

Demand for Speed
How long do you have before your stakeholders require financial impact on the firm's bottom line?

Potential Size of Financial Impact
How much money do you need to make from this engine?

Scope of Cultural Impact
To what extent do you require your open innovation efforts to drive culture change across your organization?

Visibility
To what extent are you looking for publicity and fame from this effort?

Learning Opportunity
How much learning do you expect to gain from this experience?

Degree of Corporate Control
To what extent does your organization need to control your partners?

Resources Required
How much time and treasure will you invest in this effort?

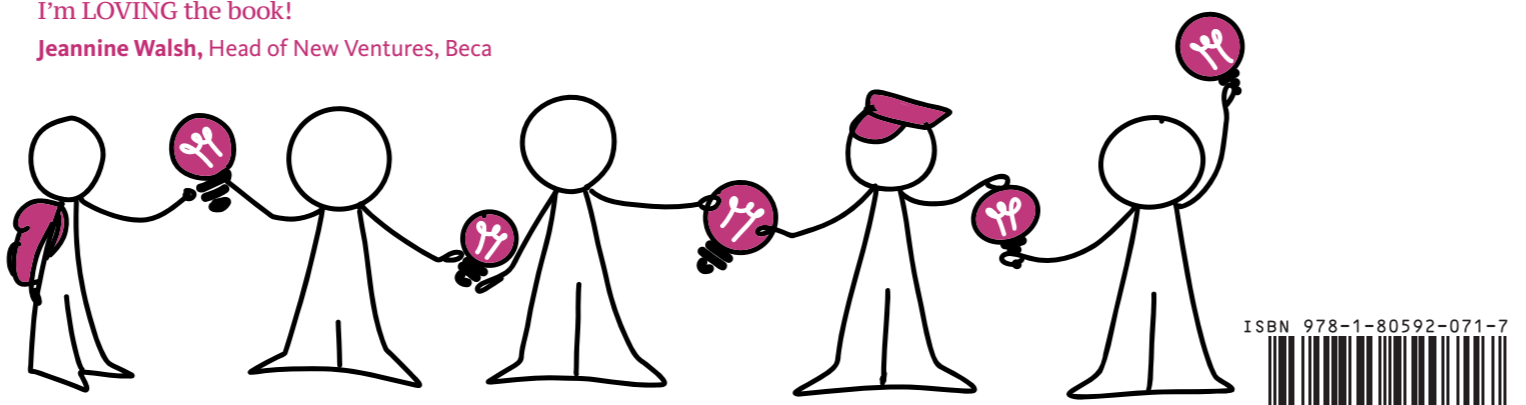
Open Innovation Works: Successfully Leveraging Your External Ecosystem for Impactful Change is a hands-on guide for leaders of large organizations ready to move beyond the limitations of internal R&D. As global challenges such as regulatory pressure, supply chain instability, and talent shortages intensify, the need for agile, externally-driven innovation has never been greater. This timely book presents a clear, practical framework for tapping into the power of external ecosystems — working with startups, universities, and industry partners to unlock transformative technologies, services, and business models.

Drawing from real-world case studies and cutting-edge research, acclaimed authors Diana Joseph, Dan Toma, and Esther Gons break down the complexity of open innovation into actionable strategies that deliver results. Innovation leaders, executives, and policymakers will find essential tools to align teams, choose engagement models, and build impactful partnerships. Enhanced by pedagogically rich visuals and illustrations, *Open Innovation Works* is an indispensable resource for anyone looking to future-proof their organisation through collaborative innovation.

A must read! Open Innovation Works brings complex approaches to corporate innovation in simple ways. It is understandable and avoids innovation theater and language forming a clear picture in any corporate innovators strategy.
Mohan Nair, CEO, Emerge®. Corporate innovation practitioner, Author, Keynote Speaker

Required reading for any corporate leader focused on growth. Joseph, Toma and Gons provide practical tools tailored for today's ecosystem-driven, interconnected business landscape. Looking forward to sharing this with my scaling clients!
Andrea Kates, MIT Entrepreneur in Residence, tech CEO and author *From Stuck to Scale*

