



2012 State of Global Open Innovation

Introduction

InnoCentive commissioned research firm Forrester in late 2011 to conduct an open innovation (OI) study on its behalf. Forrester interviewed 229 OI decision makers via a web-based survey, in addition to thirteen in-depth phone interviews with senior OI executives, within large organizations (mostly commercial but also public sector) across a wide variety of industries.

All respondents were in charge of defining strategy, initiatives, choosing vendors, setting budgets, or authorizing/influencing purchases. Geographically, 58% of respondent organizations were in the US, 23% in Germany, and 19% in the UK. Additional research methodology details can be found at the end of this report.

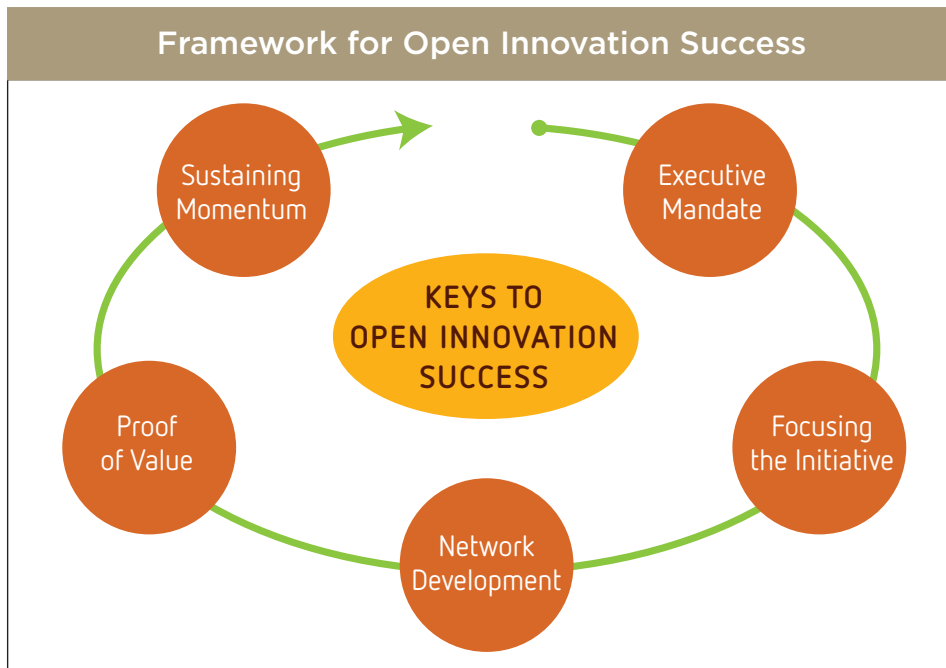
For this study, open innovation was defined to participants in the following manner:

“Innovation efforts that leverage external partners, ideas, or problem solvers to contribute to internal innovation initiatives. Common open innovation programs may include working with external constituencies (e.g., partners or suppliers), crowdsourcing ideas from outside of your organization, expert problem solving networks, hosting innovation events with external stakeholders, or participating in intellectual property marketplaces.”

To concisely summarize findings from this research effort, five keys to OI success are provided on the following page. Subsequent sections of this paper dive into detailed findings, analysis, and recommended courses of action.

Research Overview

Forrester Research surveyed 229 open innovation decision makers from large companies in the US, Germany, and the UK via a web-based survey in late 2011. Thirteen in-depth phone interviews with senior executives were also conducted.



