Outside / Inside Innovation:

Combining Open Innovation with Employee Networks to Drive Success

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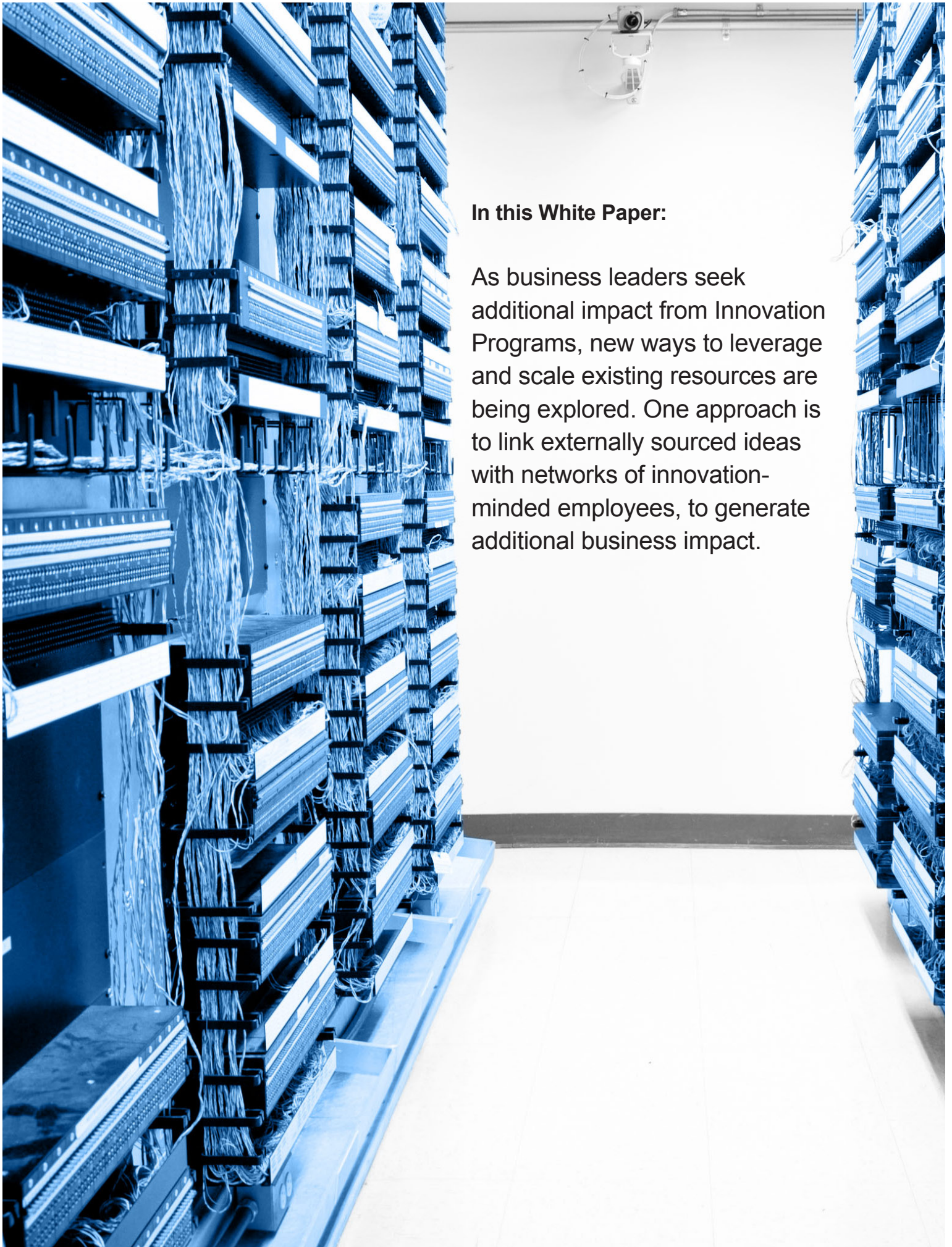
In this White Paper:

As business leaders seek additional impact from Innovation Programs, new ways to leverage and scale existing resources are being explored. One approach is to link externally sourced ideas with networks of innovation-minded employees, to generate additional business impact.

