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.

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**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

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 topped 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

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**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.”
- **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.
- **Health insurer Humana** and healthcare provider **Ascension** are each investing in digital technologies to move care from high-cost hospitals directly into patient homes.
- **Johnson & Johnson** is harnessing open innovation to accelerate bringing breakthrough treatments to market while also pursuing a long-term vision for “disease interception.”
- **Dow Jones** is accelerating the strong digital subscription and advertising engines of The Wall Street Journal to become the most profitable among any journalistic enterprise with 40 million or more subscribers.
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 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-day decisions undermine our stated strategy.
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 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.

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...
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 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.

**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*

**STAY TUNED**

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

Clayton M. Christensen
The Kim B. Clark Professor of Business Administration, Harvard Business School, and Co-founder of Innosight

Scott D. Anthony
Managing Partner, Innosight

Mark W. Johnson
Senior Partner and Co-founder, Innosight

Lexington Summit Delegates

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James Frates
Chief Financial Officer

ALLIANCE OF COMMUNITY HEALTH PLANS
Stephen Cox
Chief of Strategic Operations

ASCENSION
Dr. Anthony Tersigni
President & Chief Executive Officer
Eric Engler
Senior Vice President & Chief Strategy Officer

AT&T
Mo Katibeh
Chief Marketing Officer, AT&T Business
Abhi Ingle
Senior Vice President, Distribution & Channel Marketing

BIOGEN
Samantha Budd Haeberlein
Vice President & Head of Alzheimer’s Clinical Development

BOEING COMPANY
Steve Nordlund
President, Boeing, HorizonX
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Managing Director, Disruptive Innovation, HorizonX

BOSE
Bob Maresca
President & CEO
Phil Hess
Executive Vice President of Global Product Development, Marketing Communications & Sales

BOSTON CHILDREN’S HOSPITAL
Dr. Sara Toomey
Chief Experience Officer

BYE AEROSPACE
George E. Bye
CEO & Founder

CARGILL
James Weed
Vice President & Leader of Global Analytics

CITRIX SYSTEMS
Chris Fleck
Vice President & Technical Fellow

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

CVS HEALTH
Joshua Flum
Executive Vice President, Enterprise Strategy & Corporate Development

DOW JONES
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JUDE reliableinterrupt
Zander Packard
Chief Operating Officer

JOHNSON & JOHNSON
Joaquin Duato
Executive Vice President, and Worldwide Chairman, Pharmaceuticals
Robert G. Urban
Global Head of J&J Innovation
Shakti Narayan
Vice President, Head of Transactions, Boston Innovation Center

LINDT & SPRÜNGLI
Rudi Blatter
President & Chief Executive Officer, Canada

MASTERCARD
Ed McLaughlin
President, Operations & Technology
Craig Vosburg
President, North American Markets

MILLIPORESIGMA
Jeff Tsao
Head, Global Strategy, Life Science
Meeta Gulyani
Head of Strategy, Business Development & Transformation

NORTH COAST VENTURES
Casey Carl
Founder & Chief Executive Officer

PFIZER
Liz Barrett
Global President & General Manager, Oncology

SAP
Jürgen Müller
Chief Innovation Officer

SETTLEMENT MUSIC SCHOOL
Helen Eaton
Chief Executive Officer

THOMSON REUTERS
Stewart Beaumont
Chief Technology Officer, Enterprise Technology & Operations

TURNER BROADCASTING
Doug Shapiro
Executive Vice President Chief Strategy Officer

WOLTERS KLUWER
Andres Sadler
Chief Executive Officer, Global Business Services

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Dual Transformation in Action: Reinventing Today While Creating Tomorrow

START READING CHAPTER TWO
At Innosight’s CEO Summit in Boston, Duato told the story of how his leadership team put in place a long-term plan for transformation. Other senior leaders from across industries at the summit shared similar experiences about the challenge of creating new growth, especially in times of rapid disruptive change.

