

INSEAD

Danfoss



The Danfoss–INSEAD Strategic Excellence Development Programme



Contents

3 819 words

Summary

Danfoss was a company in search of a new leadership mindset to respond to the challenges and opportunities of a changing world.

With a brief focused on strategy, innovation and culture, especially with respect to sustainability and digitalisation, it approached several top business schools with the ultimate goal of developing leaders who would run the businesses as if they were their own.

INSEAD was chosen for its thoughtful, research-driven yet pragmatic approach. Its professors not only brought new ways of thinking about strategy, innovation and culture, but found powerful links between these topics. In particular, they identified the need to work within the existing culture to introduce strategic innovations that would gradually change the culture.

So far, some 65 participants, drawn from **Danfoss's** top 250 leaders, have now completed the 4-month programme – in 3 cohorts. The original face-to-face module was re-engineered for virtual delivery during the pandemic, while the subsequent online modules remained unchanged.

The impact can be seen through the mindset shift of participants – based on a novel technique of analysing the language they use to describe leadership, strategy and innovation before and after the programme. More practically, this mindset shift can be seen in the application of the strategic innovation projects at the heart of the programme. Two powerful examples are a new business development team for food production and a new “basket-to-basket” e-commerce platform. The strategic importance of both these innovations is reinforced by the shift towards a more creative, customer-focused culture, where leaders really have been running their businesses as if they were their own.





Introduction



Danfoss is dedicated to “Engineering Tomorrow” with solutions and products that allow the world to use resources in smarter ways.

Based in Denmark and still owned by members of the founding family, the company has 40,000 employees worldwide, 95 production sites and sales in 100 countries totalling €7.5billion a year. **Danfoss** manufactures products and provides services for refrigeration, air conditioning, heating systems, controlling electric motors, green energy generation and much more.



INSEAD – The Business School for the World® – brings together people, culture and ideas to develop responsible leaders who transform business and society.

As one of the world’s leading and largest graduate business schools, **INSEAD** offers participants a truly global educational experience. With locations in Asia (Singapore), Europe (France), the Middle East (Abu Dhabi) and North America (San Francisco), the school’s education and research span the globe. Its 165 renowned faculty members from 41 countries inspire some 1,300 degree students and 11,000 executive education participants every year.

Danfoss



The Challenge

The Challenge:

Leadership in a Changing World and a Unique Culture

Danfoss leaders are the first to acknowledge that they do not work for a typical multinational.

The company leads the market in products that everyone uses – components for heating, cooling, renewable energy, water supply, transport and more – but few people know its name. The company is global, with 40,000 employees worldwide and sales in 100 countries, but is headquartered in a quiet, rural area of Denmark. It has sales of over €7.5 billion a year but is not listed on any stock exchange: the company is still owned by its founder's family and their foundation.

What works elsewhere is not necessarily going to work at **Danfoss**.



Indeed, back in 2019, when the company set out to raise the game of its top 250 leaders, Ilonka Nussbaumer, Head of Human Resources, knew she was not looking for just another academic or soft-skills leadership programme. **Danfoss** was already packed with very smart people who were also talented leaders. “What we really wanted was for our senior leaders to run their businesses as if they were their own,” she says. “It wasn’t really a question of leadership in terms of excellence and people management, but **leadership in terms of strategy, innovation and culture.**”

“**Danfoss**, more than almost any other company I’ve worked with, is driven by excellence,” agrees **INSEAD** professor, Karel Cool, one of the school’s foremost specialists in strategy – and now an expert in **Danfoss** history too. He explains that, after a few years of slowing growth and lack of focus in the early 2000s, the company had turned itself around with a new emphasis on the core business and a new “Core and Clear” strategy. By the mid 2010s it was truly thriving again.

Then came new imperatives like digitalisation and sustainability. “Core and Clear” was not enough.” **Danfoss**’s strategy evolved once again, but it was clear that its leaders also needed a **new mindset** and the **culture needed to evolve** for a changing world.

