Harvard Business School

9-425-061
REV: SEPTEMBER 16, 2025

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Radical Transformation at Bayer: Dynamic Shared Ownership

With a bureaucratic system, nobody's really in charge. People think there's somebody up above who's in charge, but it's the system that's in charge – and nothing gets done.

– Bill Anderson, CEO, Bayer

In January 2025, Bill Anderson, CEO at Bayer AG (Bayer), a 160-year-old German life-sciences company, had just wrapped up the first phase of the rollout of a new operating model and was on track to meet the management board's target of €2 billion[1] in annual cost savings by 2026. Since Anderson had taken the helm in 2023, Bayer's management board had focused on strengthening the pharma pipeline, addressing debt and litigation problems, and minimizing bureaucracy.[2] Anderson had observed that "the system was no longer serving the people at Bayer, but people were serving the system." To that end, the management board introduced Bayer to an operating model called "dynamic shared ownership" (DSO) in July, 2023. Employees would self-organize into cross-functional teams of 6–12 and would work toward specific outcomes in a 90-day cycle. Over time, the teams could potentially reshuffle as new opportunities and challenges emerged. Managers would be repositioned to focus on longer-term strategy and provide guidance.[3]

Meanwhile, Bayer's share price was under pressure. In 2018, it acquired Monsanto, a crop-science company, for €57 billion in cash.[4] However, just two years later, Bayer began making sizable payouts in connection with litigation surrounding Monsanto's weedkiller Roundup.[5] Meanwhile, sales from its pharma business were declining,[6] and operating margins had tightened. In 2024, Bayer cut dividends by 95%. As of early 2025, the company had €32.6 billion in net debt[7] and an equity market value of €19.4 billion.[8] Bayer's share price had declined by 80% since the Monsanto deal had closed.

Anderson was excited about the future of DSO and felt that "if we are successful, many more large companies, held back by the inefficiencies of modern management, will learn from us."[9] Could the "fewer bosses" structure really be the future of corporate management? Or did this run the risk of losing the knowhow within the company and discouraging junior leaders who assessed their career through traditional promotions? Was a radical elimination of bureaucracy the way to accelerate innovation and boost revenue?

Professor Boris Groysberg and independent researcher Gamze Yucaoglu prepared this case. It was reviewed and approved before publication by a company designate. Funding for the development of this case was provided by Harvard Business School and not by the company. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Industry and Company Background

Bayer was founded as a dye-making company in Germany in 1863. Over the years, Bayer expanded into new businesses including pharmaceuticals, crop science, and consumer health.[10] In 1899, Bayer invented the drug Aspirin.[11] In 2016, the company underwent a restructuring that aimed to transform it into a more focused life sciences company. In the process, it streamlined its operations under three business units: Bayer Pharmaceuticals, Bayer Consumer Health, and Bayer Crop Science. (See **Exhibit 1** for Bayer's financials and **Exhibit 2** for stock performance.)

In May 2022, after 35 years at Bayer, CEO Werner Baumann announced his retirement, and Anderson succeeded him. As of 2024, Bayer employed 100,000 people in 80 countries and generated €46.6 billion in revenues (48% crop science, 39% pharmaceuticals, and 13% consumer health.)[12] (See **Exhibit 3** for a breakdown of Bayer's sales by region and **Exhibit 4** for a financial overview of the business units.) Bayer faced stiff competition, from multinationals as well as biotech companies, innovators, and startups. (See **Exhibits 5a and 5b** for an overview of the competitive environment.) Internally, employees believed that launching new products was taking too long. There was a siloed approach, disputes were resolved much too slowly,[13] and the company lacked a unified voice with both customers and potential innovation partners.[14] Uneasy, investors were pushing for changes at Bayer, including separating the businesses and potentially selling consumer health.

Pharmaceuticals

Bayer's pharmaceuticals portfolio included leading products/therapies in the areas of retinal disease, women's health, cardiovascular disease, hematology, and radiology.[15] Overall, Bayer ranked outside the top-10 pharmaceutical players globally by revenue[16] but competed with global leaders, including Merck, AbbVie, Novartis, and J&J. While Bayer was generating strong top-line growth from China, pricing policies implemented by the Chinese government in 2019 had put pressure on margins. Also, Bayer's patents on its blockbuster drugs Xarelto and Eylea had started to expire. As a result, Bayer was losing sales to generic producers.[17] Bayer was looking to make up for these lost revenues via recent product launches and several drugs that were in the final stages of clinical development in oncology (for example, Nubeqa) and cardiovascular disease (Verquvo and KERENDIA).[18]

Crop Science

In 2016, under CEO Baumann, Bayer signed a cash deal to buy Monsanto, the biggest acquisition in Bayer's history—and the largest ever by a German company.[19] This made Bayer a global market leader in the agricultural industry[20] followed by Corteva, Syngenta (ChemChina), BASF, and Nutrien. In 2020, Bayer paid out €9.3 billion to settle claims that the Monsanto herbicide Roundup caused cancer—one of the largest settlements in history.[21] By 2023, Bayer's market value had declined by over 60% following its acquisition of Monsanto,[22] which the *Wall Street Journal* described as "one of the worst corporate deals in recent times."[23] The company had set aside €6 billion to cover pending and potential lawsuits.[24] In 2024, Bayer's business saw a in a 2% drop in sales, driven by decreased demand—especially from Latin America—and declining prices.[25]

Consumer Health

While the smallest of its business units, Bayer's Consumer Health segment was the third largest over-the-counter (OTC) drug business globally, following Haleon and Kenvue Consumer Health. Bayer's Consumer Health business had been generating organic sales growth roughly in line with these peers, but its EBIT margin lagged.[26] Bayer's product portfolio was focused on nutritionals (One-A-

Day), allergy (Claritin), pain/fever (Aspirin), and dermatology (Bepanthen).[27] The company was focusing on brand building as well as successful Rx-to-OTC conversions. Bayer sold its products primarily in pharmacies, supermarkets, and other large retailers including e-commerce sites.

Culture and Management

Bayer employees cared deeply about the company and its mission. When Anderson came on board in 2023, the average tenure was 11 years, and the average annual turnover was 5%. Only 25% of the company's 100,000 employees had been working at Bayer for less than three years. The company encouraged personal development and offered its employees opportunities for advancement.[28] Mentoring and feedback mechanisms were in place, and career paths were mapped out.[29] 60% of senior positions were filled from within, and there were opportunities for employees to move between business units and corporate roles throughout their careers. Top management was normally recruited from within. By German law, the governance system was two-tiered: a six-person management board and a 20-person supervisory board. The management board was responsible for running the company with the goal of increasing the company's enterprise value and achieving defined corporate objectives. Management board members were excluded from participation on the supervisory board. The average tenure of management board members was four years, and the majority was appointed from within the company. The supervisory board was responsible for overseeing and advising the management board. Like all German companies of a certain size, employee representatives constituted half of Bayer's supervisory board. The company therefore needed the support of these employee representatives to approve important changes.[30]

Bayer embraced its mission: Health for All, Hunger for None. The company recognized that the world's population was aging and concluded that they would require improved medical care and an adequate food supply.[31] Bayer made significant allocation into R&D[32] and, through its impact investment arm (Leaps by Bayer), the company had invested $2 billion into more than 65 startups in health and agriculture. To create internal and external innovation opportunities, Bayer provided periodic technical training, launched an innovation portal and an accelerator,[33] and formed scientific partnerships with the scientific community.[34]

Bill Anderson: Unleashing Performance Through a New Operating Model

Born and raised in the United States, Anderson started his career in Europe working for U.S.-based chemical and material science companies and then joined Biogen when it had only 700 employees.[35] In 2006, Anderson joined the biotech company Genentech and rose up through the ranks as it scaled.[36] In 2009, Roche acquired Genentech. In 2013, Anderson moved to Roche as head of global product strategy and chief marketing officer. He returned to Genentech in 2016 as head of its North American operations before becoming its CEO in 2017.[37]

Soon after becoming CEO, Anderson met Michael Lurie, who had been engaged by Roche to help introduce the company to a radically new approach to building and leading an organization. Over the previous ten years, working with dozens of companies as an organizational architect and coach, Lurie had developed a practical system to help leaders improve performance through reimagining their business and operating models. The system built on the latest thinking in entrepreneurship, innovation, organizational agility, as well as lean operations, leadership and other disciplines. Lurie recalled, "The key was to integrate the common principles underlying all these disciplines into a simple, practical and comprehensive system that engaged and focused everyone in the organization on creating value for customers and all other stakeholders."

Anderson and Lurie set up a small team to explore applying this new approach to Genentech. After holding separate round tables with employees, managers, and his leadership team, Anderson and the team began thinking about an alternative operating model. He recalled, "From each group, we were hearing the same thing: they loved the company, they loved its mission, and they loved the people. At the same time, everybody—employees, managers, and leadership alike—complained that they couldn't get anything done. They asked me if I could help them get things done!" He was puzzled because he knew that Genentech had been paranoid about becoming bureaucratic and that there had been continuous "bureaucracy-busting" efforts. Reading up on organizational effectiveness, the team came across another striking data point. Anderson recalled, "The data suggested that people in large organizations were only achieving somewhere between 30% and 50% of what they were capable of. That didn't seem right at all. To better understand what was going on, we ran a survey that included questions about the working environment, the company culture, and its risk appetite. We also asked employees to rate their managers." As the results came in, Anderson was totally taken aback. He said:

> The results showed that employees viewed Genentech as conservative and risk-averse and that they were concerned about pleasing their boss. At the same time, employees described their bosses as visionary and creative and willing to take risks. How could we have 300 bold, dynamic leaders and be trapped in a conservative, risk-averse, distant-belonging type of organization? I was sure there must have been a mistake with the survey, so I talked to the person who created it. He explained that what I was seeing was not uncommon; the data showed that the leaders were no longer in control of the system—they had become a part of it.

