Vijay Govindarajan and Chris Trimble (2005). *10 Rules for Strategic Innovators: From Ideas to Execution.* Boston, Mass.: Harvard University Press.

S. Manikutty

There have been numerous books on how to foster innovation, but few on how to carry those innovations to the logical end by converting them into business propositions. Most top-level managers have no doubt had the frustrating experience of not being to implement their break-through strategic ideas into execution. The problem is greater when the new idea involves devising a new business model and hence implies setting up of a new organizational unit with a different business model – as with Barnes and Noble with its online business, R.R. Donnelley with its digital division, Hindustan Lever with its IT Division, or Gujarat Cooperative Milk Marketing Federation with its pizza business[1]. The new unit has a clear business model which ought to work, but does not, despite the organization staffing it with its best and brightest executives, and setting up tried and tested systems similar to what had worked in the parent company.

Well, not *despite*, but *because* of the above actions, argue Govindarajan and Trimble in their new book. The central argument of the book is that when a new strategic unit is set up to exploit a new idea with a new business model, it would be a big mistake to borrow the old business model, or transfer its old staff. When a company (the "Core-Co") spins off a new unit ("New-Co."), its natural tendency is to transfer as much of its personnel, systems and know-how from its parent as possible. But the New-Co typically requires new models, new systems and often a new culture to work – and this is not going to happen if the Core-Co tries to replicate its old models and transfer the Core-Co personnel to the new venture.

Anyone familiar with public sector enterprises in India can see the point straight away. When PSUs were formed, the systems of checks prevalent in the government were transferred, often along with its bureaucracy, to run the PSUs and the result is there for all to see. This happens equally in the private sector as well, and not just in India, as shown by a number of case studies in this book. All the cases in fact have American content, but there is nothing culture or context specific about these studies.

The core of the problem lies in what Govindarajan and Trimble call the "forgetting challenges." Much has been written on organizational learning, but an important contribution of this book is to bring to the centre-stage the technology of forgetting. Those familiar with the literature on exploration vs. exploitation of technology (March, 1991) will readily recognize the problem in such radical innovations as their being treated as problems of exploitation, whereas they ought to be treated as problems of exploration. The problem is amplified by the new ventures being treated as nothing more than "related diversification". Old models, assumptions and actions are applied in a new setting and "they become orthodoxy" (p.7). Their appropriateness is seldom questioned.

[1] GCMMF, however, did not set up a new organizational unit for its pizza business.

What should the New-Co forget? Three things, argue the authors: the Core-Co's business definition, its old competencies and its exploitation of a proven business model. It should also learn to unlearn, and apply new "technologies of foolishness" (March, 1976) to see what works in the new setting. This is virtually impossible if the New-Co is staffed by Core-Co's executives, or if it is linked to the Core-Co at a low level in the organization, so that it is effectively controlled from the Core-Co. The functioning of an organization is encoded in what the authors call its "organizational DNA" – its staff, structure, systems and culture. These are deeply embedded into its systems, and it is virtually impossible to split open the DNA and address the problems in parts. So when the DNA finds its way into the New Co, it replicates itself.

The authors show how each of the above elements of the organizational DNA are very likely to be inappropriate in most New-Co settings. For the new business model to succeed, there is much need to experiment, the staff in the New-Co need to be creative and inspirational rather than transactional; the structures need to be flat and informal (organic) and not hierarchical; systems must focus not so much on immediate tangible results as on learning; and the organizational culture needs to be risk tolerant. Thus a typical quarterly result driven system will take the focus away from the true determinants of success: the ability to innovate and learn. This implies, usually, a new set of people with different attitudes and competencies, which, in turn implies, usually, a fresh set of people. This, however, does not mean that there should be no linkage between the Core-Co and the New-Co., or that the latter should not leverage on the Core-Co in any way. What *can* and *should* be borrowed from the Core-Co are its assets – its production facilities, distribution systems, brand names etc., *provided that* this does not imply dependence on the Core-Co. This usually means a structural separation of the New-Co from the Core-Co, and reporting of the New-Co managers to the Core-Co at the highest level. It has to be ensured that the Core-Co's systems and cultural attitudes do not exert an undue influence over the New-Co.

