

LEADING TRANSFORMATION - CEO SUMMIT REPORT 2017

The New Game Begins Before the Old One Ends

The most successful organizations are the ones most resistant to change.

Leaders lack incentives to invest in innovation that won't pay off within three to five years.

In the absence of a clear and present crisis, leadership teams often cannot reach consensus on whether to do anything new and different.

These dilemmas of leadership can be formidable stumbling blocks for large organizations that are incumbents in their industries. At Innosight's ninth annual set of CEO Summits, a select group of senior executives came together to tackle these and other central challenges. Over the course of one-day events in Boston and London, they discussed the theory and practice of transformation by sharing their setbacks and breakthroughs.

THE NEED FOR LONG-VIEW LEADERSHIP

"The new game begins before the old one ends," said Harvard Business School Professor and Innosight co-founder Clay Christensen, one of the summit leaders. "The new game begins even before you can tell anything is wrong in the old one."

And executives overwhelmingly recognize this. In a recent survey conducted by Innosight, 80% of

corporate executives said they believe they need to transform in response to rapidly changing markets and disruption. Yet they face barriers that have arisen in part because corporations have historically rewarded leaders for protecting their existing markets and for incrementally improving the products and services that built their brands. This mindset can result in systematically under-prioritizing long-term investments.

At the Boston-area summit in August, Innosight co-founder and senior partner Mark Johnson cited a survey explaining why so few companies transform (box). Asked Johnson: "How do you break out of the old patterns to focus on the future?"

But the view among summit delegates was starkly different from these prevailing practices. Among delegates surveyed, just 3% said that buy-in from the investor community was a major obstacle to investing in future growth.



Why so few companies transform

78%

of CEOs would destroy value in the name of smoothing short-term earnings

71%

of C-level execs say they've prioritized short-term results over long-term investments

80%

of executives would decrease R&D spending in order to meet quarterly earnings targets

Sources: Graham, Harvey, and Rajgopal (2004, 2006), Accenture Innovation Survey (2015)

Rather, the consensus among the leaders in attendance was that long-term innovation is a strategic imperative that should not be subject to budget cuts and organizational biases. After all, history is replete with cases of disruptive startups that toppled incumbents by exploiting

under-served markets, often by deploying new or cheaper technology.

To avoid such a fate, many of the established companies represented at the Summit are making bold investments in the future so that they can capture these kinds of

opportunities while concurrently innovating their core business for future growth as well (see below).

BECOMING A SERIAL TRANSFORMER

The leaders of these and other efforts began with a consensus that they

must think beyond managing to the quarterly targets if they aim to achieve sustainable growth. Indeed, when surveyed which companies they most admired, the overwhelming favorite was Amazon, which Johnson called a “serial transformer and business model innovator.” CEO Jeff

Future Growth Plans Discussed at the CEO Summit 2017



Boeing has launched a transformational growth group called HorizonX that is collaborating with a startup to bring an electric airplane to market.



AT&T is transforming its core voice and data network while also pursuing new growth in digital content and entertainment, including its acquisition of Time Warner.



Johnson & Johnson is harnessing open innovation to accelerate bringing breakthrough treatments to market while also pursuing a long-term vision for “disease interception.”



Health insurer **Humana** and healthcare provider **Ascension** are each investing in digital technologies to move care from high-cost hospitals directly into patient homes.



Edison International is deploying data analytics to make large commercial customers more efficient while also collaborating with Tesla on large-scale battery storage for solar power.



Ford Motor is taking a customer-centric view of the future by developing new services and business models for a world of shared ownership and autonomous vehicles.



Instead of watching fintechs disrupt banking, **Eastern Bank** launched its own venture-backed tech company that developed a breakthrough digital business model for small business loans.



Dow Jones is accelerating the strong digital subscription and advertising engines of The Wall Street to become the most profitable among any journalistic enterprise with 40 million or more subscribers.

T10

The Transformation 10

Innosight research ranks the ten global companies that have achieved the highest impact business transformations over the past ten years.

1. Amazon
Netflix (tied)
3. Priceline Group
4. Apple
5. Aetna
6. Adobe
7. DaVita
8. Microsoft
9. Danone
10. ThyssenKrupp

[See the T10 report.](#)

Bezos has all along sacrificed short-term profits for long-term value creation, and the belief used to be that traditional public companies couldn't get away with such a strategy.

