



## *Strategic Innovation and Future Effectiveness*



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Selective Highlights from the book



### *10 Rules for Strategic Innovators*

~ Vijay Govindarajan & Chris Trimble

*For internal training purposes only*

*Some terms and phrases were modified to reflect the nature of a non-profit / ministry organization*



## *Strategic Innovation and Future Effectiveness*



*Good to Great*  
Preserve the Core and Stimulate Progress

Compliments this concept and furthers the discussion on stimulating progress

### *10 Rules for Strategic Innovators*



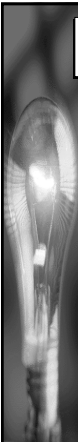
## *Strategic Innovation and Future Effectiveness*

### *The Goals of this Overview*

- ❑ To gain better understanding of highly effective organizations in general
- ❑ To gain better understanding of our ourselves and our specific organization
- ❑ To consider ramifications of Strategic Innovation for our organization
- ❑ To consider steps we might take for future growth and effectiveness



## *The Need*



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### **The Need**

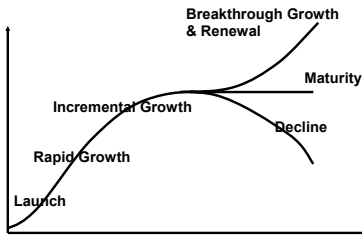
Today's world is characterized by rapid and non-linear change.

- *Globalization*
- *Rapid changes in technology & communications*
- *Demographic shifts*
- *Cultural Trends*



## Strategic Innovation and Future Effectiveness

### The Life Cycle of an Organization



## Strategic Innovation Defined

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### Definition

#### Strategic Innovation

Is the process of exploring new experimental strategies that are critical to an organizations survival and success.



## Strategic Innovation and Future Effectiveness

### Definition

#### Strategic Innovation

Involves testing new, unproven, and significantly different answers to at least one of three fundamental questions of strategy

1. *Who is our customer?*
2. *What is the value we offer to our customer?*
3. *How do we deliver that value?*



## Strategic Innovation and Future Effectiveness

### What it is not

- Continuous process improvement – *incremental small investments to improve an existing process.*
- Process Revolutions – *significant leaps that improve an existing process by 30% or more.*
- Product or Service Innovations – *creative new ideas that do not alter established business models.*



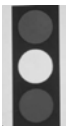
## Strategic Innovation and Future Effectiveness

### What it is not

#### Research and Development

Research and Development typically focuses on these 3 types of innovation just mentioned

- *Continuous process improvement*
- *Process Revolutions*
- *Product or Service Innovations*



## Strategic Innovation and Future Effectiveness

### Strategic Innovation

May include innovations in process or product but always involves unproven models.

1. Who is our customer?
2. What is the value we offer to our customer?
3. How do we deliver that value?



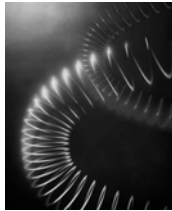
## Strategic Experiments

## Strategic Innovation and Future Effectiveness

### Process

#### Strategic Innovation

Once one of the 3 questions are answered differently, Strategic Experiments ensue

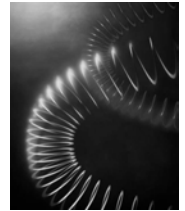


## Strategic Innovation and Future Effectiveness

### Process

#### Strategic Innovation

Strategic experiments test the viability of unproven business models



## Strategic Innovation and Future Effectiveness

### 8 Characteristics of Strategic Experiments

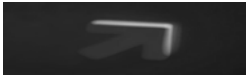
1. They have a very high potential for growth
2. They target emerging needs created by cultural shifts
3. They are launched before any clear formula of success has emerged
4. They are launched before other organizations have proven themselves at meeting the need
5. They depart from the organizations proven approach and its assumptions about it's success criteria

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### 8 Characteristics of Strategic Experiments

