



**CommBank**  
**Business Insights Report:**  
**Professional Services**

June 2017: Unlocking Everyday Innovation





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## Key insights

### Exploring innovation in the Professional Services industry

The rate of innovation for the Professional Services industry is on par with the national average, however, Professional Services firms are more likely to look to innovation to improve the customer experience than the average Australian business.

# Key insights

For some, the word innovation has become synonymous with the most cutting-edge changes within the Professional Services industry, and a disruptive force in driving a changing landscape for firms. For others, the prolific references to innovation have firmed its place as another corporate buzzword.

In today's rapidly changing Professional Services market, we think that innovation is an important part of adapting to ongoing change. But to understand its place within business, we sought to offer a definition that would unearth the common traits of successful innovators and spoke to legal, accounting and technical services decision-makers to understand its value to individual firms.

So what does innovation mean for your business, how innovative is the Professional Services sector, and how can you put it into practice within your organisation?

Welcome to the CommBank Professional Services Business Insights Report, an analysis of innovation activity and performance amongst Australian Professional Services firms.

The report reveals healthy levels of innovation within the Professional Services sector, with 44% of firms qualifying as 'innovation active' when assessed against a leading international standard developed by the OECD. A further 33% of firms claimed to be innovating but were found to be simply

putting in place improvements – a strong foundation to move into the realm of innovation, but nevertheless falling short. The remaining 23% were not innovating at all or had abandoned their innovation plans.

To accompany the analysis, we also launched the CommBank Innovation Index that tracks firms' performance across 15 key elements of innovation across entrepreneurial behaviours and management capabilities. Overall, the Professional Services industry tracked the national average for all businesses scoring 23.9, which placed the sector on the cusp of genuine innovation overall.

So what value are these innovation activities creating? Firms indicated that on average implemented innovation had delivered \$404,000 in revenue gains or cost savings\*. When applied to the proportion of Professional Services firms nation-wide, this represents a significant contribution to the overall economy.

We were also able to identify the common characteristics of genuinely innovative firms and what set them apart from those firms merely improving, and this highlighted a focus on philosophy, adapting and process. These characteristics can provide a strong focal point for firms seeking to move further up the innovation curve.

In an industry where disruption is a daily proposition, offering both opportunities and threats to traditional modes of customer engagements, services and business models, it is critical to consider the role innovation can play to both future-proof your business and capitalise on new opportunities to create value.

We hope you find our report useful in understanding where your business is positioned along the innovation curve, and simple steps firms can take to ensure innovation is a key part of both growth and sustainability planning.