Anderson and the team pulled all these observations together to try to figure out what the data was telling him. He said:

> People couldn't get things done, largely because they spent their lives in meetings deciding which PowerPoint slides to use to convince their managers. The system of work we saw was inherently stultifying; it blocked progress and held people back. Strangely enough though, people were also kind of happy in the structure. The culture made them feel empowered—even though they had very little decision-making authority—because their managers were caring, ready to listen, and supportive. I knew something was terribly wrong, but I really didn't know what it was or what to do about it.

Led by Anderson, the team was determined to find a solution. They had become fascinated by the ideas in Frédéric Laloux's *Reinventing Organizations* and by the thinking of management expert Gary Hamel. Both presented arguments for streamlining structures, self-management, greater employee empowerment, and a mission-oriented focus. Hamel, in discussions with Anderson and others, argued for a new operating model:

> Today, most large organizations are still running a 150-year-old management model—industrial bureaucracy. At the time, most employees were illiterate and needed managers to tell them what to do. Administrative skills were rare, and critical to organizational success. Information was difficult to gather and share, and a formal hierarchy was the simplest way of doing that. Managers collected data from their subordinates and passed it up the chain of command; thus only those at the top had a full picture. It was also a world in which change was comparatively gradual, rather than disruptive. That world doesn't exist anymore, and yet bureaucracy is still the standard operating system for complex, global organizations. But this has to change. If you want to build an organization that is daring, resilient and innovative, you have to dramatically flatten the hierarchy,

> push authority out to the periphery, create an organization that is more lateral than vertical, and make everyone accountable to customers.[38]

When, together with his team, Anderson took a closer look at Genentech, they saw that, over the previous 10 years, the company had added 200 new job types (distinct roles) and that the scope of jobs had narrowed. Anderson said, "People are quick to see the advantage of specializing. They forget that every time you take one job and chop it into three pieces, those three people may get better at that specific part of the job, but then you have coordination costs. And all of a sudden, a decision that used to take one person now requires nine people and three meetings." Hamel explained: "Nobody really wants to be managed, but we have ranks of managers because we've failed to give those on the front lines the information, freedom and incentives to be self-managing. In fact, over the past forty years, bureaucracy has become more cumbersome, and despite massive investments in information technology, productivity growth rates have declined." Hamel noted, "If we train everyone to think like businesspeople, provide them with context so that they understand the business environment, and offer financial incentives, people will rise to the challenge, and our organizations can be delayered." (See **Exhibit 6** for principles of *Humanocracy*.[a]) Anderson recalled, "We had to question assumptions about the role of management and ask why startup biotech firms were far more effective than most large ones. We got rid of targets, and we got rid of budgets. We said, 'Go do what needs to be done to serve patients and drive progress, and we'll talk about how you did it later.'"[39]

In 2019, Anderson was appointed CEO of Roche Pharmaceuticals.[40] In parallel, Lurie had been working extensively across divisions, so they were now able to take their collaboration to a new level. Over the next five years, leaders and teams at Roche Pharmaceuticals learned by doing. "We were basically falling forward," Anderson said. "We needed to figure out how to operationalize these principles at scale, which we did through experimenting our way to solutions." The changes affected 40,000 people, about one-third of Roche, and resulted in better financial outcomes and faster innovation. At the beginning of 2023, Anderson was approached by Bayer for the CEO role. During his tenure at Genentech/Roche (2009-2023), the stock price almost doubled.[41] Anderson had already made a name for himself as a change management expert in pharma, and he was eager to apply his methodology at Bayer.

Anderson at Bayer

In February 2023, before officially joining the company, Anderson presented his vision to Bayer's supervisory board. "I was transparent about what I thought we should do," Anderson said. "I told them that if they weren't convinced, they shouldn't hire me." He was officially appointed in the spring[b] of 2023 and quickly engaged with leaders and individual contributors at every level of the organization. They told him many of the same things he had heard at Genentech. People liked each other, they liked the culture, and they cared deeply about the mission, but they found it very challenging to get things done. This time around, Anderson knew exactly what to do. He also knew that changes had to be implemented companywide— embraced from the ground up and with the board's full support. He understood that these changes would be uncomfortable for managers, but after speaking to senior leaders, Anderson was encouraged. "It was the right time," he said. "They were overwhelmed by bureaucracy—the company's rules and procedures manual was over 1,300 pages long!"

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[a] While Anderson embarked on his DSO journey at Bayer, Hamel penned his book *Humanocracy*.

[b] Anderson's appointment was announced in February 2023. He joined Bayer in April and became CEO in June 2023.

Anderson heard from the management board that they also were very dissatisfied with the status quo. Anderson put forth his vision for a total overhaul of the operating model in a three-page memo. (See **Exhibit 7** for the memo.) The memo served as the basis for a series of in-depth discussions. The management board members were convinced that a radical change was needed and organized an offsite meeting with 70 top leaders from across the company at Bayer's innovation center in Boston to present their plan. At the end of the meeting, 88% voted in favor of the plan, while 12% expressed doubts. During the coming weeks, Anderson and other leaders worked intensively with employee representatives to ensure they fully understood the new model – and its implications for people. The employee representatives were intrigued by the prospect of greater participation in decision making and decided this was the right change for Bayer. Within 90 days of becoming CEO, Anderson now had the green light to launch DSO.

DSO and Anderson's Vision

To create the best version of Bayer, Anderson and the management board decided to do away with the hierarchical model and put power into the hands of Bayer's innovators and creators.[42] They started redesigning the company around its mission.[43] The goal was "to deliver faster innovation and a better experience for the farmers, patients and consumers who depend on #TeamBayer."[44] Anderson reached out to Lurie, and asked if he would join Bayer to work with the management board on Bayer's journey to the new operating model as chief catalyst. Building on their shared experience at Roche, Anderson and Lurie thought hard about how to apply the model quickly and effectively at Bayer. Together they innovated an important new component –the idea of forming entrepreneurial customer teams and product teams at the center the system– which they memorably recorded on a paper napkin in June 2023. [45] Anderson called the model Dynamic Shared Ownership (DSO).

DSO promised a more agile and streamlined way of working, where cross-functional teams focused on delivering on objectives in 90-day cycles. (See **Exhibit 8** for DSO principles.) DSO would have clearly defined short-, mid-, and long-term targets (outcomes) and would put customers and products at the center, thereby empowering the people who were closest to the work.[46] Anderson and the team saw DSO not as a static model but as a dynamic living entity that would evolve to meet the organization's changing needs and that was informed by feedback from employees and lessons learned.

To launch the new model globally, the management board set up "frontrunner teams," select teams from each of Bayer's three business units around the globe that would pioneer, model, and experiment with DSO and report their learnings to help evolve the system. In parallel, Bayer would engage its senior leaders across the organization to design a new high level operating architecture based on the DSO model. Heike Prinz, Bayer's chief talent officer said, "The frontrunners' work would be a real-life demonstration of what it feels like to work in DSO. We want these teams to be an inspiration, and we'll draw from their learnings to inform our thinking. At the same time, we'll revise the organizational architecture to accommodate DSO and train as many people as we can."

With the support of the management board and in partnership with their chief of staff, Alex Buschermoehle, Lurie formed a team of senior business leaders to be the catalysts, or transformation leaders, responsible for charting a detailed way forward. This group later became known as the DSO leadership team. They built a community of DSO practitioners, comprising both internal and external business leaders and change-management specialists, charged with: mapping out how the new system would work, coordinating with leadership teams to design the new architecture, and collaborating with the frontrunner teams to test and evolve the new model on the ground. The goal was for Bayer to be self-sufficient and fully proficient in DSO by 2026.

DSO Basics

To function well, certain behaviors were essential to DSO: employees were encouraged to show up as their best selves, learn and act quickly to meet customer needs, and collaborate while holding each other accountable for delivering the highest-impact outcomes.[47] DSO also highlighted key practices to enhance value generation. These included aligning everyone with the company's mission, striving for continuous improvement, directing talent flow to the highest priority work, encouraging ownership and accountability, and sharing results and learning.[48]

Under DSO, current managers and leaders would be recast as visionaries, architects, catalysts, and coaches (the VACC model); these were enablers who would guide and support. (See **Exhibit 9** for evolution of leadership under DSO.) This architecture was designed to help employees work toward a clear and compelling mission and vision. Julio Triana, president of consumer health, expanded:

> The experience gained during the pandemic provided the ultimate side-by-side opportunity for us to see traditional vs DSO way of working in action. As an example of the traditional way of working; we had just completed our budgeting process. At Bayer, this process starts in May of each year and the budget is presented and locked in for the following year in November. When the pandemic hit, it all flew out the window in a flash, and the thousands of hours we had spent on it were of no use to us. Was it really useful then, to have been so forward looking and have a detailed budget? Then something incredible happened. The whole world was looking to the pharma industry for a vaccine to save lives. With traditional industry practices, developing a vaccine would have taken in the most ambitious scenario five to six years. So, we were all forced and motivated to think and act outside of the box. All the pharma players came together around a shared critical mission, collaborated as a team, worked fast, failed fast, took risks, and pushed the boundaries. That was DSO in action. And the whole world saw the power it unleashed.

Each business unit further distilled the mission into a more specific vision.[c] Prinz, said, "DSO flattens the organization. The idea is to co-create with your internal customers—the ones who will be using the solution that the team creates. There is a fundamental shift from focusing on profits and KPIs to prioritizing outcomes, from command-and-control to collaboration and evolution through trial and error, and from competing for resources to co-creating." (See **Exhibit 10** for an overview of the shift and **Exhibit 11** for key DSO terminology.) Jan Voss, global head of Asundexian, a pharma product, was among the first to volunteer to be a frontrunner. "One great thing about DSO," he said, "it's not important who has the greatest idea. What matters is that we take the idea and turn it into action towards meaningful outcomes." Dr. Björn Fischer, who worked with Voss, added, "Working as one product team, we are closer to where the business happens. That means we get different information firsthand and make decisions much quicker within the team. One of the most radical changes in the way we work is how we think about opportunities for our patients; we now keep an empty seat in our meetings to represent the patient."

