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Achieving breakthrough growth: From idea to execution

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Achieving breakthrough growth: From idea to execution

About innovation, it could be said that in the beginning there is the idea, and in the end, all too often, there still is the idea and only the idea. The reason is that successful innovation is based on both an idea and execution. As these authors state, "the idea is only Chapter 1." Moreover, a new company spawned by the established company must forget the latter's formula for success and its way of doing business. NewCo must forget, borrow and learn.

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This article is based on their recently published book, *Ten Rules for Strategic Innovators: From Idea to Execution.* (Harvard Business School Press, 2005).

Strategy used to be about protecting *existing* competitive advantage, but not any more. Today it is about finding the *next* advantage. The truth is that every strategy starts to decay the day it is created. Based on our extensive research, this article will help leaders to create and execute strategies that give their organizations this *next* advantage for managing new business realities.

Three types of strategic action

Strategic actions fit into three separate boxes: Box 1 is all about managing the present and improving the current business; Box 2 involves selectively abandoning the past; and Box 3 contains the keys to creating the future. The Box 1 challenge is to secure the organization's immediate profitability, but strategic engagement can't stop here. A company needs to open Boxes 2 and 3 in order to demonstrate breakout performance and growth of the kind that will sustain its market leadership for the next 10 years. Without a doubt, the central task of an organization's leaders is to balance the demands of both managing the present and creating the future. Apple Computer, for example, must continue to excel at producing personal computers that delight its core customers (Box 1). But it must also secure its future by launching high-growth potential, transformative brands like iPod and iTunes (Boxes 2 and 3). (Boxes 1,2 and 3 are at the end of the article)

Leaders who run their businesses on a short-term perspective assume their industry is stable and static. They realize too late that changing the direction of an organization can take years, while change in the business environment is rapid and non-linear. Nanotechnology and genetic engineering, for example, are revolutionizing the pharmaceutical and semiconductor industries. Once-distinct industries, such as mass-media entertainment, telephony and computing, are converging, while rapidly escalating concerns about security and the environment are creating unforeseen markets. Globalization, too, is opening doors to emerging economies such as India and China, which have billions of customers with vast needs. Other, more subtle changes are important as well, such as the trend toward more empowered customers, the aging population in the developed world, and the rising middle class in the developing world.

This combination of forces creates non-linear change. In this environment, old assumptions are no longer valid, and strategies need almost constant reinvention because they are quickly imitated. The only way to stay ahead - the only way to capture emerging opportunities - is to innovate.

Maximizing profits from existing businesses (Box 1) is

tremendously important, but business leaders also need to recognize that the life of any business is finite. Responsible leaders build for a future beyond that life. Many companies -- like Sears and K-Mart in retailing, and Kodak in photography -- ignore Boxes 2 and 3 until it is too late. How can other companies avoid similar declines? How can large, established corporations build breakthrough new businesses?

Ideas are not enough

We asked hundreds of executives in *Fortune 500* companies to assess the capability of their organizations in breakthrough idea generation and execution. We used a 10-point scale, where 1 is poor and 10 is world-class. Typically, companies scored themselves 5 or 6 on idea generation, and only 1 or 2 on execution.

Interestingly, companies that launch innovation initiatives tend to allocate most of their energy to generating ideas, even though common sense suggests that execution is equally important. Just for fun, do some math: which company is likely to achieve better results -- the one that increases its ideas generation score from 6 to 7, or the one that improves its execution score from 2 to 4?

Ideas are crucial, but even the best ones are speculative. The future is too unpredictable. This highlights the need for execution. Even the best business plan for a breakthrough idea is guesswork. In Box 3, it is not the company with the best initial strategy that wins, it is the company that learns the fastest. This leads us to Rule No. 1 (from our book, Ten Rules For Strategic Innovators - from Idea to Execution): in every great innovation story, the idea is only Chapter 1.

Most organizations have very little understanding of how to get from idea to profitability. The research that led to Ten Rules is based on multiyear histories of innovative efforts at 10 companies: Corning, The New York Times Company, Capston-White (not its real name), Analog Devices, Unilever, Cisco Systems, Hasbro, NuCor, Stora Enso and the Thomson Corporation. Using in-depth interviews and archived documents, we examined strategic innovations in these companies that exploited advances in digital technology, biotechnology and nanotechnology.

In the next section, we profile one company from our research, The New York Times Company, and its efforts to launch an internet unit -- New York Times Digital (NYTD). We then introduce the remaining nine rules for building breakthrough businesses within established organizations.

New York Times Digital

In the mid-1990s, *The New York Times* newspaper was at the top of its game. Its influence was strong, its readers were elite, and it was in the midst of a successful national expansion. Journalists everywhere viewed the Times as a career destination. In fact, writers with less than 10 years at the *Times* were considered newcomers.

