controllers.

How to apply innovation procurement

Karolinska University Hospital applied different methodologies, tools and procedures for innovation procurement based on the extent of innovation in each package (see Figure 1). For innovation procurement to be effective, it is important to work closely with the relevant target groups within the hospital, i.e., the people who will be using the innovation.

To foster a culture of innovation, a business needs to reassess its finances and leadership, initiate systems for continuous improvement and establish an asserted vision and values. Innovation and innovation procurement are some of the key building blocks to ensure the success of this state-of-the-art hospital when it opens in 2016 and for a long time to come.

Through procurement, and specifically innovation procurement, corporations are able to drive collaborations between the business community, the academia and the health care providers, to create the innovations that will ensure increased benefits in the future.

The application of innovation procurement

EY was engaged by Karolinska University Hospital to help challenge existing ways of working, processes and follow up, as well as cost efficiency, by continuously driving innovation and new solutions through the application of innovation procurement.

There are four considerations when supplying MTE and information and communication technology (ICT) infrastructure to NKS: procurement of new equipment, relocation of existing equipment, collaborations for development and innovation, and addressing future health care needs.

A supporting project, collaborations on innovation and new methodologies aid procurement packages by determining the extent of innovation and defining best practice through pilot projects.

EY works together with Karolinska University Hospital to define the extent of innovation procurement.
innovation and potential for innovation in each equipment package and, based on this, identify the best procurement strategy and approach for achieving that potential. EY then supports the client through the procurement processes regarding each package.

As these procurement approaches are relatively new and untested, pilot projects are used to gather knowledge and experience on an initially smaller scale, as well as identify best practice moving forward. Early results show that MTE suppliers are impressed by these new methods and are very positive, claiming that we are now causing a change in how MTE will be supplied in the future and how the entire business model for this will change.

**Conclusion**
Karolinska University Hospital and the health care sector at large are facing steep challenges, forcing them to reassess the way they deliver service. In collaboration with EY, Karolinska University Hospital is implementing new methods of using public procurement to drive improvements, illustrating that innovation procurement can play a key role in bridging the gap between demand and delivery, ensuring high-quality, affordable health care tomorrow.
A closer look at ...  
Innovation procurement²

► **Public procurement** is the purchase of services or commission work by public authority. These contracts account for about 19% of Europe’s gross domestic product (GDP).

► **Public procurement of innovation** (PPI) is when public authorities act as a launch customer for innovative goods or services. These are not often available on a large-scale commercial basis and may include conformance testing. Even though PPI allows public authorities more room for manoeuvring than traditional public procurement, it is important to note that they are still required to abide by the public procurement act (known as LOU in Sweden).

► **Pre-commercial procurement** (PCP) is an approach within public procurement of innovation, developed for the procurement of R&D rather than actual goods and services; if there is a wish to procure the goods or services during this phase, another procurement process is needed.

Innovation in the public procurement context takes into account innovation in the design and delivery of public services, the procurement of innovative goods and services, and innovative procurement processes and models. PPI and PCP cover a large range of the industrial market throughout the entire development phases, giving public buyers the opportunity to influence the market with innovative solutions.

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**Checklist**  
When to consider innovation procurement

One of the initial challenges to contend with as an individual procurement officer or organization, when considering the use of innovation procurement, is to determine what kind of procurement process we are aiming for:

► Is this a procurement that requires new knowledge or innovation?

► What kind of innovation are we interested in?
  ► Products, processes or services, etc.

► How radical is the innovation?

► What are the effects and consequences for the employees (e.g., clinicians)?

► Are we looking for specific innovations today or are we looking for a supplier that will support and realize future innovation and development?