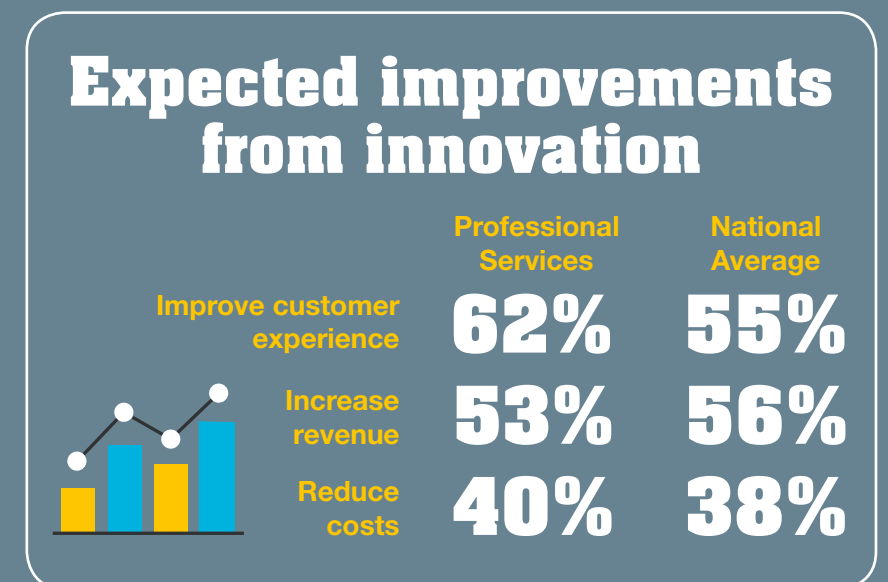
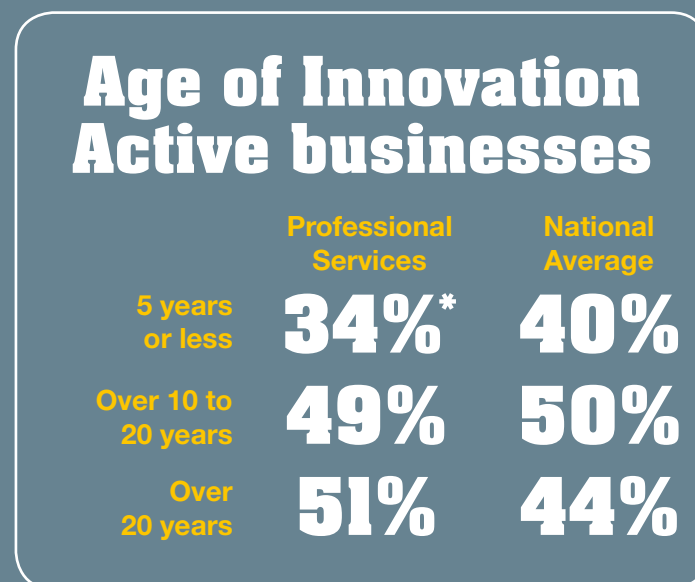
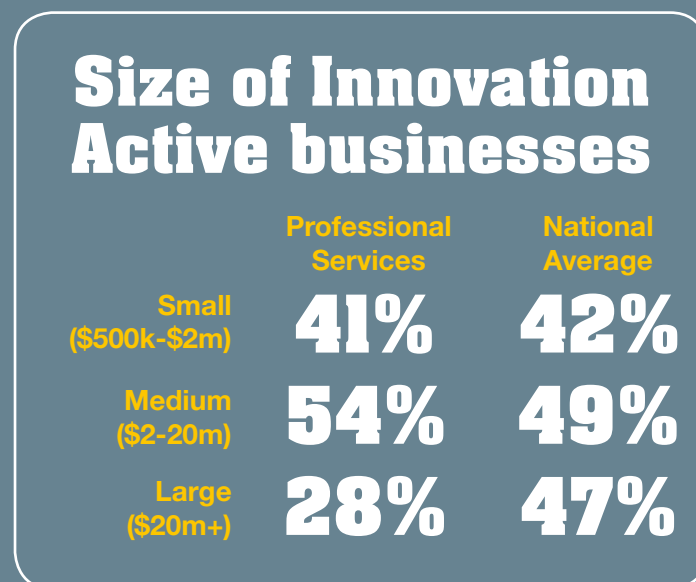
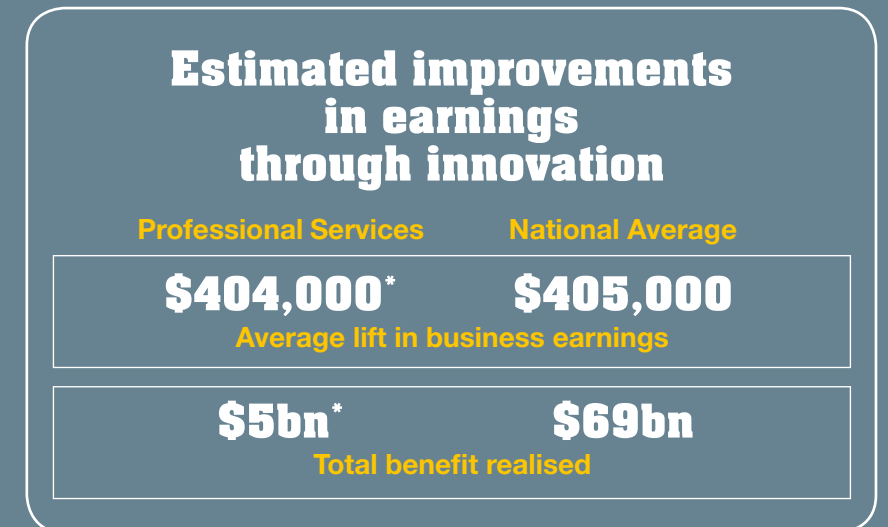
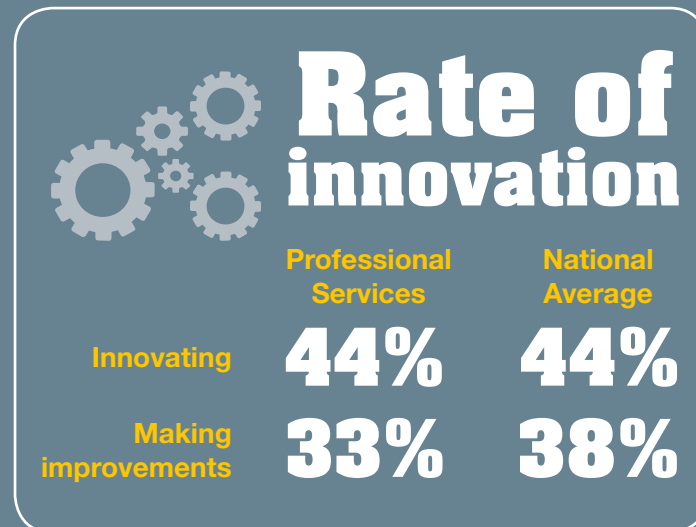
## **Marc Totaro**