Source: Forrester report commissioned by InnoCentive, February 2012

- **Executive Mandate** The research highlights how executive leaders are viewed as the primary driver of innovation strategy, with traditional R&D leadership close behind and business units becoming more involved, particularly in the US. It also shows that innovation stakeholders are quite diverse, and therefore, cross-functional coordination and collaboration (especially between R&D and the business) is essential to OI success.
- **Focusing the Initiative** External partner networks, ideation programs, and problem/solver networks are identified as most characteristic of OI programs in the minds of respondents. The research also reveals the clear need for organizations to better harness external resources and talent to not only solve problems and challenges in innovative and cost effective new ways, but to also use OI as a mechanism for promoting internal collaboration among individual employees and groups.
- **Network Development** While internal working groups are currently the top source for identifying business problems that are suitable for OI programs and techniques, there is a distinct need for dedicated software tools and applications to better manage the volume and diversity of problems affecting the typical large organization. It is also essential to view OI through a multi-channel lens in order to bring diversity of thought and expertise to problem solving. And when looking to partner with OI providers, buyers should consider both industry experience and domain expertise during their selection process.
- **Proof of Value** While a majority of OI stakeholders cite that they are currently measuring the success, failure, or progress of their OI programs, anecdotal evidence suggests that far fewer organizations have established the analytical rigor to continuously

Research Summary

As open innovation continues to achieve mainstream adoption within large organizations, the companies that are not experimenting, testing, piloting, or measuring in order to build a sustainable OI capability will likely be left behind for those that are.

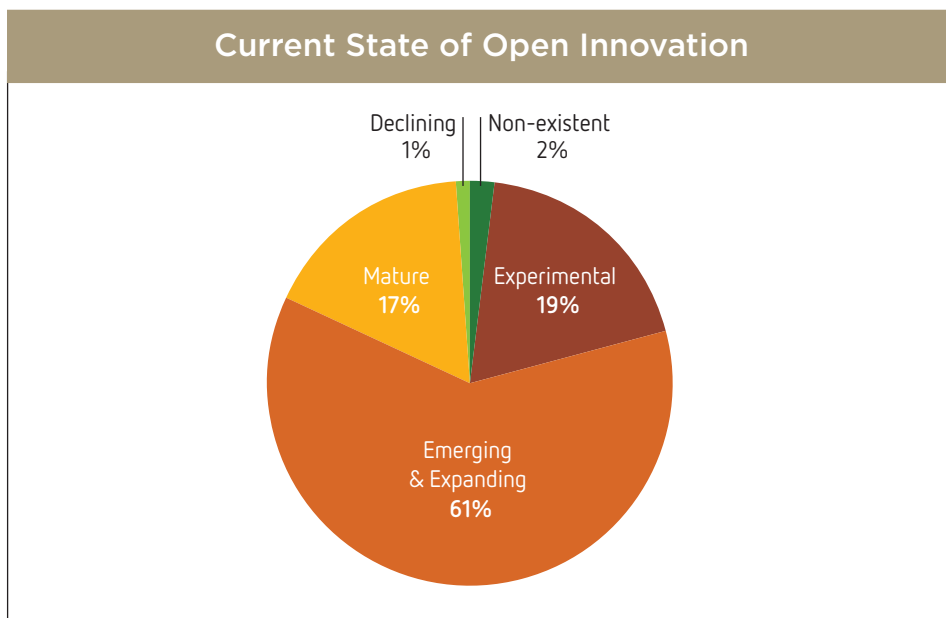
monitor and measure effectiveness. Proving value quickly through the use of OI pilots or trials is therefore essential to establishing momentum as well as securing and maintaining funding.

- **Sustaining Momentum** OI is making an inexorable march outside of traditional siloed R&D into all parts of the business, as the applications are nearly limitless and are highly complementary to existing internal R&D efforts. Non-R&D senior executives along with business units have become key OI stakeholders, but OI is a decidedly team sport. Cross-functional coordination and collaboration are keys to sustaining long-term OI momentum.

A majority of companies are seeking to expand their open innovation efforts. Executive sponsorship, cross-organization collaboration, quick wins, and diligent value measurement are just some of the key success factors.

Open Innovation is Emerging and Expanding

While it has been nearly a decade since Henry Chesbrough's standard-setting book was published, *Open Innovation: The New Imperative for Creating and Profiting from Technology*, there is strong empirical and anecdotal evidence to suggest that the appetite for open innovation has never been stronger. Almost two-thirds of respondents reveal that their OI initiatives are emerging and expanding, with the rest roughly split between experimental (just getting started) and mature (see Figure below). Further, 77% believe that OI is an essential mandate and key to their long-term strategy. The data is unsurprising given that the current innovation capability, pipeline, and portfolio are insufficient to drive growth and sustained category leadership within many organizations.



n=229

77% of survey respondents believe that open innovation is an essential mandate and key to their long-term success.

