

STRATEGY

# What the Best Transformational Leaders Do

by Scott D. Anthony and Evan I. Schwartz

MAY 08, 2017



Companies that claim to be “transforming” seem to be everywhere. But when you look more deeply into whether those organizations are truly redefining what they are and what they do, stories of successful change efforts are exceptionally rare. In a study of S&P 500 and Global 500 firms, our team found that those leading the most successful transformations, creating new offerings and business models to push into new growth markets, share common characteristics and strategies. Before describing those, let’s look at how we identified the exceptional firms that rose to the top of our ranking, a group we call the Transformation 10.

Whereas most business lists analyze companies by traditional metrics such as revenue or by subjective assessments such as “innovativeness,” our ranking evaluates the ability of leaders to strategically reposition the firm. Some companies that made the list were obvious choices; for example, the biggest online retailer now gets most of its profit from cloud services (Amazon). But others were surprising, given their states before embarking on transformation. The list includes a health care company that was once near bankruptcy (DaVita), a software firm whose stock price stagnated for a decade (Microsoft), a travel website that faced overwhelming competition (Priceline), a food giant that seemed to lose its focus (Danone), and a steel company that faced new pressure from lower-cost rivals (ThyssenKrupp).

The team began by identifying 57 companies that have made substantial progress toward transformation. We then narrowed the list to 18 finalists using three sets of metrics:

**New growth.** How successful has the company been at creating new products, services, and business models? This was gauged by assessing the percent of revenue outside the core that can be attributed to new growth.

**Core repositioning.** How effectively has the company adapted its legacy business to change and disruption, giving it new life?

**Financial performance.** How have the firm’s growth, profits, and stock performance compared to a relevant benchmark (NASDAQ for a tech company, for example, or DAX Index for a German firm) during the transformation period?

We recruited a panel of expert judges (see the list below), who evaluated the companies through the lens of their own expertise and gauged which transformations were most durable and had the highest impact in their industries. (For more on our methods, see the sidebars below.) With these criteria in mind, our final list is as follows:

## The 2017 Transformation 10

These companies from the S&P and Fortune Global 500 ranked highest in their new-growth transformation. Each excelled in the development of new products, services, and business models; repositioning its core business; and financial performance.

| RANK    | COMPANY/CEO                               | NEW GROWTH AREA WITH NEW REVENUE AS A % OF TOTAL REVENUE                                                     | STOCK PRICE CAGR* VS. BENCHMARK CAGR SINCE START OF TRANSFORMATION |
|---------|-------------------------------------------|--------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| 1       | <b>Amazon</b><br>Jeff Bezos               | Cloud services  10%         | <b>30%</b> 5% S&P 500 since 2006                                   |
| 1 (tie) | <b>Netflix</b><br>Reed Hastings           | Video streaming  80         | <b>45</b> 10 NASDAQ-100 Tech since 2007                            |
| 3       | <b>Priceline</b><br>Jeff Boyd/Glenn Fogel | New business models  25     | <b>34</b> 10 S&P 500 since 2010                                    |
| 4       | <b>Apple</b><br>Steve Jobs/Tim Cook       | iPhone & iPad ecosystem  80 | <b>29</b> 5 S&P 500 since 2006                                     |
| 5       | <b>Aetna</b><br>Mark Bertolini            | Value-based health care  40 | <b>25</b> 12 Nasdaq since 2010                                     |
| 6       | <b>Adobe</b><br>Shantanu Narayen          | Digital marketing  45       | <b>24</b> 18 Nasdaq since 2009                                     |
| 7       | <b>DaVita</b><br>Kent Thiry               | Total patient care  30     | <b>10</b> 10 S&P 500 since 2012                                    |
| 8       | <b>Microsoft</b><br>Satya Nadella         | Cloud services  32        | <b>12</b> 10 S&P 500 since 2010                                    |
| 9       | <b>Danone</b><br>Emmanuel Faber           | Nutrition  29             | <b>3</b> -1 EURO STOXX 50 since 2007                               |
| 10      | <b>ThyssenKrupp</b><br>Heinrich Hiesinger | Industrial solutions  47  | <b>4</b> 10 DAX Index since 2012                                   |

\*COMPOUND ANNUAL GROWTH RATE  
SOURCE INNOSIGHT

© HBR.ORG

Our analysis revealed characteristics shared by the winning firm's leaders as well as common strategies they employed.

