

Part 1

LEADING TRANSFORMATION - 2018 CEO SUMMIT REPORT

Growth is a choice. Focus on the curve benders.

Bose Corp. is building on its leadership in audio technology to open up a new growth space in consumer health & wellness with hearing, sleep, and fitness applications.

S&P Global has transformed from a conglomerate to a focused financial insights firm investing in new AI models and cloud services, while expanding into China and emerging markets.

Hertz Corp. is moving beyond car rentals to become a fleet management and logistics company positioned for a world of interconnected vehicles, ride sharing, and autonomous driving.

Intermountain Healthcare is expanding its view of healthcare by running pilots addressing non-medical determinants such as housing instability, food insecurity, and domestic violence.



The pursuit of sustainable growth is front and center at these and other organizations attending Innosight’s 2018 CEO Summits. Held in Boston and in Munich, the gatherings convened leaders at nearly 50 companies focused on innovation and transformation. They discussed common challenges—accelerating disruption, leadership alignment, organizational resistance—as well as successes and breakthroughs. Through

these discussions, they worked toward a new understanding of successfully creating and implementing a long-term approach to growth.

DISRUPTIVE INNOVATION AND THE VALUE OF MANAGEMENT THEORIES

Innosight co-founder and Harvard Business School Professor Clay Christensen introduced the idea that leadership action is best guided by

theories—statements of causality—rather than gut instinct alone or pure trial and error.

The dilemma faced by managers is that data about what has worked in business “is only available about the past,” and given the acceleration of change across industries, that data might not be relevant for the future. As he rhetorically asks, “Why did God not create data about the future?”

Good theories enable leaders to make decisions in the absence of data, says Christensen. He derived his theory of disruptive innovation looking at common patterns by which some of the world’s most successful companies have collapsed—for instance, most makers of minicomputers in the 80s. “The causal mechanism is that companies compete along the trajectory of developing better and better

products for their best customers,” he says.

That may seem like a sensible thing to do. However, this progress soon outstrips what most customers need, overshooting the market. At the same time, there’s often a much larger population of “non-customers,” those who lack the expertise or wealth to afford these pricey products. That leaves open a giant market for disruptive innovators—those who

make products cheaper, simpler, and more accessible.

Disruptors range from the early makers of PCs (the Apple II was seen as a toy) to the current startups making skinny, low-speed, sub-\$5,000 electric vehicles that are surging in China. Such products are often seen by established market leaders as unattractive, low-margin businesses. Disruption often begins in these low-end foothold segments and moves up-market from there.

This is the heart of the “innovator’s dilemma”—how to overcome the pull of the success metrics, culture, and processes that have made a company historically so successful but leave a company vulnerable to disruptors.

A MODEL FOR MAKING HEALTHCARE MORE AFFORDABLE

Rising costs in healthcare is one current and pressing challenge that the disruption model can address, and Christensen described how a major research hospital was looking at ways to make its services more affordable and accessible. Disruption theory suggests that such institutions can only reach affordability goals by finding ways to provide care outside of their existing institutions and business models.

The idea is to bring technology to doctors’ offices that simplify what had been done in expensive hospitals, then do the same with nurses in retail clinics, and finally with caregivers in homes—all being able to do more and more sophisticated things.



“What causes companies to fail is that they only ask their best customers what they want.”