Design and Architecture

Under DSO, each employee belonged to a Work Team, where they spent most of their time and where the ultimate decision-making authority resided. Every employee was also a part of a

[c] The divisional visions were: For pharma: "Treat the untreatable. Cure the disease. Offer hope." For consumer health: "Help billions of people to live healthier lives with the most trusted self-care solitons," and for crop science: "Shaping Agriculture for Farmers, Consumers, and the Planet."

Professional Home in their own area of expertise (sales, research, etc.). This "second home" was the vehicle for professional and career development, which included feedback and evaluation; it also played a key role in directing talent to Work Teams.[49] Work Teams drew their talent from various Professional Homes to cover the skills they needed to achieve their targeted outcome.[50] Anderson noted:

> This architecture allows us to cut out unnecessary layers of management by extending a manager's span of control, or span of coaching as we call it, from four to eight subordinates (in a traditional hierarchy) to a minimum of 15, but frequently 20-30 or more (so fewer managers are needed). Next, the managing person needs to figure out how to reconnect things and people that used to be connected by managers. It requires systems thinking. That is the next stage.

Employees moved between Work Teams periodically, but their Professional Home changed only when they chose to develop in a new professional area. In this way, employees could choose to work on a variety of projects, learn new skills, and take charge of their own career and leadership growth. (See **Exhibit 12** for organizational overview.)

Work Teams had Team Leaders, who supported the team and steered them through the 90-day cycles.[51] They were responsible for creating a safe environment for collaboration and facilitating communication with other teams. Home Leaders, on the other hand, provided career coaching and supported employees' career development by conducting regular reviews and sharing feedback from the Work Teams.[52] Anderson said:

> Leaders need to understand that their job is no longer to command and control, but to be visionaries, catalysts, and coaches. In the same way, employees need to grasp the idea that they don't just complete assigned tasks anymore; they are owners, so they need to understand how things work and reach across boundaries and collaborate to accomplish the mission faster.

DSO teams were different from traditional functions in that they were multidisciplinary and interacted directly with customers to inform product development and market strategies.[53] They were also empowered to explore solutions and execute decisions. Lisa Perez, general manager of Bayer's U.S. nutrition business, was among those who was asked to assemble a frontrunner team. She recruited seven people with differing capabilities from sales, marketing, and design; not all of them had worked in nutrition before. The 90-day challenge for the team was to look at ways to "accelerate the launch pipeline for a prenatal vitamin supplement under Bayer's One-a-Day brand." Perez recalled, "We needed to tackle package design and marketing and manage the supply chain. We wanted to launch a year ahead of schedule, but without risking safety or quality—those were our non-negotiables." Team members took on different responsibilities and agreed to meet daily and fully dedicate their time to working together to overcome obstacles. Perez continued, "We went directly to the source: the team member responsible for supply chain reached out to the factory to see if an earlier start would be possible. The person in charge of design gave a basic brief to the marketing agency and brainstormed with them on rough ideas—traditionally this process is much more formal, and it takes weeks." The team also did on-site market research. Perez elaborated, "With a mock-up design, our team went to Walmart stores and displayed the designs in the aisles. We observed consumers' reactions on the spot and chatted with them about the design. That feedback fed into the next design iteration." The team then created a survey to get the reactions of different types of consumers. They also reached out to Bayer's customers—the retailers—to get their impressions. Perez said, "Before DSO, getting customer and consumer feedback was a year-long ordeal—a big research study."

Perez's team also sought feedback from managers: "We had gatherings we called 'peeks under the hood', where we invited managers to very informal brainstorm sessions. We didn't spend time trying to perfect PowerPoint presentations for these meetings." For approvals, Perez' team skipped the traditional multiple management layers and pitched the idea to the eight people from the different departments who had decision-making authority. At the end of their 90-day cycle, the team was successful. They managed to launch the supplement a year ahead of schedule. Instead of pitching the idea to department heads for approval, the team was empowered to make a call on its own.

DSO had five primary team types: Leadership Teams, Customer Teams, Product Teams, Technical Teams, and Enabling Teams; as well as a sixth, temporary Design Teams. The core driving force of the system were Customer and Product Teams, which were made up of people from different fields who worked together as end-to-end entrepreneurial businesses within an open and highly collaborative network to engage and serve customers and develop and deliver products. Technical Functions like R&D and Product Supply would now focus on serving and enabling the Customer and Product Teams. One example of a Technical Team was one comprised mainly of scientists who had experience in getting approval to use a specific drug for a new medical condition; this team was now focused on enabling the Product Team. The Enabling Team members came from support functions including finance, IT, procurement, HR, and communications functions. They too focused much of their efforts on Customer, Product and Technical Teams, flowing resources across the network and engaging employees, investors, regulatory authorities and other stakeholders to ensure Bayer's "license to operate." In addition, talent from the Enabling and Technical Teams flowed into the Customer and Product Teams as full team members to drive growth and profitability. With regard to the Leadership Team, Triana explained that in a traditional architecture, members of the leadership team represented different functions and geographies, and each worked on behalf of their respective geography or function. With DSO, however, he said, "Members of the leadership team have strong business acumen in their specific area, and they come together to work for the entire enterprise. They concentrate on strategy and the big picture, like which therapeutic areas/categories Bayer should pursue."

The DSO model envisaged fluid work teams. Many teams would operate as intact teams for two to three years. Others, particularly Design and Project Teams, would come together for a much shorter period. When projects were announced, anyone who was interested could sign up for the next 90-day cycle. Theresa Kolben, who led early clinical development oncology in pharmaceuticals, explained:

> Before DSO, when I allocated people to a project, I either decided myself or consulted my direct reports. With DSO, we use a marketplace approach: "jobs" and projects are posted, and people select projects they would like to be involved in. This leads to more fulfilled employees than in the old top-down approach.

As such, instead of a lengthy process where HR would announce an opening to be filled in the long term, talent flowed naturally to the place where it was most needed, and people with similar interests would naturally flow together. Team Leaders facilitated collaboration among teams.

VACC Leadership

Under DSO, leaders' roles changed drastically. In traditional management, managers acted with a preservation mindset; they saw their responsibility as delivering what was expected from above. DSO managers, by contrast, were cast as forward-thinking visionaries whose job it was to generate holistic impact for *all* stakeholders, with a mindset of possibility.[54] Planners, who had previously had to compete for existing value, became architects who co-created value; directors, who used to command through structured hierarchies, served as catalysts for collaboration.[55] Traditional managers (or "controllers") became coaches. All this required a major company-wide shift in mindset. Managers

were being trained to think in terms of "we" instead of "us versus them" and to encourage team members to develop new capabilities. Prinz said, "Our leaders don't tell people what to do; they coach them. Teams ask for support for all sorts of things, including how to effectively run a team meeting or how to frame a problem. Or they might need help with project management." Triana added, "We need to realize that we no longer have the command and control or have the last word. We are there to sense, listen, coach, and provide guidance. This also raises the bar for us. We are now visionaries, who need to think at a higher level—about what business we should be in." Team and Home Leaders both applied the VACC approach.

Processes and Behavior

Work Teams operated in their rapid 90-day cycles, working toward jointly defined outcomes and prioritizing the most critical tasks. Each cycle began and ended with a retrospective. The emphasis was on continuous improvement, so these reflections helped the teams learn, reprioritize, and then agree on a game plan for the next cycle. (See **Exhibit 13** for a suggested 90-day cycle.) Perez described the work cycle for the One-a-Day product:

> We were focused. We didn't allow ourselves to be distracted by anything. We only thought about what this team was set up to do. We had constant access to each other and were fully committed. There was no playbook, so every two weeks, we paused for a retro to review what was going well and where we needed to improve. We were completely transparent about what we were learning, and the fact that we had no strict guidelines gave us the room to experiment.

Timo Flessner, who oversaw the active pharmaceutical ingredient and medical device manufacturing plants, said, "Outcomes are different from outputs. Outcomes describe the impact the Work Team is creating for specific stakeholders. An outcome basically changes the life of a stakeholder while outputs are short- to medium-term deliverables that inspire the team and help them cut through the clutter." This differentiation of outputs and measurement of outcomes (the desired impact) enabled the teams to identify failures fast and learn and adapt to operational procedures. Flessner continued:

> Before DSO, people in manufacturing were approached mainly when something went wrong, when supply was at risk. Global teams often did not fully cover the end-to-end product view for all process steps. Especially product supply and the critical impact on factors such as COGS[d] were not fully grasped. Under DSO, everyone on the team now works toward the same outcome. Taking the COGS example: Now we have teams with end-to-end responsibility and clear targets that are linked to the product. And thanks to that, we are on the way to significantly improving our inventory numbers and we are starting to see a positive trend on COGS.

Alvin So, head of consumer health in the ASEAN region,[e] was another frontrunner. So recalled: "Our portfolio was too skewed toward nutritional supplements, so we needed to rebalance it and accelerate new product launches of allergy, pain management, and skin health products. We were facing two main challenges: lengthy product launch timelines and issues with the supply chain." So's frontrunner team focused on the supply of its popular allergy medicine, Claritin. "We used to follow a step-by-step process," he explained, "where we would get Claritin from our U.S. site and ship it to

[d] COGS (the cost of goods sold) is the total of all direct costs related to producing a given product.

[e] At Bayer, ASEAN included the Philippines, Singapore, Malaysia, Vietnam, Thailand, Indonesia, Cambodia, Myanmar, Laos, Brunei .and was headquartered in Singapore.

