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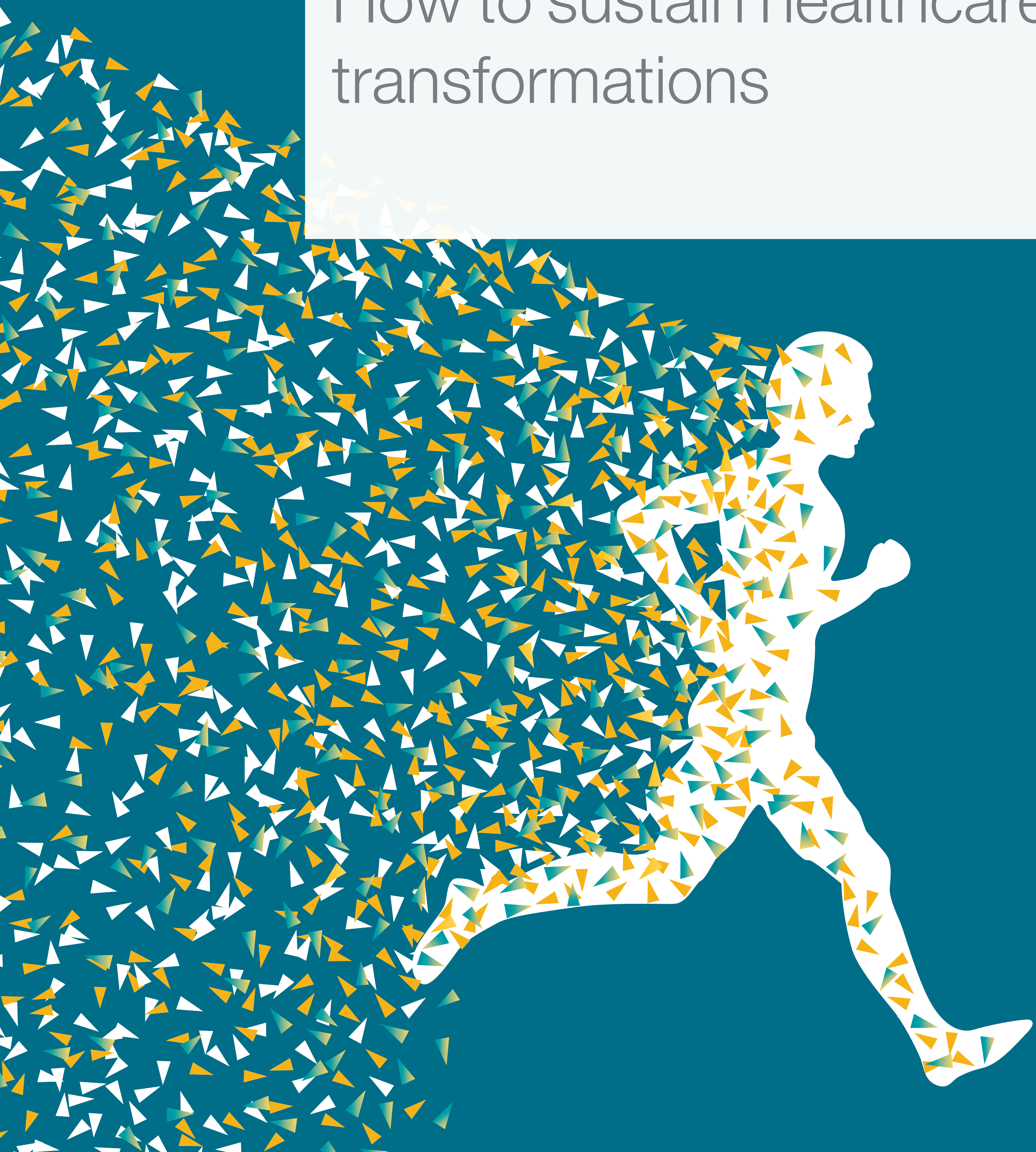
Voices on transformation

A marathon, not a sprint: How to sustain healthcare transformations



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Introduction

Over the past decade, the pharmaceutical industry has been struggling to keep up with rapid and dramatic changes in the external environment. Global macroeconomic and political trends, changes in the stakeholder and regulatory context, evolution in customer and patient preferences, the emergence of digital channels, and consolidating competition have prompted more than one in two pharma companies to undergo fundamental transformation. And the changes show no sign of letting up.

The global demand for drugs and devices is soaring as populations become wealthier, age, and experience more ill health. As a result, pharma profit pools are expected to expand by up to $40 billion, exceeding $300 billion by 2018. But that growth will be accompanied by a number of complicating factors, including:

- A sharp acceleration in cost pressures on health systems and shifts in manufacturers' portfolios toward specialty medicines and large molecules

- An increase in the complexity of serving emerging markets and other profitable segments

- The disruptive effects of new technologies and approaches in therapy and care provision

- The convergence of drugs with devices, data, and services

- The emergence of new competitors and the seismic reshaping of the industry through M&A and creative asset swaps.

Pharma companies undoubtedly need to raise their metabolic rate to evolve more quickly than their environment and sustain improvements over time. But what does it take to transform an organization, and how well is the industry doing? Troublingly, our research shows that only 22 percent of pharma transformations succeed – an even lower success rate than the average 26 percent across industries.

In this collection of articles and interviews, McKinsey practitioners explore the challenges of pharma and medical device transformations, the factors that contribute to their success, and the steps that help sustain them. We also share personal perspectives from four senior industry executives who are themselves leading large-scale transformations. Their stories show how leaders can turn adversity to advantage and shape their organizations for an uncertain future. Each story illustrates a different path to change, but all share a common thread in emphasizing the importance of purpose, meaning, and communication.

We hope these articles and interviews will provide helpful insights for pharma and medical device executives undertaking transformation journeys of their own. You can read more about our work on pharma and medical device transformations at
www.mckinsey.com/insights/pharmaceuticals_and_medical_products.
If you have comments on any of the articles or would like further information, please contact the authors directly, using the details included at the end of the book.

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Cracking the code:

How successful pharma leaders manage transformations

Pharma companies, like most organizations, find it difficult to deliver successful transformations. Our research has identified a handful of critical practices that could vastly improve their chances of success.

Gayane Gyurjyan, Angelika Reich, and Carla Zwaanstra

Across industries, few executives in companies that have undergone organizational transformations judge them to be a success, according to a recent McKinsey global survey.[1] Just a quarter of respondents thought their transformation had been "very" or "completely" successful at improving their organization's performance and equipping it to sustain improvements over time. More positively, though, the survey, which covered a broad range of sectors, including the pharmaceutical and healthcare industry, found that adopting four practices – communicating openly, leading by example, engaging employees, and creating an environment of continuous improvement – made transformations far more likely to succeed.

To understand what these findings might mean for pharma, we compared the results from industry executives with those from the full cross-sector sample.[2] We found that pharma executives were even less likely than those from other industries to judge their company's transformation as very or completely successful, with scores of 22 percent and 26 percent respectively (Exhibit 1).

However, the picture looks brighter for pharma if we turn to the four practices that made transformations more likely to succeed. Applying these practices consistently leads to a higher likelihood of success in pharma than in other industries. Let's examine each of the four practices in turn.

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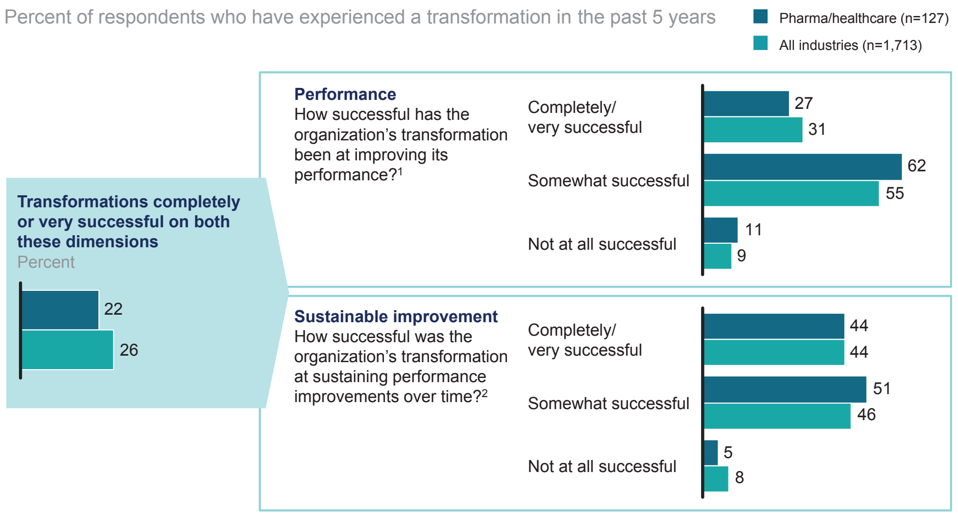
[1] Unless otherwise indicated, statistics in this section are drawn from the *McKinsey Quarterly* Transformational Change Survey, November 2014, or from the related article "How to beat the transformation odds," McKinsey & Company, April 2015. We define transformations as large-scale efforts to achieve substantial, sustainable changes in performance through long-term shifts in the mindsets, behaviors, and capabilities of employees.

[2] The full sample included responses from 1,946 executives representing the full range of regions, industries, company sizes, functional specialties, and tenures. Among these respondents, 1,713 executives had been part of at least one transformation in the past five years at their current or a previous organization. The pharmaceutical and healthcare sample comprised 127 executives.

Exhibit 1

Successful transformations appear harder to achieve in pharma than in other industries



1 Question continued: "as measured by, for example, profitability, return on capital, market value, and/or lead-time reduction"
2 There were 2 versions of this question: for completed transformations "How successful was the organization's transformation at sustaining performance improvements over time once its initiatives were fully implemented?" and for ongoing transformations "How successful do you believe the transformation will be at sustaining performance improvements over time once its initiatives have been fully implemented?"

Communicating openly across the organization

Among the elements identified in the survey as contributing to the success of a transformation, the single most powerful factor is open, organization-wide communication about progress from senior leaders. Across industries, executives in companies where this takes place were 8 times more likely to report a successful transformation than those where such communication is missing. Among pharma and healthcare companies, this rose to 10.6 times more likely (Exhibit 2).

Exhibit 2

Communication

1 Success rate of transformations using the factor divided by success rate of those not using the factor

When senior managers regularly talk to employees about how a transformation is going, it helps the whole company maintain a sense of direction – something that has dramatically declined in the pharma industry over the past few years, according to our research.[3] Companies that lack a clear sense of direction run the risk of change fatigue and may see their transformation burn out before it can take off.

Another factor, open communication about the impact of a transformation on individuals' day-to-day work, also played a bigger part in the success of transformations in the pharma industry than in other sectors, making it 6.2 times more likely, as compared with 4.4 times for the cross-industry sample.

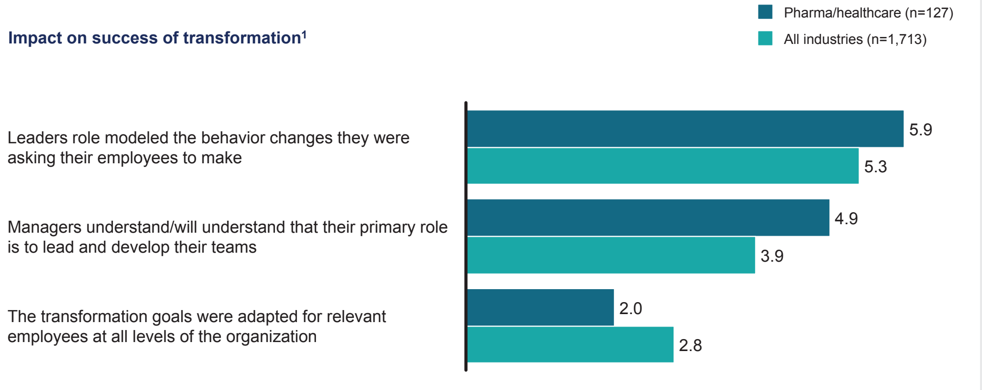
The executives we interviewed for this compendium also stressed the importance of open communication during a transformation. As Pascal Soriot of AstraZeneca explains, "If you're an employee you may not know how your leaders feel, but when your chairman stands up in public to support your company's direction, it's very visible. The whole leadership team communicated extensively inside the company, and a few went outside to communicate too."[4]

Leading by example

The second action critical to the success of a transformation is leading by example. Having leaders role model the changes they want everyone in the organization to make improves the chances of a successful pharma transformation by a factor of 5.9 (Exhibit 3).

Exhibit 3

Leading by example



1 Success rate of transformations using the factor divided by success rate of those not using the factor

[3] See Gayane Gyurjyan, Ioana Parsons, and Shail Thaker, "A health check for pharma: Overcoming change fatigue in the pharmaceutical industry," pp. 14–25, and "Confronting change fatigue in the pharmaceutical industry," *McKinsey Quarterly*, September 2014.

[4] See interview, pp. 26–33.

Even the best-designed transformation program is unlikely to rally the organization behind it unless leaders behave in a way they want others to emulate. And that doesn't apply to senior executives alone. Middle managers in commercial, R&D, operations, and other areas need to be equally visible as role models: a sales manager, a lab manager, or a plant supervisor can make all the difference. Indeed, one top-15 pharma company found its frontline transformation had no impact on customer experience until it took the time to prepare district managers to lead by example through the introduction of champion academies and other skill-building efforts.

Our survey also found that pharma transformations were 4.9 times more likely to be reported as successful when managers recognized that their primary role is to lead and develop their teams. Many CEOs understand the importance of role modeling intuitively. Vincent Forlenza of Becton Dickinson notes that "You have to get out there and deliver your message in person. Some things can't be delegated. I put a lot of energy into onboarding new people and supporting them when they are trying to change a region, say, or rethink our innovation process."[5]

[5] See interview, pp. 34–41.

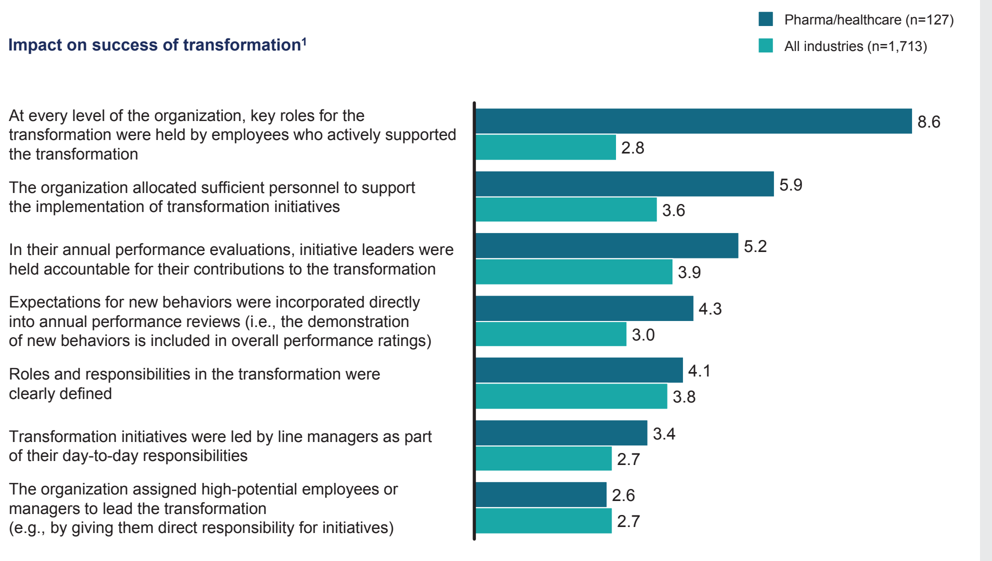
Engaging employees

Most leaders recognize that employee engagement is central to the success of a transformation – and, indeed, to business performance in general. As Jane Griffiths of Janssen EMEA puts it, "To mobilize everybody, we had to work on involvement, engagement, and communication. After five minutes, I would have thought, 'Well, everybody must get this now, let's move on,' but clearly that's not how it works. If anyone asked me for advice, I would say, 'Don't overestimate how much people take on board. In fact, underestimate it so that you go over the top a bit more.'"[6]

This appears to be particularly true for healthcare companies. In our survey, executives were asked to rate their organization on seven dimensions of employee engagement. In six cases out of seven, pharma respondents rated these dimensions as more important to the success of a transformation than their peers from other sectors did (Exhibit 4).