Nevertheless, CEO, Kim Fausing, was not seeking a wholesale culture change. The objective was much subtler than that. **Danfoss** was always going to be an engineering company, not a tech start-up. It was also proud of its “**unique family-company culture,**” as Fausing calls it. As an internal appointment himself, he very much believed in developing leaders from within. As Nussbaumer explains, “Investing in our people is a strong pillar of **Danfoss.**”

Together, they decided to approach only the very best business schools and sent a clear but very open brief to just three of them.

The brief

- A programme for the top 250 leaders at **Danfoss**
- The desired impact: to lead their businesses as if they were their own – in a rapidly changing world
- Content to focus on: strategy, innovation and culture
- Key themes: digitalisation and sustainability
- Format: flexible, small classes, learning over several weeks

INSEAD was chosen for its approach to translating the brief into a single coherent programme – a process that continued, once the initial partnership agreement was signed.



Danfoss



The Commitment

The Commitment:

A Perfect Square and a Golden Triangle

From the outset, Danfoss was impressed by **INSEAD's research mindset**. Cool combed through 10 years of annual reports, immersed himself in competitive analysis, talked at length with the CEO, and travelled to company offices in Denmark and Germany.

"He's such a good observer – he learns as much from the person who picks him up at the airport, as from the senior managers," says Nussbaumer.

"It's important to get the programme design right," says Cool modestly. "Besides," he adds, "all that preparation feeds into my research on competitive ecosystems. After 30-plus years, I'm still learning too – and I learned a great deal from **Danfoss**."

The other key factor in cementing the partnership, was the way **INSEAD** not only **applied its general subject expertise to the special case of Danfoss** and its brief but also found the **connections between apparently distinct topics**.



First, strategy. Cool is a world expert in competitive strategy, but for **Danfoss** he could see the need to drill straight down into **strategic agility** and focus on competitive advantage in a volatile and rapidly changing world. Based on his extensive research into **Danfoss**, he concluded that the emphasis on engineering excellence and the mainly B2B business model sometimes missed the customer's perspective. This, he decided, would be the focus for the innovation content: "Not arcane inventions or abstract blue-sky thinking, but **innovation driven by customer need**."

Fortunately, **INSEAD** had Professor Nathan Furr on its faculty. Furr is co-author of the influential book *The Innovator's Method*, which draws on disciplines such as ethnography and design, as well as business techniques like LEAN manufacturing. He has also developed a suite of online materials for teaching his methods, which include: **painstorming** – developing character sketches of customers to see problems through their eyes; **rapid prototyping** to solve these customer problems; **pivoting** to a different prototype based on quick trialling; and **scaling** to create a workable business model.

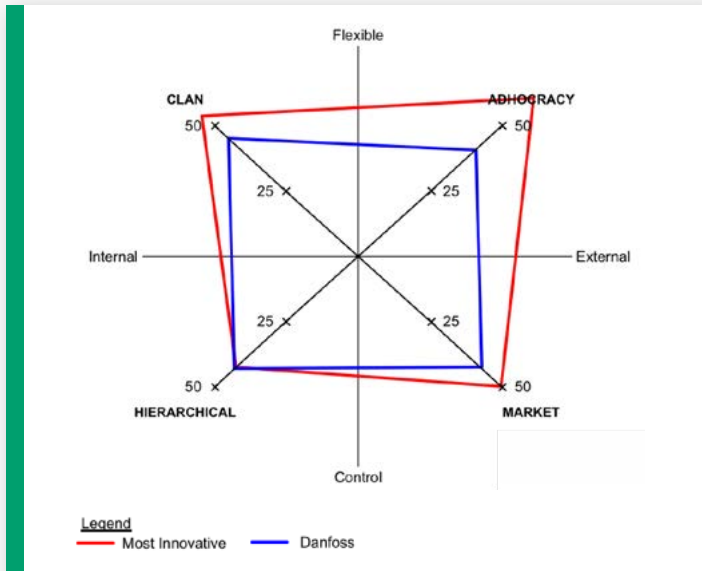
The "innovator's method" was very different from **Danfoss** R&D techniques. Cool could see right away how the company would benefit. However, he was also concerned. After three decades of teaching and research, he knew that many strategic initiatives fail because they just don't fit into the existing corporate **culture**. As Peter Drucker famously put it, "Culture eats strategy for breakfast."