In 1995, tradition crossed paths with technology when an IT employee said to Russ Lewis, CEO of The New York Times Company, "Boss, I think this internet thing is going to be huge. We should do something." This was the beginning of a transformational journey.

At first glance, it may not seem like such a radical transformation. There are obvious similarities between the newspaper and the website. There are dramatic differences, however, in the underlying business model. The newspaper runs on a routine, 24-hour news cycle; the website is updated continuously throughout the day. The newspaper charges a premium price; most content on the website is free. At the foundation of the newspaper business is excellence in journalism; the website is built around software expertise. To advertisers, the newspaper is an opportunity for broad-based brand building; the website is an opportunity for precise targeting. The newspaper offers readers text and still pictures; the website offers a full range of multimedia content, from the newspaper and a variety of other sources. The business model for NYTD was not only much different than the model for the newspaper, it was highly uncertain at launch. Such basic questions as whether the website needed a separate and independent newsroom were up for debate.

In building NYTD, senior management's first move was to conduct an extensive outside search to find someone capable of leading the venture. They hired Martin Nisenholtz, who had spent his entire career developing expertise in interactive communications. Nisenholtz was put in a senior position - he reported directly to both the general manager and editor of the newspaper. And he was given a staff that was rich in experience within The

New York Times Company.

As a result, NYTD had ready access to newspaper resources, and was off to a fast start. Within two years, however, NYTD's leadership team worried that their operation was not evolving as rapidly as the world of on-line media. Their own internal jargon reflected their concerns: they sometimes referred to their business as "newspaper.com," and their website as "shovelware," as if all the on-line medium could do was shovel newspaper content to consumers.

Nisenholtz felt constrained by the assumptions that his newspaper colleagues were making about what it would take to build a successful NYTD. Even outsiders began to wonder if the company was investing heavily enough in the new technology. In 1999, CEO Russ Lewis chose to reorganize NYTD as a separate business unit. This was a crucial turning point -- a decision that was consistent with what has become conventional wisdom for managing new ventures: they must be organized as separate units.

In the case of NYTD, what does "separate" really mean? And separate how? The reorganization of NYTD included several specific changes. First, Nisenholtz was promoted and now reported directly to the corporate president rather than to the newspaper. At first glance, this might not seem unusual, but it was in fact startling. On the organization chart, NYTD was now a peer of a business unit nearly one hundred times its size. In addition, NYTD:

- Began recruiting so heavily from the outside that by 2000 three-quarters of the staff came from external sources.
- Dismantled the product development process and rebuilt it - creating non-traditional roles, responsibilities and titles, and breaking norms for organizing that were common throughout the newspaper industry.
- Altered their planning approach to meet the demands of a rapidly changing and uncertain environment.
- Appointed its own policy team, including a separate VP of Human Resources, VP of Business Development and CFO.
- Created a "culture committee" to examine the existing values and redefine them, as needed, to suit the new environment.

These changes precipitated an explosion of creativity. The staff created dozens of new features. Revenues handily exceeded expectations for several quarters. Still, the changes were not without side effects. New tensions arose between NYTD and the newspaper because of competition for resources, concerns over protecting the brand and customer relationships, and even simple jealousy. Because NYTD talked openly about trying to create a new and different kind of organization, some described the atmosphere as "us versus them." While NYTD was able to grow the top line, their efficiency and effectiveness suffered as a result of the strains in their relationship with the newspaper.

When the bubble burst, NYTD was in a serious jam. Though revenues were growing, profits lagged. As weakness in the core business led to declines in profitability at the corporate level, NYTD's losses seemed ever more serious. The newspaper's leadership team almost succeeded in reducing NYTD once again to a simple newspaper.com operation, but Russ Lewis chose a different path, insisting on an immediate, concerted drive to profitability. While this led to two painful layoffs, NYTD achieved profitability in 2001. It has grown its profits since. A crucial part of the solution involved setting up teams at the senior management level to improve co-operation and coordination - in just a few areas, where it mattered most.

There is still a great deal of uncertainty in the future of on-line media. NYTD continues to examine and re-examine its organizational approach, but there are important lessons to be drawn from the story so far. NYTD evolved into what we call the "distinct-but-linked" organization (Box 1), which is a little more specific that being "separate." "Distinct but linked" means that the new business, or "NewCo," is a fundamentally different organization, but is still not isolated from the core business or "CoreCo." We now turn to specific recommendations for making the distinct-but-linked model as effective as possible.

Forget, borrow, learn

By comparing The New York Times story to several others, we learned that a distinct-but-linked approach can help NewCo to overcome three central challenges in executing breakthrough innovations: forgetting, borrowing and learning.