I'm LOVING the book!
Jeannine Walsh, Head of New Ventures, Becca

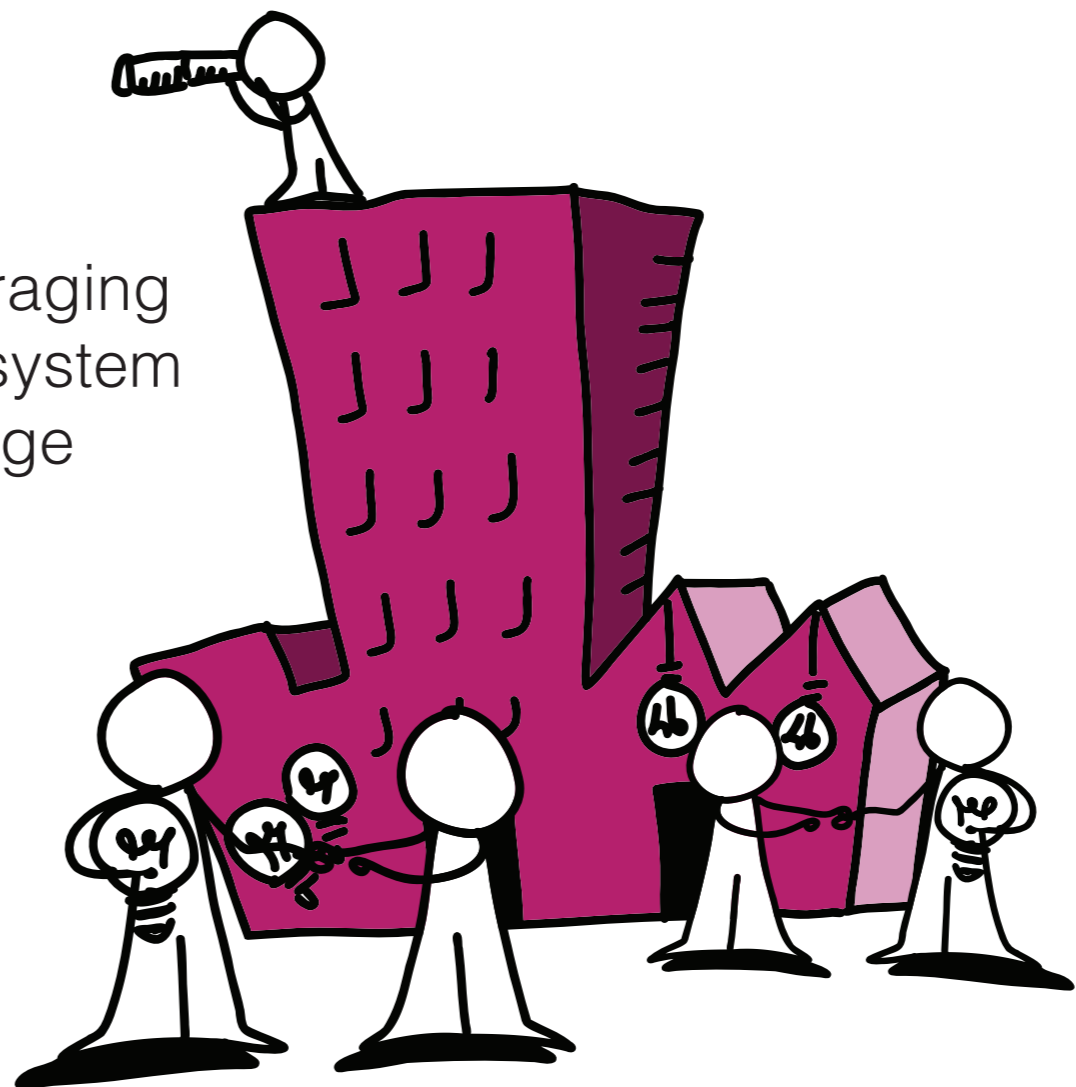


Open Innovation Works
Diana Joseph
Dan Toma
Esther Gons

Open Innovation Works

Successfully Leveraging Your External Ecosystem for Impactful Change

Diana Joseph
Dan Toma
Esther Gons



Prior Organizational Pledges

Company's Vision and Mission
Your firm's existing published vision & mission statements

Company's Innovation Strategy
Your company's innovation theme or thesis

Open Innovation Intentions

What we want to achieve
What is your strategic intent for open innovation and how will you measure the outcomes? (Financial, customer and sustainable development)

Open Innovation Maturity
What are you ready to take on? E.g., "We've never done any collaboration before; we have some examples but they didn't work; we want to try new things; we are already experts"

Appetite for Risk
What is your company willing to put at stake for the benefits of open innovation? E.g., financial risk, brand risk, customer relationships and nothing

Tactical Changes Our Firm Needs To Make

Cultural Change
What changes are we willing to make to our culture so that open innovation can work?

Structural Change
What steps will we take to formally encourage open innovation? E.g., incentives such as bonuses, public recognition, promotions, "upside"; management structures such as job descriptions, reporting hierarchy and oversight practices

Processes
What processes will we create or change for our open innovation works? E.g., simplified contracts, fast-tracked payments and procurement

Resources Committed
What resources will we commit toward our open innovation works? E.g., funds, staff time, brand, equipment, materials, customer access and suppliers.