### Transformational CEOs Tend to be "Insider Outsiders"

The list is topped by companies headed by visionary founders with no prior experience in their industries; Jeff Bezos came from the world of finance, and Reed Hastings from software. As it turned out, having no predetermined way of doing things turned out to be an asset when it came to reinventing retailing and television, and these leaders kept that outsider's perspective even through waves of growth.

We see an interesting pattern across the professionally

managed companies, those whose CEOs were hired by the board. These CEOs are what we call "insider outsiders." Make no mistake,

they have substantial relevant experience. They had 14 years of tenure on average before getting the top job. That knowledge helped them understand how to make change happen inside an organization. Yet these executives also had an outsider role where they worked on an emerging growth business or consciously explored external opportunities, giving them critical distance from the core. After becoming CEO, that insider-outsider perspective helped them explore new paths to growth without being constrained by yesterday's success formula.

Satya Nadella, for instance, joined Microsoft in 1992 and worked his way up to running its cloud computing effort, building that business unit into a viable new growth platform before becoming CEO, in 2014. He got the top job because of that, and then as CEO he accelerated cloud-business development to make it the company's primary strategy.

The same was true of Adobe's Shantanu Narayen. He joined the creativity applications vendor in 1997, and got the CEO job a decade later largely because he was able to articulate a vision for pursuing digital marketing services as the new growth path.

## **The Transformation 10 Judges**

**Chris Chadwick**, *former CEO of Boeing Defense*

**Clay Christensen**, *Professor at Harvard Business School and Innosight co-founder*

**Scott Cook**, *founder and chairman of Intuit*

**Matthew Eyring**, *Chief Strategy & Innovation Officer of Vivint Inc.*

**A.G. Lafley**, *former CEO of Procter & Gamble*

**Rita McGrath**, *Professor at Columbia Business School*

**TEO Ming Kian**, *Director at Temasek and Chairman at Vertex Holdings*

At Priceline, Glenn Fogel joined in 2000 and became head of strategy. Long before becoming CEO, in 2016, he was searching for new growth in the hypercompetitive travel reservations market, coming across a pair of small European startups with a business model opposite to Priceline's in two key ways: Instead of taking an up-front 25% commission on a hotel reservation, the startups charged only 15% after check-out. Instead of focusing on major hotel brands, they pursued the long tail, engaging with more than 1 million inns, B&Bs, and apartment buildings in 200 countries. The result was the Booking.com platform. What started with a \$200 million investment a decade ago now accounts for most of Priceline's new growth as well as its rise past \$80 billion

And at Danone, Emmanuel Faber, an insider for 17 years, won the CEO job, in 2014, because he was one of the architects of the firm's 2020 vision to transform from a food and beverage conglomerate into a family health and medical nutrition company that emphasized sustainable agriculture. That vision prompted Danone to divest product lines such as biscuits and beer while broadening its core dairy franchise. For new growth, in 2007 Faber helped form a new business unit called Nutricia, anchored off a \$17 billion acquisition, to pursue baby foods, protein bars, and health shakes. Today this unit accounts for 29% of revenue.

### **They Strategically Pursue Two Separate Journeys**

Many firms that have tried to transform have failed. A common reason why is that leaders approach the change as one monolithic process, during which the old company becomes a new one. That doesn't work for a host of practical reasons. An organization that grew up producing newspapers, for instance, not only lacks key skills to build a digital content company but also might actively resist embracing the new in order to protect the business it knows and loves.

Success requires repositioning the core business while actively investing in the new growth business.

Apple serves as the classic model of such "dual transformation." With the iMac and iBook, Steve Jobs reinvigorated the core Macintosh franchise by injecting a new sense of design and rethinking what computers would be used for in the age of the internet. On a separate track, he launched the device and content ecosystem, starting with iPod and iTunes, that would become the company's new growth engine.

It's a strategy that has also worked for others on the list. While Amazon has expanded its core retailing platform into new categories, such as food and streaming content, in parallel it has built the world's largest cloud computing enterprise. Amazon Web Services CEO Andy Jassy has been with the effort since it began as an internal challenge to scale IT infrastructure. Established as a separate

division in 2006, AWS ultimately addressed a long-standing analyst complaint about Amazon – that its core was only barely profitable. Today AWS accounts for just 10% of Amazon’s \$150 billion in revenue, but generates close to \$1 billion in quarterly operating profit.