To develop these ideas, the authors take the reader through ten chapters, in which the reader is presented with detailed case studies of five companies: Corning's venture into DNA microways, the New York Times' foray into its digital edition (forming a new unit called New York Times Digital), Hasbro's getting into the toys business, Capston–White's moving into service business (the company was in the business of manufacture and supply of computer printers and related technology), and the entry into micro electro-mechanical systems (MEMS) by Analog Devices Inc. In each case, the problem was similar: a new business to manage for which a unit was spun off, with little if any realization of just how different the model in the new business needed to be. Chapters two and three deal in detail on Corning's problems and constitute the most detailed case study: Chapter 2 dealing with the false steps taken by the company and the resulting problems, and chapter 3 on how it solved the problems. Chapter 4 shows how tensions arise when New-Cos borrow from Core-Cos, using the case of New York Times Digital. Chapter 5 shows how to convert these tensions into a productive form. Chapter 6 is an important and interesting chapter, with a title of "why Learning from Experience Is an Unnatural Act" that explains the thrust of its contents; so do chapter 7 titled "How Being Bold, Competitive or Demanding Can Inhibit Learning" and chapter 8 titled "How Being

Reasonable or Diligent Can Inhibit Learning". Chapters 7 and 8 argue their themes through case studies of Hasbro Interactive and Capstone-White respectively, and have important ideas on the central theme of the book.

Among the chapters, chapter 9 is a hard chapter to read but is the richest of all. It emphasizes the need for developing a "theory" for the business: how it works, and its cause and effect linkages. It also gives a number of very specific recommendations. This chapter should serve as a practical supply step guide for practicing executives, and if the earlier chapters have been gone through fairly intensely, this chapter could serve as a ready "how-to-do" guide later.

The last chapter states and explains the "ten rules" for strategic innovation. It serves as a sort of recap of the other chapters and converts the discussions into a set of easy to understand rules to increase the chances of a new venture to succeed, using the case study of Analog Devices as a background. I am tempted to list the ten rules here, but I would rather that the reader reads them him/herself.

The book is undoubtedly a major contribution to strategic management and innovation literature. With some adaptations, the principles can be applied to situations such as diversifications and starting new ventures in a family group of businesses. Inevitably, one compares these ideas with those in Clayton Christensen's *Innovators' Dilemma* (Christensen, 1997) and wonders whether the companies studied by Christensen could have avoided the problems faced by them by adopting the approach given in this book by VG and Chris.

There is little doubt that the uncertainties of successfully exploiting new business ideas have a lot to do with the attempt to graft the New-Cos' into strong and vigorous Core-Cos. But the book seems to skirt two issues: first it does not explore the fundamental nature of such uncertainties: that they are essentially very complex problems that are sought to be reduced to simpler formulations but still understandable in a rational framework. The building of theory for the new business may all too easily slip into a simple modification of the old theory. The problem will then be sought to be glossed over as one of "poor implementation" while the basic approach itself needs to be different (March, 2006). Whereas the authors' recommendations of active experimentation in the New-Cos are undoubtedly useful, the technologies of effectively putting them into practice are not clear. Probably, that is what the authors' next book will be on. The second issue skirted in this book is the existing culture of the parent company itself. It is possible that the Core-Cos differ in their rigidity and hence their ability to tolerate a different culture even in their existing organization. Infosys in India is an excellent example: it has a number of essentially small businesses with a great deal of autonomy and freedom to explore; Branson's Virgin Group is another, where the vastly different businesses are run in their own way by mangers, and the culture of these units could be quite different. At best, the exercise of leveraging on assets such as brands and other assets but keeping away from cultural issues is likely to be a slippery one.

Conclusion

There is little doubt that this book is likely to be a major and path-breaking work in the areas of strategic management of change, managing cultures and developing theories of business. The vulnerabilities of successful companies to their own success formulae, a narcissistic or over-confident approach that they know it all, and the unwillingness to recognize the need for an alternative business model existing *side-by-side* with its old model are well brought out. Teachers will undoubtedly like to get hold of the full case studies to present the cases in the class as a learning mechanism, and as a cap for the discussion, the authors' article on the same theme in a recent issue of *California Management Review* (Govindarajan and Trimble, 2005) may be given at the end. The book is written in a very reader friendly style, even one as difficult as Chapter 9, and can be carried in the pocket for ready reference when the situation calls for it.

References

Christensen, C.M. (1997). *The Innovator's Dilemma*. Boston, Mass.: Harvard Business School Press.

Govindarajan, V.; and Trimble, C. (2005). "Organizational DNA for Strategic Innovation", *California Management Review*, 47(3), 47-76.

March, J.G. (1991). "Exploration and Exploitation in Organizational Learning", *Organization Science*, 2, 71-78.

March, J.G. (1976). "The Technology of Foolishness," in March, J.G. and Olsen, J.P. (Eds.), *Ambiguity and Choices in Organizations.* Bergen: Universitetsforlaget.

March, J.G. (2006). "Rationality, Foolishness and Adaptive Intelligence," *Strategic Management Journal*, 27(3), 201-214.