► Which form of innovation are we contemplating?
  ► Innovations for new knowledge
  ► Innovations for the benefit of society
  ► Innovations for the individual organization

► Is there an existing market for these products, services or solutions?
  ► If yes: is innovation procurement the right course of action for our organization? Is innovation criteria in the procurement important or do we wish only to procure innovations? In that case, how can we be sure that the extent of innovation is sufficient enough to warrant an exception from the Public Procurement Act?
  ► If no: how clear cut is the innovation? Which procurement procedures would be suitable to use?
From print to digital: the changing face of the media

The digital evolution has changed the global media and publishing landscape, with the availability of services and content variety significantly altering the way information is consumed. To survive in such an environment, media companies need to innovate to attract and retain readers.
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With the ever-increasing digitization of information, publishing and media companies across the globe are faced with a challenge: innovate or fall behind.

New devices and communication channels continue to change the way media is consumed, and media companies, particularly traditional newspaper publishers, need to revisit their business strategies to stay afloat.

Consumers and corporations are becoming more comfortable with digital. Social media, apps and digital devices are becoming part of business as usual. Today's challenge is in the implementation of new organizational models that allow companies to integrate traditional and digital businesses and structures. This phenomenon is only going to grow bolder, not only because of new opportunities in technology and business models, but also because of the growth of digital natives, which are slowly replacing traditional readers.

These readers are also trying their hand as writers, with social journalism and crowdsourcing significantly reshaping the way information is being generated and absorbed.

Over the past five years in Italy alone, turnover in newspapers has decreased by 15%, advertising revenue has fallen by 50% and circulation has dropped by 20%. In France, newspapers have also had to play catch-up online, with circulation down by nearly a third in four years and direct government subsidies to the press projected to slide 29%, by 2015, from their 2010 peak. Le Monde only began merging its online and offline newsrooms in 2012, after a group of investors bought control of the paper in a bid to save it from bankruptcy. In Germany, revenue is down just 10% since 2008, according to the Association of German Newspaper Publishers.1

The dilemma that publishers face is the need to digitize, but also to maintain, traditional operations during the transfer. Publishing and news houses need to put in place dual structures to maintain their traditional business model, while implementing a second structure for digital. This creates a challenge for balancing resources. Companies' organizational models must encourage the process of monitoring the behavior of consumers by creating a two-way link between the product offered in the time and the needs of the consumers themselves. Media organizations also need to balance attractiveness and availability of content on different platforms.

Innovating to stay afloat

While the industry struggles to adjust, there are several factors companies can leverage for a quick transition. Firstly, companies must reassess the market to ensure a high level of customer adherence, improve customer centricty and industrial-like product development.

Cost efficiency and low time-to-market are important, not only for the bottom line, but also for the end-to-end renewal of product life cycle, from creation to re-use. Strategic objectives for many companies looking to transition concern not only strategic guidelines, but also the capability to put those guidelines into action. A few key objectives include:

► Integrate the organization by taking down all vertical silos related to single channels, single products and single markets

► Leverage through advanced governance model on innovative corporate functions such as digital, research and development, business development and information technology

► Manage enterprise contents in an integrated way, from system and process perspectives

► Profile the customer and manage it in an integrated way

► Develop industrial-like processes for new product development

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Barriers to innovation

Many current organizational models in the media industry do not allow companies to respond to real market requirements, which increasingly involve concepts such as multiple media, multiple channels and low time-to-market.

Because of legacy organizational, process and system-related silos, most of the contents are spread across different systems. This means it is often difficult to create bundles of products and efficiently manage the growing number of channels and devices.

Moreover, silo-driven organizations face rights management issues. This can result not only in rights violations, but also in not knowing the real value of the information generated by the different authors.

Organizational models for newsrooms

A key area of attention for media companies wanting to transition is the organizational model of the newsroom. There are generally five organizational frameworks adopted by newsrooms, numbered with increasing amounts of synergy and risk.

1. Decentralization: in this framework, each content team is different, with no synergy between them. This model is common in countries with labor restrictions and can be used to maintain brand identity or promote entrepreneurship.

2. Non-core platforms: in this model, specific non-core content production teams are shared across multiple brands. The pooling of resources across brands reduces costs and can increase the level of expertise and quality of content.

