LEADING TRANSFORMATION: 2016 CEO SUMMITS

INNOSIGHT
STRATEGY AND INNOVATION AT HURON

HIGHLIGHTS
PERSPECTIVES
DISCUSSION QUESTIONS

2016

BOSTON & BERLIN

Boston Delegate List

AETNA
Rick Jelinek, Executive Vice President, Enterprise Strategy and Integration Services

BANK OF NEW YORK MELLON
Curtis Arledge, Former Vice Chairman & Chief Executive Officer of Investment Management

BASF
Dr. Guido Voit, Managing Director of BASF New Business

BAYER
Dr. Jacqueline Applegate, Member of the Crop Science Executive Committee & President of Environmental Science Worldwide

THE BOEING COMPANY
Sheila Remes, Vice President, Strategy, Commercial Airplanes

Travis Sullivan, Vice President, Corporate Strategy

CATERPILLAR
Rob Charter, Group President, Customer & Dealer Support

COX ENTERPRISES
Duncan O'Brien, Senior Vice President & General Manager, Corporate Strategy and Investments

ERNST & YOUNG
Bob Patton, Americas Vice Chair of Advisory Services

FORD MOTOR COMPANY
Raj Nair, Executive Vice President & Chief Technical Officer

John Casesa, Group Vice President, Global Strategy

THE GOODYEAR TIRE & RUBBER COMPANY
Joe Zekoski, Senior Vice President & Chief Technical Officer

Scott King, Senior Vice President, Strategy & Business Development

HARVARD BUSINESS REVIEW
Gardiner Morse, Senior Editor

HOSPITAL FOR SPECIAL SURGERY
Louis Shapiro, President & Chief Executive Officer

JOHNSON & JOHNSON
Dr. Bill Hait, Global Head, Research & Development, Janssen, Pharmaceutical Companies of Johnson & Johnson

Josh Ghaim, Chief Technology Officer, Johnson & Johnson Consumer Companies

Susan Morano, Vice President, Business Development, Johnson & Johnson Medical Devices

KEYSIGHT TECHNOLOGIES
Jay Alexander, Senior Vice President & Chief Technology Officer

John Page, Senior Vice President & President, Services Solutions Group

KKR
Todd Fisher, Member & Chief Administrative Officer

Ken Mehlman, Member & Global Head of Public Affairs

MASTERCARD
Kush Saxena, Group Executive, Strategy & Corporate Development

MERCER
Ken Haderer, Chief Operating Officer

MILLIPORE SIGMA
Meeta Gulyani, EVP & Head of Strategy, Business Development and Transformation

MOOG
John Scannell, Chairman & Chief Executive Officer

Dr. Dick Aubrecht, Vice Chairman & Vice President, Strategy and Technology

NESTLÉ
Jim Gilbert, Board Member, Nestlé Health Science

PERDUE FARMS
Randy Day, Chief Operating Officer

PITNEY BOWES
Lila Snyder, EVP and President, Global Ecommerce

REILY FOODS COMPANY
David Darragh, President & Chief Executive Officer

RUSSELL STOVER
Andreas Pfluger, President & Chief Executive Officer

SOUTHERN NEW HAMPSHIRE UNIVERSITY
Paul LeBlanc, President

STARWOOD HOTELS & RESORTS
Thomas Mangas, Chief Executive Officer

STRYKER
Mike Steffler, Vice President, Global R&D and Innovation

UCB
Jeff Wren, Executive Vice President, Neurology & Patient Value Unit Head

Brindha Sridhar, Director, Movement Disorder Impact and Patient Value

UNITED STATES NAVY
Vice Admiral Philip Cullom, Deputy Chief of Naval Operations for Fleet Readiness and Logistics

USAA
Zachary Gipson, Senior Vice President & Chief Innovation Officer

W. L. GORE & ASSOCIATES
Greg Hannon, Enterprise Innovation Leader

WAL-MART STORES
Susie Wheeler, Vice President of Strategy and Financial Planning

WOLTERS KLUWER
Diana Nole, President & Chief Executive Officer, Wolters Kluwer Health

