

FIRMS THAT CHANGE
THE WORLD

SERIAL



INNOVATORS

CLAUDIO FESER

Foreword by DANIEL VASELLA

Additional Praise For Serial Innovators

“*Serial Innovators* deals with the fascinating problem of corporate aging and survival. Older firms have lower profitability and higher costs, they command smaller market shares, and have poorer governance, on average. The puzzle is why they are unable to reinvent themselves. Unlike many earlier books addressing this issue, *Serial Innovators* reviews the insights generated in various academic fields and uses that information to offer solutions. The result is a truly inspiring read.”

—Claudio Loderer
Professor, Institut für Finanzmanagement
University of Berne, Switzerland

“*Serial Innovators* is a book about the leadership legacies that help firms create lasting value. It is two books in one: a book about the firms that survive for long periods, how they innovate, and how they adapt to changing markets; and also the fascinating story of a new CEO and his efforts to lead his firm through new challenges and to keep his life in balance. It is about how leaders can become better leaders. Nothing more important to read these days.”

—Mario Greco
Chief Executive Officer, General Insurance
Zurich Financial Services Ltd

“One of the great mysteries of business and economics is why high performance is so fleeting. Why, like empires, do companies rise to great success, and then fall when they fail to adapt to changes in their environment? In this engaging book, Claudio Feser sheds new light on this age-old question. He finds that there are a few companies—serial innovators—that beat the odds, bounce back from adversity, innovate, and adapt to ever-changing markets. A must read for business leaders in any industry.”

—Eric Beinhocker
Author, *The Origin of Wealth*

“How often do you read a book that is academically thorough, utterly practical, entertaining, and inspiring? Drawing on a wide range of research, *Serial Innovators* tells the story of a young CEO going through both a personal and a company transformation. It is a story of leadership. It is a story of legacy. It is a story of life.”

—Thomas Gutzwiller
Professor, Executive School of Management,
Technology and Law
University of St. Gallen

“Companies are like biological organisms. They are born, they grow, they mature, they age, and they die. For most companies, this cycle is extremely short—a few years. For some it’s about a generation. But only a few achieve a cycle that mirrors the human life span. This book is about what makes companies go stale and what to do about it. In my capacity as chairman of getAbstract, I’ve read thousands of business books. This one is unique. Feser is not only a brilliant business thinker, he is also a great storyteller. Read this book and you will be enlightened.”

—Rolf Dobelli
Chairman, getAbstract
and Author, *Die Kunst des klaren Denkens*

“Creating shareholder value is not the only ‘raison d’être’ of corporations, firms, and businesses. Companies should positively impact society and make the world a better place. It’s about making life better, safer, and healthier. And it’s about people and leaders going through personal and professional transformation. This book provides invaluable insights on how to build companies that succeed in today’s global, complex, and fast-changing markets.”

—Bruno Pfister
Chief Executive Officer
Swiss Life Holding Ltd

“This work draws on an unusually wide set of disciplines—new and old—to shed light on the behavior of organizations and their leaders. Embracing complexity and unpredictability—rather than assuming them away—*Serial Innovators* is a renaissance person’s guide to leadership and institution building.”

—Bill Huyett
Director, McKinsey & Company
and Co-Author, *Value*

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CLAUDIO FESER



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To Evelyne, Dario, and Alessio

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Foreword

From time to time—not very often—a book about business offers a genuinely new perspective on issues that confront us all. *Serial Innovators* is such a book.

Companies are facing a number of challenges: a dynamic market environment with ever increasing competitive pressure; increased shareholder, employee, and community expectations; activist demands; and more severe regulatory requirements. Keeping a large and global organization innovative and adaptive in such a context requires a great deal of professional competence and drive, an understanding of market opportunities and threats, and an understanding of the capabilities and limitations of the organization and of oneself.

Business always implies risk taking, which in turn implies the danger of failing. This means that companies and their leaders are inherently exposed to patterns such as overconfidence, denial, or projections.

One may expect that these defense mechanisms occur only in companies in crisis and not in times of great success. But when there is praise from all sides and no shortage of recognition, companies and their leaders may fall victim to losing their sense of reality. Successful, admired, and praised organizations can easily become self-centered and isolated from external information. Rather than remaining realistic and aware of the fragility of success, their leaders may take praise and admiration at face value, egos get inflated, and expectations exaggerated, which sooner or later inevitably lead to failure.

Serial Innovators draws on a wide range of academic research and practical experiences to provide a fact-based analysis of the processes when organizations lose their ability to innovate in an ever-changing context, and develops insights on how company leaders can build organizations that can blossom and sustain growth in today's dynamic and challenging markets.

Serial Innovators is also the story of Carl, a young CEO, faced with the challenges of managing a large and increasingly complex organization. It is

a story that opens a window on a world that most people never see: the world of those who lead, under constant pressure, and in a world full of opportunities and risks. They have to be able to make decisions based on incomplete information and sometimes contradictory pressures; they have to act while possibly still having doubts, and they must be able to make difficult people choices. Leaders, however, also have the unique privilege to shape an organization, formulate its mission, create alignment, and instill the passion; they can project self-confidence and energy to improve the lives of thousands, sometimes hundreds of thousands, of people based on the firm's scale and capabilities.

