

Open Innovation

Foods & Drinks Innovation Network 16th July 2008

When Jeffrey first contacted me it was really to ask me if I knew someone who could talk about open innovation.

As it happened I had just been running an event on the very topic with my networking group. For that meeting I had prepared insights and 'best knowledge' from the literature, as I tend to do on these occasions.

Jeffrey and I agreed that it seem to be too much of a coincidence – and now I am here.

My first reaction was to prepare a presentation, almost like I would in my teaching, and as I had done for the networking event. You see that version in your slide pack (or on the website?).

Then I woke up rather early yesterday morning and thought: no, I don't think so! Powerpoint and theory are all very well – but... there were two 'buts', the first was, much of the theory you are probably familiar with anyway after Henry **Chesborough** book on the topic, the second 'but was', just before lunch, I guess I have to do better than that to keep you engaged.

So, gone are the powerpoints, well, most of them anyway. I will still talk about the following,

- Why you may want to consider it
- What is different about it
- What is required and why it needs careful thought
- How two of the ILF member companies have approached it

Why you may want to consider it

Before looking at the 'why' perhaps a couple of words on 'why now'.

Finding the right match, be it in terms of people, technologies, markets, companies used to be quite a time consuming process. Where to look? Whom to contact? The **internet**, the quantity of information held on the internet and the speed with which it can be accessed have made collaboration with those you don't know (yet) possible. A whole new industry has sprung from this: matchmaking services such as **NineSigma** and **innovationXchange** are examples hereof.

A further enabler is that **venture capital** is more easily accessible, entrepreneurs have more chances, and can promote their ideas and concepts more widely than ever before (1st Tuesday, innovation centres etc.).

In terms of arguments for engaging in open innovation, the first one is for the numbers drive people amongst us. On a recent workshop where we were looking at discontinuous innovation someone from P&G shared their experience with open innovation there; the context in which the ambitious target of '50% of ideas from the outside' had been established was that 'the city' the ominous grey eminence that seems to dictate what happens in organisations, was expecting a certain **rate of organic growth** which was impossible to deliver through in-house activities alone. The only way to achieve that was to go outside.

Now, for an organisation like P&G who had been quite known for its secrecy and closed doors that was quite a significant step.

Think about the arguments against breakthrough innovation and you will find that open innovation might be a remedy against quite a few of them.

I'd just like to mention a few:

- **Risk-averseness** – if you can find partners who have the same interest you can share cost, and risk with them; it might also give you more confidence in the project (as someone else believes in it);
- **Projects being pulled** before they have a chance to come to fruition – if you are working with outside parties the 'pulling' cannot take place clandestinely as it seems to do so often otherwise. It becomes a public and embarrassing affair. One example I particularly like is from a person at Marks and Spencer who drove their RFID programme at a time where being involved in risky projects was rather risky strategy. He got some funding from the DTI to develop the technology. Pulling the lug on that project, even if senior management had otherwise been so inclined, was not really an option; it might also create a greater sense of urgency.
- Or it might not even get to the point where the project is being pulled, it might not even get off the ground!

I would also like to put the following to you. Think about what many organisations have focused on for a long time: cost cutting and improving efficiencies. Then think who gets promoted in organisations: those that deliver the organisation's objectives. If the focus of many organisations has been on **cost and efficiency** that this must mean that people who have excelled at it are now in leading or at least decision making positions. Now innovation is on the agenda and we all know how important it is for the survival of our organisations – in our minds. But those who excel on cost cutting and efficiencies, have they bought into innovation with their hearts? And if we come to these people, and present them with a breakthrough idea – often fuzzy at the outset, difficult to say what return on investment will be, and when, and say, don't you want to give me some money to pursue this? What do you think the answer might be? Bringing in outsiders might help to balance that mindset. Cancer Research UK's dragons dens – or Venture Board as they call it – has some external people with an appetite for innovation and creativity on board that help to balance risk averseness or inertia when it comes to more radical ideas.