Indonesia. But doing that, we were able to meet only 70% of the demand. Customers were not happy. Our frontrunner team decided to try manufacturing it at our Indonesia site to cut down on supply time and satisfy more of the demand. To get the approval, the team came up with the idea to run the steps simultaneously instead of consecutively." So continued:

> It used to take about 10 months to produce just a single pilot batch at a new site. We would spend two months preparing a business case. And it would take two months to schedule a presentation to the global council for approval and another three months to get approval for investing in equipment and materials, and so on. Instead, we combined these steps and took decisions locally. Why should we need approval from someone all the way in Basel, in Switzerland, when the head of products and the head of the factory in Indonesia were right there? We kept headquarters in the loop, but we saved ourselves hours of making PowerPoint presentations and shortened the lengthy global approval processes.

With the streamlined procedures, So's team produced the pilot batch in one month. So was rightfully proud and excited: "In 2024, 13 months ahead of schedule, this will deliver €3 million more in net sales just because of that higher service capability, and it also makes our customers happy. Not only that, it's cheaper to produce and ship products to Southeast Asia than it is from the U.S. Manufacturing in Indonesia will save us €2.5 million a year. This is only one site transfer, mind you, and after this initial success, we scaled up and accelerated 5 more site transfers in Asia The ramifications are much more significant—we have hundreds of site transfers for our division!"

Meanwhile, So's team tackled packaging and design in a similar way: by simultaneous processing. He said, "Instead of waiting for the product to be finalized and approved by the regulator before designing the packaging," he explained, "we prepared the artwork and ordered the material ahead of time. Most importantly, we stopped striving for the perfect design and went for "good enough." However, not all decisions were the right ones; So said, "When we got our first artwork back, we saw that, by mistake, we had missed something that turned out to be necessary. Nobody was blamed for the oversight. Instead, we celebrated the mistake and shared it with other teams as a learning point." So's team managed to reduce the time to launch by six to nine months for 25 products. "What we did isn't rocket science," So said. "We simply cut out unnecessary steps and did other steps in parallel, and it paid off. In 2024, we earned €2 million in revenue that we wouldn't have gotten until 2025 otherwise. Bayer launches €180 million worth of new consumer health products every year. If we accelerate this by six months, that's €60 million additional revenue per year!"

Peer accountability and keeping the channels of communication open between teams were key. As a critical enabler for DSO, the management board recognized the magnitude of the shift in mindset that DSO required, so they highlighted the importance of encouraging and nurturing self-awareness and a "creative mindset." Flessner said, "DSO is all about possibilities, partnerships, and recognizing the abundance of opportunities. We need the right kind of people in the right positions—open-minded people who are receptive to all possibilities, even if it means their position might be affected. If people get defensive, that needs to be addressed immediately." Kolben, who led a team of clinicians and clinical scientists in early development oncology, was galvanized:

> Before DSO, decisions about the development of a drug were sometimes strongly influenced by functional hierarchies. Now with DSO, we have pushed decision making into our product teams, strengthening the accountability of product team members. At the same time, to ensure each clinical team member on a product team is able to take the best possible decision for their drugs, we have a setup that supports them in the background with the collective wisdom of the entire clinical group consisting of 15

> physicians experienced in treating patients with various tumor types and another 15 people with expertise in clinical service. With DSO, we can draw on the team's creativity and the wisdom of the more senior members while not compromising individual's accountability.

Challenges and Opportunities

DSO was experienced differently by different people. Kate Connors, crop science lead practitioner for Europe, the Middle East, and Africa region, was excited: "Bill made the point from the get-go that DSO would be a fundamental change, not just for the organization but for all of us within it. Some people have struggled and some people have flourished; it's a huge change curve and we should expect that people work through it at different paces—we have the full spectrum." Flessner said:

> When we introduced DSO to the employees of a pharmaceutical manufacturing plant, people on the shop floor didn't really understand it. I felt I needed to stay close to them to clarify the new processes and the spirit as well as some new vocabulary. It was important that they understand that DSO was not about reducing headcount and that they would have their jobs as long as we continue producing pharmaceuticals. Today, the discomfort is mostly gone, and there's a lot of positivity. They appreciate being included in the change process and not just being told what to do.

As for managers, in the first year alone, DSO eliminated 60%–70% of the management positions in some business units (5,500 positions of 7,800 management positions) increasing the span of control to close to 1:50 in some areas. In others, the company had invested in upskilling to promote a VACC mindset. Anderson said, "Our businesses are in high-regulatory environments where safety is very important. We need to retain the knowhow and knowledge while reducing the number of managers and empowering the front line—we cannot afford to make mistakes." Although Alvin So's frontrunner teams were delivering positive results, he was one of the managers who was let go. So said, "I recommended that my role be eliminated because it was what was best for the organization. While personally disappointing, as leaders we walk the talk and I am grateful for the opportunity to have worked with Bayer for over 10 years and for leading DSO in Asia. I'm passionate about DSO. I have seen the benefit it can bring, and I will continue to promote it." Kolben added, "I had a manager on my team who was worried that flattening the organization would mean his job wasn't important anymore. But then he saw that teams nominate their leaders based on the expertise they are looking for and the impact they make. They were selected as a peer reviewer time and again. Today he is a fierce promoter of DSO." To be sure, there were also challenges. Anderson said:

> Ambiguity can be discouraging, so we have to keep showing people that this change is worthwhile. Talented young people in big multinational companies often see career progress as climbing a ladder. When you take a bunch of rungs off the ladder, there's a time when they notice that the rungs are being removed but they haven't yet experienced the thrill of the new system and the joy of faster achievement. In that interim period, they may think they no longer have opportunities here.

Anderson described the environment as a huge construction site. He had overhauled all levels of the organization, including appointment by the Supervisory Board of two new management board members. Anderson acknowledged that it was unsettling that progress on the architecture side was ahead of practices. "I had assumed that changing the architecture would take about two years," he said, "but today [end of 2024], we are already 80% there. This is scary in a sense, because most people are still not fully proficient in terms of mindset and behavior. Then again, the best way to internalize

the new mindset is by applying it in the changed architecture." He continued, "Now is the time to prioritize the most mission-critical outcomes and simplify things in a way that enables teams and groups of teams to make decisions. We especially need to ensure that control over the flow of resources—funding and headcount—moves from hierarchy to the networks of teams." He also observed the bumps in the road: "We need to rethink job grades, emphasizing content knowledge and impact. And it does not happen overnight; we need to get onboard with it and ask people for patience. We need to normalize mobility and create mechanisms for people to move between teams. It should not feel like they have been voted off the island." Not everyone wanted to be patient, and new hires craved more certainty too. Triana observed that behavioral change takes the longest. "It has to happen on an individual level," he said. "Everyone needs to be on board—and a person only changes their behavior when they are truly convinced. Some entry-level colleagues complain about not seeing significant change in their day-to-day work because their managers are still telling them where to flow and what to do." Prinz added, "We are just getting into reimagining the people processes. We need to get a better understanding of how to evaluate a job and evolve more into a skills-based organization. We need to build certain capabilities. Feedback and renumeration mechanisms need to be redefined." Connors remarked, "As we now start to 'live' the system and make it our own, we will have a better understanding of the behaviors and skills that we value. This will have implications for who we attract as an employer and our employees will shape who we are as an organization."

A November DSO Pulse indicated that more than 70% of the employees at Bayer were already working with DSO Principles. Prinz acknowledged that for DSO to work, they needed to build certain capabilities across the organization. She noted the importance of understanding how the teams communicate with each other. She said, "All team members need to give and receive feedback, not just the leader. In traditional organizations, there's a certain heaviness to feedback; we're trying to change that."

Connors said, "Systems have not yet evolved with the structure. We are removing the hierarchy, but it takes some time for the system to adapt to that. While legacy policies or systems can slow us down, we need to develop the system around what we really need to enable us to deliver value. The best way for us to do this is to live it and evolve in a constant cycle of iteration, not to try and design the perfect system blueprint ahead of time." Fischer added that they also needed to hire differently. A flat structure with autonomous teams where the individual created their own career path put the onus on the employee and called for a different employee profile. Hiring from outside was not easy and Bayer needed to figure the best fit under DSO. Prinz pointed out that people wanted to see what personal development and growth looked like in DSO, and how these translated into pay. "No matter how fast you progress in a transformation, there's always an ambiguous phase," she said. "We're in that phase now, so we need lots of dialogue and communication." She continued, "We need to redefine renumeration and promotion: We have to incentivize based on outcomes and reward the impact a person makes within the team. In my opinion, this will be highly motivating and will encourage innovation. And then we also have the question of how to reward the team."

Next Steps

In October 2024, Bayer had over 1,000 self-managed teams in place supported by a community of 200 practitioners. Bayer had streamlined its management structure, reducing the number of layers from about 12 down to 5 or 6. The typical manager's span of control had shifted from a handful of reports to coaching teams of that ranged from 15 to 30 or more.[56] Having had a successful experience with frontrunner teams, the company was moving toward a full rollout; the goal was to deploy DSO enterprise-wide by 2026. Within each of the three business units, there were now pods of DSO

practitioners who were tasked with preparing the rest of the organization for DSO and developing DSO champions within every team. Lurie commented, "For the first 18 months we made unprecedented progress in designing and standing up a new operating model across the whole enterprise, and in delivering tangible performance impact through hundreds of frontrunner teams. Going forward, we need to shift to the next level: redesign all the underlying processes, particularly in finance and HR, and bring the whole system to proficiency in a way that begins to positively impact our company performance and share price."

Anderson estimated that in the coming years, Bayer would operate as 5,000 to 6,000 self-directed teams:[57]

> When I look back at the courses, I had in business school and then all the development programs I attended later on, they all emphasized the importance of culture. But we've seen that even if you have a great culture, but your work processes and your structure are bureaucratic, you won't have great outcomes. You have to change the architecture to change behavior. To do that, the CEO needs to be both a visionary and an architect. It took me 27 years to figure this out, yet it had been staring me in the face the whole time. A healthy culture is a necessary foundation, but it's just a foundation. It's not the house.