Serial Innovators is a thoughtful and compelling book distinguished by the breadth and depth of its scope. The choice of academic references is extensive and links well with the real-life choices that a company leader has to make in shaping the organization that he leads, based on analytical thinking. The author, Claudio Feser, draws from extensive personal experience and offers food for thought for all those with leadership positions—in business and elsewhere.

DANIEL VASELLA, MD
Chairman, Novartis AG

Prologue

This is an extraordinary book. It addresses head on *the* most critical question facing us. That question is: “How can the organizations we create and populate deliver benefits for customers, shareholders, employees, and society?” This is not a question limited to the interests of business people. The answer to this question will determine the rate of human progress and the health of our societies for us and our children.

The greatest human invention is the ability to organize; the ability of a group of people working together toward a common goal to surpass the dreams of individuals. Innovations such as mass production, large-scale agriculture, the Internet, the sequencing of the human genome would simply not be possible without our ability to cooperate through organization. For that matter, neither would be policing, charity, or government itself. Our ability to create society rests on our ability to organize.

Claudio Feser gets to the heart of this question. What does it take to build organizations that succeed for long periods of time? And what stops us? He confronts the dark reality below the potential. Most organizations fail. They fail to engage their customers. They fail to develop their people and they fail to deliver for their shareholders. Most organizations are short-lived. Set up to achieve a goal, to deliver on a task, they grow and develop. But then eventually they age and die. In a process that resembles a super-fast version of the Darwinian evolution of species, their position in the world is taken over by younger, more nimble, more vibrant organizations. History is full of organizations that were once admired global leaders but now no longer exist, and have been replaced by younger, more dynamic competitors: British Leyland, Lehman Brothers, Digital Equipment Corporation, Enron, to name but a few. And this process of the fall of large, established, often admired organizations and the rise of new ones seems to be accelerating. According to a study by Foster and Kaplan of McKinsey & Company, in 1955 a company in the S&P 500 Index stayed in the index for an average of 45 years, and in 1975, for just 26 years. In 2009, the average

was estimated to be just 17 years. Could it be that large and admired firms already carry in them the virus that will eventually lead to their decay?

This seems odd. Why would admired, world-class organizations that genuinely understand their industries, have access to the best technologies, employ the best talent, possess the best assets, have the best capabilities, systematically lose out to organizations that have none of that? How can it be that small, inexperienced newcomers systematically beat large, established, experienced, potent, world-class organizations? Why—in the world of organizations—does David beat Goliath over and over again? And why ever more quickly?

Serial Innovators offers answers to these questions. Building on recent advances in science, it dives into the psychology of the human being and of organizations to explain why organizations develop rigidities that prevent them from adapting and innovating in times of change. And building among others on *Beyond Performance* by Scott Keller and myself, it develops insights and perspectives on how to build organizations that not only perform, but are also healthy: organizations that have the ability to continuously adapt and renew themselves. It also shows how the leaders of organizations play a pivotal role in ensuring that organizations stay healthy, young, nimble, and innovative, and how—in doing so—leaders can build enduring legacies.

Written as a fable about a young CEO going through both a company and a personal transformation, *Serial Innovators* is not only a story about innovation and adaptation, it is a story about leadership and legacy. More importantly, it is a story about life.

COLIN PRICE

Leader of McKinsey & Company's Organization Practice

Introduction

The performance pressure on company leaders today is enormous. It is tough to stay at the top. Leaders work hard focusing on profitability and value creation.

Yet, despite all their efforts, value creation by most firms is short-lived. In fact, the whole life cycle of most firms is not very long. The average life expectancy of a firm is roughly 15 years, and only 5 out of 100 live longer than 50 years. Set up on the back of an innovative idea, firms grow and develop, and sometimes they blossom into admired, world-class organizations. But eventually—as if they were biological organisms—they age and die. There is a large graveyard of defunct firms, including household names such as Texaco, Union Carbide, RCA, General Foods, British Leyland, Pan Am, Uniroyal, Bethlehem Steel, Westinghouse, Commodore, Lehman Brothers, Trans World Airlines, Digital Equipment Corporation, Polaroid Corporation, WorldCom, and Enron.

The signs of aging vary from firm to firm. Some firms become blinded by success and begin to resist external views and challenges. Some are locked into mental models and become driven by habits. Some lose the sense of purpose that pervaded them in the early days. Some become bureaucratic. Some have processes and incentive systems that have put them on an autopilot, leading in a dangerous direction. Some develop dysfunctional organizational cultures. The process of aging is subtle, silent, stealthy, and pervasive. As firms age, they struggle to keep up with changing markets, and in today's dynamic markets slow adapters often become big losers. As a consequence, firms get taken over or go bankrupt. They die. Life is ephemeral even for firms.

Sometimes, however, but only sometimes, firms resist the process of aging and rise above this. They adapt and thrive in dynamic markets, they continuously reinvent themselves, and they change their industries. They become serial innovators. Sometimes—by continuously inventing new products and services that make life healthier, better, safer—they change

the world. These firms create value for decades, for their customers, their shareholders, and their employees.

