

WHEN TO DIVE INTO OPEN INNOVATION

The Key Factors that Determine Success

By: Stephen Clulow, Director of Healthcare Program Management, NineSigma Europe

Companies are striving to stay at the top of the innovation game. Yet many do not know where to start with open innovation (OI). Companies frequently ask two key questions:

- When is a company ready to start open innovation?
- What are the factors that determine success?

In this white paper we analyze our experience of working with a broad spectrum of open innovation practitioners, we classify their motivations and outline the factors that lead to success.

NineSigma works with many organizations in the public and private sectors, from multi-national companies to SMEs, start-ups and nonprofits. Some are experienced open innovation practitioners and others are just starting on their journey. We see the approaches these organizations take and we learn what works and what doesn't. This unique perspective has allowed us to identify four key factors, that when followed, will help ensure open innovation success.

1. Make growth your goal
2. Align internally and build absorptive capacity
3. Plan your approach: Are you an elephant, a bear or a cat?
4. Be open: Get the outreach right



ABOUT THE AUTHOR



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Stephen Clulow is Director of Healthcare Program Management for NineSigma Europe. A life sciences PhD, Stephen has 20 years of experience in small biotechs and large pharmaceutical companies in the UK, Europe and the USA. Stephen enables healthcare companies to solve challenges, fill product pipelines and enhance their capabilities through external partnering. He has led internal innovation, open innovation and crowd-sourcing programs in multinational companies and start-ups. These initiatives generated novel solutions to long-standing industry problems in science, technology, IT and automation in the healthcare sector.

Stephen was recently awarded a Masters in Innovation, Creativity and Leadership by City University, London. His dissertation research investigated what motivates people to participate in online innovation initiatives. Stephen is passionate about innovation and believes that web and mobile technologies will play an important role in future innovations in the healthcare industry.

WHAT IS OPEN INNOVATION?

Open innovation is innovating with partners to improve product pipelines and shorten time to market. The risks and rewards are shared. Open innovation, can include ‘outside-in’ approaches, where external ideas and technologies are brought into the organizations innovation process, and ‘inside-out’ approaches, where un- or under-utilized ideas and technologies go outside to be incorporated into other organizations’ innovation processes.

HOW DO WE DEFINE SUCCESSFUL OPEN INNOVATION?

Put simply, success drives significant long-term business growth. Successful open innovation practitioners run effective outreach programs that identify great ideas, partners and opportunities; they successfully integrate these into their product development pipeline and create new products and services that drive long-term growth.

Too often organizations focus on the open innovation outreach and fail to integrate and capitalize on the opportunities this creates. For this reason, three of the four success factors we have identified relate to the internal processes, people and culture of the organization. Only one success factor relates to open innovation outreach.

THE FOUR ESSENTIAL FACTORS FOR SUCCESSFUL OPEN INNOVATION

FACTOR 1: Make Growth Your Goal

Companies are motivated to start open innovation for a multitude of reasons. These motivations are expressed in many different ways, yet we have found they can be categorized into four broad groups. The way an organization describes why they are using open innovation reveals a lot about them.

Motivation: We have a problem

This is a common motivation for organizations starting open innovation. These organizations have realized that external partners or input could help them solve the problem. It is a great reason to consider open innovation. Open innovation brings fresh ideas and new approaches from other organizations and industries that have already solved a similar or related problem, and provides partners so the organization can collaborate to develop solutions.

Motivation: We have a problem, and we have spent five years trying to solve it

This situation reveals a lot about the organization’s thinking and their motivation to start open innovation. Why did the organization wait so long? Are they really ready for open innovation, or have they tried everything else and turned to open innovation as a last resort? An organization that has worked in ‘closed’ mode for so long may struggle to accept and use approaches from outside.

Motivation: *We want opportunities*

Companies with this motivation want to find new ideas, they are open to new collaborations that complement their in-house experience and capabilities, and they want to grow and expand. Often companies with this motivation are prepared to take a broader longer-term perspective than simply solving immediate problems.

Motivation: *We want opportunities for 3 to 5 years from now*

This motivation indicates a long-term growth agenda. Organizations with this approach are interested in early-stage concepts and are prepared to invest in developing them. This gives much greater scope for innovation and greater scope for significant business growth. However, it is also associated with increased risk and the organization must take steps to manage this.

