Vijay Govindarajan is the Earl C. Daum 1924 Professor of International Business at the Tuck School of Business of Dartmouth College in Hanover, New Hampshire. Chris Trimble is an adjunct associate professor at Tuck and a senior fellow at the New York consultancy Katzenbach Partners. Trimble and Govindarajan are the directors of the William F Achtmeyer Center for Global Leadership and co-authors of Ten Rules for Strategic Innovators (Harvard Business School Press).

Govindarajan and Trimble believe that successful innovation requires that companies go beyond simply introducing new ideas. Instead, they must also focus on organisational structure. “Innovation isn’t just about visionary people with great ideas and leadership skills,” they argue. “Success has more to do with companies making fundamental changes to their organisational DNA."

Business Strategy Review editor, Stuart Crainer, interviewed Govindarajan and Trimble at their New Hampshire base.

What was the starting point for the thinking which led to your new book?
Govindarajan: One way I think about strategy is to put everything an organisation does into three boxes. Box One is manage the present; Box Two is selectively forget the past; and Box Three is create the future. And what I find working with organisations is they always spend their time in Box One and think they do strategy. While Box One is incredibly important, it’s all about restructuring, re-engineering, making yourself efficient in what you’re currently doing, strategy is really about creating the future while managing the present.

For instance, there are huge opportunities in the emerging markets of India and China. The question is, if you are British Telecom, and you want to create an exciting future in India by the year 2020, how do you allocate your resources? What initiatives are you undertaking in 2006 across the three boxes so that you can stay relevant in 2020 and create successful opportunities in India? So boxes two and three are all about global innovation. Box One is all about performance management.

This is the framework I have been using for nearly 25 years in working with companies. When it comes to breakthrough innovation and growth – boxes two and three – ideas are not the problem. It is the execution. You can think about performance as a function of two things: ideas, which are all about creativity, and breakthrough execution which is all about taking the idea and converting it into a profitable idea. That’s when Chris and I joined together five years ago and asked once an established organisation has an idea for breakthrough growth, what happens?

What sort of ideas are we talking about?
Trimble: The kind of ideas we are talking about are ones which break from your current business model. For example, the New York Times had a highly successful newspaper and then comes the internet, an
learning challenge. If you can manage those three challenges, you can convert a breakthrough idea into breakthrough growth.

One of the first things we learned talking to people in this area is that there’s really a mythology that surrounds innovation. The mythology is all about that idea. You know, 100 years ago Thomas Edison said innovation is one per cent inspiration and 99 per cent perspiration. We feel like nobody listened. All the work is in going from idea to execution.

We sifted insights by comparing one story to the next from the New York Times Digital story to Corning, to one at Analog Devices, to Hasbro, to a big information technology company, and so on, and reduced it to those three major challenges: forgetting, borrowing and learning.

We use a piece of shorthand to explain this. We call the new company, NewCo. It’s the brilliant new start-up IBM. We refer to the existing company as CoreCo. So the forgetting challenge is that NewCo must forget CoreCo’s success model. The borrowing challenge is NewCo must borrow some of CoreCo’s assets. And the learning challenge is simply NewCo must learn how to succeed in this very new and uncertain environment that they’re in. So forget, borrow and learn.

Forget is the one that sounds the easiest but turns out to be the hardest. Usually what we find is that within a matter of seconds you can get your management team all to be able to repeat back to you how the new business model looks different from the core business model but, with so many reinforcers of behaviour embedded in CoreCo’s hardwiring, you have to do some pretty unusual things to get out of those patterns of behaviour, things that really address the fundamental elements that determine how an organisation behaves. Things like who you look to when you fill positions. How you hire

The more you succeed, the more difficult it is for you to forget.

One of the first things we learned trying to create breakthrough growth. Half succeeded; half of them failed. We documented them from the time the idea originated until the time they made profits. What were the management dynamics? And we reduced that to three basic challenges: the forgetting challenge, the borrowing challenge and the

The forgetting challenge is really about breaking away from this mindset. It means they have to make some tough decisions with regard to staffing, performance measurement, and so on.

How do you convince companies to forget the past? They have usually been encouraged to remember what made them great in the first place.

Trimble: It’s not a matter of lecturing somebody or saying it’s really important that we recognise our business model as X where it used to be Y. You don’t convince; you change the DNA of the organisation. You change the people. You change the way they relate to each other. You change both their formal relationships and their informal social networks.

Govindarajan: For instance, at the New York Times the digital idea originated in 1995. It was kept inside the newspaper as a unit, reporting to the general manager of the newspaper. But, no matter what they tried the idea was suffocated. So one issue in forgetting is to organisationally isolate the idea. Then the New York Times appointed someone from the outside. Bringing someone in from the outside was a very, very unusual thing for the newspaper to do. In fact, two thirds of the people in the digital unit were
The whole budgeting process was changed and the performance evaluation process was changed from meeting the plan to a more flexible approach. You need to separate the new idea from the old.

