'The Three-Box Solution is about being a leader in 2025, not 2016'

Creating a new business and optimising an existing one are fundamentally different management challenges. It's doing both simultaneously that is the real challenge for business leaders, innovation guru **Vijay Govindarajan** tells Kanika Datta

Q&A

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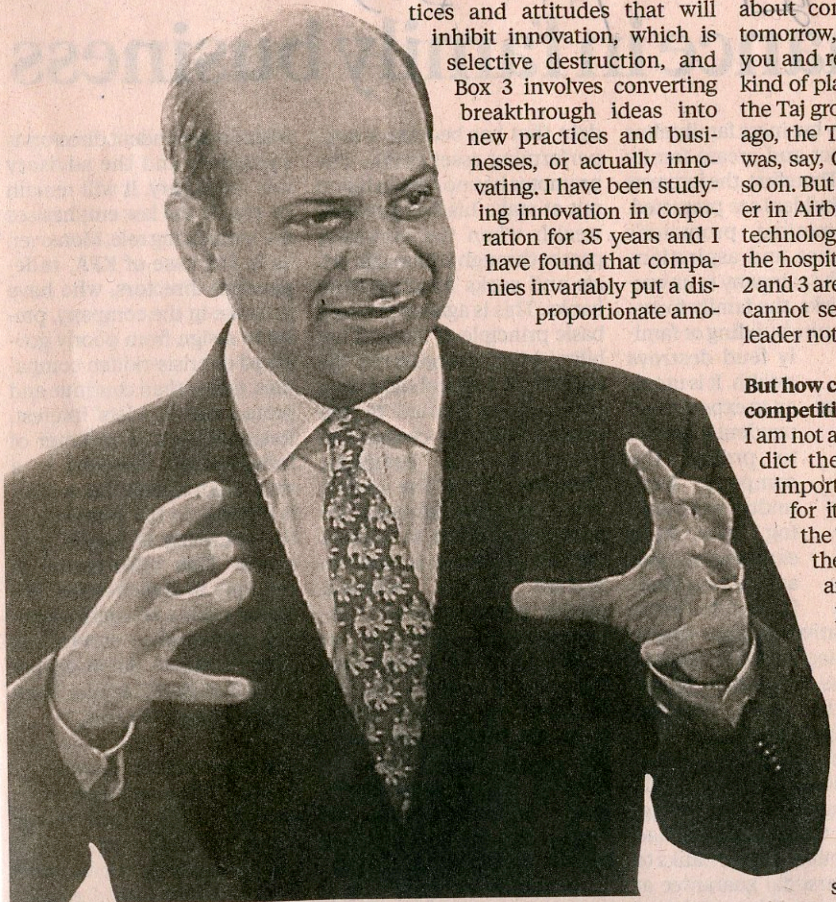

The three-box paradigm sets out an ideal for management. What goes wrong in practice?

The Three-Box Solution essentially covers everything an organisation should be doing. Box 1 involves managing the business at peak profitability, which addresses the efficiency angle. Box 2 involves abandoning ideas, practices and attitudes that will inhibit innovation, which is selective destruction, and Box 3 involves converting breakthrough ideas into new practices and businesses, or actually innovating. I have been studying innovation in corporation for 35 years and I have found that companies invariably put a disproportionate amount of emphasis on the present. So the Three-Box Solution is about bringing a sense of balance to organisational activity.

How would this model help managements anticipate the competition?

Box 1 is about competition and profits today. Boxes 2 and 3 are about competition and profits tomorrow, which is not visible to you and requires a very different kind of planning. One example is the Taj group of hotels. Five years ago, the Taj Group's competition was, say, Oberoi or Sheraton and so on. But now, there's a new player in Airbnb, which is leveraging technology to rent out space in the hospitality industry. So Boxes 2 and 3 are about the frontiers you cannot see — it's about being a leader not in 2016 but in 2025.

But how can companies see this competition if it is "invisible"?

I am not asking companies to predict the future but it is very important for them to prepare for it. I call this identifying the "weak signals". Box 1 has the clear signals but 2 and 3 are about emerging competition which, by its very definition, can be a noise or a signal. It is the job of leaders to create hypotheses about the future based on the future. Take the Taj Group again, and consider Uber taxi-hailing service, which leverages the sharing economy. You could put these two things together to do the same thing in hotels.

Some companies like Google and Shell have separate units for innovative or "blue skies" thinking. Does the 3-Box structure entail separate structures?

The concept is easy to talk about but difficult to do because year 2025 is far away so you worry about April 2016. But that's a losing way to run a company and that's what the book is about. First, you need to set up different networks and teams for 2 and 3. Second, while the group is separate it should be connected to the mother ship so that you get the benefit of the brand values and so on. Third, you need to set up different performance metrics for the new set-up and these cannot be short-term in nature. Google is a great example of an organisation that is reimagining the future by creating Alphabet, in which Box 1 is today's business, and then there are separate groups for artificial intelligence, robotics, driverless cars...Or consider Mahindra & Mahindra (M&M). It was not an expert in automotive engineering but when it created the Scorpio in 2002 it set up a separate team.

How does this enable companies to face the kind of challenge that, say, Nokia faced when it diversified from paper and rubber products into mobile telephony?

I am talking about related diversification in which it is possible to use the assets and knowledge bases of the existing company to benefit boxes 2 and 3.

Also, how do you prevent the kind of silos that organisations tend to create between functions and businesses?

The silo network could be a killer and it's really the job of the CEO to ensure it doesn't happen. They have to understand that innovation is a symbiotic, on-going process. If you think about it, the core concept of the Three-Box Solution is rooted in Hindu scriptures where you have Vishnu, the preserver, Shiva, the destroyer and Brahma the creator!

What about managing the risks in the innovation process?

My recommendation is to break down the big hypothesis into smaller hypotheses and test them in a low-cost experiment. For instance, M&M's Scorpio was a $120 million project that involved automotive design; till then M&M was assembling Jeeps with foreign technology and making tractors for the rural markets. What they did was to take a Jeep model, gas it up as an SUV and introduce it in urban areas. This was the Bolero, a project on which they spent just $5 million, so the organisation was able to learn things to take the next step.

Are the challenges different for "old economy" companies and those in the new-economy emerging businesses?

If you think of Silicon Valley, the sheer pace of innovation means that Box 3 becomes Box 1 very quickly. Dropbox, the file-hosting service, was the very first Unicorn. But in the past 12 months it has lost valuation because Apple and Amazon have come out with similar offerings. So the challenge of the Three-Box Solution is even more acute in the New Economy.