A Framework for Open Innovation

Applies to:
All technologies. Open Innovation touches on the entire lifecycle from Research to Development, GTM Planning, Implementation/Services and Support.

Summary
This paper is an introduction to Open Innovation concepts and presents a model for implementing Open Innovation within an enterprise and its ecosystem.

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1 Introduction

Procter & Gamble reports that it was able to increase its productivity rate by 60% by using an open approach towards innovation. GlaxoSmithKline’s Personal Health Care Unit adopted an Open Innovation model in 2006 and today 50% of its products stem from its Open Innovation Initiative, doubling its portfolio value nearly twice.

Many successful companies, including SAP, have applied Open Innovation concepts opportunistically to improve the pace of innovation with partners and customers. At the same time, most have not taken full advantage of Open Innovation’s full power. Nevertheless, as P&G, GSK, and other leaders in Open Innovation have shown, making Open Innovation an integral part of an enterprise’s business model transforms enterprises. This approach not only allows companies to innovate more effectively but also delivers those innovations to market more quickly and efficiently.

This paper presents a high-level, strategic framework to consistently accelerate innovation across a portfolio of opportunities representing every segment of innovation/market growth: incremental/minor, sustaining/adjacent, radical/disruptive. The proposed framework comprises three principal elements: 1) an overall portfolio approach to managing Open Innovation opportunities, 2) a foundation comprising processes, policies and roles to implement Open Innovation projects, and 3) an overall program structure for managing Open Innovation.
2 Open Innovation Roadmap

2.1 Open Innovation Maturity Model & Roadmap

2.1.1 Open Innovation Maturity Model

The Open Innovation Maturity Model (figure 2-1) has been adapted from research by Henry Chesbrough, in 2010. Similar to the concept of the Capability Maturity Model developed at Carnegie-Mellon University, this maturity model reflects an overall progression from a non-practitioner to one of best in class. Each type is defined below.

**Figure 2-1 – Open Innovation Maturity Model**

**Type 1** – Firms with an Undifferentiated Business Model (e.g. Commodity supplier) possess neither an overall innovation nor an IP management process. They solely compete on price and availability and therefore often times fall into the “commodity trap”. For them it is difficult to sustain competitive advantages.

**Type 2** – Firms with a Differentiated Business Model (e.g. Start-ups) mainly focus on execution. Often times they have one very successful product that provides some differentiation, but cannot sustain the business beyond this initial product, due to lack of capabilities. Those businesses tend to have some ad hoc innovation process in place and some IP developed within the company, however mostly done reactively.

Together, these two types can be summarized under the category “Minimal Efforts Toward Open Innovation & IP Management Made” that marks the beginning point for the transformation to an Open Innovation business model.

**Type 3** – Firms with a Segmented Business Model (e.g. Technology push companies) employs a business model that is more advanced, including a roadmap that includes multiple market segments. Innovation becomes a planned activity as opposed to a haphazard activity in the previous business models. An IP portfolio is built up and together with a more focused innovation process, this business model incorporates more planning for the future. Since innovations primarily touch on the current business or market, major new technological and market shifts can still pose a risk to this business model.
TYPE 4 – Firms with an Externally aware Business Model have started to support the incorporation of external ideas and technologies. This approach often enables sources for growth, enabling the company to penetrate new markets or apply the business to similar to existing markets. This model transitions from a product and technology focused innovation effort towards a more business focused innovation effort.

Together these two business models can be categorized as having “Elements of Open Innovation & IP Portfolio in Place”. The difference with the previous category is that innovation has been acknowledged as important and imperative for sustaining business.

TYPE 5 – Firms with Open Innovation Embedded into Business Model (e.g. Agile Innovation Firms) reflect a business that has integrated internal and external R&D processes seamlessly. Open Innovation opportunities are managed as a strategic portfolio and IP is managed as a financial asset.

TYPE 6 – Firms with an Open Innovation Platform Business Model express a more open, adaptive model that drives customers and partners to participate in a company’s innovation efforts. These participants seek relationships where technical and business risks are shared, resulting in Open Innovation that spans the entire value chain. Type 6 companies possess the ability to shape the future direction of entire markets.

