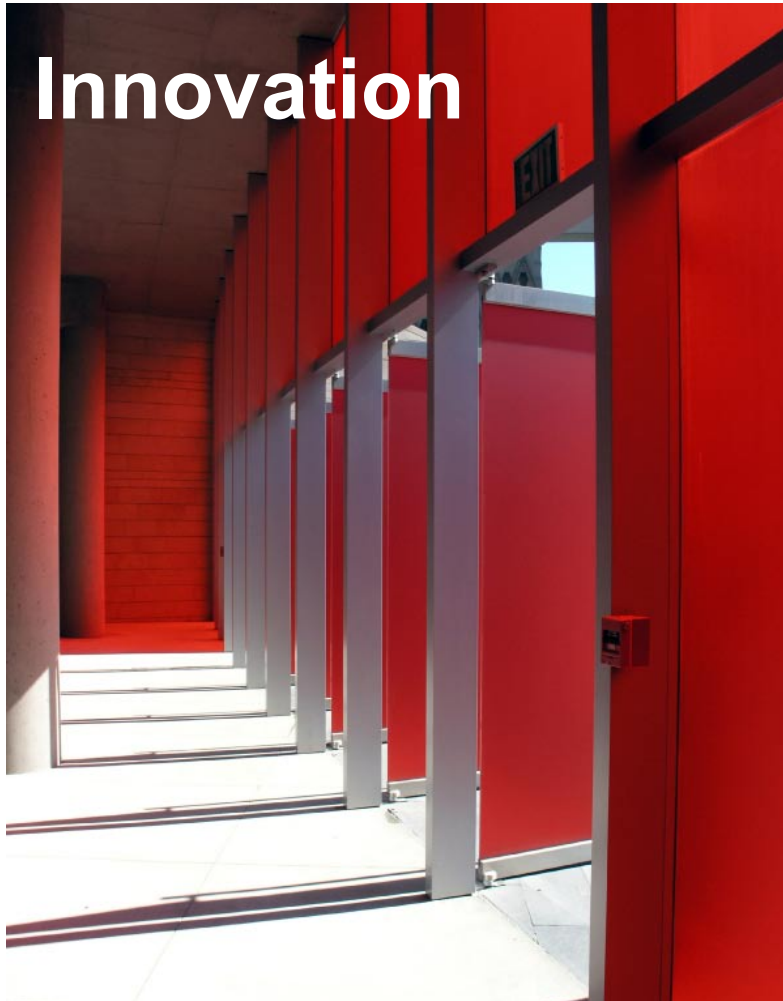


Open Innovation



by Inta Cinite, PhD

researchreport

Dear Colleague,

Ultimately a shift in our worldview of open innovation will reach a tipping point and seep into the day-to-day reality of how organizations work. Our historical legacy of manufacturing economies brought an internal, capacity-oriented view to innovation, where products/services were often designed to accommodate and maximize internal processes and standards, and then made attractive to customers and citizens through aggressive advertising. This view supported closed innovation strategies and favored internal research and development of products and services.

In a connected world of open innovation, technologies have not only democratized the process of co-creation but have also provided the social media technologies that empower people to promote products and services. This represents a shift in the relationship with customers and citizens away from distribution and service delivery strategies to participation in the process of value creation.

The added economic momentum of the services sector further emphasizes the need for open innovation as ultimately service experiences are co-created with customers/citizens. As customers, we can go beyond voting with our dollars to actually participate in the innovation process and co-design product and services.

Ideas from open innovation and open source have also spawned notions of open government and with it, the promise of more transparent and participatory democracy. Indeed, this emerging perspective in both the business and public sectors, aligns open innovation with an evolving imperative of social and economic value creation.

This **innovationcultures** report will provide an initial review of open innovation and the opportunities it offers for faster, better client-centric outcomes.



Teresa Di Cairano
Director, **innovationdesign**

report highlights

This **innovationcultures** **researchreport** will provide perspectives on the emerging trend towards open innovation. From its impact on ideation to design, collaboration and ultimately leadership, we'll look at how to manage and harness the benefits of open innovation. Also, look out for upcoming related releases on methodologies and tools for co-creation.

Evolving to open innovation	3
Open source vs. open innovation	5
User-driven innovation/ Customer orientation to innovation	7
Crowdsourcing and co-creation	8
Supplier & collaboration strategies	9
Enabling tools and technologies	11
Leading open innovation: Challenges and opportunities	12
Open business models	14
Benefits of open innovation	16
Open innovation metrics	20

© Copyright Intervista Inc. 2014. Published by Intervista Inc. as part of **innovationcultures**, a comprehensive advisory service on innovation leadership.