Why Should Open Innovation Focus on Growth?

These motivations form a spectrum (Fig. 1). At one end of the spectrum is ‘avoidance’, the need to avoid a painful problem. At the other end of the spectrum is growth.



Fig. 1. The Motivation to Start Open Innovation

There is no right or wrong. The different motivations will give different outcomes.

A company using open innovation to avoid a problem will solve the problem and ‘dig itself out of a hole’. This could save a major product. It may significantly reduce costs and improve the bottom line. It will move the company away from an uncomfortable situation to a more comfortable status quo. However, it will not contribute to the development of novel high-value products and services and the long-term growth of the company.

It is our experience that organizations that approach open innovation with a growth motivation are more successful. These companies are adding value to their product and service offering, and grow the value of the company through innovation.

FACTOR 2: Align Internally and Build Absorptive Capacity

Organizations starting open innovation often think that they should focus most of their effort on the external outreach aspects. But to be successful at open innovation, organizations need to adopt the right culture and prepare for managing the process.

Five Steps to Create an Open Innovation Culture

First, the company must be aligned internally:

- 1. Build understanding of open innovation and choose your approach.**

It is important that the people involved in open innovation have a shared understanding of what open innovation is and what the organization wants to achieve.

- 2. Identify projects that would benefit from Open innovation and are important to the company.**

Some projects will benefit from an open innovation approach, others will not. It is important to know the difference.

Secondly, create absorptive capacity – this is your ability to manage new information, collaborations and partnerships. You must prepare for new external inputs, and enable the company to translate them into successful products and services.

- 3. Allocate resources to running open innovation projects**

Companies often fail to allocate adequate staff, resources and time to open innovation. This prevents them from delivering successful open innovation programs.

- 4. Create the capability to integrate external opportunities**

External technology, collaborations, and partners all must become a part of your product development pipeline.

- 5. Adopt an open mind-set**

Internal information sharing and effective cross-functional team work are essential to create an open culture.

The exact organizational structure and process to achieve these five steps will vary from organization to organization. In small organizations the approach can be very simple and still be effective. In global multi-nationals the structure tends to be more complex. We uncover the tools for success for each of these steps:

Build Understanding of Open Innovation

Is the objective to gain consumer insights for new products? To identify co-creation partners with compatible capabilities? Or new technologies that can be incorporated in value-added products? In some organizations open innovation is used for all these things, but is the open innovation objective for each project clear?



Fig. 2. Outreach Alone is Not Enough to Succeed at Open Innovation.

Shared understanding is important as more and more people get involved. Open innovation programs are often run from R&D or new product development teams. Yet, input from the legal, communications and marketing teams is critical for success. If these departments understand the open innovation approach and can easily see the objectives and benefits of the program it is easier to get their buy in to making open innovation a success.

To achieve this, large multi-nationals with extensive, well-established open innovation programs often have strategies for the whole organization and offer in-house training programs to all their staff. Smaller organizations, or those starting out in open innovation, may set a goal for a particular project and help staff learn about open innovation through coaching, self-directed learning or by interacting with an open innovation service provider such as NineSigma.

Identify Suitable Open Innovation Projects

Projects that are progressing well, have all the necessary expertise to deliver the project in house and only require easily accessible components don't need to use open innovation.

Projects that can only succeed or would progress more quickly with external input that complements or enhances the internal capabilities of the organization and projects are great candidates for an open innovation approach.

Companies starting in open innovation often identify these projects on a case-by-case basis. Those with larger open innovation initiatives have the mechanism to review their internal assets. They identify projects that would benefit from open innovation, prioritize the most important and move them into their open innovation portfolio. These reviews can be conducted by individual business units or on a cross-company basis.

Organizations with very large open innovation capabilities will often use portfolio management techniques to manage their projects. They aim to achieve a balance of short and long-term projects; high-risk and low-risk approaches and ensure that the open innovation investments are appropriately balanced across the business.

Allocate Resources to Running Open Innovation Projects

It is very time consuming to correctly understand and frame innovation opportunities, run the outreach, answer questions and encourage responses and review potential partners. Organizations need to allocate adequate time and resources to the open innovation program or outsource the tasks to open innovation service providers. One of the biggest mistakes is asking people to do open innovation in addition to their full time role or in their spare time.

Integrate External Opportunities

When suitable opportunities have been identified the organization needs the capabilities and resources to do careful due diligence on opportunities, create contracts and do deals with partners.