Berlin Delegate List

ALLIED IRISH BANKS

Bernard Byrne
Chief Executive Officer

Rachael Morgan
Head of Group Strategy

BASF

Dr. Hartmann Leube
SVP New Technologies Research

Dr. Wolf Dieter Starp
SVP Mergers & Acquisitions

BAYER

Daniel Hartert
CIO and CEO, Bayer Business Services

Dr. Monika Lessl
Vice President, Head of Innovation Strategy

Dr. Henning Trill
Head of Corporate Innovation

CLARIANT

Dr. Nora Schiefenhoevel
Head of Innovation Excellence

EARLYBIRD VENTURE CAPITAL

Dr. Gregor Matthies
Senior Venture Advisor

ERNST & YOUNG

Markus Heinen

EMEIA SAP Leader & Chief Innovation Officer Germany, Switzerland and Austria

EVONIK INDUSTRIES

Dr. Daniel Witthaut
Head of Corporate Innovation Strategy

FORD MOTOR COMPANY

James D. Farley, Jr.
Chairman & CEO, Ford of Europe, and EVP & President, Europe, Middle East and Africa

Kevin Reynolds
Director Business Strategy, Ford of Europe, Middle East and Africa

HAYS

Dr. Torsten G. Kreindl
Non-Executive Director and Managing Partner, VC Fund

SCOUT24 SWITZERLAND

Olivier Rihs
Chief Executive Officer

SOLVAY

Marc Chollet
Group General Manager Strategy

Christophe Clemente
President, Soda Ash & Derivatives

Nicolas Cudré-Mauroux
R&D Group General Manager

Cécile Fages
Sustainability & Business Transformation Manager

STEELCASE

Guillaume Alvarez
Senior Vice President, EMEA

SWAROVSKI

Christoph Kargruber

Executive Vice President Innovation & Product Management

What does it take to truly transform an organization?
Innosight's eighth senior executive summit drew leaders of companies such as Boeing, Caterpillar, Ford, Johnson & Johnson, and MasterCard. Held in our Business Design Lab in Lexington, Mass., the discussion focused on tackling critical challenges around leading long-term growth and innovation. The conversation continued at our first European Summit held a month later in Berlin, which convened leaders from organizations such as Bayer, BASF, Solvay, and Steelcase.

At both events, we explored ways to solve a leadership paradox, in which near-term priorities always demand attention while long-term innovation most critical to growth often gets short shrift. How can leaders create the time and space for creating the right balance? We broke it down into three challenges.

CHALLENGE 1

Cracking the Growth Imperative with Jobs to Be Done

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Established organizations are adept at improving existing products. But as core businesses reach limits, leaders need a new mind-set to create innovations that drive new growth. Traditional ways of thinking about customer needs and product attributes have proven insufficient to this challenge. We explored how uncovering and understanding fundamental customer "jobs to be done" can drive innovation success and enable true differentiation.

Harvard Business School professor and Innosight co-founder Clay Christensen began the discussion with two views of the CEO—one as an all-knowing God, and one as all-powerful Zeus—that are both wrong. In the real world, the CEO needs to both "figure out how the system works" and "what can you actually do about it" during your tenure. He cited the classic story of how Intel was a memory chip company in 1979, when newly named president Andy Grove saw a growth opportunity in the emerging market for microprocessors. If Intel leaders listened to those who were sitting at the table—folks from accounting, sales, R&D, competitive analysis—no one would have supplied any data or rationale to invest in this very small and untested new growth area. What Grove instinctively knew is that there are different categories of innovation. As Christensen categorizes it, there are three types:

1. **Efficiency innovations** – improving processes to free up cash flow, which cuts costs.
2. **Sustaining innovations** – making good products better for the best customers, which can lead to incremental growth.
3. **Disruptive innovations** – transforming limited products into ones that are widely accessible, which leads to new growth.