Exhibit 4

Engaging employees



1 Success rate of transformations using the factor divided by success rate of those not using the factor

6 See interview, pp. 42–47.

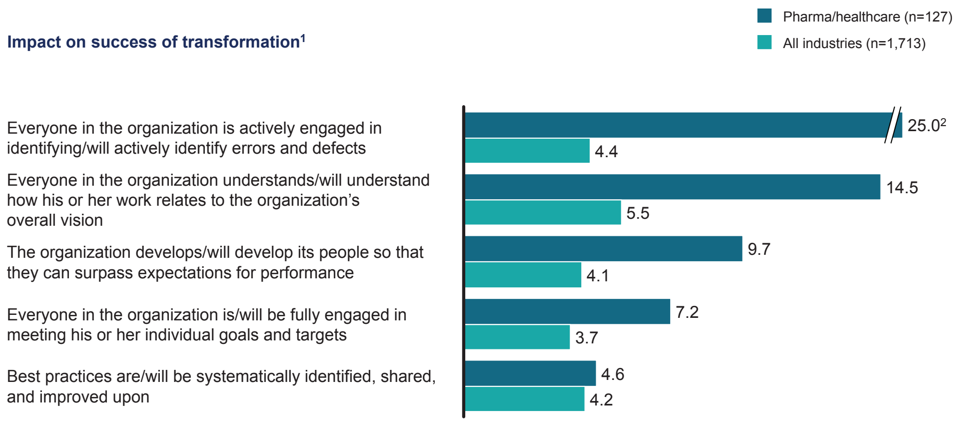
Creating an environment of continuous improvement

A transformation is not an end in itself. To sustain the momentum of change, especially in today's volatile environment, companies need to plan for continuous improvement. In practical terms, that requires a culture of scrutinizing daily work and finding ways to do it better.[7] André Wyss of Novartis explains what this means for his organization: "We continuously have to examine the technology, tools, and services we offer in order to find ways of making them even faster, more flexible, more consistent, and more cost-efficient."[8]

Continuous improvement is important for all industries, but especially so in pharma. For example, involving everyone in an organization in identifying errors and defects makes a transformation 4.4 times more likely to succeed across industry in general, but a staggering 25 times more likely in pharma (Exhibit 5).

Exhibit 5

Continuous improvement



1 Success rate of transformations using the factor divided by success rate of those not using the factor
2 Out of 38 transformations that failed to do this, only 1 succeeded

The second most marked difference between pharma and other industries where continuous improvement is concerned lies in the importance of individuals' understanding of how their work relates to their organization's overall vision. When this factor is present in a transformation, the likelihood of success increases by 14.5 times for pharma companies, compared with just 5.5 times for the cross-industry sample.

7 For more on this, see Randy Cook and Alison Jenkins, "Building a problem-solving culture that lasts," in *The Lean Management Enterprise: A system for daily progress, meaningful purpose, and lasting value,* McKinsey & Company, 2014.

8 See interview, pp. 48–55.

So why do these four fairly obvious and well-understood practices have a disproportionate impact on the success of pharma transformations? And, more to the point, why aren't they applied more routinely?

No doubt the turbulence of the past few years – with changes in the stakeholder landscape, a wave of M&A deals, and other ongoing efforts to restructure – has put severe pressure on the industry's capacity to execute consistently and with discipline. Change fatigue has become a reality for many companies, yet they will continue to need to adapt. Against this background, we believe that the ability to execute these seemingly simple practices at scale across a transformation will represent a true source of competitive advantage.

A health check for pharma: Overcoming change fatigue in the pharmaceutical industry

The restructuring and transformation efforts of recent years have taken their toll on organizational health.

Gayane Gyurjyan, Ioana Parsons, and Shail Thaker

After almost a decade of cost cutting, restructuring, transformations, and turnarounds, the pharmaceutical industry is understandably showing signs of change fatigue. Our analysis of changes in the organizational health of a sample of pharma companies indicates that many feel they are suffering a loss of external focus, a lack of clear direction, and an persistent emphasis on near-term delivery. However, not all companies are struggling. Some are managing to thrive even in an adverse environment, delivering superior financial performance by maintaining a strong focus on innovation and the customer. The steps these winners have taken offer valuable lessons for other companies where change fatigue is starting to set in.

The case for change

Change has been at the forefront of pharmaceutical executives' minds for a long time, and the pressures have been rising steadily. The patent cliff has triggered announcements of cost reduction measures at numerous companies since 2007. The financial crisis in 2008 served to intensify the challenges in the external environment, prompting some companies to implement extensive layoffs and site closures. Many are undertaking transformations

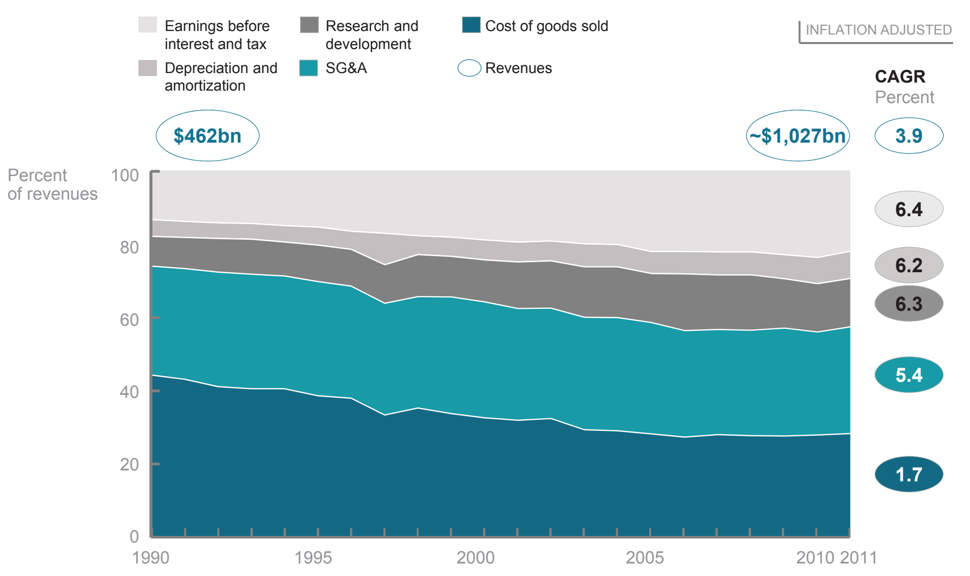
This article is an updated version of "Confronting change fatigue in the pharmaceutical industry," *McKinsey Quarterly,* September 2014.

to reinvent their commercial model, restructure their R&D, streamline their manufacturing footprint, or all three. More than half of these companies say their main goal is to reduce costs or improve productivity.

Yet despite these efforts, the industry as a whole has seen little improvement. Over the past 20 years, SG&A and R&D expenses have grown 40 to 60 percent faster than revenues, for instance (Exhibit 1). Admittedly, some progress has been made in the relative reduction in the cost of goods sold, which grew more slowly than revenues. However, most companies recognize they still have a long way to go against an expected backdrop of flat top-line industry growth.[1]

Exhibit 1

Cost cutting has had limited success



Source: S&P Capital IQ Unit; McKinsey analysis

Budgetary pressures aside, pharma companies are adjusting to a multitude of challenges: an increasingly complex stakeholder environment, greater difficulties in securing market access, closer regulatory scrutiny and more stringent requirements, and changing behavior and communication preferences among healthcare professionals and patients alike. In circumstances like these, it is hardly surprising that companies are experiencing change fatigue. Our discussions with frontline pharma executives over the past few years have revealed a widespread discomfort, with comments such as:

[1] Our analysis of data from Evaluate and the annual reports of the top 15 pharma companies by revenue in 2012 suggests that revenues will grow by just 0.7 percent CAGR between 2012 and 2017, a sharp drop from the 3.7 percent growth seen between 2007 and 2012.

"We have been through three reorganizations in the last two years. We no longer fully understand who does what, and honestly, we don't really try; it might change again soon."
— *Head of sales in a country organization*

"We are supposed to do more work always with fewer people. With all these pressures and changes, we are not really thinking about our customers and their needs, but about our survival."
— *Country head of primary care*

"I moved my family across three countries for this company. Now I have no idea where it's going or even if it will be here in two years' time."
— *Regional CFO*

Such disaffection is making it even harder for pharma companies to drive change. Leaders need to find a way to reinvigorate their organizations so that they can complete their transformations, restore their health, and renew themselves. More than ever, companies need to be resilient and adaptable, able to rethink every aspect of the way they do business, from how they engage with physicians to how they use big data. Before they can do that, though, they need to understand the nature of change fatigue and take steps to overcome it.

A health check for pharma

To gain a deeper understanding of the health challenges that pharmaceutical companies are facing, we mined our proprietary data sets and analyzed the responses of a sample of companies to questions in our Organizational Health Index (see sidebar "Why performance is not enough") and Transformational Change Surveys.

The data came from almost 20,000 respondents to surveys conducted between 2006 and 2013. Our sample comprised a mix of large and medium-sized companies operating in specialty or primary care, and producing prescription drugs, generics, and consumer pharmaceuticals. We examined emerging trends in health scores over time by comparing two independent samples of pharma companies (surveyed from 2006 to 2011 and from 2011 to 2013), and held interviews with industry experts to help shape and test our hypotheses.

We found that pharma companies followed the same pattern that we identified in the cross-industry OHI database: namely, that healthier companies tended to have stronger financial performance. A comparison of companies in the top and bottom quartiles for organizational health revealed that total returns to shareholders grew more than twice as quickly at healthy companies than at their unhealthy peers.

However, when we looked at the health of our sample as a group and compared it with the cross-industry norm, we found that pharma companies do not start from a position of strength. In fact, they rank in the third quartile – below average – for eight of the nine health

Why performance is not enough

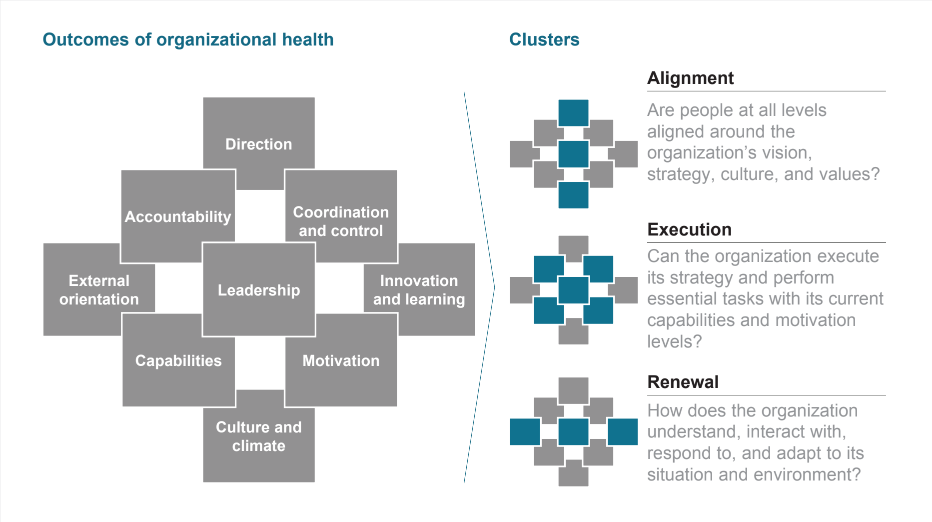
To achieve and sustain strong performance over time, leaders must manage their company's health as well as its performance. Yet health factors such as culture and motivation can be hard to measure and address, leading some executives to dismiss them as "soft stuff."

To tackle this problem, McKinsey developed the Organizational Health Index (OHI), which provides a precise vocabulary and reliable measures to make health as tangible and manageable as finance or operations. We define health as an organization's ability to align, execute, and renew itself more quickly than competitors can, thereby enabling it to sustain exceptional performance over time.

The OHI is based on a survey tool that measures an organization's health in terms of 37 management practices, or sets of behavior exhibited by an organization. These management practices contribute to nine outcomes, as illustrated in Exhibit A.*

Exhibit A

Organizational health can be measured



Our database covers almost 2.5 million data points from more than 1,000 organizations in 22 industries, including pharmaceuticals.

An analysis of OHI data across industries reveals that there is a strong positive correlation between organizational health and business performance. For example, companies in the top quartile for organizational health are likely to have total returns to shareholders that are three times those of peers in the bottom quartile.

Overall, our research found that roughly half of performance differences between companies can be attributed to differences in organizational health.**

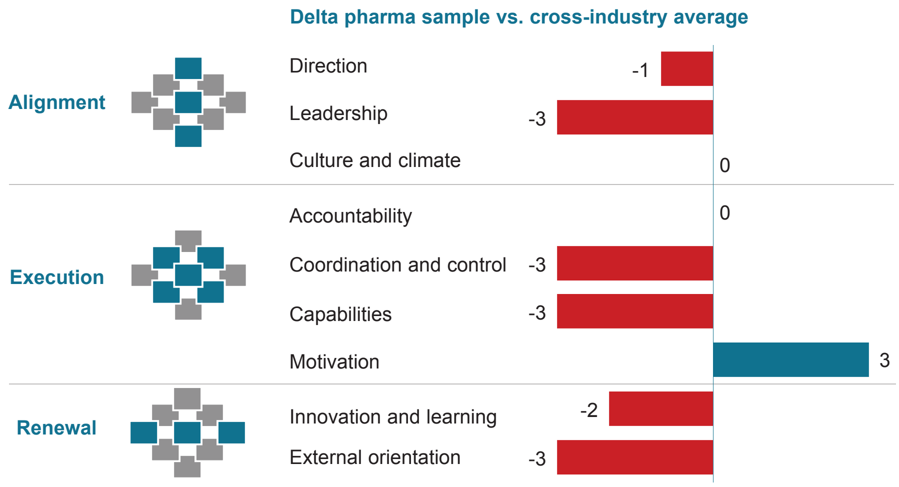
* Each of the nine outcomes is made up of three to five management practices; for instance, the "capabilities" outcome is made up of talent acquisition, talent development, process-based capabilities, and outsourced expertise.

** For more information on the OHI and the research underpinning it, see Chapter 2 of *Beyond Performance*, Scott Keller and Colin Price, Wiley, 2011.

outcomes in the OHI. They score above average only in motivation, where they rank in the second quartile (Exhibit 2).

