

MANAGEMENT INNOVATIONS FOR THE FUTURE OF INNOVATION

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The emergence of Open Innovation means, among other things, that innovation management will become more collaborative and that business model innovation will become as important as technological innovation. This author, who coined the term Open Innovation and literally wrote the book on it, has excellent advice for readers.

Those who study innovation often can be overwhelmed by the variety and speed at which clever new products and services come into the market. But it is helpful to take a step back from these myriad innovations to reflect on the evolution not only of the technologies themselves but also the processes used to create, develop and manage them. While the latest technologies of the recent past (think of Facebook, Twitter, Android, iPod/iTunes/iPhone/iPad, just to name a few) get most of our attention, it is often the processes that led to the creation of these technologies that may prove more enduring. These also are being innovated.

Let's look back in time at previous management innovations to gain some perspective. In the 1960s, a significant management innovation that fostered the development of many technologies of that era was the concept of Systems Analysis that Robert McNamara and his colleagues brought into the U.S. government, particularly in the defense sector. This was a comprehensive way to assign priorities and allocate resources to competing projects, based on their total costs and benefits.

In the 1970s, the success of the Apollo missions to the moon spurred a management innovation in project management. Program Evaluation Research Techniques (PERT) were developed to map sequences and dependencies in complex projects, so that the critical path that determined the date at which a project could be completed could be identified. PERT charts also helped companies assess trade-offs when activities on the critical path began to fall behind schedule.

The 1980s saw the rise of Total Quality Management in the U.S., as the principles of Deming and Juran, which had been so influential in Japan in the 1970s, finally found acceptance in their home country. Related processes like Six Sigma became widespread, as the U.S. struggled to compete with higher quality products from Japan in many technology-based industries, as well as autos.

The 1990s witnessed the spread of supply chain management, as companies invested in sophisticated software and other tools to link themselves more and more closely with their key suppliers. Data were shared extensively with suppliers, as companies streamlined inventories and took more costs out of their supply chains. The rise of the Internet allowed companies to link their supply chains closely to customer demand, as companies like Dell and Amazon took orders first, then organized the fulfillment of the customer's order through their network of suppliers. This greatly facilitated the globalization of these supply chains.

What about the most recent decade just ended? While there hasn't been much time yet to assess the many possible management innovations over the past decade, one plausible suggestion is that this past decade has been the decade of Open Innovation. In this decade, companies started to open up their research and development processes, involving customers, suppliers, universities, third parties and individuals in the innovation process. The old "Not Invented Here" syndrome that restricted the use of external ideas has been largely rejected now in most industries. We also see more companies allowing their unused internal ideas and technologies to go outside for others to use in

their business. With Open Innovation, companies are innovating more with fewer internal resources, saving time, reducing risk, and identifying new markets.

One set of facts to support the rise of Open Innovation in this past decade comes from a Google search of the term “open innovation.” I did such a search back in 2003 when I first published the book, *Open Innovation*. At that time, Google returned about 200 page links, mostly of the variety “company X opened its innovation center at location Y.” In the summer of 2010, that same search yielded 13 million links, with the vast majority reflecting a new model of industrial innovation.

MANAGEMENT INNOVATIONS IN THE NEAR FUTURE

Armed with this perspective, where might management innovation go from here? I will offer three short predictions:

First, innovation management will become more collaborative. Opening up the innovation process will not stop with the accessing of external ideas and the sharing of internal ideas. Rather, it will evolve into a more iterative, interactive process across the boundaries of companies, as communities of interested participants work together to create new innovations. Organizations like Syndicom, for example, have already established a community of spinal surgeons who meet up virtually to share effective protocols for screening patients for new therapies, and new methods and techniques to achieve better patient outcomes for those new therapies. Companies will increasingly compete on the breadth, depth, and quality of their communities that surround their activities. New technologies like agile software development will help companies interact more intensively – and more productively – with current and potential customers, elevating them to full partners in the innovation process.

Second, business model innovation will become as important as technological innovation. The business model is the predominant way a business creates value for its customers and captures some piece of that value for itself. It is generally accepted that a better business model can often beat a better technology. Yet companies that spend many millions of dollars on R&D seldom invest much money or time in exploring alternative business models to commercialize those discoveries. Not all business models are created equal, and we will learn how to design and improve business models in the coming decade.