THE CHALLENGE OF DUAL TRANSFORMATION

“The gales of creative destruction have never blown more fiercely,” said Innosight managing partner Scott D. Anthony. Citing the insights of economist Joseph Schumpeter, Anthony noted that managers too often see their job as “administering existing structures,” when their greater task is grappling with how markets will predictably destroy those structures that fail to change.

That doesn’t mean that leaders need to abandon what has made them successful. Rather, the accelerating pace of creative destruction calls for taking a systematic approach to innovating their products, services and business models.

Anthony introduced a framework and lexicon for managing these twin challenges. Instead of a monolithic approach to change, “dual transformation” enables companies to pursue core and new growth simultaneously, ensuring
both efforts get the resources they need to thrive, without getting bogged down like so many transformation efforts do.

**TALES OF TRANSFORMATION A & B**

“Transformation A” is about making the core more resilient.

At Citrix Systems, the maker of collaboration software that was once among the most profitable company on the NASDAQ, leaders were dealing with disruption from cloud computing. Like Adobe and Microsoft, the company’s Transformation A has been about reengineering its offerings for the cloud but in an evolutionary fashion. “We couldn’t just burn the boats,” said Citrix vice president Chris Fleck. “Some of our customers just don’t move that fast.”

At Dow Jones, the iconic business and financial publisher, Transformation A has been about a steady move from print to digital. The Wall Street Journal now gets half of its 2.25 million paid subscribers via web and mobile platforms, said chief strategy officer Tracy Corrigan, and growth in digital has largely offset the drop-off in revenue from print advertising.

Transformation B is about finding and building new growth ventures. A classic example of this is of how Amazon built Amazon Web Services into a $12 billion business that accounts for the three-quarters of the company’s operating income.

Many B efforts in the room were in more formative stages. Ford Motor Company is exploring the future of mobility services, including a new venture in which the car maker has launched a business model in the ride-sharing space. Group vice president of global strategy John Casesa cited Ford’s Chariot service, which takes an Uber-like approach by targeting urban commuters and charging by the mile.

Mo Katibeh, chief marketing officer at AT&T Business, outlined how the telecom giant has launched virtual private networks that now cater to 3.5 million business customers in need of thousands of cloud solutions.

These are not unrelated diversifications. Rather, they leverage key assets to serve untapped needs in the marketplace. Under the dual transformation model, this “capabilities link” is what provides incumbents with an advantage over startups. Says Anthony: “You can experiment as rapidly as a startup but with capabilities that startups can’t match.”

Indeed, this is the formula for flipping the “innovator’s dilemma” described twenty years ago by CEO Summit co-leader Clay Christensen. As Christensen reinforced to the group, startups typically attack incumbents by finding unserved niches that may not seem desirable—and then use those footholds to climb upmarket into more profitable spaces. But
under dual transformation, a new growth venture at large organization can be nimble enough to blunt the startup’s advantage.

TWO ROUTES TO RESILIENCE
Allocating capital can be a potential roadblock. Doug Shapiro, chief strategy officer at Turner Broadcasting, spoke about the ongoing transformation of the core cable broadcasting business in the face of media disruptions ranging from Google to YouTube to Facebook to Netflix. But he also addressed the need to set aside investment to fund the development of new digital business models in new markets (see video).

In formulating their Transformation A strategy, Duato and his team decided to focus on five scientific strongholds—neuroscience, infectious disease, oncology, immunology, cardiovascular & metabolism—areas where the company could best bring breakthrough treatments to market. To do this, Janssen embraced an open innovation model to collaborate with biotech startups and outside labs. “Our key insight was that the best science is not just located within our own company,” he said. “That has been a huge cultural change.”

From the outset, the goal was to bring at least 10 potentially billion-dollar treatments to market over a decade—roughly half developed internally and half sourced through outside partners. After introducing 13 new medicines and producing seven straight years of growth, Janssen is now J&J’s largest business, with $33.5 billion in revenue and a rich pipeline of promising treatments for the future.