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Aetna's Rick Jelinek pointed out that different types of innovation can build on each other. "We've never had a balance sheet problem with being able to fund different types of innovation. We have always had access to necessary capital. It was always an income statement issue of how to fund innovation through our operating budgets. So for us, it's not either/or; it's about doing both. If you invest in efficiency innovations, it can free funds on your income statement to adequately invest in broader disruptive innovations."

All are important, agreed Christensen, and in each category, new products and services can come about by discovering important and unsatisfied jobs to be done for customers. What Grove did, for instance, was foresee a whole new category of computing products for new sets of customers. That is where growth comes from—creating new products that "compete against non-consumption."

Yet too many companies are analyzing their current customers rather than trying to uncover an underserved job, which Christensen defines as "the progress that a person is trying to make in a particular circumstance." This definition of a job is key to understanding why customers make choices, which is especially useful when the market is shifting. Digital Equipment Corp., for instance, went out of business by serving its best customers very well.

Organizations can sometimes get trapped by their own metrics, said Patrick Viguerie of Innosight. "Metrics are really fundamental to driving behavior in organizations. I watched an industrial company over 10 to 15 years put in place a discipline around shareholder value. Over the first decade, there was probably a 10x return to shareholders. But seven or eight years later you realize there's not enough investment really going on in new growth. So once certain metrics get grooved in the organization, it is really hard to change them."

Companies also make the mistake of segmenting their customers by demographics—such as who they are or where they live. "My characteristics and attributes don't cause me to go out and buy The New York Times today," said Christensen. "Tasks arise in my life which cause me to go out and find something to hire for that job. So if you want to predict what to sell, understand the jobs, not the customer."

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Susie Wheeler of Sam's Club agreed that figuring out the job can yield new growth ideas. "If you think about brick-and-mortar and online and the whole concept of omni-channel retail, what is the job to be done when people are shopping for electronics in particular? Maybe they actually have two different jobs at two different points, because at some point they have to go in to a store and see the product and experience it, which is something Amazon can't offer."

The history of retail often hinges on these kinds of observations, said Christensen. After all, Walmart originally disrupted traditional department stores by creating a new model around specific jobs. A traditional department store like Sears needed to generate gross margins of about 40% and would turn the inventory over three times every year. But when discount retailing emerged in the 1960s, Walmart needed just 20% gross margins and could turn the inventory over six times every year. So they made comparable profit, but with a different method.

Out of 316 different department store chains, only nine today survive. But one of those was Dayton Hudson, a traditional department store chain based in Minneapolis. It survived because it set up a separate business unit organized around different jobs and called it Target. The two were managed in unison until ultimately the old one was shut down. To others, the new model was a threat, but to Dayton it was a growth opportunity. One bottom line lesson: The worst place to create a new business model is within the old business model.

A conversation with Paul LeBlanc,
President of Southern New Hampshire University

Creating the Jobs-Centric Organization

What would an enterprise look like if it were organized around the jobs to be done of its customers?

Innosight's Dave Duncan, coauthor with Clay Christensen of the new book on the topic, Competing Against Luck, noted that creating a "job-focused organization" involves identifying and solving the jobs of different customers and embedding an awareness of those jobs into everything they do. "So it can be found in the way they talk about their strategy and about their purpose and their culture," he said. "And it is a very powerful thing when you can accomplish that."

As a case in point, we drew lessons from the story of how a small regional college of 4,000 students overcame cultural barriers to grow into a national online university serving more than 100,000.

President Paul LeBlanc described how Southern New Hampshire University, a private, non-profit college started as a school of accounting located above Quality Shoes. Now, it's one of the three largest online universities. Over the past six years of strong growth, many large university systems (in Florida, Illinois, and Texas) tried to expand online and largely failed. So how did SNHU do it?

Most universities think they can simply "port over" their programs to the online world, LeBlanc said. But that ignores the fact that the jobs of 18-year-old undergrads are drastically different than those of mid-career professionals who make up the best market for online courses and degree programs.