- NewCo must forget CoreCo's assumptions about why it wins.
- NewCo must borrow CoreCo's assets.
- NewCo must learn how to make a profit in its uncertain market.

Note the important distinction between what must be forgotten and learned, and what must be borrowed. What NewCo must forget and learn are mindsets, assumptions and decision biases. On the other hand, what NewCo borrows is assets with concrete value - such as brands, manufacturing capacity, sales relationships or technical expertise.

There are fundamental relationships among forgetting, borrowing and learning. First, there is always tension between forgetting and borrowing. It is difficult to do both. Too much borrowing creates too much interaction between NewCo and CoreCo, and inevitably gives CoreCo too much influence. Second, forgetting is a prerequisite to learning. If NewCo clings to CoreCo's success formula, it cannot discover how to succeed in its own unique environment.

All three of the challenges are deceptively difficult. Forgetting, for example, may at first appear to be simply a matter of training managers to recognize the sharp differences between business models. But this is insufficient. Behaviours must change as well, and there are many reinforcers of behaviours consistent with CoreCo´s business model (and not NewCo's.) The crux of the forgetting challenge is removing these reinforcers, and thus erasing organizational memory. Borrowing is difficult because it is easy to try to borrow too much, or to overlook the tensions that inevitably arise between NewCo and CoreCo and disrupt borrowing. Learning is difficult because the learning process and the planning process are really one and the same, and planning processes within established organizations are designed for delivering consistent results, not resolving unknowns.

The only way to forget, borrow and learn is to alter the set of policies that have the greatest influence over behaviour -- that is, to alter the organizational DNA (Box 2). All organizations have DNA. When small companies get big enough that the leader can no longer make all of the decisions, the leader starts to create DNA -- by establishing policies, decision rules, incentives, values, and more.

Organizational DNA is similar to biological DNA. Both shape motivations, behaviours and abilities. Both are difficult to observe directly, yet are very powerful. There are also differences. Biological DNA is inherited at birth, and cannot be changed. Organizational DNA is created early in life, and -- with effort -- can be changed.

A strong organization has a DNA that is consistent with its business model, but this means that the same DNA will get in the way of a new business. An organization's weaknesses are just the flip side of its strengths. Hard-wire an organization to excel in one business, and it is almost certain to struggle in a different one.

The remaining nine rules (Box 3) represent a more specific blueprint for using the distinct-but-linked design to forget, borrow and learn. There are three rules for each challenge.

To forget, NewCo must rebuild its DNA from the ground up. Outside hires play a crucial role in erasing organizational memory because they naturally challenge existing assumptions, every day. Outsiders must be placed in influential positions. When Corning launched a new biotechnology business in the late 1990s, it hired outsiders, but only for technical positions, not managerial ones. Two years into the venture's life, the decision to place two outside experts in managerial positions helped turn the business in a more positive direction. In addition, NewCo should report at least one level above the general manager of CoreCo. Both Corning and the *Times* learned that having NewCo report to CoreCo gives CoreCo too much influence, and makes it difficult for NewCo to overcome entrenched assumptions. Performance measures are another strong reinforcer of existing behaviours and mindsets. For some time after Analog Devices Inc. built a new business to commercialize a new crash sensor that launches automotive airbags, it evaluated NewCo against CoreCo's standards for gross margin, even though its cost structure was much different from CoreCo's. This led to misperceptions and missteps.

The first principle for success at borrowing is to be exceedingly cautious about how much is borrowed. Each link between NewCo and CoreCo makes it more difficult for NewCo to forget. When General Motors launched OnStar, it took the approach that it should borrow everything possible from the core business. As a result, it adopted several elements of the automotive business

model that were not a natural fit for an information technology business. NewCo should borrow only when to obtain a crucial competitive advantage, never just for incremental cost savings. Links must not only be carefully selected, they must be carefully managed.

Tensions between NewCo and CoreCo are inevitable, and the senior management team must recognize that keeping these tensions at productive levels is the most crucial thing they can do for NewCo once it is launched. An important step for ensuring tensions remain at healthy levels is to make borrowing as easy as possible for CoreCo. The general manager of CoreCo is responsible for the business that is the foundation of the corporation's ongoing performance, and he or she should not be distracted by an experimental new unit. To make borrowing painless, CoreCo's resources should be increased in areas where NewCo demands time and attention. Also, transfer prices should properly correct CoreCo's reported income.

NewCo has a very focused learning challenge: it must learn to predict its own business outcomes. The quicker it gets better at forecasting its own performance, the faster it resolves the critical unknowns in its business model, and the more quickly it will zero in on a winning formula ? or exit a losing one. When NewCo is learning, wild guesses become informed estimates, and informed estimates become reliable forecasts.