3. Core platforms: core content teams are common across various brands. Synergies are built between core services of various brands at any level, reducing cost and improving quality and expertise.

4. Content factory: all content teams are shared and produce content across all brands. This model often involves a matrix organization with functional editors and brand editor-in-chiefs.

5. Content repackaging: content is produced for a leading brand and repackaged for other brands. This model can produce up to 30% cost reduction, creates considerable content synergies and preserves brand identity.

EY performed a high-level review of media organizations, focusing on three key functions: content production, sales and digital. For digital, it emerged that 75% of the companies had implemented a decentralized model. Although benefits of centralization were understood (the increase of professionalism and control of the resources dedicated to digital), these are not perceived to compensate the synergies enabled by an integration of the editorial teams.

A CEO of a multimedia group involved in this study summarized the trend: “We initially thought that digital was a new platform competing with our traditional activities. Today, we consider the web as a complementary activity; we want our editorial teams to work together in order to reinforce brand consistency and create synergies.”

For example, in Italy, over the past five years:

- Turnover in newspapers has decreased by 15%
- Newspaper circulation has dropped by 20%
- Advertising revenue has fallen by 50%
The digital business unit must be seen as an innovation enabler to achieve objectives such as supporting daily operations on existing digital platforms, collaborating with business lines to ignite new product development and ideating new concepts or business models.

**Enterprise content strategy**
A possible solution to this challenge is implementing an enterprise content strategy (ECS). This encapsulates the strategies, methods and tools used to capture, manage, store and deliver content related to organizational processes.

The main benefits of ECS include:

- **Reduction of time-to-market and cost-to-market for new products (fast prototyping)**
- **Reduction of time-to-deliver and cost-to-deliver of existing products, mainly exploiting content sharing and reuse**
- **Improvement of areas such as return on investment (ROI) evaluation capability and editorial planning processes**

Generally, media companies tend to go from pure “vertical silos logic” to system rationalization and system integration. The final step is to deliver a totally integrated organization where editorial silos have disappeared and customer centricity is crucial.

The most advanced organizations allow real-time collaboration, minimum conflict among editorial teams (enhancing news breaking), efficient social journalism, scalable processes and a shift of focus from the channel to the audience.

**Buy-in from the top**
As with any organization-wide solution, top management must be well aware of the benefits and procedure. Clear communication of priorities, timing and expectations to the entire organization is crucial. Achievable synergies must also be evaluated: on business, on editorial processes and on the content management side. These can include areas such as target customers, product type and content type, as well as areas such as channel publishing, workflow management, content classification and digital rights management.

A universal language must be created at company level, involving semantic experts and developing a unique content structure and classification model. Secondly, all functional and technical requirements must be well understood and shared across all stakeholders. These requirements will then have to be summarized in a blueprint and used for technology, software and vendor selections. Given the strategic soul of the project, the matter here is not to choose just a vendor, but a medium- or long-term partner.

It is necessary to define all governance rules that ensure the target benefits are achieved. This means creating a function dedicated to content management, which has itself a role of facilitator for new product development and market analysis. Of course, governance must go together with change management, when dedicated coaches will need to work side by side with the origination in order to drive it to its new frontier.
Conclusion
The media industry is going through a major structural transformation brought about by a combination of factors, including the rise of digital media, changes in the media-consuming habits of its customers, and the deterioration of its traditional economic model. In response, every media company must seek out new markets, new customers, new business models and new processes to meet a very uncertain future.
Companies must go beyond traditional, conservative cost-cutting methods to develop truly innovative operating processes and models that will enable them to generate the savings they need to invest in the business models of the future and to keep existing businesses profitable in the face of declining revenues.
Media and publishing companies cannot survive unless they are able to come to terms with the digital age, the digital consumer and balance their resources accordingly to devise a new business model. Companies must learn to balance the need to generate cost savings with an awareness of the core capabilities they will need to survive and thrive in the future. ■
Change 3.0: using social media to engage your workforce

In a business world of increased expectations, globalization and the growing influence of social media and networking, companies must find new ways to engage their workforce to solve their most pressing issues. Using social media for business provides multiple outlets not only to attract attention to your key messages, but also to create an environment of collaboration focused on improving business.
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As the working population becomes ever more engaged with social media, companies must keep pace or lose a valuable opportunity to gain insight, innovation and feedback.

