

LEADING TRANSFORMATION - CEO SUMMIT REPORT 2017 - CHAPTER TWO

Dual Transformation in Action: Reinventing Today While Creating Tomorrow

When Joaquin Duato took charge of Johnson & Johnson's Janssen Americas pharmaceutical business in 2009, the company was reeling from three straight years of revenue declines, prompting talk of putting the \$22 billion unit on the auction block.

As the new group chair tasked with formulating a turnaround plan, Duato faced a lack of unified vision, a drying pipeline of new medicines, and a culture focused internally on its own processes rather than on external change and patient needs.

“We needed to create a new narrative for the pharmaceutical business,” he said, “one with a common strategy, a common set of priorities, and an agenda for change.”

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



Innosight's Scott Anthony talks with Bose CEO Bob Maresca



TRANSFORMATION A

Reinvent Today

CAPABILITIES LINK

Flip the Dilemma

TRANSFORMATION B

Create Tomorrow

A + B + C = Dual Transformation

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

“You can experiment as rapidly as a startup but with capabilities that startups can’t match.”

Scott Anthony, Innosight managing partner

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).



Turner Broadcasting's Doug Shapiro on creating a vision for the future via dual transformation.

When this balance is achieved, the dual approach to transformation can provide organizations with more stability and resilience. This was one of the points that came out of a panel discussion on leading transformation, in which J&J's Joaquin Duato detailed how it's working for one of the world's largest healthcare companies (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



Johnson & Johnson pharma chief Joaquin Duato talks about dual transformation in practice.

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.”

“Yesterday's metrics will not lead you to tomorrow.”

Eric Engler, Chief Strategy Officer, Ascension

TRANSFORMING 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.

“We think storytelling is a critical enabler of painting the picture of the future.”

Helen Eaton, CEO, Settlement Music School

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.



Scott Anthony moderates a discussion on leading transformation with Ascension CSO Eric Engler, Settlement CEO Helen Eaton, and J&J pharma chief Joaquin Duato

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-Idaho. “Most will face it once in business careers.”

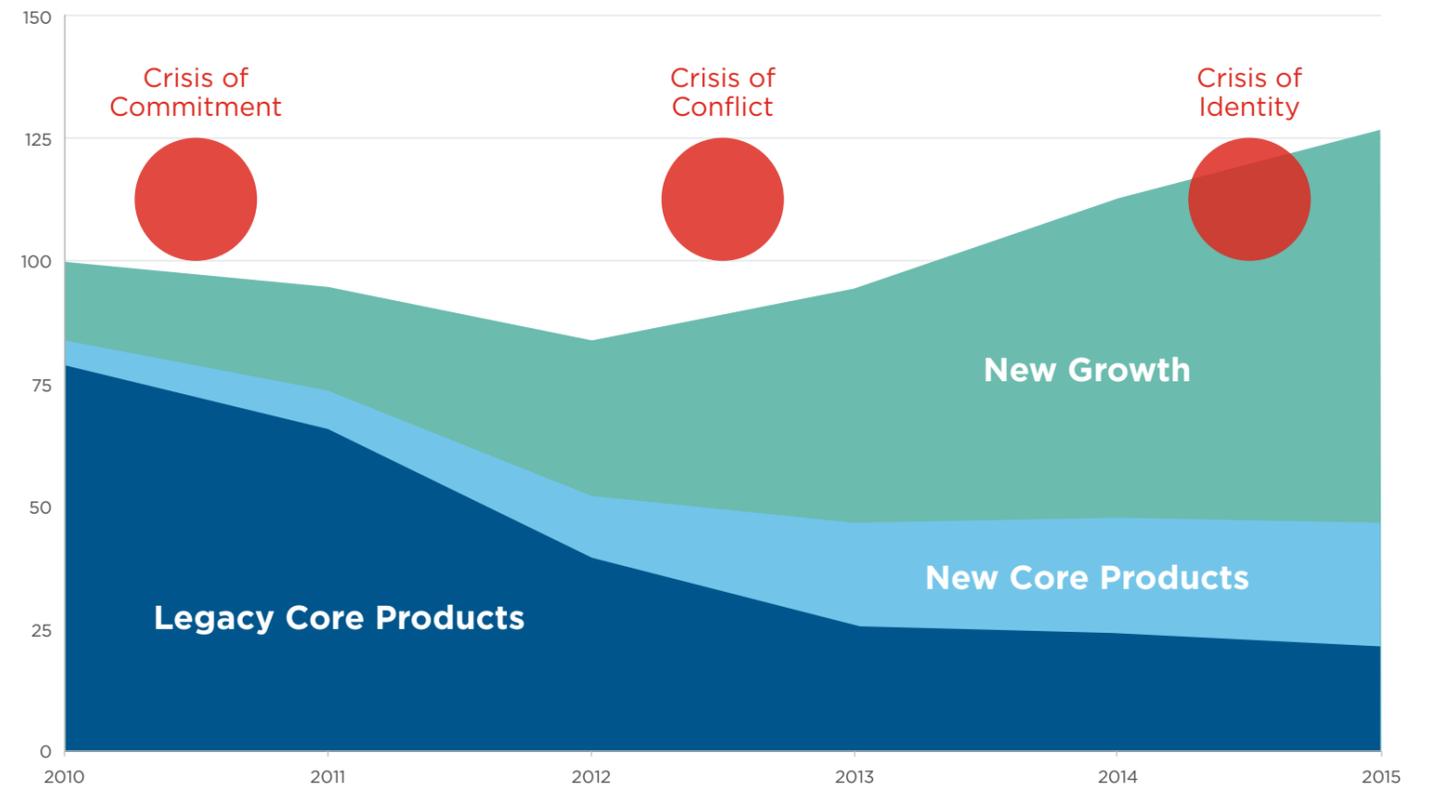
From his own experience developing the dual transformation framework in the marketplace, Gilbert outlined a series of three crisis points that will inevitably erupt in even the best of circumstances.

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

Deseret Net Income
Indexed to 2010 total = 100



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.



Former Deseret News and Deseret Digital CEO Clark Gilbert on the three moments of crisis during dual transformation.

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.