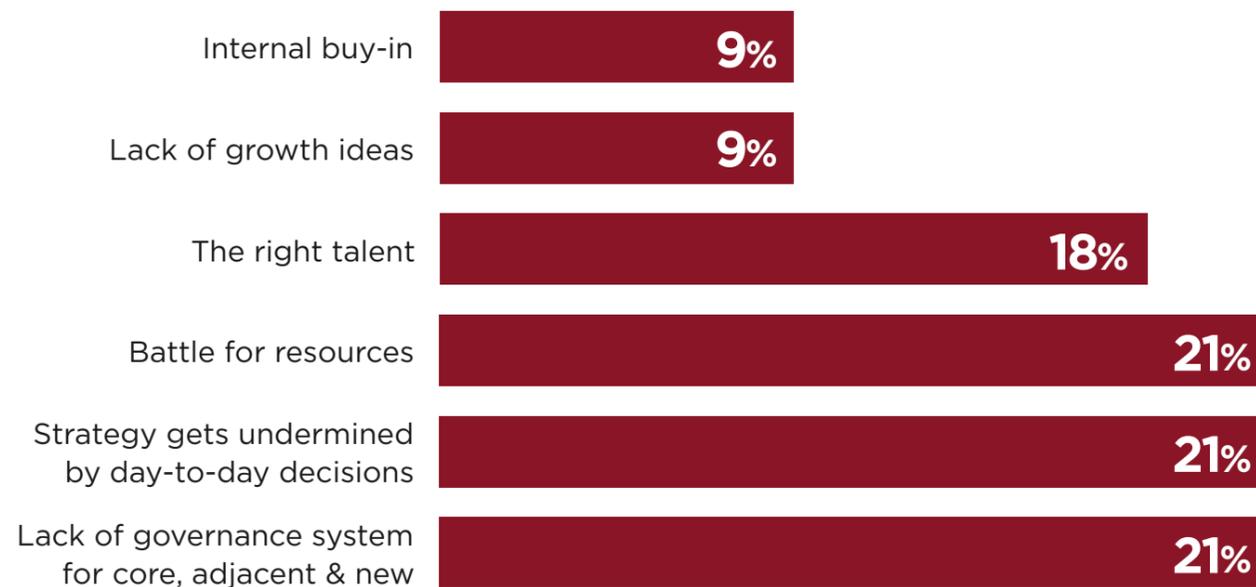
CLAY CHRISTENSEN

This can be accomplished by deploying the theory of jobs to be done: this is the idea that people hire products and services for “jobs” in their daily lives—completing tasks with functional, social, and emotional dimensions.

Delegates offered examples of jobs to be done, leading to innovative ways their companies are addressing health.

- ▶ 24 Hour Fitness CEO Chris Roussos cites collaborating with customers

The Biggest Obstacle to Innovation Success



DATA: CEO Summit Delegates Surveyed, Summer 2018

on their routines for diet, fitness, hydration, and sleep.

- ▶ Chris Churchill of Fresenius Medical Care cites how caregivers speaking eye-to-eye with patients, instead of talking down, improves how they adhere to treatment plans.
- ▶ Texas Health Resources CEO Barclay Berdan says their consumers help design benefits and care models.

Beyond healthcare, Intuit founder and executive committee chairman Scott Cook points to how early makers of accounting software automated the professional double-ledger account method. However, most people who run small businesses have no idea how to do accounting that way.

With Quickbooks, Intuit designed the entire process around simple English questions and answers. This more accessible approach made it the world's bestselling accounting software, a \$3 billion annual franchise.

"Everyone assumed customers wanted accounting," Cook says. "We just solved their jobs."

SEIZING THE GROWTH IMPERATIVE

Growth is not just an outcome but a strategic choice. "If you're a small organization," says Innosight's managing partner Patrick Viguerie, "your only choice is growth." But growth at large companies is different, because there's a tendency to focus only on better executing the current business, where diminishing returns inevitably set in. That's a choice too, but rarely is it enough to sustain growth.

Viguerie cites decades of data showing that top-line growth alone—not higher margins and market share, not lower costs or efficiencies—is what leads to superior decade-long total shareholder returns. Lifespans of companies on the S&P 500 are shrinking, with half of companies expected to be replaced over the next decade, according to an Innosight research projection. That is primarily due to lack of growth and often from not making the choice to pursue growth.

BIG MOVES MAKE A BIG DIFFERENCE: WHAT ARE YOUR CURVE BENDERS?

Taking a more granular look at where growth comes from, Viguerie highlighted how it's not from competing more effectively and gaining market share but from strategically choosing where to play.

Two-thirds of growth has to do with the dynamics of the markets you are already in, and one-third from M&A, the companies and capabilities you acquire. Out-executing your competitors only accounts for 0.4% of growth.

Ford's John Lawyer says that this has been true at the auto maker. Since 2000, two-thirds of industry growth came from two markets: luxury vehicles and China. "If you didn't play in those areas, your growth was limited."

The changing composition of the S&P 500 more broadly points to the challenge facing incumbents. Bedrock companies like GE, Citigroup and Coca-Cola that dominated the list in



"Top-line growth is a difficult choice, but it is a choice."

PATRICK VIGUERIE

2000 have faded while digital platform companies that have disrupted industries now dominate—Apple, Alphabet/Google, Amazon, Alibaba.