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■ Introduction

Innovation is undoubtedly crucial to the success of most organizations and continues to grow in importance. Recent CEO studies (such as the PWC 2015 CEO Survey[1]) have emphasized the need to enhance organizational creativity, engaged networks and diversity.

This has led organizations to try and "up their game" when it comes to innovation. *While innovation programs have been around for some time, in the past 2-3 years, there has been growth in two-major areas:*

- "Open" Innovation: A methodology, whereby ideas, inspirations and insights are sourced from outside of an organization.
- Employee Innovation Networks: An approach that connects, educates and engages key employees around innovation skills, on an ongoing basis.

To date, both of these areas have been important to innovation leaders but in distinct and parallel ways. While this separation has made sense up until this point, it is important for innovation leadership to consider how these focus areas can be better aligned to enhance business results. This should be considered within the context of interrelated, complex organization structures and the drive to enhance impact in an efficient manner.

While the separation of Open Innovation and Employee Innovation Networks has made sense to date, it is time to consider how they can be combined to leverage impact.

The thinking outlined in this report represents a more nuanced, sophisticated and impactful approach to traditional OI approaches. This whitepaper provides guidance to navigate an exciting, yet challenging, domain and will highlight the background trends influencing this new way of thinking.

■ What Exactly is Open Innovation?

Put in simple terms, Open Innovation (OI) is an approach that seeks to generate, select and sometimes execute, ideas either partly or fully outside of an organization. It is a popular and rapidly growing approach to idea generation. A recent report[2] by Henry Chesborough revealed that 78% of global organizations are currently practicing some form of "Open" innovation.

The process of OI is useful in the following context:

- **Definition:** It helps to define a clear challenge or problem, which has both internal and external benefits. An organization can receive feedback from focus areas that is used to better meet customer needs and address internal misalignment.
- **Resources:** This approach also helps to identify the talent available. In today's social economy, organizations can no longer be sealed from the outside world. OI approaches provide a structured bridge for organizations to reach out. Also, OI can identify resources lacking in an organization, which can contribute to HR planning going forward.
- **Partnership:** This approach also helps strengthen the connections between an organization and their external partners. These connections are increasingly important in defining success in the business world, and OI represents an opportunity to control risk at the same time as building broader relationships with organizations.
- **Customers:** OI efforts can be structured to source and engage new customer groups, in an effective manner.
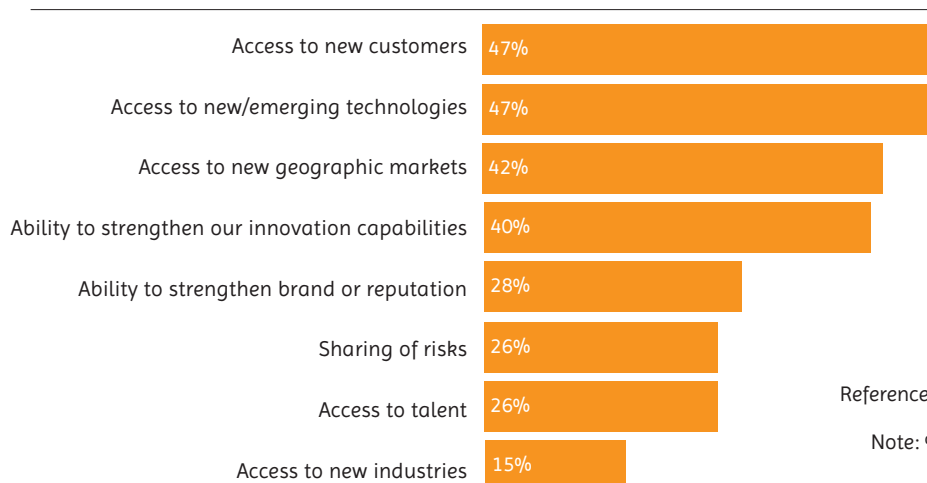
Challenges and issues with this approach include the following:

Ideation: With any innovation activity there is always a risk that an extensive focus on ideation has leaves insufficient attention for the implementation of new ideas. This risk is often enhanced in OI models. Achieving organizational ambidexterity has been the subject of considerable discussion over the years, from management thinkers such as John Kotter, Vijay Govindarajan and Julian Birkinshaw.

A culture of innovation: Research has shown, perhaps surprisingly, that innovative thinkers are often devalued by companies. A study[3] conducted by researchers at Cornell University found that creative and innovative thinkers are generally regarded as having less leadership potential than their more stoic peers.

CEOs want to partner not only to expand markets but to access emerging technologies and strengthen innovation capabilities

Q. What are your reasons for collaborating in joint ventures, strategic alliances or informal collaborations

Reason	%
Access to new customers	47%
Access to new/emerging technologies	47%
Access to new geographic markets	42%
Ability to strengthen our innovation capabilities	40%
Ability to strengthen brand or reputation	28%
Sharing of risks	26%
Access to talent	26%
Access to new industries	15%

Reference: From PWC's 2015 CEO Survey

Note: % of respondents who ranked each option 1st, 2nd or 3rd

In line with that thinking, the culture of an organization often rejects truly innovative ideas in favor of ideas that are "tried and true." Sadly no amount of objective evidence seems to change this mindset, and the bias is often so subtle that most aren't aware that they have it.

> **An organization's culture often rejects truly innovative ideas in favor of ideas that are "tried and true."**

This perspective is often amplified with OI activities, where new ideas are being introduced from outside of the organization. These ideas can experience pushback from cultures that don't value or reward new thinking, especially when it "wasn't developed here". Direct and consistent actions must be taken to support the introduction of these ideas or viewpoints into the organization.

It is also worth noting that by exporting innovative activities to outside of the organization, some of the internally focused cultural benefits from these efforts can be lost to the organization and it's employees.

Motivation and Incentive: Motivation and incentive for participation can also be a challenge. Monetary reward is complicated when an organization encourages collaboration amongst an external audience. Few companies appear to have addressed this challenge effectively, and it becomes a real issue in more complex OI opportunities.

A recent study[4] published by researchers from Duke and the London School of Economics suggests that the most productive contributors to a project were attracted by the amount of control they were given over that project. Of course, the structure of an OI effort will affect the motivation of participants.

■ What are Employee Innovation Networks?

Innovation leaders experience ever-increasing pressure to generate business value, often with extremely limited direct resources at their disposal. Accordingly, there is pressure to scale impact, leverage existing innovative-focused activities, and more consistently engage a diverse range of employees sourced from across the organization over time. Employee Innovation Networks have increasingly become an attractive means to meeting these objectives.

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The strategic goals of these networks and the methods for employee selection are company specific. *What remains relatively consistent are the benefits generated by these efforts:*

- Engage employees within the organization that want to provide innovative thinking
- Leverage the impact of small innovation programs across large, globally disbursed organizations
- Provide a pool of employees that can be directed towards existing innovation activities, in order to spur interest and positive results
- Direct these employees to achieve specific innovation tasks that enhance ROI
- Shape the culture of the organization to value innovation in the long term
- Help identify and nurture high-potential employees who may not fit within the standard success model

Challenges with these activities include the following:

- **Consistent management:** These efforts can take time to manage and effectively run. Too often these networks start with a blaze of activity that quickly fizzles as stretched innovation program resources get redirected to other efforts.

- **Focus on business results:** While the focus of these efforts is often (appropriately) at first on engaging and possibly educating employees around innovation concepts, that focus does need to shift over to driving business value at some point, which can be a struggle.

