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Achieving Breakthrough Growth: From Ideas to Execution

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How can companies simultaneously excel at today's business while building tomorrow's? It is a delicate organizational task. But new principles based on five years of research show that established organizations can build new futures when they design breakthrough new business units so that they can forget, borrow, and learn. Creating the future requires both breakthrough ideas and breakthrough execution. Ideas are crucial, but even the best ones are speculative.

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Strategy used to be about protecting existing competitive advantage. Today it is about finding the next advantage. Thus, the central task of an organization's leaders is to balance managing the present with creating the future.

Creating the future requires both breakthrough ideas and breakthrough execution. Ideas are crucial, but even the best ones are speculative. Thus, rule number one is that in any great innovation story, the idea is only Chapter 1. One company that was able to make the transition from breakthrough idea to profitable new business unit is New York Times Digital (NYTD), the internet unit of The New York Times Company. We draw the other nine stories from comparisons among several similar stories.

New York Times Digital

In 1995, The New York Times Company launched New York Times Digital. Recognizing the magnitude of the transformation they faced, they turned to an outsider, Martin Nisenholtz, who had spent his entire career developing expertise in interactive communications, to lead NYTD. Martin 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. However, by 1997, NYTD's leadership team worried that their operation was not evolving as rapidly as the world of online media. Martin felt constrained by the assumptions that his newspaper colleagues were making about what it would take to build a successful NYTD. Even outside analysts began to wonder if the company was investing heavily enough in the new technology.

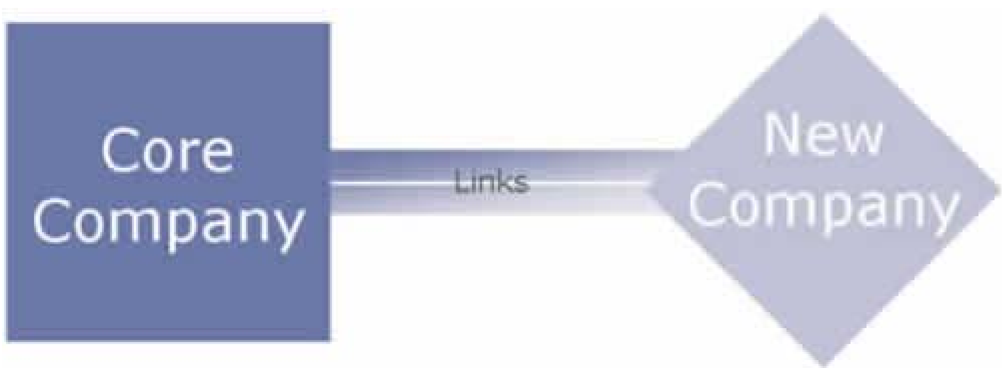
In 1999, Russell Lewis chose to reorganize NYTD as a separate business unit. This was a crucial turning point. The reorganization of NYTD included several specific changes. First, Martin was promoted. He reported directly to the corporate president rather than to the newspaper. This is more startling than at first it may appear. NYTD became a peer on the organization chart with a business unit nearly one hundred times its size. In addition, NYTD hired extensively from outside the company, dismantled and rebuilt the product development process, created a new senior policy team, redesigned planning, and explicitly reevaluated culture.

These changes initiated 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. There were numerous sources, including competition for resources, concerns over protecting the brand and customer relationships, and even simple jealousy. While NYTD was able to grow at 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. The newspaper's leadership team almost succeeded in reducing NYTD once again to a simple newspaper.com operation, but Russell chose a different path, insisting on an immediate concerted drive to profitability. He also implemented teams at the senior management level to improve cooperation and coordination – in just a few areas, where it mattered most. NYTD achieved profitability a few quarters later.

NYTD evolved into a "distinct-but-linked" organization (Figure 1). "Distinct but linked" means that the new business, or "NewCo," is a fundamentally different organization. However, it is not isolated from the core business or "CoreCo."

Figure: 1



Forget, Borrow, Learn

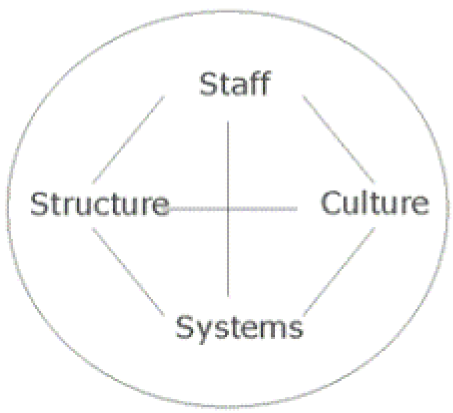
By comparing the New York Times story to several others, we learned that a distinct-but-linked approach can help NewCo overcome three central challenges of execution for breakthrough new businesses: forgetting, borrowing, and learning.

- 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.

The only way to forget, borrow, and learn, is to alter the set of policies that have the greatest influence over behavior – that is, to alter its organizational DNA (Figure 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. 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.

Figure: 2



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

The remaining nine rules (Figure 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.

Figure: 3

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

To forget, NewCo must rebuild its DNA from the ground up. Outside hires play a crucial role because they naturally challenge existing assumptions everyday. To be effective, outsiders must be placed in influential positions. In addition, NewCo should report at least one level above the general manager of CoreCo. When NewCo reports to CoreCo, CoreCo has too much influence. Performance measures must also change, because they are very strong reinforcers of existing behaviors and mindsets.

NewCo must be exceedingly cautious about how much it attempts to borrow. Each link between NewCo and CoreCo makes it more and more difficult for NewCo to forget. NewCo should borrow only when doing so gives NewCo 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 at 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 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 business. 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. Predictions can't improve if plans can't change! 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 – and thus plans must be simplified to make this practical. Finally, NewCo's and CoreCo's planning meetings should be separate. Otherwise, there are too many conflicting interests and assumptions in the discussion.

With a distinct-but-linked approach, even the most tradition-bound organizations can get beyond just ideas. They can build new businesses of the future by forgetting, borrowing, and learning.

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