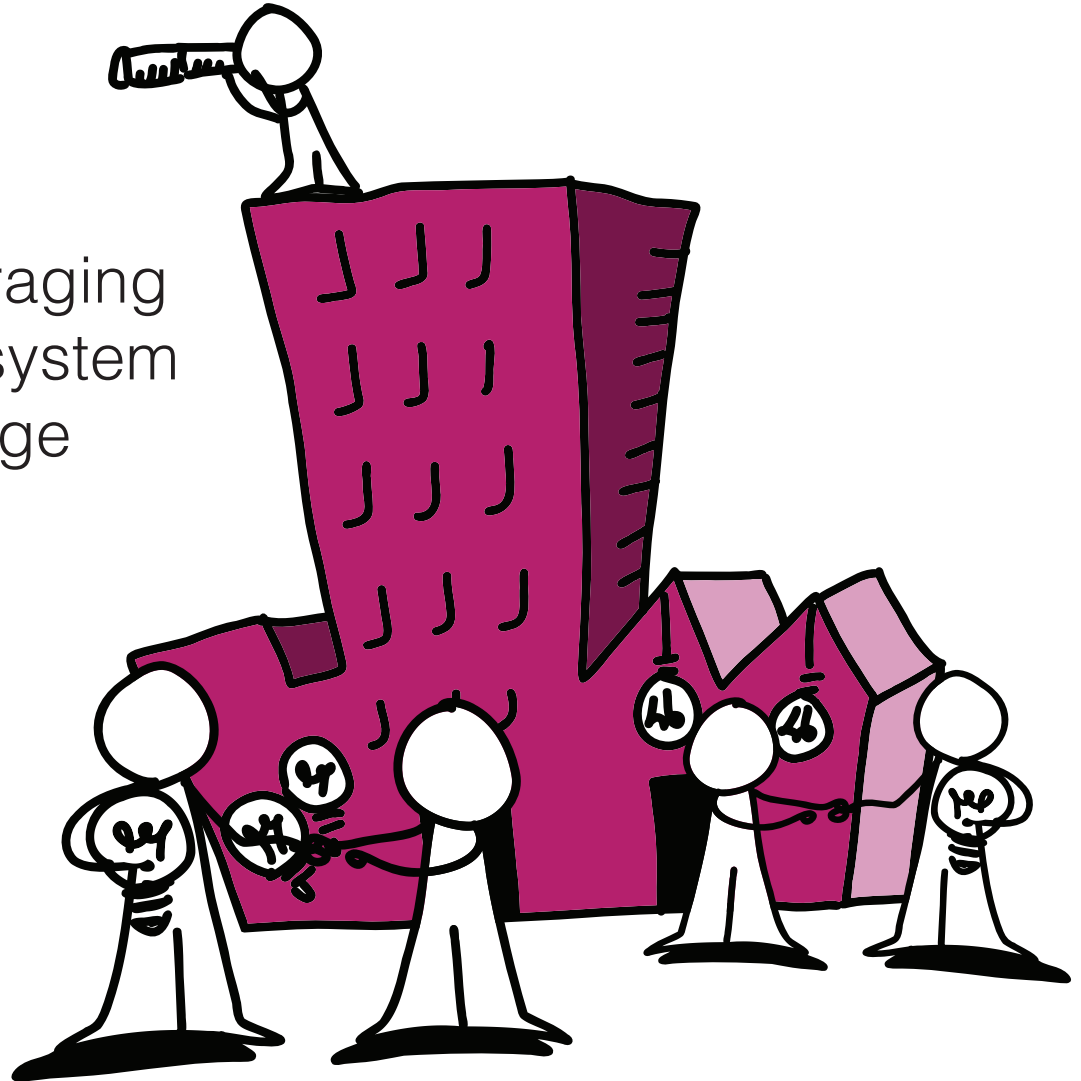
How our company will learn
What will we do to ensure that our open innovation insights are recognized and delivered to the stakeholders who can benefit from them? E.g., inclusion of stakeholders in projects, reports, meetings, events and direct access to your board.

How our company will adapt and integrate discoveries based on what we learn
How will we accommodate the changes needed to take advantage of what we're learning? E.g., changes to product lines, new business models and new supply chains.

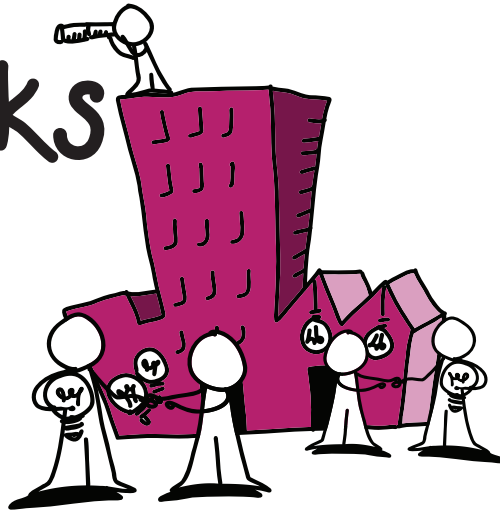
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Open Innovation Works



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Introduction

Leading a large organization is a heavy responsibility. You've got thousands, or tens of thousands, or hundreds of thousands of mouths to feed. Stock exchanges and share owners demand good news followed by better news, quarter after quarter after quarter. Customers want higher and higher quality at lower and lower cost. On top of those direct stakeholders, there's also this: Large organizations own, or are, the infrastructure for everything that matters. If any desirable change is going to happen at scale (e.g., carbon reduction, fair labor practices, energy access, anything), large organizations have to be part of it—that's what scale is.