Going beyond coming of age

The high school graduate is seeking a "coming of age experience" of living on campus away from their parents, having adventures, getting into trouble, falling in love, and also getting an education at a leisurely pace over four years. But the 30+ year old who is balancing a full-time job and kids "has had all the coming of age they can handle," said LeBlanc. For them, it's about advancing in their career and "how fast can you get me to the finish line of receiving the credential at a cost I can afford."

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One example of how this plays out: undergrads need to learn discipline, so assignments are strictly due on deadline. For a mid-career professional logging in a 9:30 at night after the kids are in bed, it's all about flexibility.

LeBlanc has embedded the idea of jobs to be done into everything the 9,000-employee university does—in both worlds. For instance, online students need responsive customer service, "which is not a term that is used in higher education." Adds LeBlanc: "If I understand the context, I understand the customer."

In Q&A, MasterCard's Kush Saxena asked, "How do your online students look at their situation five years out when the market changes and the value of their credential goes down?"

LeBlanc said that refreshing your education throughout your career is a key job to be done. "Why do we think that only 4% of your lifespan should be spent in higher ed when you need retraining all the time? A programmer might go back for a micro credential for a management program. So you'll see a rise in micro-credentials and nano-degrees."

At the European summit in Berlin, Christensen spoke about how his own Harvard Business School is facing disruption. After all, an MBA can cost as much as $200,000, requires a dedicated two years of full-time study, and is only available for a very small group of people. So it shouldn't come as a surprise, "we're getting disrupted by corporate universities and training programs." More than 35,000 companies have their own executive education programs.

That brought up the subject of "self-disruption." The rise of online education is classically disruptive to bricks-and-mortar schools, especially as the initially poor quality of online education keeps improving and more and more jobs can be solved that way. That is why Christensen has created online courseware featuring his lectures, in order to widen access.

Dr. Gregor Matthies of EarlyBird Venture Capital questioned: "Isn't there a danger of diluting the HBS brand?" Christensen replied that "that bothers everyone at Harvard except me." He pointed to Hewlett-Packard's move to capitalize on its market share for $1,000 LaserJet printers by offering lower-end InkJets for $199. "The overall brand of H-P was actually enhanced."

Christensen stressed that different jobs around the same products could become more important over time as the industry evolves. "If we truly understand the job, we can understand what is coming next."

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But that triggered a conundrum faced by Solvay's Nicolas Cudré-Mauroux. "The chemical industry is often perceived as having an issue with sustainability, but we are in fact a critical part of the solution," he said. "Our job is to provide solutions to our customer and to do it in a way that minimizes environmental impact. The real issue is to associate value with sustainability. In other words, customers aren't necessarily going to pay for it. How do we approach it when there are two jobs that seem opposed to one another?"

Yes, there are functional jobs of product, said Christensen, but there are social and emotional jobs too, and if you create the right solutions, you ought to be able to sustain a premium price. Innosight's Joe Sinfield picked up on this with an example of an industrial lubricant company that was able to find different circumstances, such as usage in remote locations, where a premium product led to new growth and generated higher profits in the market.

Finally, when a company is organized around customer jobs, not its own products, what does it look like? Innosight's Bernard Kümmerli pointed out that when banks realized that the customer job is to avoid going to the bank, they began to completely reorganize as customers spend more time with their apps than going to a physical location. Another example is Uber, which became a disruptive success because it not only solved jobs of passengers but also those of potential drivers.

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CHALLENGE 2

Achieving Discovery-Driven Growth

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How can you encourage innovative new ventures and pursue ambitious growth while minimizing risk? In this session, we discussed what often gets in the way of innovation priorities and how leaders of successful growth companies have taken an approach based on testing and learning before scaling.

Discussion Leader Rita Gunther McGrath of the Columbia Business School said that organizations often treat innovation as an episodic process, with skunk works and innovation boot camps "where a thousand post-it notes go to die." The big challenge is how to get beyond brainstorming and accelerate ideas to have an impact in the market. Different disciplines are required for discovery-driven growth, says McGrath, including the ability to draw a hypothesis and make assumptions about a new growth opportunity at an early stage, when it's cheap to test it.