Research and development, innovation, product development, and marketing executives face daunting pressures: engaging customers, reducing product launch delays, mitigating program failures, improving staff productivity, and managing competitive pressures. As a consequence, forward-looking innovators are constantly seeking better, faster, and more cost effective ways of innovating to both drive growth and spread risk.

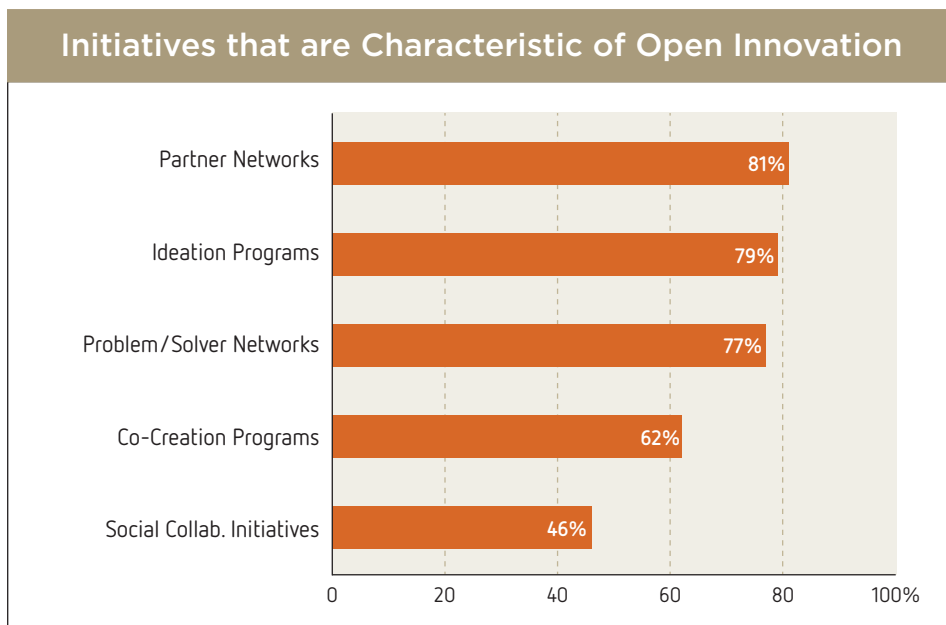
Open innovation aims to alleviate these pressures by enabling all functions within an organization to harness diverse communities – both internal and external – of knowledge and talent for the purpose of capturing novel ideas, increasing problem solving capacity, accelerating innovation outcomes, mitigating risk, and fundamentally changing the economics of innovation.

Through the broad lens of innovation (open as well as traditional internal R&D), creating new products and services (94%), improving customer intimacy/experience as well as brand/image (93%), and improving problem solving capability to eliminate R&D or innovation barriers (91%) are cited among the top reasons for actively developing a strong innovation capability to support the business model of the organization. What is interesting about the data is not that product innovation tops the charts. Rather, it is that many organizations are expanding their definitions of innovation to include customers, branding, and problem solving capability.

This new mindset – reflective of communication and collaboration breakthroughs enabled by the internet, cloud computing, and emergence of social computing in just the last decade – requires new processes, tools, and techniques to put into practice.

How and Why are Companies Investing in Open Innovation?