Furthermore, to be truly successful, they must manage the collaborative work or technology transfer with partners to integrate these approaches into product development pipelines. For larger companies a cross-functional team approach involving staff from the legal, communications and R&D teams is essential for success.

The organization and its staff may need to develop different skill sets. Staff who worked previously only on internal R&D projects may now be required to do technical assessments of external opportunities, help structure deals and manage the collaborations. For many staff this new external focus to their roles can be enriching and rewarding.

Adopt an Open Mind-set

Openness internally is important. Internal information sharing is important to identify opportunities, do deals and integrate external partners in product development teams. The R&D, legal, product development, communications and marketing teams must all play their role. It is common to hear open innovation practitioners say, 'It would have been so much easier if I'd involved the legal team earlier...'

Success at open innovation means overcoming what is often referred to as the 'Not invented here syndrome'. This has two components. Firstly, an openness to consider different perspectives and ideas that come from outside the organization. Secondly, the willingness to adopt external approaches and work with external partners that bring different capabilities, technologies or experiences.

Being open to external possibilities is also associated with increased uncertainty. The uncertainty of openly asking for external assistance and, not knowing if you will find the right, successful partners. Companies that do best at open innovation are able to tolerate this uncertainty. This doesn't mean it is always a comfortable experience, but their processes, structures and staff are capable of working with the uncertainty open innovation brings.

The companies that participate in our open innovation practitioners group tell us organizations can help their staff adopt an open mind-set through good leadership, sustained senior sponsorship for open innovation, by allowing mistakes and learning from them, and by establishing mechanisms that recognize and reward collaborative behavior and external collaboration. Changing the mind-set and culture of an organization, however small, cannot be achieved in an instant. It requires steady, sustained effort.

FACTOR 3: Plan Your Approach: Are You An Elephant, A Bear or A Cat?

Larger organizations with an open innovation strategy, bigger absorptive capacity and an open mind-set are capable of running more open innovation projects. Smaller companies, or companies with less absorptive capacity or a less developed open innovation culture, can run fewer projects.

We analyzed the number of open innovation projects our clients run each year and examined how they are distributed over the year. Three broad patterns emerged and we were able to classify companies as 'elephants', 'bears' or 'cats'.

Continuous Open Innovation: Elephants

Some companies use open innovation continuously throughout the year, such as Company A, a global consumer goods company (Fig. 3). They are experienced at open innovation, have developed good outreach capabilities, strong absorptive capacity and an open mind-set is embedded in their culture. Like an elephant moving across the savannah, continuous open innovators are big animals. They make strong, steady sustained progress.