Many studies have been conducted into the most effective ways of using social media to engage an external audience – be that consumers or clients – but little time has been spent on how this interactive platform can be used to engage a workforce internally, for the collaboration and benefit of a business.

Most major organizations undergo organization-wide transformation initiatives on a frequent basis. Whether related to strategy, finance, supply chain, human resources, or a combination of these, major programs that impact business processes, work activities and workplace practices are the new normal. The old adage “the only constant is change” is alive and well.

EY research has found that 80% of enterprise change transformation programs fail. A common characteristic of this failure is the lack of effective engagement of businesses with their employees. Social media and collaboration technologies are essential tools to shape effective strategies and are currently being underutilized.

In many cases, this may mean exploring technologies and platforms already available within the business, but perhaps not yet applied broadly to teams and departments such that they could use them as part of their work activities. To help achieve business change, organizations must actively interact with their workforce using similar social technologies to accelerate design and development and increase adoption of new ideas driving business performance improvement.

While programs such as enterprise resource planning (ERP), talent

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1. Heraclitus of Ephesus, Greek philosopher.
management and supply chain re-engineering focus on the use of modern technology, often their success relies on employee adoption and participation. The latter too often relies on large email blasts often buried in the 200-plus average emails professionals receive each day. But the greatest limitation from this approach is the failure to involve the employee. Most organizations limit the “reply all” email feature – and with good reason. But today, newer technologies allow organizations to engage their employees in a two-way dialogue that email missiles could never achieve. Without that two-way dialogue and a commitment to encourage participation and listen with intent, risks to a successful adoption are missed or, more importantly, ideas from your most treasured assets, your employees, go unheard.

A workforce of multigenerations is a multichannel crowd. Texting, Yamming, tweeting, blogging, tagging, posting videos and uploading photos are the mainstream methods for communication in today’s society. If these elements aren’t included in your change management and communications plan, you’ve likely limited the reach of your efforts and the impact of your desired business change.

By 2025, Millennials, or Generation Y, will make up the majority of the workforce. This generation is expected to have different behaviors, values and attitudes as a response to the technological and economic implications of the internet. While experts differ on the precise date range of Millennial births, the general consensus is that this generation of workers will be more technologically minded than any before them. According to the Pew Research Center, they are confident, self-expressive, liberal, upbeat and receptive to new ideas and new ways of working. They are history’s first “always connected” generation and, to engage them, employers will need to rethink communication strategies accordingly.

This new generation is not the only driver for social media-powered transformation strategy. The rapid advancement of technology and changing modes of communication affect all businesses regardless of workforce demographic, preparing it for the future.

When social media emerged in the mid-1990s, many corporate organizations shunned its use, seeing the risks it posed to brand reputation, information security and communication management. Today, most are recognizing the increasing number of benefits derived from the use of social media in marketing, advertising, internal and external corporate communications and overall brand awareness. The belief is the benefits outweigh the potential risks. Social media and networking can open channels for dialogue, rapidly integrate employees into the company culture and quickly create a sense of community.

For those early adopters who took the social media plunge in their internal communications, the benefits speak for themselves. A global energy company used social tool Poll Everywhere to help form and engage a new advisory council for an enterprise-wide project. This tool provided an essential vehicle for specific and candid feedback from key virtual stakeholders that could then be put into action.
Change 3.0: using social media to engage your workforce

The use of Poll Everywhere helped identify key stakeholders’ needs and made them visible so they could be proactively addressed. This led to creation of a formal advisory council that played a significant role in project implementation and user readiness.