Govindarajan: At the same time you can't separate it too much. The reason the New York Times Digital will succeed inside the New York Times company is because there are some core competences of the newspaper that are valuable. That's the borrowing challenge.

Isn't there a great deal of tension between borrowing and forgetting?

Trimble: Exactly. If you want to be absolutely certain that you're going to forget, you set up in a different city, you use completely different people, you let them make all their own decisions and for sure you're going to forget, but you're not going to be able to borrow. There's got to be interaction between NewCo and CoreCo if you're going to be able to have access to CoreCo's resources. There has to be an organisational separation. The New York Times moved the New York Times Digital almost physically to another building, away from the newspaper. And the physical layout was different. You walked in there, it smelt different. The whole atmosphere was different, but you can't separate it so much that they don't benefit from the core competencies of the core business.

What we found in our research is any time there is connection between CoreCo, which is the core business, and NewCo, which is the new business, the connection tends to be in the wrong places. The connection tends to be, say, in the accounting department, human resources department, or finance department. Instead of having two human resource departments, organisations say let's have one human resource function attending to both units. Wrong. If the human resource function is common between CoreCo and NewCo, they can put in the same performance evaluation system. If the controllership function is common between CoreCo and NewCo they put in the same planning systems. The reason why they do this is cost reduction. They don't want two accounting departments. Combine them. Cost reduction is the wrong way to approach this. It should be to create opportunities rather than cost reduction.

You are saying that it is a matter of leveraging a small number of competencies rather than cutting costs? So at the New York Times presumably the core competence that you'd want to leverage across both of them, or borrow if you like, is the editorial quality or standard.

Govindarajan: Any time there's interaction between NewCo and CoreCo there's tension and there's conflict. And there's lots of different sources of conflict, whether it's conflict over resources, over control, over certain sales relationships, control over capacity for manufacturing, and so forth. This turns into a tremendous management priority for the senior team and so it is important that it is minimised.

Isn't there always going to be a fear that NewCo represents a threat, that it is going to cannibalise markets and have a negative effect?

Govindarajan: Wherever we found there was tension because of potential cannibalisation, it was very, very important not to create links in those functions. The role of the CEO is to manage these tensions. At the New York Times the fear was that the digital initiative would damage circulation. In response, they created some analysis to show that actually circulation was helped when newspaper content went on the web.
There are clear lessons from your research for mergers and acquisitions.
Trimble: Yes. If you’re acquiring somebody different, then the tendency is to make them look like you. Integrate and kill everything. In which case, our prescription would very much apply because you want to keep them separate, but also you need to make the links.

At what stage do companies need to start forgetting in their development?
Trimble: As soon as you decide it’s time to put resources behind an idea that you’re excited about that constitutes a start-up business, you need to start thinking about forgetting. And you need to start thinking about the steps to make sure that forgetting happens - bringing in outsiders, following a different organisational structure model, thinking about what performance measures make sense in this business, and whether the standards that you’re accustomed to have any relevance to this new business.

Govindarajan: In our research there is no perfect example of a firm which did everything right. But one thing we can say is that from day one, when you get the idea or start to receive money and see the idea flourish, you need to think about forgetting, borrowing and learning.

The role of the CEO is to develop the capacity for building breakthrough businesses.

you need to start thinking about forgetting. And you need to start thinking about the steps to make sure that forgetting happens - bringing in outsiders, following a different organisational structure model, thinking about what performance measures make sense in this business, and whether the standards that you’re accustomed to have any relevance to this new business.

Govindarajan: In our research there is no perfect example of a firm which did everything right. But one thing we can say is that from day one, when you get the idea or start to receive money and see the idea flourish, you need to think about forgetting, borrowing and learning.

trying to read a plan which has already become obsolete so all the actions are going in the wrong direction.

What we came up with is called Clearly Focused Planning. While accountability is still important, it is geared towards learning. The bonus for the general manager of a new business should be based on how well and how fast he or she is learning. At least once a quarter the plan should be revised.

So over time they become closer to the plan.
Govindarajan: That’s the whole idea. It’s like a funnel. At the beginning you don’t know. There are a lot of options.

This message of pulling away from accountability to a plan is one of the most difficult ones to get across to senior executives. They shudder when you say it, and I think the perception is that the opposite of accountability to plan must be chaos. In fact there is a systematic and disciplined way that you can create accountability for learning, and that’s what’s we call the Theory Focused Planning Approach which enables this accountability to learning.

What’s the role of the CEO then in this?
Trimble: The number one role of the senior management team, and the CEO in particular, is to make sure the links between the NewCo and CoreCo work. The borrowing challenge, for example, requires senior level intervention because there are conflicts of interest between the two organisations.

Govindarajan: The role of the CEO is to develop the capacity for building breakthrough businesses. The role of the CEO can’t be just saying let’s do these five things in the future. Nobody knows exactly what those five ideas should be. We go back to organisational design. The role of the CEO is to create all the additional architecture so that you take the maverick with lots of ideas and build a team around them.

Stuart Crainer (scrainer@london.edu) is editor of Business Strategy Review.