



# CHANGING CULTURE IN A TIME OF ACCELERATING MARKET CHANGE

## INTERVIEW WITH VIJAY GOVINDARAJAN

**Vijay Govindarajan** is the Coxe Distinguished Professor at Dartmouth's Tuck School of Business and a Marvin Bower Fellow at Harvard Business School. He is the author of "The Three Box Solution: A Strategy for Leading Innovation" (HBR Press, April 2016).

Today's most innovative and successful companies are able to master three boxes, says innovation thought leader Vijay Govindarajan.

### Box 1



### Box 2



### Box 3



In the digital era, companies must get much better at Box 2. Escaping the traps of the past falls within the realm of corporate culture described by many leaders as the hardest part of digital business transformation.

Govindarajan shares ideas with TCS about developing a culture suited to an age of accelerated change.

**TCS:** *Why is it so hard for leaders to escape the traps of the past, even in the digital business age when they are being urged along at high speed?*

**Vijay Govindarajan:** If you cannot forget, you cannot create new things. Yet forgetting is so difficult. What you need to forget still has value today, but it will become a weakness in the future.



The U.S. automobile industry grew up in an era when mechanical engineering was a core competency. In the last couple of years, with autonomous vehicles and the sharing economy, the auto industry is transforming to prioritize computer science, artificial intelligence, and so on. For auto companies to forget that the core competency is mechanical engineering is very difficult, because today their executives still taste success. And today's success is still based on mechanical engineering. Looking ahead, it is a future weakness.

**TCS:** *What can leaders do to accelerate the pace of 'culture change' inside their companies?*

**Govindarajan:** You have to be careful when defining the parts of the company where you want to change the culture. A wholesale change in culture is not needed in all companies. If you go back to the auto industry for a moment, what you want to change is the part of the organization that has to experiment and learn new things such as electric cars or driverless cars. In many instances, you want a selective approach.

**TCS:** *Are there companies that stand out for executing quickly on culture in this digital age?*

**Govindarajan:** The best way to do it is to create a dedicated team focused on bringing about a fundamentally different culture. GE is doing this. GE's industrial businesses are not going away. But GE is trying to transform itself from an industrial company into an information company. So GE is launching this breakthrough business model based on the Industrial Internet (GE's term for connected devices). That is a fundamentally different business model when compared to the core business. Therefore, they have created GE Digital where the culture is very different from GE's core business.

**TCS:** *Could you point out some things that GE is doing right with regard to culture change?*

**Govindarajan:** You do not directly change culture. Culture is an outcome variable. What you do is change the rewards system. You change the kinds of people you hire. GE created a separate team in Silicon Valley. That brings about a culture change. Second, they recruited very different people, in the thousands. They allowed them

to have a different process, a much leaner, experimental, adaptive kind of a mindset. They were not held accountable for short-term financial results, but on their ability to test and learn about assumptions. This is how you change the culture. That does not mean the same culture change is happening in the core business.

## Create a dedicated team focused on bringing about a fundamentally different culture.

**TCS:** *Yet there are many examples of big companies that set up Silicon Valley teams to bring innovation and culture change to the rest of the company, but which did not work as well. Xerox, which set up its Palo Alto Research Center in the 1970s, was one of them. Xerox PARC created several great personal computing innovations but other companies capitalized on them. So are there any cultural lessons to be learned for GE and others that have been setting up shop in Silicon Valley?*

**Govindarajan:** First, Xerox PARC was just an R&D lab. We should not mistake R&D for creating new businesses or business models. R&D is a source.

Second, Xerox PARC was created as an island and it was not connected to the businesses of Xerox in any rigorous way. Ultimately, the success will come only if you create a dedicated team in Silicon Valley that is strongly connected to the mother ship. In the GE case, GE Digital is strongly connected. That is the only way GE can win against the Silicon Valley startups.



**TCS:** *For companies that have identified the part of the business they want to change, is there such a thing as moving too fast?*

**Govindarajan:** Absolutely. Moving too fast is not doing low-cost, low-risk experiments as a way to understand the territory. Moving too fast is scaling up the new business model without understanding the unknowns. The next big things are always full of unknowns. You can move too fast because you think speed to market is important. Everybody is facing the same set of unknowns. Learn fast, before you move fast.

## The need for change has to start at the top.

The other problem is companies try to do too many new things. They jump in and start too many initiatives. That is part of the reasons so many firms fail. If you tell companies “you are doing too much,” it really resonates with them. Not only are resources thinly allocated, you are also letting a lot of projects without promise proceed. Then you throw good money after bad money. You need to spend a little bit, learn, and then spend more.

**TCS:** *What are the techniques or strategies that leaders can use to get their teams to buy into the need for change?*

**Govindarajan:** It really has to start at the top; that is the key. If the CEO does not see that multiple cultures can exist inside the same company, it is not going to happen. The CEO needs to articulate that having different cultures does not mean that one culture is superior to another, it just means that the need is different, and that you require a variety of capabilities, different processes, alternate metrics in one part of the organization. It is communication and more communication.

The best way to communicate may not be to just talk, but also to make other visible statements. Sometimes, you might want to let go of someone who is resisting this kind of culture change, even if that person is a high performer. Letting go of a high performer sends a strong signal that you really believe in the importance of change.

**TCS:** *What we are describing here is a federated model for companies, where you have a core group focusing on the established parts of the business and a separate group focusing on a new business opportunity. Is there a risk to that model?*

**Govindarajan:** That separate group should be strongly connected to the mothership. I am not recommending 'skunkworks' projects; they are all mistakes in my opinion. What I am recommending is a distinct team with specific tasks. Skunkworks gives the image of someone working in the basement, subverting the systems. We want people to be collaborative and cooperative.

What is the downside? If not managed properly this can create all kinds of conflict.

**TCS:** *What kinds of connections to the mothership are we talking about?*

**Govindarajan:** The connections have to be where there is a significant asset in the core business that you can leverage. So if you go back to the GE example, the significant asset is the information that is embedded in the business. The connection between GE Digital and GE Healthcare has to be around machines generating patient data.



**TCS:** *Do many of the companies that were born digital believe they are immune to the Box 2 trap, that they cannot get trapped by the past?*

**Govindarajan:** Yes. Typically, Silicon Valley companies think the three-box framework does not apply to them. But in the pure internet business, someone else's ability to imitate what you are doing is high. Box 3 (breakthrough ideas) will become Box 1 (current, core business operations) very quickly. That is why they face the Box 2 problem (escaping the traps of the past) even more than industrial companies. They just do not realize it.

That is why Google set up the Alphabet companies, created the separate dedicated teams for driverless cars and robotics, and virtual reality businesses.

**TCS:** *In companies like Google Alphabet, what are the key elements of healthy culture?*

**Govindarajan:** These companies realize there are two types of innovation: linear and non-linear. Linear is to improve your current business. Non-linear is to create new business models. You have to manage both with different processes, metrics, and people. That will result in different cultures too. Accepting that is critical. We must understand that there are two different sets of talents that CEOs need to manage.