

The Architecture of Collaborative Innovation

Using Cross-Boundary Alliances as Innovation Engines to Unleash the Power of the Value Chain

By Robert Porter Lynch

Seeking an “Architecture” for Collaborative Innovation

Over fifteen years ago, seeking an approach to reverse the terrible success-rate of strategic alliances, our team conducted a “best practice” analysis of alliances. This resulted in the creation of an *Alliance Architecture* that, for the first time, provided an applied system of solutions, strategies, structures, processes and metrics for creating, launching and managing high performance strategic alliances. This architecture has resulted in shifting the success rates of strategic alliances from a dismal 25% in the early 1990s to a respectable 50-80% success rate now. ¹ Consider this statistic:

In 1990, alliances contributed a mere 2-3% of the revenues of Fortune 1000 companies. Today alliances strengthen their revenues by a factor of 30% and that proportion is still climbing.

Beginning in 2002, our team commenced an updating study of alliances that had sustained themselves over a period of more than five years. Based on this analysis, we concluded that the alliance’s ability to generate innovation was a significant factor in long-term sustainability.

But more importantly, we found alliances were a powerful *source* of innovation as well. By capitalizing on the “synergy of compatible differences,” alliances hold unique potential as engines of innovation, enabling the transformation of new ideas into new products, services, and solutions. (for full results from the study, see footnote²)

Conclusions from Study

Based on our [study of innovation across business boundaries](#), we concluded that the best companies have had a deep rethinking about how they think about their core business:

- a. **Internal versus Inter-Organizational Business Models:** The best companies see their business as part of a more interconnected value chain or network and create a strategic system for creating, aligning, and managing the creation of value. This involves a very intensive rethinking of what value means to their businesses and to their customers, and is clearly communicated into the supply chain.
- b. **Suppliers as a Strategic Asset:** During the last 50 years spending on outside suppliers rose from a mere 20% of total corporate expenses, to nearly 70% (in some cases more) of expenses. This fundamental shift has made what is now called “supply chain” a major strategic asset that has not been effectively addressed by scholars or businesses. Too many companies still see their supply chain as an expense and treat suppliers as “vendors,” reflecting an out-of-date mentality. The best companies segment their suppliers into at least two categories – strategic suppliers and commodity supplier, the former receiving special attention for the co-generation of innovation streams.

¹ Percentages vary based on several studies in the US and Europe. Simple use of best practices tends to yield at least a 50% success rate, and a more disciplined approach tends to yield significantly higher rates.

² See http://www.enginesofinnovation.com/html/innovation_study.html

- c. **Power of Collaborative Innovation:** As innovation becomes more pivotal in business decisions, and suppliers more critical to the generation of value, the best companies create more effective strategies, architectures, and models, for cooperative creativity than what has been relied upon in the past. The best companies recognize that collaborative innovation is one of the most powerful means of creating new ideas that impact revenues as well as expenses. They recognize that *differentials in thinking* are the primary source of innovation, and this can only come from having a broad series of alliances both internally and externally.
- d. **Negotiations & Risk Management:** Current models for cross-corporate negotiations, contract management, and risk management are based on shedding risk, maximizing value for one party while minimizing for the other, and managing relationships tactically/transactionally. These methods have diminished or even negative impact in this millennium's fast moving, inter-connected world when applied to both primary suppliers and customers. .
- e. **Revenue Impact of Suppliers:** The flow of innovation from suppliers can have major impacts on revenue as well as cost for the modern enterprises. A strategic review of this impact is essential. The best companies look deep into their supply base for new ideas, products, technologies, services, solutions, and business models that could enlarge their top line. Supply management links with R&D and Marketing to explore these possibilities.
- f. **Impact of Critical Drivers of Competitive Advantage:** With the change in the driving forces of competitive advantage, where the traditional drivers based on Size, Positional/Transactional Power, and Financial Clout have been superseded by Speed, Aligned/Collaborative Power, and Innovative Agility, a new model of competitive advantage is essential.³ In a new model, supply chain management develops greater skills in value management, organizational integration; and strategic alliances become an integral part of the empowerment of the value chain.