These last two business models can be categorized as reaching a level of maturity where “Open Innovation is integral to business model” and fundamentally differs from the two previous categories. Achieving standing in this last category means that Open Innovation is to growth of the business.
2.1.2 Open Innovation Roadmap

The Open Innovation Roadmap provides a visual snapshot representing the relative positioning of an enterprise, its customers, partners and even competitors, using the three business model categories defined above. Positioning is validated through industry research.

![Open Innovation Roadmap Diagram]

**Figure 2-2 – Open Innovation Roadmap**

**Evolution & Transformation**

We are in the midst of a customer transformation from being consumers of individual assets (e.g., products and services) to those consuming integrated business and IT services. Best in class practitioners of Open Innovation develop stronger relationships with suppliers and customers, enabling a holistic value chain approach to innovation. Ultimately, these collaborations effectively and efficiently deliver the integrated services that customers seek.

To progress toward the highest level of Open Innovation maturity, the following objectives should be achieved:

- manage Open Innovation holistically
- integrate Open Innovation with the enterprise’s overall business model
- establish the enterprise as a platform for Open Innovation

The next section describes an approach to achieve these objectives.
3 Approach

Our approach consists of three essential parts, as depicted by the sky-blue fields in Figure 3-1. First, we introduce a portfolio perspective of innovation that helps us consider opportunities from a more strategic point of view. Second, we describe the Open Innovation processes, roles and policies that need to be established. Together, these represent the foundation for Open Innovation. Subsections are highlighted in light blue and grey. Lastly, we identify Critical Success Factors (CSFs) for the transformation to a platform for Open Innovation.
3.1 Managing an Open Innovation Portfolio

At a strategic level, Open Innovation is best thought of as a portfolio of opportunities. Some are quite low risk and possess a modest payoff. Adding incremental product improvements fit this category. Others have higher payoffs, but involve more risk. A clear example of sustaining innovation is the significant advancement of chip technology with Intel’s move to multi-core processors. Lastly, some opportunities are very high risk but offer tremendous value if they hit their target. A great example is of a radical innovation creating a new market is Apple’s iTunes business model. As with all successful portfolio management practices, we must provide a variety of options across our portfolio, not just the ones that are the most likely to succeed.

Open Innovation may produce a broad spectrum of assets covering processes, services, technologies, products and other artifacts. Moreover, new business models may be required to effectively deliver these assets to market. By closely considering the overall value chain of assets within each innovation opportunity, we will address the transformation of customers from purchasers of technology products and services to consumers of integrated business and IT services.

A simple way to depict a balanced Open Innovation portfolio is to plot market growth along one dimension, and innovation on the other. Not all Open Innovation opportunities will have the same potential for business growth; some of these will be strategic/radical; some of these will be incremental/tactical and some will be sustaining innovations. In order to effectively vet and manage these opportunities, we will need to apply a portfolio approach. Figure 3-2 presents a model that shows what a balanced portfolio might look like.

![Open Innovation Project Portfolio Diagram](image-url)

**Figure 3-2 – Open Innovation Project Portfolio**

Other, similar models have been described in recent business literature (e.g., *Managing Your Innovation Portfolio*).

A portfolio of projects can only be implemented and managed through the application of consistent and effective processes, roles and policies. Section 3.2 describes a foundation comprising these elements and their interrelationships.

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3.2 Building a Foundation for Open Innovation

A robust foundation for implementing Open Innovation requires three key elements -- processes, roles and policies. As depicted in Figure 3-3 below, these elements are interdependent. The following sections not only describe Open Innovation processes and policies but the roles that are critical to their execution. Amongst the foundational elements, roles provide the catalyst, for without them innovation processes and policies would not be implemented. Strategic roles span both processes and policies, particularly from a leadership perspective.

![Figure 3-3 – Open Innovation Foundation](image)

3.2.1 Open Innovation Strategic Roles

Strategic roles will facilitate the transformation of companies as occasional practitioners of Open Innovation concepts to industry leaders, consistently accelerating internal innovations and expanding the markets for their external use. The roles of External Broker, Internal Broker, Champion and Scout ultimately drive interactions not only within an enterprise, but equally importantly, with the external network of partners and customers who complete the composition an Open Innovation ecosystem.