Exhibit 2

Only in motivation did pharma companies score higher than average



Source: OHI database; McKinsey analysis

Our analysis also uncovered significant differences in health between the companies in our sample. Size is one factor in these differences: big companies underperform their small and medium-sized peers on all health outcomes except motivation. In particular, they report significantly lower scores – by more than 10 percentage points – on customer focus, capturing external ideas, and employee involvement.[2] Even so, some pharma companies manage to buck the trend and attain top-quartile health despite their size or environmental challenges.

What's ailing pharma? The anatomy of change fatigue

After establishing a general picture of the health of the pharma industry, we compared the scores of the samples surveyed in 2006 to 2011 and 2011 to 2013. Although there was little difference in the industry's overall health from one period to the next, some health outcomes showed a noticeable downward shift (Exhibit 3).

The comparison enabled us to identify five symptoms of change fatigue:

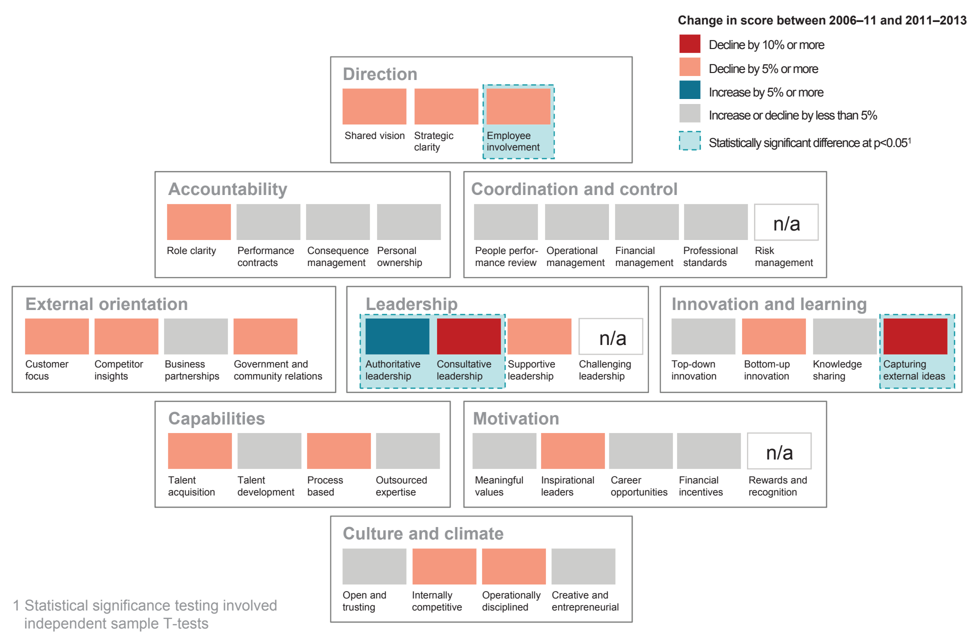
1. A decline in sense of direction

A sense of direction is characterized by three management practices: shared vision,

[2] Scores are more than 10 percentage points lower, a statistically significant difference at $p<0.05$.

Exhibit 3

Scores for leadership and direction have declined over time



1 Statistical significance testing involved independent sample T-tests

strategic clarity, and employee involvement. All of these practices began at a low base and declined by 5 to 10 percentage points from one period to the next. In our 2012 Transformational Change Survey, pharma companies scored well below the cross-industry average on direction. Fewer than one in three pharma employees thought their CEO provided thought leadership and direction, and fewer than one in nine thought their top team did so.[3]

The perceived lack of direction may reflect the circumstances of an industry that enjoyed stable growth for more than 20 years but is now grappling with rapidly changing markets, new patterns of economic growth, technological disruptions, and portfolio and pipeline challenges. What is needed, it seems, are leaders who are able to set and sustain a clear, compelling vision against a backdrop of frequent reorganizations and leadership changes.

2. A radical shift in leadership styles

Leadership styles have also undergone a dramatic change in the past few years, with a marked decline in consultative, supportive, and inspirational leadership and a corresponding hike in authoritative leadership.[4] How much emphasis companies place on authoritative leadership differs sharply: those in the bottom quartile for health rank it first among the 37 practices in the OHI, whereas those in the top quartile rate it 35th.

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[3] These results are substantially below those for the cross-industry average, with a delta of 7 and 10 percentage points respectively.

[4] The upward trend in authoritative leadership and downward trend in consultative leadership are statistically significant at $p<0.05$.

As external volatility increases and the pace of activity steps up, leaders are under pressure to secure near-term delivery, which could explain the perceived change in leadership style. In particular, the decline in consultative leadership – used by leaders who involve and empower employees through communication, consultation, and delegation – appears to contribute to the decline in sense of direction noted earlier.

3. A more inward focus

Although most pharma companies try to put health professionals and patients at the heart of what they do, often by making customer centricity a goal for their transformations, our surveys indicate that external orientation has declined since 2011. All its components show a downward trend, with customer focus, competitor insights, and government and community relations falling by between 5 and 10 percentage points each. On the other hand, partnerships have remained relatively stable, perhaps because of a rise in deal-making activities.

Innovation and learning are also suffering in the current climate, with a sharp drop in companies' ability to capture ideas and best practices from outside. Top-down innovation, bottom-up innovation, and knowledge sharing are also declining. Possible reasons include the distracting effect of restructuring and the rapid pace of change in customer needs and the external environment, which leaves many companies struggling to keep up.

4. A burdensome approach to managing key processes

As compliance, quality, and good manufacturing practices come under increased scrutiny, the processes used to manage these functions appear to be creating new burdens for companies unless they are able to compensate by making meaningful simplifications elsewhere. As one sales representative told us, "Ways of doing business have changed – we now need to get approvals from many departments for everything. I understand it's important, but it costs us a lot of time and energy, and could be managed better."

Perceptions of aspects of coordination and control varied widely between healthy and unhealthy companies. Professional standards were ranked much higher by unhealthy companies (17th out of the 37 management practices) than by their healthy peers (30th). Healthy companies put more emphasis on personal ownership, consequence management, and especially risk management, which they ranked 3rd out of the 37 management practices, while unhealthy companies ranked it 32nd.

5. A lack of investment in managing change

The participants in our survey felt that pharma companies are failing to invest in the skills, resources, measurement, and top-team focus they need to manage the process of change. Although this perception is widespread across industries – another survey found that 73 percent of respondents believed their organization lacked people with change management skills[5] – it is especially acute in pharma companies, with a score of 83 percent. Moreover, only 7 percent of pharma respondents, less than half of the already low score of 15 percent across industries, feel their senior executives use order, effective processes, and effective team interactions to move toward company goals.

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[5] McKinsey Transformational Change Survey 2012.

Three actions to shake off change fatigue

Whether a company suffers from change fatigue, and how much, will depend on its particular circumstances. Every company needs to understand and address its own risks and areas of vulnerability. That said, all companies would benefit from taking three steps in preparation for their transformation journey:

1. Adopt best practices

In our experience, few pharma companies treat change management as core to the business or dedicate their best talent to their transformation efforts. When one company reviewed its change efforts, it found that only 30 percent of projects delivered to the full and on time – a success rate that is typical across industries. Any company undertaking major organizational change should follow a rigorous approach to secure maximum impact (see the sidebar "Best practices in transformation" for a summary).

Change management is an organizational capability in itself, on a par with business development or launch readiness. Best-practice companies accept that change is a constant, as is the need to learn, adapt, and manage uncertainty. At one company, all high-potential staff are expected to rotate through an internal six sigma group to help them develop the muscle to manage change at scale, be it a frontline transformation or an effort to drive supply-chain excellence.

Best practices in transformation

From our experience with hundreds of transformations in a wide range of industries, we have identified how leading companies bring about sustainable change with maximum long-term impact. They typically adopt a systematic approach consisting of five steps:

Aspiration. They articulate a clear vision of what their organization wants to become and translate it into tangible targets for measuring success.

Diagnostic. They assess their organization's current and target state, including its competitive position, value pools, resource allocation, and readiness for change.

Specification. They describe the impact they expect the transformation to make and frame precise objectives for each part of the organization to help achieve it.

Design. They define the future go-to-market approach and operating model, starting from a clean sheet.

Value delivery. They develop a plan for rolling out and sustaining the transformation and managing the process of change itself.

We have found that there are three aspects of a successful transformation that companies often neglect:

- **Telling a consistent and congruent change story:** a narrative that leaders share with their teams to set out the case for change, the vision, how it will be achieved, what leaders expect from their teams, and what teams can expect from their leaders. Our cross-industry research shows that a transformation is 3.7 times more likely to succeed if it has a clearly articulated and widely shared change story. An effective change story is evergreen, with a central theme that runs like a thread through an organization's communications for years. At times of stress, especially when direction and shared vision are waning, a change story can provide a north star for the organization to steer by, bringing employees welcome clarity over what is constant. Change stories need frequent repetition and are best communicated through cascades in which first the CEO, then the senior team, and then managers at progressively lower levels translate the message into terms that are meaningful for their teams.

- **Building in regular proof points** that are defined early on and reinforced as the transformation progresses to keep up momentum among supporters and win over skeptics. One pharma CEO identified three therapeutic areas as strategic priorities for acquisitions, people investments, and business reviews. He reinforced this focus at a meeting by stopping a marketing manager from giving an update on a top-selling drug because it did not relate to any of these target areas.

- **Adopting a continuous improvement mindset.** Recent research indicates that companies that plan for continuous improvement are between four and five times more likely to succeed than those that do not. Some companies take regular pulse-checks of their organization's health so that they can take corrective action as required (see the sidebar "Getting a real-time read on organizational health"). Other industries can offer lessons for pharma in how to use organizational health data to influence day-to-day behavior: for instance, one Latin American airline includes OHI scores when measuring the performance of its top 500 managers.

2. Strive for meaningful simplification

When companies reduce their staffing levels, they don't always consider how their ways of working will need to change. Cutting back on people means cutting back on activities too. Many global companies focus on simplifying structures rather than processes, but that can pose risks in an industry where processes are key to managing compliance, quality, and regulatory issues.[6] When these processes come under additional pressure, it can create an excessive burden for an organization unless it compensates by simplifying other processes.

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[6] Our survey of executives at global organizations reveals a blind spot where processes are concerned: they emerged as one of the three weakest aspects of organization out of the 12 we explored. See Avinash Goyal, Toby Gibbs, and Suzanne Heywood, "Getting ruthless with your processes," *Perspectives on Global Organizations*, McKinsey & Company, 2012.

This is easier said than done because it requires a company to reassess the core processes that define it, such as business planning, strategic planning, and portfolio assessment. It also requires capabilities in piloting, experimenting, and methodically scaling up – not traditional strengths for pharma companies. However, the prize can be considerable. One company appointed a cross-functional team to assess, simplify, and automate its process for approving reps' activities and expenses. By cutting duplicative steps and review loops, it freed up more than 10 percent of salesforce time for redeploying to customer-facing activities.

3 . Regain external focus

Given pharma's recent focus on customers, the decline in external orientation is perhaps the most surprising finding from our analysis. However, many would argue the industry has a long way to go to match the level of excellence seen in, say, key account management in the consumer goods sector, or the use of data and digital insights in online banking. Multiple rounds of organizational changes have been an obvious distraction, but we also identified two common pitfalls that companies should guard against:

- **Poor communication.** If leaders fail to explain the rationale for frontline changes, it can breed suspicion about their real motives. As the director of one business unit put it: "The original 'customer-back' rationale for why we were changing got lost in the rounds of targets, and we forgot we were supposed to be reinvesting to strengthen capabilities as well."

Getting a real-time read on organizational health

The OHI enables companies to build up a comprehensive picture of their organizational health and set priorities for improvement, and yields deep and often surprising insights. During a transformation, it can be used quarterly or even monthly. However, the full diagnostic of 98 questions may be too time-consuming for many companies to undertake so frequently.

To allow organizations to gain insights into their health in real time, McKinsey has developed a new tool, OHI Live, which sends participants a single question every day and aggregates their responses to derive a score for the whole organization. Questions are individually assigned using an algorithm that ensures fair representation across demographic groups, and results are updated and aggregated daily. No individual receives the same question twice within a 60-day period.

OHI Live allows companies to track changes in their health on a daily basis, quickly identify emerging issues, and step in and make adjustments based on real-time feedback from the front line.

- **Slow reactions.** At times of change the response times in many processes – even critical customer-facing ones – can slow down considerably. The head of primary care in one company lamented that “I couldn’t get pricing approved for a big tender as it was unclear who in the European organization could sign off.”

Successful companies use a range of mechanisms to avoid these traps. One global company’s European organization was facing a patent cliff and transforming its operating model, yet it chose to implement customer-oriented incentives at the same time. This sent a strong signal that the new focus on healthcare providers was here to stay. Reps soon coined a new mantra, “Listening to my customer pays the bills.”

Another company sought to reduce the time marketing staff spent on internal issues by slimming management layers from eight to six. After the restructuring, the proportion of internally focused time fell from 80 percent to less than 50 percent.

Other formal mechanisms, such as stipulating how much time frontline staff should spend with customers and rewarding participation in external networks, can send equally strong signals that an organization is serious about strengthening its external focus.

If you recognize any of the symptoms described above, your organization may be suffering from change fatigue. To overcome it, we recommend you gain insight into your situation, learn lessons from companies with excellent organizational health, and adopt the actions they take to stay on track. Failing to do so could mean that your transformation burns out before it can take off.

Pascal Soriot

Personal profile

Vital statistics
Born May 1959
Married, with two children

Education
Doctor of veterinary medicine from École nationale vétérinaire d'Alfort, Maisons-Alfort
MBA from HEC, Paris

Fast facts
Enjoys cycling, horseriding, skiing

Career highlights

AstraZeneca
2012–present
Executive director and chief executive officer

Roche/Genentech
2010–2012
Chief operating officer, pharmaceuticals division, Roche

2009–2010
CEO of Genentech; led successful merger with Roche

2007–2009
Head of commercial operations, Roche

2006–2007
Head of strategic marketing, Roche

Aventis/Sanofi Aventis
2000-2006
Chief operating officer of Aventis/ Sanofi Aventis USA since 2002; previously head of global marketing and medical affairs

Previous positions
Finance, sales, marketing, and general management positions for Roussel and Hoechst Marion Roussel in Asia-Pacific

Putting science at the heart of renewed purpose

An interview with Pascal Soriot, executive director and CEO, AstraZeneca

Judith Hazlewood and Ioana Parsons

Pascal Soriot joined the biopharmaceutical company AstraZeneca (AZ) as chief executive officer in October 2012, and immediately embarked on a change in direction. He stopped the company's share buy-back scheme on his first day in office and made it his mission to refocus the company around scientific innovation and bring people together through a renewed sense of purpose.

Formed in 1999 through the merger of Sweden's Astra AB and the UK's Zeneca Group, AstraZeneca had a proud history, but also faced its share of industry challenges, ranging from the expiry of blockbuster patents to an ailing product pipeline. In addition, AZ's acquisition of MedImmune in 2007 had triggered claims from investors that the company overpaid for the deal and would not realize its benefits for many years. A number of setbacks in late-stage development attracted further criticism.

As Pascal Soriot set out to transform AZ, he terminated its strategy of pursuing branded generics and undifferentiated products, reallocated resources, and focused the business on three core disease areas: oncology, cardiovascular diabetes, and respiratory auto-immune diseases. He decided to close the company's R&D center at Alderley Park in Cheshire to make way for a new facility in Cambridge organized around two units, one focused on research and early development and the other on taking new medicines to market. He also dramatically reduced the number of management layers in the organization to make it more nimble and accountable.