Most enterprise technologies that businesses already deploy, such as SAP, Oracle, Microsoft, learning systems and HR systems already have integrated social media components — but too often, the components that allow for dialogue are underused. With a plethora of social media platform options and challenges surrounding their use, many organizations are left wondering: “How should businesses use new communications and collaboration techniques?”

Ready, set, engage
Engaging employees in a company’s strategic efforts means using communication techniques that enable dialogue. Businesses should incorporate new ways of using social media in the context of business. To do this effectively, there are a number of key steps to follow:

1. Know your audience
Understanding who your change messages are intended for, and their preferred communications style, is often overlooked. While it is easy to resort to email, in today’s workforce, the primary communications channels are smart phones, micro blogs and videos. Millennials will account for more than one-third of the workforce in 2014 and nearly 50% by 2020, according to the Young Entrepreneur Council.³ Understanding the audience and how they prefer to receive information is a critical activity to ensure messages are read and retained. For most organizations, the millennial portion of the workforce, or those born between 1981 and 2000,⁴ prefer social technologies and innovation platforms to collaborate and communicate on the job.

2. Optimize your social tools
Today’s enterprise tools are routinely adding more social collaboration components either in existing enterprise tools such as SAP, Oracle, mail platforms such as Outlook or Lotus Notes, and newer social media platforms such as Jive, Connections, Sharepoint or Yammer, or even idea management platforms sometimes residing in research areas and overlooked by the broader organization. This provides a large untapped resource of social media technologies that may be useful for internal audiences, as well. Organizations that want to use social media techniques as a key way to engage their employees in their change programs should look within the organization first for untapped sources of collaboration techniques.

An example of this is the use of a collaborative decision-making tool, Group Systems’ ThinkTank platform, by a US-based multinational corporation provider of IT and professional services. This integrator used ThinkTank to make collaborative decisions and accelerate their finance transformation implementation. Using this platform, finance leaders were able to brainstorm, poll and prioritize online activities, discuss key finance metrics, determine responsibilities in the form of an online Responsible Accountable Consult and Inform (RACI) model and craft action plans in real-time. It was agreed that using this approach saved not only time from multiple meetings, but also created a road map to achieve the benefits of the finance transformation.

3. Find your connectors
All too often, the “usual suspects” are called upon instead of researching who in the organization is best at sharing information and working across the broadest network. Conducting a social network analysis has historically been the only way to get at this information. Now, tools such as enterprise portals and LinkedIn can help organizations understand the most connected employees in their organization — and therefore, the most likely to be great purveyors of information.

4. Design awesome campaigns
New social media tools give organizations the ability to reset ideas on how to create communications messages. Tools such as Yammer or Pinterest provide the perfect vehicle for a photo campaign showing people who successfully use new products,

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3. Young Entrepreneur Council (YEC), founded in 2010, is an American non-profit organization that provides entrepreneurs with access to tools, mentorship and resources to support business development and growth.

or a video challenge on teamwork or success stories on adoption. Factor in “gaming” or competitions, and the users will engage on a whole new level. Consider campaigns along with streaming messages to create a new experience that users will notice.

5. Yammer provocatively
Whether it’s Twitter or Yammer or other micro blogging tools, the status update now permeates business applications. If left to their own devices, savvy employees will figure out creative ways to use it to share knowledge. With a little help and strategic thinking, you can harness the power of these tools to get your critical business messages out.

Adapting to a highly socially connected multigenerational workforce, HR leadership must connect to their employees where they work and communicate. For this reason, one of the world’s largest media conglomerates switched to social media platforms to conduct leadership meetings.

Driving all meeting logistics and communications through a conference Jive community — a social networking site for employees providing communities, employee profiles blogs and status updates — the group was able to better engage and articulate their ideas from various locations.

