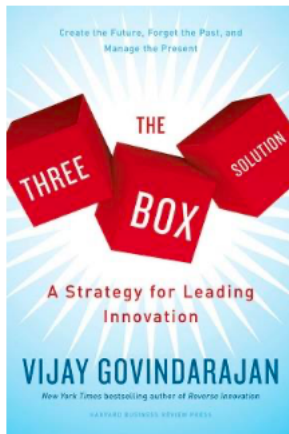## The Three-Box Solution: A Strategy for Leading Innovation

By Vijay Govindarajan

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Summary

This is a simple strategy for creating innovation in an organization. The strategy is to focus on extending your current business model (Box 1), creating something entirely new (Box 3), and stopping activity no longer fruitful (Box 2). Each one has a significant impact on innovation.

Best Illustration

Chapter 5, Keeping the Three Boxes in Balance, is the story of the Willow Creek Association. It recounts the history of Willow Creek Church's adoption of seeker-sensitive strategies, the re- invention of the worship service, small groups, and ultimately, the franchising of this church model globally. This story illustrates how the leadership team continuously upgraded the existing church model (Box 1), while creating totally new strategies (Box 3), while killing off things that were not working (Box 2). Ministry leaders will appreciate this chapter.

Best Idea

One of the more compelling ideas is that Box 3 strategies are inherently different from Box 1 approaches. They require different teams, protection from the "primary strategy," and a different type of leadership. Senior leadership must create the appropriate structures to make this possible.

Best Take Away

The author suggest that leaders must continually evaluate existing programs, services, and products to remove those that are not fruitful. Doing so frees up resources so that both existing programs and totally new ventures can thrive. "The cannibalization trap persuades leaders that new business models based on nonlinear ideas will jeopardize the firm's present prosperity. So, like antibodies attacking an invading virus, they protect the Box 1 business by resisting ideas that don't conform to models of the past." Page 86

Our Recommendation

This is a simple framework for thinking about innovation. Box 1 is where your organization is currently "living." It represents your future. Box 2 is where legacy programs need to be stopped. Box 3 is the future. It is what you hope your ministry can become. Intentionality in each of these areas can unlock innovation and prepare your ministry for inevitable change.

Best Quotes

"To get to the future, you must build it day by day. That means being able to selectively set aside certain beliefs, assumptions, and practices created in and by the past that would otherwise become a rock wall between your business of today and its future potential." Page 2

"The Three-Box Solution is a simple framework that recognizes all three competing challenges managers face when leading innovation." Page 2

"Box 2—Escape the traps of the past by identifying and divesting businesses and abandoning practices, ideas, and attitudes that have lost relevance in a changed environment. Box 3— Generate breakthrough ideas and convert them into new products and businesses." Page 3

"Box 1 is the performance engine. It both funds day-to-day operations and generates profits for the future." Page 10

"Businesses achieve strategic fitness only when they thoroughly understand and carefully manage the benefits and risks of each of the three boxes." Page 10

"The rewards of focusing on the present are immediate, easy to forecast, and easy to measure." Page 11

"The skills and expertise needed to thrive in the present are known and abundantly available, whereas ten to fifteen years out is a black box." Page 11

"Even though the long-term risks of neglecting the future are immense, they are too distant and abstract to provoke a sense of motivating urgency." Page 12

"The skills and experience you apply in Box 1 allow you to operate at peak efficiency and execute linear innovations in your core businesses." Page 12

"The skills of Box 2 allow you to selectively forget the past by identifying and divesting businesses and abandoning practices, ideas, and attitudes that have lost relevance in a changed environment and would otherwise interfere with your focus on inventing the future." Page 13

"The skills of Box 3 allow you to generate nonlinear ideas and convert them, through experimentation, into new products and business models." Page 13

"The biggest challenge you have in balancing the three boxes is that the greater your success in Box 1, the more difficulties you are likely to face in conceiving and executing breakthrough Box 3 strategies." Page 13

"Organizations that do not continuously learn new things will die." Page 13

"Linear ideas (those that conform with the past) tend to be adopted easily, whereas nonlinear ideas (nonconforming and therefore both uncertain and threatening) tend to be rejected easily." Page 16

"There are many typologies used to classify innovation: Innovations can be sustaining or disruptive. They can be incremental or radical. They can be competency enhancing or competency destroying. They can relate to product or process. However, I divide all innovations into two main types: Linear innovations improve the performance of your current business model. "Nonlinear innovations, the domain of Box 3, create new business models by dramatically (1) redefining your set of customers, (2) reinventing the value you offer them, and/or (3) redesigning the end-to-end value-chain architecture by which you deliver that value." Pages 17-18

