Top 5 Challenges to Implementing Open Innovation
By Nerac Analysts

Nerac recently conducted a series of executive roundtables on open innovation around the United States and in the United Kingdom. All the attendees were Nerac clients and are involved in open innovation at some level. The discussions generated much debate, and common themes developed around questions dealing with implementation, conflict over intellectual property, creating open innovation networks, and creating measurement systems. Here are my answers to the Top Five Questions on Open Innovation:

How do I implement open innovation in my organization?

The biggest issue with implementation is that you cannot simply copy another company. Too often a CEO mandates an open innovation initiative because it works for another company and thinks it can simply be duplicated. It just doesn’t work that way. Another issue comes as a result of the lack of company-wide engagement. A go-getter director initiates a program for a department, typically R&D, and the rest of the company is indifferent or even resistant to the changes. Finally, implementation deals with an intangible problem created in a company probably already in shock from too many recent changes to the organization, making it unable to process yet another restructure or corporate culture adjustment.

Every company is unique and must develop an approach to open innovation that fits its needs. Make sure the engagements are the right size. In several cases clients expressed remorse that an open innovation project took two full quarters to implement and then came the realization that the market potential for the project is too small, making the open innovation effort seem trivial.

How do I strike a balance between open innovation and intellectual property?

The biggest challenge for any company that has not mandated open innovation from the highest level is that legal departments will try to preserve the status quo. As a result, the legal framework is too rigid and stifling to open innovation operations. And all too often traditional executions of legal agreements take too much time to generate. Easily half a quarter can be lost waiting for legal documents that would allow you and the client to start working.

A significant legal improvement for joint development, usually associated with open innovation, occurred in 2004 with The Cooperative Research and Technology Enhancement Act of 2004. Before the revision, Section 103(c) provides “a safe harbor for inventions that are the product of collaboration involving co-inventors within a single company. However, scientific research is increasingly being conducted jointly by multiple companies, universities, government labs, and/or other entities.” That is why the Create Act amended the law so that with joint development agreements in place, entities can patent the research from joint projects as commonly seen in open innovation.
Questions About Implementing Open Innovation

How do I assemble a good open innovation network?

Without a network, open innovation is dead. We examined the different types of connections: solution bounty, internally prequalified, business partners, suppliers, and crowd sourcing:

- A Solution Bounty offers a reward for offering a solution to a specific question. On the positive side, it is easy to establish through a third-party, and typically you will find an extremely large number of innovators connected. Some of the disadvantages include the tendency towards innovation against specification which can be too myopic. And transparent problem briefs signal strengths and weaknesses to your competitors.

- Internally Prequalified typically exist in the largest companies in OI. IP issues are handled upfront and the framework supports innovation-against-specification and mission innovation based on the closer engagements between the client and members.

- Business Partners typically are rich in resources compared with typical small innovators, and they are more inclined to think bigger and understand the innovation mission. Some detractors with engaging business partners include the danger that the partner can claim the joint project and you end up boxed out. Also, make sure IP issues are addressed up front.

- Suppliers have inside knowledge of your strategy, and ideally, are more likely to generate disruptive technology. Supplier relationships tend to mitigate IP issues, too. If they value your business, they have a lot to lose if something fails. So normally, suppliers do not squabble over IP so they can maintain client relationships.

- Not all businesses have strong opportunities in Crowd Sourcing. If you are in such a business, crowd sourcing builds customer loyalty and practical knowledge of your value proposition. The primary detractor is the cost associated with managing customer-feedback processes.

How can I evaluate open innovation?

As with any field that is new, no final answer is available. We can start by examining how open innovation compares to traditional internal methods. Compare the results and time to market of open innovation to previous methods. Ultimately, open innovation should increase profitability compared with only using internal methods.

To assess open innovation by output, we can ask a series of questions. What percentage of sales came from externally licensed technologies? Is this percentage increasing or decreasing compared with 2-3 years ago? What percentage of net income last year came from technology licensed out to other companies? Is this percentage increasing or decreasing compared with 2-3 years ago?

In assessing opening innovation in terms of time to market, we should ask how long does it take for patented ideas created inside the company to be transitioned to the firm’s own products and services? Has this interval changed in the past five years? How? What percentage of internal ideas are offered for external license? How much time elapsed between the patenting of ideas and their external licensing?
What are the biggest advantages of using open innovation?

While this wasn’t a common question, and the participants were already sold on using open innovation, I want to address it to end on a positive note. The two key benefits are speed and the ability to capitalize on knowledge and labor regardless of where it resides.

**Speed.** Open innovation fosters faster exchanges of ideas through innovation action networks and shared development. Open innovation is more agile, better able to deal with uncertainty of markets and enables technology development processes that are more adaptive and efficient. Every company is facing greater demands to respond faster to their market and open innovation can enhance those efforts.

**Distributed knowledge and labor.** Organizations can more effectively capitalize on skilled labor that is mobile and independent. We are reaching the end of knowledge monopolies based on conventional business models. Globalization trends require increased knowledge to compete in other markets. However, in practice, companies are reducing their internal knowledge bases in an effort to run lean. The best way to meet knowledge and labor limitations is to use open innovation methods.

Open innovation is about more than a small change in R&D. It has the potential to revolutionize business. But at this stage of the revolution, the open innovation process is chaotic. My advice is to get involved early, fail quickly and often, learn from your mistakes and develop best practices for your company.

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