The bottom line, says Viguerie: "No one has ever beaten disruption by just trying to do what they currently do better." The mandate for incumbents then is to establish new paths to growth while at the same time fortifying their core business. Microsoft and Adobe are two prominent

examples of companies doing this successfully: both are embracing the cloud and developing new markets and digital business models. Margins may have declined from earlier days but market value has shifted from stagnating to skyrocketing.

The lesson from these growth companies is that you need to make big moves—what Viguerie calls “curve benders.” Chief among them is pursuing programmatic M&A that focuses on acquisitions to enter

attractive new growth markets, not just to consolidate existing markets.

Productivity transformation is also vital. He cites what Southwest did in the airline industry—doubling the number of passengers served while reducing costs at the same time. Making big resource allocation moves is also key, as is sustained capital investment, and major business model differentiation.

To make more informed “where to play” decisions, Viguerie advocates taking a granular view to reveal

winning opportunities. This means developing a finer perspective on trends, future growth, and market structure—and developing insights into sub-industries, segments, and micromarkets as you build your growth portfolio. This approach enables companies to have sharper insights and concentrate resources on the best opportunities.

To illustrate, consider how one company thought about its opportunities in the textile industry. While as a whole the shrinking industry looked unattractive, the company did more granular analysis to identify pockets of growth. They zeroed in on workplace apparel, which though flat, had a subsegment of fire-retardant clothing that was growing—and a segment within that—fire-retardant gloves—that was growing at nearly 20%.

SPOTLIGHT: HOW BIOGEN'S CEO DRIVES VALUE CREATION

In January of 2017, when Michel Vounatsos became CEO of Biogen, the world's largest independent biotech firm, the company was enjoying



“People resist change. You need to find the leaders in the room who will be the ambassadors to the future.”

MICHEL VOUNATSOS,
BIOGEN CEO

healthy profit margins but found its revenue growth was slowing. Soon into his tenure, Vounatsos says he was “shocked by the short-term focus on margins rather than creating a rich pipeline for long-term growth. It was obvious to me that if you want to survive, if you want to outsmart the market, you need to have the best pipeline in the industry.”

In a Q&A with Innosight partner Moni Miyashita, Vounatsos told the story of

Big moves, big difference: what are your “curve benders?”

- 1 Programmatic M&A**
- 2 Productivity transformation**
- 3 Significant resource reallocation**
- 4 Sustained capital investment program**
- 5 Major business model differentiation improvement**

Where Delegate Companies Are Investing: New Growth and Business Models



Johnson & Johnson

“a world without disease”
– disease prediction
and interception



Ford Motor

business models for
shared ownership, digital
services, autonomous



S&P Global

AI analytics;
expansion in China
and emerging markets



Bose

consumer health
& wellness



Intuit

new business models
for the cloud



Hertz

telematics & fleet
management



Pitney Bowes

business cloud services



BAE Systems

cybersecurity



Biogen

neuroscience



Intermountain

social and economic
determinants of health



DBS Bank

mobile payments



Dell EMC

business process
outsourcing/consulting

how he saw a need to quickly shift the company in order to thrive long term. His first order of business was meeting with senior leaders: “I wanted to see the passion,” he says. “The tone is set by the top. It’s not about being the brightest but having the right mindset—the passion, drive, and humility.”

Vounatsos described how he and his new team set and implemented a “dual transformation” strategy of defending and adapting the core business (transformation A) while also developing new growth platforms (transformation B).

In the core, Biogen had divested its hemophilia business and began to refocus on multiple sclerosis and other key product lines while also phasing in new business models such as value-based contracts: being paid for successful outcomes rather than upfront fee-for-service.

This is in line with the bigger shifts in the industry. “We have all the signals that disruption is coming to healthcare, and to us that means we need to eliminate waste in the system



Ford VP of Strategy John Lawler talks with Innosight’s Mark Johnson

and find new ways to transform all segments of the value chain.”

For Biogen’s transformation B, the company is making a big, curve-bending move with a focus on neuroscience as its top growth priority. Worldwide, about a billion people suffer from some type of neurological disease or disorder. Addressing this opportunity is now central to Biogen’s strategy to invest 20% of revenue back into long-term R&D. The company is now investing big in eight areas of neuroscience, including Alzheimer’s/dementia, neuro-psychiatry, and neuropathic pain.

Leadership alignment is critical to embarking on an ambitious growth strategy and maintaining momentum. Ultimately, Vounatsos ended up replacing 80% of his senior team with new leaders who were not constrained by the past strategy and had passion for the new direction.

