



Desjardins

NOTES

FOR AN ADDRESS BY

Ms. MONIQUE F. LEROUX,
CHAIR OF THE BOARD,
PRESIDENT AND CHIEF EXECUTIVE OFFICER
DESJARDINS GROUP

GIVEN AT A LUNCHEON HOSTED BY
WOMEN IN CAPITAL MARKETS

**After the Crisis:
The Importance of Innovation & Productivity**

SHERATON CENTER TORONTO HOTEL
DOMINION BALLROOM
123 QUEEN STREET WEST, TORONTO

TUESDAY, NOVEMBER 23, 2010

Distinguished guests,

Ladies and gentlemen,

I am very pleased to be here today. Thank you to *Women in Capital Markets* for this kind invitation.

I am pleased to be here, not only before an audience of colleagues from the financial sector, but before an audience of women working in an industry where we are playing an increasingly critical role.

This is why I accepted your invitation without a moment's hesitation. I would like to share with you today my observations on two major challenges facing Canadians: innovation and productivity. But before doing so, I invite you to watch a short video

VIDEO

This video helps us understand the context at the time when our founder, Alphonse Desjardins, first turned his thoughts to the banking model he envisioned.

He wanted to build a new type of financial institution based on the models of popular banks and rural credit unions that we at Desjardins call caisses, which first emerged in Europe. It is interesting to note how far ahead of the curve he was, basically doing a "benchmarking", so popular nowadays!

At the time, he wrote, "You will surely tell me that my business is quite bold."

I really like this word – bold - particularly, as I think about growth and innovation in our society.

I truly appreciate the fact that the man who started the Desjardins Group one hundred and ten years ago was likely one of the most innovative thinkers and entrepreneurs of his time. And "his time" was a difficult period for the Canadian economy and for many Canadians. This is for me a true source of inspiration and motivation.

The 2008 crisis

The 2008 economic crisis is still on our radar screens, even if we would like to move on! It has been a dominant factor for two years.

Following a very hectic summer, it reached its turning point right around September 15, 2008, on the day Lehman Brothers declared bankruptcy, which led the economy into recession. That event would trigger a massive loss of confidence which brought financial markets down, and led the global economy into a severe recession.

Personally, it had been six months since I had been elected President and CEO of Desjardins Financial Group. Needless to say, I would have hoped for a more positive environment in which to begin my role!

Two years later, confidence in Canada is returning, but it remains fragile. While recovery is underway in some countries, uncertainty and imbalance still bubble at the surface.

The world is changing

The world is changing. A number of countries are developing at an accelerated pace. This is the case in China, India and other emerging markets. Over 70 million people are joining the ranks of the middle class each year, mostly in emerging economies. Consumers in developing countries are becoming wealthy more rapidly than North Americans and Europeans.

During the next decade, GDP per capita will increase five times faster in emerging countries than in OECD countries.

The evolution of world trade has created profound repercussions on the stability of the world, and the influence of emerging markets will continue to increase. These new markets represent new growth areas for production, consumption and innovation. Naturally, they make our exporters happy. But at the same time, they weaken some of our economic sectors.

The development of global communications and connectivity acts on all of this as a kind of accelerator. While this global competition creates strong competitive pressure that threatens some market players, it allows other companies to develop markets considered unreachable only a decade ago!

It is certainly a paradox.

Today's entrepreneurs may not know where their competitors will come from, but at the same time, they may land the contract of the century before even having established a reputation within their own market.

In my view, even if we benefit from an unparalleled era of real-time information, this dynamic has never been so complex.

Complexity

IBM conducts, on a regular basis, a worldwide survey among business leaders. The 2010 survey probe draws on a sample population of 1,500 CEOs from 60 countries and 33 industries.

The main issue identified by the CEOs interviewed for the survey is complexity, specifically, how to integrate this complexity within our organisations.

We live today in a world that is deeply interconnected across multiple dimensions. We are now seeing the emergence of a "system of systems", a global network composed of thousands of smaller local, regional, national and global issues, with, of course, a new level of interconnection and interdependence. This is true in every sector of activity.

A great Canadian visionary, Professor Marshall McLuhan, predicted the arrival of the global village. We are now there. In addition to forcing us to deal with the complexity of our own industry sector, the global village generates even more sources of complexity: climate change, energy security, technology, social networks, not to mention global financial markets and the impact of monetary policy.

The challenge is to be able to understand, sometimes in great detail, the level of complexity in order to manage risks without losing organisational agility. It is also to be able to simplify the important issues in order to motivate people – our employees – to get engaged and act. The need for strong leadership has never been as critical.

Our Canadian challenges are just as pressing. Our population is aging. A significant proportion of our workforce is close to retirement. Our infrastructures are aging and our governments have to tightly manage deficits and debt.