This time, Cool turned to another colleague, Professor Spencer Harrison, who describes his research as follows: "I ask where culture meets strategy for breakfast."

Harrison applied a research model called the **Competing Values Framework** to **Danfoss**. This is based on data and language analysis from over 1,000 organisations, which are used to map the "shape" of company culture against two dimensions and four archetypes. As it happens, the **Danfoss** culture forms a near-perfect square, reflecting its long-term stability and family-business ethos, but lacking the adhocracy (creativity and spontaneity), market focus and clan culture (teamwork, consensus, participation) of truly innovative companies.



Danfoss culture compared with top ten in Forbes' 100 Most Innovative Companies



Investing time in understanding the shape of a company can pay dividends when developing strategic innovations, culture change projects... or indeed executive education. Using this knowledge, the professors began to build a programme that would enable participants to apply learning about competitive strategy and innovation within the existing **Danfoss** culture. At the same time, they wanted participants to use strategy and innovation as drivers for evolving the **Danfoss** culture – and nurture customer focus, sustainability and digitalisation.

In short, the goal was to create a golden triangle of strategy, innovation and culture acting on each other in perfect balance.



Danfoss



The Initiative

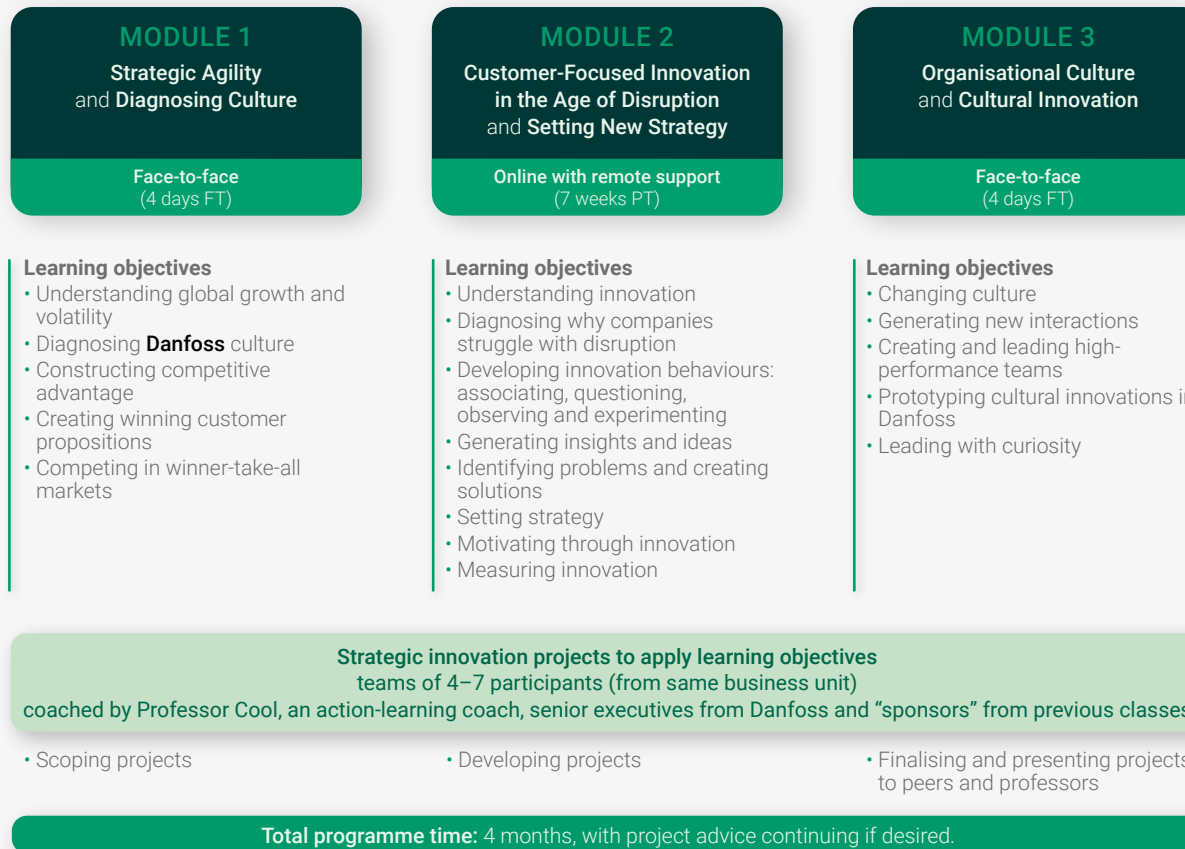
The Initiative:

From Golden Triangle
to Design and Delivery

During a whole-day programme-design workshop in Hamburg, the professors and **Danfoss** HR leaders used the golden triangle to co-create a structure and syllabus for a three-module programme (see table).



They agreed to have just 20 participants per intake and to extend the total learning time, by making the middle module, on innovation, online.



In addition to the defined learning objectives, the programme was designed to change behaviour – and ultimately culture – through **strategic innovation projects**. These would put the learning into practice in real time over the course of the modules – and beyond. The goal was for groups of participants to truly envision new business opportunities and then to manage these businesses as if they were their own. Each project would have a horizon of 1–3 years, a focus on market innovation and, ideally, a digital and/or sustainability dimension.



Karel Cool
Professor of Strategy

Cool helped the teams frame their projects and coached them throughout the entire research, analysis and presentation. A specialist coach also supported the teams with the customer-insight and experimentation elements of the project work during the online module. In addition, from the second intake onwards, there were internal **Danfoss “sponsors”** – participants from previous classes – to support each team with analysis and implementation.

Participation was by invitation only to ensure that there were enough participants from different business units to cross-fertilise ideas and promote networking, but also enough from the same business unit to form effective project groups.

All participants were drawn from the top tiers of **Danfoss** management, with a tentative commitment to roll out the programme to everyone at this level (250 in total) over the course of several years – starting with two classes per year.

The first class attended Module 1 in January 2020 and gave rave reviews. One participant remarked: “Karel really is an inspiration to me. The best professor I ever met! Knowledgeable, honest, kind, humble and able to listen.” The feedback from **INSEAD** to **Danfoss** was equally positive. “The **Danfoss** executives gave some of the highest-calibre presentations I’ve ever seen at **INSEAD**,” says Cool.

In February 2020, the participants progressed to the online module. Some were initially sceptical, but the combination of self-paced videos and quizzes, combined with shared deadlines and nudges for assignments soon won them over. “Online learning actually works,” commented one executive. “The fact we had a project to develop in parallel made the programme hands-on – it could not have had a better way to exercise the learning,” said another.

However, by the end of the online module, the executives were firefighting the inevitable impact of a global pandemic on their lives and work. Module 3, scheduled for May 2020, was under threat, as was Module 1 for the second intake, supposed to start in June.

It was time to put the strategic agility taught by the programme into practice. “We’d proven that asynchronous digital learning worked in Module 2,” says Cool. “And **INSEAD** had already been running synchronous classes on Zoom and Teams with MBA students. Why not try the same technique with **Danfoss**?”

Danfoss



The Impact

The Impact:

Mindset “makeover” and projects in practice

Two years, three cohorts and multiple waves of the pandemic later, the programme is still virtual.