Also using the organization’s Yammer microblogging site, executives posted updates, breakout session activities and photos, and engaged in question and answer sessions with speakers using smart devices. The Yammer feed was supported by Yammerfall, a real-time “waterfall” of updates, easily viewed by

| Figure 1. Examples of social collaboration tools that can be used to engage employees |
|----------------------------------------|----------------------------------------|
| **Social tool categories** | **Social media tool examples** |
| **Micro blogging** | ▶ Yammer  ▶ Jive  ▶ Connections |
| A form of blogging where users post short updates or messages in chronological order. Often in enterprises, this could be done for a defined network or group, or the entire organization. Core to blogging and microblogging is the ability to comment on and add to another’s posts, providing a richer conversation. | |
| **Media sharing: photo and video sharing** | ▶ Animoto  ▶ YouTube  ▶ Vimeo |
| Allows users to upload and share videos and photos for publishing to a network. Within an organization, this is often used company-wide or within groups. Many media-sharing capabilities can be found in broad enterprise collaboration platforms such as Sharepoint. | |
| **Polling** | ▶ Poll Everywhere  ▶ Yammer |
| Online audience polling tools that show immediate results to a virtual audience. Many services now allow users to respond to polls using text messaging and smart devices. | |
| **Communities** | ▶ Jive  ▶ Connections  ▶ SharePoint |
| Social software platforms are primarily designed for building a collaborative culture using content defined by the employees. Enterprise social platforms typically allow networks and individuals to create online communities and working groups, providing a space for content or purpose-specific collaboration and social networking, e.g., project management community or a new hire community. | |
| **Visualization tools** | ▶ Wordle  ▶ Tagxedo  ▶ Easley  ▶ Storyline |
| Provide techniques to turn content and data into meaningful graphics. | |
| **Ideation** | ▶ ThinkTank  ▶ Idea.Jam  ▶ Spigit |
| Provides a platform for wide spread idea sharing, often called crowdsourcing, and collaborative dialogue to produce ideas greater than the original. Typically, an organizational challenge is presented to provide a high-level structure for which ideas are shared. When used in a time-boxed manner, these idea management sessions are often referred to as “sprints.” | |
all attendees when projected side-by-side with presentation screens. The level of engagement significantly exceeded the expectations of the attendees and led to great advocacy for usage of the tools long past their workshop.

6. Idea Sprinting

Idea Sprinting is used to unearth inventive ideas from anywhere in the organization. Involving employees early in the visioning and strategy stage can help identify and shape the change processes that will be most impactful.

EY has demonstrated successful idea sprinting with its workforce, tapping the ideas of employees to tackle strategic issues and priorities. In 2012, one EY group involved its workers in a discussion of future investment and business strategy over a five-day virtual innovation event. Using EY’s innovation platform IdeaJam, participants could post their ideas, comment and rate their colleagues’ feedback. This activity generated more than 350 ideas to shape the future investments and direction of the practice, covering topics on value, talent, market and brand, and game-changing ideas. The results of this saw key ideas immediately acted upon by the business, and others fed into the business strategy.

7. No more boring newsletters

With an average of more than 200 emails a day, employees are likely to quickly overlook program emails and newsletters. Turning to newer technologies such as MailChimp or Easely can help create more engaging and creative formats so your messages stand out. Incorporating multimedia into broad communications is no longer a nice-to-have feature but an expectation of your readers.

8. Listen

The purpose of two-way communications is to foster dialogue and benefit from shared ideas. Now, leaders must listen to the dialogues and be prepared to respond to ideas, recognize contributors, participate in the dialogue and demonstrate how contributions are acted upon.

Listening to employee feedback made a difference to the outcome of a global finance transformation for a major construction equipment manufacturer in March 2013. The program spanned five countries and affected over 10,000 employees, all of whom could add valuable insight. By using social media technologies to engage these employees, they were able to more efficiently assess the organization’s preparedness to cut over to a new finance system. With the “go-live” date only a couple of months away, the business used the brainstorming and consensus-building tool ThinkTank to solicit the input from 200 employees over a feedback session, asking the questions:
Are we ready to work with this new technology and still deliver high-quality service?

Are you confident you can get your job done in the new environment?

Are you prepared?

If we’re not getting this right, what do we need to change now?