But Duato stressed that the strategy for the core remains distinct from its Transformation B, a science-driven effort to discover new ways to intercept and prevent diseases such as diabetes and cancer years before any signs or symptoms appear. In the spirit of Schumpeter, Duato noted, new business models such as advanced diagnostics or early interventions may eventually end up disrupting its own core franchise of providing treatments.

“If we identify those interventions, then we have to go there, or someone else will do it,” he said. “But it will take a decade of investment before we see meaningful impact. In the meantime, we have 85% of our investments in our core.”

TRANSCENDING MISSION-BASED ORGANIZATIONS
For-profit companies aren’t the only types of organizations in need of transformation. Non-profits also need to reinvent themselves in order to keep delivering on their mission as customers and markets change.
As America’s largest non-profit health system, Missouri-based Ascension has been striving to make healthcare more accessible and affordable by supporting the transition of care from hospitals to neighborhood clinics and other community-based settings.

“We’ve been on this Transformation A path for a decade,” said Eric Engler, Ascension’s Chief Strategy Officer. In addition to its 141 hospitals, Ascension now operates more than 2,500 other sites of care across its 22 state footprint. Ascension continues to look at opportunities to reposition its hospitals to better meet the needs of the communities it serves, including its recent announcement to convert its community hospital in Washington D.C. to a Health Village.

Ascension also needs to define its Transformation B, Engler said, and that path is in part about an accelerated shift from providing healthcare services to “becoming a health and well-being partner with patients.” That requires embracing new business models such as moving from fee-for-service reimbursement to being compensated for taking responsibility for an individual’s health and healthcare costs.

This shift from healthcare to health requires new measures for success beyond yesterday’s focus on metrics such as hospital discharges and inpatient market share. Creating the ability to engage with people as part of their everyday digital experience is a key part of the change. That requires investments in everything from mobile platforms, so that consumers can have access to their providers or health records, to artificial intelligence, so that providers can proactively monitor patients and personalize interventions.

As one of America’s oldest and largest music education organizations, Philadelphia-based Settlement Music School has grown to accommodate 600,000 annual visits across its six branches. But growing the core alone can be a trap, said CEO Helen Eaton. For Settlement, Transformation B is about creating new models for new groups of students, and that involves “disrupting the cycle of poverty,” she said, “by looking at inequity and lack of diversity.” Since Settlement cannot solve this problem alone, it is partnering with institutions across the city, under an Andrew W. Mellon Foundation grant, and also pushing to create new digital programming to transform the student experience online, under a Pew Charitable Trusts grant. This requires bringing to light narratives of how music changes lives and empowers people.

Helen Eaton, CEO, Settlement Music School

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Looking across the case studies of how these organizations have embraced dual transformation, Scott Anthony distilled a takeaway list of five things to remember:

1. Orient the organization for the long term
2. Keep the core as strong as possible
3. To invent the new, change your metrics
4. Be humble about whether everything can succeed
5. Create an ongoing story linking execution to purpose and mission

**ANTICIPATING AND PUSHING PAST CRISIS POINTS**

No one should underestimate what it takes for an organization to execute a transformational strategy. “This is the hardest problem in business,” said Clark Gilbert, the former CEO of Deseret News and current president of BYU-Pathway Worldwide. “Most will face it once in business careers.”

From his own experience developing the dual transformation framework in the marketplace, Gilbert outlined a series of three crisis points that will inevitably erupt in even the best of circumstances.

He showed how each crisis played out on a timeline from 2010 to 2015 as the mix of revenue at Deseret News, one of the nation’s oldest newspaper publishers, changed rapidly and radically (chart).

**The Crisis of Commitment** struck at the outset of Deseret’s transformation when leaders and employees were faced with embracing a new strategy in light of the fact that legacy core products like newspaper display and classified ads were going into sharp decline. Many leaders and employees refused to commit even in the face of the evidence.

This can be overcome with a strong narrative of the future from the top. “The CEO is the innovator in chief,” Clark said. “The job can’t be delegated to a Chief Innovation Officer.”

**The Crisis of Conflict** hit a year or so later when different parts of the organization were tempted to fight for scarce capital resources, as new growth products (in new digital channels) received a disproportionate share of investment relative to its size.