You may subscribe at www.innovationcultures.com
1-800-397-9744 – Continental North America
(01)514 937-7130 – outside North America

about Intervista Institute

Intervista Institute develops executive leadership programs and knowledge resources on emerging concepts in enterprise strategy and innovation. Our clients include FP/Fortune 500 and large government organizations.

A nexus for change agents, **innovationcultures** is a knowledge service that enables enterprise transformation and fosters an ongoing innovation capability.

innovationcultures **research reports** are published by Intervista Institute under the program direction of Teresa Di Cairano, Director, Innovation & Design. This report was researched and authored by Inta Cinite, PhD, Research Lead, Editorial contributions were provided by Michael Kahan, Research Consultant. Your comments and suggestions are welcome at teresa@intervista-institute.com.

Connected World Calls for Open Innovation



It's 2001 and envelopes tainted with anthrax are spread throughout the US mailing system. The mail systems provider has to resolve the problem fast. Biological weapons are not Pitney Bowes' core business, and the organization's engineers search for useful solutions from fields as diverse as food handling and military security.

In the end, eighty-two ideas were gathered at large and screened to create a short list of concepts worth developing. With the help of the outside inventors, the organization was able to introduce products and services (e.g., specialized scanners and an imaging system) to secure the mail system against bioterrorism in a timely manner.¹

This is just one real world example of open innovation and how organizations like Pitney Bowes' and yours might benefit. Accelerating business cycles and the need for faster client-centric solutions is resulting in a trend towards open innovation. "We live in a time when the rate of change is such that today's unique product or service becomes tomorrow's commodity," says A.G. Lafley, ex-Chairman of the Board at Proctor & Gamble (P&G), in his book "The Game Changer".²

To stay and succeed in the game, organizations have to innovate at an increasingly higher speed. The ability to do more with less is also driving the public sector to be more innovative in delivering services. But what if an organization does not have enough resources to generate a continuous stream of innovative products or services?

There is good news. Around the globe, there are numerous businesses that have invented new products and services that they cannot put to use. Furthermore, crowds of creative people are willing to share their ideas. As long as your organization does not suffer from a "not invented here" syndrome, other people's inventions and ideas may be obtained for further development and commercialization.

Evolving to Open Innovation

For a long time, innovation was seen as a process taking place only within the organization. Economist and University of California, Berkeley, Professor Henry Chesbrough describes this "closed innovation" process as follows: organizations generate their own ideas, then develop them, build them, market them, distribute them, service them, finance them, and support them all on their own.³ This allows them to be self-reliant and keep control over all the innovation steps.

“As long as your organization does not suffer from a 'not invented here' syndrome, other people's inventions and ideas may be obtained for further development and commercialization.”

Inefficiencies of closed innovation

While some organizations suffer from a shortage of innovative ideas, others have an oversupply. Researchers have found that internal know-how utilization rates, even in the best managed organizations, usually falls in the "15-25%" range.⁴

New projects and ideas are abandoned for several reasons. Frequently many innovative ideas do not fit into the marketing plan, organizations cannot afford the R&D costs and risks, innovations may not produce returns fast enough, it is difficult to anticipate the potential value of a particular innovation and, finally, leaders do not encourage a culture of innovation.⁵ Allowing innovations to "sit on the shelf" is a waste of resources and it is demoralizing to staff.

Thinking Open Innovation: Impact on Ideation, Design and Collaboration

Global executives in the Bain & Company survey admitted that the best ideas were not always coming out of their own R&D labs, and open-market innovation was seen as a critical new source of strategic advantage.²²

“More than 40% of P&G products involve some form of external innovation.”

When an organization has made a business decision to pursue open innovation, it has more than one option to consider regarding the sources for new ideas, technologies, or products. Several studies have shown that innovative organizations do not limit their search to internal resources. For example, more than 40% of P&G products involve some form of external innovation.²³

Among the most important external sources that organizations have mentioned are: their clients and customers, suppliers, competitors, consultants, exhibitions and trade fairs, publications, universities and other research institutions, as well as networks of managers and professionals.²⁴

User-driven innovation

For decades, organizations have found new ideas by soliciting customer/citizen feedback, exploring their needs, observing them using their products/services, and analyzing the gathered information. Open innovation goes beyond that. Research shows that many innovations are co-developed by users.²⁵

Not all customers are created equal for user-led innovation purposes. Based on customer orientation to innovation, Harris has singled out four groups. The first three groups can be involved at different stages of the innovation process, and in different ways (see Table 3). While innovative buyers are good for focus groups to help define the early concept design, advanced customers can provide details about explicit features. The early majority, in their turn, can tell where to improve the innovation.²⁶

Von Hippel emphasizes the role of the first group of customers whom he calls “lead users”.²⁷ These are users (both individuals and firms) at the front of the target market, who are ahead of the majority in their populations with respect to market trends. They can be most helpful in the early stages of innovation.