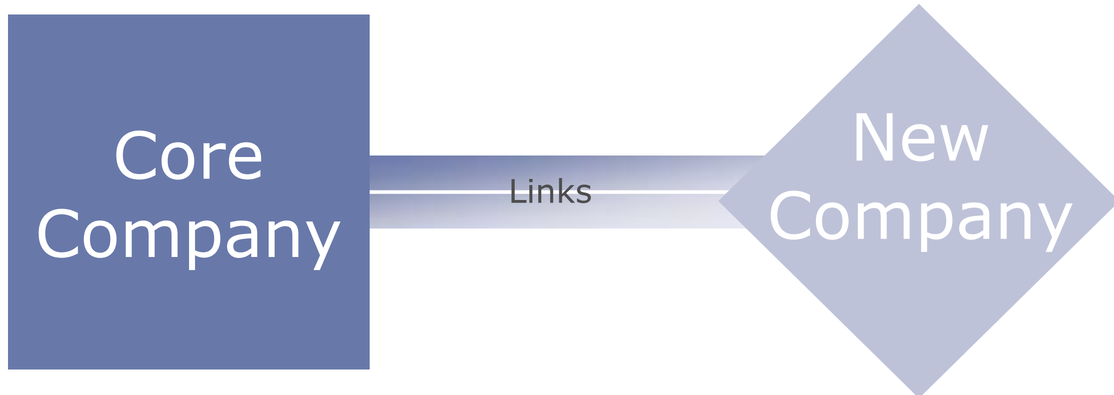
Predicting is the activity at the core of the planning process, so all of the rules for learning are alterations to the traditional approach to planning. Most crucially, the senior management team must hold NewCo accountable for learning, not for delivering the numbers in the plans. Clearly, by definition, NewCo cannot learn if it cannot alter predictions as it gains more information. Still, this is a difficult shift for senior managers, who often connect strong performance with strong accountability. The opposite of accountability to plan, however, is not chaos. It is a disciplined, structured and rigorous approach to learning.

One crucial attribute of a planning process that supports learning is that it iterates more frequently. NewCo's plans should be revised quarterly, or even monthly. This implies that NewCo's plans must be less detailed; otherwise planning becomes too great a burden. NewCo's plans must be simple and focused on just a few critical unknowns that can make or break the business. Finally, NewCo's and CoreCo's planning meetings should be separate. Hasbro's internet unit, Hasbro Interactive, had both a meteoric rise and a rapid decline. One contributing factor to the decline was a decision to hold monthly meetings in which all business units reported performance on standard metrics. This made it very difficult for Hasbro Interactive to diagnose what was working and what was not - there were too many conflicting interests and assumptions in the room at the same time.

Strategic innovation (Box 3) is crucial for long-term growth, even for survival. But ideas are not enough. In any great innovation story, the idea is only Chapter 1 -- companies must excel at both creativity *and* execution. Finally, there are three challenges to execution -- forgetting, borrowing and learning. The new company must forget CoreCo's success formula, borrow one or two of its valuable assets, and learn how to succeed in its new and uncertain market.

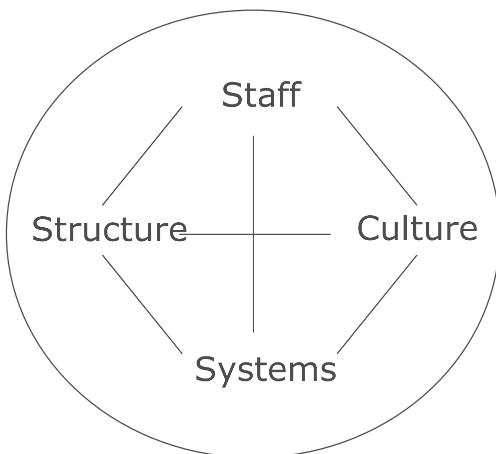
Box 1

Distinct But Linked



Box 2

Organizational DNA



Staff	Leadership style, hiring and promotion policies, career paths, competencies
Structure	Decision authority, formal information flows, task flows
Systems	Planning, budgeting, performance evaluation, incentives
Culture	Values, embedded biases and assumptions

Box 3

The Ten Rules

Rule	Category
1. Ideas are only beginnings	
2. Hire outsiders, in influential positions	FORGET
3. NewCo reports above CoreCo	FORGET
4. Redefine NewCo's performance measures	FORGET
5. Leverage Only 1-2 of CoreCo's Valuable Assets	BORROW
6. Anticipate Tensions at Points of Interaction	BORROW
7. Make Borrowing Easy for CoreCo	BORROW
8. Hold NewCo Accountable for Learning	LEARN
9. Increase NewCo's Planning Frequency	LEARN
10. Hold Separate Planning Meetings for NewCo	LEARN