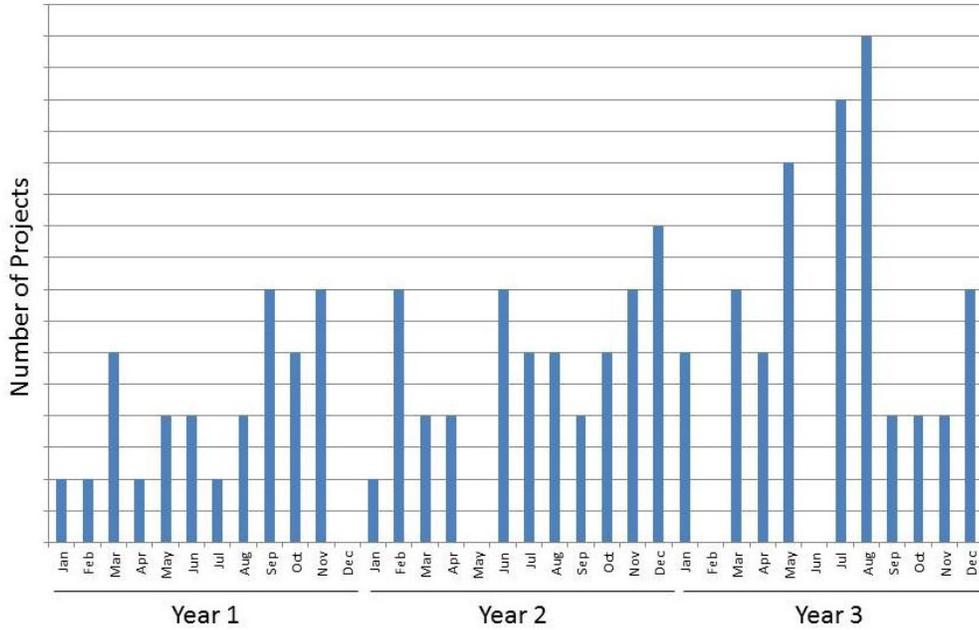


Fig. 3. Continuous open innovation: Company A, a global consumer goods company

Business Cycle-led Open Innovation: Bears

Some companies use their internal business cycle to drive their open innovation activities. They use recurring internal events as a trigger to start open innovation activities. These internal events can be the confirmation of annual budgets or internal portfolio reviews.

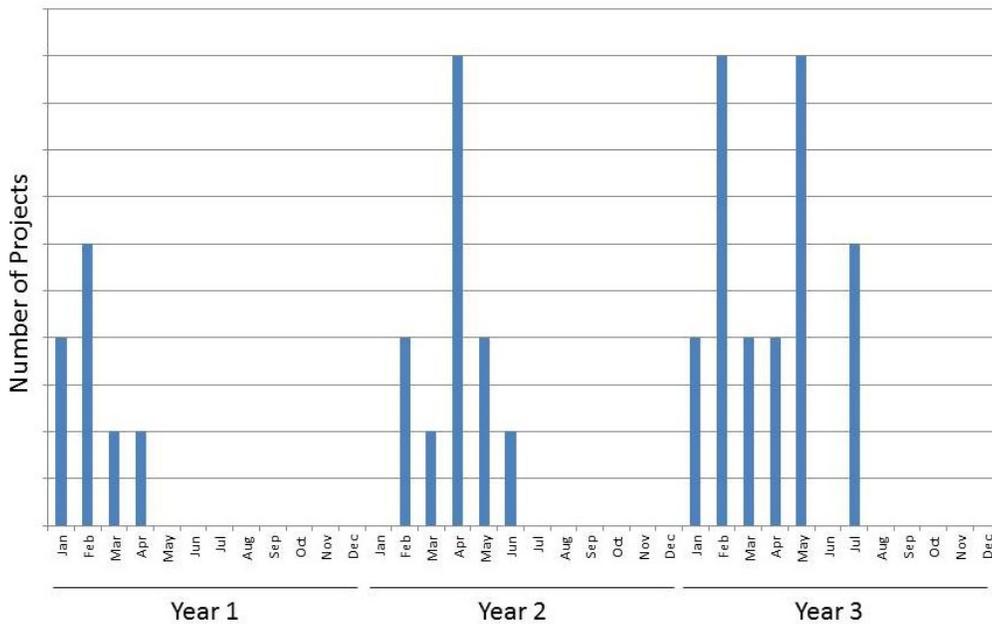


Fig. 4. Business cycle led open innovation: Company B, an international automotive company

Company B, an international automotive company (Fig. 4), links its open innovation outreach activities to its annual budget cycle. When the budget is confirmed in January, open innovation projects start. The company uses the first part of each year for its outreach activities. They use the second part of each year to establish collaborations, R&D projects and licensing deals to integrate external solutions into their product development pipeline.

Each year the cycle recurs. Interestingly, as it has become more experienced and successful at open innovation outreach and honed its internalization and partnership activities Company B has increased its open innovation activities year on year (Fig. 4). Using this approach Company B has been able to grow the proportion of projects that use external sources and deliver corporate growth.

We call these organizations ‘Bears’. They are active externally for part of the year but they stop their external outreach activities, and appear to hibernate, for parts of the year.

Opportunistic Open Innovation: Cats

‘Cats’ are different. Cats rest until they identify an interesting opportunity and then they spring into action. The open innovation activities of Company C, a multinational engineering and electronics company, are characterised by periods of inactivity followed by periods of intense open innovation.

Company C’s strategy is to use open innovation to grow opportunities where it does not have the internal capabilities to deliver them alone. When Company C identifies an opportunity where it needs external expertise to complement its in-house capabilities it uses open innovation to identify suitable partners. Its profile is characterized by strong, almost explosive, bursts of activity and periods where it is not obviously engaged in the outreach activities for open innovation (Fig. 5).