The questions, while simple and straightforward, produced a wealth of information when employees were also prompted to enter their responses anonymously, as well as react and respond to their colleagues’ input. By listening to their employees, the company was able to build better relationships with its workforce and more efficiently assess the preparation for change.

Conclusion

In today’s fast-paced, globalized, multimedia workplace, engaging employees in transformation programs through traditional methods will no longer suffice. As the working population becomes ever more engaged with social media, companies must keep pace or lose a valuable opportunity to gain insight, innovation and feedback. As EY research and case studies have shown, the use of social media in change programs can play a vital role, not only in realizing the promise of major change initiatives, but also in creating a more engaged and productive workforce.

How socially engaged is your change strategy?

Rate on a scale of 0 = not at all, 1 = almost, 2 = definitely

Do you feel your workforce is currently well engaged in business improvement ideas and designs?

Do you believe your employees feel they can make a difference in decisions that matter for them and for the business?

Are engagement tools and techniques tailored to the unique demographics of your workforce across business units, functions and geographies?

To what extent would your employees and business partners say they are able to leverage their greatest strengths to add value to the business?

How active are communities of interest in sharing knowledge and ideas across organizational boundaries?

To what extent are collaborative platforms used to encourage teamwork among different groups of employees?

How frequently and easily can you discover the thinking of your employees using social media polling and other engagement features?

Is the use of social media factored into your communications and engagement strategies for implementation of all strategic change initiatives?

Total score

What does your score say about you?

0–3 Your change strategy is not at all socially engaged and needs improvement to encourage collaboration with your wider workforce.

4–8 You are moving in the right direction toward using social media to engage and utilize your workforce.

9–14 Congratulations, you are among the forerunners of social media-powered change strategy.
Innovating in itself is not hard – people come up with good ideas everyday. But it is turning those innovations into integrated, functioning models for the benefit of the business that is the challenge. An EY team in Chile has developed a value chain model for innovation management in the mining industry that does just that.
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Innovation is the latest focus for business strategy worldwide and, with ever-increasing pressures on funding and resources, it is little wonder. But it’s not just about coming up with new ideas. An innovation value chain ensures these ideas progress to funding, are converted to products and, finally, distributed across the company or, in this case, the mining industry.

The Parque Científico Tecnológico (PC&T) is a collaborative project with the Universidad Católica Del Norte (UCN) to generate an industry of advanced mining services and innovation in the Antofagasta region of Chile. The aim of this center is to gradually replace imports and generate export potential to guarantee the sustainability of the region beyond the depletion of minerals.

This initiative will contribute to the economic and social development of the region and the country, through the promotion, dissemination and support for research, technological development and innovation. It also hopes to establish a prolific environment that facilitates the achievement of human and material resources to technology transfer and entrepreneurship.

The PC&T project involves leveraging the existing centers and equipment of the UCN, plus the installation of various foreign national technology centers to promote research (both basic and applied) and technology transfer — as well as providing scientific and technological services. It also aims to make more attractive the installation of technology companies (domestic and foreign) and innovative subject matter experts (SMEs) under the PC&T umbrella.

This center will be the link between the demands of the mining and the scientific and technological sectors in the region. In setting up this project, there were five main objectives:

► Position the UCN and the PC&T as an example of innovation management for the mining industry
► Create innovative SMEs
► Protect intellectual property
► Help unleash the innovation process
► Increase productivity and competitiveness of the region

The need for a value chain
The aim behind establishing an innovation management value chain for the PC&T was to help in responding to the research and development needs of the industry, regional and national community, and to help position UCN as a leader in innovation management in the mining industry.

For the PC&T to fulfil its aims, the innovations coming out of the center need to be managed in a way that ensures...
they reach their full potential. Without an efficient value chain, good ideas may go unfunded, undeveloped and unrealized. This can become a corporate problem because creative employees quickly become disillusioned when none of the ideas that emerge during brainstorming sessions ever see the light of day. Such employees eventually leave to find a more innovative place to work.