The content was significantly reworked to suit “e-classrooms” but still follows the structure originally envisaged.

Although the learning experience is slightly different from the initial plan, the impact is beyond question. The two main measures so far are **mindset shift** and **project implementation**.

Mindset “before and after”

With 65 “graduates” to date, it may be too early to detect changes in overall company culture. However, Harrison is pioneering a novel technique of impact measurement, which uses computer-analysis of language to gauge the mindset change within each class. In particular, he focuses on:

- **Emotional resilience**, shown by researchers to be a key factor in **leadership performance** – measured by the ratio of words expressing positive emotions to words expressing negative emotions;
- **Learning orientation**, shown by researchers to be a key factor in **innovation performance** – measured by the ratio of words expressing openness to words expressing certainty.

The method works as follows: before each class starts, he asks participants to describe “leadership” and “innovation and strategy”, as if they were “talking to a friend over lunch”. This provides a pre-programme baseline mindset. Four months later, after the learning intervention, he asks the same questions again and analyses the differences in words used. The innovation in this method is that it uses **open-ended questions and linguistic analysis of responses** which captures the “set” of ideas – a mindset – that participants naturally connect with a concept, as compared to closed questions and tick boxes that capture a narrow, pre-selected view of participants’ answers. In addition, Harrison also conducts a broader **theme analysis** of participants’ language in their descriptions of leadership and innovation **before and after the programme**.

To take the example of the second **Danfoss** class, Harrison found:

- A **74% increase in emotional resilience** implied by answers about leadership, suggesting that participants now associated a higher ratio of positive to negative emotions in their leadership mindset;
- A **140% increase in learning orientation** implied by answers about innovation and strategy, suggesting that participants now associated a higher ratio of openness to certainty in their mindset about strategy and innovation;
- A significant increase in words expressing attention to **organisational complexity** within statements about leadership. Participants now seemed to see themselves as part of a denser organisational system that included their relationships to their employees, their teams, the cultural ecosystem, and customer environment, rather than just managing their teams or employees directly.

Thematic changes in language used to describe leadership by second Danfoss intake

Before the programme



After the programme



Collectively these changes add up to a shift in mindset that is also visible in two projects from 2020 – now transformed into real-life business innovations.

74% increase in emotional resilience

140% increase in learning orientation

Project 1:

The curious case of the fish farm

Danfoss is not a food company, but one of the teams from the second intake applied creative thinking – inspired by the merger of the company’s “heating” and “cooling” business units and the theme of sustainability – to imagine a whole new area of operations dedicated to food production. Even more surprisingly, their strategic innovation project was all about fish farming – on land!

Nanna Aage Lundsgaard, now Senior Director of ESG and Product Compliance at **Danfoss** Climate Solutions (as the newly-merged business unit is called), takes up the unlikely story:

Fish farming is not what we do at **Danfoss**. But fish need a specific temperature to thrive, so our heating and cooling components are used by fish farms. We decided to focus on land-based fish farming for environmental reasons. First, farming fish in the sea is very polluting. Second, if you can produce fish close to where it’s consumed, you waste less energy on refrigerated transport – and everyone knows fish is best when it’s fresh. We used Professor Furr’s innovation method to define the problem – and the solution, which also involved reusing waste heat to further reduce energy consumption. We started working with another Danish-based company, which was building a salmon farm – in Florida!

Together, the project team defined a “fact pack” with an overview of key players, “pain points” to address, and the need to lower costs by improving sustainability. “The focus on customer engagement at an early stage was a real eye-opener,” says Lundsgaard.

The team then applied what they had learned about **Danfoss** culture to try and promote the project within their business unit, particularly targeting

colleagues who had been on the **INSEAD** programme and who therefore spoke a common language. “After the programme we had culture top of mind,” says Lundsgaard.