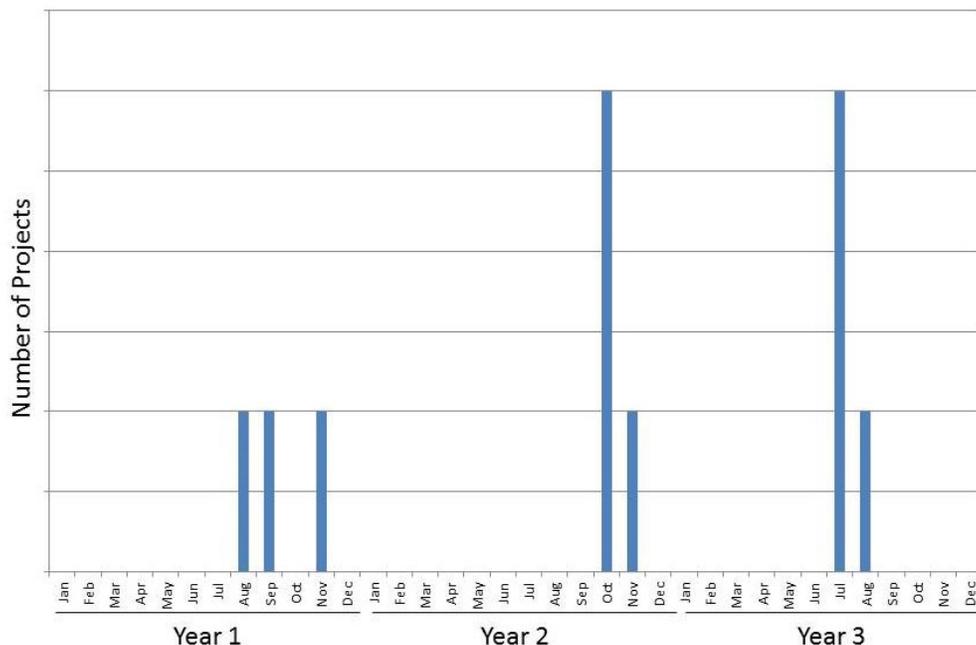


Fig. 5. Opportunistic open innovation: Company C, a multinational engineering and electronics company

Which Approach is Right for You?

To be successful with open innovation companies must match their outreach activities to their internal capabilities. Companies with limited absorptive capacity or staff who are inexperienced in establishing collaborative partnerships cannot run large-scale, continuous open innovation programs. They must adopt other approaches. It is vitally important that the staff and systems in a company are compatible with the open innovation approach.

Consider the case where the open innovation activity is triggered by a business cycle event, such as a portfolio review. Staff must understand that the portfolio review will identify projects that can benefit from open innovation, that outreach activities will be started and that the rest of the year until the next portfolio review will be used to partner or integrate external innovations. This approach can be integrated into the annual business cycle relatively easily. With time it becomes part of normal business process.

If the company wants to take an opportunistic approach, by identifying emerging growth opportunities and finding external partners to realise them, the company needs mechanisms to identify and validate opportunities. They must have the flexibility to rapidly spin up open innovation outreach activities and have the ability to efficiently integrate a wave or influx of open innovation activities into product development projects. This spontaneous, less planned approach means the company must be able to rapidly realign its activities and resources to exploit the new opportunities.

Companies planning open innovation need to be clear about how they will operate their outreach and ensure they have the internal capabilities to match their approach, and align internally. To be successful, plan your approach and know if you want to be an elephant, a bear or a cat.

FACTOR 4: Be Open: Get the Outreach Right

Having discussed the internal aspects of open innovation, let us consider the design of the outreach activities themselves. This is often the first thought of people investing in open innovation. We have intentionally left this point last, as without the other internal factors, the chances of success are slim.

There are four essential aspects to running outreach activities:

1. Create a mechanism to capture diverse innovation needs
2. Design the open innovation program
3. Determine how to efficiently evaluate, integrate or reject opportunities
4. Prepare to actively, continuously improve