By definition, open innovation acknowledges that research capability, ideas, knowledge, and problem solvers are widely dispersed and may actually reside outside the organization. In respondents' minds, OI can take multiple forms.



n=229, percentage of respondents that agree or strongly agree

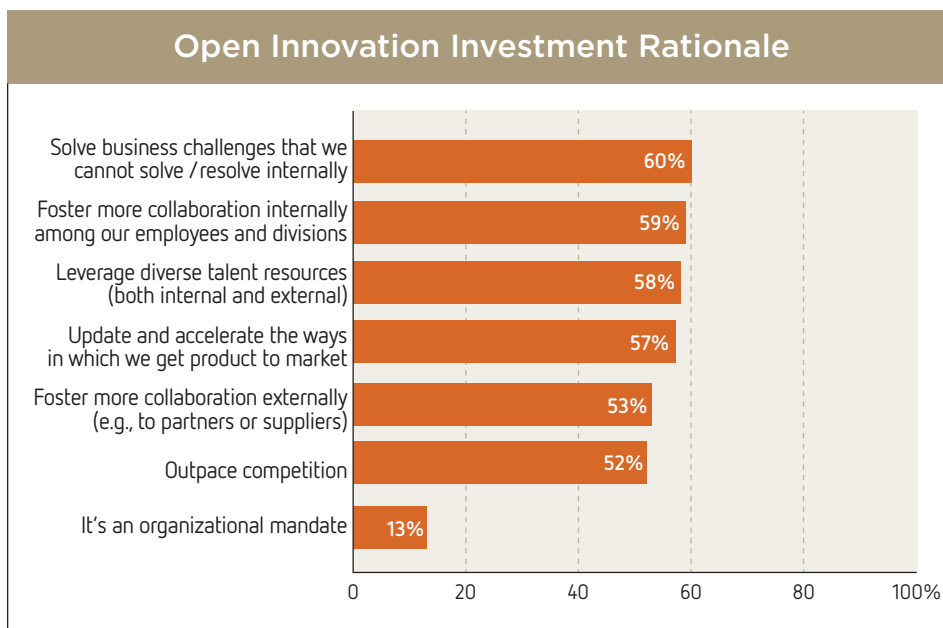
Open innovation enables all functions within an organization to harness diverse communities of knowledge and talent for the purpose of capturing novel ideas, increasing problem solving capacity, accelerating innovation outcomes, mitigating risk, and fundamentally changing the economics of innovation.

“It’s certainly a new model for us. We’re not trying to build just products here, we’re trying to build the business.”

**SVP & Chief Architect,
Large IT Company**

Collaboration with external partner networks (e.g., contract research organizations, academia, government research programs), ideation programs, problem/solver networks, and customer/partner co-creation programs top the list of initiative types that characterize OI in the minds of respondents. Less significant are others (e.g., social collaboration initiatives, corporate venture programs, and intellectual property marketplaces). Europe differs from the US insofar as leaning toward co-creation programs at the expense of ideation programs.

When asked why their organizations have invested in and allocated resources to OI initiatives, the reasons are myriad. The data below clearly reveals the importance of innovation channels, or the audiences, to which research, ideation, problem solving, co-creation, and other programs are directed.



n=229, multiple responses accepted

Open innovation need not be directed only to external resources as is commonly assumed – and indeed, as the definition outlined in the introduction presumes. An equally pressing need for many organizations is to foster communication and collaboration among disparate employees and groups. For instance, when asked which communities respondents wanted to access for ideas, innovation, and problem solving capability, employees top the list at 91% (followed by external customers at 73% and partners at 63%).

Additionally, internal working groups – those that are likely engaged in issue management or barrier resolution via management frameworks like product lifecycle management (PLM) or Stage-Gate respectively – are the top source for identifying business problems that are suitable for OI programs and techniques. Yet in order to scale – a typical large company has hundreds if not thousands of important problems that need

Open innovation is not just about reaching external audiences or channels. An equally pressing need for many organizations is to foster communication and collaboration among disparate employees and groups.

“Let’s say you get stumped internally with a problem. Where do you go to solve it? We look internally for the answers and then we start the human network.”

**Sr. Director of R&D,
Mid-Size Pharmaceutical
Company**

to be solved at any given time – there is a distinct need for dedicated software tools and applications that are designed to capture novel ideas as well as manage problems and their resultant solutions more efficiently and cost effectively.

Maturing techniques such as crowdsourcing that value both the internal as well as the external should therefore be seriously considered. And the ability to seamlessly switch between channels – for instance, launch a discrete problem solving contest internally at first to see what solutions or learnings are brought forth, then expand to an external audience if required to find the solution – is also important.