In spring 2014, an unsolicited takeover bid from the US-based pharmaceutical giant Pfizer took AZ by surprise. It spent two months fending off the bid by challenging the cost- and tax-saving motives behind Pfizer's move. As it turned out, this singular event has shaped the course of AZ's transformation in more ways than one.

McKinsey: Can you give us a sense of AstraZeneca's overall transformation and what you are seeking to accomplish?

Pascal Soriot: If I had to describe the transformation in a few words, I would say exciting, because of what we've done and how people have responded, and eventful, because we had to deal with something we hadn't expected. The business is really the people, and I was amazed how quickly and willingly they aligned behind our strategy. Of course, there are always skeptics, but their number dwindled over time.

When I arrived at AZ, I think people were feeling a bit lost and needed a goal. We'd been criticized for overpaying for MedImmune, which turned out to be a good acquisition, and for setbacks in the pipeline that happen to everybody, and then we went through several rounds of cost cutting. We had a sense of direction – we were going to do branded generics and so on – but no sense of purpose. A company is a community of people, but it wasn't clear what we wanted to achieve as a community. I wanted to refocus the company back on the science, on bringing innovation and new medicines to market for patients.

Let's talk about the unexpected event you mentioned: an unsolicited bid for AstraZeneca in early 2014, right in the middle of your transformation. What effect did it have?

There were several dimensions to this: the way the organization experienced it, the way the board experienced it, and the way I experienced it as the CEO.

The organization was surprised and anxious at first, but over time that turned into pride and fighting spirit. With hindsight, the bid was the best thing that could have happened to us. It put us under the spotlight and gave us a fantastic vehicle to talk about our pipeline and our future. That helped investors and analysts realize what we have and what progress we're making.

I'd planned to communicate about all this in the second half of 2014, but we had to bring it forward. That gave us a chance to reinforce our focus on science and innovation, and this external communication played back internally, as it always does. It affected the people we could recruit, for instance. After the bid, many more people wanted to come and work for us.

Another advantage was that the bid brought everybody together and created enormous energy and team spirit. When you've got a threat hanging over your head, you stop worrying about things like the color of your office walls. The challenge for us is how to maintain that energy now that the threat has gone away.

From the board's point of view, it was vital to take time to consider the offer in relation to our internal plans and reach a consensus on the way forward. The danger in a situation like this is making a rushed decision that ends up dividing people. We had completed an annual review only a few months earlier, but we repeated the whole exercise to make sure we were confident in our plans and our valuation of the company. Our chairman did a stellar job of managing the process, and it gave us a great opportunity to pressure-test our strategy and the assumptions that underpin our long-range plan. It proved to be a great team-building exercise and left the board tighter and stronger than ever.

For me personally, by the end of 2013 I had a sense we were making progress, but the share price hadn't budged. I realized we might become exposed because we were undervalued, but I thought interested parties wouldn't want to jump in too early; they would wait for a few more proof points of our delivery, just as investors were doing. What I hadn't considered was becoming the target of a tax inversion. Because we were seen purely as a way to save tax and costs, the bid didn't reflect our pipeline or what we were trying to achieve. The original offer was so low that it had to be raised a few times, but it never reached a level that reflected our true value.

So the bid had a galvanizing effect on your organization; as they say, "Never waste a good crisis." But once a threat goes away, how do you keep up your energy levels?

That's probably our biggest challenge. We had a difficult couple of years, and when you face a setback the skeptics come back. The only solution is to make sure people understand the journey we're on, what their role is, where we're heading, and what we'll go through on the way. We regularly bring our top leaders together to spend time talking about what we want to achieve, who we want to be, what challenges we face. Then we look at how to become better leaders, help our people, and mobilize the organization.

On the whole I think we're in a good place. We recently ran an employee survey, as we do every two years, and our results have improved again. Our scores on engagement and other key dimensions put us on a par with the top benchmark companies across industries, or even higher.

To keep our energy going, we need to talk about the progress we're making and the excitement around the medicines in our pipeline that we're going to bring to patients. We also need to tell people about things that are going to be challenging, which isn't in our organization's genetic make-up. When I first arrived, people only wanted to talk about good news, but I need to know the bad news. So do other people, to prepare them for setbacks. People are smart; if you cover things up they see through it and don't trust you anymore.

Are there any other aspects of your organization's genetic make-up that you need to work on?

Risk aversion is one. It's partly about fear of bad news, but also wanting to do the right thing. That's a strength, of course, and our people are very good at executing, but they don't always have the confidence to say, "I don't need to succeed all the time to do well and be respected," so they avoid taking risks. We've launched four new products in the past 12 months, and every forecast underestimated how well they would do.

People have to take risks in our business, so we need to be comfortable about failing. We need to acknowledge our failures and learn from them. If we hide them, people will think "Nobody ever fails here, so I don't want to either."

The other area where we need to make more effort is complexity. How can we simplify the organization and the way we think? We have an ongoing dialogue about that with our top leaders. Simplification is one of our priorities.

How do you tackle complexity when it's pervasive in the organization?

That's difficult, and it takes time because it's so deeply rooted. We're launching an effort to simplify our systems, but the real key is simplifying people's mindsets. Some people will have to be replaced, but mostly it's about changing our genetic make-up and evolving the organization.

When you combine risk aversion with complexity, you can end up with the most incredible things. In IT, for example, we had systems that were absolutely crazy. We had to bring in a whole new team. They've done a fabulous job, improving IT infrastructure, introducing world-class systems, and moving us to the cloud, all to make our employees' working lives easier. Of course, we still have work to do to get to where we want to be. We're in a new world, and some of the people who will win have already taken the lead in simplifying their own areas.

To go back to your question about how we keep the energy flowing, I think it will help when people see they are growing and have opportunities to develop personally and as teams. We're building a better organization with good pipelines, a strong science base, and a focus on simplicity and effectiveness. And we're going to try to think differently and be more entrepreneurial. We can't go into the next two years doing things the way we always have; it won't work.

So we have to change our business model, for instance. We're looking at externalizing some of our products and partnering to develop and commercialize them. This is about allocating capital better, focusing on what we do well, and partnering in areas where we don't have capabilities.

If we help people to engage with these challenges, we hope they'll feel they have an impact on the company and their own personal development. We tend to be a bit self-critical as an organization, but people have been through a kind of near-death experience, and the skeptics have seen what the consequences of failure could be. Our share price has risen to reflect our value, and now people want to see us deliver. We have to make sure we stay focused and keep people engaged.

Can you tell us a bit about your own experience of the transformation so far?

Once we had a strategy, I spent all my time communicating it to people, trying to help them understand what we were trying to do. At first I didn't appreciate what a huge departure the new strategy was; for me it was a natural direction to head in, and I didn't realize how much retuning people would have to do. Senior leaders had to forget where they were heading and take a totally different road. They did it relatively quickly, but it took effort.

So the first part was communication, and then as we made progress we started bringing in new people. Not that the organization wasn't good, because we have lots of great people, but it was more to change the mix and shift the DNA.

I must have spent a third of 2014 dealing with the bid, spending seven days a week for eight weeks telling people what we were doing. It was fundamental: creating belief in our organization and among our shareholders that we have a plan, we have what it takes, we're confident, we know there will be ups and downs, but we can succeed.

When I look back, what we did was exactly what a senior leadership team should do regardless of whether a bid has been made for their company. It was management in its most concentrated form. We faced a challenge, we went out, we communicated our strategy and our belief, and it helped us build confidence and engagement internally as well as externally. If you're an employee you may not know how your leaders feel, but when your chairman stands up in public to support your company's direction, it's very visible. The whole leadership team communicated extensively inside the company, and a few went outside to communicate too. We would have done all those things in any case, but the bid made us do it with such intensity that it magnified the impact – and a lot of people were looking at us and commenting, which magnified it even more.

Is there anything you wish you'd done differently?

We could have communicated about what we were doing earlier, but if we had, we might not have been credible because we didn't have enough proof points. So I don't really have any regrets. I suppose we could have started the simplification earlier too, but we were at the limits of our capacity to change.

How could you tell?

You sense it. Every time I go to a site I organize roundtables with people, so I hear from them. I'm sure it's the same in every company: if you talk to middle management they don't tell you much unless you know them well, but if you do a roundtable with people lower down the organization, they talk. They tell you about their life, the challenges they have with your systems, and their excitement about the pipeline, but they also tell you there's a lot of work to do.

It's always the same story: people never have enough resources. No company ever has enough. But being under-resourced is healthy in a way, because it forces you to stay disciplined in how you allocate capital and find innovative new ways to do your job. So it's a question of judgment: are we at the right level of under-resourcing or have we gone too far? You get a sense for this, and I think the excitement of the progress we made and the threat of the bid helped people forget about it for a while, but it's going to come back.

Where do you spend most of your time? What are your priorities now?

Like anybody who is running a global company I travel a lot. I spend about a quarter of my time in the UK, about the same in the US, maybe 10 or 15 percent in Sweden, and the rest around the world. You have to learn to operate on the road. I've got a very flexible assistant, and technology makes everything easier. It also helps if you're older and your kids are grown up; I don't think you can do a job like this if you want to build a family.

Staying engaged with people is fundamental, and that requires travel. You have to keep telling people your story, and sometimes it feels like you're repeating the same thing over and over again, but even people who have heard it two or three times need to be reminded. Everyone in the organization needs to be clear about what we're trying to achieve. When you have a bunch of people who share a common purpose, it makes a huge difference. It's about being confident you can win and believing you're making an impact.

And shared purpose gives meaning to people's professional lives too. I don't come to the office just to prepare the accounts; I'm part of a team that is bringing medicines to patients. Most pharma companies talk about this, but how do you bring it to life for people? You can't do that from an office in London.

How will you judge whether your transformation is a success?

We should know by 2017; it's hard to know before then because success is made up of several pieces. You have business success, reflected in your pipeline delivery, commercial success, and ultimately the share price, and you have success in changing your culture. By 2017 we'll have gone through gigantic patent expiries and rebuilt the pipeline. We won't have met our 2023 goal of reaching $45 billion in annual revenue, of course, but we'll know we have the assets we need to deliver on it, and our share price should start to reflect the value we are creating.

Changing our culture will take about the same time, although one could argue we'll be building our culture forever. By 2017 we'll have made progress in simplifying and having systems that work, and injecting our values and mindset into the company DNA. We'll know whether people have bought in. Have they taken appropriate risks, are they striving for simplicity, do they feel they are making an impact?

It's something you know when you see it. When I walked into Genentech, I didn't have to run a survey; I could tell. I spent the first two or three days speaking and listening to people non-stop, and I felt immediately it was a different kind of place.

If you think back to what you learned at Genentech, how much of it is still relevant, and how much did you have to unlearn because AstraZeneca isn't Genentech?

We talked earlier about shared purpose, and that's one of the things I learned at Genentech. People talk about it at business school, but you have to experience it to understand it. However much it makes sense as a concept, you don't appreciate its power until you see it in action. In our case it's about thinking what you do is meaningful and making a difference in medicine and in science.

The second thing I saw at Genentech was the huge importance of having the best possible people. Again, we all know that, but we don't always practice it. Genentech has tremendous people, especially scientists, but in many other functions too. On the other hand, I learned that too much confidence can be dangerous, especially on the R&D side. So it's a question of balancing self-belief with humility.

When I moved from Genentech to AstraZeneca, I didn't have to unlearn anything so much as adjust to a new environment and use the strengths we have, rather than look for those we'd like to have. So I learned, for instance, to encourage the entrepreneurship I found at MedImmune and empower people to move even faster. What I try to do is unlock the energy that exists in the organization. We have a lot of outstanding people at AstraZeneca who I'm proud to work with, and our pool of talent grows every day. Our people are collaborative, passionate about what they do, humble, ready to learn from others, and keen to do the best job they can.

Every organization is different, and none is perfect. You've got to try to make the most of your strengths and correct your weaknesses. I've been surprised by how entrepreneurial our R&D organization has been, for instance. The oncology group has been stellar. Suddenly, they were given an opportunity to show what they could do, and they stepped up to the plate and went for it.

Is there anything else you've learned on a personal level?

I think you need to establish a connection with your organization. I love this company. I've been here only a couple of years, but I feel I'm in the right place. At some companies you might manage a portfolio of businesses, a bit like a holding company, and that creates a particular environment and culture. But what I like is science, and everybody here is focused on that.

I remember looking at AstraZeneca around 2003, when it was seen as one of the best companies in the industry for its pipeline and commercial capabilities. And then it suddenly collapsed. Every company experiences setbacks, but this one, together with the criticism for acquiring MedImmune, hit the organization hard, and it lost confidence.

Then we had to cut costs. That's fine if you use the savings to build for your future, but we used the proceeds to do share buybacks instead. However great that looks in terms of the short-term share price, you've got nothing left when the music stops; you don't have a sustainable business. I believe our future, like our history, lies in science and innovation.

What's next on the horizon?

I'm excited about our move to Cambridge because it puts us right at the heart of science. When I went looking for a site, I knew that's where I wanted it to be. We'll be surrounded by the MRC Research Centre for cancer, the Laboratory of Molecular Biology, Addenbrooke's Hospital, Papworth Hospital, the university, and research centers for brain disease and metabolic disease. Do you know what our address will be? It's 1 Francis Crick Avenue.[1]

It's fantastic because we'll be in the middle of some of the best science in the world. We'll have our small-molecule and large-molecule teams sited together, along with our late-stage development and global strategy teams. And the AZ and MedImmune teams have worked together to design the lab of the future.

That's quite a story. MedImmune is already in Cambridge, in Granta Park, and when we said we'd build a new site, their reaction was "We can't have MedImmune on an AZ site." I said, "Well, we're going to be together." Then they said, "OK, we'll go, but we can't be with AZ." I said, "In that case, we'll have a MedImmune part of the building with one reception and an AZ part with another."

Then we put together a team of AZ scientists from Alderley Park and MedImmune scientists from Granta Park and told them: "Design the lab of the future." And by the time we had our last meeting with the architects, people were completely united and couldn't care less where the reception was.

We had another battle changing the mindset of security people who wanted huge glass walls and massive gates; we wanted the buildings to be open and welcoming so that scientists from outside can come in and meet our people. The architects have done a fantastic job, and the scientists are so excited about what they've designed. Our site is a symbol of sophistication, simplicity, and cross-functional collaboration, while respecting the autonomy of individual units.

Planning the move has been a fantastic tool for integrating the two organizations, and it's a wonderful location. We broke ground at the beginning of 2015, and we're due to move in during the first half of 2017.

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[1] Francis Crick received the 1962 Nobel Prize for Medicine with James Watson and Maurice Wilkins for the discovery of the structure of the DNA molecule.

Vincent Forlenza

Personal profile

Vital statistics
Born May 1954
Married, with two daughters

Education
MBA from the Wharton School of the University of Pennsylvania in 1980

BS in chemical engineering from Lehigh University in Bethlehem, Pennsylvania in 1975

Fast facts
Serves on the board of trustees of The Valley Hospital at Valley Health System

Member of the advisory council for the P. C. Rossin College of Engineering and Applied Science at Lehigh University

Career highlights

Becton Dickinson
2012–present
Chairman of the board

2011–present
Chief executive officer

2010–2011
Chief operating officer

2009–present
President

2003–2009
President of Becton Dickinson Biosciences

1998–2003
Senior vice president, technology, strategy, and development

1996–1998
President of Becton Dickinson Microbiology Systems

Transforming a medical devices company into a solutions provider

An interview with Vincent Forlenza, CEO of Becton Dickinson

Judith Hazlewood

Vincent Forlenza joined Becton Dickinson immediately after gaining his MBA from Wharton. He steadily climbed to the top through various positions within the company and was appointed president in 2009, chief executive officer in 2011, and chairman of the board in 2012.