- **Enhanced credibility** – and these guys also have the reputation and kudos to sway opinion not only inside but possibly also outside. If you engage in something new you might not have the standing and reputation in the market you are aiming for. The person / organisation that comes with an idea to you might.
- Take **lack of the required skill sets** – if we are engaging in breakthrough innovation we might need a skill set we do not have readily access o – but somewhere outside our organisation might have that skill set, and be happy to engage with us to explore and develop our idea.
- That brings me to another point, how many of you are good at **multi tasking? video**

If we are too focused on our daily business – on what we have been told to focus on, we might not be able to see the gorillas that are entering our field. Perhaps we should listen to outsiders who come to tell us that they have seen some gorillas about (the question then is, of course, do we listen to them?)!

But you may also translate it as 'you need people who have been told to look for gorillas, or even go out and find them. And don't forget to put it in their job description and assessment, otherwise it will not happen.

There is another reason why we might want to listen to outsiders' ideas on what we should do **banana story**.

Innovation happens when you bring together different mindsets.

So, if open innovation is good for us, especially if we are serious about innovation that goes beyond the incremental. What is different about it? I have identified a few aspects where I believe open innovation is different from collaboration.

Difference between open innovation and collaboration

For me there are three main differences:

1. **how wide** you cast your net when you are looking for, selecting and implementing ideas,
2. what the **purpose** of collaboration is, and
3. most importantly, the **mindset** that is driving the above

Let me expand a little on each.

How wide

When you talk to someone in the R&D community about open innovation you probably get the answer, **we have always done that!** We have always had links to universities, been to conferences, and picked up thoughts and ideas from the outside. We also have worked with suppliers and customers before – how could we not?

Do you agree?

Where I believe open innovation to be different is in the degree and at what levels ideas from the outside are considered.

Take the **innocentive** website which was at the forefront of the open innovation movement. Anyone could submit their ideas via the website;

Previously **selection** seems to have taken place *before* idea generation; selection under open innovation takes place *after* the generation of ideas.

While we are talking about casting the net wide, even inside your organisations, who is invited to bring ideas forward? Is everyone encouraged, does everyone know where to take an idea, regardless of their geographical, hierarchical or functional position?

If not, my be you should reconsider. Let me share a story about **Cargill**, whom I am sure you are familiar with. When I had an opportunity to speak to Carol Pletcher, then their CIO (chief innovation officer) and asked her about how they had started on their innovation journey she said, by inviting ideas from everyone and anyone in the organisation. I really want to focus on the outcome rather than going into too much detail of their approach. She said that they had some fantastic ideas. Of course they were keen to see whether they were all coming from a particular group within the organisation. And she said, "What we learned from the inventory is the following, (1) the more people you invite the better the output, and the higher the achievements; (2) when we looked at where the best, most powerful ideas had come from we could not find any link to either a particular geographical area, nor to a particular level within the organisation's hierarchy, nor to one particular function. There were no hot spots for 'good ideas'. The ideas were rather distributed across all dimensions. The 'winners' had only one thing in common: they were all quite exceptional. So we were pleased we asked everyone, otherwise we would have missed out on some fantastic opportunities."

What purpose

Even if ideas have been brought in from outside in the past, from the decision to move forward they were generally brought in firmly in-house - we know how to do this.

Collaboration tends to have **specific purpose** and be quite **directive**. Open innovation on the other hand is much **more explorative**; it is difficult to predict what idea might come up, and where it might come from. You might even work with your '**enemies**', as we will see in one of my case studies later.

On that note, a piece of research I did back in **2003** I was looking at who companies were **collaborating** with at the time, and what their plans for the future were. One of the categories was 'competitors'. Only about 40% declared that they would NOT work with competitors in the future, down from about 55% at the time of the survey (anyone interested just let me know and I can send you the article).