**External Brokers** act as mediators between an enterprise and the outside world. Key characteristics include vision, passion and drive, talent for networking, decision-making, communication skills, and persistence. Often times they are described as T-shaped people who have a strong in-depth expertise but are broadly interested and engaged in diverse business areas. They are paramount facilitators of Open Innovation, driving the cultural change needed within a company. These players are critical to developing and maintaining strong relationships across functional groups, particularly between technical groups and business-focused units.

**Internal Brokers** are extroverted, communicative people, who have a vast reach across different areas of the company. They know a lot of people, utilize different communication channels and thereby can facilitate the exchange of information and assets across the company. In contrast to External Brokers, Internal Brokers operate as mediators across functions and business units **within** the enterprise. Frequently, a single individual may operate as both an External Broker and an Internal Broker.

**Scouts** are managers and senior technical experts, working from inside the company to identify future trends, needs and technologies outside of the company. They usually collaborate with a network of peers (internal and external) who are globally dispersed, in order to share their ideas and thoughts. Scouts are less
involved in operational business decisions than External & Internal Brokers but assume a strategy-focused or consulting position within the company to identify global trends and technology shifts.

**Champions** are senior leaders, usually executives, who own an overall portfolio of innovation initiatives. They determine the right mix of projects to be undertaken within their portfolio. They are responsible for executing collaboration with external resources once external assets have been identified and evaluated within the company. They are also responsible for approving external assets and making the best use of external knowledge, using their extensive experience. Through their senior position within the organization, they have great influence on incorporating Open Innovation into the corporate DNA.

### 3.2.2 Open Innovation Processes

Open Innovation processes span activities within the context of both Outside-In and Inside-Out models. This section describes the underlying processes. Figure 3-4 depicts the overall relationship of strategic roles to these processes.

**Figure 3-4 – Open Innovation Process & Role Relationships**

#### 3.2.2.1 The Outside-In Process

The Outside-In Open Innovation Process captures the “how” of mining opportunities through acquiring and managing external assets, in order to accelerate internal innovation processes and deliver greater overall value to the market. Just such an opportunity might be the creation of a complementary asset (e.g., best-in-class process or application extension) developed through a co-innovation lab, resulting from direct collaboration with several partners. Examples of successful Outside-In initiatives abound, such as P&G’s “Connect + Develop” program for Open Innovation devoting huge investments and efforts to this process.

The model\(^2\) in Figure 3-5 captures the critical activities necessary to foster and deliver Open Innovation, when external sources of innovation are sought to help fulfill growth objectives.

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\(^2\)Adapted from Gene Slowinski and Matthew W. Sagal, *The Strongest Link: Forging a Profitable and Enduring Corporate Alliance*, 2003
Figure 3-5 – Outside-In Open Innovation Process

The Outside-In Open Innovation Process consists of four phases:

**Want**

The starting point of the overall Open Innovation process is a clear understanding of an enterprise’s growth strategy and what assets we require to achieve it. The assets are not restricted to technology assets but could easily extend to business models, services or other areas. These requirements represent “wants”. Note that a robust portfolio of innovation projects will feature Wants across the entire portfolio map presented in section 3.1.

Internal Brokers initiate the process of understanding, prioritizing and communicating asset requirements within and across the business units. These serve as a “shopping list” for the next phase of the process. A very important role of the Internal Broker is to define “wants” with the help of different internal experts, especially Scouts. The objective is to determine what innovations are needed within the company and how to set the scope for external sources to contribute.

**Find**

The *Find* process focuses on discovering possible external sources of knowledge and assets to support an innovation project. This approach is comprised of a number of technology scanning activities. Principally, the output is a short list of potential sources (internal and external) of required assets (e.g., technologies, processes, etc.). The process must be implemented systemically in order to ensure effective communication across teams and to achieve consistency in evaluating the assets and their sources.

External Brokers own this process. They are in constant communication with the external community. With the assistance of Internal Brokers and guidance from Scouts, they evaluate and select appropriate sources of assets, outside of an enterprise.
Get

The Get process is triggered by the output generated by the Find process. The output may include multiple sources for the required external assets. In this case, the process must determine which source's resources are superior and whether a mutually acceptable collaboration agreement can be negotiated. Crucial to a successful agreement is how the relationship will impact all market participants, not just our collaboration partners. Consistency in engaging with external sources and developing agreements, which will require terms of IP sharing and ownership, is paramount.