Founded in 1897 in the US, Becton Dickinson is a medical technology company that manufactures and sells medical devices, instrument systems, and reagents. A truly international organization, it employs over 45,000 people in more than 50 countries.

On October 5, 2014, Becton Dickinson announced an industry-shaping deal: the acquisition of CareFusion for $12.2 billion to create a global leader in medication management and patient safety solutions. The acquisition was completed in early 2015. As this interview makes clear, it was not just the company's M&A strategy that helped it become one of the largest players in medical device, but also its cultural renewal, collaborative strengths, and unremitting focus on customer centricity.

McKinsey: What kind of vision did you have in mind when you began your transformation?

Vincent Forlenza: When I became CEO in 2011, Becton Dickinson had been a top-quartile performer, but was facing big challenges. I wanted to build a company that could move faster, work more efficiently, and use its resources and talent to impact healthcare globally. To do that, we had to understand our customers' issues, provide them with solutions to their biggest challenges, and work with them to bring about change.

I had a few goals for myself too. I wanted to have the insight to preserve and develop the best elements of our culture, the fortitude to persevere, and the kind of leadership that leaves colleagues better off for having dealt with me.

In practical terms, our management and business processes needed to be more effective to free up resources and time for strengthening our capabilities in market development, regulatory, medical, health economics, partnering, and R&D. We had to rebuild the operational backbone of a $8 billion company. We had to meet the changing needs of the developing world while still doing a good job in the developed one. And we wanted to create a diverse culture that drives business outcomes.

How did you start to realize your vision?

Back in 2009, my predecessor Ed Ludwig had kicked off a process of self-examination that identified three sets of strategic issues we should address: pursuing growth by innovating in response to customer needs; improving our operational performance to allow more investment in growth and innovation; and making our culture more responsive, more nimble, and less risk averse. We were also seen as too US-centric in our decision making, even though half of our revenue came from overseas markets.

The work we were doing to tackle these issues was fragmented, so we created a common umbrella called Delta to bring all our efforts together. Having a unifying concept helped people see how the pieces fitted together and what the future might look like.

We also changed our governance structure. We set up a top-level management committee – mainly consisting of my direct reports – to create a forum for the most important discussions. Then we added a series of substructures for innovation, corporate development, supply chain, and ethics and compliance. We made these teams responsible not just for content, but for improving their internal management processes.

The effect of this new structure was to empower the functions and free the management committee to devote its time to strategy and direction. I'm a big believer in having the right people in the room to have the right conversation.

What did the Delta program involve?

Delta focused on nurturing customer-centricity as the engine of growth and innovation. We realized that our marketing mostly consisted of "outbound" activities taking place after a product has been launched; we did very little "inbound" work to explore our customers' issues and work out how our products could help them. So we quickly brought in a chief marketing officer with a new set of tools to help us develop a fact-based understanding of customers' needs.

At the same time we began to look at our R&D spend, which was siloed, with each business unit managing its own spend to address its own priorities. We focused heavily on engineering investments and often missed big opportunities elsewhere. So we created a new process that enables us to take decisions, allocate funding, and manage our R&D portfolio with the participation of BU leaders, but outside the BU structure. We hired a new leader to serve as chief medical officer and senior vice president of R&D, and began to manage R&D as a company function. That was a controversial decision, but it showed we were prepared to make hard calls.

We also created a shared service organization to pull transactional work out of the businesses and into lower-cost locations. This meant not only combining activities that individual businesses and functions had always done their own way, but also losing some hard-working, long-serving employees whose roles were transferred to shared service centers in the US and abroad.

The third element of the Delta program was the hardest: changing our culture. We set up a task force, but struggled to agree on an agenda and deliverable outcomes. It took me a while to realize that the culture would shift only when we changed the way we worked together, which seems obvious now, but wasn't at the time. We adopted all kinds of change management methods, such as multi-day meetings with our top 300 leaders, followed by senior management site visits at most major locations.

What difficulties did you encounter?

Our message about growth and innovation resonated with much of the company, but people saw the cost efficiencies – like the impact of transferring jobs to shared service centers – before they saw the growth. And Everest, our program to implement a single environment for enterprise resource planning across the company, was a huge cost and energy drain. While this was happening, oil prices went through the roof, and pricing collapsed in one of our businesses.

Our growth plummeted from 5 to 7 percent to 3 percent per year. Interest rates fell and pension costs tripled in three years, so we had to revise our pension program. Cynicism set in and people started to say that Delta stood for "Does Not Employ Long-Term Associates." That was painful for me.

How did you address this sense of disillusionment?

We persevered. Our new CMO trained hundreds of marketing people and began implementing our segmentation tool to develop a deeper understanding of our customers. With the help of a Harvard professor, we created a program to gain insight into how to prioritize our R&D investments. People gradually developed a common vocabulary and understanding of what innovation meant for us.

Externally, we told Wall Street, "We believe in our strategy: we're going to grow new products from 8 percent of sales to 15 percent. We're going to invest for the next couple of years, and it will pay off." We demonstrated our belief by buying back $3 billion worth of stock.

Internally, we committed to a raft of measures: embedding market-research discipline into the organization, pursuing "plug-in" M&A, finishing Everest, strengthening our innovation and marketing capabilities, and investing in China and other emerging markets. The operational efficiencies we'd achieved enabled us to channel an extra $125 million into emerging markets. People started to see the link between achieving efficiencies and investing in our future, even if they didn't always like what we did.

In the early days of Delta, people doubted we could change the organization, but I always believed we could. In truth, most of the changes were not that radical; we just took a step beyond what we were already doing.

We also started to change how we communicate, bringing in professionals to help make videos that would connect with people emotionally. I knew our associates were feeling discouraged and overwhelmed, so I told them we were going to simplify, focus, and finish. Everybody calmed down; they realized: "You understand how much we have going on; you're not going to throw any more at us; we know what we have to do." That taught me the power of really simple, clear messaging.

How quickly did you start to see results?

By the end of 2012, we were delivering to plan. But I knew that making budget wasn't enough; we had to build for the future. We changed our planning approach from a top-down budgeting activity to a bottom-up strategic decision-making process. We started to plan by country as well as business.

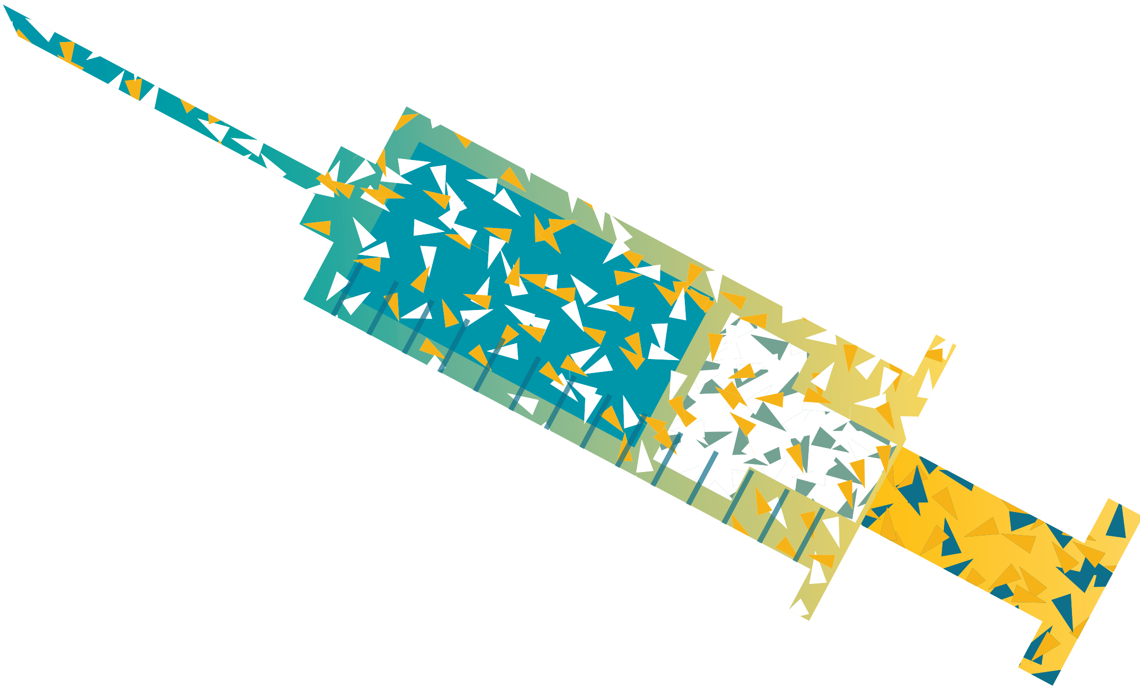
To combat perceptions that we were too US-centric, I had my two most senior regional leaders – one based in Europe, the other in Singapore – join my management committee to bring a global customer perspective to our decision making and give the regions a stronger voice. Our Board was also well aligned and the charter of its science, innovation, and technology committee was expanded to include marketing in its areas of oversight. This reinforced the link between customer centricity and innovation, freed up my team to focus on urgent priorities raised by leaders, and enabled us to collaborate more effectively.

We also began to focus on our global matrix structure, which was widely regarded as a pain point. I wrote a white paper about my belief in the need for strong businesses *and* strong regions *and* strong functions. "Strong, strong, strong" became another simple, but powerful message for the organization. We also held a session for the top 50 leaders on making the global matrix effective. This wasn't a smooth process for us, but we began to create integrating mechanisms, such as a forum for regional business leaders and a requirement for stronger business input into performance appraisals for functional leaders. People stopped complaining that the matrix slowed them down and saw that, when managed well, it delivered better decisions.

What steps did you take as a leader to help your organization embrace change?

I realized we needed to focus on the behaviors we expect from a successful BD leader. My senior team and I worked together to develop a leadership standard that set out eight critical capabilities and competencies. Most were what you might expect of any leader anywhere; what was important was having a company-wide understanding of what good leadership meant, and a shared sense of ownership for it.

Beginning in late 2012, at the suggestion of one of our regional leaders, we held a series



of global and regional summits that allowed us to reinforce the behaviors we expected of leaders. I made sure I attended every session.

As the transformation progressed, it became clear that I needed to focus more on certain areas. For instance, we all wanted to be more customer-centric, and our new market research showed our customer base was changing, but it took us a while to agree what to do about it. I realized I needed to stay close to this initiative and provide strong air support.

Meanwhile, the shift of R&D reporting relationships to our new chief medical officer was helping us manage our investments and resources across the company, but it created some resistance among business-unit leaders, who felt they were losing control over a critical function. Some questioned what their role was and whether it was valued. I reassured them they were as central as ever in creating and driving global strategy and delivering their P&L.

When did the momentum start to shift?

In 2013, all the elements began to come together. Our new products were driving growth; our marketing segmentation was helping us develop solutions to customer challenges; and our efficiencies were generating financial benefits for reinvesting in growth. We got the Everest program under control, integrated our plug-in acquisitions, and started to reap the benefits of the "strong, strong, strong" matrix. We empowered the regions and got more growth in emerging markets. And our leadership standard began to influence behaviors at all levels of the organization.

We were hitting targets quarter after quarter and feeling much better about our operating performance. As initiatives gained traction, we started to notice a cultural shift. People were solving business problems by working together in new ways. It was almost imperceptible at first, but that's how culture changes.

Given BD's traditionally conservative ethos, how did you get to do a deal the size of CareFusion?

We had started to accelerate our plug-in acquisition strategy earlier when we bought Carmel Pharma, the maker of the PhaSeal drug transfer device, and Kiestra, a provider of automated microbiology solutions. Both were adjacent to our core markets, brought us new technologies to fit our existing channels, and were developed enough not to be moonshots. If you don't do much M&A you don't get better at it, so we did enough to enable us to learn and build capabilities. These smaller deals were our training runs.

After a time I felt we were ready to do something bigger. Our management team looked at the industry to see which segments were relevant, how purchasing decisions were changing, which big moves we could make, and how we could partner with future winners. Then we worked with our corporate development steering team to develop an M&A scorecard with financial and strategic metrics, and it shouted that there were real opportunities. We'd done the work, built the capabilities, and brought the strategies together. Now we were ready for something transformational.

So we challenged the business: "What can we do in this space? Look at this $20 billion industry, look at what we could buy." Our plug-in M&A strategy had always been "Move to adjacencies," but I argued, "No, that's not enough, we need to create solutions to drive better processes for our customers." We'd watched what CareFusion was doing with SmartWorks, middleware, and Pyxis and Alaris pumps, and we'd done the analysis. I'd been thinking about it for years; now it made sense.

What was the significance of the deal in terms of your transformation journey?

The deal was a catalyst for our new direction. All of a sudden we were in a radically different place with integrated solutions that addressed some of our customers' biggest problems with medication delivery and management. Putting our portfolios together created tremendous opportunities for revenue synergies and made us much more relevant to customers than either of us would have been on our own.

We also saw a very large cost synergy that would enable even more investment in growth. We challenged each of our functional leaders to reinvent themselves and build a function that would be world class.

From a people perspective, we had an opportunity to infuse great new talent into the organization. We emphasized putting the best people in roles regardless of whether they came from BD or CareFusion. The culture part was interesting too: both organizations used McKinsey's Organizational Health Index to see how our cultures matched up. CareFusion's culture focused on innovation, customer understanding, and nimbleness, which was the way we were already going with BD. We were able to define cultural priorities and a clear direction for both organizations.

Finally, we all realized we had a once-in-a-lifetime opportunity to advance the world of health. The old rules didn't apply, and our traditional approach wouldn't work. We called on the organization to create "a bigger, better, bolder BD" – another of those simple, clear phrases that summed up what we were trying to do and became a powerful rallying cry for the whole organization.

What about you and your role as leader? How do you spend your time?

Woody Allen had it right when he said, "Eighty percent of life is showing up." You have to get out there and deliver your message in person. Some things can't be delegated. I put a lot of energy into onboarding new people and supporting them when they are trying to change a region, say, or rethink our innovation process.

I'm also active in the industry. Chairing a local hospital board taught me an enormous amount about the issues facing our customers. Now, as chair of AdvaMed, the association for the medical technology industry, I get deeply involved in key issues in healthcare and innovation, which then informs my leadership at BD. I spend a lot of time on corporate strategy and travelling to interact with our teams around the world.

On the purpose side of things, I went to Haiti after the earthquake as part of a BD volunteer service trip – a program we offer all our associates to help address global health issues and see first hand the difference we can make in people's lives.

In the past two years I've spent a lot of time on M&A, leading up to the CareFusion transaction. I rely heavily on my COO and my team to run the business while I focus on long-term strategy, engaging with the board, and external commitments. A couple of weeks ago I told a CEO gathering about our transformation journey. What struck them was that it wasn't a series of separate initiatives, but a systematic approach with multiple dimensions that fitted together. It was a journey we evolved over time, while remaining true to our purpose.

How do you see your transformation going forward?

Our vision of what's possible has expanded. We worked on our integration strategy and then applied our market information to a broader solution space. Take medication management. What does it take to make going from hospital to home much easier? We're in the process of working out what that might involve in terms of information, automated systems, and diagnostics.

