INNOSIGHT
STRATEGY AND INNOVATION AT HURON

LEADING TRANSFORMATION - CEO SUMMIT REPORT 2017 - CHAPTER THREE

When Disruption Becomes Digital

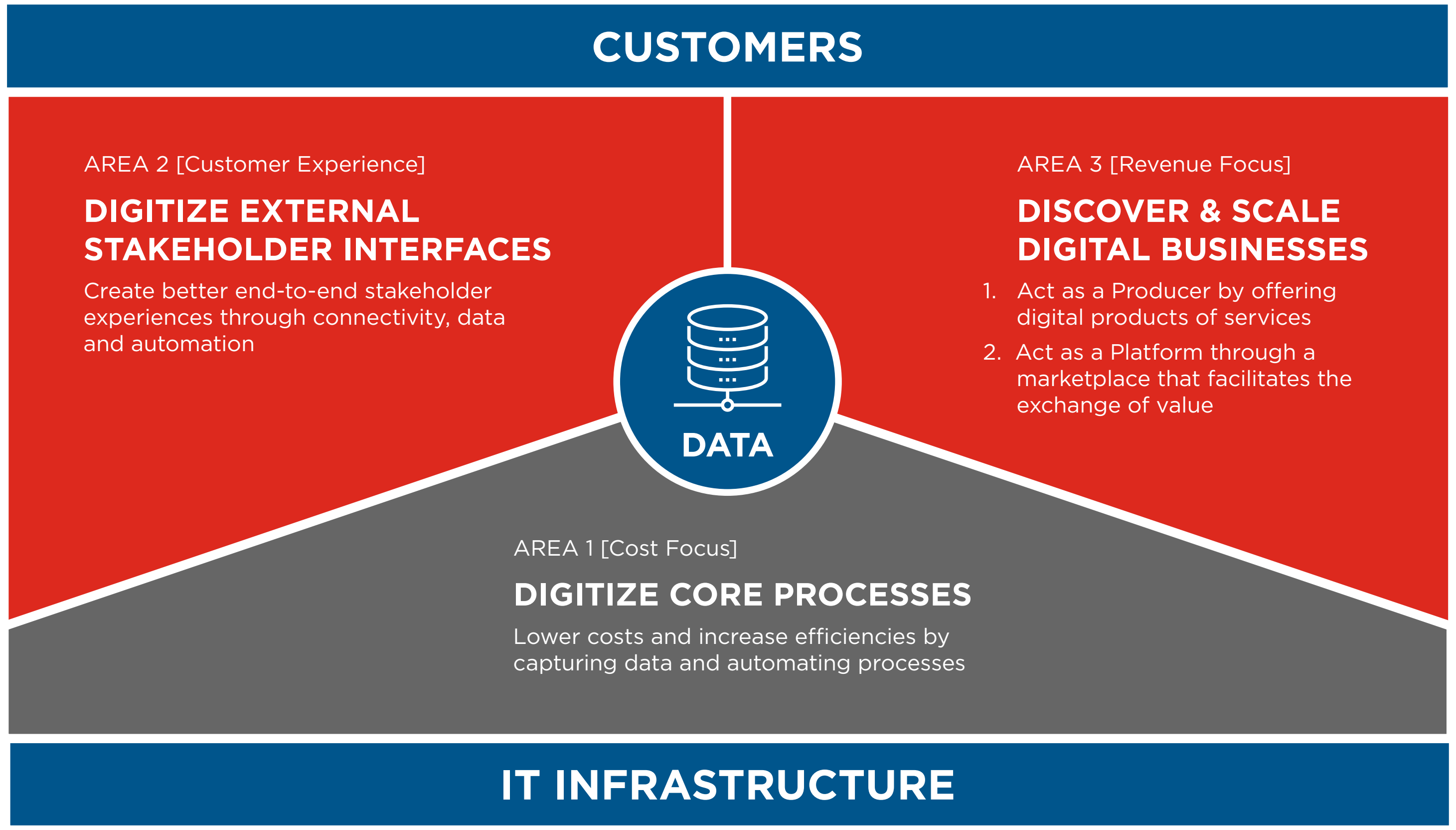
How Successful Leaders Transform Their Organizations In Times of Uncertainty

START READING CHAPTER THREE

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.
3. Building new revenue-driving digital businesses.