- **Stakeholders:** With any expansion of efforts across an organization, there is inevitably more complexity in ongoing management and messaging for stakeholders, both supportive and blocking.

■ A New, Combined Approach to Open Innovation

As a result of the increased success and use of both OI and employee network efforts, innovation leaders are now looking at ways to align and combine approaches.

There are several ways in which this newly symbiotic relationship is being structured. It is often the case that both OI and innovation employee networks are established independently and efforts are put in place to try and better align them. In some respects, this approach can be easier to maintain, as centralized resources may be only look-ing to interlink activities, rather than develop either from scratch. Alternatively, if either effort is starting from scratch, building a strategic framework that incorporates alignment of efforts is a more efficient approach. Either way, the success of integration of efforts ultimately depends on where the organization is in terms of the existing maturity, ecosystem and resources at hand.

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Below are some examples where organizations seek to align existing OI and employee network resources to drive benefits:

- **OI Training:** Companies can educate their employee network members around OI approaches and techniques. It is important that the content and approach is tailored to the specific context of efforts undertaken by your organization.

- **Idea Development Training:** Train network members around how to help build elements of new ideas introduced to an organization. While connecting and educating network members provides value, it is extremely beneficial for them to be trained around the approaches and elements required in moving an innovative idea forward within the context of the organization.

- **Process, Tools and Resources:** It can be beneficial for innovation programs to develop processes and provide resources and tools that guide participants as they seek to support new ideas that are introduced to the organization from external (or even internal) sources. There are a number of vendors that provide curated information and content to engage and educate employees (including network members) around innovation techniques and approaches. As with the above point, it is important to tailor these materials to the organization's needs and processes, so that they model the appropriate behavior. In addition, social tools should be in place to encourage distribution and engagement for the information.

- **Communication channels:** Communication channels can be created that are directed to network members, in order to encourage discussion around ideas. Any employee innovation network needs to incorporate effective channels of communication and social engagement. At the least these channels can support and engage members around OI efforts. At best, they should be positioned to encourage employees to actively participate and support the development and introduction of new ideas as they enter the organization. The range of support that employees provide to these ideas can be adjusted to fit the specific needs of each idea, as well as the comfort levels for the organization.

- **Strategy:** As with any kind of innovation project, it's important that a strategy is in place that aligns with the priorities of the organization. This is especially important in dealing with external parties. Central to this is the notion that partnerships should not be considered in isolation, but rather how they fit within the organization's broader innovation ecosystem.

Examples of how employee networks can support ideas imported by OI efforts are listed below. *It is important to note that the order of these efforts may represent an increasingly level of maturity and associated impact of alignment efforts:*

- **Awareness:** Network members can be made aware of new thinking (specific ideas or thematic trends) that may be introduced into an organization or more broadly around OI efforts. Having network members who are engaged and educated around external opportunities helps build a more valuable and engaged resource pool.
- **Champion:** As new ideas are introduced to an organization, members can act as champions. Through communication channels associated with the network, partici pants can be notified either on a mass or individual basis, around OI activities or specific ideas, and encouraged to provide a supporting role. OI efforts generate new ideas, and often bring new employees into an organization. Those networks can provide a resource that will help navigate and successfully direct new ideas and their owners as they are introduced to the organization.
- **Resources:** Members of these networks can be used to help develop new ideas, and provide opportunities for quick scaling of thought.

"The structure of these alliances and how firms manage them matter for their costs, matter for their efficiencies, matter for their ability to differentiate, matter for their ability to innovate, and essentially matter for their ability to become profitable." - Andrew Shipilov from INSEAD

Benefits to this kind of approach include:

- **Enhanced idea success rate:** Rather than new ideas being left to fend for themselves, these networks can increase the rate of success of their development and execution.
- **Culture:** This combined effort creates a deeper culture of innovation across the organization, by getting more people involved in deeper and more varied ways. All innovation activities should be considered within the context of their broader cultural impact. This approach helps introduce a concept of "outward-in" to organizations that may not typically consider external input to often-complex challenges. This approach focuses on employees who will be the most likely to engage and provide support. Risk is limited, impact is enhanced and the approach provides a basis to expand impact over time.