The Battle of Value Chains

Ultimately, any corporation must deal with the fundamental issue of how to deliver value and create competitive advantage in the marketplace. No company is an isolated element, each is part of a value chain.

And, in the larger scope, *winning the competitive game is more a question of how to create an entire value chain that is more competitive than that of other rivals.* In our fast moving world, Collaborative Innovation is the most critical ingredient in generating sustainable competitive advantage.

This cannot occur if the relationship with both our supplies at the sourcing end of the value chain and the customers at the sales end of the chain is adversarial, transactional, or disassociated. A collaborative relationship with primary suppliers and customers is essential if innovation is to flow and flourish; and creating this essential

Too many of our current business and economic models are founded on the view that commercial enterprise is based on independent stand-alone organizations. The new order of thinking challenges currently accepted wisdom and challenges its presumptions.

Why Strategic Alliances as a Source of Innovation?

Alliances are particularly well positioned to produce innovation because they enable fluid access to the fundamental source of innovation: *Differentials in thinking*. The old adage: "if two people in the same room think alike, one is unnecessary," prevails:

Innovation comes from people who see their world in new and different ways.

³ (see: [Burt/Lynch Model of World Class Supply Management](#))

Thus, by tapping into the co-creative energies of differentials in thinking, and aligning those energies positively, cross-boundary alliances can become *the unique structure* in an organization to unleashing the innovative potential of the synergies of differentials.

However, while new paradigm generation originates from people who do not think alike, all too often people with different perspectives cannot synergize, or worse, they disregard or even destroy the value from those with whom they don't share a common perspective. An effective Collaborative Innovation Architecture must be designed to create vital synergies, not let other forces destroy them.

Definition of Collaborative Innovation

We define Collaborative Innovation as:

The recursive interaction of co-creativity, knowledge, and mutual learning between two or more people working together toward a common goal of generating new sources of growth or wealth in an organization.

Power of Collaborative Innovation

During our recent research, we asked scores of executives: "What is the most sustainable source of competitive advantage?" The conclusion was quite revealing. We found a wide concurrence among senior executives with this statement:

In a Fast Moving, Rapidly Changing World, the Most Sustainable Source of Competitive Advantage is ... Collaborative Innovation.

Simply put, Collaborative Innovation is the most robust and regenerative way to create true value and growth.

The "Why" and "What" of Innovation

Invariably growth and innovation are top-of-mind priorities for every senior executive. Innovation is the critical difference between business success and failure; it's one of the most important elements in creating wealth. But, from our study, most senior executives indicated they struggle with two simple questions:

1. Is there a clear *architecture/system to manage for innovation?*
2. Precisely *where do you expect growth and innovation to come from:* organic growth, acquisitions, or alliances?

These questions typically fill the senior executive with ambiguity; puzzled over realities of execution and concrete action. What's been needed is a coherent strategic system to transform innovation from the realm of the ephemeral into the firm grasp of the dedicated practitioner.

Problems Executives Typically Face

In our many discussions with senior executives, we found three recurring themes:

1. While Growth & Innovation are Top-of-mind, our Efforts are Falling Short:
 - ◆ "We're just not generating enough new revenue"
 - ◆ "Innovation remains a set of scattered, tactical/small scale efforts"
 - ◆ "Sadly, innovation is killed during our acquisitions"
 - ◆ "It's occurring, but at a very slow rate – too slow to impact the market"
 - ◆ "R&D is just not paying off; it may be a waste of money"
2. Innovation is Ambiguous and Confusing:

- ◆ “Innovation appears to be nothing more than a pastiche of slogans, tools, techniques, aphorisms, and platitudes, with not enough real results”
- ◆ “Innovation doesn’t seem like it’s based on any kind of concrete management system, so I can’t seem to get my arms around what to do.”
- ◆ “Our approach seems to contain too many tools & techniques; it’s confusing what to use and when to use it”
- ◆ “We are only focusing on technology – that’s just too narrow”.