With boundaries perforating and collaborating blossoming there is of course also the interesting question, who is our competitor? On this question 'Richard Leary of Forensic Pathways' made an interesting comment at the launch of (collaboration between Oracle and NESTA) in London yesterday. He said, that the **competition** is with your self: to do things better, to improve things, to learn, to grow. I thought, an interesting thought...

But I am drifting.

I said earlier that collaboration has a specific purpose, it generally sets out to address a **problem** that we have identified. Open innovation on the other hand aims to identify **opportunities**, about exploring possible futures and experimenting along the way to find a breakthrough innovation that creates value.

Difference in mindset

I can already use the last comments as an introduction to my third point then, which I believe is the most fundamental.

Actually, both of the above, extent and purpose, have fundamentally to do with mindset. In order for open innovation to be possible and successful we need to create a particular mindset in organisations – or at least find people who have that particular mindset to lead the open innovation efforts. What are some aspects of an open innovation mindset?

Openness – as organizations and individuals we need to have an open mind. Open innovation is about believing that **good ideas can come from anywhere** rather than believing that all great ideas come from inside your organisation, or even narrower, from senior management. This links in with the first point, casting the net wider, which operates with the assumption that anyone out there might have a great idea. This old mindset is also reflected in the more traditional types of collaboration where you select the idea *after* you have chosen your partner, assuming that you know who the *right* partner with the *right* ideas is.

Another aspect of mindset difference is whether or not you believe that **R&D** has to be conducted internally in order to generate value for your organisation. Here I have observed interesting attitudes in pharmaceutical and medical companies; there is a great awareness that once you have identified the solution to a real consumer insight the likelihood that the technical solution is somewhere out there is quite great. Finding who has them and liking up with them is the trick, not necessarily developing the technical solution in-house. That is quite different from where they were 5-10 years ago.

Open innovation is about understanding that **what you do**, i.e. a new business models, can create more value than being **first to market**. Especially if we are talking about a radical innovation this is not necessarily the case for various reasons:

- one is that the market might need to **understand the new proposition** or that certain levels of awareness are required to realise the value from the proposition; I still remember when Orange was introduced in the UK, for weeks I had been seeing those orange square but could not make anything of it – which piqued my interest and curiosity;
- another that the **technology is not really quite ready** yet remember the Boeing's competitor De Havilland (Comet) who was first with the jet engine? Well, I certainly did not help that the planes kept falling out of the sky...
- a third that your proposition is **part of a system** – think of the i-pod which came to market as a whole new offering, making the MP3 technology, that had been around for quite some time, useable and desirable.

All three become the more important the more radical an idea is. Think about the reaction to steam engines, telephone or home computers.

Another mindset issue: the really clever companies also realise that open innovation is **not a one-way street**. It works both ways. This means that companies are becoming cleverer to find ways to sell off, license out, give away those things that do not contribute to achieving their vision.

By the way, in terms of which breakthrough ideas to take forward, when we looked at the use of dragons dens one company emphasised that they select the ideas for which they **feel a strong energy and passion** from the Dragons. Not a bad idea given that it will generally depend on those people to enable the progression and survival of such ideas.

Also not a bad idea from another perspective: for breakthrough innovation – and I believe that it what we are talking about here today – we often **lack appropriate measures and assessment criteria**; when it comes to comparing ideas it becomes even more difficult. add into the equation that innovation cannot survive and succeed without passion, level of energy by (the right) people seems a worthwhile approach to consider.

You will find a table with some changes suggested by academic Docherty (2006) in your slide pack. To pick up just a couple, it is about accountability for learning (rather than results) and looking at trends (rather than numbers).

<i>Proven, mature business</i>	<i>New, unproven business</i>
Accountable for results →	Accountable for learning
Details →	Critical unknowns
Prediction →	Underlying logic
Numbers →	Trends
Annual planning cycle →	Monthly or quarterly
Focus on financial measures →	Focus on leading indicators

In the context of innovation there is no such thing as **failure**, only experiments with unexpected outcomes from which we can learn. Or as **Edison** said about his alleged failure before coming up with the light bulb as we know it, "I have not failed, I have only eliminated options that would not work."