German steel maker ThyssenKrupp, facing pricing pressure from Asian competitors, likewise embraced a dual transformation strategy. In 2011 the board selected as the new CEO one of its own members, Heinrich Hiesinger, a Siemens executive with experience supplying technology to many industries. From day one, Hiesinger began executing a plan for repositioning the declining core of steel manufacturing by divesting less profitable product lines, focusing on higher-margin custom manufacturing, and even opening 3D printing centers to fashion components such as parts for wind turbines. For new growth areas that now make up 47% of sales, it moved into industrial solutions and digital services, creating systems such as internet-connected elevators.

### **They Use Culture Change to Drive Engagement**

Microsoft is a case in point. In the four years since Satya Nadella came on as CEO, he has been credited with transforming Microsoft’s cautious, insular culture. In the old world, large teams would work for years on the next major version of a franchise program like Windows and Word, leading to a risk-averse environment. In the new world of “infrastructure on demand,” dozens of new features and improvements would need to be introduced per month – and no one would fully know ahead of time what they might be. This required a culture of risk taking and exploration.

In this way, Nadella was unlike his predecessors, in that he built his reputation as a hands-on engineer, not as a visionary like Bill Gates or a Type-A salesman like Steve Ballmer. Instead, Nadella was known for listening, learning, and analyzing. His idea of how to engage and motivate employees wasn’t by making a speech but rather by leading a company-wide hackathon, and empowering employees to work on projects they were passionate about. This new level of employee engagement has helped drive Microsoft’s expansion into cloud services and artificial intelligence, areas that now account for 32% of revenue.

We began the process of identifying candidates for the Transformation 10 by screening companies in the S&P 500 and Global 500 according to the following questions.

1. Has this company exemplified strategic transformation?
2. Has this transformation had impact on customers and its industry in the past decade?
3. Does the company show potential to sustain its transformation over the next decade?

During this first phase of the methodology, a small team of Innosight consultants pored over the S&P 500 and Global 500 to arrive at a list of 57 companies that had made a clear commitment to strategic transformation within the past 10 years. Our team rated each company using a set of criteria measuring their financials (notably revenue growth and stock performance), the degree to which they had built meaningful new growth businesses, and the degree to which they had repositioned their core business.

During phase two, we used these comparative metrics to narrow the list to 18 finalist candidates. For each of company, we created a one-page judging profile. We then sent that presentation of profiles along with instructions out to our panel of judges, who scored each company on a scale of 1 to 5, with 5 being the best example of a successful strategic transformation.

The story of Kent Thiry, CEO of the kidney care firm DaVita, also illustrates the role of employee engagement in successful transformations. In 1999 Thiry came with a strong track record in the kidney dialysis industry to salvage a near-bankrupt company called Total Renal Care, whose market cap was sinking below \$200 million. In addition to finding ways to stem losses, he led a six-month effort to create a new identity and set of values, to reengage the company's dispirited workforce and generate enthusiasm for his growth plans.

He chose the name DaVita, Italian for "giving life," and settled on a list of core values that included service excellence, teamwork, accountability, and fun. As any manager knows, a generic-sounding list of values won't move the culture needle unless leadership brings it to life. To that end, Thiry and senior managers performed skits in costumes – for instance dressing as the Three Musketeers and leading call-and-response chants of "All for one, one for all." To honor employee heroism, he became the emcee of awards banquets that had all the music, stagecraft, and emotional speeches of the Oscars, and he celebrated "village victories" around milestones like achieving a five-star quality rating for dialysis delivery from the Centers for Medicare and Medicaid Services.

The success in turning around DaVita's core business caught the attention of Warren Buffett, whose Berkshire Hathaway became DaVita's largest shareholder. But it was DaVita's move into new growth areas that earned it a spot on our list. Starting with an acquisition of 50 physician offices, DaVita worked to build an "integrated delivery network" that contracts for the full spectrum of care, using the value-based care model of being paid to keep patients healthy rather than accepting fee-for-service – resulting in new growth that now represents 30% of revenue.

### **They Communicate Powerful Narratives About the Future**

To change the culture and move into new growth areas, the CEO needs to become "the storyteller in chief," says Aetna's Mark Bertolini. That means telling different aspects of the same transformation narrative to all the constituencies and stakeholders in the company.