- **Employee engagement:** OI efforts represent an area of interest to employees across any organization. They want to know what is happening outside of the organization and to bring that thinking into the business. Giving selected employees (through an innovation network) the opportunity to further engage with the outside world and align themselves with the development of new ideas, is a great way to drive engagement.

- **Scale:** This approach helps scale the impact of innovation efforts across often complex organizations. By linking a broad group of resources with the development of specific ideas, the flow of those ideas can be greatly increased, generating additional business results.

■ Case Study Examples

This new approach is being utilized in a number of new and interesting ways.

Ford and TechShop[6]

TechShop is a project that launched in Detroit a few years ago. The concept is a simple one. Users are provided with a 17,000 square foot facility featuring around $1 million worth of equipment and machinery. Think of it like a gym, but instead of paying a monthly fee for access to fitness machinery and equipment, members pay for access to cutting-edge engineering and fabrication equipment.

The project was sufficiently attractive that Ford quickly got on board. A selection of Ford employees that come up with an innovative idea are encouraged to use the TechShop to work on and develop that concept. After the first year of the partnership, Ford revealed that the number of patentable ideas per employee had jumped by 50%, and estimates suggest that around $10 billion worth of new products have emerged from TechShop.
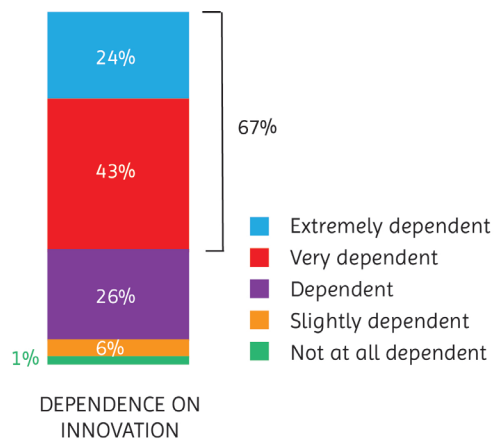
"There was a time not so long ago in this business where outside ideas were not readily considered," Ford said at the time. "Since TechShop memberships were added to help enhance Ford's invention incentive program, invention disclosures have increased by more than 50 percent."
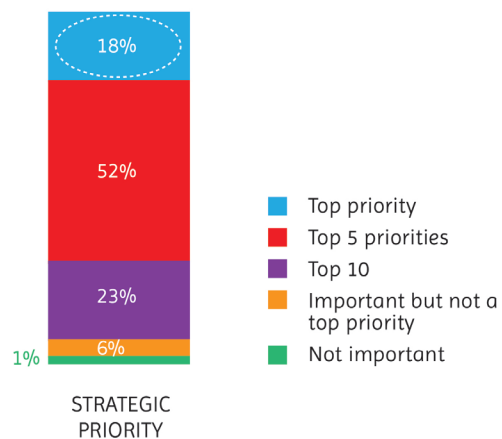
Two-thirds of responding organizations depend strongly on innovation for their long term strategy success. Around one in five (18 percent) rate innovation as their top strategic priority.

Accenture 2014. (see inforgraphic below.)

To what extent is your organization's strategy dependent on innovation for its long term success?

67%

- Extremely dependent
- Very dependent
- Dependent
- Slightly dependent
- Not at all dependent

DEPENDENCE ON INNOVATION

Where is innovation ranked among your company's strategic priorities?