But I think there are more mindset and context issues to be considered which I will explore in a little more detail in my section on 'what is required and why it needs careful thought'.

What is required and why it needs careful thought

If open innovation is to work two of the key ingredients are trust and respect. Without trust and respect there is no sharing, there is no combining and mixing of knowledge, there is no joint development. Unless you have respect for people you will not want to work with them and you be inclined not to take serious what they say and have to offer.

There are a couple of things I like to mention about trust. First of all, trust takes some time to develop. It does not happen over night. There has been a piece of research on the development of trust which indicates that levels of trust drop to a low before picking up – at what point would you give up?

Though it is quite interesting that it seems to become increasingly important are introductions by mutually trusted **intermediaries**. Thinking about myself, I am

flying half way around the world to speak at a conference based on a few exchanged emails, because the introduction has happened by someone I know and trust. No contract, no face to face meeting, not even a telephone conversation. (Would that have happened 20 years ago?)

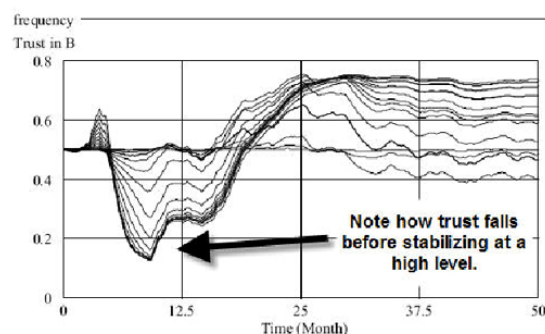
There is another point. I have talked quite a bit about the need for those who **think differently** from us. Have you noticed though, there can be an issue with that. Who is form R&D – collaboration with marketing always going well? And how about the other way around?

Well, we all easily have prejudices against those who are different, who do things differently from the way we do them, who value different things. But there is no smoke without fire, you may call it **prejudices**, but there are actually sound reasons behind it. All of us have preferences about how we do things, and often – hopefully – chose our careers that are aligned with them. If I like experimentation and developing new things, I am more likely to go into marketing, or a 'creative' profession such as design or advertising than a profession that is built around routines, rules and regulations. But it also often means that I might be looking down at those who are 'sticklers for detail'.

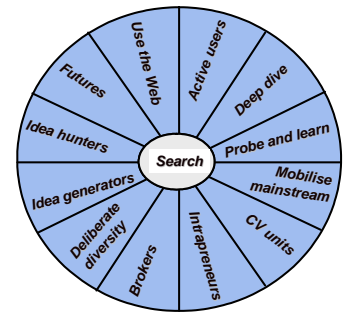
I believe that if we want to embrace open innovation we need to be aware of these differences. Not to eliminate them but to value and **treasure them**, and use them to help us to get to our breakthrough innovation. Never forget, we are judging ourselves by our intent but others by their actions.

When collaboration between different mindsets happens magical things can happen (example of **STEN & Design Council**). It is important to understand two things. First, that people are different, have different preferences, different things that are important to them and different things that turn them on (and off). Second, and as a consequence of the first, collaboration between people with different values and backgrounds is not easy, and does generally not happen 'naturally'. That's another reason why it is so important that **reward and remuneration are aligned** to encourage and enable collaborative behaviours.

What else? Open innovation thrives on **connections and serendipity**, not hierarchies and planning. this does not mean that we have to leave it to chance but much more that we need to find ways to improve our 'connectivity and chances for serendipity to happen.



