Transforming Your Organization with the Three-Box Approach

A conversation with Vijay Govindarajan and Brian Goldner

Vijay Govindarajan’s and Chris Trimble’s article, “The CEO’s Role in Business Model Reinvention,” appeared in our January–February 2011 issue. The article urged forward-looking CEOs to manage reinvention with a “three-box approach”: manage the present (box 1), selectively forget the past (box 2), and create the future (box 3). Leaders need to operate in all three boxes simultaneously. That’s easier said than done, for the CEO must not only balance resources across the three boxes but also know what to destroy and what to create.

Brian Goldner, the CEO of Hasbro, Inc., was the chief architect of Hasbro’s turnaround strategy in 2000, which focused on leveraging the company’s core brands, reducing costs, and lessening its reliance on its licensed business. To do this, he relied and continues to rely on the three-box approach. In this edited conversation with HBR, Govindarajan and Goldner talk about how executives can implement the approach.

HBR: Vijay, you’ve been working with this approach for 30 years. Where did it come from?
Govindarajan: In 1980, I was working with my first consulting client, the CEO of a Fortune 100 company. I was an accountant by training, but CEOs aren’t interested in debits and credits; they’re interested in strategy. I needed to frame performance management in terms they cared about. At first I created a framework with two boxes: one for today, where I could talk about performance-management systems for ongoing businesses, and one for innovation, where I could talk about investing for the future. Then I realized that moving into the future isn’t that simple. When you’re successful, you develop a dominant logic, a way of doing things. But if you try to see the future through that lens, you won’t see new business opportunities.
To excel in innovation, you have to overcome your own dominant logic. Later I added what is now box 2.
The Three-Box Approach at Hasbro

Hasbro used one of its classic products to spread the message about the three-box approach.

Box 1
Manage the present

Box 2
Selectively forget the past

Box 3
Create the future

Brian, why did you adapt the three-box approach at Hasbro?
Goldner: Close to 10 years ago, we were looking to reinvent the Hasbro Company. We had created our core strategy around the value of our brands, but many of them were lying fallow. We set about relaunching brands for the first time in twentysomething years. We started to see some success, and we quickly realized that we needed to make sure that the rest of the organization understood the strategy. We wanted to mentor that next generation to become better brand builders and sustainers. So we looked for outside help.

VG’s three-box approach works at a very high strategic level, but it is also very practical, which is what we wanted.

Vijay, how do readers get started with this approach?
Govindarajan: The starting point is to look at the projects you plan to implement in the next 12 months and sort them into the three boxes. How many of those projects are improving the performance of your core business, which is box 1? How many are truly innovative and could fundamentally change your business, which is box 3? And how many are geared at overcoming your dominant logic, which is box 2? An example of a box 2 project would be plans to recruit people from the outside, because outsiders tend to challenge the status quo. This exercise will likely point out that you are overemphasizing box 1 projects and underinvesting in box 2 and box 3. Then you need to think about the desired mix across the three boxes and begin working toward that.

So would you say box 2 is the most challenging?
Goldner: In a company like Hasbro, that’s been around for a long time, box 2 requires real introspection. It can be very personal. It can be about ways that you’ve thought about the world. It can be about relationships you have. It can be about a prior business that was either successful or not successful. You need to remember that others went through those past experiences with you and may need to do their own forget-

Background on Hasbro
Hasbro is a multinational “branded play company” with more than 1,500 brands including Transformers, G.I. Joe, Nerf, and Scrabble. The company was started in 1923 as a remnant textile company and over many years moved into manufacturing toys and games such as Mr. Potato Head and Monopoly. In 2000, the company’s leaders set out to transform it from a toy and game maker to a branded play company. This strategy focused on growing their own brands (rather than solely licensing others); creating immersive experiences for consumers online, in retail stores, and through movies and electronic games; and expanding globally. The intense focus on brands has paid off. In 2000, the company’s top eight brands represented 17% of total revenues. In 2009, the top eight brands represented 50% of revenues. Since 2000, the company’s earnings per share has grown 30% each year.
You need a dedicated team to pursue box 3 ideas.

Vijay, asking executives to manage the present, selectively forget the past, and create the future sounds like a logistical challenge. How have you seen executives meet this challenge?

Govindarajan: It is easy to talk about but difficult to practice. As Brian said, it is a lot clearer what you need to do in box 1. We have a tendency to favor today. Box 2 and box 3 are more difficult to define, so you tend to push them out. Great leaders are disciplined about it. Every month they are careful to allocate enough time for today’s activities and tomorrow’s activities, and they don’t let short-term pressures tip the balance. If there is a review of a box 3 innovation project scheduled for a given day, and on that day, some firefighting issues pop up, they delegate the firefighting and focus on the innovation project. The same goes for resource allocation. If you are going to put 20% of your resources into box 3, you need to put a ring around that 20% and not touch it no matter what. Finally, CEOs should set aside time in management meetings to not only do operational reviews but also discuss progress on box 3 projects.

Brian, how do you allocate your personal time using the three-box approach?

Goldner: I quite literally review my calendar every week to see if I’m allocating enough attention to boxes 2 and 3. For me, the three boxes are like a Russian nesting doll. They are doppelgangers that are influenced by the shape and size of the others and can’t be dealt with separately. Of course how I spend my time is informed by what is going on in the company; sometimes I do lean more toward the present or the future.