Less than a year after completing the programme, the project had turned into a real-life business development team for “food production”, still focused on fish farming but exploring other industry opportunities too. So far, there are three full-time employees and the potential market value for **Danfoss** is estimated at €250 million.

Of course, there is a caveat. According to Lundsgaard, “A high proportion of these fish farms may not reach final approval for reasons beyond our control, like lack of brood stock or debt financing. It’s a business still in the maturing phase.”

Yet that is precisely the point. The impact is not just financial but cultural. Lundsgaard explains:

- It is a remarkable impact of our project that this business opportunity is still being explored with a dedicated team, while the financial rationale is yet to be proven. A mindset change in the way **Danfoss** approaches customers is happening here and is expanding across our product lines.

In addition, Lundsgaard is now the sponsor of another sustainability-project team from the subsequent class, which is applying a circular-economy model to a range of **Danfoss** products. This project also looks likely to go into operation but is still in the development stage.

Meanwhile, in another part of **Danfoss** Climate Solutions, a group from the first programme cohort has already rolled out a remarkable digital innovation.

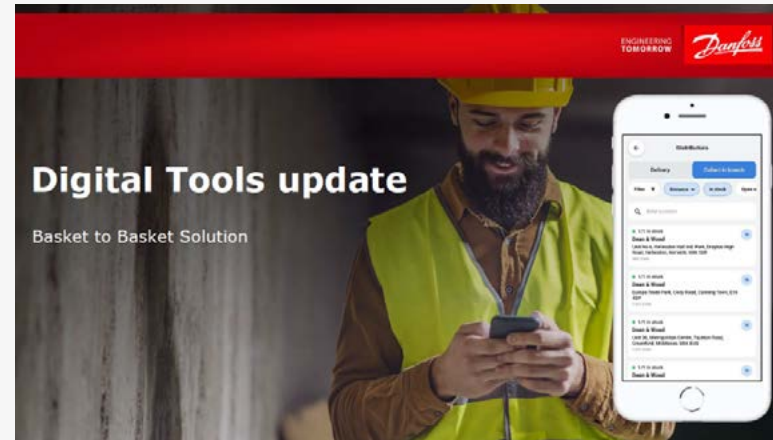
Project 2:

Connecting to the end user

“This is a classic example of pivoting in action,” says the very motivated team of Rogerio Federici, Stephane Nassau, Fabio Klein and Karsten Nielsen. In fact, his project team’s original intent was to reach customers (heating and cooling contractors) in smaller markets, like the Indonesia and Colombia, where **Danfoss** had few relationships with them. Through a digital platform, they believed they could strengthen the contact with the “installer in the van” creating pull effect to Danfoss products.

Two years later, their strategic innovation project has turned into a fully-fledged “basket-to-basket” sales platform in four of **Danfoss**’s biggest markets (including the UK and Germany) – and a collaboration with 11 major wholesalers! After just a few months of operation in 2021, it has 5,000+ monthly users and has moved 2,000 online “baskets” totalling sales of €520,000. Over the coming year, the platform will be rolled out to other European countries.

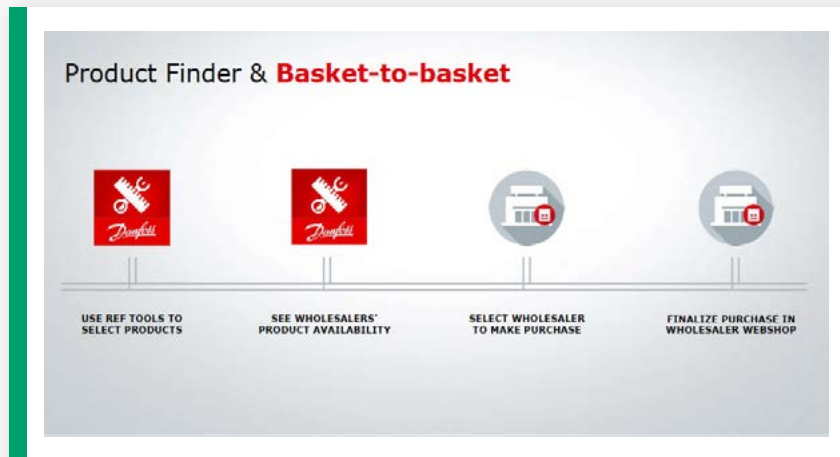
“What’s changed is that we own the ‘buy button’ in our biggest markets,” says Nielsen. “We’ve also learned a huge amount about the behaviour of the contractors who install our heating and cooling components – behaviour that was completely unknown to us before.”



