Lecture 3 How Open Innovation Works?

Professor Solomon Darwin Haas School of Business University of California, Berkeley

Agenda

- Assignment for next week bonding exercises
 - Tuesday: Suggest a Business Model Solution for your sponsor's challenge by yourself over the weekend. Share it with your group and solicit feedback to revise it for the following class – use canvas on the web – so I can view it.
 - Thursday: Bring your revised model and develop a consolidated model a group from all your individual ideas. Put it on the Paper Canvas hung in the classroom. We can discuss them when I return the following week.
- Finish defining Open Innovation vs. Closed Innovation
- How Open Innovation Works?
- How does Open Innovation Fix the Commodity Trap
- Who are you?
- What is the Triple Helix Model?
- What are "Dynamic Capabilities"?

Closed Vs. Open Innovation

Professor Solomon N. Darwin Haas School of Business University of California, Berkeley

A Closed Innovation System



Success of Closed Innovation

- Success in the 20th century
- World War I & World War II
- Thomas Edison Phonograph, electric light bulb, etc
- DuPont established central research labs
- Other Labs: Bell Labs, IBM, AT&T
- *"Knowledge is unevenly distributed in society" -* Fredrich von Hayek (1945)
- "Internal R&D is the key to the rise of the modern US corporation in the 20th century – Alfred Chandler (1918 – 2007) Harvard professor of business history

Closed Innovation Paradigm

- 1. Role of Universities
- 2. Role of Governments
- 3. Role of large corporations
- 4. The power of an Internal R&D
- 5. Emergence of a new era.
- 6. What has changed?

Increasingly More Innovations Coming From SMEs



Source: National Science Foundation – Survey of Industrial Research Development

Xerox PARC

- Grew from a tiny company in 1950s
- 1970s Xerox was Fortune 500 colossus
- Created Palo Alto Research Center PARC
- Importance of PARC's False Negatives
- Departure of key employees

Xerox's Business Model

Project Evaluation Process

The CIC/XNE Project Funnel Innovation Council Phase Ι **Emergent Market** Π **Opportunities** III Select Markets Options (=] (+) Licensing/Spinout Select Technology Options Business **Emergent Technology** Incubation **Opportunities** Corporate Strategic Business Shuttles **Opportunity** Concept Scanning Development

- Minimize "false positive" errors
- Ignores "false negative" errors

Xerox Lost due to Closed Innovation



Recap

What is Closed Innovation?

Closed Innovation assumes that successful innovation requires control of:

- 1. Generating ideas from within
- 2. Production
- 3. Marketing
- 4. Distribution
- 5. Servicing
- 6. Financing
- 7. Supporting

What is Open Innovation?

Open innovation is the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively.

Henry Chesbrough "The Father of Open Innovation"

Open Innovation System



Convergence, Minneapolis Sept 27, 2004



Open Innovation Promotes:

- 1. Economies of Scale bringing down cost
- 2. Economies of Scope adding more products and value without adding cost
- 3. Risk Reduction through tapping into utilization differential asset access
- 4. Speed to Market- through capturing external resourcing
- 5. Strong Ecosystems through partnering and collaboration
- 6. Customer Centric Value Creation pull vs. push model
- 7. Open Business Models through creation communities & platforms
- 8. New sources of revenue through IP licensing and exchange, JV, spin-ins, spin-offs, sale of IP, and wrapping services around the products etc.

Researchers vs. Innovators vs. Catalysts



Research: does not guarantee results in advance / Innovation: Targets unmet need & specific outcomes

A Paradigm Shift From Resources to Dynamic Capabilities OLD WAY NEW WAY



Balance sheet view: Asset EmploymentEmphasis on: Asset Power and HeavinessKey Success Factor: Central Command

Structured Mesh Backhaul

Dynamic Capabilities View: Talent EmploymentEmphasis: Soft assets to assist in orchestrationKey Success Factor: Rapid deployment of resources

<u>Takeaway:</u>

What is essential is no longer on the balance sheet It has migrated to the capabilities of people enabled by digital asset-light tools.

Catalysts

- Catalysts are the 3rd group of people needed within an organization
- Catalysts are orchestrators "they make things happen"
- Two types of Orchestrators: 1. Traditional/Ordinary 2. Dynamic

	Ordinary Capabilities	Dynamic Capabilities
Purpose	"Do Things Right" Technical Efficiency	"Do The Right Things" Adapting / Integrating
Schemes	 Operational Administrative Governance 	 Sensing Seizing Transforming
lmitability	Easy	Difficult