This can be managed by setting up strict walls between the A and B organizations, with the CEO making sure that each unit sticks to its own journey and doesn’t meddle or sabotage the other’s plans. The mantra needs to be: “A does A, and B does B.”
The Crisis of Identity which happened two or three years later, when the organization realized “we’re not a newspaper anymore, we’re a digital business.”

But this crisis can be overcome by continually stressing that the repositioned A organization still matters and will for a long, long time. The print newspaper changed a great deal, but it still exists and it will for long, long time.

THE IMPORTANCE OF LEADERSHIP FOR THE JOURNEY AHEAD

Dual transformation is fundamentally a leadership challenge. Without senior leadership alignment on strategy, trends, and the future, efforts will almost certainly derail. It may be a promising growth initiative that never gets off the ground due to gravitational forces of the core; it may be key stakeholders who resist change because they haven’t been given a compelling narrative of the future; or it may be a shadow strategy perpetuating the status quo and subverting the new strategy.

To get started on a successful transformation, the delegates and summit leaders identified 8 critical components for leaders to align on:

1. We know who we are, and why we are here.
2. We have a handle on critical disruptive trends.
3. We have defined how we will compete differently today (Transformation A).
4. We have identified our most exciting new growth opportunities (Transformation B).
5. We have a stated strategy to share select assets across A and B (Capabilities link).
6. We have a compelling narrative about becoming the next version of ourselves.
7. We have shared assumptions about the future.
8. We are prepared for the crises of commitment, conflict, and identity.

Stay Tuned

Chapter 3, the final in this series, will cover insights from our London summit with a focus on digital transformation and overcoming obstacles to innovation.
When Disruption Becomes Digital
How Successful Leaders Transform Their Organizations In Times of Uncertainty
Ford Motor Company, moving beyond car manufacturing to become a developer of mobility services, has brought its Chariot ride-sharing service for urban commuters to London.

Barclays, expanding beyond traditional banking, is building new platforms to help clients like retailers better verify and connect with customers at the point of sale.

BASF, creating new Industry 4.0 services around connected systems, is building on its strength as the world’s largest chemicals producer to deploy predictive analytics for better asset management.

As part of Innosight’s series of CEO Summits, leaders from these and other global organizations gathered in London to explore growth opportunities around digital transformation. Hosted by Barclays at its new Rise fintech innovation accelerator, the event focused both on enabling technology as well as discussion around larger strategic questions:

What does it take for a company to create sustainable growth in an era when digital ecosystems and other disruptive changes are transforming entire industries?

How can companies build on what makes them great while at the same time creating the next version of themselves?

What kind of initiatives and structures need to be in place for large organizations to discover and capture new opportunities with the agility of startups?

**FRAMING THE DIGITAL OPPORTUNITY**

“Digital transformation is fast becoming a top—if not the most important—agenda item for CEOs,” said Bernard Kümmerli, senior partner at Innosight. Digital ecosystems, platforms and technologies create vast potential across industries in three primary zones that sit between customers and the IT infrastructure (see chart).

1. Digitizing core processes to lower costs and create efficiencies.
2. Creating better end-to-end customer experiences.
Globally, this opportunity is staggering in terms of size. By 2020, there will be 50 billion devices connected to the Internet, including 6 billion smart phones. The market for public cloud services will reach $160 billion, and 1.7 megabytes of data will be created for each person, on average—every second of every day.

Digital Future Snapshot for 2020

- 50 billion devices connected to the Web
- 6 billion smart phones users worldwide (70% of world population)
- 1.7 MBs of data created per second for every person on the planet, on average
- $160 billion market for public cloud services

Digital Investments on the Rise

Summit delegates arrived well aware of how large the opportunity looms. In a pre-summit survey, all indicated their companies are increasing their digital investments—and a full 41% said their companies are planning to at least double their investment over the next five years. Delegates also described a wide range of digital initiatives underway at their companies: data analytics for total cost of ownership programs; improvements in global supply chains; new forms of digital marketing and advertising; and data warehouses that generate insights to enable better decision-making.