There are questions we must ask ourselves urgently: are we ready to deal with complexity? Or do we prefer the status quo? What must we do to prepare our organizations to face the most pressing issues of our time, in the most effective way possible?

Productivity

Whether we examine the issues through the lens of global competition, or with the specific challenges faced by each Canadian province or industry, the conclusion is always the same: productivity and innovation are the building blocks of our future prosperity.

Let me first address productivity.

Unfortunately, even today, discussion around productivity can often arouse more suspicion than enthusiasm. Some people associate it with the need to work harder, while others see the threat of potential cuts to social services, which would undermine our Canadian values of solidarity and equality.

Productivity is the relationship between the results of an activity and the resources allocated to this activity. The more we can produce at minimal cost – including both economic and human costs– the more productivity will rise. Thus, this is a dynamic relationship, measuring both our ability to generate revenue and our skill at managing costs and resources.

In 2009, Canada was still ranked 17th of the 23 OECD member countries with regard to work productivity, while the United States, despite the crisis, placed 7th.

And yet, the productivity deficit in Canadian businesses is a phenomenon that is both familiar, and well-studied.

The study entitled *Management Matters*, by the *Toronto Institute for Competitiveness & prosperity*, emphasizes that although Canadian managers are well-trained and considered high-level for the most part, managers within multinationals surpass them in terms of competence, quality of management, and attracting a higher number of graduates from top business schools.

Comparisons between Canada and the US show similar patterns. Our companies attract fewer university graduates, at both the bachelor and graduate levels, than the US does. The same result applies to graduates of management schools and other specialties related to the business world.

Again, I should stress the importance of the quality of management as a key contributing factor to productivity in business.

In terms of global markets, the same study encourages Canadian companies to expand their business activities abroad; since research clearly shows that the quality of management gradually improves as companies develop operations in foreign markets.

Given this context, I still find it surprising that productivity has not become a key collective goal for Canada.

As well, we must work on multiple fronts, since productivity is affected by a variety of factors.

Not surprisingly, although we know that technology plays a significant role and although capital is essential, the ultimate success of productivity gains lies first and foremost with the men and women who bring a company to life, whether in the public, private, cooperative, non profit or government sector.

And if there is an attitude, a quality, a culture shift to implement, it is innovation; innovation not only in terms of technology or pure invention, but rather by showing creativity in every sphere of human activity.

Innovation

Several studies have examined the concept of innovation. From the *Council of Canadian Academies* to the *Canadian Council of Chief Executives*, as well as our top management schools, the *Conference Board of Canada*, the *C.D. Howe Institute*, the *Science, Technology and Innovation Council*, not to mention the *Coalition for Action on Innovation*, co-chaired by Paul Lucas and The Honourable John Manley.

All of these groups agree that innovation is **THE** major factor with respect to productivity.

I really like the simplicity of the Lucas/Manley study on innovation. It highlights three important points:

They first indicate that innovation is the notion of putting ideas to work. In my own words, it is "putting concepts into action".

Innovation is composed of small individual actions which create value. It may lead to the development of new products, improve the quality or cost of something we already have, or simply help us to work more efficiently. I would add that innovation is closely tied to an individual's capacity to think creatively and to adapt to the needs and aspirations of people.

The second point: innovation matters everywhere, in the private sector as well as the public sector.

In the private sector, innovation influences the way work is organized. It encourages the modernization of equipment. It stimulates entrepreneurs to market new ideas, which creates wealth and new jobs. A culture of innovation is also essential in the delivery of public services, in the development of charitable organizations and for any group or agency involved in a community.

The third point: innovation is an attitude.

An innovative organisation is essentially based on entrepreneurship. It takes risks. It is fuelled by boldness. It learns from its mistakes, and celebrates its successes. It shows leadership and courage.

Innovation creates added value. There's no need to wait for new inventions. Innovation often means introducing a new element within an established order. In this context, it often means doing things distinctly, differently.

That is what Guy Laliberté and his team accomplished with the Cirque du Soleil, in completely transforming the traditional circus experience. His artists eliminated several elements from the old model: the animals, the three rings, even those hard bleachers that would make you uncomfortable after 15 minutes.

They introduced new ingredients: Dramatic design, stunning costumes, and, of course, emotion and top quality performance.

The Cirque du Soleil did not invent a new product. Instead, it transformed and enriched an existing one. And we all know about its worldwide success.

By the way, I should mention that Desjardins Group, thanks to Mr. Clément Guimond, manager of the Caisse d'économie solidaire Desjardins, was there to support the Cirque du Soleil at the very outset.