Somehow, you have to solve for all of those needs within the limits placed by governments and by your own processes, all while navigating obstacles generated by internal politics, and finicky press, and acts of nature, and a blindingly fast rate of technological change.

Here's the good news: Other entities in your ecosystem have different responsibilities, different superpowers, and different capacities. You and your partners can leverage these differences to find better, faster paths forward on your collective goals.

We're here to add a whole new drawer to your toolbox: Open Innovation. Partners out there in the ecosystem are better suited to discover new technologies, experiment with new business models, and bring more human capacities forward. Open innovation allows large organizations to bring your superpowers to bear through partnership, as we move to a world that works.

Table of Contents

Introduction

5

PART 1

Open Innovation Ecosystem

Chapter 1



WHAT IS OPEN
INNOVATION AND
WHY DOES IT MATTER?

10

Chapter 2



HOW DOES AN
OPEN INNOVATION
ECOSYSTEM WORK?

28

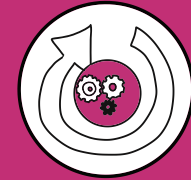
Chapter 3



THE OPEN
INNOVATION WORKS
DASHBOARD

42

Chapter 4



OPTIMIZING YOUR
OPEN INNOVATION
PRACTICE

62

PART 2

The Engines

Chapter 5



STARTUP
ACCELERATOR

70

Chapter 6



STARTUP
INCUBATOR

100

Chapter 7



CORPORATE
VENTURE
CAPITAL

116

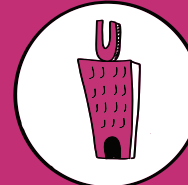
Chapter 8



PROVE-OUT
JOURNEY

138

Chapter 9



UNIVERSITY
PARTNERSHIP

156

Chapter 10



CONSORTIUM

174

Conclusion: Start Tomorrow
Notes

188
196

Acknowledgments
Index

200
202

PART 1

Open Innovation Ecosystem

1

CHAPTER ONE



What Is Open Innovation and Why Does it Matter?

What's your greatest hope for your firm? Impact? Longevity? Profit?

Large firms are designed for maximum efficiency and stability. A corporation is a huge vessel—like a cruise ship or an aircraft carrier. It's meant to stay afloat, come what may, with a minimum of effort. One trade-off is that it's hard to steer. It's pretty good in a normal storm, but if something unexpected happens, there's very little the captain can do. And unexpected events are inevitable: The sheer size of the ship makes it impossible for the captain to stay aware of everything that's happening in front of the bow, behind the stern, to port and to starboard, above, below, and inside.

Do you remember Borders, the book and music megastore? The chain was a massive success in its time, an industry leader for thirty years before its collapse. Most of what you'll read on the Internet about Borders' demise points to bad, even foolish, decision-making on the part of Borders' executives—and it's true that Borders completely missed the boat on Internet commerce.

But put yourself in the shoes of Borders' leaders in the 1990s, pre-Amazon. You would have harbored reasonable skepticism about the importance of this trend: Is anyone really going to put their precious credit card data online? Are people really going to buy books without being able to pick them up, feel their weight, stroke the table of contents, flip through the illustrations? Do people really not care at all about the delicious experience of browsing favorite genres for hours, surrounded by books and booklovers? At that time in history, the *future* of the Internet was genuinely uncertain, and the *present* of the book megastore was strong.



As e-retail became a reality and it was clearly time to engage, wouldn't it have seemed reasonable to outsource this newfangled function to a leading vendor, as Borders did with Amazon,¹ in the early 2000s? After all, you're a bookstore, not a tech company. Spending huge amounts of capital to become a tech company would have entailed taking on enormous, seemingly unnecessary, risk. Outsourcing to Amazon must have felt like a perfectly reasonable way to enter the online sales market.

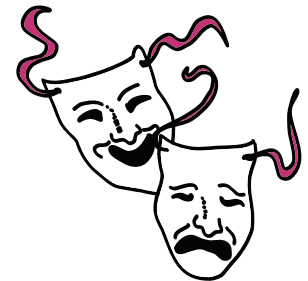
Borders was a deeply customer-focused company in its bones,² with a solid track record of internal innovation. Their entire infrastructure was keyed to customer awareness in the megastore space. In a rapidly changing environment, wouldn't it have seemed reasonable to double down on the core business so they could serve even more customers with their top-notch experience? After all, that strategy had *always been successful before*.

