Tips on open-innovation pacts
for tech start-ups

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MUMBAI

Big companies across sectors are stepping up open-innovation collaborations with small high-tech ones across the world. The number of fintech partnerships forged by big banks, for instance, multiplied threefold globally during 2009-2015. And large automotive companies across the Atlantic have more than doubled their investments in start-ups and boutique technology firms in the last five years.

A recent Accenture survey of executives at 205 large companies and 201 small high-tech firms based in China, India and the US disclosed key reasons for this growing camaraderie between the Davids and the Goliaths. As much as 92% of our survey respondents from the big companies said they believe that open innovation with small high-tech firms helps them accelerate new product development.

However, while more than 70% respondents from the small high-tech firms expressed eagerness to take advantage of such collaborations to meet important goals like gaining new insights and experiences that could help them grow, leaders from many of the small high-tech Indian firms acknowledged that such collaborations have not yet delivered on their promise.

Figure 1: For example, 88% said they want to build technological capabilities through open-innovation collaborations with large companies. But only 50% reported that such partnerships have helped them achieve this goal. We saw similar gaps between the desire of Indian tech firms to strengthen management skills through these collaborations and the actual achievement of this goal.

What explains such mismatches? We believe it's their inability to customize their technologies to the needs of their large partners, and avoid or resolve collaboration conflicts.

Small firms are unable to customize their tech to the needs of large partners, and avoid or resolve collaboration conflicts

Figure 1: Small high-tech firms in India aren't achieving goals through collaborations with big firms
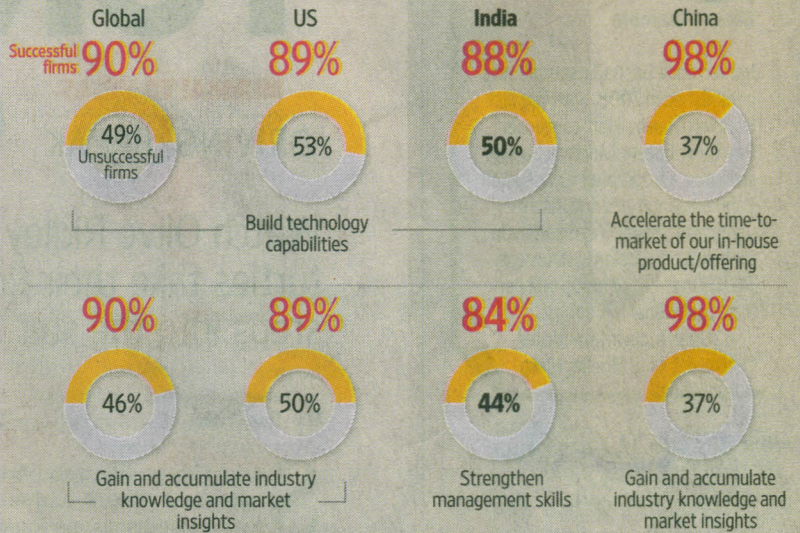
	Global	US	India	China
Successful firms	90%	89%	88%	98%
Unsuccessful firms	49%	53%	50%	37%
		Build technology capabilities		Accelerate the time-to-market of our in-house product/offering
	90%	89%	84%	98%
	46%	50%	44%	37%
	Gain and accumulate industry knowledge and market insights		Strengthen management skills	Gain and accumulate industry knowledge and market insights

Figure 2: Small high-tech firms in India encounter challenges at each innovation stage

	Opportunity recognition	Experimentation	Operationalization	Scaling
US	48% Inability to factor in large firm's product lifecycle	45% Inability to open up parts of the technology for large firm to develop customized solutions	46% Lack of regular interaction with relevant C-suite executives at large firm	46% Inability to provide a scaling-up strategy to large firm
India	52% Inability to factor in large firm's product lifecycle and identify opportunities to deploy innovated technologies	50% Lack of well-defined IP management strategies to ensure mutual IP respect	50% Inability to resolve IP and contractual conflicts in a timely manner	52% Inability to meet large firm's manufacturing and procurement requirements and to build and improve a repeatable partnership
China	47% Poor analytical capabilities to assess impact of home-grown technologies	47% Lack of well-defined risk-sharing strategy	41% Inability to resolve IP and contractual conflicts in a timely manner, and lack of contingency plans	55% Lack of government support to make win-win business models fungible