Looking Ahead

The targets the management board had focused on were profitability, revenue, NPS scores, and cash flow. Anderson pointed out that they had "eliminated more complex metrics to focus squarely on what really matters." After just 15 months, frontrunner teams reported very promising results—not just in cost savings, but in time to market and innovation as well. Bayer saw an increase in its market share in key frontrunner countries and had better customer centricity. "We are now able to accomplish more and make decisions faster," Anderson said. "We already see the pipelines accelerating dramatically, including new drugs and also a lot of incremental innovation. But for me, the true definition of success for DSO is building an organization where people can truly leverage their talents." Anderson was encouraged: "We're done with the most painful part of the transition—parting with about half of our managers. I hear from some of these: 'I regret my job going away, but this is definitely the right move. Keep going!' We hear from many new hires that DSO was the reason they chose Bayer." The changes were not yet reflected in the financials or in the stock price. All three business units—Crop Science, Pharma, and Consumer Health—were facing stiff competition, price and regulatory pressure, and the financial risk of litigation was looming. Investors were getting impatient for Bayer to return to its previous levels of profitability. But DSO would not be fully operational until 2026.Using a baseball analogy, Anderson placed Bayer "in the second inning of the game." Did Bayer's investors have the patience to wait this out?

While most CEOs talked about increasing efficiency when announcing their layoffs, none had presented radical plans about their organization structure. Was Anderson biting off more than he could chew with DSO, or could it actually reshape company operations for decades to come? Most of the world still indexed career success to promotions and titles, so how could these frontrunner companies survive and thrive in this environment?

Exhibit 1 Bayer Group: Five Year Financial Summary (€ in millions, except where stated)

	2019	2020	2021	2022	2023	2024
Selected Financial Data:						
Sales	€ 43,545	€ 41,400	€ 44,081	€ 50,739	€ 47,637	€ 46,606
EBITDA	€ 9,529	-€ 2,910	€ 6,409	€ 13,515	€ 10,632	€ 8,712
EBITDA before special items	€ 11,474	€ 11,461	€ 11,179	€ 13,513	€ 11,706	€ 10,123
EBITDA margin before special items	26.30%	27.70%	25.40%	26.60%	24.60%	21.70%
EBIT	€ 4,162	-€ 16,169	€ 3,353	€ 7,012	€ 612	-€ 71
EBIT before special items	€ 6,975	€ 7,095	€ 7,295	€ 9,257	€ 7,589	€ 5,436
Net income (from continuing and discontinued operations)	€ 4,091	-€ 10,495	€ 1,000	€ 4,150	-€ 2,941	-€ 2,552
Earnings per share (from continuing and discontinued operations)	€ 4.17	-€ 10.68	€ 1.02	€ 4.22	-€ 2.99	-€ 2.60
Core earnings per share (from continuing operations)	€ 6.38	€ 6.39	€ 6.51	€ 7.94	€ 6.39	€ 5.05
Free cash flow	€ 4,214	€ 1,343	€ 1,415	€ 3,111	€ 1,311	€ 3,107
Net financial debt	€ 34,068	€ 30,045	€ 33,137	€ 31,809	€ 34,498	€ 32,626
Return on capital employed (ROCE) (%)	2.7	-16.5	3.8	7.7	0.7	-0.1
Research and development expenses	€ 5,301	€ 7,126	€ 5,412	€ 6,572	€ 5,371	€ 6,209
Dividend per share (€)	€ 2.80	€ 2.00	€ 2.00	€ 2.40	€ 0.11	€ 0.11
Employees						
Number of employees (12/31)	103,824	99,538	99,637	101,369	99,723	92,815
Personnel expenses (including pension expenses)	11,788	9,769	11,798	12,619	10,691	12,451

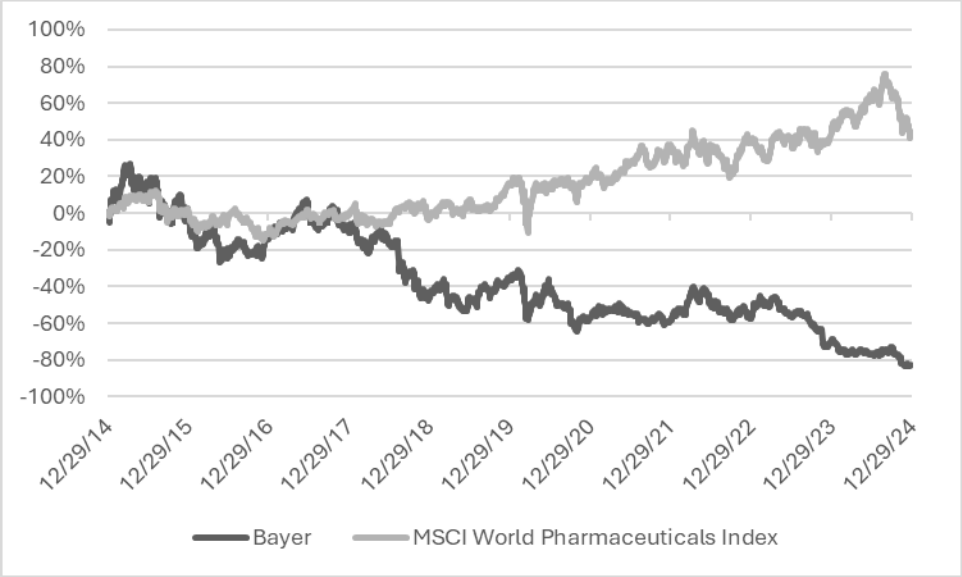
Source: Bayer Group, 2024 Annual Report, https://www.bayer.com/sites/default/files/2025-03/bayer-annual-report-2024.pdf, accessed March 2025.

Note: EBIT = earnings before interest and tax. EBITDA = earnings before interest, tax, depreciation and amortization.

Exhibit 2a Bayer AG: 10-Year Share Price Performance (2015-2024)

Source: Casewriter from Refinitiv, accessed August 2025.

Exhibit 2b Bayer AG: Relative 10-Year Share Price Performance (2015-2024)



Source: Casewriter from Refinitiv, accessed August 2025.

Note: Values indexed to 0% as of 12/31/2014.

Exhibit 3 Bayer's Global Sales by Region, 2024 (in million Euros)

Region	Sales	% of Total
Europe/MENA	€ 13,980	30.00%
North America	16,477	35.35%
Asia/Pacific	8,071	17.32%
Latin America	8,078	17.33%
	€ 46,606	100.00%

Source: Bayer Group, 2024 Annual Report, https://www.bayer.com/sites/default/files/2025-03/bayer-annual-report-2024.pdf, accessed March 2025.

Exhibit 4 Bayer Group's Sales and EBITDA in 2024 by Business Line (millions of Euros)

Revenue	€ 46,606
EBITDA	€ 10,123
EBITDA Margin	21.7%

	Revenue		**Revenue**		**Revenue**
Crop Science	**€ 22,259**	**Pharmaceuticals**	**€ 18,131**	**Consumer Health**	**€ 5,870**
Corn Seed & Traits	6,559	Xarelto	3,480	Nutritionals	1,375
Herbicides	5,468	Eylea	3,306	Allergy & Cold	1,252
Fungicides	3,157	Nubeqa	1,523	Dermatology	1,438
Soybean Seeds & Traits	2,475	Radiology	1,480	Pain & Cardio	830
Insecticides	1,640	IUD Family	1,267	Digestive Health	938
Cotton Seed	585	Adempas	721	Other	37
Vegetable Seeds	772	HEM Franchise	687		
Other	1,603	YAZ Family	658		
		Aspirin Cardio	634		
		Adalat	489		
		Kerendia	463		
		Other	3,423		
EBITDA	**€ 4,325**	**EBITDA**	**€ 4,722**	**EBITDA**	**€ 1,366**
EBITDA Margin	**19.4%**	**EBITDA Margin**	**26.0%**	**EBITDA Margin**	**23.3%**

Source: Bayer Group, 2024 Annual Report, https://www.bayer.com/sites/default/files/2025-03/bayer-annual-report-2024.pdf, accessed March 2025.

Note: Group revenue includes €346 million from unstated other segments. Group EBITDA includes -€290 million from unstated other segments. EBITDA and EBITDA margins are calculated before special items.