There is an irony here. Companies that spend millions of dollars on developing new ideas and technologies often lack any process for exploring alternative business models to commercialize those new ideas and technologies. This is a situation that cannot stand indefinitely. Through devices like the business-model canvas of Alex Osterwalder, organizations are learning techniques to visualize both their current business model as well as possible alternative models.

A further imperative driving business-model innovation is the rebalancing of the global economy, with the bulk of economic growth over the next few years coming from the so-called emerging economies. Companies wishing to expand their business to the rising emerging economies will find that the business models that succeeded in the already-developed economies will not succeed in these new markets. In turn, the rise of multinational companies from the BRIC economies that successfully enter the advanced economy markets in the West with new and different business models will further advance this trend. Companies will need to learn how to manage multiple, sometimes even conflicting, business models at the same time in different parts of the world.

Third, we will need to master the art and science of innovating in services-led economies. Most of what we know about managing innovation comes from the study of products and technologies. Yet the world’s top 40 advanced economies today derive most of their GDP from services rather than products or agriculture. In order to

preserve prosperity and high-wage employment in the advanced economies, we will have to learn how innovation works in services, which is likely to differ from how it works in products. If we incorporate the above two predictions as well, one can predict that the winning formula for managing innovation in the next decade will be an open-services innovation approach.

It is worth expanding upon this last prediction, which is the subject of my latest book, *Open Services Innovation*. The first step toward successful services innovation is recognizing that the customer is at the heart of service innovation. A service is an intangible – something that has value that you can't drop on your foot. The value is the experience of the customer who receives it. Since experience is subjective by its very nature, two people may perceive the same service quite differently. Therefore, innovating in services requires different tactics than innovating products. For example, inviting the customer to participate as a co-innovator is a powerful method for business leaders to harness this subjectivity and differentiate their companies from competitors, all the while creating more value for customers. Lego reached an entirely new market of teachers when it allowed its customers to modify its Mindstorms software to manipulate its robotics for kids, and the teachers realized they could use the service to construct a curriculum to teach robotics to middle school students.

Business leaders also need to realize that since service businesses often are people-intensive, growing one profitably will require focusing on core strengths on the one hand, while providing a wide variety of choice to customers on the other. Focus and variety are often at odds with one another. The only way to do both profitably is to open up the business, turning it into a platform for others to work alongside or build on top of. Opening up the business to others allows companies to provide one-stop shopping to customers, while leveraging their core activities that comprise the structure of the platform. Amazon allows merchants to use its internal tools to build web pages on Amazon to offer merchandise to Amazon customers, who cannot tell whether the item they purchase is from Amazon (such as books) or somewhere else (such as jewelry). So Amazon focuses on its core strengths in Internet retailing, and provides a structure for many third parties to sell a wide variety of merchandise to Amazon customers, without taking on the inventory and merchandising risks of that expanded set of products.

Finally, focusing on service innovation, making customers central to the process, and opening up to other companies require embracing a good deal of internal change for most companies. This means that opening service innovation will change your business model. Open service innovation will require companies to charge customers in new ways, use different mechanisms for payment, and perhaps find additional revenue streams to support the business. Opening up to outsiders will often require sharing financial risks and rewards with them. Traditional competitors may become customers or partners in the new business model, and there may be multiple and sometimes conflicting distribution channels for one's offerings to reach the market.

Companies that undertake services innovation are learning to tackle these challenges. IBM's Global Services business supports competitors' products at its customer locations, and shares technical information with competitors who support its products as well. Its services business now accounts for well over 50 percent of its revenues, and is also growing IBM's profits. Xerox now offers to manage all of its customers' copiers and printers, regardless of who made them. Its services business is also growing rapidly, accounting for more than 25 percent of its sales. The company recently acquired Affiliated Computer Services for \$6.4 billion, which will further expand its services activities.

Innovation is constantly changing, as is the process by which new ideas and technologies get to market. Companies who rest on their laurels may do well for the moment, but it is safe to bet that the innovation process is changing, whether the company realizes it or not. The best approach is to embrace the idea that innovation will continue to change, and that organizations that seek to profit from innovation must take on the challenge of changing with it.

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