SOSA The Open Innovation Company.

PAPER

Corporate Innovation 101.

In this paper, we go over the basics of what corporate innovation means, how it started, where it's going, and practical tools and frameworks you can implement in your corporation.

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Foreword

The way to corporate innovation has many roads but one destination - making the customer's world a better place and holding a greater market share. And although innovation has to do with coming up with the latest and greatest, the process is nothing new. It's the reason why we went to space and why today we're exploring new methods of regenerating the earth and sustainability on the ground too. Innovation is the fuel (renewable, of course) that makes the world go round, and we wouldn't be anywhere we are without it. Needless to say, it's physically enabling you to read this paper right now.

We're in a time in history where technology has become a vital and integral part of our life. Technology has become an enabler, not only helping us get new shoes, get from point A to point B, communicate with our grandmother overseas; but also help large organizations improve their operations in almost all aspects. In this way, technology isn't only about the individual; it's about the collective.

We find ourselves undeniably in a digital era. The same way that the industrial revolution turned companies into corporations with extensive manufacturing, so too does technology facilitate the next stage in business. Processes, for instance, can be expedited, automated, augmented, controlled, and measured thanks to applied technology. If ideas are the spark of innovation, technology is the means that make it happen.

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Although innovation can start, as the cliché suggests, in someone's parent's garage, it is corporations with large-scale impact and global reach that have the responsibility and power to take innovations into the real world and be the most significant catalyst for change. That's where **corporation innovation** comes in.

In this paper, we go over the basics of what corporate innovation means, how it started, where it's going, and practical tools and frameworks you can implement in your corporation. If you're new to corporate innovation (welcome) - consider this your 101 guide; if you've been on this journey for a while - consider it a refresher. After all, when it comes to corporate innovation and the technologies that support it, things change at exceptional speed. So let's dive in.

01

What is corporate innovation?

Corporate innovation refers to the strategic process of a corporation designing and redesigning its existing organizational systems, products, or services and opportunities to ensure its business model holds a competitive advantage within its respective industry.
Corporate innovation can be practiced in different ways. In this section, we take a deep-dive into the various corporate innovation structures, where innovation originates, and the case for open vs. closed corporate innovation.

Product, process, and innovation culture

In a nutshell, corporate innovation can also be categorized in two: product innovation and process innovation, both of which are enabled by innovation culture.

Product innovation refers to an organization's focus on developing new products and services or modifying and improving existing ones in order to scale and stay ahead of competition.
Developing or improving products can also be referred to as incremental vs. disruptive innovation. When an organization builds groundbreaking products (think: the very first iPhone that changed our relationships with phones and each other), this is known as disruptive innovation.

When an organization creates small improvements to existing products or services (think: every new iPhone model with it's new camera features and iOS updates), it is referred to as incremental innovation.
This type of innovation is essential in today's competitive landscape. Without product innovation, corporations are at risk of lagging behind at best, and closing shop at worst.

Process innovation, also known as process improvement, begins by looking at the way processes are done and finding ways to optimize them. Pursuing process innovation can increase the efficiency, quality, or effectiveness of an organization's current production and work methods, thereby improving their services and reducing production costs. Think: RPA (robots process automation) solutions to automate repetitive manual processes such as data entering or using an e-signature service instead of signing contracts by fax.
Both product innovation and process innovation would be tough to implement without the appropriate mindset, also known as innovation culture.

Innovation culture is a work mentality implemented by leaders to cultivate new ideas and unconventional thinking. It is the infrastructure necessary to drive new ideas and implementations. It allows employees to be curious and motivated to find new revenue streams, streamline processes, and improve a company by introducing novel ideas and tech.
Innovation culture involves the corporation's efforts to spur an internal culture that fosters innovation; this can include changing administrative structures, decision-making processes, and offering incentives and training programs. Design thinking methodologies also play a significant role in determining innovation culture within a corporation.

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With an innovation mindset in place, the question arises:

where do ideas originate?

Innovation flow: top-down vs. bottom-up

There are two main approaches here, both of which have become well-known through Apple and Google. That said, most corporations rely on a combination of both.

Apple is known for having a “top-down” approach, meaning, as the term suggests, that innovation trickles down from the highest executives to engineers for execution.

For example, Steve Jobs led revolutionary innovation that changed how most of us live our lives and was notorious for being involved in every stage of a product’s development, including design, UX, and marketing. This type of innovation approach provides a consistent roadmap and the steady launching of products.

At Google, “bottom-up” is the approach for innovation; meaning that ideas start with the team on the ground and move up to executive decision-makers. Google engineers are encouraged to think of new products and dedicate 20% of their paid work time to developing these. This freedom led to the creation of Google products like Gmail, Adsense, and Google news. While new ideas are consistently pursued at Google, they may be launching inconsistently because of this approach.