In the OI world, multi-channel support is essential. And independent of the channel or the order in which it is selected, the main point is to bring a diversity of thought and expertise to bear – and to develop and cultivate networks and relationships – that traditional closed innovation processes are often unable to match or replicate.

When evaluating the various flavors of open innovation, the rationale behind investing, and searching for organizations with whom to partner, two attributes in particular are considered most important: Industry expertise (81%) and domain expertise (70%). While other attributes are important as well (e.g., partner shows an understanding of the business, customer references, professional development services), OI buyers should closely scrutinize their vendors' experience and history in working within their specific industries as well as their technical knowledge and business acumen.

Open Innovation is a Team Sport

Executive leaders are viewed by the majority of respondents as the primary driver of innovation strategy, with traditional R&D leadership – R&D, innovation groups, and product development – close behind (see Figure on next page). While it has become cliché to point out that strong executive leadership and support is required to successfully develop and execute far-reaching programs and projects within any large organization, what is intriguing about the data is that key innovation stakeholders are diverse and varied. In this respect, strong top-down leadership is not enough to guarantee positive outcomes. Rather, cross-functional coordination and collaboration – perhaps not ironically, a major objective of open innovation – is required.

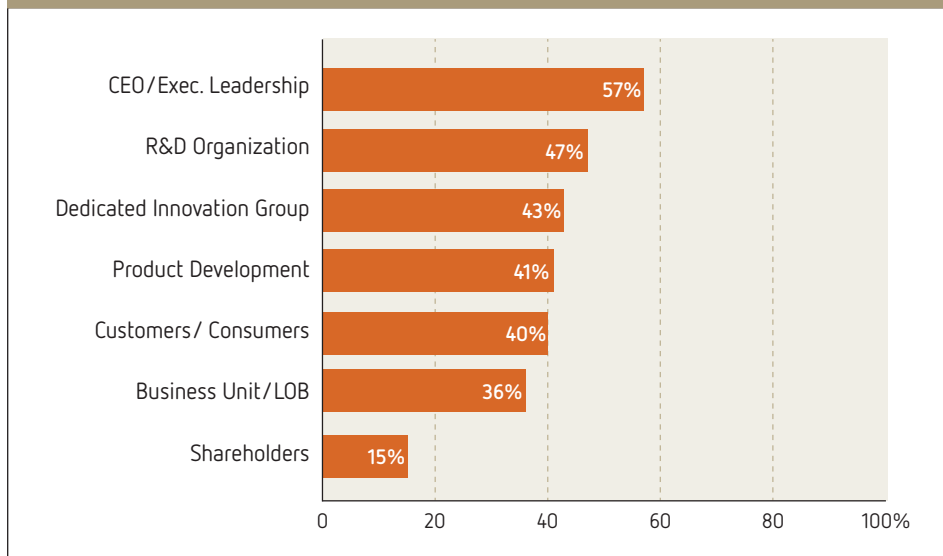
“I think with R&D budgets being slashed, people have lost the capability to do some of the longer-term things. Executives are realizing this and are willing to go to external partners for some of the bigger picture things.”

VP of Innovation, Large Chemicals Company

“I need more than technology, I need a partner who can help me solve my problems. The subject matter expert I connect with is more important than the tool.”

VP of Product Development, Large Consumer Products Company

Stakeholders Important to Sustaining the Innovation Agenda



n=229, percentage of respondents that strongly agree

Unsurprisingly, business leaders and traditional R&D leaders showed a tendency to devalue each other's importance and contribution to the overall innovation agenda. While the reasons for this finding are likely to be mired in politics, culture, or even human nature, geography also plays a role. Companies in Europe view traditional R&D functions as being significantly more influential in driving the innovation agenda, whereas US companies are driving toward a more decentralized model with the business units gaining more influence. Indeed, this finding that business units are becoming more influential in the innovation process was reinforced across several of the survey questions.