National Manager, Professional Services  
Business & Private Banking  
Commonwealth Bank of Australia

\*Businesses asked to estimate the improvements in company earnings either by reducing costs or increasing revenue through having implemented their innovation. A midpoint is allocated to each of the revenue ranges to calculate the average for each business and then extrapolated to reflect all businesses that have implemented an innovation.

### **About the CommBank Professional Services Business Insights Report**

The CommBank Professional Services Business Insights Report is based on a sub-set of a wide-ranging quantitative survey of 2,195 business owners, decision makers and managers. This sub-set comprises responses from 217 businesses within the Professional Services sector (including legal, accounting, scientific and technical services). The survey was conducted on behalf of the Commonwealth Bank by DBM Consultants between August and September 2016, with further analysis by the Commonwealth Bank. Participants were drawn from businesses across Australia with an annual turnover of over \$500,000 and at least two employees. The survey was designed to benchmark the innovation performance of each business, identifying the key motivations and drivers influencing their performance, and highlighting best practice.



\*Small sample size. Please treat figures as indicative only.



## Measuring innovation

To measure the innovation performance of Australian businesses, we created the CommBank Innovation Index, aligned with leading global research and analysis of innovation drivers.

# Measuring innovation

## The OECD innovation framework

To determine which business initiatives were truly innovative, we adopted the framework set out in the Organisation for Economic Cooperation and Development (OECD) Oslo Manual. Used by organisations around the world, including the Australian federal government and Bureau of Statistics, the manual is constructed around four key innovation areas: products, processes, marketing and organisational.

## The CommBank Innovation Index

We also measured 15 core elements of innovation covering management capability and entrepreneurial behaviour. Together, they comprise the CommBank Innovation Index. The index combines the results into a single numerical indicator, enabling us to rank businesses along an innovation curve or spectrum from -100 (innovation restrictive) to +100 (disruptive innovation).

## Measuring 15 core drivers of innovation

### Management capabilities<sup>1</sup>



#### Process

- Brainstorm for new ideas
- Encourage staff to ask questions
- Give staff opportunities to observe customer experiences
- Experiment and test new ideas



#### People

- Hire staff with creativity in mind
- Evaluate staff with creativity in mind
- Facilitate networking outside business



#### Philosophy

- Allow staff to take risks and fail
- Expect staff to give ideas for improvement

### Entrepreneurship behaviours<sup>2</sup>



#### Seizing opportunities

- Look for new ways to benefit from market changes and technology
- Respond to attractive opportunities



#### Taking risks

- Willing to take financial risks
- Invest time and capital in uncertain capital ventures



#### Focus

- Limit focus to a small number of opportunities



#### Adapting

- Adapt products and services to make the most of opportunities

1. Source: Dyer et al (2011) The Innovator's DNA.

2. McGrath et al (2000) The Entrepreneurial Mindset: Strategies for Continuously Creating Opportunity in an Age of Uncertainty.

## How innovative is the Professional Services industry?

When assessing Professional Services firms' current and planned initiatives using the OECD's *Oslo Manual* criteria for innovation, we found that 44% of businesses were Innovation Active, in line with the all-industry average. Another 33% were making changes, which while valuable, counted as business improvements rather than innovations. 23% of firms were not innovating at all or had abandoned their innovation initiatives.

Professional Services firms were also divided in their view on what innovation means to their business, with 49% equating innovation with new products, processes and ideas and 48% citing improvements.

When looking at innovation activity across the four key areas – marketing, organisation, product and process – the analysis reveals that indicatively, Professional Services firms are more likely to implement organisation-based innovations when compared to the all-industry average.