Organizational structure: distributed vs. centralized innovation

When a corporation plans out its innovation structure, one of the major decisions is whether innovation will be distributed or centralized. For example, will there be an innovation business unit responsible for all innovation processes across the corporation, or will small innovation teams/innovation leaders be assigned within different business units in a distributed manner?

The decision to distribute or centralize innovation is highly case-specific and can be done simultaneously. It depends on the corporation's structure, strategy, culture, and resources - but we'll go into that in another paper - keep your eyes peeled.

* *No matter where ideas originate, whether they are found through top-down, bottom-up, distributed or centralized innovation structures, the biggest dilemma of all remains: should a corporation build or buy technology?*

02

The case for building: closed innovation

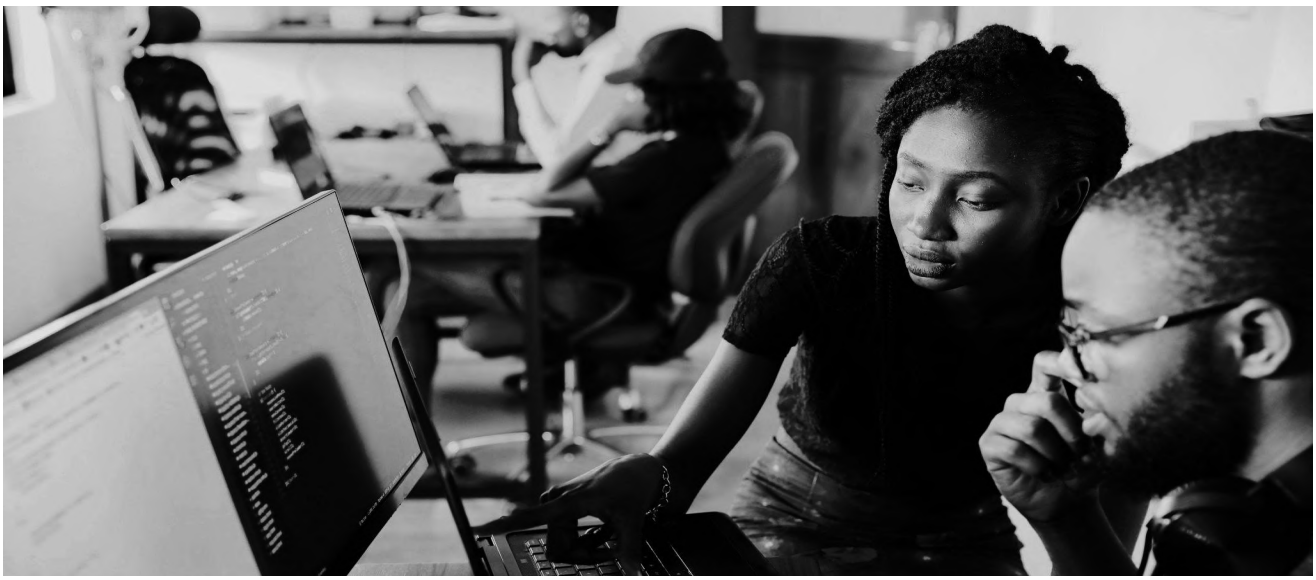
Whenever there's a situation where no one could do it better than you can - you know it's time to build it. Closed innovation is the method of developing new products, services, or processes as well as adopting effective changes within the boundaries of an organization. Think: Netflix moving from DVD shipping to online streaming. From ideation to development and marketing, the internal collaboration between visionary employees, a.k.a. intrapreneurs, is exclusively responsible for generating valuable ideas to promote internal innovation within the organization. The know-how, technology, processes, and intellectual property remain entirely under the organization's control and orchestrates its innovation activities within clearly defined boundaries. As such, closed innovation traditionally stems from R&D and internal innovation labs (not to be confused with startup incubators.)

Research & development

Research and development (R&D) is regarded as the traditional vehicle for innovation by corporations, and remains a strategic asset for bolstering valuation and sustaining a corporation's competitive edge. A recent OECD study found that in 2020, corporate R&D investment spent 6.21% more than in 2019, with information and communications technology (ICT) and the life sciences industries exhibiting robust growth.

At its core, R&D is the internal action of developing and commercializing new ideas, implementing new processes, and modifying existing business revenue streams, which can differ across industries and companies. Corporations commonly deploy R&D in two models: product and knowledge/discovery.

An R&D team's primary function is to develop new products; the second model relies on the team to discover and create new technical and scientific knowledge so that valuable new products, processes, and services can be created. Corporations maintain complete control of their R&D innovation assets et al. patents, and business plans. R&D activities aren't usually measured by yielding immediate profit, improving operations, or bringing certainty to the ROI; however, R&D metrics are siloed from the activities of other business units. When it comes to R&D, consider it a long-term investment.