Exhibit 5a Overview of the Competitive Environment

Consumer Health	Pharmaceuticals	Crop Science
Johnson & Johnson	Roche	Corteva
GlaxoSmithKline (GSK)	Novartis	BASF
Sanofi	Eli Lilly	Syngenta
Pfizer	AstraZeneca	FMC Corporation
Reckitt Benckiser	Merck & Co	UPL Limited

Source: Compiled by casewriters from Luca Dezzani, "Top 10 Consumer Health Companies", LinkedIn Post, https://www.linkedin.com/pulse/top-10-consumer-health-companies-2018-luca-dezzani-md/, accessed December 2024. Craft, "Bayer Competitors and Similar Companies", https://craft.co/bayer/competitors, accessed December 2024. "Top 20 Pharmaceutical Companies by Revenue 2023", SEN Pharma, blog, August 19, 2024, https://senpharma.vn/en/top-20-pharmaceutical-companies-by-revenue-2023/, accessed December 2024. Bayer AG, Investment Case, https://www.bayer.com/sites/default/files/2024-05/investment-case-may-2024.pdf, accessed December 2024

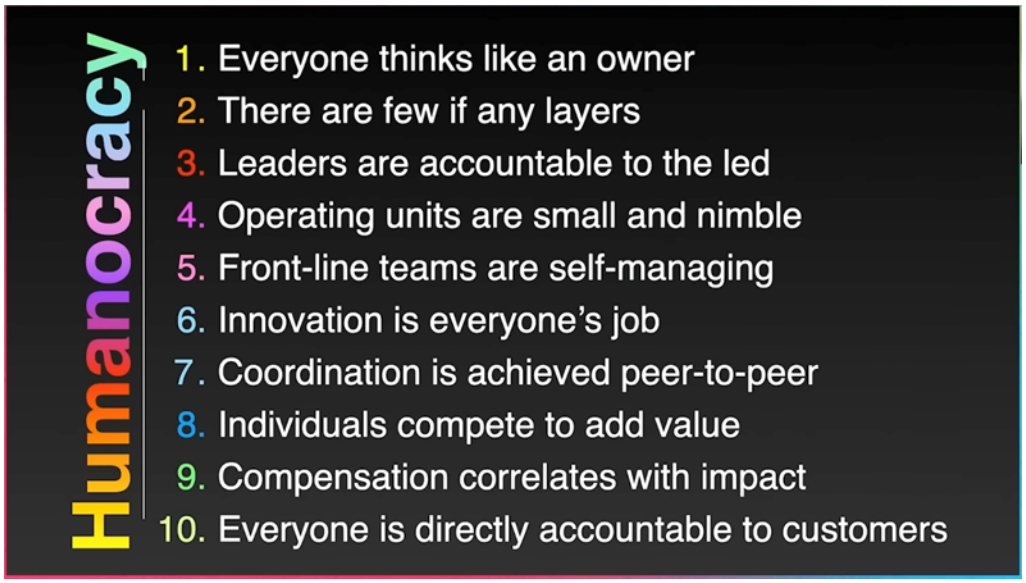
Exhibit 5b Bayer AG: Peer Data (€, As of December 2024)

Company Name	Market Capitalization (Billion)	Total Enterprise Value (TEV) (Billion)	TEV/ Revenue	TEV/EBITDA	Forward Price / Earnings	Gross Margin %	EBITDA Margin %
Roche Holding AG*	€ 286.32	€ 308.75	4.20x	15.77x	14.53x	74.8%	36.4%
Novo Nordisk A/S	€ 371.70	€ 369.30	10.18x	20.21x	22.08x	84.7%	50.8%
AstraZeneca PLC*	€ 211.59	€ 239.26	4.50x	15.49x	14.01x	81.2%	30.87%
Novartis AG	€ 186.34	€ 203.77	4.30x	10.90x	11.99x	75.2%	34.6%
Sanofi	€ 117.51	€ 134.47	2.75x	14.85x	10.85x	70.2%	39.9%
Bristol-Myers Squibb	€ 110.29	€ 136.36	3.31x	30.96x	8.06x	75.3%	40.2%
GSK plc	€ 66.26	€ 81.75	2.15x	10.03x	7.86x	71.8%	26.5%
Merck KGaA	€ 60.83	€ 65.99	3.15x	11.46x	13.81x	59.2%	28.7%
Ipsen S.A.	€ 9.06	€ 8.80	2.47x	7.59x	10.92x	82.7%	33.3%
Bayer Group	€ 19.97	€ 51.26	1.10x	5.47x	1.45x	56.7%	18.7%

Source: Casewriter from Capital IQ, accessed March 2025.

Note: * Values were converted by casewriter using FX rate of USD/EUR as of 31.12.2024. EBITDA = earnings before interest, tax, depreciation and amortization.

Exhibit 6 Principles of *Humanocracy*



Source: Bayer Global, "Bayer | Dynamic Shared Ownership (DSO) Webinar", YouTube, published February 12, 2024, https://www.youtube.com/watch?v=_mubMfgrdIQ, accessed December 2024.

Exhibit 7 Anderson's Memo

Outlook for a Novel Operating Model

This is a working document – that will continue to be discussed by the Board of Management and with the broader leadership group at Bayer — and will be adjusted and updated as appropriate.

Large multinational companies (MNCs) including Bayer, with some notable exceptions that have "unstoppable" products/business models, are under major pressures related to both a challenging external environment (inflation and global economic weakness, government budget deficits, fragmentation and trade barriers, wars, disease, and the need to protect the planet) and difficulty adapting their large and complex operations to the needs of a faster changing world. The latter issue means that the initiative is now often with the upstart, many of whom are using technology and novel channels to compensate for lack of scale and scope.

Due to these challenges, most MNCs have been in an almost constant state of restructuring at multiple organizational levels for much of the past two decades. (e.g., buying, selling, and merging divisions and assets, integrating, outsourcing, offshoring, trimming overhead, cutting layers, etc.) MNCs have also been adopting new IT tools across the value chain, with greater or lesser success, and it is clear that proficiency in adoption of technology is now a basic requirement, if not always a competitive advantage. The point is that most MNCs are busily buying and selling businesses/products, restructuring, cost cutting, implementing technology platforms — and all of this is required simply to "grow" in line with inflation. Some unique challenges at Bayer — such as the litigation overhang, lack of customer focus in CS during the Monsanto acquisition, historical underinvestment in Pharma R&D, and LoEs on our biggest medicines — make the macro challenges yet more threatening. That being noted, Bayer is fortunate to now have a rather coherent set of businesses in health and nutrition, and we have the possibility to proceed without the kinds of major distractions that come with large M&A.

How are some large companies managing to overcome the powerful forces described above? There appear to be two main paths to do this; these are complimentary rather than competing choices: 1) product and market innovation, and 2) novel operating models that make every employee much more effective.

Product and Market Innovation

Most companies are attempting the first path, *product, and market innovation*, as a matter of course. Here the task of Bayer leadership is to ensure that our investments in both science/product innovation as well as novel approaches to production, marketing, and distribution, including those based on emerging tech, are well made. This involves both art and science — with abundant portions of courage, creativity, talent, and discipline as well as the right capabilities and sustained investment levels. Companies that consistently excel at innovation do not merely rely on "great science", bold bets, or heroic personalities. Rather they develop and evolve systematic approaches to innovation that usually include the following elements:

1. Empowerment – sufficient freedom for individuals and small teams to pursue novel approaches, run rapid experiments, and commit sufficient time and energy to create exploitable data, advance knowledge and build essential capabilities
2. Accountability – there must be mechanisms for holding individuals and teams responsible for prioritizing to mission-directed work and completing it in the shortest time and at the lowest cost possible. A key element of accountability is the system constraint: usually resources in the form of people and expense. Good systems use these constraints to their advantage — forcing healthy prioritization, efficiency gains, and talent flow

RESTRICTED

3. Objectivity – because "biology doesn't care about my feelings" (or, "the customer doesn't care about my feelings"), there is a need to ensure decisions, large and small, are made on the most objective basis practicable. This requires people who are willing to put truth before ego, but also requires trained habits to ensure sufficient quantities of three major sources of objectivity:
    a. Evidence – the system must pursue data and evidence as a matter of course and use rapid experimental cycles to build progress. Evidence-based decision making does not mean an endless quest for perfect information, but rather that facts and data are used when available, and assumptions are stated and challenged, when not
    b. Expertise – the system must facilitate easy access to requisite expertise, whether internal or external, and require that it is sought and reflected in decisions and actions
    c. Experience – a given individual or team may not possess key experiences that would be useful, but the system must facilitate consultation with those who do, and expect that such advice is sought

Novel Operating Models

Very few large companies are attempting the second path, *novel operating models,* in earnest. Instead, they re-label conventional restructuring and process-improvement efforts as "transformation". Companies often add some of the cultural trimmings such as transparency and informal communications, training managers to be better listeners, etc. The small minority of companies that have implemented truly novel operating models do rely on some of these cultural elements, but they go much further in changing the way that decisions are made, resources are allocated, and work and people flow throughout the enterprise. This requires much more fundamental changes to the roles of managers and leaders – for example far less traditional management and much greater spans of control. It also requires adoption of new disciplines and rituals from top to bottom — and these must be adapted to the culture and business model(s) of the enterprise. For company leadership this kind of change requires a long-term commitment, willingness to be vulnerable (for example, admitting they don't already have the solution), intense and sustained intellectual effort (to ideate and design the new system; to test and adapt it) — and these demands simply exceed the patience or attention span of most senior executives.

The *purpose* of the novel operating models is threefold: 1) more compelling mission prioritization and progress, 2) higher productivity/lower costs, and 3) greater impact and fulfillment for people. At a high level, the first purpose is achieved by bringing the "mission element" (e.g., the customer, the science, the molecule, the product, the desired outcome) to the fore, and sending everything else to the background (org chart, the functional domains, individual egos). The second is achieved in two parts: first by radically increasing the mission focus of our employees and quickly removing non-mission critical work. Second, by replacing manager-limiting processes with peer-enabling ones, some companies are able to increase the individual productivity of the mission-workers from 30-50% of potential to 60-90% of potential. The greater fulfillment that people in these systems experience stems from a fulfillment of the basic human desire for meaning and accomplishment. Once people experience this, they will generally never go back to a traditional model.