The rate of innovation also differed by firm size, with small and mid-sized businesses more likely to innovate than their larger counterparts. 41% of smaller businesses with turnover under \$2 million and 54% of mid sized businesses were Innovation Active, where this was the case for only 28% of larger businesses with \$20 million or more in annual earnings.

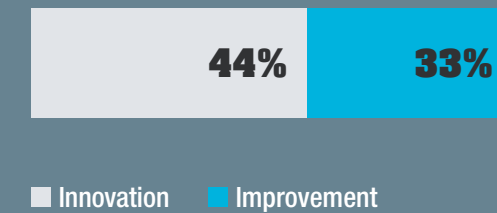
## Creating a culture of innovation

We also measured 15 core elements of innovation, which comprise the CommBank Innovation Index. We found that Professional Services firms had an average index reading of 23.9, almost at the same level as the all-industry average of 24.0. This number classifies the industry as 'improving' overall, but almost on the cusp of entering the average threshold for genuine innovation, which is benchmarked at an index score of 25.0.

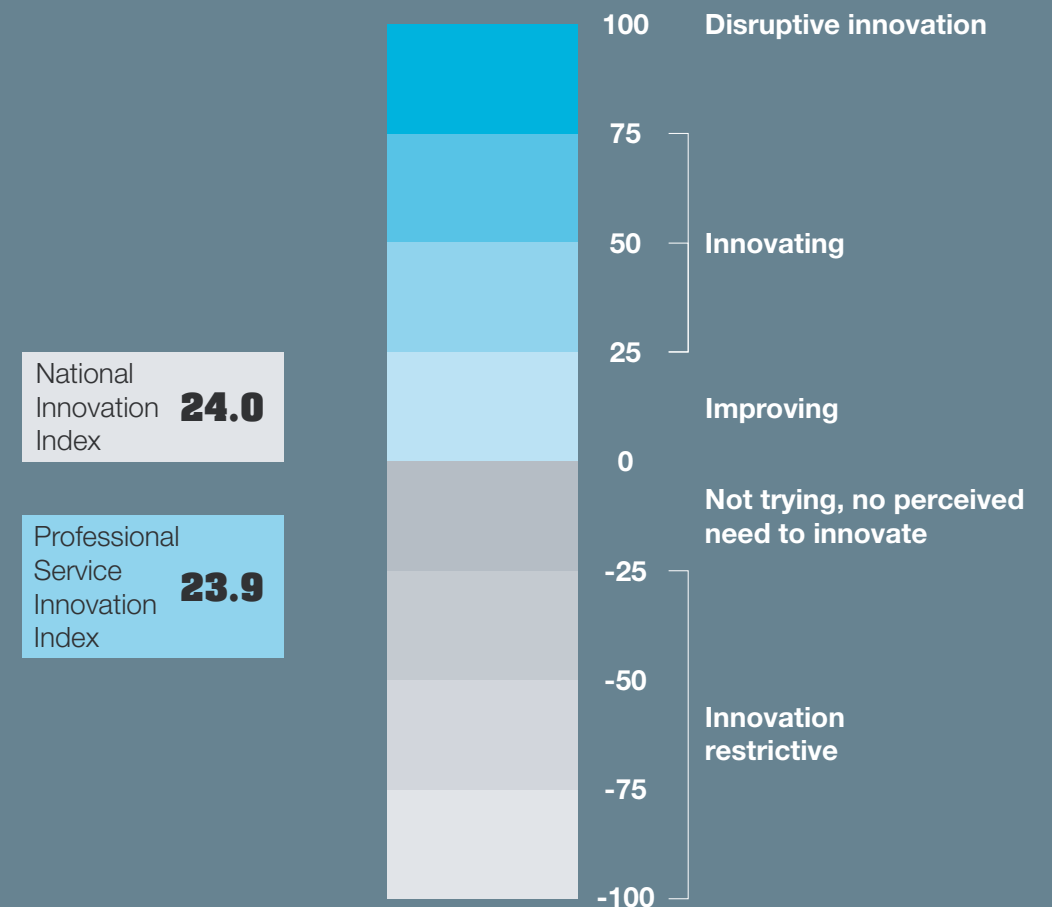
## Return on investment

Our research confirms that innovation is already generating significant financial returns for many Professional Services businesses. When we asked firms to estimate the revenue gains and cost savings generated by innovations already implemented, they indicated an average of \$404,000. Extrapolating that figure across the same proportion of Professional Services businesses that have implemented an innovation in Australia suggests a total contribution of \$5 billion.