Most executives are unhappy with the results of their innovation process. Why is that? When it comes to scaling ideas after they're tested, one problem is that the resources to do so are often held hostage by the large power areas of the enterprise. Companies also force fit new concepts into old structures and business models. One company that overcame this was DuPont, which had to reorganize the company around new growth platforms when it created new materials such as Kevlar and Tyvek.

McGrath outlined an approach called discovery-driven planning, which involves defining a picture of success ahead of time, testing assumptions, and adapting in response to new information. Much of the discovery process comes from being flexible along the way, as most great innovations come out of a prior failure. Amazon's Echo, for instance, came out of phone project that went badly.

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Ken Mehlman of KKR also underscored the importance of learning from failure. "It's very easy to look back and recognize what didn't go so well. But based on that, you can develop pattern recognition and say, these are four or five areas where we have an unconscious bias in the wrong direction. And if that's known, and that's widely shared, you can actually bring in other people or create explicit processes to deal with that bias. That also depoliticizes it because it's something that you as a group discovered about the past that's then built in to preclude those problems in the future."

When innovating for the long term, there are different kinds of uncertainty, says McGrath, including uncertainty about markets and customers and uncertainty about the capabilities or the technology that you might need. Once you get out into high uncertainty territory, the rules change in a major way.

That's why it is vital to consider new approaches and metrics for considering new, innovative growth opportunities, said Boeing's Travis Sullivan. "We often face the tyranny of the business case in considering innovative opportunities, where new, less certain opportunities are evaluated using standard, net present value models. My finance colleagues apply these standard tools—assigning a lot of risk to the future opportunity and discounting future revenues accordingly, yet assigning the full cost of the proposed investment. The resulting approach poses a real challenge to closing business cases associated with innovative growth opportunities."

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"Net present value" is simply the wrong lens for estimating future return on investment of ideas that go beyond core products. Instead, it has to be about what's the cost to learn, about doing an experiment, testing a hypothesis, seeing what investment you might want to make, and presenting your choices.

Scott Anthony of Innosight agreed. "Net present value calculations are irrelevant because the numbers are all made up anyway. In venture capital—and we have a fund in Singapore, so this is firsthand experience—any time you invest, your expectation of the future value will be zero. If you have a portfolio, of course, the mean value will be higher. But you have to approach the evaluation in fundamentally different ways or you have no chance of success."

In Berlin, McGrath delved deeper into the discovery process. It's pointless to argue about who is right or wrong about a new growth opportunity. "The question is: Are they making progress? Go out and get evidence." She introduced a term, "crescive leadership," marked by gradual, spontaneous development. "As a leader, your job is shaping decision premises rather than making decisions. With the right framing, you can see a transformation in the way you manage."

Markus Heinen of Ernst & Young said these discovery-based tools are so valuable because they can help talented people become even more so. "We are interested in what makes the entrepreneurial spirit so unique," he said. "The best innovation talent is much more agile and willing to take chances in order to learn."

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Delegate panel discussions

Leading the Change: Building a Culture of Exploration

How can how organizations become more discovery-driven while maintaining core operational discipline? At our Lexington summit, Bill Hait of Johnson & Johnson, Jackie Applegate of Bayer, and John Casesa of Ford Motor discussed the role of leaders in driving change and creating a customer-centric organization.

Innosight's Scott Anthony led the discussion and cited a survey showing that while enterprise leaders know innovation is vital, more than 80% are unhappy or struggling with the results. To improve outcomes, he argued, you have to think about it at a systems level, in terms such as "building a growth factory," and setting up "dual transformation" initiatives in which you have different systems for the core and new growth areas. You can't just set up an outpost in Silicon Valley or attempt to find a silver bullet against a system-wide problem. "You have to fight systems with systems," he said.

Janssen's Bill Hait noted that true innovation requires radical departure from current business assumptions. "What we and many pharma companies do well is we shrink tumors, control diabetes or lower inflammation," he said. "However, few of the things we do actually prevent, intercept or cure the disease."