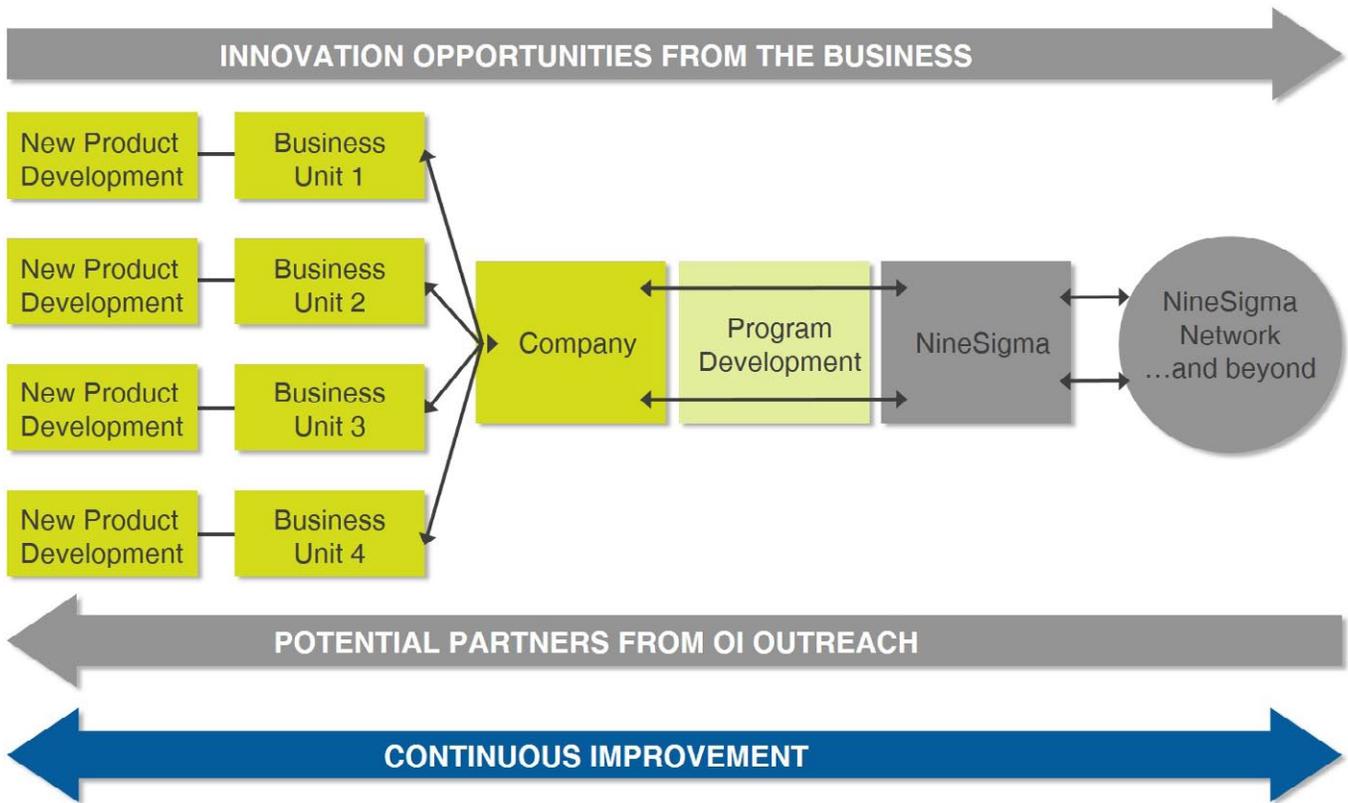


Fig. 6. The key aspects to running successful open innovation.

Create A Mechanism to Capture Diverse Innovation Needs

The common factor in organizations that are successful at open innovation is the use of open innovation champions. Open innovation champions promote and facilitate open innovation in the organization. These champions can be part of a dedicated open innovation team, tasked with understanding the business areas and working with them to identify and bring forward opportunities suitable for open innovation.

Often, the dedicated open innovation teams are charged with working with other departments (such as legal, communications and marketing) to bring the organization's open innovation needs to the outside world. This allows them to facilitate cross-functional understanding and build long-term relationships with these departments. Some organizations have full-time staff in the business units who act as open innovation champions, or have staff in the business units who devote a percentage of their time to open innovation. Both approaches can be very successful.

OPEN INNOVATION IN PRACTICE: USING INTERNAL CHAMPIONS TO DRIVE PARTNERING

SITUATION:

A global pharmaceutical company created a network of Open Innovation Champions to engage the whole company in open innovation.

