TOMORROW'S CHALLENGES

# THE CO-INNOVATION SWEET SPOT

## COMPANIES PURSUING A STRATEGY OF CO-INNOVATION CAN MESS UP IN TWO WAYS: CHANGING TOO LITTLE OR CHANGING TOO MUCH

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Shifting industry boundaries mean that change is happening faster and coming at us from all directions. It is becoming harder to keep up by innovating alone.

According to Caroline Firstbrook, managing director for strategy at Accenture in EMEA and Latin America, "Technology has become so specialized now that nobody can afford to do everything at the highest level and you have to partner with a specialist."[i]

Connectivity advances now allow even remote companies to tap into innovation from right across the world. Businesses are increasingly looking to suppliers, vendors, lead users, consumers, partner organizations, university labs and independent inventors for new ideas and insights.

But pursuing a strategy of co-innovation is harder than it sounds. Companies must find the sweet spot between reticence and recklessness.

**Learning to let go**

Companies too often underestimate the cultural shift needed to support the joint exploration and exploitation of unique opportunities. The rules for winning at co-innovation are different from those associated with traditional closed innovation. To succeed, companies must overcome their deep-seated fear of sharing. They must abandon their winner-takes-all mentality and accept that their partners are innovating *with* them, not *for* them.

In order to *receive*, employees first have to learn to *give* and to reveal concepts or technologies in need of partners. They have to operate in an open and networked manner rather than an isolated and secretive way. They have to accept that new ideas could come from unexpected places, not just from inside. And they have to think in terms of leveraging the IP rather than controlling it.

These are major cultural shifts that need to be supported through changes to systems. For example, companies must construct environments and communication platforms that enable opportunities and ideas to find each other – where people can contribute, regardless of whether they are employees, users, partners, suppliers or virtual communities. Part of the reason that Facebook superseded MySpace was that it focused on creating a sturdy platform to allow third parties to develop new applications, while MySpace tried to do too much alone.[ii]

Companies also have to realign their HR systems – the way they select, train, promote and compensate people – to encourage collaboration. It is no longer about hiring the smartest research talent and doing it all yourself, but rather about orchestrating the contributions and conflicting interests of various innovation partners.

People are hence valued and rewarded for what they share, not just what they know. This can prove a painful transition for a company that has always prided itself on its innovation capacity. For example, P&G is often celebrated for raising the proportion of new products involving an outside partner from less than 15% to over 50% in the space of ten years.[iii] But P&G managers concede that the hardest part was to shift the mindset from "only invented in P&G" to "proudly found elsewhere".

Beyond the R&D function, companies also need C-suite buy-in to the open innovation agenda. People throughout the organization must feel permissioned to look outside for help on innovation challenges.

**Knowing what to keep**

The pursuit of co-innovation, however, is not an excuse for ceasing internal R&D capabilities. More than ever, for any company to retain its long-term competitive advantage, top management must carefully think through which R&D capabilities the firm must retain and cultivate; and what domains of knowledge have become so mature and commoditized that they should be pruned and outsourced.

The danger companies face if they fail to make deliberate decisions about their R&D capabilities is a progressive hollowing out of the company driven by short-termism. For example, HP initially outsourced low-value segments of its PC operation (such as motherboards) to the many contract manufacturers based in Taiwan, including Acer and ASUSTeK. But, over time, HP ended up giving away even the design of the computer.[iv] Today, Acer and ASUSTeK supply equivalent computers directly to retailers, like Best Buy and Amazon, at a lower price.

Therefore, co-innovation does not mean walking away from innovation itself. Companies must retain a core of critical knowledge. While Apple outsources manufacturing, it maintains a pilot run production line in-house. It realized that for new product innovation, you really need the designers to work with the manufacturing people in order to bring more radical innovation – and to ensure smoother integration between software and hardware.

Other companies have taken a different route. For example, the key to delivering Tata Motors' ultra-cheap Nano car were the multiple collaborative partnerships with suppliers. The components were modularized, with supplier involvement starting at the conception phase, but Tata controlled the overall architectural design. The central role of Tata Motors is to establish a common platform in order to tap into the knowledge base of external parties, blending them into a specific offering that it has set out to achieve. To do that, the company's marketing and product development people must talk to their colleagues in R&D who can translate the needs into technical language in order to present them to the relevant external partners or communities.

As Barbara Kux, a board member of Total and Henkel, puts it: "The future of competitiveness is no longer about one company against another; it's much more about one network against another network.  The company that is able to form and establish the best network with the best partners will be the winner in the future."[v]

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*This article is drawn from 'Quest: Leading Global Transformations,' a new IMD book that aims to help business leaders and their organizations navigate major transformations more effectively.*

## References

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