And while nearly half (47%) of the organizations surveyed have a department dedicated exclusively to defining and managing innovation projects, this percentage is significantly higher for companies in Europe (57% vs. 40% for US companies). OI spending and budgets followed a very similar pattern – US companies are more likely to budget OI programs out of the business line, whereas European companies are much more likely to fund innovation efforts out of a centralized R&D budget.

The implication of this dichotomy between the US and Europe may well be important, since business leaders (across geographies) cited customers /consumers as significantly more important to sustaining the innovation agenda than did traditional R&D leaders. Most organizations, commercial and public sector alike, strive to improve alignment to customers (or citizens), and given the US's more decentralized innovation model that favors business leaders' contribution to the innovation process, US companies may well have a source of competitive differentiation over those in Europe. The data verifies this conclusion: US companies were 1.5 times more likely to cite OI investment as a mechanism to outpace competitors than were European companies.

“Our OI programs have to be driven by a thought leader, with support from an executive leader.”

Director of R&D, Large Manufacturing Company

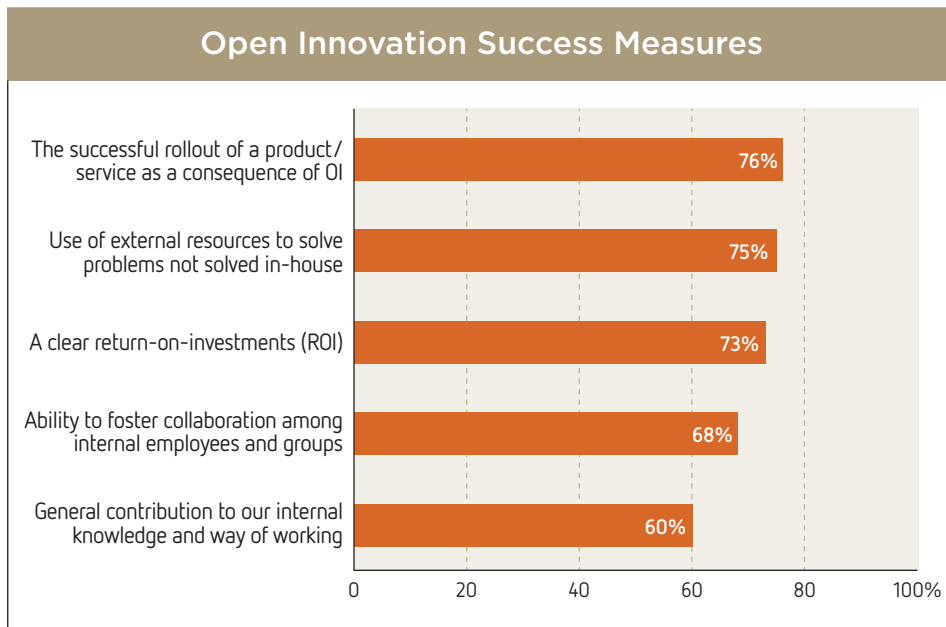
“The reality is that open innovation is on the radar of senior management. But my view is that it is best done when it's integrated to the R&D group.”

Director of Partnerships, Large Pharmaceutical Company

Quick Wins and Value Measurement are Keys to Success

Open innovation stakeholders are very positive about the value that OI brings to the business. They are passionate about the need to find new and creative ways of innovating, and believe OI is part of an irreversible trend. So it is no surprise that measuring the value of OI programs is a top priority for decision makers and stakeholders. Indeed, 69% of respondents reveal that they are currently measuring the success, failure, or progress of their OI programs. This is a surprising finding, however, as anecdotal evidence suggests that far fewer organizations have established the analytical rigor to continuously monitor and measure OI effectiveness.

Referring back to the Figure on page 4, part of the challenge in measuring value is the numerous types of initiatives that characterize OI in the minds of respondents. Clearly some OI programs are easier to measure than others – for instance, using problem/solver networks for the purpose of solving problems is relatively straightforward. Was there an acceptable solution (based on the original problem statement and articulated solution criteria)? If not, did the organization learn something valuable and get closer to an answer? Conversely, ideation programs and social collaboration initiatives by their very nature tend to be harder to measure.



n=229, percentage of respondents that agree or strongly agree

While a majority of organizations cite that they are measuring the value of their open innovation programs, anecdotal evidence suggests that far fewer organizations have established the analytical rigor to continuously do so.