APPROACH:

The OI Champions were experienced, respected experts from the R&D departments, tech scouting and business development groups. The NineSigma team trained the champions in Open Innovation, project selection, and how to integrate external innovations. The pharma company tasked the champions with passing this knowledge to their colleagues and bringing forward projects that would benefit from external inputs. The Champions took different approaches. One organized internal seminars and webinars to brief colleagues and ask for project suggestions. Another set up a series of 1 to 1 networking meetings with key staff in her division. A third joined her division's annual project portfolio review to identify where external input would accelerate projects.

The OI champions brought the project owners and the NineSigma team together to frame the challenges and agree on the most desirable business outcomes for the company. NineSigma ran the OI outreach and engagement and worked with the OI champions and project owners to review the external opportunities. When potential partners were selected, the OI champions facilitated the full evaluation and integration of the opportunities. They ensured the most appropriate experts were present in the meetings with potential partners and engaged the legal and business development teams to ensure appropriate NDAs were in place and that suitable deal frameworks were agreed.

IMPACT:

By empowering the OI Champions the pharma company identified and ran 11 projects from 4 divisions, in 3 countries, in 10 months. Multiple potential partners were taken into full technical due diligence and the first partnership deals are now being signed.

Design the Open Innovation Program

- **Consider your underlying business objectives**, the type of partnering opportunities that will help grow the innovation in your business and the innovation opportunities that will enhance your product and service offerings.
- **Structure the outreach activities** in a way that will attract appropriate business partners. What would be the most appropriate partner to jumpstart the organizations innovation: an expert who can provide advice, a partner looking to license their technology or a co-creation collaborator with complementary capabilities?
- **A branded open innovation portal** can attract a wide variety of partners. Portals are appropriate for an organization that has numerous innovation needs that arise steadily over time, and is prepared to attach its name to each project.
- **Targeted open innovation searches** are suitable for rapidly identifying partners that can meet clearly specified opportunities.
- **Open innovation needs must be carefully written.** They should attract a highly diverse range of respondents. They must describe the organization's need in a way that articulates what is desired but still allows respondents to be innovative. Not too broad, not too narrow. Industry specific jargon is best avoided.

Determine How to Efficiently Evaluate, Integrate or Reject Opportunities

Your reputation as an open innovation partner depends largely on how you respond to the proposals that are submitted. When opportunities are identified it is important to evaluate them, progress them or reject them quickly.

- **A quick, well thought out response** can indicate you are keen to partner and are the sort of organization people can do business with. It can help you translate interest into deals.
- **Be efficient and responsive.** Proof of concept, full due diligence and contract negotiations can take time. Being responsive, professional and constructive helps keep potential partners engaged and makes it easier for them to work with you.
- **You will have to reject more opportunities than you progress.** Polite, constructive rejections are well received in 99.9% of cases. Constructive rejections help the potential partner understand why they were not right for you or help them improve their offerings.

Managing, evaluating and replying to inquiries and proposals is very time consuming. Furthermore, establishing yourself as a desirable partner in the open innovation space takes sustained time and effort. Some companies choose to do all this work themselves; others use open innovation providers to do the 'heavy lifting' and provide them with 'instant recognition'.

Prepare to Actively, Continuously Improve

Finally, open innovation outreach activities are not fixed and immovable. The overall program, and the individual projects can, and should, be adjusted to improve the visibility, the diversity of contacts and the quality of the potential partners that are identified.

Open innovation programs can generate a lot of useful data. For example, the number, location and experience of people viewing the request, the nature of the questions that are being asked and the appropriateness of the responses. Data driven continuous improvement is essential for the long-term success of open innovation.

How to Approach Open Innovation for Success

Instead of asking 'Am I ready to start open innovation?' think about what approach is right for you and your business. Are you a bear, a cat or an elephant?

Are you using open innovation for growth, rather than an emergency life line? Think about your motivation, are you looking for new opportunities, intrigued by new technologies and open to partnerships?

Are you willing to invest the time and energy to create the right internal culture? If so then you will be more successful, all by taking the time to align your organization, and pre-empt how you will manage the influx of new information.

Preparation and constant improvement of your outreach activity will help you monitor the results of your program, and advice from a third party can keep your business focused and unbiased when creating your plan.

ASSEESING YOUR READINESS FOR OPEN INNOVATION

NineSigma often works with organizations to help them improve their innovation capabilities. We assess the innovation capabilities of the organization. We report the current strengths, areas for development and give an overall rating of the organizations readiness for open innovation.

We welcome the opportunity to discuss how we can help your company.

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