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INSIDE THE MIND OF THE CEO

Overcoming Challenges during a Major Transformation

Michael Pennisi, the chief executive of QSuper, one of Australia's largest pension funds, describes how to change direction at scale.

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Pension funds are not generally thought of as innovative enterprises. Yet their fiduciary duty as custodians of members' pension savings requires them to maintain strong returns and provide products and services that benefit their membership. As a 100-year-old public-sector fund — a closed-membership fund available only to current and former employees of the provincial government of Queensland — QSuper recently entered a stark new era. Following a current political trend in Australia, the Queensland government introduced a “choice of fund” policy, no longer requiring its workforce to hold QSuper accounts and propelling the fund into competition with others in the private sector.

For any financial-services firm with a closed, protected client base, it would be a major challenge to get through this transition intact. For QSuper, a 1,200-employee firm that oversees about US\$75 billion in assets for more than 570,000 customers, it was an opportunity for large-scale transition. CEO Michael Pennisi, who took the top job shortly before the policy change was introduced, had seen the move coming for years; he had previously been the company's chief strategy officer. And he also saw a solution: The firm would enter the private-sector financial world fullheartedly, believing the fund was well-equipped to compete with private enterprises in the pension space.

QSuper was already known for its innovative approach. Under Pennisi's predecessor, Rosemary Vilgan, it had embraced product innovation and established itself as a leading financial player in Australia. But the firm's current transition is broader still, and has required a major shift in thinking throughout the enterprise.

In this interview, part of our Inside the Mind of the CEO series, Pennisi

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describes the thinking underlying a major transformation like this one. The conversation also covers critical considerations for companies facing major changes, especially enterprises moving into new business domains.

Strategy+business conducted this interview at the firm’s headquarters in Brisbane, Australia.

S+B: Very few enterprises can boast a closed, protected client base. QSuper has had to shift direction rapidly. What led you to change?

PENNISI: Like most significant transformations, ours had a longer gestation period than it might seem from the outside. QSuper had been founded in 1912; it has provided pension funds (which we call “superannuation” in Australia) for Queensland provincial government employees for more than a century. Our business model had been built on our close association with the government, and we had high levels of trust from our members, a strong history of innovation, and strong financials: We are a cash flow–positive fund.

But the world was changing around us. QSuper was one of the last closed public-sector funds in the country. We knew it was just a matter of time before that would change. In 2016 the Queensland government made a philosophical decision that competition was important and any government employee should be able to choose his or her own pension fund.

There were only two possible responses from us: to continue as a limited enterprise, serving only government employees, but in a much harsher context, or to move into the broader arena and compete openly for new customers.

Our board took the latter [path]. We pursued “open fund status” to enable us to offer membership to private-sector pensioners for the first time in our history. To make this work, we had to restructure our business, launch new types of businesses, and rebuild our digital technology — all at the same time.

S+B: Why was the restructuring needed?

PENNISI: As was the case for a lot of financial institutions, the nature of many of our tasks had changed, again because of technology. And we really wanted to boost our frontline services to ensure we maintained excellent service standards for current and new members, so to keep costs down we embarked on an aggressive agenda of streamlining our back-end processes, and digitizing where possible.

We simplified our operations and decentralized decision making to have single-point accountability across key functions of the business. I gave my executives a clear message: “You’ve got a mandate. Here are the expectations. I’ll leave you to run with it.”

We also brought together all our organizational change and learning efforts. We formed one group of people who oversaw all the changes occurring across the business, creating a far more consistent approach. At the group level, we narrowed our focus to five key priorities, and a lot was put on hold while we worked to deliver on those really well.

We have also continued our resolve in how we invest. We have been very clear that our job is to give our members a steady, reliable income in retirement. They tell us they want less risk, fewer ups and downs. They’re not looking for the highest annual return of any fund in the country. Most of the other Australian super funds, our peers, have had about 90 percent of their risk investments in equities since the global financial crisis of 2008. We have about 37 percent. In 2012, we deliberately removed all references to our peers in our investment objectives. There is no incentive for our decision makers to beat Fund X or Fund Y. Our focus is firmly on delivering the objectives we set for our customers.

With change comes some pain, but consistency, transparency, and clarity are critical to achieving the desired objectives. We have a much more focused enterprise as a result, and we are already seeing some great results.

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S+B: For example?

PENNISI: We have measurably, significantly improved the service our members get through our contact center. We have changed the operating model, and invested in people, technology, and culture. We have seen big lifts in call center staff engagement as a result, and they are consistently meeting the targets for service standards.

S+B: What's involved in the digital rebuild that you mentioned?

PENNISI: It's just getting under way. We have invested a lot of people and money into it. This is very different from the typical “waterfall” initiatives of the past. [Waterfall initiatives are complex, comprehensive efforts organized in phases, which tend to falter as activity moves past the first few levels of the waterfall.] In the digital world, your competitive advantage lasts about three weeks. Someone sees your new offering, likes it, and replicates it, and you have to do something else. You have to learn to be quick to market, testing your offerings with your end-users while they're still in beta. We're dipping our toe in the water — launching the digital rebuild in one part of our business. It's new territory for us because we have removed normal parameters around risk and deadlines. But the green shoots are exciting and I expect the results will spread across the rest of the business.