- Top priority
- Top 5 priorities
- Top 10
- Important but not a top priority
- Not important

STRATEGIC PRIORITY

Source: "Why "Low Risk" Innovation Is Costly" By Wouter Koetzier and Adi Alon Copyright © 2014 Accenture[5]
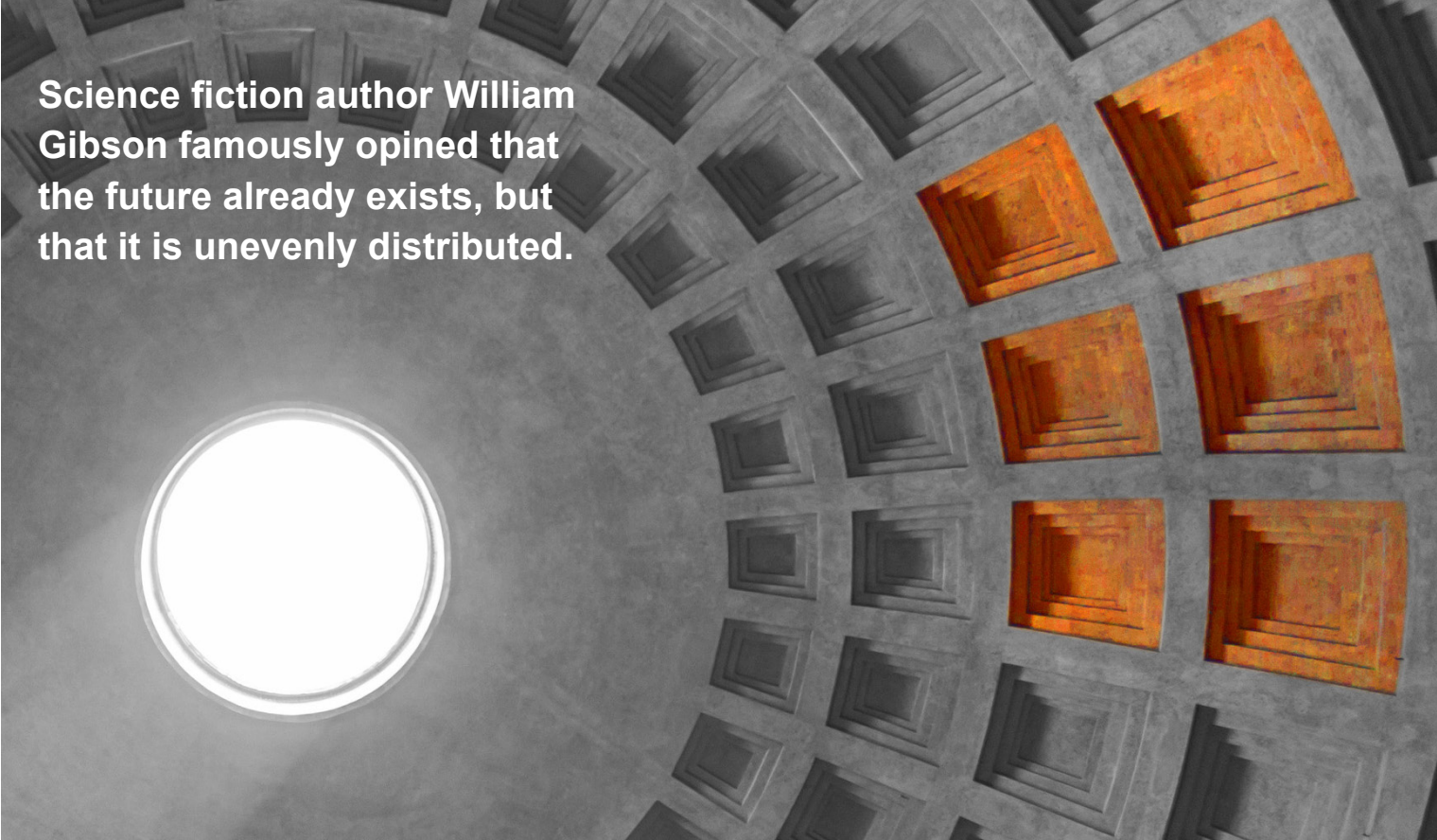
GE and Quirky

GE also led the way through their partnership with the innovation community Quirky. This initially saw a number of GE patents offered to the Quirky community in the hope that they would be able to commercialize ideas and IP that GE themselves had been unable to. In addition, GE sought to support the Quirky community by engaging a selection of their own employees, to assist with the development and implementation of new ideas being generated from this new arrangement, within the context of the broader GE organization. The goal of this was to both speed the introduction of these ideas and improve their success within the marketplace.