And so it's no surprise that Amazon, tied with Netflix, tops Innosight's Transformation 10, a new research initiative identifying the most successful corporate transformations over the past ten years (see list).

But the list also includes firms such as Microsoft and Adobe that have harnessed cloud computing to reinvent

themselves, as well as non-tech firms like Danone and industrial leader ThyssenKrupp that change their overall missions. A common behavior at these firms, our research shows, is that leaders built their strategy around a purpose-driven narrative of the future.

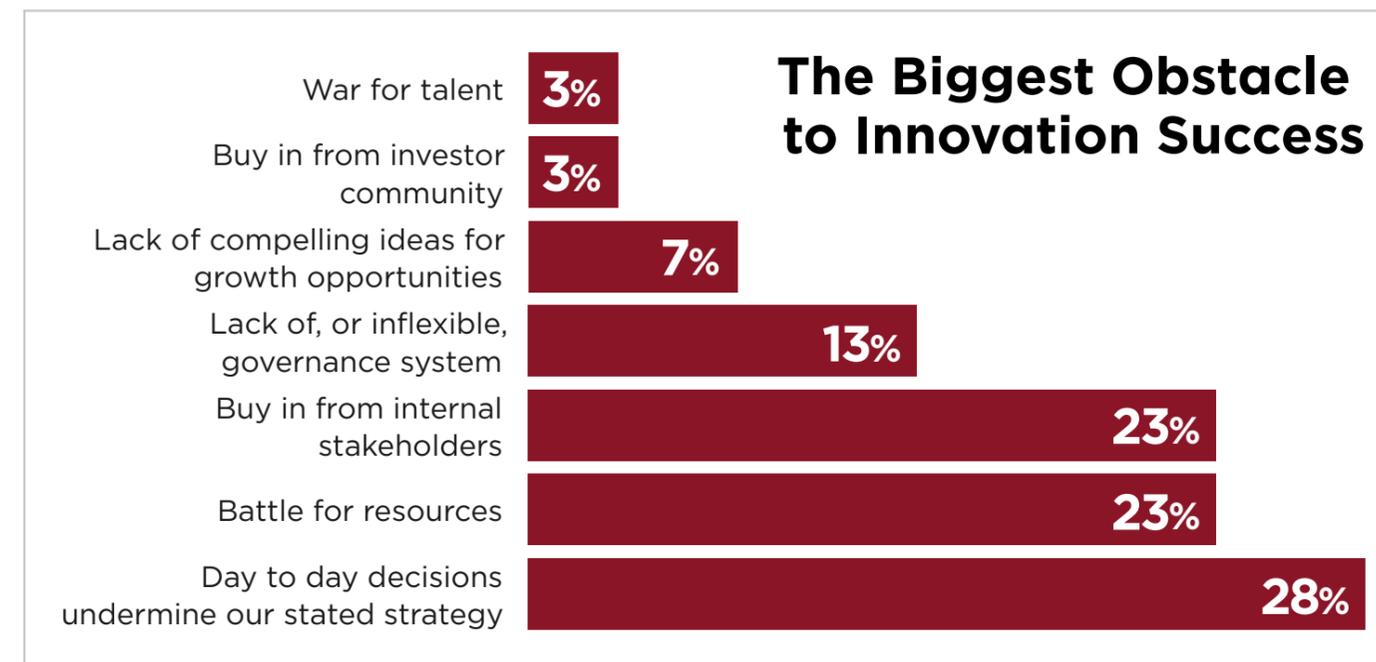
These stories of incumbent companies resonated with many of the delegates. What's striking, said Doug Shapiro, the Chief Strategy Officer at Turner Broadcasting, "is how similar the challenges are that companies face even across a very broad spectrum of

"You can state the strategy, but lots of long-serving employees may contend that it's not the best one to follow. Yet if you hang on to your past, you can't compete. You can't create the future."

Bob Maresca, CEO of Bose

industries. Often times, if a company waits until there's a burning platform, it's too late to do something and yet until there's a burning platform there's not necessarily enough momentum to do something."

The discussion turned to the systematic reasons so many companies fail to proactively transform before being hit by crisis. Asked which obstacles to innovation are the biggest (chart), the top choices included so-called "shadow strategy," in which day-to-



DATA: CEO Summit Delegates Surveyed, Summer 2017

“We should be trying to put ourselves out of business, as opposed to reacting to things or not even seeing them until it’s too late.”