That's why he separated a major new R&D initiative, the Disease Interception Accelerator, from the core business, with a separate mission and a dedicated team. "We had to decide what goals and resources will be shared with the core and what won't be shared. For example, If you take on disease interception in the core, it will be deprioritized because they have more immediate tasks to complete."

Ford's John Casesa said the future focus of the business isn't just making great cars but about how will people use the product. "We're deep into this transformation process," he said. But when setting up Ford Smart Mobility, it wasn't as simple as saying it had to be separate from core, which is optimized for the purpose of manufacturing cars. "The whole service business model needs to be outside of the core," but many functions need to be tightly integrated to leverage resources. Some of the biggest challenges thus become how to change the structure of the company, allocate resources, and institutionalizing new behaviors around change.

Aiming for a higher purpose

As President of Environmental Science Worldwide for Bayer, Jackie Applegate argued that leading change goes beyond setting up new ventures outside the core. "When I came in, it was all about products," she said. She aimed to refocus the enterprise around the mission, Science for a Better Life. The way she does that is by becoming a servant leader who sees that purpose as being bigger than anybody. "Our purpose gives us principles for focusing on health, safety, wellbeing and sustainability," she said. "It's why people get out of bed every morning."

In the Q&A, Meeta Gulyani of Millipore Sigma asked about approaches for when "the future strategy is in conflict with the core strategy."

Hait stressed the importance of higher purpose in a healthcare company like Johnson & Johnson and its Janssen Pharmaceutical Companies, which have a credo and a tremendous value system. That means the vision cannot be meek or small. "It can't be: 'We'd like to work on a world with a little bit less disease.' You have to come up with an ambitious vision like 'creating a world without disease', something that people are going to find unfeasible or even ridiculous." But if you could get people excited enough about this bold vision, you may be able to create engagement and enough traction to finally achieve the impossible.

Ford's Casesa agreed with the importance of a bold vision and the mandate that incumbent companies must lead the change in their industries. "I'd rather disintermediate my own business than have someone else do it to me." But even once that is decided and the organization moves into execution phases, leaders still must "constantly reinforce the message."

Delegate panel discussions

Leading Digital Disruption: Being Proactive, Not Reactive

In a panel discussion in Berlin, Daniel Hartert of Bayer, Marc Chollet of Solvay, and Christoph Kargruber of Swarovski shared perspectives on digital disruption. They discussed the importance of building a common understanding of digital transformation and how to optimize existing business models while experimenting with new digital models.

Bernard Kümmerli of Innosight noted that digital disruption is on everyone's agenda. After all, "who would not like to have an Uber or an Airbnb in their innovation portfolio?" He cited three critical success factors.

- Define a common language – what you mean by digital transformation
- Manage uncertainty – there are a lot of assumptions that can be tested in the market
- Adapt your leadership style – to refocus around customer jobs to be done rather than internal priorities

"We strongly believe that the customer focus helps make the process of digital innovation much more reliable and predictable," he said, citing successful cases such as SAP and digital services, GE and the Industrial Internet, and Amazon's profitable growth in Web Services.

Bayer's Hartert says his view was shaped by his experience leading the music business at Bertelsmann in the 1990s to early 2000s in New York. He was repeatedly told "Daniel, you don't understand, people only want a physical product they can hold in their hands." But then came the effects of Napster and then iTunes. Bertelsmann missed the boat and sold off the business. "I take that learning with me to today" of what happens when traditional thinking holds sway.

Now at Bayer for eight years, he sees digital disruption hitting some core sectors faster than others. “My main concern is underestimating new entrants,” he said. “We have a regulated business, and we still think regulations will serve as barriers.” They often do not. Uber, for instance, has enough capital to fund lawsuits and to lobby to change regulations. “That is the warning we should take. There are very smart people out there who want to enter your markets.”

Solvay’s Marc Chollet recalled that visiting Silicon Valley some years ago was a catalyst for him to realize the extent and pace of the digital disruption meant that “we’re better off being on the forefront of transformation rather than being a follower.” The chemical giant’s Digital@ Solvay vision has resulted in about 70 projects that use digital for a higher purpose: to drive excellence. He stressed the need for 1) the right talent, 2) the right technologies and 3) and customer-centricity.