How did a perfectly reasonable set of decisions result in bankruptcy?

When the world changed, Borders took what appeared to be the safer route—they stuck to what they knew in the short run, and when a significant alteration in the business environment arose, they joined it using a low-cost, fast-follower approach. The very desire for safety caused Borders executives to turn a blind eye to the future and entirely miss the opportunity to learn about the coming world of e-commerce.

We draw two important lessons from the Borders' tragedy (in classic Shakespearean terms, a story in which the protagonist causes their own demise):

1. Comfort is not the same as safety. Staying the course feels comfy because, by definition, you already have the relevant capacities in place to do what you're already doing. But with an uncertain future unfolding ahead of you, there's *no way to know* how long staying the course will work. Maybe it's already not working. Sticking to the well-lit spaces is a risky bet. You must hedge by placing some small bets in uncertain spaces.
2. Outsourcing is not innovation. When you partner as a way to explore the future, you must get more out of the deal than profit, products, and services. At least one central goal should always be *insight*. Who learned about e-commerce from the Borders–Amazon partnership? Clearly not Borders!



“Never Delegate Understanding”

- Ray and Charles Eames³

Partnership with other entities is a powerful way to gain insight while keeping investment low, as long as the partnership approach is carefully chosen and well managed. We're here to share everything we've learned about exploring the future through partnership, a practice known as open innovation. Read on to discover whether, why, and how your company needs to step out of its comfort zone and participate actively in the open innovation ecosystem so the right insights arrive on time to make a difference!

The Open Innovation Imperative

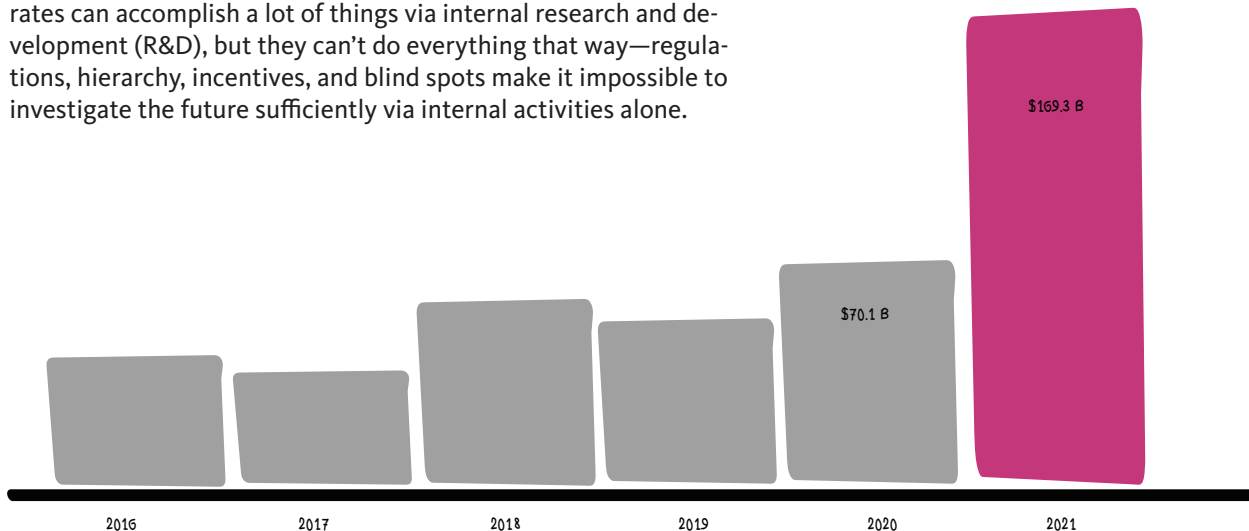
Given the pace of paradigm shifts in technologies and in markets alike, corporates have to invest now in their long-term health. No matter how stable and reliable your business model is today, there's no guarantee it will outlive the next crisis or the next surprising new way to build, buy, or solve. Staying the course is extremely risky, at least as risky as innovation.

12

Internal innovation alone won't get you out of this jam. Corporates can accomplish a lot of things via internal research and development (R&D), but they can't do everything that way—regulations, hierarchy, incentives, and blind spots make it impossible to investigate the future sufficiently via internal activities alone.

If you're new to open innovation, you might feel like a pioneer, but don't worry, you're in good company. More and more firms are taking open innovation seriously. Corporate venture capital (CVC) efforts, for example, have grown steadily since the 2008 Global Financial Crisis,⁴ and only increased in their investment since the COVID-19 pandemic.⁵ Furthermore, chances are that the world will increasingly call on large firms to address global challenges such as climate change. The associated policies and customer sentiment will fuel further open innovation efforts.