3. The Innovation Onslaught is a Massive Competitive Threat:

- ◆ “Our competitors are out-innovating us – it seems double, or even triple ours rate”
- ◆ “If we don’t do something powerful, we might become extinct”

Any Collaborative Innovation Architecture must address these issues directly, thus putting senior management back in control of its innovation program with the expectation that their initiatives will result in a powerful Innovation Engine.

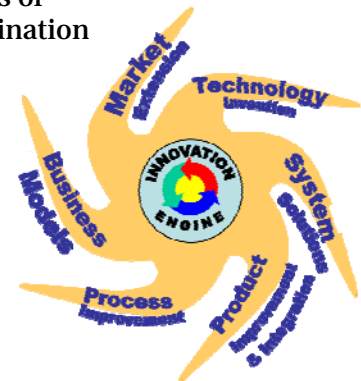
Clarifying the Meaning of Innovation – Six Types

One of the biggest problems with innovation is its true meaning:

Fundamentally, *invention* is a sub-set of *innovation*; but all-too-often *invention* is confused with *innovation* – resulting in both a mystification and exclusion of non-technical people from innovation.

Innovation is far broader. Our study found there are six distinctive types of innovation powering the innovation engine, which can be used in combination with each other, to gain both strategic and operational advantage:

1. **Technology Inventions**
2. **System Solutions**
3. **Product Improvements**
4. **Process Improvements**
5. **Business Models**
6. **Market Extensions**



The good news for business is that, with the exception of technology invention, an employee does not require an engineering degree – making the majority of innovation available to everyone no matter what rank or educational level!

Elements of Collaborative Innovation Architecture™

Collaborative Innovation Architecture™ is designed to manage the critical and complex processes that underpin innovation systems. Consisting of **four key elements**:

1. **STRATEGIC Elements**

- Essential Best Practice Components
 - 1A. **Strategic Imperative & Competitive Rationale**
 - 1B. **Value Chain Linkage & Network Design**
 - 1C. **Strategic & Internal Alliances**
 - 1D. **Policies, Principles, & Programs**
- Rationale: STRATEGIC Elements...
 - **Set Direction, Purpose, Value**
 - **Establish Competitive Advantage**

We have uncovered over 400 Best Practices that support the *Collaborative Innovation Architecture™*. These are available in a variety of learning and application formats.

2. **SYSTEMIC Elements**

- Essential Best Practice Components:
 - 2A. Senior Executive Leadership**
 - 2B. Innovation Championing**
 - 2C. Cross-Boundary Dynamics**
 - 2D. Organizational Design for Innovation**
 - 2E. Creating the Innovation Culture**
- Rationale: SYSTEMIC Elements....
 - **Pervade the Innovation Territory**
 - **Enable the Strategic Elements**
 - **Empower the Core Elements**
 - **Align the Support Elements**
 - **Coordinate & Synchronize Actions**

3. **PERFORMANCE Elements**

- Essential Best Practice Components
 - 3A. Collaborative Innovation Processes, Practices, Tools, & Techniques**
 - *Filling the Pipeline with Joint Ideas and Innovation flows*
 - *Triaging Innovation & Integrating Innovation*
 - *Cross-Boundary Collaboration for Innovation*
 - *Managing the Collaborative Innovation Portfolio*
 - *Commercialization in the Collaborative Environment*
 - *Managing Cooperation & Co-Creation*
 - *Fast Time Processes & “Non-Value Add” Reduction*
 - *Co-Creative Negotiations for Collaborative Innovation*
 - *Managing Breakdowns & Turning Breakdowns into Breakthroughs*
 - *Combating “Not Invented Here,” Overcoming Innovation Obstacles*
 - 3B. Pilot Projects and Scaling Processes**
 - 3C. Coordination & Synchronization across Boundaries**
- Rationale: PERFORMANCE Elements
 - **Are the Critical Processes & Practices that actually produce innovation**
 - **Are the Linkages that connect the Processes & Practices**

4. **SUPPORT Elements**

- Essential Best Practice Components:
 - 4A. Collaborative Metrics, Rewards, Risk Analysis & Diagnostics**
 - 4B. Legal, Contractual, & Intellectual Property**
 - 4C. Human Resource Selection & Capability Building**
 - 4D. Supply & Alliance Engagement of Value Chain**
 - 4E. Personal Relationships & Trust Building**
- Rationale: SUPPORT Elements....
 - **Prevent Misalignment, Dysfunction, and Dysphoria**
 - **Augment the Strategic, Systemic, and Core Action Elements**