And when we examine the range of Apple products – from the iPad to the iPhone, not to mention the iPod and the MacBook, their apparent simplicity, their design, their intelligence and refinement are obvious and impressive. And yet, when Steve Jobs returned to Apple, the company was on the edge of bankruptcy!

The same phenomenon applies to Research in Motion. This company did not invent Smartphones, but it made them functional and efficient! Today, the BlackBerry is part of a select group of products. In fact, even President Obama can't live without his BlackBerry!

Innovation in business

Obviously, due to their global success, the Apples, Cirques du Soleil and BlackBerrys of this world have become symbols. But let's be honest, innovation in an organization's everyday life is not always easy, it is a continuous challenge.

In my view, this is a major issue for CEOs in Canada. Our role is so important in the creation of an environment that favours and encourages innovation and creativity. As such, we need to first support transparency and second, get employees to feel comfortable and motivated in proposing ideas and solutions. This is not easy because in doing so our "innovators" might create new priorities and projects that will not always fit within the natural hierarchy of the organization. They will also push for change and leadership which need to be balanced with risks, business priorities and budget targets.

Innovation, the Desjardins way

At Desjardins, we have taken up the challenge of injecting a spirit of innovation into our organisation, as our founder did. Daring to question ourselves, while not falling into the void, since our approach is always based on the beliefs and convictions which constitute our mission and our values.

At Desjardins, like every financial institution, we have experienced turmoil during the crisis. At a time when the future was uncertain, we went back to our roots by embarking on an consultation process with our people. We created working teams, composed of our best and most talented people to think about the future of Desjardins Group. We asked them to think without constraints and to come up with concrete proposals. And six months later, they delivered -seventy proposals.

As we speak, our *Evolution Plan* is still going strong. It has become a major transformative process for our organization, a process which today involves thousands of people, and is framed by respect for our mission and our values.

We are positioning ourselves for development, for growth, for openness to the world. We are offering ourselves a program of innovation and business development which rests on five major strategies:

- Capitalize on cooperative values and social responsibility to differentiate Desjardins and increase its brand power.
- Implement a member- and client-centred approach throughout Desjardins Group.
- Achieve sustained and profitable growth by emphasizing openness, innovation and agility.
- Optimize overall productivity and performance and reinforce the financial strength of Desjardins Group.
- Count on the leadership and the mobilization of officers and employees to maintain and support Desjardins Group's development.

All of these strategies are part of the vision of Desjardins Group to be the leading cooperative financial group in Canada that inspires trust around the world through the commitment of its people, its financial strength and its contribution to sustainable prosperity.

Sustainable prosperity to us is economic growth and wealth creation based on a solid and responsible foundation. It is prosperity grounded in respect for the environment and the people for the benefit of present and future generations. It is based on the long-term. It is also creation of economic value for the benefit of society. Of course, we want to deliver our vision respecting and building on our cooperative values and mission which we are especially proud of on the eve of our 110th anniversary.

Conclusion

To conclude, I invite you all to become innovators.

In the short term, our individual actions may appear insignificant. But with every action we take to improve productivity, whenever we favour innovative practices, we contribute to implementing and building a culture of innovation in this country. Little by little, year after year, we will see that things are indeed changing.

However, time is of the essence. We are racing against the clock. The race is global, and will affect large swaths of our economy.

Allow me to read a quote that I find particularly telling:

“More than ever, struggles between peoples are fought on the economic battlefield. As a result of increasingly fast and simple communications, the marketplace has become global, and final victory will be seized by the country that has successfully activated all the energy, all the strengths of its citizens, who will have best nurtured their initiatives and who will, therefore, adopt the most productive plan with the least expenditure of effort.”

This passage is actually taken from a lecture given by a true visionary, Alphonse Desjardins, in Montreal on September 10, 1910.

I will offer you one more passage, somewhat shorter but just as relevant to our topic this afternoon. Our founder asked the question: “What are we missing (...) to achieve prosperity?”

And he replied: “What we are missing (...) is a little more initiative, in tandem with a streak of boldness tempered by the most ordinary prudence and wisdom.”

The more Canadian individuals, professionals, and business people nurture innovation, the more it will become embedded within our companies and organizations.

As representatives of the financial industry, we benefit from the advantages of financial and technical means that other economic players do not. We must increase our participation in various forums that promote Canadian productivity and innovation. We must more actively support young people in their studies. We must forge even closer ties with our business customers, who rely on innovation to succeed in their strategic development.

Let us not be afraid of new ideas. Let us welcome with an open spirit the new generation of employees entering the work force. Let us encourage new trials and new approaches in every field.

Let us give our organizations a hunger for excellence and success. Our future, and particularly that of the generations which follow us, depends on it.

My most sincere thanks for your warm welcome and your attention. I wish you all a good afternoon.

* * *