Henry Chesbrough, widely recognized as the father of open innovation theory, kicked off this area of study in the early 2000s.⁶ Today, we're here to guide you in how to execute, in practice. This book is designed to help you set a toehold in the future through partnerships that are *productive*, *strategic*, and *cost-efficient*. Your chosen partners may be peer firms, universities, municipalities, or just about any other entity in the ecosystem. Given our particular background and expertise, we'll put some special emphasis on open innovation with startups as we go.



What Is Open Innovation?

We wrote in *The Corporate Startup* that innovation lies in the combination of great new ideas and profitable business models. Open innovation then can be defined as the practice of generating great new ideas and profitable business models *through partnership*. Sounds simple. Maybe it even feels like you're already doing it. Watch out though: You might be mistaking incremental novelty for innovation, and you might be mistaking simple purchasing for partnership.

When we speak of corporate open innovation, we mean that a large firm is engaging in a serious **partnership** with one or more other entities to learn, create, or deliver something **new**, beyond the boundaries of what the corporate can achieve on its own. We mean:

- there is **at least one other organizational party** at the table in addition to the corporate—such as a university, a startup, a nonprofit, or another large firm.
- it's a real **partnership**—both parties gain something, both parties contribute something, and the partnership generates something neither party could produce alone.
- it's intended to generate something manifestly **new** to these partners—an invention, business model, or knowledge that doesn't already exist.
- the corporate is doing this because it **can't be done, or can't be done well, by a large, highly aligned organization acting on its own**.

*Chandrakant D. Patel of HP Inc.,
in an interview with Tolga Kortoglu⁷ on open innovation:*

*“It is selfless. It is multidisciplinary.
And the solutions matter to society.”*

Why Does Open Innovation Matter?

Corporates simply can't do all of the innovation they need with internal resources alone. While being inside a large firm conveys huge advantages, it also entails limitations. Putting it simply, the very corporate superpowers that account for the success of your core business put you in a bind when it comes to innovation.

THE INNOVATION BIND

Large firms have a bad reputation for breakthrough innovation—they're considered the stick-in-the-muds of the entrepreneurial ecosystem. Even inside of a large firm, folks with a penchant for change often perceive their colleagues as blockers. Why would otherwise smart and devoted people and organizations be so resistant to innovation? Large firms are bound to prioritize their core business, no matter how attractive the opportunity for innovation or how worrisome the winds of change. That's by design. Commitment to the core business isn't merely philosophical—it's structural. Frankly, large organizations are in a bind.

- *High alignment.* Corporates are large organizations designed to guide thousands, or tens or hundreds of thousands, of people in moving toward the same goal: profit. To get a huge group of people all to move in the same direction, large firms need to optimize alignment. They use structures like formal job requisitions, job descriptions, incentives, hierarchy, employee performance improvement mechanisms, and inorganic culture to ensure conformity to the corporate vision and goals. *These same mechanisms are precisely what you'd use if you purposely wanted to **prevent** breakthrough ideas from bearing fruit.*
- *Reporting requirements.* Public (listed) firms must report on a quarterly basis to shareholders and regulatory agencies which wield significant power to impact the firm's fortunes. Every quarterly analyst call is a new opportunity for Wall Street or its regional equivalent to strike at your stock price—miss a forecast and down goes the value of your firm and its executives. Quarterly goals constantly shove longer-term goals to the background. Furthermore, shareholder scrutiny

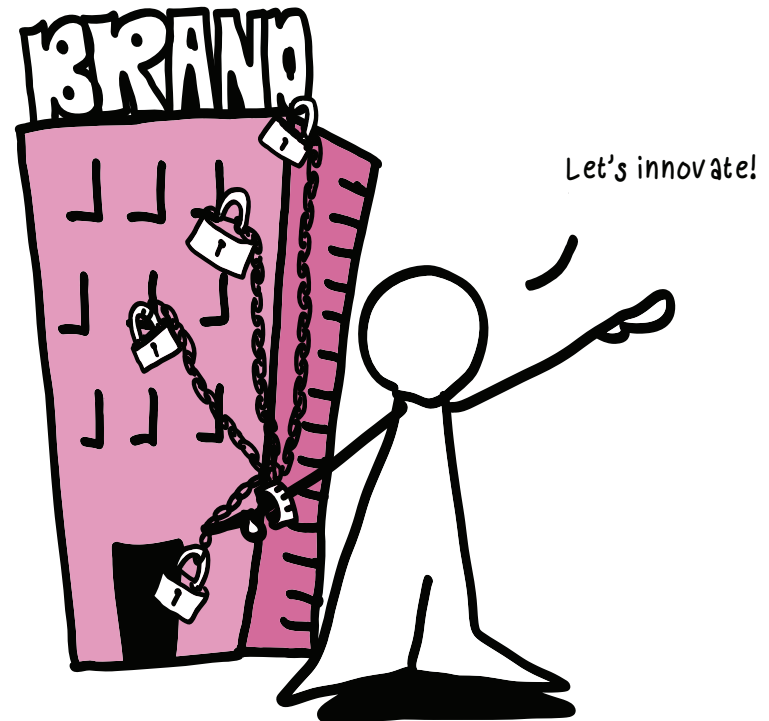
prevents movement of significant funds into explicit innovation activities due to concerns about being perceived as defunding the core.