6. They revolutionize the approach of an organization rather than simply enhance it
7. They are initially difficult to evaluate – results can be ambiguous at first
8. They involve multiple dimensions of uncertainty
  - > Value propositions are theories to be explored
  - > Customers themselves have not fully figured out what they want
  - > Processes and technologies for delivering products or services are experimental

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**Leading Change**

*Through Strategic Innovation, organizations can not only stay ahead of change, they can create change.*

*They can pile new success on existing ones.*

*They can consistently create, grow, and profit from new ways of delivering value to customers*

*10 Rules Explained*

*1. Organizational DNA*

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**The CodeA - CodeB Dynamic**

**Code A – Efficiency**

- Stick to what works
- Exploit what you know
- Meet current customer needs
- Planning
- Demand Accountability
- Impose Process & Structure

**Code B – Creativity**

- Think outside the box
- Explore what you don't know
- Anticipate future customer needs
- Let things emerge
- Allow flexibility and freedom
- Avoid process/structure and encourage learning

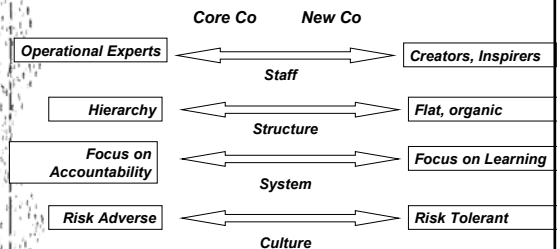
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**The CodeA - CodeB Dynamic**

- *In most companies, CodeA is mainstream and CodeB is counterculture.*
- *Great companies are masters of efficiency, but efficiency is not needed until the end of the innovation process.*
- *Creativity, is needed on the front end of innovation and being efficient comes later*
- *Clashes between the two tend to be pervasive*

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**The four elements of DNA**



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### Organizational DNA

Organizational DNA includes shared notions about valued behaviors as well as embedded assumptions about what leads to success.

#### 3 questions to ask

- Which assumptions that are deeply ingrained in CoreCo may not apply to NewCo?
- Which elements of CoreCo culture might create barriers to NewCo and how do you overcome this problem?
- How can you create a risk-taking, experimental culture within NewCo?

## The Three Challenges

## 2. Forgetting Challenge

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### The Forgetting Challenge



- Executives usually repeat actions that they believe have produced results
- These assumptions are embedded not only in managers' minds but also in the relationships, processes, and communication patterns that make the organization tick.

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### The Forgetting Challenge



#### NewCo must forget 3 things

1. It must **forget CoreCo business definition**
  - Who are our customers?
  - What value do we provide?
  - How do we deliver that value?
2. It must **forget CoreCo competencies** and realize new business models require new competencies
3. It must **forget CoreCos exploitation** of a proven business model and shift to **exploration** of new possibilities.

## 3. Borrowing Challenge

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**The Borrowing Challenge**



*Start ups can move quickly, unhindered by bureaucratic decision making, they get advice from those who understand new ventures, and they have no entrenched mindsets to overcome.*

*NewCo can only compete effectively by borrowing from CoreCo's assets: existing customer relationships, distribution channels, supply networks, brands, credibility, and expertise – resources that start-ups can only dream of.*

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**The Borrowing Challenge**



*Note – there is an important distinction between forgetting and borrowing*

*NewCo must forget assumptions, mind-sets, and biases.*

*NewCo must borrow assets*

*Forgetting is about what goes on in your head*

*Borrowing is gaining access to resources with concrete value*

**4. Learning Challenge**

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**The Learning Challenge**



- *Pondering the questions of- customers, value, delivery*
- *Theory of meeting a need*
- *Idea to meet a need*
- *Prediction of results*
- *Predictions improving over time*
  - *wild guesses,*
  - *informed estimates,*
  - *reliable forecasts*

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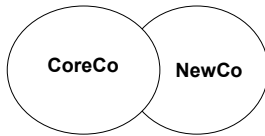
**Summary of the 3 challenges**