This year, we did our annual board strategy presentation in a whole new way. The first day was normal, focusing on our core strategy and financial commitments in our Medical and Life Sciences segments. Day two was different. We didn't present plans; we shared opportunities – not fully baked proposals, but ideas emerging from what we see in the market and the capabilities we have. We invited high-performing, high-potential mid-career leaders to talk about things we knew the board would find intriguing, and we asked the board to work with us to help develop the questions, not provide the answers.

It was like an ideas fair, showing people a bunch of things they'd never seen before. We knew they were cool, but not whether they were a business yet. So we looked at digital health and said, "Here's a series of opportunities from acute care all the way to home." We had a great time pulling that stuff together, and the board loved it. It was the start of a new journey and a new discussion. The real win for us will be not just implementing what we've told the market, but becoming a true solutions provider.

Jane Griffiths

Personal profile

Vital statistics
Married, with two children

Education
PhD in plant biochemistry and competition dynamics from the University of Aberystwyth, UK

Fast facts
Sponsor of the Women's Leadership Initiative in Janssen

Chair of the EMEA Johnson & Johnson Corporate Citizenship Trust

Career highlights

Johnson & Johnson

2011–present
Company group chairman of Janssen Europe, Middle East, and Africa; member of J&J's Pharmaceuticals Group Operating Committee

2010–2011
Head of market access at Janssen EMEA

2007–2010
International vice president for Western Europe and South Africa at Janssen EMEA

2005–2007
Global commercial head of virology at Johnson & Johnson

2003–2005
Managing director of Ortho Biotech UK

Refocusing the business around patient outcomes

An interview with Jane Griffiths, company group chairman of Janssen EMEA

Martin Dewhurst

Jane Griffiths joined Johnson & Johnson straight from university in 1982 and never left. In 2011, she became the first woman to be appointed company group chairman of Janssen EMEA, a position well suited to her hands-on management style. She leads the company by the values that characterize her personal approach: sustainability, accountability, openness, and collaboration.

Janssen is part of Johnson & Johnson, the largest diversified healthcare company and manufacturer of medical devices in the world. Jane Griffiths is responsible for 5,000 employees operating in more than 30 countries with distribution in a further 70 countries.

The transformation that Janssen EMEA is undergoing is designed to broaden the organization's focus from selling medicines to offering "beyond the pill" solutions focused on delivering the best outcomes for patients. By showing the world it is trying to do what is best for patients, it seeks to become a strong partner to healthcare providers and build much-needed trust in the pharmaceutical industry. In pursuit of these goals, it is launching new initiatives to collect real-world evidence and set up support programs for patients.

McKinsey: Could you start by telling us what triggered your transformation?

Jane Griffiths: We launched our effort because we could see that our company would need to look different in the future from the way it looked then. We decided to think individually about the biggest challenges we might face and then come together as a team to run through the list and work out what to do. So I suppose the starting point was leadership.

What kind of challenges were you concerned about?

Many of them were challenges that affect the whole pharmaceutical industry: pricing, demonstrating value for money, and reputational issues such as transparency. These things can erode employees' confidence about where they work, so it's important to address them internally as well as externally.

Then we asked ourselves: if we need to do things differently, what should our operating company look like? We still had to deal with ongoing challenges such as price reduction and margin erosion, of course. So we looked at how to be more efficient and grow share in a relatively flat market.

When you go through a transformation, you still have to meet quarterly and monthly targets. You make changes – put people in new roles, encourage them to think in different ways – but you're still working in a traditional business model with annual cycles. It's crucial we deliver what we say we're going to deliver.

You launched your transformation in the teeth of the storm, didn't you, right in the middle of the economic crisis?

That's right, but we were lucky enough to have new products to launch, so we weren't falling off a cliff. We wanted to start before things got really bad because it takes two or three years to set up a transformation. First we came together as a team to work out what we needed to do, and then we voted on what we thought would make the most difference. Everyone was remarkably aligned on what our priorities should be.

Our message about why we needed to change took time to percolate through to everyone in the organization. Once you've cascaded your communications far and wide you think the job's done, but then you discover someone somewhere who is still in the dark. It also took a while to explain what we proposed to do and involve people in deciding how to do it. On top of that, we had to manage people's concerns about whether this was a big restructuring exercise. It wasn't, though we've had to make restructurings in a couple of countries for other reasons.

I realized a few years ago that the job of a leader is to keep their organization in good health. Years ago, I was asked to take over a business that was struggling, and found myself staring into the abyss. The company had brought a lot of new people on board, but it didn't have a sound strategy for bringing in products and growing the business. That experience showed me that it's up to leaders to make course corrections along the way and pre-empt the kind of huge stop/start restructuring that will unsettle an organization. When you sit in front of people and have to make them redundant, it makes you think very hard about your responsibility for keeping the company as healthy as possible.

In a transformation, it's crucial that people have a picture of what we're trying to do and understand their part in it. Some of my biggest areas of focus are patient outcomes, generating evidence, reputation, and transparency. Another concern is competitiveness, because as well as having a patient-centric approach, we need to make sure we win more market share than the competition.

Where are you now in your transformation?

The journey doesn't really have an end. But if there's a continuum between not understanding why we're doing things and everybody firing on all cylinders, I'd say we've finished educating people about the need for change. They are starting to see how they fit into the picture. As for the big part of it – setting ourselves up to collect real-world evidence and building patient-support programs and solutions – that's well under way.

Now I want to see the solutions in action. I want to see data coming out of the real-world evidence registries and from the patient-support programs we're doing to create the best possible patient outcomes. The most difficult part, though, is influencing the external environment. We've done a lot to improve our skills on that front, but when you operate in such an antagonistic atmosphere, you need to keep working at building trust.

I feel we've made good progress, but I want to see how far we've got with communication and engaging people. I want to see the results. For me, that's what it's all about.

Do you see any shift in the way the industry is perceived externally?

Not as much as I would want! We have to demonstrate how we can improve healthcare delivery with our medicines and solutions, beyond just selling medicines. Like other businesses, we want to be outcomes-led. The challenge is how quickly we can do it and what tangible impact we can make.

What I'm seeing so far is that the organization is right behind what we're doing. We're generating real-world data, but we need to do more on patient interaction. What do things look like from a patient's perspective? How many protocol-writing committees include a patient? What about advisory panels? We need to move away from issues-led interactions with patient advocacy groups to a continuous two-way dialogue.

To champion our company and our industry, we've launched "reputation days" to explain our values. We've also introduced our "ambassador program": a series of modules providing information on important topics such as the value drugs bring for patients. Longevity has increased by 35 years since the 1900s, and about half of that is down to the pharmaceutical industry producing medicines for cancer, cardiovascular disease, HIV, and so on. Some of the other modules in the ambassador program cover subjects such as clinical trial transparency, animal testing, and drug pricing.

The idea of the modules is that anyone in the organization can sit at their desk and access short films and documents on their chosen topic. The information they get helps them talk about their work to friends and family with a bit more knowledge and confidence and pride than they had before. This program clearly captures a need and resonates with people; I've never had so many nice emails on the content of an educational program.

So is restoring pride in the industry an important part of your cultural journey?

Absolutely. Take pricing, which is a massive topic at the moment. Here in the UK, drugs make up about 10 percent of the National Health Service budget. Even if you slashed prices by 50 percent, you still wouldn't cure the NHS' ills in terms of what it can and can't afford. So our modules help people say, "Do you realize that medicines are only 10 percent of the total NHS budget? And remember that generics were once branded drugs, and wouldn't be available now if the industry hadn't researched them in the first place."

Conversations like that can make people think a bit more. And these modules weren't a top-down effort; people in the middle of the organization came up with the idea and ran with it.

What would you do differently in your transformation if you were given a second chance?

Maintaining momentum is important. People can misinterpret a transformation as meaning that we don't have to carry on doing all the things we used to do. But of course we still have to do a good job of selling, for example. And we do that by providing people with better scientific data, evidence, and arguments. The market will judge things more by scientific value than by share of voice.

With hindsight, we could have made faster progress at getting the executive leadership team on board. To mobilize everybody, we had to work on involvement, engagement, and communication. After five minutes, I would have thought, "Well, everybody must get this now, let's move on," but clearly that's not how it works. If anyone asked me for advice, I would say, "Don't overestimate how much people take on board. In fact, underestimate it so that you go over the top a bit more."

Now we've reached a stage where we're trying to maintain our focus. We're sending out a constant stream of communications featuring people throughout the organization talking about what our program means to them.

How much of your time has the transformation taken up?

I would say about 30 percent, but you could equally well say 100 percent, because the whole thing is about how we work as a company. Most of my time is spent making sure we're rolling the transformation out, developing our leaders, and looking into issues where we're not performing.

What else are you doing to communicate and extend your work on the transformation?

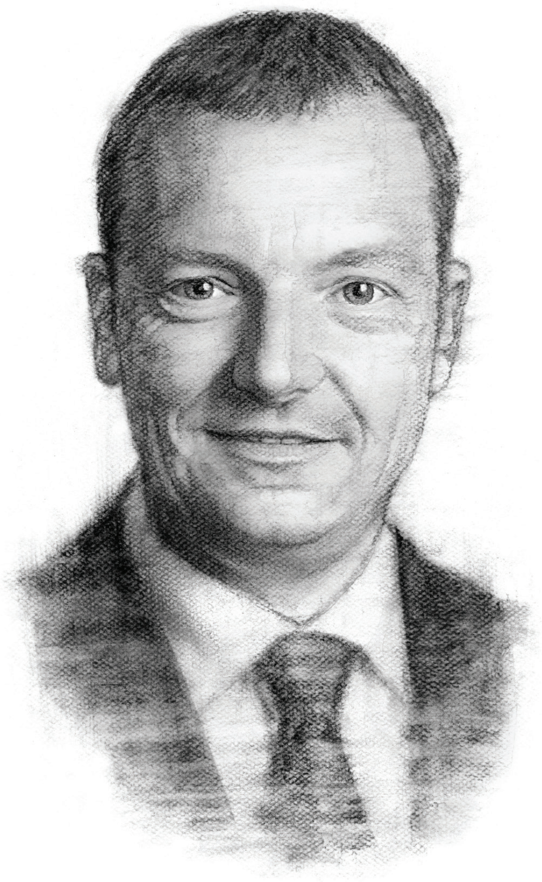
I go to R&D, IT, legal, and finance to explain the program and discuss people's roles in it. The collection of real-world evidence and registries is incredibly important for our IT group, for instance. The lawyers have a strong focus on our solutions because they involve new ways of doing things and new contracts for collecting data. The way we do social listening needs good oversight from legal, pharmacovigilance (drug safety), and regulatory people. All of them need to understand what we're trying to do so they can play their part. Additionally, pharmacovigilance is an important consideration in setting up patient-support programs.

Another aspect of our strategy is to make sure our R&D job isn't over once a product is on the market. How can we continue to collect information about it? At the other end of the process, how can we generate real-world evidence before a product is launched?

What can pharma companies do to improve patient outcomes?

I think we're missing a trick by not understanding diseases better than we do: not just the impact of our medicines, but also the diseases themselves. How are patients treated? What happens next? What unintended consequences are there?

When we looked at this for our anti-cancer drug for chronic lymphocytic leukemia (CLL), we gained insights that informed our programs and what outcomes we studied. Many CLL patients have the disease for a long time, and receive different medicines with different benefits at different points. Is there a sequence of drugs and stem-cell transplants that's optimal? Given big enough data sets, we ought to be able to find out. We'll do more of this work with bigger and better registries.



André Wyss

Personal profile

Vital statistics
Born May 1967
Married, with two children

Education
Graduate degree in economics from the School of Economics and Business Administration (HWV), Switzerland, 1995

Hobbies
Being with the family, playing and watching soccer, outdoor activities, and travelling

Career highlights

Novartis
February 2016–present
President, Novartis Operations

2014–present
Global head of Novartis Business Services and country president for Switzerland; member of the executive committee

2010–2014
US country head and president of Novartis Pharmaceuticals Corporation

2008–2010
Head of the pharmaceuticals division for Asia-Pacific, Middle East, and Africa

2004–2007
Country president and head of pharmaceuticals for Greece

Previous positions
Head of finance and R&D and head of manufacturing, Europe

NBS: Creating value across Novartis

An interview with André Wyss, president, Novartis Operations and country president, Switzerland

Claudio Feser and David Speiser

André Wyss joined Novartis, a leading healthcare company, in 1984 as a chemistry apprentice. In 2014, he was appointed to its executive committee to build and lead Novartis Business Services (NBS). In addition, he was appointed country president of Switzerland, where Novartis has its headquarters.

NBS is part of Novartis' strategy to increase its focus on patented and generic medicines as well as on eye care. In 2014, Novartis adjusted its portfolio in an industry-shaping M&A transaction by selling various businesses and strengthening its oncology franchise. In parallel, it established NBS to provide high-quality services in multiple functions and allow Novartis' divisions to focus on their core business.

André Wyss has developed an ambitious plan to drive customer satisfaction, collaboration, and productivity. Together with his team, he launched NBS in the summer of 2014 by transferring more than 9,000 associates into the new organization and starting a transformation of how functions operate. Only a year after its inception, NBS is already seen as a valuable contributor to Novartis' success.

In February 2016 (after this interview was conducted), André Wyss was appointed president, Novartis Operations. In this function, he assumes responsibility for Technical Operations as well as Global Public & Government Affairs in addition to his previous responsibilities.

McKinsey: What was the starting point for your transformation?

André Wyss: Since the merger of Ciba-Geigy and Sandoz in 1996, Novartis had been organized through independently managed divisions. While that model had served us well for some time, we gradually realized that many activities were being duplicated or reinvented, and that the collective value of Novartis was greater than the sum of its parts. For example, we found that facilitating sales by one division on behalf of another had the potential to create more than $1 billion in value.

A lot of value could also be created by leveraging our scale when procuring products and services. At that time, certain functions had already started to consolidate some of their activities across divisions: for instance, HR administration was consolidated at country level, and IT infrastructure was managed globally. But all of this was done rather opportunistically.

We also realized how fragmented we were. For example, we had more than 6,000 IT applications. We also had 20 learning management systems all doing pretty much the same thing. In some cities, multiple divisions had independently rented office space close to one another. And strikingly, we also saw big differences in how divisions performed certain activities and what they cost.

At the same time, we introduced new values and behaviors aimed at reinforcing the culture we would like to have at Novartis. A cornerstone of that is collaboration within and across divisions to ensure we deliver the best to patients and other stakeholders. This created a lot of appetite to find new ways of working together.

All of this led us to believe that there was value in managing activities across divisions and that those activities could be performed in a better way. The idea was to keep the strength of the divisions, but increase cross-divisional collaboration by establishing functions that provide services to the divisions. So we decided to set up Novartis Business Services (NBS) to cover services in IT, procurement, real estate and facility services, financial reporting and accounting, HR services, and areas of commercial and development support. With the creation of NBS, we can now capture the collective value of Novartis across the divisions and allow our divisions to focus on their core business.

Why did you choose to transform the way that Novartis is run?

Looking ahead, we see big trends that are likely to change our industry, including population growth and ageing, break-through drugs and devices, the entry of high-tech firms into the healthcare space, and the mounting pressure on pricing. If Novartis is to stay at the forefront and keep growing its market position, we have to change the way we operate to address the future reality. In addition, we've seen other companies establish service units and drive down cost successfully while keeping or even increasing quality. Those companies were typically in other industries, but we saw no reason why we should not do the same.