The *method* of the novel operating models is more difficult to explain as each company has to create a model that works for its unique business(es), culture, and historical context. However, a study of the most successful practitioner companies reveals a number of core elements:

- Mission orientation – this is a basic element because it provides the *potential* for people to find alignment in the absence of heavy management instruction, and it is a more robust source of motivation than fungible ones such as individual personalities, incentive plans, or PoAs

- Culture of mutual trust and support – because the novel operating models rely heavily on collaboration, teamwork, and accountability to peers rather than vertical control, a healthy culture of trust and support becomes essential
- Expected behaviors – this is typically a list of 5-10 behaviors that are to be expected of everyone in the organization. It is usually comprised of habits that are particularly important for the business and may include some aspirational statements — to correct existing unproductive behaviors. The expected behaviors are extensively communicated and are enforced in various ways, for example, as part of peer-to-peer accountability. A form of this that has been mentioned for Bayer and that has its roots in Bayer's LIFE is encompassed by the words: Fast, Trust, Facts, Learn, Differences, Simplify, Sustain
- Dynamic operating system – The operating system is where the novel operating models really come alive, but few traditional leaders are willing to embrace a system that is such a radical departure from what they have been used to. Such systems are comprised of principles and processes
    - The *principles* can be summarized by the acronym VITAL: Only **V**ision-critical activities may be resourced; all resourcing assumes continual **I**mprovement; **T**alent must flow at frequent intervals and to highest priority work; everyone is **A**ccountable to their peers; because everyone has a right to understand the strategies and plans — these are made **L**ucid to all
    - The *processes* govern the way strategies and actions are chosen, resourced, executed, evaluated, and rewarded by the people of a firm, and share the following characteristics in the known examples:
        - Apply to everyone in the firm from top to bottom and across all functions and organizational units
        - Are held at appropriate intervals for long, medium and short term outlooks (e.g., 5-10 years, 18-36 months, 90 days) (NB: there are no annual LRPs!) Since the long and medium term cycles are so infrequent, the short cycle becomes the heartbeat of the firm
        - Are conducted by groups of 5-10 people which comprise the firm
        - Include opportunities for coordination between groups and mechanisms for easy and frequent flow of resources between groups
        - Include front and back-end rituals to ensure alignment, execution, accountability, and learning
        - Are conducted by the workers and tend to make everyone more of a worker (including BoM members)
        - Are practiced in the same way everywhere, with common definitions, rituals, and frequency — so that you have firm-wide compatibility and interchangeability
- Leader as system enabler – in a traditional managerial system, the role of the leader is to decide what needs to happen, instruct the organization to do it, and ensure that it gets done – in short, to "command and control". The hierarchy is the primary channel for accomplishing this in the traditional model. However, the novel models have a much more horizontal orientation and rely rather on a worker-driven system of consultation, decision making, and action. This necessitates an entirely different role for managers, of which there are much fewer; command and control is antithetical to the goal of deeply embedding ownership throughout the organization. One description of the different role of leaders in the novel systems is VACC: Vision, Architect, Coach, Catalyst. The leader translates the mission into a clear ambition or "*vision*" for his/her area of responsibility. The leader *architects* the processes and platforms that facilitate the workers' self-

organization. The leader *coaches* workers on how to best utilize the system. And the leader looks out for areas where the system isn't working, and acts as a temporary *catalyst* to get things back on track

These are approaches that the Board of Management considers to achieve our ambitions for a Best Bayer, creating and evolving: 1) an environment where Bayer people are both highly productive and fulfilled, 2) a system to deliver world-leading innovation in each business, and 3) disciplines to deliver superior financial performance – to keep investors on our side and to fund future innovation.

RESTRICTED

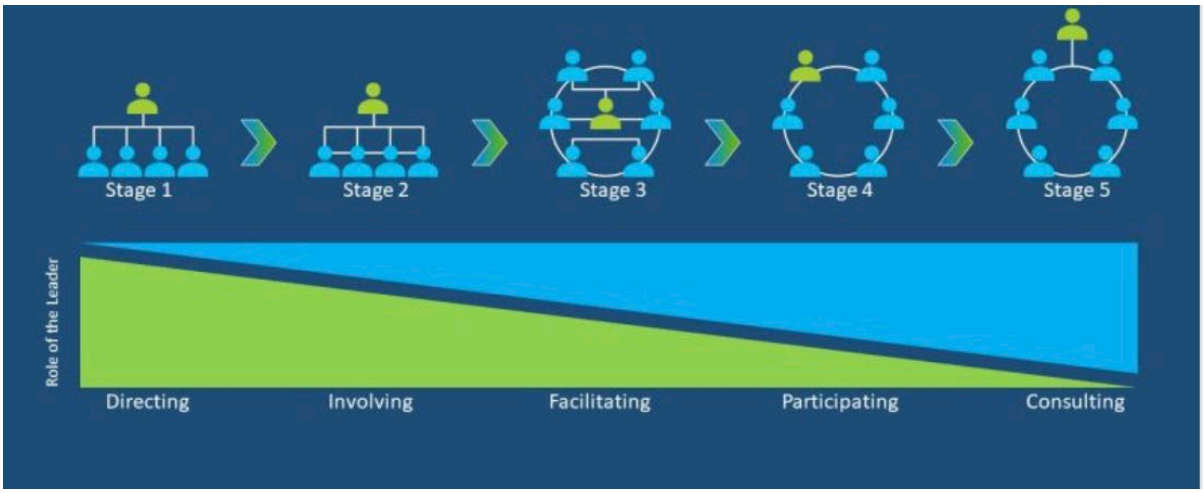
Source: Company documents.

Exhibit 8 DSO Principles

Mission-focus	Concentrating teams on what will make us the best for farmers, patients, and consumers – and abandoning the rest – through mission-derived and clearly defined long-, mid- and short-term outcomes of what we aim to accomplish
Customers and products at the center, supported by technical expertise and resource flow (VITAL)	Creating value through serving customers with distinctive products, enabled by world-class expertise in R&D, Product Supply and Commercial, and flowing talent, funding and other resources to where they create the most value
More power in the hands of people doing the work	Empowering those closest to the work to operate as a flat and open network of entrepreneurial and autonomous small businesses with leaders moving closer to our customers, and peer-accountable teams that look left and right, instead of up and down, and trust each other with their performance
Faster work cycles and continual improvement	Working in shorter 90-day cycles so the speed of our work matches the pace of our industries – pausing every 90 days to celebrate what went well, identify what should be done differently, and capturing and applying learnings so we can continually improve

Source: Company documents.

Exhibit 9 Evolution of Leadership under DSO



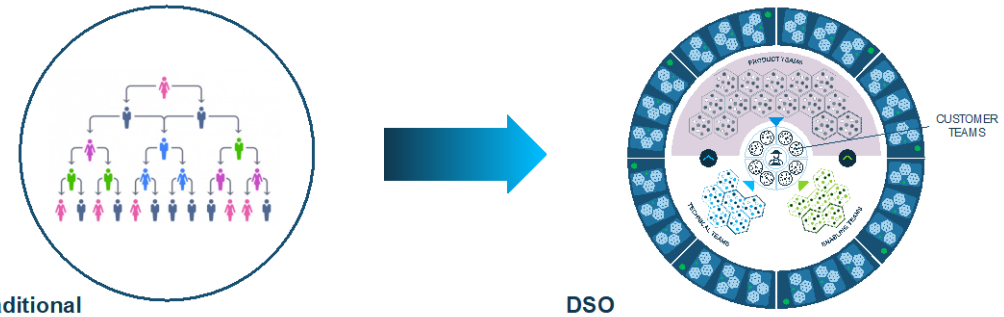
Source: Jeff Medley, LinkedIn post, https://www.linkedin.com/posts/jeff-medley-9b67058_bayer-teambayer-dso-activity-7173630653699440 64-1uNX/, accessed December 2024.

Exhibit 10a Desired Mindset shift

DSO BEHAVIORS	PRINCIPLES	VACC ENABLES EACH PRINCIPLE TO COME TO LIFE
FOCUS ON OUTCOMES	MISSION FOCUS	**Visionaries** engage with their teams in defining a mission and outcomes
CO-CREATE FOR CUSTOMERS	CUSTOMERS AND PRODUCTS AT THE CENTER	**Architects** unleash the passion and energy of their teams to deliver more value efficiently.
COLLABORATE WITH ACCOUNTABILITY	MORE POWER IN THE HANDS OF THE PEOPLE DOING THE WORK	**Catalysts** empower teams and foster collaboration across the network.
ACT, LEARN FAST & EVOLVE	FASTER WORK CYCLES AND CONTINUAL IMPROVEMENT	**Coaches** help teams learn and evolve continuously.
BE OUR BEST SELVES & INCLUDE OTHERS	ENABLING MINDSETS AND BEHAVIORS	All enabled by a shift in consciousness, to greater inner, outer and systems awareness

Source: Company documents.

Exhibit 10b Structural Redesign



Traditional

- Emphasis is on formal people leaders as the driving force in the organization.
- Many managers at many levels, who make all the key decisions, and direct and reward people to do the work.
- Career progress is made by moving up the hierarchy and leading more people

DSO

- Emphasis is on value-creating teams and micro-businesses as the driving force in the organization.
- Fewer leaders are working to shape the system, which allows them to focus on guiding and supporting micro-businesses focused on innovating and creating value
- Career progress is made by building a series of micro-businesses over time and delivering ever greater value