Before I come to some specific examples on approaches towards open innovation a few generic strategies that I and my colleagues have observed in a collaborative project between companies and academia through which we have set out to investigate what companies can do to search, select and implement discontinuous innovation (happening in many European countries). The document elaborating on the 12 search strategies as well as a self-assessment document can be downloaded from <http://www.aimresearch.org/index.php/aim-publications/executive-briefing>

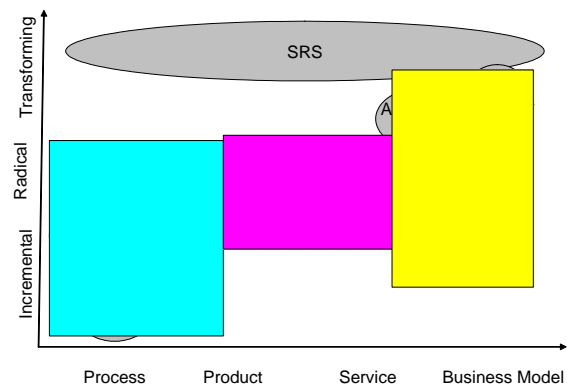


How two of the ILF member companies have approached it

Example 1 Ordnance Survey

The yellow area: This area of novel concepts sits outside OS's capability and it would be difficult to exploit them alone. The concepts here are based on foreseeable social and technological trends. OS have realised that projects in the yellow space are outside the scope of 'doing it all alone'. Ordnance Survey has the advantage that it already had a strong history of external collaboration.

Process & Product innovation



How to identify collaboration partners:

- **Mash-up** event – bring in the hackers and young people (the businessmen of the future!) in to see what they can do with OS data! This was about showing that OS is serious about these development and adapting to recognised trend; to encountered feedback (largely negative!) that helped both sides understand; to enlisted beta testers, and to provide a platform to launch Open Space.
- **Terra future**: A successful event led by Research Labs on 20th September 2005 & September 19th 2006 with the theme "To explore opportunities that arise from future technologies as Geographic Information joins the main stream Information economy."

Some other thoughts on **Who to do it with**

I found a grouping by German innovation professor Jürgen Hausschild quite useful from his 1992 publication; External acquisition of knowledge for innovations – a research agenda; R&D Management, 22, 105-110

- Markets, including customers, suppliers, competitors
- The scientific system including universities and research institutions
- Public authorities including patent agents and public funding agencies
- Mediating parties such as technology consultants, media, conference organisers

Example 2 Healthcare Company

This company was struggling to deliver desired and required growth. It was clear, as in the case of P&G mentioned earlier, that it would be difficult to achieve if they continued they way they had always done things. How to change things? The company very much operates on the principal that connectivity between people matters to generating innovation. This drove the selection of the project name 'Fusion', whereby "**Fusion is a process by which multiple particles join to form a nucleus, accompanied by release of energy.**"

To enable this to happen mechanisms needed to be create that would facilitate the collision between people who were more used to working in a siloed organisation. And it had to be more than a matrix organization, it had to go beyond the organisational structure. Before starting to talk about innovation and fusion the company started a programme of creativity training and presentations; as the topics included arts, music and Thai Chi these seemed rather unusual to some and staff started to ask questions; a 83 year old ex employee who had won the Nobel prize came also to present.

How to go about open innovation?

In their approach to Open Innovation the company built on the WFGM model:¹

Want What external resources do we need to succeed in our mission?

Find What mechanisms will we use to find these resources

Get What processes will we use to plan, structure, and negotiate the agreements to get the resources

Manage Develop tools, metrics and management techniques to foster external relationships

Want – has to be simplify and provide focus (often the most difficult bit).

If time: thoughts from ILF meeting

- The need for the people in the business to understand the organisation's challenges
- Need to be specific about what issues/ challenges/ problems/ intentions are
- Success always helps; make sure you start with something that succeeds that will give you a lot of leeway
- Don't talk about open innovation, just do it! It is a means to an end, not an end in itself
- Bringing in people unrelated to your business to think about your business issue/ future
- Use of web 2.0 to understand simmering issues – using second life to discover trends, prototype, experiment
- Bringing right people together in physical space
- Variety of approaches – no one right way; needs to fit with culture
- Need people dedicated to it

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