We wanted NBS to allow the divisions to focus on their core business and the whole company to receive better services, be cost competitive, and increase its agility. NBS aims at identifying and capturing value across the divisions. We are doing this not only by consolidating activities, but also by facilitating collaboration. For example, we are driving an initiative called "Customers first" that systematically identifies and implements cross-divisional initiatives to capture revenue opportunities. Lastly, we also lead the systematic identification of synergies in technical operations, for instance through capex planning across divisions and group-wide standardization of machinery.

How much progress have you made toward your objectives?

NBS' goal is to be a best-in-class service organization that delivers high-quality services, has great user satisfaction, invests in the business, and is cost-effective. To meet that goal, we had to establish a new organization from scratch and transform both the way our functions deliver services and the way we operate across functions.

On establishing the new organization, we progressed very quickly. When I became its global head in May 2014, NBS was a strategic priority that hadn't yet got off the ground. We became a fully operational organization by the beginning of 2015, just over six months later. That included moving 9,000 associates from divisions to NBS. While we were setting up the new organization, our domains developed detailed transformation plans and we jointly managed multiple initiatives, such as designing global service centers. The design phase was completed in early 2015, and implementation began immediately thereafter.

Having said that, a lot still remains to be done. Currently, our focus is on executing the transformation plans and continuously improving the way we deliver our services, while at the same time looking for additional opportunities across the Novartis group. We are already starting to see the benefits; we achieved $1.7 billion in procurement savings in 2014, for instance.

What challenges do you face in sustaining your transformation over the next few years?

We were quite late in introducing a shared services model at Novartis, so we had to move quickly. On the other hand, being a latecomer allowed us to learn from other companies' successes and failures. We benefited a lot from the insights of business leaders who had already been on this journey, and also from internal leaders who had either worked on initiatives pioneering shared services at Novartis or done something similar earlier in their careers.

Today, our biggest challenge is that while we're building a best-in-class organization, we have to ensure there are no disruptions or compromises on quality or cost in our services to our customers, our Novartis colleagues. We continuously have to examine the technology, tools, and services we offer in order to find ways of making them even faster, more flexible, more consistent, and more cost-efficient.

Another challenge is transforming ourselves from a functional service provider to a true business partner, on a level with other operating units. In an organization like ours, there is a risk of developing into a silo and losing sight of our purpose, which is, as I said, to deliver high-quality and cost-efficient services to our colleagues. Our associates need to develop strategic, collaborative, successful long-term business relationships with their colleagues in the divisions and find optimal solutions for them.

All this requires building our skills and achieving a major shift in our mindset, which won't happen overnight. But we have robust plans for employee engagement and training. We ask our people to listen to their colleagues in the divisions and be flexible and responsive. We constantly monitor how we are performing through direct verbal feedback at a local level, structured interviews with Novartis stakeholders, and regular online surveys. I'm glad to say that we're well on track, and our internal customers tell us that we are now creating value that wasn't captured before.

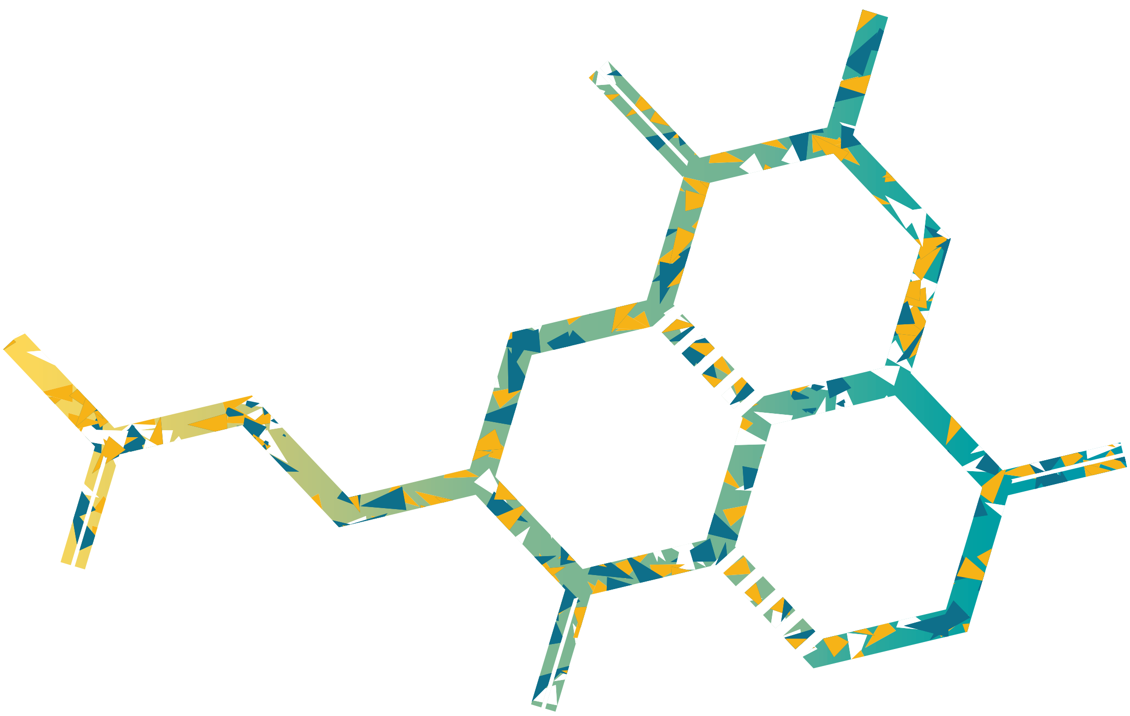
What factors have made the biggest difference to the success of the company's transformation so far?

It's vital to be transparent and inclusive about the journey. A transformation can't be one way or top-down. It was clear to me from the beginning that if we want the transformation to be successful and sustainable, we need to engage everyone in the organization.

With that in mind, we held bottom-up feedback sessions with associates that allowed us to take advantage of the ideas and experiences of talented people across the organization. By giving people opportunities to play an active part, we motivated them to get involved and take ownership of the changes ahead. I've been amazed by the speed of the progress we've been able to make. It's inspiring to see something new being created in such a short time.

What's more, the tone at the top is enormously important. Changes of this magnitude require clear messages from leaders to inspire people and assure them that this is the right thing to do. If the leadership team isn't convinced, associates won't be either, and that will jeopardize the journey.

In our case, this meant that our leaders were very explicit about their support of the transformation and used a variety of channels to address all areas of the



organization and underpin the notion that we're all moving forward together. For example, our CEO, Joe Jimenez, and my executive committee colleagues visibly sponsored the effort of creating NBS, while our chairman, Jörg Reinhardt, and board of directors endorsed and supported the journey. The NBS leadership team worked in tandem with our associates to design and execute against the plans, and now our associates are learning effective business partnering to strive for the best solutions for the Novartis group, for our enterprise as a whole. All of this created an environment of goodwill, which is crucial: that way, despite not being able to prevent some things from going wrong, you can create a context in which they don't derail the whole effort.

What were the most important things you did as a leader to make the transformation a success? Where did you spend your time?

One of my priorities was providing stability, direction, and guidance to the new organization and our associates, managers, and leaders. With so many work streams and moving parts, and everyone focused on their own tasks and deliverables, it was my role to pull together all the changes we were making to take us toward our one shared goal.

I set up a project management office (PMO) to ensure we kept a clear view of the changes taking place in operating processes and systems. The objective was to ensure full accountability and keep sight of our target picture, strategic objectives, and Novartis values. I also ensured that the PMO had sufficient weight in the organization by making the leader of the PMO a leadership team member directly reporting to me.

One of my primary focuses was on building a culture where people listen to other ideas and where facts and the best ideas win. I established a diverse leadership team composed of people with

different backgrounds in order to make sure we challenge each other and have a broad perspective on various issues. In addition, I constantly brought in people from outside NBS to challenge and support us. Sometimes those people came from other units within Novartis, sometimes from outside Novartis.

Another priority was effective and targeted communications. I spent a lot of time explaining the benefits NBS was striving to achieve for Novartis as a whole. I traveled to meet our country organizations, business partners, and project teams to get a feel for where they stood and what concerned them. We made sure from the beginning that there was one representative in each country who could respond to questions or concerns from the business. All of these communication channels helped us to explain what we were doing, collect feedback, and take the pulse of the business.

Lastly, I made sure that NBS leaders acted as role models. Our transformation was creating something new in the history of Novartis. First impressions are vital and I wanted to make sure we made a great one. If our associates focus only on the long-term success of NBS, they risk becoming too inward-looking. So I constantly push them to focus on our customers and to represent NBS as a whole, not a collection of functions.

Were there any times when the momentum flagged? How did you recover when that happened?

Any transformation has phases when confidence or energy levels dip. Our associates are at the heart of the change journey and we take their well-being seriously. We run quarterly employee engagement surveys and translate the feedback we get into immediate improvements. Individual employees often find themselves at different stages on the change journey, so it's a constant challenge on the one hand to keep up the motivation of those who have already bought into change and on the other hand to convince those who are still on their way.

When it comes to my role in keeping up momentum, I always try to show my enthusiasm for the journey we are on. I talk about my personal motivation and what inspires me, and share our success stories. At the same time, though, it's important to acknowledge that people's insecurities and workloads have increased because of the transformation. One of the keys for me is to involve those people who want to get involved. They are our pioneers and it's important to keep nurturing them.

What have been your personal takeaways from the journey so far?

Overall, I've learned that we can reinvent the way we do business. We can learn from others inside and outside the organization to improve our setup, implement faster, and bring innovations to the table. Just because we did things a certain way in the past doesn't mean we can't find better ways to do them.

Another takeaway was that it's perfectly fine to make mistakes. If a big transformation is set up correctly, including the required leadership support, people typically give you the benefit of the doubt. However, it's important to recognize mistakes and correct them quickly and decisively. Taking risks can be daunting, but if you're convinced something is the right thing to do, take the leap of faith to make it happen. For example, our decision to fully integrate some functions into NBS were bold, but they turned out to be among the best we took. If we'd been too conservative back then, we'd probably have compromised part of the value we create now.

I also learned that it's vital to anchor the transformation in broader company initiatives and be aware of other big changes. As an example, we strongly linked what we were doing with NBS to Novartis' values and behaviors. At the same time, we had to be acutely aware of what was going on in the transformation of our portfolio because, when NBS was established, some parts of our business were being carved out and others integrated.

Lastly, I realized that if senior leaders at the global, regional, and local level are convinced, everything else falls into place. You need to invest time to interact with leaders and share your views and intentions. At the same time, you need to listen to their views and concerns and act on them. If this is done well, you start a self-reinforcing mechanism across the company that provides the ground for a successful transformation.

How do you see NBS evolving over the next few years? What would you like your legacy to be?

I see an NBS that is respected by our internal customers, with associates who are proud ambassadors and fulfilled in their work. Externally, I would like to see NBS become the best services organization in the world. Our focus now is on transforming the way we deliver our services, but I think we also have new opportunities to deliver value. In that sense, I'd like NBS to be a dynamic organization that renews itself continuously and helps to create value across divisions beyond our current scope.

NBS will play a key role in improving Novartis' profitability and generating resources that can be reinvested in growth and R&D for innovative products. We want to be a good employer and an attractive place for associates from other divisions to come and further their careers. We would like to offer new and exciting career options that attract the best people to NBS and its service domains. Overall, I see NBS becoming the backbone of Novartis, allowing the entire group to be agile and innovative for the benefit of patients.

In terms of legacy, I think Novartis is entering an important new chapter in its history. After the company was founded, management carved out several other businesses to focus it on healthcare. Now, we are focusing our portfolio on pharma, generics, and eye care. At the same time, we have set up NBS to radically reshape the way we operate as a group. These are bold moves that will be seen in a few years as transformational for Novartis – so I'm proud about what NBS can contribute.

Voices on digital: How pharma can win in a digital world

The digital revolution is well under way for pharma companies. We spoke with 20 leading executives to find out how they cope – and what they do to stay ahead.

David Champagne, Amy Hung, and Olivier Leclerc

The digital revolution continues to transform healthcare fundamentally, and many people believe that a tipping point is finally within reach. In 2014, digital health investments topped $6.5 billion, compared with $2.9 billion a year earlier.[1]

The critical question now for pharmaceutical companies is how to stay ahead of these changes. To answer it, we sought to learn the trends and implications of digital health by interviewing 20 thought leaders across a variety of segments, including analytics, biotech, data, pharma, providers, technology, and venture capital. The consensus is that as healthcare continues to digitize, pharma companies must transform themselves in basic ways to stay competitive. Successful ones will rethink their business and operating models, transform their cultures and capabilities, and adopt a new, longer-term mindset that fosters innovation and bold strategic moves.[2] These conclusions stem from three important themes that we took away from our conversations:

1. Dramatic changes in the traditional roles and dynamics of healthcare stakeholders have fundamental implications for pharma companies.

2. It is time to reimagine them as solutions companies, not asset companies.

3. The technology is ready, but pharma companies must change if they are going to enable and harness it more successfully.

These themes strongly suggest that success in the new digital environment will require three big shifts: forging ahead beyond the pack mentality and embracing experimentation and risk taking, developing a collaborative culture and challenging barriers to sharing, and reinventing companies by building capabilities beyond traditional healthcare and updating the operating model.

This article was first published by McKinsey & Company in December 2015.

[1] StartUp Health Insights Annual Report, 2014.

[2] To read more about our experience, analysis, and views on these trends and their implications for strategy, see "The road to digital success in pharma," mckinsey.com, August 2015.

Emerging themes

Dramatic changes in the traditional roles and dynamics of healthcare stakeholders have basic implications for pharma companies. The digital revolution has spawned a consumer revolution symbolized by an increasing demand for connectedness and information. Consumers with new technology tools are becoming more active and self-directive, which changes their interactions with providers, payors, and pharma companies. As a result, new and unfamiliar forms of behavior will fundamentally affect the pharmaceutical business.

- **Individuals are starting to control their own health treatments.** Patients are becoming more than just passive recipients of therapies. “Healthcare will be driven much more by consumers than physicians, with patients increasingly coming to their doctors with more information, parameters they measured at home, and an informed opinion about how they should be treated,” says Dr. Bertalan Mesko, medical futurist and author of *My Health: Upgraded* and *The Guide to the Future of Medicine*. Dan Goldsmith, the chief strategy officer of Veeva Systems, a cloud-based life-science business-solutions company, takes the idea further. “In the next three to five years,” Goldsmith says, “instead of patients just being informed and more inquisitive, they will be actively designing the therapeutic and treatment approaches for themselves with their physicians.”

  As patients assume greater control over their own health, including the therapeutics they take, pharma companies must recognize this new decision-making power and develop better ways to engage them. That’s not easy. Li Ma, vice president of strategy and investment at Alibaba Health Information Technology, says that “many pharmacos are trying to engage patients. But it is difficult because they often don’t know exactly who their patients are and also have a hard time determining exactly what engagement model resonates with their patients.”

  Some pharma companies already recognize the growing importance of connecting with patients and are doing something about it. As the customer-experience director at one top pharma company says, “we use different approaches, depending on the target audience, to reach patients across a number of channels that relate specifically to their preferences. We observe patient behavior via online communities, participate in dialogues in research communities, have in-home visits, observe patient–physician interactions, and use quantitative methods to analyze trends and adjust content as needed to drive better engagement.”