More fundamentally, digitalization has the potential to reshape the nature of the enterprise itself through new business models and new strategies. At chemical giant BASF, for example, digitalization is enabling a shift from producing chemicals to also providing chemical-driven digital solutions. The company’s 4.0 initiative builds on BASF’s history of innovation and is evaluating digital potential in business models, new ways to conduct R&D, and opportunities to accelerate innovation throughout the enterprise.

At Barclays, the shift is about becoming more of an advisor and platform that helps connect customers. According to Barclay’s UK CEO Ashok Vaswani, “I seriously believe we are becoming a technology company with a balance sheet and a regulator. We will employ different people, and we will develop different business models.” He offered one example of a non-traditional business model with great potential: working with its customer, NCR, Barclay’s could use credit bureau information to verify the age of customers at self-service checkouts when they are buying beer, for example, and get paid a small fee per transaction.
Breaking down the digital opportunity into discrete technologies, Innosight groups 10 key services into core technologies, which affect all industries now, and applied technologies, which will have outsized impact on select industries, such as blockchain in financial services, and digitally-connected autonomous vehicles for auto manufacturing.

**DIGITAL TRANSFORMATION = CULTURAL TRANSFORMATION**

“The narrative is that the digital revolution is here, and it’s going to be much bigger than the industrial or agricultural revolution,” said Vaswani in a Q&A with Innosight’s cofounder Clay Christensen. “This time we are committed to leaving no one behind.”

But that will require cultural transformation inside the organization—both the most important and the most difficult thing to bring about. One major initiative Barclays has launched to help employees become digitally savvy is their Digital Eagles programme. It started with a core group of 19 employees who would visit branches to help spread the digital learning and enthusiasm, and if they found likeminded colleagues, to recruit them. Today there are 17,000 Digital Eagles. Barclays' features them prominently in advertising, which helps drive additional opt-in. Experimentation is also a driver of change at Barclays. “Some of what we do works, some of it has not worked. We came up with an app, which we thought was really cool, and it was a disaster. But we learn from failures.”

The talent question is also in sharp focus for executives, and many delegates cited “finding and retaining the right talent” as a major obstacle to transformation. Digital increasingly requires a new combination of skill sets, including technical or engineering expertise, agility, customer focus, and the ability to work well in teams.

To that end, Christensen, who teaches at Harvard Business School, posed the question: Are the business schools producing the right people in the digital age? Vaswani added, “For us, the first thing we are looking for in candidates is attitude. Then you move to functional capability, then to demonstrated strategic skills.” Barclays helps its employees become digitally savvy with an app called Digital Wings that teaches and certifies them on

![CORE TECHNOLOGIES](image1)

- Internet of Things
- Advanced Analytics
- Cloud Services
- Mobility

![APPLIED TECHNOLOGIES](image2)

- Virtual Reality/ Augmented Reality
- Blockchain
- 3D Printing
- Drones
- Intelligent Machines
- Autonomous Vehicles
core digital concepts. Already, 16,000 employees have been certified.

To help frame the challenge of changing company culture, Scott Anthony outlined the four Cs of leadership based on Innosight’s work and research about transformation.

▶ **The courage to choose.**

Conventional wisdom says you need a burning platform to drive change. But by the time the platform is on fire, your strategic choices are really narrow.

▶ **The clarity to focus.**

A mistake people often make is to say “We’re going to go and do new and different things.” Focus instead on your strategic moon shots. The things you choose not to do are as important as the things you choose to do.

▶ **The curiosity to explore.**

While you focus resources on the big ideas, it’s also critical to invest small amounts in trial and error and “what if” experimentation—to enable a culture of curiosity.

▶ **The conviction to persevere.**

There will be crises—of identify, commitment, and conflict—along the way. When those things happen, you need a backbone that helps you move in new and different directions.

