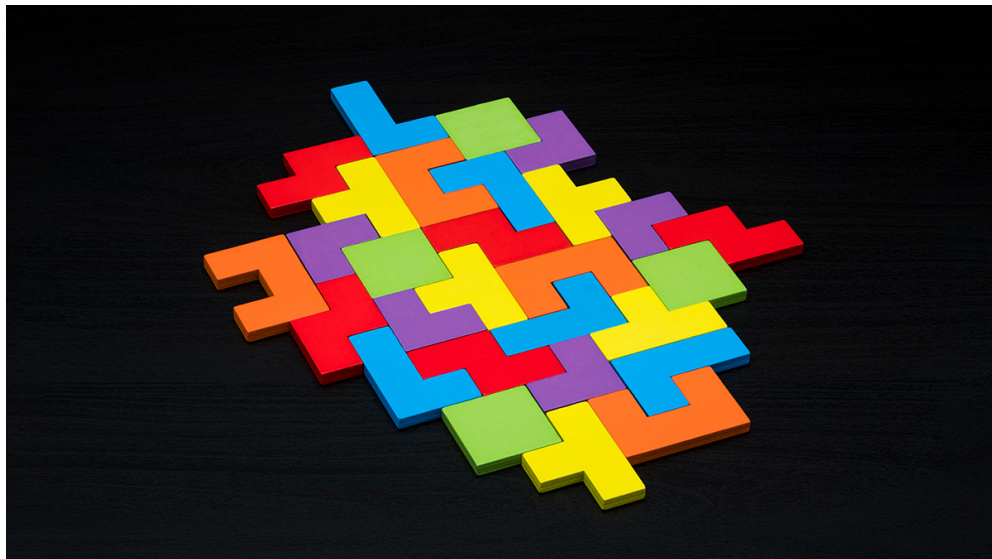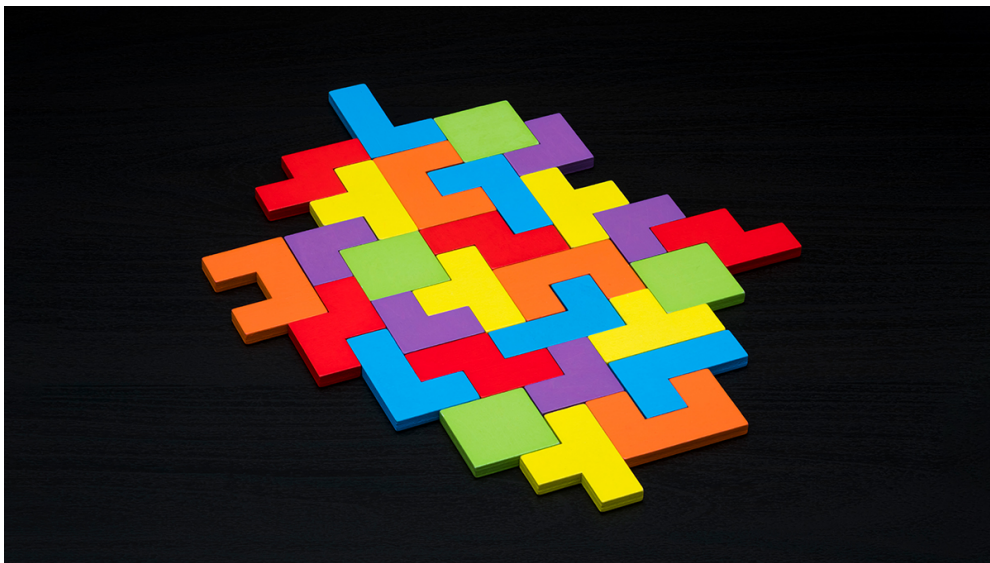Innovation

Why Now Is the Time for "Open Innovation"

by Linus Dahlander and Martin Wallin

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Amidst the gloom and doom of the early months of the Covid-19 crisis, something surprisingly uplifting started to happen: Companies began to come together to work openly at an unprecedented level, putting the ability to create value before the opportunity to make a buck. The German multinational Siemens, for instance, opened up its Additive Manufacturing Network to anyone who needs help in medical device design. Heavy truck maker Scania and the Karolinska University Hospital have partnered, too: Scania is not only converting trailers into mobile testing stations, but also directed some 20 highly skilled

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purchasing and logistics experts to locate, acquire, and deliver personal protective equipment to health care workers. Similarly, Ford is working together with the United Auto Workers, GE Healthcare, and 3M to build ventilators in Michigan using F-150 seat fans, portable battery packs, and 3D printed parts.

Collaboration can obviously save human lives, but it can also produce huge benefits for companies — even though it's often overlooked in normal circumstances. For more than a decade, we've studied open innovation and have taught thousands of executives and students how to innovate in a more distributed, decentralized and participatory way. The classroom response is usually, "My company needs more of this!" But despite the enthusiasm, companies rarely follow through. We have also witnessed how companies have used hackathons and other forms of open innovation to generate heaps of creative ideas that never reach the point of implementation, leading to frustration among employees and partners. At many companies this kind of distributed, decentralized, and participatory way of innovating remains an ambition that hasn't yet come true.

The recent burst of open innovation, however, reminds us of the massive potential that open innovation comes with — whether you're in a crisis or not. Open innovation has the potential to widen the space for value creation: It allows for many more ways to create value, be it through new partners with complementary skills or by unlocking hidden potential in long-lasting relationships. In a crisis, open innovation can help organizations find new ways to solve pressing problems and at the same time build a positive reputation. Most importantly it can serve as a foundation for future collaboration — in line with sociological research demonstrating that trust develops when partners voluntarily go the extra mile, providing unexpected favors to each other.