Bob Rivers, CEO of Eastern Bank

day decisions undermine the official strategy (28%) as well as the battle for scarce resources (23%).

HOW INCUMBENTS CAN DRIVE DISRUPTION

While case studies of success and failure can be instructive, Innosight co-founder and Harvard Business School professor Clayton Christensen stressed in his session the importance of examining the underlying theories, looking beyond correlation to the question of “what is the causal mechanism of why we get results.”

In developing his theory of disruption, Christensen noticed a pattern he illustrates with concentric circles (graphic). In the center are the products attracting customers with the most money and the most skill. This circle is the traditional bull’s eye for incumbents, as was the case with makers of mainframes and minicomputers that are now mostly out of business. “Companies naturally keep introducing better and better products for these customers, even though these efforts eventually overshoot what those customers can use.”

Startups, meanwhile, rarely target this inner circle. Rather, they go for the outer circles of less sophisticated users or even non-consumers



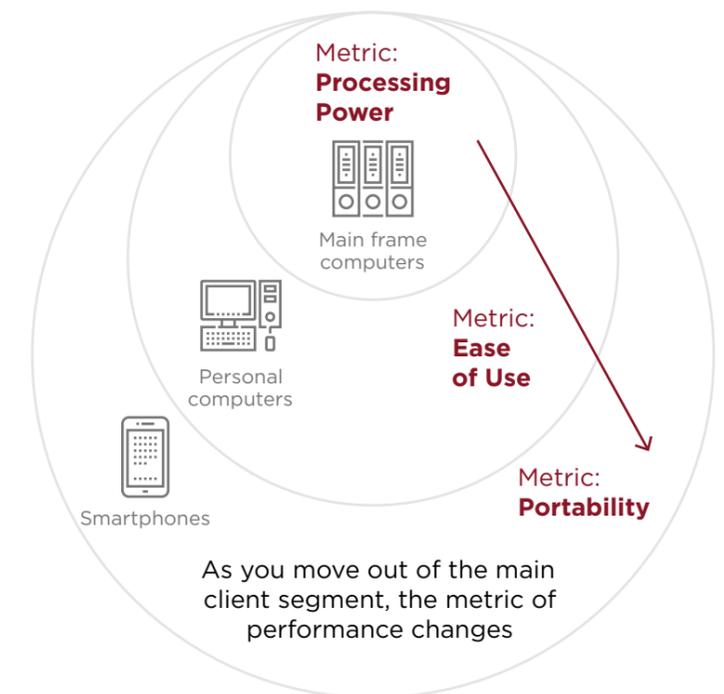
Watch Clay Christensen apply Disruption Theory to computers and cars.

currently being ignored. For instance, the Apple II was sold as a low-margin toy to kids at first, because it wasn’t anywhere near a serious business machine (see video).

For managers, the question becomes: “Should we use our capital to make worse products that our best customers won’t buy and that will ruin our margins?” Asking it that way shows how good, logical, sound management can end up destroying a company. Meanwhile, disruptors who are initially dismissed or ignored can move up market with better and better products. Toyota, for instance, came into the U.S. market with the Corona before it moved up to the Corolla, the Camry, the 4Runner, then the Lexus. That progression took more than 30 years.

Spotting these patterns isn’t easy. For example, in health and life sciences, product development is almost always expensive and complex, noted Meeta Gulyani, head of strategy, business development, and transformation at MilliporeSigma. “How do we avoid missing the disruption?” she asked.

How disruption transformed computing



Christensen replied that it’s essential to realize that “the new game begins before the old one ends.”

Indeed, years before you see symptoms of disruption in your core, you need to dedicate resources to discovering new customers and new markets beyond it. In healthcare, that means venturing into the outer circles, by bringing technology to lower and lower cost venues—moving from central hospitals to doctor’s

Iora Health's care model



offices to retail clinics to patient homes—so that you can do more and more sophisticated things in these cheaper places.

One delegate at the Summit did just that. Dr. Rushika Fernandopulle, CEO of Boston-based Iora Health, developed a new business model that has attracted more than \$120 million in venture capital. Aimed at primary care, Iora runs clinics in 37 locations in six states in which low-cost “health coaches” are the quarterbacks of care teams that focus on providing patients with constant guidance on how to live healthier and navigate the system. Among its patients, hospitalization rates declined and care costs are

12% lower than populations with traditional care.