- *Regulations.* In many places, large firms are held to a higher standard with regard to certain types of policies, for example, in the human resources domain. These standards bring important benefits to the broader social system, and at the same time, they add significant weight to decisions, reducing available cash and slowing down processes.
- *Information lock.* Large firms worry about strategy and intellectual property (IP) leakage and therefore sometimes prevent employees from engaging with external informants.
- *Brand lock.* Large firms invest millions in developing their brand and feel obliged to celebrate it, protect it, and use it. Attaching the brand to an exploratory project feels risky, but omitting the brand feels disingenuous and might even be illegal.
- *Effort lock.* The drive for efficiency means that every employee is meant to be fully booked at all times. For a salaried employee, there's no real limit to the number of hours the firm can demand. At firms like Google, where every employee is theoretically allotted 20% of their time to innovate, that often just means that they're invited to work 120% of their time. So, employees don't necessarily welcome or take advantage of innovation initiatives.

14

Alignment, profit maximization, and devotion to the core business can be healthy for large firms and their shareholders. However, these same values promote a narrow outlook, short-term investment, and constrained behavior. These patterns limit the extent to which large firms can engage with their customers and communities, explore, understand, and prepare for possible futures, usher in desired futures, or attempt to limit undesired futures.

So, what's the answer? Is it time to fling open the gates, set employees loose to do whatever they want, hide innovation activities, defy regulations, make all IP open source, and drop branding? Of course not!



You can get a lot done with internal innovation, we see it all the time. Inside the firm, corporates create space for employees to act like startups (see *The Corporate Startup*⁸) and to measure the effects appropriately (see *Innovation Accounting*⁹). Internal innovation can generate patents, inspire new products and services, and cement employee loyalty. But the concerns we've described create hard limits on engaging with the outside world, and therefore limits on vision. If you're not engaging with the outside world, you can't see the future coming. So, there are some crucial innovation spaces you're bound not to explore.

Note: If your main problem is that internal innovation is failing due to broken structure and strategy, shifting to open innovation won't help—your core problems will simply transfer to the open initiative and cause equal havoc in a more public setting.

WHEN YOU'RE IN A BIND, ENGAGE PARTNERS

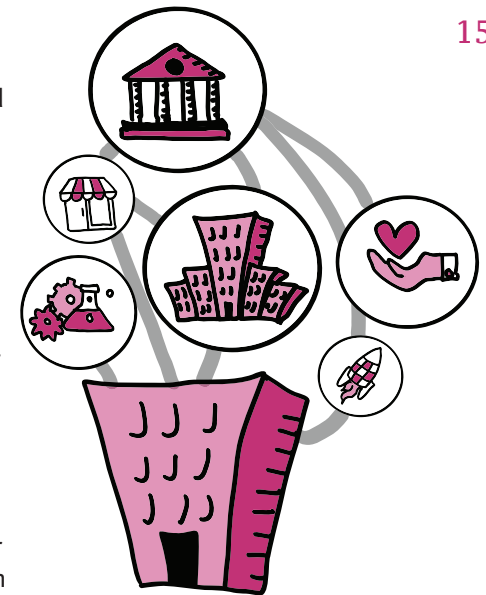
When you see an improvement or exploration opportunity that can be completed exclusively with internal resources, you should definitely do that! Internal-only novelty can be cheaper, intellectual property considerations are clear, you get all the value if you're successful, and nobody knows if you fail. But the constraints we've described limit what's possible with internal resources only.

Look to open innovation when your organizational constraints block you from exploring a question on your own.

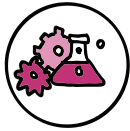
As a corporation you need to engage in open innovation to face challenges that you are *functionally blocked* from pursuing on your own because of the demands of internal alignment, regulation, or stakeholder limitations. For example:

- Questions that demand embedded observation of customer practice (cf. Illumina for Startups). The corporate simply can't get close enough to its customers to observe their environments and behaviors unless it truly partners with customers.
- Challenges that require high-speed motion (cf. Pfizer's partnership with BioNTech). Huge companies have massive processes and are notoriously hard to shift.
- Challenges that someone else is solving more effectively (cf. Google and Upstartle, the originator of Writely, which was the basis of Google Docs).
- Challenges that invite a major shift (cf. the travel company, TUI, and its acquisition of Musement).
- Ecosystem-level challenges (cf. Eastman, cf. automotive coalition). Some challenges, like the circular economy or self-driving cars, need to be solved by an entire ecosystem working together.