And I have to do the same for the company. We get together for business reviews and financial reviews, which is all part of box 1. We have a team called Future Now that works only on the future of our brands. They don’t think about how to sell the brand this year or initiatives for next year. We also find ways to comingle the boxes through “martini meetings.” These meetings are named for the shape of the glass. We start at the rim, as far out as we can, and think about emerging technologies and new inventions. Real box 3 thinking. Then we narrow these ideas down to those that are most promising. As we move closer to the stem, we see how those technologies can be applied to our current product lines. This also helps with resource allocation: The broader the top of the glass, the more we put into R&D.

Brian, what advice do you have for CEOs who want to adopt the three-box approach?

Goldner: First, you don’t have to figure it all out alone. Find a core group of people that you can trust to be honest about what you know and what you don’t know, and what you need and don’t need.

Second, you need to realize that there are a number of avenues that will probably get you the desired result. Maybe you don’t need to fundamentally change your strategy; maybe you need to execute better on the strategy you’ve got. For us, immersive entertainment experiences were in our DNA. We had the idea to put our brands into movies 20 years ago, but we never created the relationships or the deals that enabled those movies to come to theaters. When we started doing that in 2000, it wasn’t really a new strategy. We just did a better job of executing.

Lastly, you need to get your message out there early and often. At Hasbro, it took at least five years before the organization understood and embraced the strategy. Today, 11 years later, most people in the company could tell you about “re-inventing, reigniting, and reimagining our brands” but that wasn’t always the case.

Vijay, are there organizational changes you recommend executives make to prime their organization to be successful in box 3?

Govindarajan: First, you need a dedicated team to pursue box 3 ideas. The team needs to be structured like a startup. It should have its performance-measurement system and product-development process, and its own culture.

The second principle is that although this team must be separate, it cannot be isolated from the core. You have to link the dedicated team to your core business because there are certain assets and capabilities that you will want to leverage in your innovation efforts. Getting this kind of partnership to work smoothly is not always easy, of course. People are likely to say, “I am already busy. Why should I be helping someone from another part of the company?” So the CEO has to be careful when he or she is starting box 3 experiments and be on the lookout for conflicts between box 3 and box 1 businesses.

Then you need to amplify weak signals. Box 3 is full of unknowns because, by definition, it is a bet about the future. You’re conducting experiments to uncover future opportunities. As an executive, you have two options. The first is to wait for the
signals to become crystal clear before you take any action. I wish we could do that but, by the time the signals are clear, the game is over. The second option is to amplify the signals by testing hypotheses and assumptions about the future. And the beauty of hypothesis is it can be wrong. You learn from the testing and then you scale up the box 3 experiment. This means you need to evaluate these experiments not based on short-term results, but on what you learn from them.

**What other threats or risks does the CEO need to be on the lookout for?**

*Govindarajan:* There are three important risks that the CEO needs to manage in box 3 experiments. The first is what we just talked about: the potential for conflict between box 3 and box 1. The second risk is the pressure to improve short-term performance. There is a tendency to pull resources away from box 3 projects and put them on box 1 because there is immediate gratification when you focus on box 1; whereas performance in box 3 is always in some distant future. The third risk is evaluating box 3 managers on financial metrics. CEOs have a hard time being patient with the box 3 experiment and demand data and results too soon.

**Brian, can you give readers an example of the structural changes you have made at Hasbro to support the three-box approach?**

*Goldner:* When we first began this process, Hasbro was very siloed. There was a toy category, a game category, etc. So one of the first things we did was move away from manufacturing categories toward a brand orientation with global brand leadership. This was a box 2 move—we had to forget how we operated in the past. The second thing we did was create regional centers of excellence for sales and marketing to change from a markets orientation to a consumer one. The third thing was to change all of our processes so they didn’t just look at this year and next. We saw that we weren’t spending enough time talking about box 3 if we only looked at two years, so we added a third year to give us a stronger view into the future.

**Has there been resistance to the three-box approach at Hasbro?**

*Goldner:* Definitely not malicious resistance, but we all struggle with change. As humans, we’re focused on the arrival. When I turn 16 years old, I get a driver’s license, and then when I’m 18, I graduate. But in business you need to be thinking about the point of departure, not the point of arrival. At Hasbro, we talk about setting new floors and not new ceilings, so that we don’t set limits but give ourselves places to launch from. Certain people really embrace this, but, for others, it’s more difficult. You can’t ask everybody to do all three-boxes. Accounts receivable is about box 1. I don’t want them to think about box 3. Salespeople need to glimpse moments of box 3, learn things that they may not have worked so well in box 2, but fundamentally deliver box 1. Product development needs to be thinking further out. Fortunately, there is room in every organization for box 1 thinkers and box 3 thinkers. But we all need to be informed by box 2.

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**The original article is called the “CEO’s Role in Business Model Reinvention,” but the three-box approach really isn’t just for CEOs, is it?**

*Govindarajan:* The CEO alone cannot do it. By providing strategic direction, the CEO helps people see why they need to move north instead of south and how they cannot simply continue to do what they are doing today to get there. That gives the organization permission to develop ideas for growth.

**Vijay, can you tell us what you’ve heard from readers since the article appeared?**

*Govindarajan:* One thing that strikes me is that people from all walks of life find it useful. After the article was published, I got a note from a pastor of a United Methodist church. The church was having some difficulties, and the pastor wasn’t quite sure how to move forward. So he distributed the article to his management team, a group of volunteers. They got together and brainstormed ways that they could not only protect the present but also selectively forget the past. They came up with initiatives to potentially reinvent the church. They now have an approach to improve the financial health and the mission of the church. ☺