Intrapreneurs

Intrapreneurs are employees of a company who are assigned to work on a particular idea or project. Executives give these employees the time and freedom to develop the project as an entrepreneur would, but within a corporation. Unlike a classic entrepreneur who may be bootstrapping their way to success, intrapreneurs have the added benefit of their organization’s resources and capabilities at their disposal. While intrapreneurs have the resources of a corporation, they also face corporate-specific roadblocks such as internal politics, long approval processes, and bureaucracy.

> *Open innovation recognizes that the cross-pollination of ideas with entrepreneurs can play an integral role in making innovation even more valuable and sustainable.*

Corporate hackathons & innovation events

Corporate hackathons, hack days, hackfests, and tech events are also sources for developing innovation in a short time, in-house. Hackathons often last between 24 to 48 hours, where participants from different business units within a corporation are on a mission to solve a particular challenge. As a result, hackathons create a fertile ground for innovation and collaboration under pressure - and have given way to some of the most notable features on Facebook like the 'Like' button and Facebook Chat.

Innovation labs

To enrich activities from traditional R&D, corporations engage in internal innovation labs and incubators as a method of accelerating ideas generated within a company. Innovation labs are fast, flexible, and creative, with time dedicated to a project that may last a few days or a few months. For corporations that work in highly regulated industries, innovation labs prove to be a safe environment for experimentation and generating new ways of thinking that can impact the entire organization.

03

The case for buying: open innovation

Open innovation is a business model that allows a corporation to advance and accelerate innovation by partnering with people and technologies outside the corporation. This represents a breakaway from traditional corporate R&D culture that focuses on a silo mentality, secrecy, and guarding proprietary information. Instead, open innovation allows and attracts an influx of out-of-the-box thinkers, scientists and entrepreneurs in order to create meaningful impact.

Coined by Henry Chesbrough, adjunct professor and faculty director at Berkley Haas, **"open innovation"** drives on the growing notion that organizations cannot rely solely on their own research in a world of widely distributed knowledge. Open innovation recognizes that the cross-pollination of ideas can play an integral role in making innovation even more valuable and sustainable for an organization.

Suppose someone outside of your organization develops a product or service that could support your business activities. In that case, it will likely require fewer resources to acquire a license or purchase a product than to build it. Not to mention, the company developing a particular product or service is likely going to do it better than you can, since they are specialized and focused on solving one specific problem.

> *"While revolutionary technologies can come from outside an organization, it can take a great deal of time, effort, and resources to implement them into practice. It's never really a matter of simply plug and play.*

It's important to remember, while revolutionary technologies can come from outside an organization, it can take a great deal of time, effort, and resources to implement them into practice. It's never really a matter of simply plug and play.

The option of buying, a.k.a open innovation, can be accomplished through many different vehicles. What may make sense for one company, may not be right for another. Open innovation can take the form of strategic partnerships, corporate accelerators, venture building, M&A, or CVCs.

Open innovation partnerships

An open innovation partnership is a relationship built between a corporation and a tech company. The corporation either has a problem that needs to be solved, is looking for new revenue streams, or simply wants to stay ahead of the curve with the latest technology. The main reason to take on such a partnership lies in the need for a corporation to solve its business challenges in the most cost and time efficient manner. With the implementation of external technologies, corporations can save resources, save time to market and gain a competitive edge.

These types of partnerships are a win-win situation:

1. Corporations enjoy the agility and forward thinking of the latest tech out there by working with smaller companies that don't have long approval processes, barriers, and corporate bureaucracy.
2. For tech companies, the benefit lies in fast scaling - their technologies are being implemented by the world's largest players, reaching a market that would be very difficult for them to reach otherwise. In the case of early stage startups, these relationships can take the form of design partnerships, in which startups provide the technology, and the corporations provide their domain expertise and are active in designing the product.

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To see open innovation partnerships in action, read SOSA's case studies on how HP partnered with a tech company to solve a specific use case in HP's home-printing product, or how Swiss Re built eight innovative business projects with the help of 27 tech companies.

Want to learn more? Open innovation partnerships are our specialty here at SOSA. See our open innovation programs and read about our clients success stories in our case studies.

Corporate accelerators & incubators

Corporate accelerators and incubators are corporation-led programs that help entrepreneurs and early-stage startups develop their ideas into successful, self-sustaining businesses.

The main distinction between accelerators and incubators is the stage of the companies that participate in them. Accelerators "accelerate" growth of an existing company, while incubators "incubate'' disruptive ideas with the hope of building out a business model and a successful company. To that end, accelerators focus on scaling a business, while incubators are often more focused on innovation.