Table 3.

Customer Orientation to Innovation	
1	Innovative customers (5-10% of the population): Educated, technology appreciative, always on the look-out for the unique or the exclusive
2	Advanced customers (10-20%): Opinion and thought leaders, proactive decision makers, watching for new ideas and technology
3	Early majority (20-30%): Analytical, trying to avoid risks, but once convinced, are loyal users
4	Late majority & gradual adopters (30-50%): Traditional, sometimes suspicious of the new, sensitive to peer pressure



User involvement is not limited to product development alone. There is even more focus on customers in service industries. By default, services are interactive, and customers become co-creators since services are produced and consumed simultaneously.²⁸ For example, the Toronto Transit Commission organized meetings with the traveling public and solicited innovative ideas in broad areas where reforms were sought. Ideas that fit with the Commission’s goals and objectives were pursued for possible implementation.²⁹

Undoubtedly, there are some caveats to user-led innovation. Marketing staff are concerned that customers do not know what they want until something is put in front of them. On the other hand, it may be that customers just cannot articulate their wants in the technical language of experts; therefore, it is an innovator's job to recognize that customer ideas may offer an opportunity to innovate.³⁰

“ Cisco granted their first award of \$250,000 to a team from Germany, and subsequently planned to invest \$10 billion in open innovation. ”

In the case of highly qualified professionals, free publicity and ego boost might not be sufficient. They will be looking for adequate compensation.¹¹⁴ For example, Cisco granted their first award of \$250,000 to a team from Germany, and subsequently planned to invest \$10 billion in open innovation.¹¹⁵



A peculiarity of collective intelligence systems is their reliance on love and glory motivators rather than money. Many contributors participate because the product makes a difference in their lives and they feel an emotional commitment to it, or they enjoy the activity and socializing with peers, or feel they are contributing to something noble.¹¹⁶ Desire to be recognized by peers for their contributions has also been found to motivate some contributors.¹¹⁷ McKinsey surveyed 573 users of four leading online video-sharing sites in Germany asking what motivates them to contribute. The chief motivator was hunger for fame, followed by the urge to have fun and share experiences with friends. Being compensated was also mentioned, but it was not the primary driver.¹¹⁸

Organization of internal systems

Even if a firm successfully attracts external knowledge to its innovation projects, it may face challenges with organizing internally to make good use of this knowledge. The management literature suggests that firms have to consider the following organizational issues (see Table 8).¹¹⁹

Table 8.

Organizational Issues for Open Innovation
How to combine open innovation practices with the existing corporate R&D structures
How to find the best organizational structure for collaboration with a large set of actors (including the issue of the borders of the firm or agency)
What is the best governance mechanism to facilitate co-creation within the innovation community
How teamwork evolves in an open innovation context (including the feasibility of virtual teams)
What is the best leadership of an open innovation project
How to create a strong commitment to open innovation within the organization
How to design a reward system that supports collaboration
How to assess the benefits versus costs of open innovation
How to improve the evaluation of the external input
What kind of collaboration to engage in, and how to select the right partners
What is the right type of coordination between the partnering firms
What is the right timing for open innovation in the product development life cycle
How to determine the right degree of openness
How to learn from other organizations within the industry, across industries and across countries

innovationcultures
the future > *faster*



5 reasons to become a member today.

1. For less than a latte a day, get the knowledge you need year round.
2. Avoid the hassle of lengthy training budget approvals and scheduling.
3. Connect with thought leaders and peers around the world.
4. Timely content you can access anytime, anywhere.
5. Get the knowhow to lead the future of your organization and your career.

about the author: Inta Cinite

Inta is a lead research associate with Intervista Institute as well as consultant, educator and researcher in the areas of organizational behavior, organizational change management, cross-cultural management and human resource management. She earned her Ph.D. in Management at Carleton University and holds an MBA from the State University of New York at Buffalo.

Inta Cinite has taught at the university level and has been a research lead in change management. Recently Inta has done research in innovation management. She has also presented at conferences and published in the area of change management.