**Facilitating industry interaction and the demand for innovation services**

A value chain innovation management framework covers internal and external influences that support the business and its products. Designing and implementing an effective value chain for innovation management involves several processes.

Firstly, there needs to be an innovative culture, to stimulate and encourage the abilities of the teams for change and innovation within UCN and PC&T. This should be bolstered by innovation strategy and the creation of a growth strategy to explore further innovative opportunities for PC&T.

An innovation business model, which includes the identification of new service segments and products, is crucial in defining the market for future services and products. Once these steps have been taken, time needs to be allocated to the planning and implementation of the model and transformation schedule to identify a strategy for successful roll-out.

In parallel, taking place in the background, administrative tasks such as portfolio administration, innovation marketing and intellectual property management must be considered.

These processes fall under three stages:
1. Upstream innovation: where the ideas and problems of the industry are measured and analyzed using a diverse team, with differing expertise, to find a solution under an open innovation management framework.
2. Idea development: where the creation of ideas are stimulated, promoted, evaluated and selected.
3. Downstream innovation: in this final stage, the idea is taken on as an innovation project, where it is researched, developed and implemented.

**Portfolio idea management**

To give focus and structure to idea generation, and to capture, classify and evaluate the effects on the potential innovation projects portfolio, a company must consider the interdependencies and risks of any idea or opportunity. An ideal portfolio will have a broad spread of the different initiatives.

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**Figure 2. Innovation framework**

![Innovation framework diagram](source: Author's own.)
Interdependency in an innovation asset portfolio

Beside the individual value in each opportunity, the model must consider the interdependency between the innovation or service opportunity (innovation assets). There are at least four types of interdependencies:

1. **Time horizon**: if the model only considers short-term initiatives, the sustainability of the portfolio and the organization could be at risk. However, if only long-term initiatives are put forward, it may not generate the necessary cash flow for business survival. It is critical to find a suitable balance between initiatives with a focus on both the long and short term.

2. **Market “cannibalization”**: if you have multiple projects aiming to satisfy a similar need, they may not generate a linear growth return. It is important that the ideas in the portfolio aren’t supplementary. Maintaining a balance in this sense is critical for the sustainability of PC&T.

3. **Competition for limited resources**: many initiatives may require access to the same scarce resource. It is better for the execution of some of them to reduce the dependency on the same resource.

4. **External factors**: some opportunities have value only in combination with other opportunities or factors and not individually, because together they mitigate external risks. This situation is similar to the diversification of a financial portfolio.

Innovation asset management

To implement innovation asset management efficiently, a company must identify and diagnose the innovation assets and then communicate these across the whole organization (in this example, UCN) and, of course, maintain this approach over time. Success here comes with practice, procedures and tools that can help to systematize the whole process.
As for all management models, to be complete, it is essential to design and implement performance measurement mechanisms for the whole innovation ecosystem. For UCN, the EY team had to first define preliminary key performance indicators (KPIs) measuring the innovation management of the PC&T aligned to the value chain and business model, strategy and goals. Then, the next step was to assure alignment between the KPIs and the open innovation management performance measurements of PC&T.

The methodology behind the implementation of innovation management was firstly to identify and agree a detailed work plan, diagnose the situation drawing on an understanding of the organization in its original state, and then develop and agree the future state design.

For the PC&T project, creating a value chain for innovation management meant strengthening the capacity to deliver innovative and competitive solutions for the industry, both to small and large companies and their suppliers. There were also benefits in the systemization, formalizing and integration of innovation and investigation assets of the UCN and relevant internal stakeholders.

A knock-on effect of this was the strengthening of an innovation management culture within the university, an expansion in the organization’s capacity to access new resources and an increase in the generation of intellectual property associated with the investigation results.

Conclusion
When it comes to innovation management, one model will not fit all and, certainly, will not work for a complex and diverse innovation ecosystem such as that present in a university. The EY innovation model was created in response to this need: to help companies manage innovation. In order for it to be implemented effectively and produce successful results, it requires the identification of key needs and stakeholders.
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