What makes this so challenging for incumbents is that there is initially no data to convince you to take such a course. “Only the theory can guide you,” said Christensen.

Several delegates spoke about agreeing that legacy mindsets and structures must be kept away from new ventures. “The only time we achieve escape velocity for a new venture is when we avoid putting legacy costs on the new business,” said Mo Katibeh, Chief Marketing Officer at AT&T Business.

BUILDING A PURPOSE BRAND WITH JOBS TO BE DONE

To innovate the new products or new business models that deliver new growth, one must step back and realize that “understanding the customer is the wrong unit of analysis,” Christensen argued. Demographics don’t tell you much about why customers buy something or what’s missing from their lives. But focusing on understanding

customer “jobs to be done” changes the game. A job is the progress a person is trying to make in a certain circumstance, and according to Christensen “is the best unit of analysis.” One reason for that is that jobs remain stable, even though technology changes. Delivering packages, for instance, used to be done by horseback and now is handled by FedEx.

Once you understand the job, you can organize your enterprise around it to deliver. For instance, he asked delegates, “Which brand pops into your mind if your job is to furnish an entire apartment in one day?” Everyone who raised their hands was thinking of Ikea.

Ikea is great example of a **purpose brand**. Purpose brands organize and integrate around the job to be done to deliver exceptional experiences and become virtually synonymous with the job. It tells customers what to expect from the product, and it tells marketers and engineers what features and functions they should and should not incorporate. Christensen cited other focused but highly evolved purpose brands. Examples range from Turbo Tax to Disney to Hilti to Land Rover.

ORGANIZING AROUND THE JOB TO BE DONE

What is the biggest organizational barrier to creating a purpose brand? David Duncan, Innosight senior partner and co-author with Christensen of the book *Competing Against Luck*, explained that “the concept of jobs-to-be-done is hard to implement because of the boundaries we’ve created for ourselves.” For example, accounting is based around existing products and services, and resources get allocated based on existing revenues, and people





thus get hired to pay attention to past metrics of success.

But to focus on the future, you must create a new organization around under-served jobs that aren't generating revenue. For clues to find those jobs, added Duncan, look for compensating behaviors. "Figure out why people do things the way they do."

Bruce Broussard, the CEO of Humana, said his firm is learning to look beyond the functional jobs that health insurance fulfills and to understand the deeper social and emotional jobs that consumers have. Why, for instance, do people go to the gym or engage in other exercise? Asking these types of questions enable Humana to design new products and

services that consumers looking to become healthier will pull into their lives, this lowering marketing costs.

ACCELERATING TO MEET THE PACE OF CHANGE

Shapiro at Turner Broadcasting recommends going beyond listening to your best customers. For instance, linear television, with its time-based schedules, is going away, but what are the new opportunities as it gets replaced? He notes that his kids and

"We need to accelerate on multiple fronts just to keep pace with the rapid change across the media industry, and I think that's a message that leaders of other industries are also taking back to their work."

Tracy Corrigan, Chief Strategy Officer, Dow Jones

their friends like to watch YouTube videos of other people playing Minecraft and other video games. What is the job to be done? When you can figure out such perplexities, you can better predict the future.

The challenge for incumbents who want to lead the next wave of their industry's transformation is to spot those early signs of the future and act on them faster than startups do.

At the end of the day, said Christensen, "the right theory can guide you on how to think differently." Since there is no data about the future, only about the past, we can start by looking at what others who have been guided by the theory have done. In virtually all cases, those who have succeeded in driving new growth via new business models have set up an independent business unit outside of the mainstream with different metrics and a different cost structure. This "dual transformation" approach will be the subject of Chapter Two in our series of CEO Summit 2017 reports.

The Top Takeaways

TAKE A LONG VIEW OF LEADERSHIP

Develop a strong vision of how to "own the future" rather than over-analyzing the past.

INCUMBENTS CAN DRIVE DISRUPTION

Create new business models to open new markets before startups do.

ORGANIZE AROUND CUSTOMER JOBS TO BE DONE

Build your company around what the customer is trying to accomplish, not around segments and demographics.

STAY TUNED

More insights and highlights are coming in Chapters Two (on Dual Transformation) and Chapter Three (on Digital Transformation)



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