### The rate of innovation for the Professional Services Industry



### The CommBank Innovation Index



<sup>1</sup>Small sample size. Please treat figures as indicative only.



## Balancing entrepreneurialism with management capability

When analysing the 15 core elements of innovation tracked by the CommBank Innovation Index, we found that there were a number of factors that could form a focus for those firms seeking to move up the innovation curve – specifically from improvement to innovation.

The most prominent characteristics of Innovation Active businesses compared with businesses merely improving were seen in the areas of philosophy, adapting and process. Innovators were more likely to have employees that are not afraid to take risks and fail compared with those just improving (26% versus 15%), adapt their products and services to make the most of opportunities (32% versus 24%), and run experiments to test new ways of doing things (15% versus 7%).

While there were common factors shared by successfully innovating businesses, the index score for those simply improving was in fact higher than those who were Innovation Active.

This anomaly highlights an over-indexing in certain areas amongst those firms in the improvement category. This included, limiting their focus on a small number of opportunities (24% of improvers versus 6% of innovators), and seizing opportunities through always responding to attractive business opportunities (27% versus 16%).

This highlighted a concerted focus amongst firms that are improving on risk and opportunities over key drivers of innovation such as adapting and experimentation. Ultimately, this resulted in a higher index score. In some cases, this represents an imbalance between entrepreneurial behaviours and management capabilities needed to cultivate genuine innovation, and reap greater financial returns that are realised when firms move from improvement into true innovation.

**“The most prominent characteristics of Innovation Active businesses are in the areas of company philosophy, focus on adapting to market changes and testing new ideas”**

### Marc Totaro

National Manager, Professional Services,  
Commonwealth Bank of Australia

**Breakthrough factors to move up the innovation curve<sup>^</sup>**

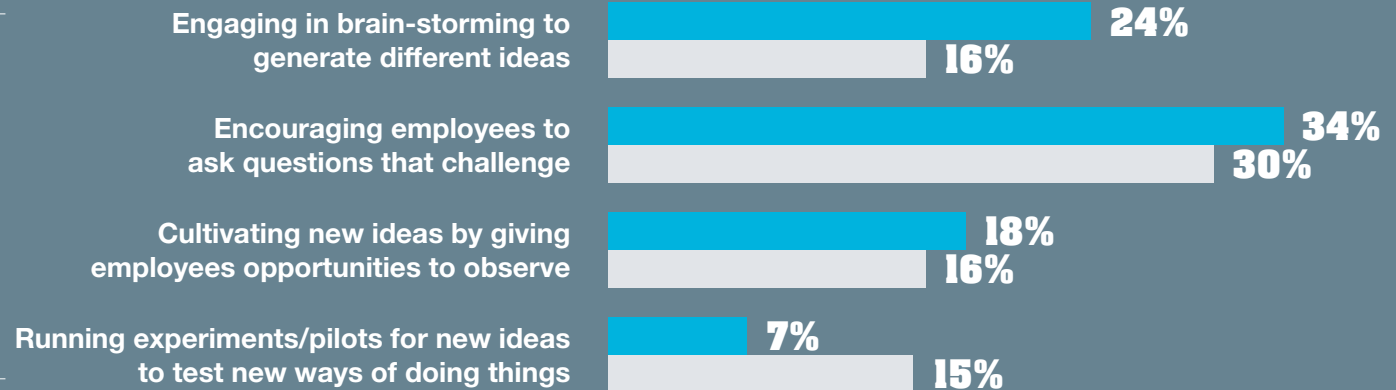
- 1** Has employees that are not afraid to take risks and fail
- 2** Adapts products and services to make the most of opportunities
- 3** Experiment and pilot new ideas to find new ways of doing things

<sup>^</sup>Across all industries.