In terms of engaging the leadership team, the board, and shareholders, Vounatsos says it takes time, patience, and powerful stories about saving lives and having an impact on the world: “We’ve been communicating everything we do based on the strategy. We always repeat it: ‘This is what we said we’ll do. This is what



Intuit’s Scott Cook ([see video](#))

we’re doing. This is how we are measuring the success. This is the next step, any questions?’ And then, you read how people are coming along.”

This intensive focus is paying off. The company’s market value is up 67% from its low of two years ago, in part because Biogen’s pipeline now has 19 treatments harnessing neuroscience that have progressed to at least Stage 2 clinical trials. Vounatsos believes this is the best way to overcome the inertia of doing things the old way. “You need to find the leaders in the room who will be the ambassadors to the future,” he says, “They will take the baton and work with you to make what is perceived as being impossible, possible.”

CULTURE CHANGE THAT STICKS

How do other leaders work to overcome this fundamental challenge of institutional inertia? In a panel discussion led by Innosight’s Scott Anthony, the founding CEO of Intuit and the CEOs of Hertz and

Intermountain Healthcare shared their insights.

Intuit’s Scott Cook told a story ([see video](#)) of how a 2007 culture change effort called Design for Delight had aimed to teach the principles of design thinking to the company’s top 400 leaders. There was a burst of energy and many product improvements but after several years “we had lost the mojo.” The company decided it needed to embark on a more lasting change effort, which Cook calls Learn by Doing. This involved granting leaders several months to go off and explore new projects, in areas ranging from AI to finance in China to how middle school kids use technology, then report back and lead new product experiments. “We had them actually go and do the process from the beginning of understanding the customer problem all the way through to designing the experiment.” This has led to the creation of new products that are now fueling a surge of growth at the company.



Hertz CEO Kathy Marinello ([see video](#))

Hertz CEO Kathy Marinello cited the twin challenge of both legacy technology and organizational systems holding the company back when she came in to lead the 100-year-old auto rental firm. At the time, top-line revenue was eroding 7% per year. “Even big institutional investors realize you cannot cut your way to a turnaround,” she said.

In order to return the business to growth, she says, you “have to give people a reason to believe. They don’t get excited about cutting costs; they get excited about growth and new jobs. That’s where culture comes into play.”



Intermountain's Marc Harrison ([see video](#))

Marinello embarked on a strategy of moving Hertz beyond car rentals into becoming a fleet management and logistics company. That involved improving systems to manage the logistics of one million vehicles and telematics capabilities to leverage data, but also testing new business models such as managing autonomous vehicles.

When Marc Harrison came in to lead the 37,000-employee Intermountain Healthcare based in Salt Lake City, a central challenge was about “how to make a case for change when everything looks good.”

In the past, Intermountain has been cited as a model care system, based around a regional network of hospitals receiving hundreds of thousands of visits. Under Dr. Harrison, the health provider has moved away from

its regional structure and is now organized around how patients need and use care, not hospitals.

To do so, Intermountain is capitalizing on research that shows that only 10% of health is affected by providers of healthcare, and only 30% by our genetics; the other 60% has to do with socio-economic factors like food security, physical safety, transportation, and housing stability. Intermountain is now leading a pilot program with government agencies and community partners to address these factors.

This wider lens is part of an evolving culture that reinforces a connection to mission and purpose—and also involves robust learning. “People want to serve a higher purpose,” Harrison says. “They want to do the right thing.”

It’s also about what you stand for. Dr. Harrison says he finds it unacceptable that people still die in hospitals from things that are entirely preventable. “When we say that we’re going to drive that to zero, it energizes people. They will run through fire for it.”

Synthesis and Takeaways

- 1. Good theories enable leaders to make decisions in the absence of data:** Christensen’s theory of disruption points to opportunities targeting non-consumers of your products. This is counter-intuitive, as managers are taught to continually improve along dimensions that satisfy their best customers. But no one has ever beaten disruption simply by improving what they currently do.
- 2. Top line growth drives value creation:** While execution and efficiencies are essential, they are merely table stakes, as only a small fraction of growth comes from optimization. The lion’s share comes from focusing on where to play, allocating resources, and programmatic M&A.
- 3. Focus on the curve benders:** Growth is a choice, and for large organizations, moving the needle requires identifying granular growth markets and making big, bold moves.
- 4. Harness a strategy of “dual transformation”:** It’s about transforming the existing business as well as developing new growth ventures—leveraging a shared set of assets and capabilities.
- 5. Building and scaling requires system-level work driven by senior leaders:** New and different growth requires an innovative mindset that involves curiosity, a wider lens on the lives of customers, and experimentation. And it’s about alignment around a common mission and a higher purpose.