The team explains that the platform is the result of a two-stage pivot from the original idea. First, because of the pandemic, They have started exploring markets closer to home. Second, the team got talking to the new digital department (headed by Anders Bo Paulsen), which had developed an online chat function to communicate with customers. That was how they found out about the installers’ hugely important “need-it-now” requirement.

Rather like car mechanics needing spare parts for same-day repairs, heating and air-conditioning installers want to know where they can get components immediately within a ten-kilometre radius. While some are happy with the next-day delivery model of e-commerce originally proposed by Federici’s team, others simply want to reserve items at the nearest wholesaler and drive straight there. The ordering process is powerful in its simplicity.

Ordering process



In addition to the simple order process, the team has also integrated previously available stand-alone – but often under-used – apps into the platform.



Added functionality from previously existing apps



Again, as for the fish-farming project, the impact is not just financial or strategic. It is cultural too. **Danfoss** leaders are learning to see their products through the eyes of the customers – and of the wholesalers supplying the customers. “We know what search terms customers are using, including slang and typos!” says Federici. This knowledge is also yielding valuable data which can be used to increase sales: “We know which refrigerants are trending in which markets and that our most moved product is a certain pressure switch.”

At the same time, there is a new creative mindset driving the project forward. “It’s opened our eyes about making commercial calls to action, like quotes and reports, not just sales,” explains Nassau. “We’re also exploring a ‘send-to-Amazon’ button for some countries.”

The success is evident from the satisfaction of both sales colleagues and wholesalers:

- Basket-to-basket allowed us to take collaboration and integration with our wholesale partners to a whole new level – to the benefit of wholesalers and customers.
UK salesperson
- By being part of the basket-to-basket initiative, we get to expose our product availability to the large userbase, with the goal of increasing our e-commerce sales share.
UK wholesaler

In addition, Klein attributes the success – and especially the speed – of the project to improved understanding of the prevailing culture at **Danfoss**. The team experimented repeatedly until they had a near-finished product. Only then did they get their senior management team involved. There could not be a better example of “leading the business as if it were their own”.

Danfoss

Conclusion

Conclusion

Danfoss CEO, Kim Fausing, is extremely positive about the impact:

- This programme has proven very effective. It's already made a difference to our business and is helping to keep us at the forefront of the green transition.

A mindset shift for 65 leaders and two examples of projects in action may not sound like a major impact on a multinational company with nearly 40,000 employees. But, given the timeframe of the programme (still 185 participants to go) and of the strategic innovation projects (1–3 years, with several at an advanced stage of technical development), it is an impressive result.

It is particularly significant that mindset shift and cultural understanding are factors in the two projects described above. This demonstrates an ongoing cultural evolution, as more leaders go through the programme and “graduates” cascade new attitudes through their teams.

Ilonka Nussbaumer, Head of Human Resources, sums up the story so far.

We have a new strategy toolbox to analyse competitors and markets. We have a new framework to innovate by looking more from the outside in. We have used the Strategic Excellence Development Programme to promote gender, ethnic and cultural diversity. All participants leave with a new and better ability to read people and get their arguments across. This is vitally important in an engineering culture, and in a company that wants to lead the green transition. **INSEAD** has brought enormous impact to **Danfoss**.



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