Figure 3: Failing to address challenges could cause small Indian firms' collaborations to backfire

(in %)

🟧 Successful firms 🟦 Unsuccessful firms

Global	US	India	China
36 / 64	40 / 60	28 / 72	38 / 62
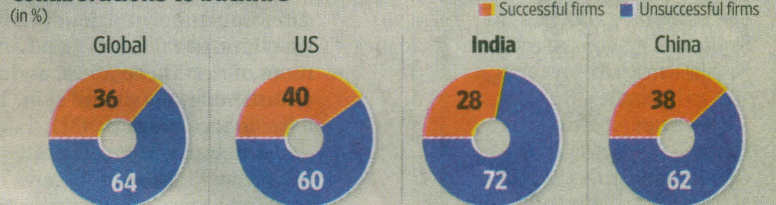
At least 50% of the small Indian high-tech firms, for instance, acknowledged being unable to avoid conflict with their large partners. The explanations included poorly-defined strategies for managing intellectual property (IP) risks and lack of proficiency at resolving IP disputes during the experimentation and operationalization stages of innovation.

Figure 2: Failing to address obstacles to customization and successful resolution of collaboration conflicts more than doubles the risk that their partnerships with big companies won't help them reach their goals.

Figure 3: It is time that small high-tech firms in India resolve this issue since the innovation ecosystem is maturing fast. The government is defining new policies aimed at supporting open innovation partnerships. And most important, big companies are eager to get technology-based innovations into the market swiftly. Here are five tips on how small firms can overcome the challenges inherent in partnering with big businesses:

Be visionary and strategic: Small high-tech firms based in India must view the technologies they innovate as means to achieving their larger vision. They should be clear about what their venture stands for, and have a clear strategy to achieve their vision. Moreover, they should not romanticize their technologies.

Avoid spreading yourself too thin: Large companies use a number of mechanisms to engage high-tech entrepreneurial firms in their innovation initiatives. These include innovation contests, structured engagements supported by technology intermediaries, innovation accelerators, guided incubation, start-up platforms and corporate venturing. Our survey findings suggest that small high-tech firms, which spread themselves across too many of these mechanisms, risk exposing themselves to more complexity in their partnerships. This could lead to greater friction with their innovation partners.

Build a decisive team: High-tech start-ups in which the CEO controls all decisions related to partnerships tend to experience friction in these collaborations and difficulty customizing their technologies to their partners' needs. A possible explanation is that CEOs have too much on their plate and lack time to see and think through situations that require more sensitivity and attention. To avoid this pitfall, small tech firms can build teams comprising individuals who excel at managing critical aspects of collaboration with large companies—such as negotiation and problem-solving. The firms must then empower team members to make decisions about collaboration matters such as what aspects of tech domain knowledge to be shared upfront with partners, identification of ecosystem partners to help scale applications of co-innovated technologies.

Communicate with precision: Many of our study respondents identified poor quality of communication with partners as a key reason for their inability to tailor their technologies to the partners' requirements. Planning what to communicate about their technologies—and how—is vital for overcoming this hurdle.

Maintain operational clarity: Our discussions with Indian start-ups and technology entrepreneurs at small firms showed that many of them waffle on operational aspects of their collaborations. Examples include opinions and decisions about how profits stemming from commercialization of co-developed technologies will be shared between the partners. As a Pune-based entrepreneur acknowledged, "Many of us do not realize how quickly we dilute our well-defined, clear positions on key project issues just to please our partners." It's easy to see how such waffling and overeagerness to please partners can lead to misunderstandings and conflict over IP. A Chinese tech firm in our study offered advice: "Set clear boundaries, and share these with your partners. Let them see your clarity of thinking and action at the level of operations."

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