Applications

Collaborative Innovation Architecture™ is specifically designed for situations where there are differential/trans-organizational boundaries, making it particularly applicable for:

- ◆ Alliances & Joint Ventures
- ◆ Supply/Value Chains/Networks
- ◆ Functional & Cross-Functional Teams
- ◆ Company to Company
- ◆ Business Unit to Business Unit
- ◆ Mergers and Acquisitions

Steps to Get Started

Our study also found that, invariably, obtaining lift-off for a collaborative innovation program required highly energized leadership, namely in the form of an “innovation champion.”⁴ The reason this championing is essential is that:

1. All Innovation Creates Change
2. Change is Disruptive
3. Disruptions Cause Conflict
4. Conflict Triggers Control Reactions

Therefore, champions become essential to implement innovation to overcome the resistance to change that will be inevitable. The typical champion’s is a passionate crusader who has the ability to create trust, to be committed to a win-win approach with all parties, and will stand for the greater good of the organization.

Innovation must be a senior management’s responsibility. Getting started means a company should engage by focusing on several key step:

1. *Start Thinking about Innovation Strategically*
2. *Identify Business Units Where Innovation will have an impact*
 1. **Technical Invention**
 2. **Product Improvement**
 3. **System Solutions**
 4. **Process Innovation & Integration**
 5. **Market Extension**
 6. **New Business Models**
3. *Appoint/Anoint Innovation Champions*
4. *Design Innovation Program – Engage People who will need to be part of it*
5. *Address Six Leverage Points – Apply Best Practices*
 1. **Strategy**
 2. **Leadership & Relationships**
 3. **Legal & Contractual**
 4. **Organization Design**
 5. **Performance Processes**
 6. **Econometrics**
6. *Launch Innovation Pilot Projects*
7. *Measure Results, Make Adjustments, Expand & Proliferate*

⁴ See “How to Foster Champions” by Robert Porter Lynch in Drucker’s book: Leader for the Future – Leading Beyond the Walls

What Will Happen as a Result of the Collaborative Innovation Program?

When applied to any of the six types of innovation:

- ◆ Corporate teams start thinking about innovation *strategically*
- ◆ Business units become *enthused* and *engaged* in innovation
- ◆ Innovation champions launch a series of highly inspired innovation *pilot projects*
- ◆ Innovation begins showing up as:
 - *Revenues* and *profits* increase
 - *Speed* improves – things will happen faster
 - Teams *work together* synergistically
 - Business units *collaborate outside their “silos”*
 - New *alliances form* with suppliers, outsourcers, distributors, integrators, and customers and others.

Innovation tends to follow a serendipitous path:

Managers can expect the co-creative spirit of the participants in collaborative innovation will *generate new, but unpredictable, ideas, solutions, and opportunities*. As a company's internal business units, functional operations, and alliances jointly focus their efforts on innovation and systematically *create alliance-based relationships* both internally and across its value chain, the total *organizational network's thinking, awareness, and insights begin to shift*:

- ◆ People become invigorated, generating new, as yet unseen, opportunities,
- ◆ A deeper, more common understanding of the linkage between value and competitive advantage evolves across the value chain,
- ◆ People and their organizations that had been stereo-typed into little boxes begin to open their horizons, developing contributions that were never before imagined,
- ◆ Customer and market opportunities are discovered that would otherwise have been overlooked, while
- ◆ A new level of collaborative innovation spawns greater opportunities.

Secondary impacts are also likely to take the form of:

- ◆ Higher levels of innovation internally,
- ◆ Better internal/cross-functional collaboration,
- ◆ Better utilization of staff, and
- ◆ Greater alignment of internal and external stakeholders.

Conclusion

Collaborative Innovation is one of the most potent factors in creating real competitive advantage in today's corporation. It will be the foundation for solving the great problems companies face in today's hyper-competitive business environment.



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