  If pharma companies want to go beyond engagement and truly encourage changes in health behavior, they will need to create different kinds of solutions. Although many solutions, particularly apps, have been developed in the last few years, not all can be adopted. As Dr. Todd Johnson, the chief executive officer of Noble.MD, puts it: “Apps that face the patient, but are designed to solve pharma-company business needs should never exist. Conversely, the market desperately needs apps that focus on patient and/or provider needs – real needs with a measurable impact on health quality and cost. If those apps also meet business needs – as a secondary or tertiary outcome – they have a chance of being adopted.”

- **The clinical environment will change fundamentally.** As consumers become more engaged and care environments more complex, physicians will need new skills and tools. "How doctors spend their time will change dramatically," says Vinod Khosla, founding CEO of Sun Microsystems and founder of Khosla Ventures. "They will shift to spending a smaller proportion of it ordering diagnostics and interpreting results, and much more on the social elements of healthcare – helping patients and families think through treatment options."

  Physicians will also have to integrate increasingly massive quantities of traditional and nontraditional health data – for example, hundreds of fragmented electronic health records, as well as data from thousands of wearable devices and other "quantified-self" technologies. This advance is crucial because "wearable devices that today are still in the more recreational-grade state are changing incredibly rapidly into research-grade and, ultimately, clinical-grade" tools, notes Dr. Eric Schadt, founding director of Icahn Institute at Mount Sinai.

  In the near future, physicians may receive a constant daily stream of data from some patients. The Diovan hypertension pill, with the embedded Proteus chip, is already in trials, with stellar patient-compliance results.[3] The chip records the time when the patient takes a pill and transmits this information from inside the body to a patch the patient wears. (The patch also captures other physiological data.) This information can be shared with a smartphone, a laptop, and the cloud, so the patient and provider can access it. Such developments have prompted Dr. Krishna Yeshwant, general partner at Google Ventures, to conclude that "Physicians need to operate in a more complex environment with an ever-growing range of tools. Physicians need a package of solutions to navigate this environment."

- **Patients' brand loyalty dwindles as cost consciousness rises.** People are now much less loyal to brands and companies – both their insurance companies and the pharma companies that make their medicines. "The average tenure for a member to be on an individual insurance plan is now something like two to three years," says Sanjay Mathur, CEO of Silicon Valley Data Science. The reasons vary, from more frequent job switching to employers that adopt new plans to cut costs, he notes. "In the future, no one will care what brand of drug they will take. And with device, behavior, and health-proxy data available, their method of selecting drugs will change dramatically." The increased cost consciousness of patients exacerbates this tendency: they compare what they would pay for different plans and the efficacy and price points of different treatments.

- **Pharma companies will lose exclusive control over their value stories.** As the lines among payers, providers, and pharma companies blur, carefully controlled trial data will no longer be the sole source of outcome data. The dynamics between players are evolving: payors are expanding into areas that providers and pharma companies traditionally owned (for example, payors are in some cases excluding drugs completely from their formularies). "With health data becoming more readily available in a more digestible form, payors and providers alike will have more information to link drugs to

[3] "Novartis invests $24M in Proteus Biomedical," January 12, 2010, mobilhealthnews.com.

outcomes and inform value-based pricing," says Amy Abernethy, MD and PhD, the chief medical officer and senior vice president of oncology at Flatiron Health. "The healthcare industry will start to merge, and the lines across stakeholders will blur very quickly," adds Dr. Wolfgang Lippert of Salesforce.com's healthcare and life sciences industry business unit. "Payors will become increasingly like providers in offering interventions and home care, and increasingly like pharma in analyzing data and pressure-testing value," he predicts.

For pharma companies, it will not be enough to accept that they won't continue to fully control their product data. To access real-world data from many sources, they will also need to provide others with more access to their own trial data and to collaborate. As Neeraj Mohan of Blackstone Group says, "pharma companies may think they need to keep their data secure, but not being transparent about clinical trials will in fact put them at a perilous disadvantage in front of patient groups and, eventually, regulators."

Reimagine pharma players as solutions companies, not asset companies

As healthcare start-ups and technology giants move into what was traditionally the pharmaceutical domain, pharma companies will need to revamp their value propositions significantly. Dr. Krishna Yeshwant of Google Ventures pinpoints the challenge in this potential future: "for pharma, there comes the question of whether they can tie digital to the assets they have. There is an interesting broader conversation to have with pharmacos about moving from a products-and-pills company to a solutions company." The associate director of US medical affairs at one global pharma company agrees, adding, "one of the most exciting values of digital to the pharmaceutical industry is how technology may be able to supplement or support pharmacological therapies to more effectively address the problem of suboptimal outcomes."

The Diovan–Proteus chip combination for hypertension, mentioned earlier, is one example. Another comes from Google and its partnerships with DexCom, Novartis, and Sanofi to combat diabetes. Among the approaches is uploading glucose and insulin levels to the cloud in real time through contact lenses (worn by the patient) that measure glucose levels in tears; a bandage-sized sensor sends the data to the cloud. This technology can greatly improve the quality of diabetic care and help prevent complications through the real-time detection of any aberrations in glucose and insulin levels, which would trigger the right type of medical attention.

Beyond partnering with technology players, if pharma companies provided solutions that combined different therapeutics from different manufacturers, they could also add an enormous amount of value. In oncology, there is a growing movement to combine novel immune and targeted therapies with market leader PD-1s from Merck and BMS.

To develop the most promising combinations efficiently, these pharma companies need to access and share early data and improve their digital infrastructure to manage complex trials and submissions jointly. If intercompany combos are to move beyond HIV and oncology, pharma companies must realize that they themselves, and not only patients, can benefit from partnering and combo solutions. For example, they can mitigate the risk and cost of clinical trials for combo therapies and leverage the strengths of each partner for what it does best.

Chris Geissler and Sanjay Mathur of Silicon Valley Data Science stated the case for reimagining pharma companies in even stronger terms: they say it could actually make the difference between success and failure. Big pharma, they add, may be doomed to fail unless it transforms itself, and what such a transformation looks like is an open question that depends on several factors. For instance, Mathur argues that pharma companies will have to build "trust and form personal relationships with the consumer." Such a transformation may be difficult for big pharma companies "mired in traditional approaches and legacy organizational structures." These companies would not be able to compete effectively with nimble small-to-midsize rivals that "have nothing to lose. Change and survive or be acquired," says Mathur.

Finally, certain disease states are ripe for the introduction of comprehensive solutions or systems. Diabetes, which affects 387 million people around the world and consumes one in nine US healthcare dollars ($612 billion) today,[4] is an area ready for an end-to-end solution.

As pharma companies shape their purpose and future direction, the insights from our interviewees suggest that fundamental change is needed. Companies must redefine the space they play in. They must get more specific information about their customers to identify the solutions and experiences – not just the products and drugs – those customers really need. They also have to understand precisely how such solutions will capture the most value. Then they will need to reconfigure their organizations to capture this value and realize their new approach to the business.

Technology is ready, but pharma companies must change to enable and harness it

Our interviewees agreed that technology itself is not what hinders the pharma companies' full-scale adoption of digital health technology. "Lots of people say there are technical challenges to integrating different medical-record systems, but I don't think that's true," says Dr. Yeshwant of Google Ventures. "I struggle to see what the tactical limitations are from an IT perspective."

That said, new technology often faces strong organizational barriers, such as mindsets that resist IT change and conservative cultures that base decisions on perceived risks. These cultures often lack compelling incentives that reward employees for behaving in new ways by moving beyond the core. Their business structures discourage risk sharing among stakeholders. The performance metrics of most pharma companies connect directly with the bottom line and the current P&L, not with innovation, customer engagement, and future strategy.

As a result, these companies generally try new approaches or technologies only when they see their peers doing so. Most of the digital leaders we interviewed, like Kara Dennis, managing director of Medidata's mHealth unit, believe that "every one of the required technologies exists or is almost there and largely good enough. The challenge is in pulling the new technologies and processes together for an integrated clinical trial, and this will require life-science companies to remove organizational barriers to change."

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[4] IDF Diabetes Atlas, sixth edition, International Diabetes Federation, 2013.

Take data transparency and data aggregation, for example. Multiple third-party players are aggregating health data and making the data and insights available to providers and payors. "If I were a life-science company, I would want to know what the story about my drug is going to be before it's told by others," says Dr. Abernethy of Flatiron Health. "I would want to know what adverse events there are before others surface this for me. With constant monitoring, you will find a lot of signals, and you will need to learn how to handle these signals with respect to reporting to the Food and Drug Administration. But this is not a reason to stick your head in the sand; this is how drug development is going to be done in the 21st century," Dr. Abernethy predicts. A director at a top-20 pharma company adds that "there's a lot of alarm around utilizing social-media data for fear of discovering adverse events. Ignorance is not an excuse. A company like ours would like to be responsible for understanding what is being said."

Many companies come at this issue backward, according to Sanjay Mathur of Silicon Valley Data Science. The story should be "about the technology second" – not first, he says. "Companies are so consumed with what technology to use they forget that the most important thing, to start with, is to ask the right questions. You don't need real-time insight if you don't have a place for real-time action."

Pharmaceutical companies must also determine what they will need to uncover distinctive insights. These insights will drive their technology strategy, which will help them to integrate vast amounts of data from disparate sources and to use analytics or other tools that support the entire business.

Three fundamental shifts

To achieve all of these goals, pharma companies must fundamentally shift their mindsets, cultures, and capabilities. Only then can they transform themselves into the agile, experimentally minded solutions providers they need to be. The themes emerging from our interviews suggest strongly that companies must make three strategic shifts to succeed.

- **Go beyond the pack mentality by embracing experimentation and risk.** Pharma companies must now meet consumers' higher expectations, which stem from their experiences with other industries. "We have seen significant evolution in the consumer-electronics space," says Dr. Yeshwant of Google Ventures. "Now if we turn to the medical-software and -device space, we can push more evolution – for example, user-friendly devices or user interfaces. Users of pharmaco products are comparing them with those of the best consumer-electronics brands. That's the new standard."

  A lack of risk appetite appears to thwart this evolution. "There is a strong pack mentality. Organizations don't change unless they see everyone else change at the same time," says Dan Goldsmith of Veeva Systems. "This has resulted in slow advances and a lack of innovation across the industry for years. In essence, pharma wants to be in control and avoid the risk of standing out." Now, despite the fact that patients are taking back control over their own health, "how many pharmacos do you see out there engaging with patients?" he asks.

Some interviewees feel that there will be action if experimentation takes place in the right place and is both encouraged and rewarded. Today, different departments in pharma companies have different appetites for "radical novelty," says Johan Grahnen, formerly the principal data scientist at Ayasdi, an advanced-analytics company specializing in machine intelligence. "It's difficult to encourage experimentation in departments that are driven by compliance. Strong leadership buy-in and support is required to set a unified vision," he adds.

- **Embrace a collaborative culture and challenge barriers to sharing.** A collaborative approach is necessary if pharma companies are going to stay ahead of healthcare digitization. Significantly, some have already recognized the need to stimulate, connect, and support innovative ideas across business units and geographies. "It is critical to have grass-roots experimentation," says Bruno Villetelle, chief digital officer at Takeda Pharmaceuticals. "We set up an internal digital accelerator and innovation fund to stimulate this, and we run a regular Dragon's Den competition to identify and fund development and pilots for the best ideas. The competition helps us avoid waste and bring speed, focus, and energy into digital innovation. When a pilot proves its value, we stand ready to put in the resources to scale the idea up quickly to the rest of the enterprise."

  As we mentioned earlier, pharma companies should also recognize that they must contribute data if they want to see what data others have. However, as Sanjay Mathur and Chris Geissler admit, "no real mechanism or incentives currently exist to foster" this kind of sharing behavior.

  Inder Singh, CEO of Kinsa, suggests another requirement. Pharma companies must "reimagine their legal and compliance organizations to work more closely with regulators as companies creatively think about how to enable new business-model innovation," Singh says. "Health information is highly regulated, and the regulatory context has not always kept up with the pace of innovation. Pharmaceuticals will need to actively work with regulators to find a path forward."

  Kristy Junio, senior director of healthcare and life sciences for Oracle Marketing Cloud Industry Solutions, argues that pharma companies need to build novel, trust-based personal relationships with consumers. These ties "replicate the experience and trust that providers were able to build with patients." Technology, she says, is one way to create this bond – for example, by providing patients with more personalized information about their health and treatment.

  Finally, pharma companies have a choice between developing digital solutions in house or through partnerships. Some of our interview subjects, including Dr. Todd Johnson of Noble.MD, believe it would be better for these companies to partner with third-party technology providers through innovation funds or joint ventures. "With pharmacos' solutions often offered and marketed in providers' offices, third-party partners offer more objective, unbiased representation," Johnson observes. He believes that objectivity and lack of bias are critical for providers to build relationships of trust with their patients.

- **Reinvent companies by building nontraditional capabilities and embedding them in new operating models.** Attracting, engaging, and delighting consumers requires a deep understanding of how to deliver a customer experience – far beyond just selling a product, pill, or diagnostic test. The problem is that "most healthcare innovation gets smothered in preference for something that drives the bottom line immediately," says Aimee Jungman, who has worked at companies including Frog Design, Genomic Health, and Pfizer. "There's a lack of commitment to building something new, which could disrupt current cash flows, and something lasting, for the patient and physician to improve care," she says. Neither of these aims will be realized unless pharma companies build new capabilities and revitalize their existing business and operating models to foster greater experimentation and bolder strategies.

  Going from selling products to selling digital solutions demands completely new processes and ways of working. As Dan Goldsmith of Veeva Systems says, "in some ways, it is easier to talk about the technology, data, and analytics aspects of the digital revolution. But the harder question is, really, what are the fundamental organizational changes that will need to occur? With great advances in technology over the past five years, technology change is the easy part."

  Our conversations and client experience reveal a widespread perception that C-suite executives have not fully embraced digital. Their incentives typically reward them for taking a "wait and see" approach, which can stifle innovation and hinder change across the organization.

  Nevertheless, virtually all of the thought leaders agreed that pharma's old model must change and new blood must enter the system. The good news is that they see some pharma companies starting to value nontraditional skill sets – hiring marketers from other industries, such as retail, and building strategic relationships with creative agencies.

Dr. Abernethy of Flatiron Health says that pharma companies need to double down on talent that truly understands science and health data. Some examples? “People like clinical informaticists who know how to work with electronic health-record data, clinicians who understand the science and didn’t just drop out of academia, or data scientists who aren’t just the IT guys in the basement, but are business partners with the senior leaders.” Whether pharma companies choose M&A, strategic partnerships, or organic incubation and experimentation, they must find a way to adapt and evolve quickly. If they don’t, third-party players more willing to take risks, chart the course, and listen to consumers could supersede them.

The digitization of healthcare, even in the early stages, is having a real impact on how not only doctors, but also patients manage those patients’ health, and on how pharma companies need to do business. Digital innovation still faces challenges, such as the lack of clarity about who pays for digital solutions, but digital and data analytics should certainly be high on the C-suite agenda. Pharma companies that want to keep up – or move ahead – must be bold and adopt an act-now mentality. They must build innovative business models, invest in new capabilities, and transform their organizational cultures.

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The authors of these articles represent a cross-section of McKinsey's global Pharmaceutical and Medical Products Practice. We welcome your thoughts and reactions to the ideas presented here.

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Pharmaceuticals and Medical Products Practice
April 2016

Design contact: Visual Media Europe
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