Champions are responsible for overseeing collaboration with external sources once the potential assets and their sources are evaluated. They have principal responsibility for approving acquisition and transfer of these assets. External brokers perform the “heavy lifting” of formalizing and negotiating agreements.

Manage

The Manage process oversees physical acquisition and transfer of external assets; integrating decision-making processes, and linking project management systems with external sources. Early on, enterprises must coordinate and integrate resources across their companies as well as with external innovation collaborators to ensure smooth transfer and implementation of assets. We must bear in mind that partners will come to the table with different embedded processes and systems, each with formal and informal reporting structures.

Champions provide management oversight ensuring proper execution of Open Innovation initiatives. They work closely with External and Internal Brokers to ensure effective communication and coordination of both internal and external resources. Champions are ultimately responsible for developing and nurturing trust across all major relationships dealing with the Outside-In process.

3.2.2.2 Inside-Out Process

The crux of successfully implementing the Open Innovation Inside-Out process is the ability to identify and develop opportunities for unused and underutilized internal assets. Channels for these projects include joint development, licensing, spinouts, joint ventures, open sourcing, and even charitable donations. Examples might include the commercialization of one or more best practices inside of an enterprise, such as an IT operations process, or even the spinout of a specific Open Innovation competency such as Eli Lilly did with the program that became InnoCentive.

To be successful, this approach must include processes for external “productization” and customer development. This latter process is critical to successfully implement Inside-Out projects and is cited as a frequent cause in the shortcomings or failures of them. Simply, without a potential market, even the most interesting technologies will not gain traction. Collaborative Customer Development should occur in parallel to the Technology/Product Development process. The Collaborative Customer Development process, adapted from Steve Blank\(^3\), depicted in Figure 3-6 shows the flow of these key processes.

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\(^3\) Steve Blank’s presentation on Customer Development Methodology, Stanford Technology Venture Program (2008).
Technology/Product Development

The Technology/Product Development process described above shows three essential components.

**Assay:** Identifying internal assets for external commercial development.

The Assay process is comprised of:
- scanning existing internal proprietary assets (i.e., intellectual property) to identify those which are underutilized or unused
- estimating the potential value of these assets beyond being wholly owned and developed by a company
- prioritizing these assets based on intrinsic and extrinsic value
- nominating those assets deemed to have high extrinsic value for outplacement

This process should be overseen by a Champion and supported by Internal Brokers and External Brokers. Internal Brokers collaborate with the different business units to scan existing internal proprietary assets. The Champion can assist the estimating and approving the potential value of the different assets. External Brokers help to validate the intrinsic and extrinsic value, based on outplacement.

**Source:** Identifying, vetting (evaluation) and selecting one or more external sources for commercial development of assets identified in the Assay process.

The Source process is comprised of
- identifying potential external sources for outplacement or further development of selected assets
- vetting and prioritizing those sources, based on value to the enterprise (e.g., market growth or licensing revenue)
- creating open communities to reduce development costs, create networks of innovation and drive consumption of assets (e.g., services, technologies, products, etc.)
The essence of these “moves” is to find partners who can help fully develop and monetize assets that we already hold. Further development of these assets is funded externally, not by an enterprise itself. This creates optionality, without incurring significant additional costs in the near term.

This task is normally driven by an External Broker and includes negotiating terms of any agreement. A Champion has final approval of the outplacement of selected assets as well as their recipients.

**Manage:** Monitoring, managing (portfolio of assets & opportunities), and learning from the experience of the Inside-Out ventures.

Because the asset commercialization comes from external sources, an enterprise does not always exert control over these activities. However, they might act as a potential supplier to the venture, or a potential customer of the venture, or even a potential follow-on investor. These roles provide the ability to influence the venture without controlling it.

As with the Outside-In process above, the Manage function may work best if executed at two levels. On an operational level the External Broker should own this function for daily concerns. On a relationship level, a Champion should own this function for strategic reasons.

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**Collaborative Customer Development**

The Collaborative Customer Development process, depicted at the beginning of this section, exhibits four essential components.