The fruits of this partnership began to emerge earlier this year as a number of products were developed around the smarter home. The focus on smart home technology was emphasized by the recent announcement that Quirky is opening a new microfactory in San Francisco that will be a hub for developing the first built-to-order electronics for the smart home.

The new facility takes a leaf out of the TechShop handbook and comes equipped with facilities such as plastic injection molding lines, automated circuit board assembly machines and 3D printers.

These are two of a number of examples of organizations attempting to mesh together the innovators they have in-house with the ideas and insights of the wider community. Other projects include BioCurious, GenSpace and Science Exchange in biotech research, and the numerous social innovation labs that are emerging around service sector topics.

Science fiction author William Gibson famously opined that the future already exists, but that it is unevenly distributed.

■ Influencing Factors

There are a number of factors driving the adoption of this new combined approach to innovation management.

Supporting a Collaborative Environment

As stated earlier within this document, employee networks are a targeted opportunity to develop a supportive, collaborative corporate environment, which can assist with the development of new ideas as they enter the organization. For some time organizations have been seeking solutions to create more collaborative organizations, often supported by technology solutions and other more personally focused efforts such as training.

A recent Swedish research study[7], led by researcher Anna Ystrom, in part highlights the need for more actively supported collaborative business environments, in the context of OI efforts.

> *"I have identified five examples of managerial practices. In other contexts these practices tend to be taken for granted or not to be seen as especially important, but they are in an OI environment. It's an issue of identity-building, nurturing the spirit of collaboration, constantly working on the relationships with the various organizations, understanding and making use of political maneuvers and creating meaning for yourself and others in the environment you find yourself in,"* she explains.

Seeking the Positive Deviants

Science fiction author William Gibson famously opined that the future already exists, but that it is unevenly distributed. This notion, that in any field there are pockets of forward-thinking, was popularized by Richard Pascale's work around positive deviance. In a corporate context, this theory can be seen as process of using hidden innovators to help scale-up innovation activities more widely.

These innovation deviants may have found ways to be innovative within the constraints of the existing system. They may also fit the cultural norms of the organization, managing to stretch them in new ways. In other situations they may not be viewed positively within the organization and may be suffering a series of career setbacks as a result of their approach. Either way, the organization is much less likely to reject them when they are engaged and supported by a network of similarly thinking individuals.

Taken into a corporate context, there are often individuals within an organization who demonstrate excellence in innovative action and thinking, but may remain outside of the standard channels for career recognition and advancement. Channels and criteria for career advancement are often built around outdated models of corporate success. Seeking out innovative behavior therefore is often simply a case of seeking out the positive deviants, whether they exist within your own organization or further afield.

Of course, success requires finding and connecting people with diverse thinking and ideas, from both within and external to the organization. There have been numerous attempts to try and promote serendipity in the workplace, with projects such as Spark Collaboration, IBM Connections and Microsoft Sharepoint trying to connect people up within organizations that may otherwise remain hidden to one another.

There are also various projects to try and connect employees around specific, disparate ideas. The latest thinking around this includes "idea marketplaces" where ideas are made available to an audience, asking for additional input and development resourcing. Companies such as Rite Solutions, Sanofi and IBM have been floating ideas on a kind of internal stock exchange, with colleagues invited to back and support ideas they believe are worthwhile.

The Changing Role of Managers

It may seem unusual to espouse middle managers as being in any way crucial to innovation, as they are often viewed as roadblocks. Research[8] by Wharton academic Ethan Mollick suggests however, that it might be time to reassess that belief.