In both cases, the programs aim to solve corporate challenges by accelerating or incubating tech companies and refining solutions in the corporate specific industry. These programs allow corporations to be the first to work with the newest technologies, sometimes secure exclusivity, and stay ahead of the competition. Having such a close relationship with tech companies enables corporations to shape the way a product is built, and in some cases, it may also open the door to receiving equity in these companies.

The tech companies participating in acceleration or incubation programs receive mentorship, training workshops to reach a product-market fit, and networking opportunities. Most importantly, the participating tech companies build a strong relationship with corporate experts and business units, benefiting from a close-knit collaboration.

Typically, these programs conclude with the cohort presenting their refined ideas and technologies at a demo event to corporate leadership, investors, industry experts, and the wider tech community.
Curious about what that looks like in practice? Learn about SOSA's Corporate Accelerator program and read the GENESIS acceleration case study with Schneider Electric.

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Corporate venture building (CVB)

Venture building, like the name suggests, consists of building a venture from the ground up and generating new business opportunities. Venture building starts with a corporation identifying game-changing ideas and promising entrepreneurs that are capable of ideating, leading, and executing new successful enterprises that aren't necessarily related to their current line of business. Combining talent, capital, and a corporation's vast network provides a fertile environment to turn new ideas into promising ventures. By creating an independent business entity with entrepreneurs from scratch, corporations secure their relevance in ever-changing markets and guarantee new lines of business and revenue streams.
To learn about venture building at SOSA, read here.

Corporate venture capital (CVC)

Corporate Venture Capital (CVC) describes the investment of corporate funds in external companies. Contrary to traditional Venture Capital, a CVC strives to achieve both strategic and financial goals; meaning a CVC investment can stem from either a business decision to tap into the knowledge-base and know-how of innovative startups, or a financial investment as a means to increase revenue. Oftentimes, the motive is both strategic and financial.
Employing corporate venturing can take multiple approaches ranging from investing off-balance-sheet to setting up a dedicated internal fund to creating a separate fund with multiple limited partners (LPs).

Deployed as a source for furthering innovation, established corporations utilize CVC to strategically gain a stake in startups, extend their ecosystem and get a deeper pulse of emerging markets, trends, and technologies. By doing so, corporations can make better-informed decisions that can return financial gains without incurring the steep costs of making a complete acquisition.
To learn about how SOSA can help you build a CVC, contact us here.

> *"By creating an independent business entity with entrepreneurs from scratch, corporations secure their relevance in ever-changing markets..."*

Mergers and acquisitions (M&As)

When it comes to corporate open innovation, acquisitions have become common practice. That's why tech headlines are often filled with announcements of the latest tech giant buying out a young rising startup- arguably a dream for many entrepreneurs.

For some corporations, M&As are the most appropriate avenues to approach innovation, spur knowledge, and monetary gain. By merging or acquiring tech companies, corporations aim to produce higher revenues and diversification, reduce costs, solidify a more substantial market power, and level out the rising competition.

When an organization acquires or merges with another organization, technical synergies are created. Strategic access to the latest capabilities or industry expertise is expanded, thereby improving their scope of R&D and reducing their market risk in developing the same technology internally. With a stronger market power, the resulting entity holds more ability to influence prices and minimize external shocks in supply.

This doesn't come without risks. M&A's can also be unsuccessful due to cultural company differences, technical challenges in integrating a product, and the realization that inflated valuations don't always reflect the worth of the product or company.

Closing words

The pace and context of innovation differs from one corporation to the next. As each innovation vehicle serves a unique function, innovation leaders must assess their corporation's priorities, strategic goals, and resource feasibility to decide which innovation model makes sense for their current development chain.

When all is said and done, when it comes to corporate innovation, there is no empirical data that suggests there is one 'right' way to achieve it. Likewise, there isn't a "one size fits all" but rather a case-specific combination of a few approaches.

> *If you're considering which vehicle is 'right' for driving innovation in your corporation, book a consultation with a SOSA innovation expert here.*

SOSA The Open Innovation Company.

SOSA is an open innovation company. We work with innovation teams and business units in corporations ((like HP, Schneider Electric, RBC, Swiss Re), and governments (like Australia, Brazil, Canada and Taiwan). We scout and validate startups and technologies in order to bring our clients the solutions they need to solve use cases, identify opportunities, or build new products. Think noise-canceling headphones for the endless supply of startups.

Since 2014, we've literally been in the room facilitating discussions between large organizations and tech companies. From the first touchpoint all the way to pilots, implementations, and investments, we bring our clients precisely the technologies they need to advance innovation.