Partners can get you unstuck because they are optimized for different behaviors and different sensemaking. They have different histories, goals, constraints, structures, and cultures. Through partnership, you access their eyes on the future, their experiments, their speed, and their expertise while granting them access to your breadth of knowledge, expansive relationships, and capacity for scale. Through leading or participating in ecosystems, you take advantage of the synergies between multiple players.



Have a look at the strengths and corresponding needs of some of the entities in an entrepreneurial ecosystem:



Research universities develop new insight at the edge of what humanity already understands. They need partners to bring these insights into ordinary human experience.
-a view into the long-term future.



Startups explore and take advantage of the uncertainty of the future by making and testing things and experiences people might (or might not) want. Most of them need partners to navigate the steps required to achieve a broad impact.
-derisk the commercialization of new ideas.



Nonprofits/nongovernmental organizations (NGOs) fulfill a specific purpose on behalf of the public. They usually need funding partners, since their customers can't be their only source of revenue.
-solve important problems whose commercial value is invisible.



Governments deliver a functioning infrastructure. They often need partners¹⁰ to extend their impact.
-maintain stability, deliver effective solutions to a broad populace.



Small businesses provide a repeatable answer to a known and stable need. They need partners to access knowledge and economies of scale.
-consistent, real-time delivery of a key local asset.



Large commercial firms deliver a body of products and services efficiently. They need partners to get ahead of coming changes.
-synergistic forward motion on a complex effort.

Each type of partner has different assets, and different capacity gaps, and different perspectives.

Driving Open Innovation

As we've said, open innovation can feel somewhat easier than internal innovation, because it shares effort and risk outside the firm. Even so, it's no small matter to unlock open innovation. You're asking a risk-averse organization to recognize that doing nothing is itself risky. You're asking to channel money, time, and effort in a new direction. Those resources are reallocated from somewhere, representing a loss to real people.

To make it work, you need internal allies to recognize the importance of the effort and sign on to contribute or, at minimum, not to interfere. To engage their alignment, invite the right stakeholders to codesign from the beginning so that the effort genuinely represents their interests. One piece of good news: Alignment is a superpower for large firms—you just need to point a bit of your alignment practice in the open innovation direction.

So how are you actually going to do the work of getting aligned? And what are you going to align on? How does all that alignment produce open innovation? How does open innovation actually create important outcomes? Let's find out!

Exercise **Do I Need This Book?**

You've taken the first step—you've opened the book! You're about to invest serious time and treasure in making open innovation work for your company. Before diving in, let's find out why you need innovation, why open innovation in particular, and what capacity you have to take on this journey.

Rate yourself on a scale from 1–5 on each of these core questions. Then flip the page to find your score and recommendation about whether you should read on or not.

Remember: This is private. Answer honestly to get real feedback.

Does Our Firm Need Innovation?

QUESTION 1: EXPIRATION DATE. How much time remains in your most profitable business?

All businesses end. Predict the expiration date of your most profitable business. The expiration date is the moment where your growth curve swings down. (To learn more about expiration dates, see our prior book, *Innovation Accounting*⁹, Chapter 6.) Some factors to consider:

- Is your **market** still growing? When is it likely to stop, that is, when will your sector have reached just about every consumer who will buy?
- Is your **share** of market growing? When will your higher-priced competitors be able to match your price? When will your lower-quality competitors be able to match your quality? You might use a Portfolio Fade calculation (see *Innovation Accounting*) to help you make sense of this. Chart your key offering's share of market over the last 1–5 years, and consider factors that might impact it over the next few years.
- Is anything happening in the market that could reduce the **importance** of the problem you solve? If so, when will the hit to your bottom line arrive? For example, in 2025, if you still make a part for internal combustion engines, you're paying close attention to regulations in California that may bring sales of internal combustion engines to an end in the next few years. If you make software for online meetings, your COVID-19 boom is over. If your supplies rely on international or even interstate chains, could there be a global disruption on its way?

If your core business has a few years left, open innovation may be a powerful tool for you. If your business is going to last forever, maybe you can pass on open innovation. If your business is in emergency mode, you may be too late for open innovation, or any innovation practice for that matter, to be of much help.

We likely have this many growth years remaining in our most profitable business.

○—our most profitable business has already expired or will expire in the next year	2–4 years	5–7 years	8–10 years	>10 years remain
○ 1	○ 2	○ 3	○ 4	○ 5

Are you sure? It's very hard to generate evidence for more than a decade of profitability at this time of great change. We suggest you recheck your evidence.