**Customer Discovery:** Identifying a viable set of customers, with specific emphasis on gaining commitment from at least one. The enterprise should initiate customer discovery with its selected sourcing partner. Most often, the customers are likely NOT current customers. The Inside-Out venture offers a specific value proposition to the target customers. This may involve delivery and trial of a prototype asset. Only when a customer commits to buying the product, service, etc. does the venture move to the next stage.

**Customer Validation:** Iteratively refining the value proposition is performed during this phase. This creates a customer referral for other potential customers. The business model that will deliver and capture value that to the target market is formalized.

If an enterprise is directly involved with the customer development, External Brokers play a direct role in coordinating resources and interfacing with potential customers, during this phase. Additionally, they may work closely with a Champion to formalize the business model.

**Customer Creation:** This phase consists of creating the beginnings of a market for the value proposition. The goal is to obtain orders, not expressions of interest. A formal sales model emerges, helping to determine whether the value proposition can be sold cost effectively. This leads to a refined business model, though you won’t yet know yet if it will scale.

If an enterprise is directly involved with the customer development, External Brokers will play a direct role in coordinating resources and interfacing with potential customers, during this phase.

**Market Building:** In the final stage (on-going) of customer development, we see a crossing of the “chasm”. This is achieved by a process that ramps delivery to markets, in ways that are profitable and cost effective (i.e., a scalable business model). At this point, the enterprise must understand whether and how the venture might be integrated into its own channels and customer relationships.

An External Broker, acting as an on-going mediator between the external “productization” partner and the enterprise, leads its involvement in this stage. The Champion is the ultimate owner and approver of activities in this on-going phase.
3.2.3 Open Innovation Policies

This element provides guidance for successful implementation of Open Innovation. These rules and/or guidelines are intended to shape and/or influence behavior in order to ensure consistency and efficacy in all aspects of Open Innovation, from planning to execution. For example, having clear IP management policies for Open Innovation serve to ensure that an enterprise’s overall strategy is supported and that its strategy is transparent to external sources desiring to innovate with it.

**Collaboration Policies:** these address interactions internally as well as with third parties, which govern any multi-party, innovation-related activities. These include: Scope of Activity (What & How), Stakeholders & Responsibilities, Timeline, Location, and Legal considerations.

**IP Rights Policies:** these address creation, ownership and licensing of IP, which govern any Open Innovation-related activities. These include: Entity and Individual Responsibilities, Applicable Processes and Terms of Art, and Timeline.

**Communication Policies:** these address communications internally as well as with third parties, resulting from innovation-related activities. These include: Scope of Communication, Stakeholders & Responsibilities, Timeline, and Channels of Communication.

**Knowledge Management Policies:** these address knowledge management, resulting from internal and external innovation-related activities. IP considerations should be addressed in combination with IP Rights policies above. These include: Scope of KM, Stakeholders & Responsibilities, Timeline, and Processes and Tools.
3.2.4 Open Innovation Foundation - Summary

The following table summarizes the different roles, processes, tasks and policies that are necessary for Open Innovation.

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<th>Open Innovation Processes</th>
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**Figure 3-7 – Open Innovation Processes, Tasks, Roles & Policies**
3.3 Critical Success Factors

Two principal CSFs are required for an enterprise’s transformation in becoming an industry platform for innovation: 1) establishment of an overarching Open Innovation Program for effective coordination & management of Open Innovation opportunities across the company, and 2) empowerment of individuals to envision these opportunities and to deliver them to the market place.

3.3.1 Open Innovation Program

Establishment of a successful Open Innovation Program translates to providing stakeholders, from management to staff, with the foundation elements described earlier. In summary, these include:

- **Company-wide Open Innovation Processes**
  Whether executing portfolio management, Outside-In or Inside-Out practices, Open Innovation will ultimately touch an enterprise’s entire set of processes, from research to development, marketing, delivery and support. This not only implies the introduction of potentially new processes but equally important, adaptation of existing internal processes.

- **Open Innovation Operations Team**
  An Open Innovation Operations Team must link many functions together. This team provides the oversight and coordination necessary to ensure the success of the overall portfolio as well as governance for the Open Innovation processes, policies and roles.