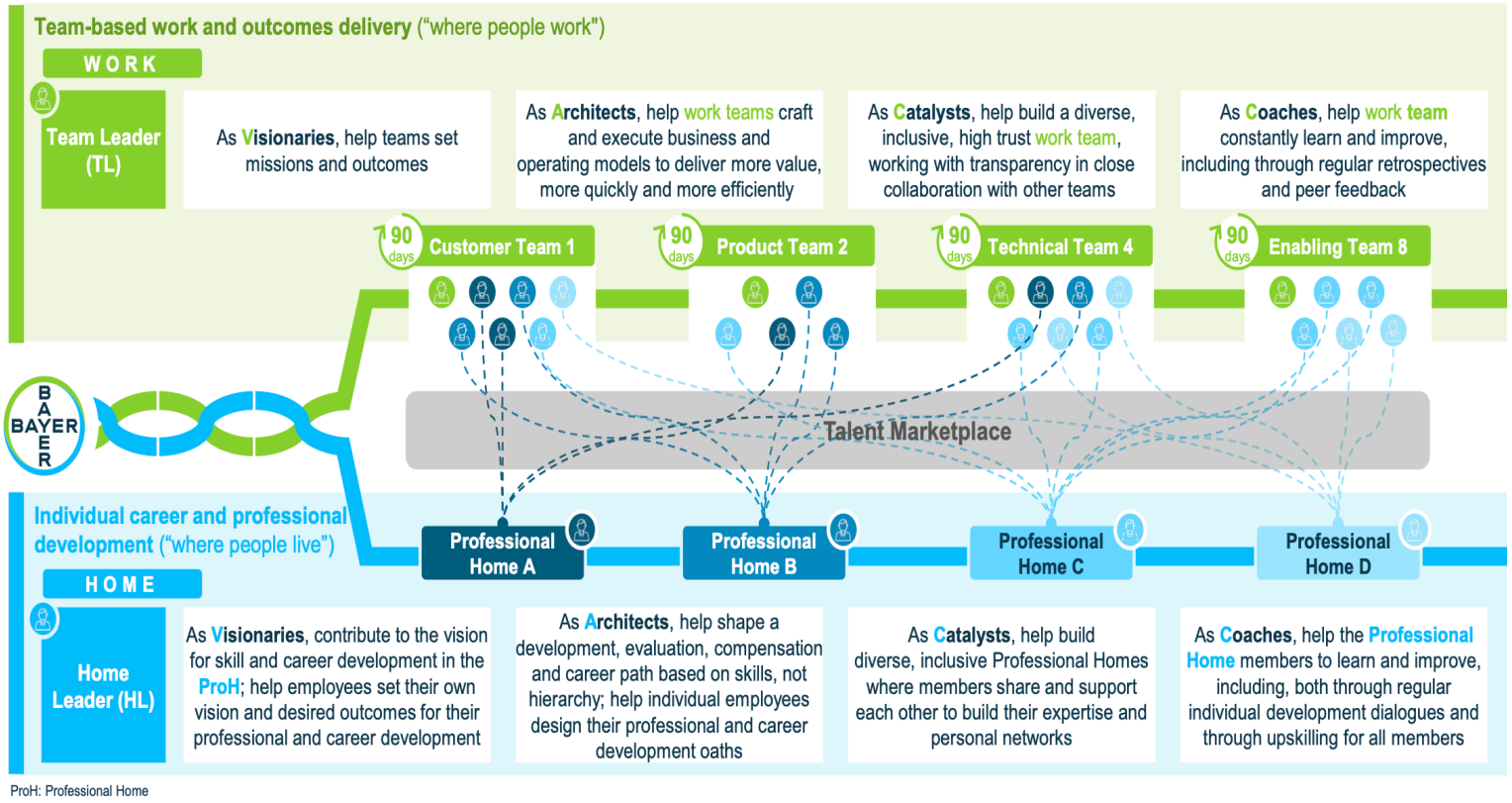
Source: Company documents.

Exhibit 11 Key DSO Terminology

Team	Definition
Leadership Team	Leadership Teams are current or reimagined Leadership Teams at each level of our divisions and functions. In DSO, Leadership Teams play a critical and fundamentally different role to traditional LTs. Rather than direction and control, in DSO LTs sense, guide and evolve the network of teams in an organizational unit. LTs are particularly important as, in DSO, leadership is exercised primarily through leadership teams, rather than individual leaders
Customer Team	Customer Teams are multi-disciplinary teams that focus on engaging and serving a defined set of customers in a granular market. Customer Teams work with Product Teams to determine what portfolio of products to bring to the customers they serve.
Product Team	Product Teams are multi-disciplinary teams that focus on developing and delivering a product across its lifecycle. The composition of Product Teams might change over the product lifecycle. Product Teams work with Customers Teams to determine which granular markets and customers to serve with their products.
Technical Team	Technical Teams provide expertise and infrastructure as services to Customer and Product Teams. They work with Product and Customer Teams, while developing their skills & careers through the technical expert communities.
Enabling Team	Enabling Teams work with colleagues, investors, suppliers and other contributors to source talent, funding, technologies and other resources. They work to enrich and flow these resources to the Customer, Product and Technical Teams while developing their skills and career through the enabling expert community. The network of enabling teams is organized in a lean global community.
Professional Homes	Group of professionals with similar capabilities/specialization. They enable professional development in their area of expertise and ensure Bayer-wide application of industry best-practices. Talent 'works' in one of the teams defined above, while it 'lives' and develops within a Professional Home.
Design Team	Design Teams are temporary teams that work to co-create and enable key elements of the new DSO model. These teams are intended to be dissolved once the element is in place.
Frontrunner Team	Teams (Leadership, Customer, Product, Technical, Enabling or Design) that are the first to start working in DSO model. Learnings from frontrunners will be leveraged by other teams. As more teams embark on DSO, the term "Frontrunners" will stop to exist.
VACC-Leadership	Acronym for leadership vision within DSO (Visionary, Architect, Catalyst, Coach): Leaders shift from managers that command and control to **Visionaries** that guide teams in defining the outcomes to deliver on the mission; from planners to **Architects** that shape a value-creating system to unleash the passion and energy of our people; from directors to **Catalysts** that remove roadblocks to facilitate connection and collaboration; and from controllers to **Coaches** that help teams learn and build the capabilities needed to create value for customers and stakeholders.
DSO Behaviors	**Outcomes (Focus on outcomes): We p**rioritize aspirational and achievable results for outside stakeholders – like our farmers, patients and customers – either in the short-, mid- or long-term (90 days, ~1.5 years, ~5 years) that teams jointly set to address; in DSO we focus on outcomes (what we seek to make happen), not tasks or outputs **Collaboration (Collaborate with accountability)**: Working in a flat network of diverse, autonomous and high trust entrepreneurial teams, that collaborate with each other across all areas of the organization **Co-creation (Co-create for customers):** Working together to generate new value by engaging and building relationships with customers in new ways, co-creating new products and solutions to meet customer needs, and flowing resources and expertise to the best granular product and customer opportunities **Evolution (Act, learn fast and evolve):** The act of executing, exploring and learning in rapid 90-day cycles. In each cycle we set short-term outcomes and prioritize initiatives to achieve them in 90 days. At the end of each cycle, we review our achievements, learn, adjust as needed and align on outcomes and prioritized initiatives for the next cycle. Through such continuous re-prioritization we deliver today, co-create tomorrow and let go of yesterday. **Authenticity (Be our best selves and include others):** Adopting a creative mindset and bringing the whole authentic selves to work (see creative mindset on next slide)

Source: Company documents.

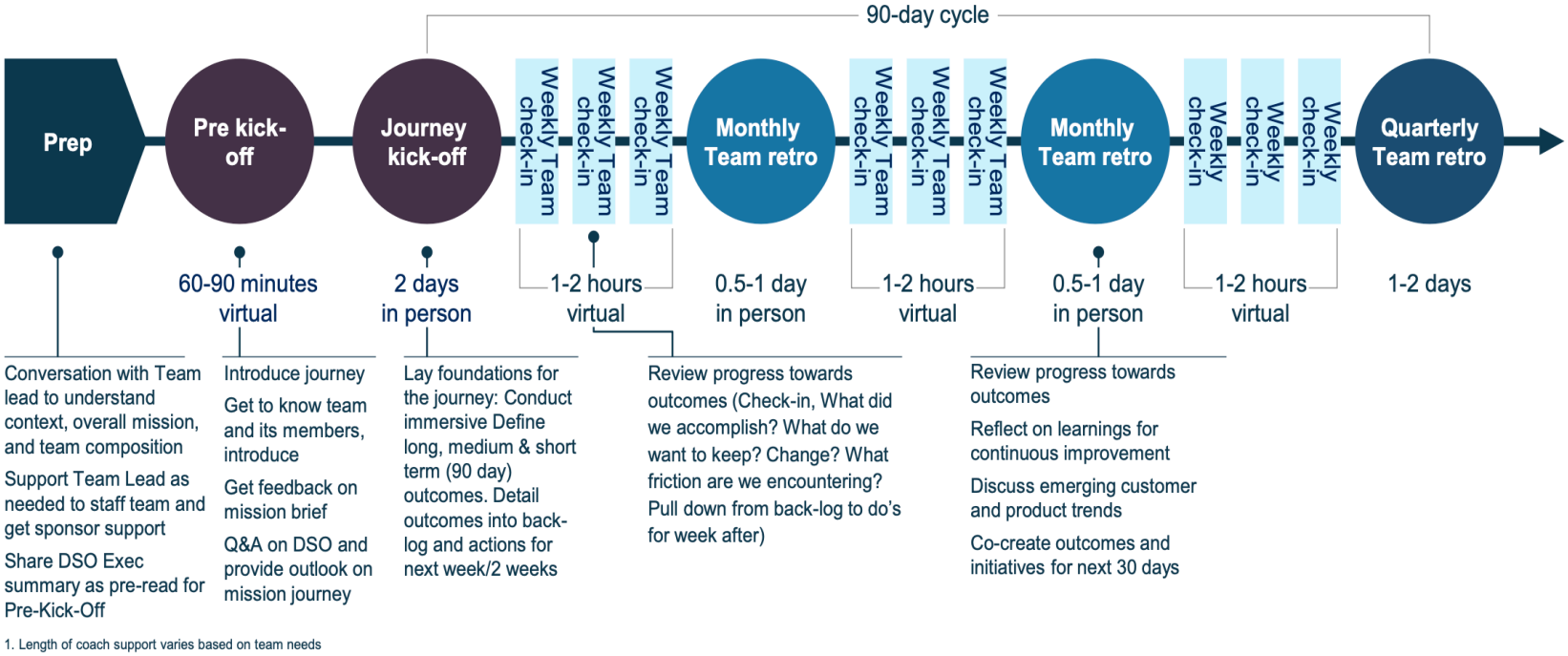
Exhibit 12 Organizational Overview



ProH: Professional Home

Source: Company documents.

Exhibit 13 Suggested 90-Day Cycle



1. Length of coach support varies based on team needs

Source: Company documents.

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