This book studies the aging of firms and the factors affecting it. It also uncovers the secrets of building a firm that is a serial innovator, a firm that adapts and thrives in dynamic markets.

It is structured in four parts.

In Part I, it introduces the concept of the corporate life cycle to show that firms, like human beings, are born, grow, mature, and eventually get sick and die.

In Parts II and III, it then studies the factors affecting the aging of firms, the factors that slow down the process of adapting to changes in the marketplace. It reviews the recent findings in relevant academic fields to understand how firms, as they grow and mature, develop rigidities that prevent change. It examines rigidities at two levels: the individual and the organizational.

In Part IV, it uses those findings to uncover the secrets to building a firm that is adaptive, innovative, and can create significant shareholder value for the long term, sometimes for centuries. It is a firm that is driven by the passion to make a difference to customers and society; a firm that is led by learners with an ambitious and positive vision; a firm that is organized and builds on its members' desire to achieve results, and their eagerness to grow and develop; a firm that is quick in developing new capabilities; a firm that, while it focuses thoroughly on execution and results, remains externally oriented and continuously challenges itself. Building such a firm is a challenging task. It is first and foremost an act of leadership.

The book also reflects on the role of company leaders in developing such a firm. It reflects on how leaders can become great leaders who build enduring legacies.

Before we start, let me make three comments.

First, a word on the methodology used in this study. This book is about organizational longevity, continuous innovation, and adaptation. My bookshelf is full of books on great, innovative, and enduring companies, and there is no shortage of advice on how to build such firms. All too often, though, these books sample great companies at a given point in time, and search for commonalities in their strategies and approaches. Few researchers include firms in their samples that might have pursued identical strategies and approaches, but that no longer exist. The findings are therefore subject to survivor bias, a flaw in research methodology. Therefore, if you sort these books by the decade in which they were written, the names of great and

enduring companies—and the strategies and approaches used to become one—change from decade to decade.

This book takes a different route. It reviews recent advances in many academic fields that are relevant to organizational adaptation—behavioral economics, psychology, neuroscience, organizational science, network theory, anthropology, sociology, and strategy—and it then attempts to apply these advances to develop insights on organizational longevity. Besides being more robust methodologically, this route makes for more varied, broad reading. The drawback of this route is, however, that the book may be perceived at times to be academic. And in fact, it is easy to get lost in the theory. Some academic material in its original form is such dry reading that it almost makes you feel as if your soul is leaving your body and wandering elsewhere! I have tried to keep the reviews of the various academic areas short, and to focus on the interesting, the practical, and the (hopefully) less obvious business implications.

Second, this book does not pretend to develop a comprehensive framework of organizational longevity, or to teach general truths about the functioning of human beings or organizations. On the contrary, it aims to provide insights, ideas, suggestions, and perspectives—in the full awareness that there are many other perspectives on the matter. It aims to provide stimuli, not definitive answers.

Third, this book is written as the story of Carl Berger. As we will see later, our thinking is guided by stories, by narratives, not by concepts or facts. The story of Carl Berger is fiction. While it builds on some personal experiences, the person and the company described in this book are fictitious, and any resemblance to any existing person(s) or firm is purely coincidental.

Let's now start our journey of discovering the secrets of the serial innovators. But let me first introduce you to our main character, who will accompany us throughout the book: Carl Berger.

CLAUDIO FESER

PART

The Ephemeral Nature of Firms

Meet Carl Berger

Luke was the driver and general errand runner for the top executives at American Health Devices, Inc. (AHD), a global medical products company based in Trenton, New Jersey. It was an unusually sunny and warm day in November 2004 when he stood nervously at the JFK airport, waiting to meet his new boss.

The last guy, Rittenhouse, was pretty harsh, all business and all boss, never even a smile, so Luke was pretty surprised when Carl Berger emerged, having cleared customs after his flight from Tokyo. This young-looking man, with an open face and dark hair, had to be the new CEO. He'd already nodded and smiled when he saw Luke's AHD sign and he was heading directly toward him.

Luke gulped, "Good morning, Mr. Berger. I'm Luke, your driver."

"Nice meeting you, but call me Carl," Berger said as he reached out for a handshake. Luke then reached for Carl's fine, but worn, leather suitcase, but the new CEO hefted it himself. "I've got it," he said. "Show me where you parked."

Luke appraised his new CEO, getting used to his unassuming manner. To his shock, his CEO seemed to be appraising him, too.

"Thanks for coming to get me, Luke," Carl said. "Have you been with the company for a long time?"

"Five years or so, Mr. Berger," Luke said, as he drove the car swiftly down the road heading toward AHD's offices. "I drove your predecessor, Mr. Rittenhouse."

"Please call me Carl," the new CEO said again. There was no edge to his voice, but still, it was clear how naturally he could exercise authority.

"Yes, Mr. Berger, ahh. I am sorry, I meant Mr. Carl, uh, Carl."

"That's fine, Luke," Carl said. "How are things at AHD? Do you like your work?"