- **Scout network**
  A formal Scout network must be enabled, to effectively identify future and emerging assets from the market place (e.g., technologies, processes, etc.). Further, this network must collaborate broadly in order to consistently ensure the ability of the enterprise to address the complete value-chain of assets required by our customers and potential customers.

- **Flexible Organizational Structure**
  Based upon industry best practices⁴, establishing a matrix organization is effective in enabling Open Innovation especially across large and diverse companies. Particularly where dynamic industry pressures require flexibility (e.g., high technology), a matrix style organization enables adaptability and accountability.

- **Legal and IP Infrastructure**
  In order to facilitate the exchange of inbound and outbound assets (e.g., IP), an enterprise needs to have the legal instruments to support effective collaboration and a clear understanding their ownership and rights.

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⁴ Mortara, Napp, Minshall and Slack, *How to implement open innovation: Lessons from studying large multinational companies*, Center for Technology Management, Institute for Manufacturing, University of Cambridge, Cambridge, UK, 2009
Challenges and Mitigation Plan
While adapting our current systems to an Open Innovation model, certain challenges and concerns are likely to arise along the way. These include:

- **Loss of IP and/or Ownership**
  IP Rights issues are frequently cited as being a justification for not implementing Open Innovation.

  Creating awareness of existing best practices, in managing IP rights through creation and management of effective contracts, will help to establish baseline understanding.

- **Increased Demand on Resources**
  Introduction of new as well as modified (adapted) processes, roles and policies are frequently assumed to add complexity and require additional resources (i.e., time, people, and/or money).

  Mitigation of this issue again requires an effective education/communication strategy.

- **Loss of Control**
  Managers may fear loss of control over their resources and projects, when establishing a more open system.

  To mitigate this problem and to convince managers of the value of Open Innovation, we need to show and facilitate early wins and successes of Open Innovation within and outside the company and hence build up credibility.

An overall issue spanning the above challenges is the integration of external human resources, not just assets, with your own. To mitigate this issue, careful review and agreement between stakeholders of processes and the Open Innovation Operations Team is required.

### 3.3.2 Empowerment of Individuals

Ultimately, individual employees need to be empowered to envision Open Innovation opportunities and deliver them to market. Developing these capabilities requires: 1) educating employees about their role as innovators and 2) motivating them to create a more open and innovative culture. Respective to these capabilities are the following key enablers.

- **On-going Education Program**
  It is imperative to educate employees by underscoring the necessity of becoming a leader in Open Innovation, and understanding their specific roles as innovators. Clearly communicating the enterprise’s Open Innovation Strategy, delivering innovation workshops, and focusing on individual roles and their relationship to key processes, policies and others must be the cornerstone of this program.

- **Metrics and Incentive Structure for Employee Transformation**
  Open Innovation KPIs and incentives are key to motivating individuals toward transforming innovation across the enterprise. Examples might include the number of external assets identified/acquired/incorporated, the number of products and services brought to market that leverage external assets, additional revenue from spin-outs of existing but unused assets, etc.
Challenges and Mitigation Plan
While adapting an enterprise to an Open Innovation model, certain individual challenges may arise along the way:

- NIH-Syndrome
  Employees may not value ideas or technologies that aren’t produced internally. In reality, ignoring external sources of innovation reflects a lack of due diligence running counter to what many individuals actually value.

  To overcome this challenge, educating employees of the importance of Open Innovation and its individualized benefits is important. However, individual rewards will not fully imbue the spirit of collaboration demanded by Open Innovation. Broader team and corporate objectives and rewards help to ensure broad collaboration.

- Frustration (why change?)
  Employees may not feel motivated to change. In their view, the enterprise may be doing great as it is, with increasing revenue and a domination of its targeted market.

  Evangelizing successful Open Innovation projects is often the best solution to this problem. Recognition of a change in paradigm that holds far greater potential for career growth can be a significant motivator.

Consistency of messaging, incentives and rewards, throughout the company, will be key to mitigating the above challenges.
4 Conclusion

Based on well-researched principles and informed by SAP’s own successes and partial successes with Open Innovation, we compiled this outline for broadly implementing and effectively managing Open Innovation. We look forward to your feedback and hearing about your own ideas and experiences in implementing Open Innovation.

We thank Professor Henry Chesbrough for his insights and guidance in the development of this paper.
5 References


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