To accelerate digital transformation, Solvay has relied on M&A to bring in innovation. But that has been expensive, as it spent $17 billion over five years. “Now, internal innovation is a bigger part of our future.”

Christoph Kargruber says that Swarovski, as a maker of crystals and jewelry, is “very much in the analog business,” manufacturing essentially the same way for the past century. “Digital transformation is something we need to implement in our manufacturing, for crystals and our jewelry,” he said. “We want to be first and earn ROI both through internal efficiencies and to license out the capabilities.”

But looking at the company’s innovation portfolio, he says that “95% of our investment is in the core, with hardly anything in adjacent or transformational.” One exception is a new online platform akin to Etsy, eBay, or Pinterest in which Swarovski not only markets its own brands but those of independent artists and third-party makers. “The idea is that anyone with great product can sell.” This way Swarovski is in the business of connecting buyers and sellers rather than executing all the transactions.

When digital comes to farming

Hartert at Bayer drew out lessons from the profound changes in its crop science business. “We have 7 billion people in the world to feed, growing to 9 billion by 2050.” At the same time, arable land is less available, and people in Asia are eating more meat. As a maker of seeds and crop protection products, Bayer’s job is to help the farmer to maximize yield.

But with sensors, satellite imaging, and digital information feeds now being deployed in fields and machinery, the vision of precision agriculture has arrived. That means less blanket spraying, and therefore less volume of its products being sold. “We have come into a completely different set of opportunities,” he said. “This will change our business model to something like a disease-free field.”

To seize such opportunities, Bayer has set up a separate business unit with new talent. “But once it becomes mainstream, it can no longer be separate entity and has to be merged with the existing business.”

This is especially important when unexpected new players show up in Bayer’s ecosystem, including flexible start-ups with disruptive business models. To adapt, Bayer has been strengthening its cross-industry partnerships. “We expect to cultivate new market opportunities by combining our expertize of more than 150 years with the innovations of tomorrow.”

CHALLENGE 3

Owning the Future, Rather than Being Disrupted by It

In a facilitated group discussion in Lexington, we began by breaking into group brainstorms to identify "Monday morning" actions for jump-starting change. Then Innosight's Mark Johnson led a larger discussion about those key learnings, with a special focus on managing the tensions between the core and the new. Above all, he stressed developing and telling a powerful story of the future in order to inspire and align everyone. "If you can take a purpose-driven approach and weave a strong narrative of why you need to do things in a way that's different and tell it with passion and with logic," he said, "then you can move in directions that are understandable to all the stakeholders."

Some of the other takeaways from the breakout sessions included insights on these topics:

SELF DISRUPTION: It's far favorable to preemptively disrupt your own products and markets yourself, rather than to be disrupted.

OPTION VALUE: The best way to assess the value of new growth ventures is to look at the "option value," as a potentially transformative path to the future, even in the likelihood that it may never come to fruition, rather than "net present value," a standard financial method that typically will burden new ideas with unattractive ROI expectations.

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THE STABILITY OF JOBS TO BE DONE: While the priorities of certain jobs and the range of solutions changes over time, the jobs themselves are stable. For instance, delivering secure messages has remained vital over time, from Queen Victoria to Winston Churchill to Theresa May. Even so, many jobs are not obvious and require effort to identify. Said Peter Drucker: "The customer rarely buys what the company thinks it is selling them."

CONTEXT AND CIRCUMSTANCES: To understand the customer's job to be done, you need to understand the context and the circumstance, and that will help point to the solutions you're going to create and influence your strategy.

THE JOBS-FOCUSED ORGANIZATION: How can you take the theory of jobs and make it real across the organization? One delegate company in health care put together a training program internally for teams of innovators and explorers. The idea is to train people to use the tool to create a solution to a real-life problem when different stakeholders are involved—when the patient, the physician, the provider and the payer all have completely different jobs.

LINKING TRANSFORMATION A & B: While there was consensus about setting up new growth business separate from the core, each organization will do it differently, depending on the nature of the new growth and the kinds of assets that need to be shared by both.