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

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 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.

Delegate Company Forecasts for Digital Investments

100%
of delegates say their companies are increasing digital investment

41%
say they are doubling digital investment over five years

DATA: CEO Summit London delegate survey

Clay Christensen talks digital transformation with Barclays UK CEO Ashok Vaswani

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.

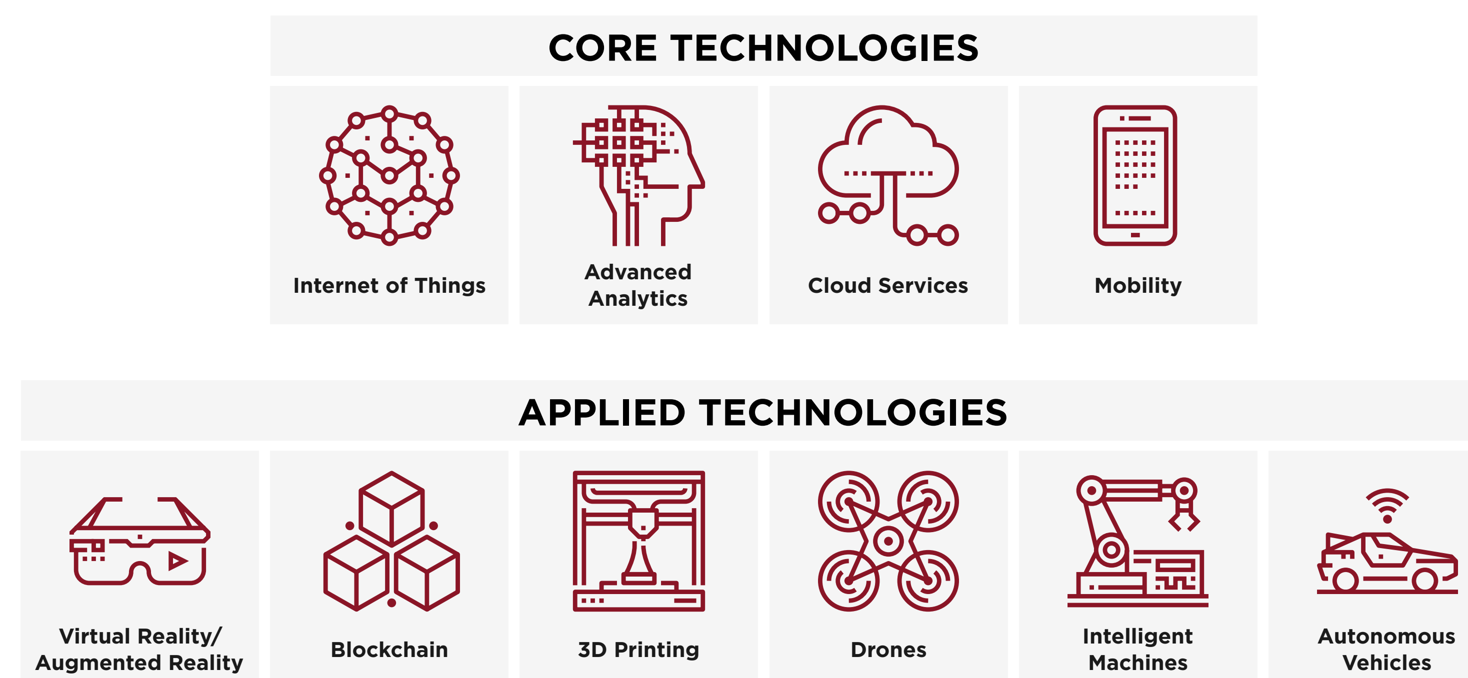
DIGITAL TRANSFORMATION = CULTURAL TRANSFORMATION

"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 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


Innosight's Kümmerli and BASF's Brudermüller

> "The mother ship often kills the pirate ship—so you have to take deliberate steps to protect the new digital business."
>
> **Ashok Vaswani**, CEO, Barclays UK

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?

Innosight's Mark Johnson and Kevin Reynolds of Ford Motor

- 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

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

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.

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."

> "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

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

Innosight's Scott Anthony leads a discussion about dual transformation.

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

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> **Kevin Reynolds**,
> Ford Motor Company

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 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.

CEO Summit UK Delegates

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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
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