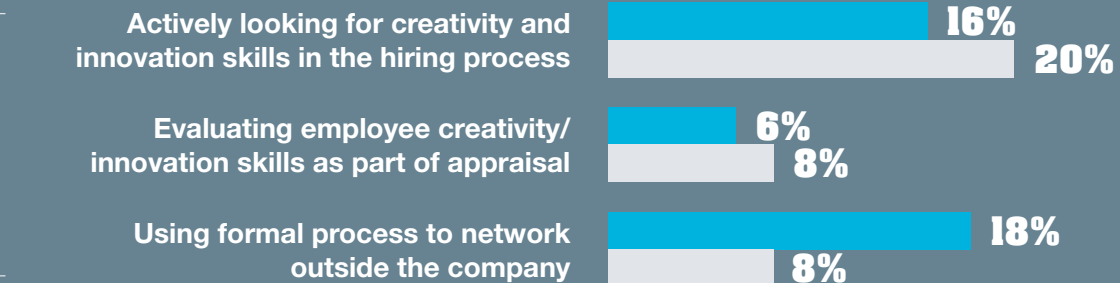
Core elements of innovation



**PROCESSES**



**PEOPLE**



**PHILOSOPHY**



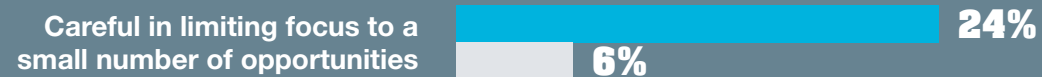
**SEIZING OPPORTUNITIES**



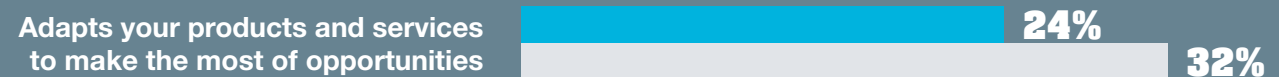
**TAKING RISKS**



**FOCUS**



**ADAPTING**



■ Improvement ■ Innovation Active



## Innovation in action

# Maddocks

Developing a culture of innovation

### Key drivers of innovation

- ⚙️ Process
- 🎯 Seizing opportunities
- 🧠 Philosophy





Disruption to traditional business practices and a hyper-competitive market has become a recent mainstay for the legal profession, forcing some firms to rethink the way they approach business models, service delivery and organisational culture.

As a full service commercial law firm established in 1885, Maddocks has a long history of evolving with changing market conditions. Today, the firm is focused on developing this ability to adapt into a strategic framework with innovation at its core.

As Maddocks Partner, Shaun Temby, explains, the legal industry is responding to emerging technologies and changes in client-led demand, which has brought innovation into focus for many firms.

“For many years, law firms have been immune from competition and disruption due to the esoteric nature of their business models. Clients and competitors have now pierced this veil of secrecy, reducing barriers to entry and transforming the competitive landscape.”

According to Shaun, a range of forces have converged to shape today’s legal industry, and in turn have brought business model, and product and service, innovation sharply into focus.

“There have been a number of factors that have changed the operating environment, from knowledge transfer to clients as top lawyers moved in-house, client dissatisfaction with traditional time based billing, and importantly, the ability for technology to drastically lower costs for clients.

“The emergence of software in areas such as large-scale document production has been one of the biggest shifts in traditional service delivery, ushering in ‘new law’ firms that can compete for more commoditised work.

“A laser-like focus on equating time with money has also meant freeing up people’s time to work on innovation comes with an immediate disincentive. The trade-off between billable hours and research and development is a clear, but changing, structural challenge.

Shaun explains that Maddocks’ focus on one of its core values, stewardship, has created a foundation for a more methodical approach to innovation across the organisation.

“Historically, we saw pockets of innovation throughout the business like our leading automated contract work in the property development sector or the e-portfolio offering.

“In the last two years we realised that if you truly want to develop a culture of innovation you need to have a framework. Critical to this is a safe space to experiment, explore new ideas and in some cases fail – while still ensuring that outputs meet a certain standard.”

In the past year, Maddocks has established an Innovation Committee comprising senior partners, appointed a Chief Information Officer, and is rolling out broader innovation programs. “At this stage, we are looking to be more innovative around the process of innovation,” Shaun says.

“A good example is the launch of the Maddocks innovation challenge. We crowd-sourced problems from across the business, assigned partner mentors to each graduate team, and conducted design thinking workshops.

“The teams then pitched their solutions to the Innovation Committee, and of those, we have green lighted three pilot programs currently being implemented.”

Shaun highlights that the value of innovation for Maddocks is multi-layered, with benefits largely stemming from enhanced client relationships.

“From a direct perspective, if you look at how we are using software such as technology assisted review to breed efficiencies, the value is in the client cost saving.

“We can also use technology to compete more effectively for work, and once you are deeply enmeshed with a client, there are further opportunities to build on that commercial relationship.”



# Talk to us

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