S+B: What are some of the new products and services you have introduced?

PENNISI: There are many, but the most recent examples include the 2016

introduction of an income account transfer bonus. When members shifted from building up their retirement savings to living on their pensions, we found a way to return to them the associated tax savings. We were the first in our industry to deliver it, and in the first few months after its launch, we returned more than A\$12 million [US\$9.5 million] to members, the single largest bonus being around A\$48,000 [US\$38,000].

We also became the first in our industry to establish a wholly owned life insurance business [called Qinsure]. We saw market failure and could not find an external insurer who would insure police officers or emergency service workers, who are very important constituents for us, on terms we considered acceptable. So we did the work and established our own.

S+B: How do these changes affect your customer experience?

PENNISI: At QSuper, the customer experience is at the center of everything we do. We pride ourselves on that, and for a long time have maintained high customer satisfaction and net promoter scores as a result. We work to make sure we are available to members when they need us and where they need us, and we personalize our products and services as much as we can. And the change we have delivered is already enhancing this.

From a customer perspective, this means that when they pick up the phone seeking advice, assistance, or support, they have a happy, well-trained QSuper representative at the other end of the line, ready and able to deliver what they need. No long hold queues. No passing off from one person to another.

It's a simple thing, but these moments of truth are the ones we need to get absolutely right. Our customers expect us to get it right, and so they should.

S+B: What kinds of things do people have to think about differently as they became change agents or decision makers?

PENNISI: Sometimes the most powerful decision is to stop something. With the change and growth we are experiencing, it was time to look at what we were doing and ask ourselves if it was still the right thing for our business and our members, particularly in the context of our new environment.

There is an invigoration and motivation internally to “think outside the

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square” about how we can have the most positive impact on our members’ retirement. To make room for those great ideas, divisions have had to make some tough decisions about what needs to stop in order to free up the resources needed to deliver.

You have to transform your way of thinking, but stay true to your values. In our case, we had to up the ante on commerciality. But we also had to keep the best of our existing culture. When a company undergoes change, it is important to retain the core values that have built trust with customers, employees, and the larger community. QSuper’s strong financial position and member relationships are the essence of its business.

Internally, we called our new approach “commerciality with a heart.” We invested a lot in our people; in our leadership capabilities; and in being very clear about what we stand for, what we expect of each other, and what we are striving for.

Effective communication from the top is never more important than it is in times of change. I have high expectations of my executives as they take their divisions on the journey, ensuring our people know the tough decisions we are making and why we are making them. At the end of the day, it is our people who implement changes, it is our people who service our members. Without them, we don’t meet the lofty objectives we set in delivering for our customers, so it’s essential they understand and embrace the strategic direction of the business.

All leaders cast a shadow. It’s really easy to be a star when times are good. But when things are difficult, and particularly during times of great change, you

learn what leaders are made of. People want confidence that you know where this is going. Then they'll follow you.

One of the key things I do as CEO is hold regular question-and-answer sessions with employees. There is no agenda, no script, no prepared presentation. I sit in front of around 200 of our people at a time and answer any question they want to throw at me. No question is off the table. Transparency and openness from leaders matters, and I take as much away from those sessions as I hope they do.

S+B: Is there a story you can tell about one of these questions?

PENNISI: In the very first session, I described the commitment I was asking of employees and of the company. Someone put their hand up and said, "That's really good, Michael. But how long do you plan on being CEO?"

Kudos to the employee who was willing to put that to me in such a public forum — I thought that was fantastic. It also set a great precedent, I think. I was very happy to answer what some might consider a personal question, and demonstrate that I meant what I said when it came to transparency and openness.

I said that I have a fundamental belief that a CEO's tenure should be between four and seven years. After that, time to hand [things] over to the next person.

S+B: How do you approach the question of your company's purpose?

PENNISI: Our highest purpose is to provide our customers, our members, with the best possible retirement outcomes. There is a significant amount of trust involved, and that is something we take very seriously and work very hard at achieving.

But as one of our county's largest funds, I think we also have a role to play in supporting and improving the communities where our customers live and work.

In the last two years we have started taking a more active role in that space. Among the things we've done is to take a stand on domestic violence. We have a partnership with a fantastic nonprofit, which runs one of the busiest help lines in Australia. We financially backed one of their counselor positions, which means about 4,000 more people a year can get their calls for help answered.

We are also looking at ways we can better support and empower women,

indigenous people, and older workers in achieving better retirement outcomes.

There has been a really high level of staff engagement in what we're doing, so as well as doing our part in advancing the interests of people who need it, we are creating a great sense of pride in our people.

S+B: Do you think many public enterprises — or enterprises in general — will go through a similar kind of transition?

PENNISI: Without question. Particularly in financial services. And they will learn, as we've learned, that success depends much less on technology than they may think, and more on people. It sounds slightly trite, but it's the people who make an enterprise successful. They're the ones who answer the phones, who are at the front line servicing your customers. You've got to invest in your people, and value them genuinely. If you have those ingredients, I don't think anything can hold you back. +

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