**PROTECTING THE “PIRATE SHIP”**

One of the most persistent problems companies wrestle with is how to protect their new growth ventures from “the sucking sounds of the core.” How do you create the systems and structures to keep the cultural, organizational and financial norms of the successful business from derailing the new business?

Christensen’s research points to the need to provide significant separation from the core operations in order to protect the fledgling businesses. In a conversation with Innosight’s Kümmerli about how large enterprises can accelerate transformation, Martin Brudermüller, the Chief Technology Officer of chemical company BASF, noted that the greater the change of the core, the greater the need to build a protective wall around the new.

His rule of thumb: “If you change one of the dimensions of your business—business model, market or technology—you keep that in the established group that runs the business. But if you change two dimensions, then you need to build a separate organization to protect the new growth effort. Otherwise it risks getting lost.”

Barclays take a slightly different approach. While not creating an entirely separate organization for new growth ventures, Vaswani underscored that “it’s critical to protect the pirate ship from the mother ship, especially when the mother ship is so enormous. The most sustainable way to do that is to create a culture of change within the mother ship. You want to drive accountability and find ways to enable people to make some of the decisions, instead of having decision making concentrated at the top.”

To that end, Barclays has created Councils with representatives from different functional areas that drive the business including rapid digital innovation. They report to the
management committee, where the most important metric is sustainability of the larger enterprise. “We haven’t declared victory, but we’ve put in place the management process to address this.”

FROM SEEING WHAT’S NEXT TO BEING WHAT’S NEXT

As important as building digital capability today is, companies also need to be asking “What does our future look like? How could digital and other disruptive shockwaves fundamentally change our businesses and industries over the long term?” For example:

▶ Retail is changing fast as shoppers move online and competitors like Amazon alter the basis of competition. Will shopping malls still exist in 10 years—or will they become experience malls instead?
▶ The chemical industry might seem impervious to digital disruption, but how will AI change how companies do research and how they sell?
▶ In the auto industry, where buying and selling cars is the dominant business model, how will the shift away from ownership and towards the importance of mobility necessitate entirely new business models?
▶ In office furniture, how will emerging business models based on pay per usage versus ownership change supply chains and distribution models?

To underscore this point, Innosight managing partner Scott Anthony asked delegates to assess the risk of disruption in their industries and to their businesses. 1 = very little to no change, while 10 = existential change where the industry bears little resemblance to what it is today. The average score was 6.5, with financial services rating the highest at 10 and chemicals the lowest at 4.

The scale of potential digital disruption—especially in combination with other shocks like Brexit—requires a proportional response. “This isn’t doing what you are currently doing better, faster, or cheaper,” said Anthony. The challenge facing incumbents in particular is two-fold: creating new businesses while simultaneously staving off never-ending attacks on existing operations, which provide vital cash flow and capabilities to invest in growth.

Key Findings from the Transformation 10 Study

Innosight’s research into companies that excel at transformation shows leaders share these five qualities and imperatives:

1. Transformation involves two separate journeys
2. Transformational leaders tend to be “insider outsiders”
3. Develop a roadmap before disruption takes hold
4. Executing transformation needs highly engaged employees
5. Communication, communication, communication
The dual nature of this challenge is the key to understanding it. Dual transformation (which is explored in-depth in Chapter two of the summit series) breaks down change into two separate but parallel streams. Companies reposition their traditional core business (transformation A) while pursuing new growth in a new market (transformation B). These two efforts are connected via a capabilities link, in order to share difficult-to-replicate assets like brand or proprietary technology. As Scott Anthony described it, “This is your organization becoming the next version of itself.”

One industry at the high end of the disruption scale is transportation, as disruptors like Uber and the promise of autonomous vehicles are certain to remake the auto business. Ford Motor Company has prominently set out on its own journey of reinvention. In a conversation with Innosight’s Mark Johnson, Kevin Reynolds, Ford’s Executive Director of Business Strategy EMEA, shared the company’s experiences as it navigates a confluence of industry-reshaping trends—electrification, autonomy, connectivity, and new models of use and ownership.