Challenge	Goal	Method
Forget		
Borrow		
Learn		

**5. Organizational Structure**

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**Option 1**

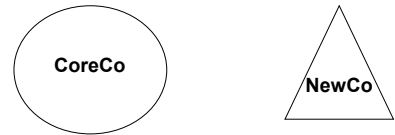


**Design** – Similar to CoreCo and closely integrated

**Problem:** NewCo can borrow but cannot forget. NewCo inevitably tries to apply CoreCos success formula in an environment where it is unlikely to work

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**Option 2**

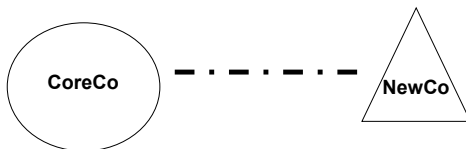


**Design** – NewCo is distinct from CoreCo and isolated from it.

**Problem:** NewCo can forget but cannot borrow. It cannot benefit from CoreCos valuable assets

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**Option 3**

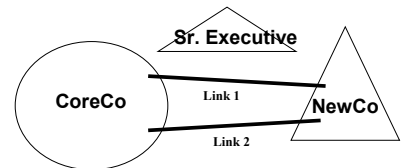


**Design** – Distinct from CoreCo and linked

**Problem:** Senior management team not engaged in ensuring the link is healthy. Cooperation disintegrates and the borrow effort fails.

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**Option 4**



NewCo is distinct and linked in one or two high-leverage areas. A Senior Executive is engaged in keeping these links healthy and productive

**Result:** NewCo – Forgets and borrows

**6. Sr. Executive Sponsorship**

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**Senior Executive Sponsorship**



- *Consciously or unconsciously, leaders select rules embedded in organizational DNA.*
- *Sr.Executive needs to help establish key links between NewCo and CoreCo*
- *Sr. Executive needs to be committed to Strategic Innovation and involved in monitoring the relationship between NewCo and CoreCo*

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**Choosing Links**



Choose only powerful links

- Provide crucial competitive advantage for NewCo
- Avoid links with heavy conflicts of interest
- Avoid links that easily import CoreCo DNA into NewCo

Moderate the On-going interactions

- Reinforce values that NewCo and CoreCo share
- Maintain NewCos distinctiveness
- Counter tensions before they become destructive
- Empower NewCo

**7,8,9 - NewCo**

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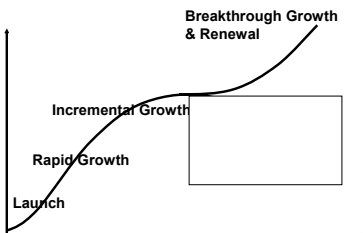
**Within NewCo**

7. Unique Planning Process – theory, idea, organic analysis, refined idea, experiment, learning
8. Guard against disruptions to learning – take a disciplined, detached, analytical approach making sure that the right questions are always being asked
9. Accountability for Learning– NewCo is accountable for learning not results.

**10. – Dynamic Growth**

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**The Life Cycle of an Organization**



**10 Rules Reviewed**



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### 10 Rules Reviewed

1. **Organizational DNA** of NewCo has to be its own
2. **Forgetting Challenge** – need permission to forget CoreCo ways of doing business
3. **Borrowing Challenge** – need to be able to leverage specific CoreCo strengths
4. **Learning Challenge** – need freedom to experiment and learn
5. **Org Chart Relationship** – NewCo needs to be properly related to CoreCo yet autonomous enough to create new ways of doing business- staffing, structures, systems, culture

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### 10 Rules Reviewed

6. **Senior Executive Sponsorship** – must be in place or links can deteriorate easily.
7. **Unique Planning Process** – theory, idea, organic analysis, refined idea, experiment, learning
8. **Guard against disruptions to learning** – take a disciplined, detached, analytical approach making sure that the right questions are always being asked
9. **Accountability for Learning**– NewCo is accountable for learning not results.
10. **Build a Great Company** – skills can be acquired for forgetting, borrowing, and learning so we can build an organization with a capacity for growth through strategic innovation.

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*The End*