"The CEO's responsibility is to create a stark reality of what the future holds," says Bertolini, "and then to build the plans for the organization to meet those realities."

In Aetna's case, this meant building a narrative of how the move away from fee-for-service reimbursement to the new business model of value-based care would change the nature of health insurance, and one day possibly render it obsolete. Instead of simply reinforcing the story about strengthening Aetna's current business, Bertolini developed a narrative about building new skills to help consumers make better health choices – and about building a new organization that can make money doing so.

Telling that kind of story about the future is not a one-time event. "It's easy to underestimate the amount of communication that is needed," he adds. "You have to be tireless about it, consistent and persistent, and keep battering the core messages home week after week. Your leaders have to as well, and they have to tailor the message so it has the appropriate level of fidelity relevant to each part of the organization. A person working in a call center might need a different set of messages than a line manager does to understand how he docks into the big picture."

### **They Develop a Road Map *Before* Disruption Takes Hold**

Because dual transformations typically take years, we used a 10-year time frame in our analysis. Indeed, transformations often can't be completed during the average tenure of a CEO. These long time horizons mean that there's no time to waste in getting started. Many of the most notable disrupted companies – from Blockbuster, to Borders, to Blackberry, to Kodak – ran into their deepest troubles a decade or more *after* some of the first warning signs appeared. None of their leaders developed effective transformation plans in time to halt the decline.

At the other end of the spectrum is Reed Hastings of Netflix. Even as the original DVD-by-mail business grew quickly to dominate the industry, Hastings believed that a new wave of disruption could be rolling in. “My greatest fear at Netflix,” he says, “has been that we wouldn't make the leap from success in DVDs to success in streaming.”

That's why he laid the groundwork for a transformation as far back as 2007, when he started negotiating deals with Hollywood to test online streaming of movies and TV shows. Famously, Hastings moved too quickly to spin off the core and focus only on streaming, when Netflix announced plans in 2011 to create a stand-alone mail-based DVD company called Qwikster. This prompted a backlash from angry customers – and triggered a humbling apology from Hastings.

But the mistake he made was preferable to waiting too long. He reformulated his plan, this time to extend the life of the core DVD business while aggressively rolling out the new streaming service in parallel. It proved to be such a winning strategy that it funded a big move into original content. Now, with membership of 100 million homes in 190 countries, Netflix is the leader of a reconfigured movie and television landscape that it helped shape.

As all these cases show, transformation is not just about changing an enterprise's cost structure or turning analog processes into digital ones. Rather, it's about pursuing a multiphase strategy to reposition today's business while finding new ways to grow. That's why we believe the companies that made the Transformation 10 list deserve to be seen as models to help other leaders create the future.

*Editor's note: Every ranking or index is just one way to analyze and compare companies or places, based on a specific methodology and data set. At HBR, we believe that a well-designed index can provide useful insights, even though by definition it is a snapshot of a bigger picture. We always urge you to read the methodology carefully.*

---



Scott D. Anthony (@ScottDAnthony) is managing partner of the growth strategy consulting firm Innosight and co-author of the new book, *Dual Transformation: How to Reposition Today's Business While Creating the Future*.

---



Evan I. Schwartz is Director of Storytelling at the growth strategy consulting firm Innosight.

---

**This article is about STRATEGY**

**+** FOLLOW THIS TOPIC

**Related Topics:** LEADERSHIP | CHANGE MANAGEMENT | ORGANIZATIONAL CULTURE

# Comments

Leave a Comment

POST

12 COMMENTS

yashwani mehra   a year ago

All IT service providers are currently undergoing this dual transformation. So how to catch signals early and distinguish them from noise, how to create a culture which is porous, where exploring and risk taking is encouraged, how the organization remains a learning organization with agile responsiveness. Roadmap and how flexible they are to adapt.

REPLY

1 0

✓ JOIN THE CONVERSATION

## POSTING GUIDELINES

We hope the conversations that take place on HBR.org will be energetic, constructive, and thought-provoking. To comment, readers must sign in or register. And to ensure the quality of the discussion, our moderating team will review all comments and may edit them for clarity, length, and relevance. Comments that are overly promotional, mean-spirited, or off-topic may be deleted per the moderators' judgment. All postings become the property of Harvard Business Publishing.