If today’s version of the company is to make and distribute autos and trucks, tomorrow’s version is to provide mobility to consumers.

“This is the most fundamental transformation of Ford’s business model since the automotive industry began. What we talk about is helping people move, providing mobility for consumers. And that is a fundamental shift in our mindset. It flows through everything. It is what we do. It is how we do it. It is how we make our decisions. It is how we organize. It is how we prioritize and allocate resources.”

It also means rethinking how to connect to new types of customers. For virtually all of its 100+ years, Ford’s customers have been consumers and dealers. But the future Ford could look more like a B2B company, providing services, data, and vehicles not just to individuals but organizations and cities. Its new Chariot service with the City of London is an example of a new type of partnership. Ford will run a fleet of clean transit vans that pick up passengers along fixed routes, who pay for the fare with their smartphones, which also collect data to help with route optimization. The vehicles themselves will provide

“Sometimes my team needs encouragement and protection. Sometimes they need a kick in the pants. My job is to know when to do which one.”

Martin Brudermüller, BASF

“Innosight’s Scott Anthony leads a discussion about dual transformation.”

Kevin Reynolds, Ford Motor Company
telematic information in real time, usage patterns of the vehicles, driver behavior, and analytics about the vehicle itself.

Johnson and Reynolds summed up the core challenge of dual transformation for Ford in the following way:

▶ Finding sustainable differentiation for the core business of (A) through improved experience, convenience, and personalization for customers.
▶ Increasing decisiveness in the new business efforts (B).
▶ Maintaining a strong relationship between the new and core because that capabilities link (C) is where we can build competitive advantages.

GO WHERE THERE IS UNCERTAINTY—AND OTHER LEADERSHIP INSIGHTS

Transformation is ultimately a leadership challenge. Without the right kind of commitment, behaviors, and conviction, transformation efforts founder, or worse, never get off the ground. A number of leadership insights and perspectives surfaced throughout the day’s conversation:

**Understand the art of the possibility.** In addition to running training programs for its front-line and other employees, equally important at Barclays is having leaders of the organization “who truly understand what the art of possibility is with technology.” To that end, Barclays is working with universities like Cambridge to help them cultivate digital expertise and perspectives in senior leaders.

**Know where you are needed.** Brudermüller said that in leading BASF’s digital efforts, he spends his time not where there is the most activity—but where there is the most uncertainty. Teams charged with creating new digital businesses and innovations face so many unknowns and so much unpredictability that it is essential to create a culture of trust and transparency. “Sometimes my team needs encouragement and protection. Sometimes they need a kick in the pants. My job is to know when to do which one.”

**Communication Is as Important as Execution.** In times of major transition, there’s no such thing as overcommunicating with stakeholders. As great as your strategy may be, if you aren’t regularly communicating it and sharing progress with employees, investors, vendors, and suppliers, you risk undermining efforts. As Kevin Reynolds said, “It is about bringing the organization and stakeholders along in the right way, helping them understand what you’re doing and what it means for them, and building confidence in what you’re doing. This is how you keep them with you on the journey.”

**Key Takeaways**

▶ Creating a culture of trust and transparency is essential. Sometimes people will need protection—and sometimes they will need a kick in the pants.

▶ Leaders need to spend time not where there is the most activity—but where there is the most uncertainty.

▶ For incumbents pursuing a dual transformation approach, a crucial source of competitive advantage is in the capabilities link between the core business and the new growth business.

▶ The mother ship often kills the pirate ship—so you have to take deliberate steps to protect the new digital business.
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Vice President, Head of Transactions, Business Development

BARCLAYS
Ashok Vaswani
Chief Executive Officer, UK
Arian Lewis
Director of Open Innovation

BASF
Dr. Martin Brudermüller
Vice Chairman of the Board of Executive Directors & Chief Technology Officer

CARGILL
Gilles Houdart
Global Strategic Marketing Director

DU – EMIRATES INTEGRATED TELECOMMUNICATIONS COMPANY
Carlos Domingo
Chief Digital Transformation & Innovation Officer

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