STAY TUNED FOR PART TWO

In the second part of our CEO Summit report, we will focus on what it takes to create a new leadership operating model. Spotlighting case stories from our event in Munich, we’ll dive deeper into the agile organization, new leadership literacies, and forging alignment among the leadership team.

CEO Summit Delegates – U.S. event (held at Innosight in Lexington, Massachusetts)

24 HOUR FITNESS

Chris Roussos
Chief Executive Officer

ADVOCATE AURORA HEALTH

Scott Powder
Chief Strategy Officer

AMGEN

Corinne Le Goff
Senior Vice President, Head
of Global Product Strategy
& Commercial Innovation

CARGILL

Gilles Houdart
Global Strategic Marketing Director

ATLANTA SYMPHONY ORCHESTRA

Jennifer Barlament
Executive Director

AUTONATION, INC.

Cheryl Miller
Executive Vice President
& Chief Financial Officer

BAE SYSTEMS

Terry Crimmins
Electronic Systems Sector President
Leslie Jelalian
Vice President - Strategy & Planning

Dr. Jerry Wohletz
Vice President &
General Manager, FAST Labs

BIOGEN

Michel Vounatsos
Chief Executive Officer
Daniel Karp
Executive Vice President,
Corporate Development

BOSE CORP

John M. Roselli
Head of Wellness

BOSTON SCIENTIFIC

Art Butcher
Senior Vice President
& President, Endoscopy

CHICK-FIL-A

William F. Faulk
Vice President, Innovation
& New Ventures

CITRIX SYSTEMS

Chris Fleck
Vice President & Technical Fellow

DELL EMC

Howard Elias
President, Dell Services, Digital & IT
Todd Pavone
President, Dell EMC Consulting

EASTERN BANK

Robert Rivers
Chair & Chief Executive Officer
Donald Westermann
Executive Vice President,
Chief Information Officer

FORD MOTOR COMPANY

John T. Lawler
Vice President, Strategy
John Rich
Director of Corporate Strategy

FRESENIUS MEDICAL CARE

Chris Churchill
Senior Vice President,
Corporate Strategy & Innovation

GEORGIA-PACIFIC LLC

Christian Fischer
President & Chief Executive Officer

HARVARD BUSINESS REVIEW

Sarah Cliffe
Executive Editor

THE HERTZ CORPORATION

Kathryn Marinello
President & Chief Executive Officer

INOVA HEALTH SYSTEM

J. Stephen Jones, MD FACS
Chief Executive Officer

INTERMOUNTAIN HEALTHCARE

A. Marc Harrison, MD
President & Chief Executive Officer

INTUIT INC.

Scott D. Cook
Founder & Chairman of
the Executive Committee

JANSSEN PHARMACEUTICAL COMPANIES OF JOHNSON & JOHNSON

Benjamin Wiegand, PhD
Global Head, World
Without Disease Accelerator

JOHNSON & JOHNSON

Dan Wildman
Leader, Digital Surgery

KOCH INDUSTRIES, INC.

James Hannan
Executive Vice President & Chief
Executive Officer - Enterprises

John Pittenger
Senior Vice President,
Corporate Strategy

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Udit Batra, PhD
Chief Executive Officer

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Global President & General Manager

PARTNERS HEALTHCARE

Peter K. Markell
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Administration & Finance, Chief
Financial Officer and Treasurer

PFIZER

Andy Schmeltz
President, Pfizer Oncology

PITNEY BOWES

Roger Pilc
Executive Vice President
& Chief Innovation Officer

S&P GLOBAL

Saugata Saha
Senior Vice President, Financial
Planning and Corporate Strategy

SUTTER HEALTH

Linda Khachadourian
Chief Enterprise
Transformation Officer
Chris Waugh
Vice President,
Chief Innovation Officer

TEXAS HEALTH RESOURCES

Barclay Berdan
Chief Executive Officer

UNIVERSITY OF MASSACHUSETTS LOWELL

Dr. Elizabeth Altman
Assistant Professor of Management,
Manning School of Business

UNITED RENTALS

Matthew Flannery
President & Chief Operating Officer