“My company took a huge interest in the P&G Connect + Develop model. I was given \$100,000, and there was a specific business goal. We had a hypothesis of how to do this and it was on the radar of senior management. By working through OI processes, we got a hit, which was very exciting.”

**VP of Research,
Mid-Sized Consumer
Products Company**

Respondents agree with this observation (see Figure on previous page). They rank tangible success metrics as more important than intangible ones (e.g., a new product rollout or a problem solved vs. better collaboration). This is not meant to be a perception of the efficacy of one OI initiative over another, but rather, a tacit recognition of the inherent difficulty in measuring value. For the most part, empirical measurement data should always be used when available, but anecdotal observations should not be discounted and can be quite useful.

To keep the OI momentum going, rapidly proving value through quick (e.g., six months) trials/pilots is absolutely essential. As an emerging and expanding function in a majority of large organizations, budgets are not freely allocated and checks do not write themselves. Finally, openly communicating and celebrating the success of OI programs is a critical component of their success – it allows momentum to be built and other individuals and groups to be more open to OI's promises.

Conclusion

Over the past decade, the organizational appetite for open innovation has clearly increased. Today, it is viewed as a mandate and key to the long term success of many organizations. This research effort highlighted several considerations for maximizing the potential for success, including strong executive commitment, cross-functional collaboration, focus and dedication, trusted partnerships, quick wins and a dedication to ongoing value measurement, and the need to both maintain momentum and celebrate success. As OI processes, principles, and tools continue to achieve mainstream adoption within large organizations, the companies that are not experimenting, testing, piloting, or measuring in order to build a sustainable OI capability will likely be left behind for those that are.

Authored By: [InnoCentive, Inc.](#)

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Want to solve pressing problems and build a sustainable open innovation capability? Visit www.innocentive.com or call 1-855-CROWDNOW to speak directly with an Innovation Sales Consultant.

Research Methodology

InnoCentive commissioned Forrester in late 2011 to conduct an open innovation study on its behalf. InnoCentive provided guidance and participated in the survey design process with Forrester, but was not involved in selecting and interviewing the primary sample or compiling the results. In November and December 2011, Forrester interviewed 229 OI stakeholders (primary sample) via a web-based survey. Forrester also conducted thirteen in-depth phone interviews with senior OI executives. All respondents were in charge of defining strategy, initiatives, choosing vendors, setting budgets, or authorizing/influencing purchases. A wide variety of industries were represented, including the public sector and government, with no single industry accounting for more than 12% of the total sample. By design, the survey was targeted at large organizations – 98% of the sample had 1,000 or more employees. Survey respondents included director/manager roles (69%) and executive/department head/vice president roles (31%). Geographically, the sample broke down as follows: 58% in the US, 23% in Germany, and 19% in the UK. All opinions, analysis, and recommendations contained in this report are made exclusively by InnoCentive based on the survey data that Forrester collected and compiled, and as such, InnoCentive's views do not necessarily reflect the views of Forrester or its analysts and consultants.

About InnoCentive, Inc.

InnoCentive is the open innovation and crowdsourcing pioneer that enables organizations to solve their key problems by connecting them to diverse sources of innovation including employees, customers, partners, and the world's largest problem solving marketplace. InnoCentive's proven Challenge Driven Innovation methodology, network of millions of problem Solvers, and cloud-based technology platform combine to fundamentally transform the economics of innovation and R&D through rapid solution delivery and the development of sustainable open innovation programs. Leading commercial, government, and nonprofit organizations such as Booz Allen Hamilton, Eli Lilly & Company, Life Technologies, NASA, Nature Publishing Group, Popular Science, Procter & Gamble, Roche, Rockefeller Foundation, and The Economist partner with InnoCentive to solve problems and innovate faster, more cost effectively, and with less risk than ever before. For more information, visit www.innocentive.com or call 1-855-CROWDNOW.

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