While concerns over intellectual property, return on investments, and various unforeseen consequences of open innovation are all valid, what we are experiencing now is an opportunity to innovate through and beyond the crisis. We have discovered a number of lessons that can help companies to not only take advantage of open innovation during the Covid-19 crisis, but to embrace open innovation once the pandemic is over. Here's how companies can overcome some well-known challenges in open innovation:

Forget about the IP for the moment.
Earlier research has found that many companies are extremely worried about value "leaking" from collaborations with outsiders. As a result, they often stick to their knitting and collaborate on a few peripheral tasks, but not on the most important business issues. For example, we are aware of several chemical companies in Europe and the U.S. that made it practically impossible for their open innovation partners to provide help and advice. How? They wouldn't reveal what their most critical problems entailed, as that could endanger future patenting. Instead the innovation partnerships slipped into irrelevance.

These intellectual property concerns are of course real and important, but they risk blocking any open innovation initiative from gaining momentum. However, during the Covid-19 crisis it could be wise to focus more on creating value than capturing value.

Smart companies take a leap of faith, collaborating on important stuff, without risking negative exposure. For example, if heavy truck maker Scania — a company known for its world-class manufacturing system — sends some of its best manufacturing experts half an hour north to work at Stockholm-based Getinge to ramp up their ventilator production, it risks none of its core technological assets but by contributing to the

effort to build medical capacity and combat the virus, hopefully it's speeding up how quickly it own plant will be back up and running.

Leverage two-sided motivation.

As the initial open innovation enthusiasm has settled, companies often realize that they rely on voluntary and active participation of employees and partners to succeed — traditional means of command and control have little reach. Instead companies need to rely on a combination of hard and soft incentives to motivate internal and external collaborators. Companies need to identify — and respond to — their partners' true motivation.

For example, our own research on open-source software development has demonstrated a diverse set of motivations among developers. Some developers are motivated to freely share their code because of labor market signaling. Other developers are driven by strong ethical concerns, vigorously opposing any move to develop software that cannot be inspected, modified, and openly shared. And some companies are motivated to donate time and resources because it is an effective means to access complementary skills and assets. Aligning all of these motivations with what companies wish to achieve takes effort, curiosity and a portion of humbleness. While this might be easy in the early stages of a collaboration that's responding to the pandemic, companies should not expect collaboration beyond the pandemic to go as smooth. Instead, it's worth putting the work in ahead of time to discover — and potentially nudge — partners' motivation.

Embrace new partners.

A common challenge in open innovation is to take on new partners. New partners always entail costs in terms of search, validation, and compliance, as well as the forming of new social relationships between people. And we know that when it comes to big thorny problems like

Covid-19, new partners are necessary to provide complementary skills and perspectives.

The massive scale of the Covid-19 crisis may have alleviated these challenges in at least two ways. First, top management has assumed a lot of the risk associated with new partners, by sending strong messages that open innovation is the way to go. For example, Jim Hackett, Ford's president and CEO says he has empowered his engineers and designers to be "scrappy and creative" when collaborating with GE Healthcare to find solutions to the crisis.

Second, not only the spread of the virus has grown exponentially but the pool of potential partners as well. When companies across the globe are affected by the same crisis, and many are searching for new ways to conduct business, a combinatorial exercise suggests that there are many better partners available now than a month ago. A crisis can prompt companies to explore a greater number and even new kinds of partners. Preserving some of that open-minded attitude towards new partners after the crisis can help companies stay on top of innovation.

Urgency leads transformation.
The initial steps towards open innovation in "normal times" are relatively simple. For example, hire some consultants, set up an innovation tournament, wait for ideas to come in. The results though are usually quite meager. To fully reap the rewards from open innovation, companies need to recognize the transformational challenge ahead. These initiatives are often the tip of the iceberg, and successful open innovation often requires operational and structural changes to how business is done. Such changes are difficult for any one employee, team, or even business unit to undertake.

In a time of crisis, the necessary executive focus is suddenly there. Smart companies seize this opportunity to rethink their innovation infrastructure. Perhaps our own sector, higher education, could stand as a beacon of hope that open innovation can work on a truly grand scale — and that a conservative sector can change. Many of us were told that classes starting the day after had to be replaced by digital alternatives. Much was left for individual teachers to figure out, but university presidents sent reassuring messages endorsing experimentation and clearing bureaucratic hurdles. In the past few weeks, academics across the globe have been collaborating, sharing tips, tricks, teaching plans, and experiences to turn an often slow-moving colossus into an agile digital sprinter. It shows that often the biggest barrier to successful open innovation is simply the reticence to commit to it.

Looking ahead.
These are promising developments. But to what extent will these observations hold true in the future? As business will one day go back to normal, how many of the altered ways of innovating will stick inside companies? And how will we as a society face other grand challenges, such as global warming, that are no longer looming on the horizon but are already here? We hope that the world's response to the novel coronavirus has taught us that a truly shared experience of a common enemy can unlock the speed, strength and creativity needed to address even the greatest challenges.

For managers, an important reflection is to think about what needs to be delivered after the crisis. A big crisis often alters the behavior of customers, employees, and partners. Perhaps you have reason to believe the customer preferences will stay the same, but often they do not. Having established new ways of doing open innovation during a crisis can then bring much-needed flexibility and, in the end, secure the

company's viability. Don't waste those experiences by planning for how to get back to the old normal. Plan for a new normal.

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