DE-RISK THROUGH TESTING: Never forget to do low-cost marketplace experiments and low-commitment testing, in order to de-risk new ventures. Remember inquiry over advocacy: Questions are more important than statements.

COMMON LANGUAGE: Having common terms and definitions across an enterprise is critically important when you're trying to drive the organization to do something in a different way.

THE REASON FOR TELLING A STRONG NARRATIVE: CEOs can get punished by Wall Street and other stakeholders if they don't "stick to their knitting." But those constraints don't mean you should hide beyond-the-core innovations from the world, like growing mushrooms in the dark. By offering a compelling vision of the future, the company can be evaluated for its longer-term potential, not just its quarterly earnings.

ELEVATOR SPEECH: You need the short elevator speech about your future vision, so that people can go: 'aha, I get it. This is different than our current business, but it's a good business.' You can't take an hour to explain it. You need the two-minute version for Wall Street, employees, and other stakeholders.

THE POWER OF INERTIA: Don't wait to innovate for the long term, said Rita McGrath. Get it started, even in small ways. Once you get the inertia going in your favor, everything gets a lot easier.

OPTIMISM AND CONFIDENCE: "I think that strong companies, armed with a few ideas, can do things that prior generations of managers were simply not able to do," said Christensen, "and I really am confident in you to make it happen."

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Case story

Owning the Future: Putting it All Together at Ford

In Berlin, Mark Johnson drew out insights about the pursuit of new growth in a conversation with Jim Farley, the CEO of Ford Europe. Johnson noted the declining lifespans of S&P 500 companies due to disruption and acquisitions by stronger firms. How can traditional organizations change fast enough to avoid decline?

At Ford, a dual transformation is underway, as the core adapts at the same time that leaders pursue new growth in smart mobility and electrification.

Farley began with a story of how his was a three-generation Ford family from Michigan, yet he decided to spend the early part of his career at Toyota. "I wasn't welcome in my grandfather's house." But in 2007, after getting a call from Bill Ford, Farley came back and was put in charge of the revenue in North America, working under then CEO Alan Mulally. Finally, his family was talking to him again.

But in 2007, "the wheels fell off" and he had to lay off 50,000 people and halt truck production for three months. Emerging from the recession, Ford leaders forged ahead and saved the century-old company without government money and began hiring again.

Now, Ford is on a "new transformation journey." While the core is healthy, the future is about fundamental change, in terms of moving to electric drive trains, dealing with new competitors like Tesla and new regulations—all while trying to capture opportunities in the sharing economy, autonomous driving, and smart mobility.

Asked what has been the hardest thing so far, Farley said it's been deciding what we need to stop doing, under a rigorous capital allocation process that involves taking a third of available capital away from the core and investing it in the new growth areas. Ford has announced it will begin production of autonomous vehicles for the model year 2021.

What's been going better than expected is the alignment of the senior leadership team around a future-back vision of the future in 2030. "It was fantastic to see how people who saw the business completely differently now have a shared vision of the future with a common vocabulary."

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At the same time, there is no right answer, since the future is so fundamentally different than the core. "We're so used to analysis," he said. "If we applied the same numerical rigor to the new, it would be a huge mistake. We can't rely just on the facts, which have gotten us in trouble in the past. It requires some intuition to create that strong vision. Without that, we'd have no strategy at all."

Takeaway Discussion

SIX QUESTIONS you can bring to your teams about leading long-term innovation and strategic transformation:

1. What is our balance of exploitation vs. exploration (i.e. 60%-40%) and is it consistent with our strategic objectives?
2. Do we have a deep understanding of the jobs to be done of both today's and tomorrow's customer?
3. Do we understand our unique capabilities and assets that could give us unfair advantage as we search for new growth?
4. Are our metrics unintentionally leading us to short change investment in disruptive, market-creating innovation?
5. What do we as leaders have to do to role-model behaviors consistent with innovation?
6. Are we properly organized to protect our innovation investments from the normal resource allocation process?

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