"Though the three-box idea is simple, it is extremely difficult to put into practice." Page 19

"Weak signals consist of emergent changes to technology, culture, markets, the economy, consumer tastes and behavior, and demographics." Page 21

"The Three-Box Solution imposes on leaders a requirement for humility, because it is essentially a strategy for taking action through continuous learning." Page 31

"They placed smaller bets first before placing bigger bets." Page 44 "They exercised courageous, adaptive leadership." Page 44

"A fundamental element of the Three-Box Solution is placing smaller bets before placing bigger bets as an effective way to reduce the risk of Box 3 ideas." Page 44

"It is almost impossible to predict the potential benefits of purposefully building a team that possesses both depth and breadth—only that these benefits will be numerous." Page 54

"If a failure is in your future, you want it to come fast; testing assumptions is the best way to reveal an ill-conceived project." Page 57

"Learning always precedes innovation." Page 71

"it is important for organizations to develop the discipline of selectively forgetting whatever has outlived its contemporary usefulness or, if it still has value to the Box 1 business, devising ways of insulating Box 3 from its inhibiting effects." Page 79

"One Box 2 responsibility is to prune lines of business that no longer fit the company's strategy." Page 79

"deeply rooted memory may be great for preservation (Box 1), but if it is not tamed sufficiently (Box 2), it gets in the way of creation (Box 3)." Page 82

"Current success conditions a business to suppose that securing the future requires nothing more than repeating what it did to succeed in the past. This is the complacency trap." Page 84

"Why would an extraordinarily successful organization lose its ability to anticipate the future? Because future weaknesses are embedded in current strengths." Page 96

"The first step in creating a new strategy process is a Box 2 action: abandon the traditional practice." Page 99

"Box 1 organizations cannot execute nonlinear Box 3 innovation." Page 106 "The value of Box 1 cannot be overstated." Page 113

"Turning around a business is an all-hands endeavor. Not just at the top of the pyramid, but at every level of the organization." Page 134

"The Three-Box Solution requires an ability to think and act simultaneously in multiple time frames. As we've seen in the examples throughout this book, you're always managing the present, destroying the past, and building the future." Page 143

"Willow Creek has been fortunate to have two leaders—Bill Hybels, later joined by Jim Mellado—who saw clearly that preservation, destruction, and creation are part of a cyclical process of renewal." Page 146

"I believe it is harder for an organization to admit to itself that it's time to stop doing something than to know when it's time to invent something new." Page 148

"The most difficult concept for a traditional church to grasp is the counterintuitive mission deeply embedded in Willow Creek's model: that it is a church designed for the members it doesn't yet have—the nonconsumers—rather than for the faithful who already have joined." Page 159

"Mellado points out that the early Christian church grew from a handful of Christ's disciples to three hundred million members as quickly as it did by serving the unchurched first and foremost." Page 160

"The product of Box 3 thinking is often a mixture of qualities that are both timely and timeless. In being timely, a great Box 3 innovation is created fresh from something new and different—a technology or a business model—in the moment from which it springs. But an innovation is most likely to succeed when it also embodies the deep, enduring values of the organization that creates it." Page 166

"Balance depends to a great extent on knowing who and what you are now and how that knowledge squares with your sense of the future." Page 169

"Sometimes nonlinear leaps can be inspired by practices that are linear elsewhere." Page 172

"The hardest question that many businesses never ask themselves is, what should we stop doing?" Page 173

"Training is underrated, often designed ineffectively, and (for both reasons) often underutilized." Page 173

"These leadership behaviors are (1) avoiding the traps of the past, (2) being alert to weak signals, (3) building the future every day, (4) experimenting and learning, (5) practicing planned opportunism, and (6) investing in "the horse you can control" (see table 6-1)." Page 179

"A company's past is often rooted deeply in its culture—comprising habitual processes, rituals, and belief systems—so, selectively forgetting the past can require shocking the culture out of its habits and expectations, allowing it to rise to the challenge of radically new circumstances." Page 183

"Weak signals are the raw material from which nonlinear ideas are formed." Page 184

"Weak signals should be thought of as uncommon wisdom. They are most likely to be observed by younger employees—those who are new to your organization or who work at its fringes—or by complete outsiders." Page 186

"The future is shaped by the actions you take today. Breakthrough business model innovation can happen tomorrow when leaders implement breakthrough organizational design today." Page 190

"As I have stressed throughout this book, iterative experimentation is the key to resolving uncertainties, testing assumptions, increasing learning, and reducing risk in any Box 3 project." Page 197

"The best way to exploit a blank slate is with open-minded developers who embark on a project with as few preconceptions as possible." Page 199 "A leader who continually bets the company's future on an uncertain endeavor will sooner or later go too far." Page 207