Mollick suggests that middle managers are especially important in industries that require innovative employees such as biotech, computing and media.

> *"It is in these knowledge-intensive industries where variation in the abilities of middle managers has a particularly large impact on firm performance, much larger than that of individuals who are assigned innovative roles"*

Within the context of support for OI, it is essential that middle managers are actively encouraged to participate and support efforts. That level of support is also essential to the success of employee innovation networks. This can happen either directly (as members themselves) or indirectly (by reporting the success of their team members who are network participants).

For managers that are directly engaged in a network, specific resources can be developed to encourage their team members to support innovative thinking. The success of those managers can be promoted to their colleagues, in order to leverage their impact across the organization.

Connecting the Dots

A recent study[9] highlighted the valuable role of the so-called "meta" expert. They know who to go to for particular insights within an organization. The researchers suggest that this kind of role is most effective when the knowledge contained within an organization is highly segmented by specialty.

Innovation leaders are often seeking to include these connectors within their Employee Innovation Networks, so that they can help drive OI efforts, as these individuals can help drive the success of new ideas as they seek support within the organization.

■ Issues to Be Aware Of

Given that this is a relatively new approach, and only now being better understood within corporate environments, *it is important to fully understand the potential:*

- **Manage resources:** Don't overextend your existing centralized innovation resources, which can be stretched with integrated and complex implementations. For example, it may take a lot of effort to set up both an Innovation Employee Network and OI efforts at the same time. For any successful innovation activity be sure to have the appropriate resources available and engaged.

- **Plan:** Be sure to have a fully planned strategic framework in place to guide your integration and development efforts. It is easy to focus on the need to generate activity in the short-term, while forgetting to develop appropriate strategic thinking to guide efforts over a far longer timeline. Having a well-positioned framework will guide your efforts over time and better position your thinking and approach.

- **Stakeholder buy-in:** Pay special attention to your stakeholders, especially those that are going to be detractors. Further, be sure to secure appropriate executive sponsors as needed.

The pressure for innovation leaders to deliver "hard" business results is increasing as the understanding and sophistication of this competency improves.

- **Be patient:** These efforts take time to form and drive results. In a quick paced environment, with constant pressure on immediate results, it is easy to lose patience and make rash decisions. Over time it is important to maintain focus on driving business value.
- **Report results:** Track all business value. It is very easy to focus on developing actions, without going to the trouble of tracking and assessing the impact that your efforts may have. While actions can count as a result at first, you quickly want to be focused on creating impact that your leadership pays attention to, such as revenue generation or cost reductions.

■ Conclusion

The pressure for innovation leaders to deliver "hard" business results is increasing as the understanding and sophistication of this competency improves. Innovation leaders need to leverage their efforts at every opportunity to not only further drive impact and results, but benefit Business Unit and corporate leadership. At the same time, the marketplace for effective innovation leadership within these organizations is heating up and those that demonstrate foresight, with broad cultural and business impact will be the most successful.

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Anthony is the CEO of Culturevate, an organization that empowers a company's employees to execute ideas and inspire a culture of innovation, through employee networks, a resource portal and training programs (developed in association with Professor Chris Labash from Carnegie Mellon University). Anthony is a widely read author, speaker and advisor to industry leaders at organizations such as Pfizer, U.S. Postal Service, Johnson & Johnson, ADP and Fidelity. He previously led The BNY Mellon innovation program and has a Masters of Commerce (University of Sydney) and Bachelor of Economics (University of Newcastle).

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Culturevate empowers a company's employees to execute ideas and inspire a culture of innovation. We offer a variety of services and support, including:

1. Network – A methodology to identify and build employee networks that are empowered to execute ideas.

2. Train – An employee training program focused on the skills of innovation, developed in association with a top-tier university.

3. Engage – An interactive employee portal featuring a regularly updated selection of materials, tools and articles that engage and motivate.

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