Harnessing the Power of Entrepreneurs to Open Innovation
Foreword from Accenture

Pierre Nanterme  
Chairman & CEO

In an increasingly digital and connected world, large enterprises and small entrepreneurs alike are exploring the value that can be created by closer and deeper collaboration with each other. Enterprises gain access to new skills, ideas, talent and markets, while entrepreneurs tap into large companies’ distribution networks and customer bases.

In fact, new Accenture research conducted for this report found that in a survey of 1,000 large companies and 1,000 entrepreneurs, 82 percent of large companies say they can learn from entrepreneurs about how to become a digital business. And 50 percent believe they need to work with entrepreneurs to be sufficiently innovative.

Yet obstacles to effective collaboration remain. Entrepreneurs often question their partners’ commitment to supporting the growth of their businesses. At the same time, large enterprises often lack confidence in a startup’s ability to move from idea to marketability in the context of a broader business strategy.

Additionally, our research found that although nearly three-fourths of large companies (71 percent) reported successful collaboration with entrepreneurs, unfortunately little more than half of entrepreneurs (57 percent) agreed. This gap must be closed.

One beacon that has drawn large companies and entrepreneurs together is “open innovation,” a concept introduced more than a decade ago that has since become a catchphrase for a broader and deeper form of collaboration. Yet we contend in this report that large companies and entrepreneurs believe collaboration and open innovation are, as yet, under-delivering on their promise.

One reason for this shortfall is the fact that open innovation is a journey of multiple phases. Too often, large companies remain stuck in the early phases—those that primarily involve corporate ventures and incubators or accelerators. Too seldom do large companies collaborate in a spirit of joint innovation. Even more rarely do they participate in truly entrepreneurial innovation—collaboration among a broader ecosystem of players who are focused less on specific goals and more on continuous idea generation, testing and learning.

The rewards of getting collaboration right are considerable, especially in broader, more open ecosystems. We found a statistically significant correlation between collaboration, innovation and growth—among both large companies and startups—in all the G20 countries that we analyzed.

Successful ecosystem innovation will require concerted and coordinated efforts among governments, startups, large enterprises and “bridgemakers”—meaning organizations that help “connect the dots” between participants, solutions and markets. Accenture, for its part, actively supports ecosystem innovation—by providing technology-enabled platforms that bring partners together, as well as through initiatives like the FinTech Innovation Labs¹ and Accenture Open Innovation², which connect technology providers and leading companies.

Accenture is pleased to be the knowledge partner for the B20 on its Small and Medium Enterprises & Entrepreneurship taskforce and for its digital conference, as well as being the knowledge partner for the G20 YEA Summit.

We look forward to conversations about how large companies and entrepreneurs can better collaborate digitally—by using ideas and recommendations presented in this report—to drive growth and innovation in a connected world.
Foreword from the Young Entrepreneurs’ Alliance

Rahmi Cuhaci
President, TÜGIAD

Small and medium enterprises (SMEs) and entrepreneurs act as vital forces for innovation, economic growth and job creation across the G20 economies. SMEs employ more than two-thirds of the global private sector workforce, and provide more than 80 percent of net job growth. The digital economy is encouraging a greater number of young people to establish small businesses.

The G20 Young Entrepreneurs’ Alliance (G20 YEA) represents more than 1 million young entrepreneurs across the G20 countries and the European Union employing some 12 million people. Since 2010, the G20 YEA summit has gathered hundreds of entrepreneurs from the G20 countries to utilize G20 leaders’ recommendations to promote entrepreneurship as a driver of economy, renewal, job creation and social change.

In 2014, the G20 YEA delivered a communiqué and a set of proposals, addressing an action plan for youth employment. In 2015, the summit in Istanbul will focus on the need to develop an entrepreneurial culture. The communiqué includes how to encourage collaboration between large companies and entrepreneurs, developing digital infrastructure and services as a foundation for future growth and innovation.

We believe that a culture of entrepreneurship is a critical factor in generating impactful innovation, both in business and society. It will also encourage greater risk-taking, investment and collaboration, which will promote economic growth, access to new markets, employment, social change, and more importantly, sustainability.

We are pleased to announce the installation of an SME & Entrepreneurship taskforce by the Turkish presidency of the B20 / G20 in 2015. We also look forward to engaging with policy makers and business leaders on the digital economy, one of the four themes at this year’s B20 gathering in Turkey.

Digital technologies are removing traditional barriers to expansion and are enabling young entrepreneurs and SMEs to enter new and bigger markets. The Turkish B20 Presidency introduced the SMEs & Entrepreneurship taskforce this year with the intent of addressing the biggest challenges and obstacles for SMEs and entrepreneurs in today’s economic environment.

In the last decade, smaller startups disrupted their respective industries in a dramatic fashion. Now large, incumbent enterprises are asking themselves how they respond. And entrepreneurial startups are working out how they can gain the market leverage needed to sustain growth. We believe the answers lie in closer digital collaboration between large companies and entrepreneurs across a broader and more open ecosystem. Undoubtedly, both parties will tremendously benefit from such a reciprocal relationship and cooperation, and will pull each other up by providing perspective and insight.

We are pleased to present you with the results of this study conducted by Accenture on the nature of entrepreneurship and open innovation. We believe the marketplace will increasingly reward digital collaborations and “ecosystem innovation” where enterprises can easily leverage new ideas and entrepreneurial cultures, and where entrepreneurs can leverage the scale of large companies.

We hope that the ideas presented here will serve as a guide for government members, policy makers and key opinion leaders as industry leaders seek to unleash a true culture of entrepreneurship.

Rahmi Cuhaci
President, TÜGIAD

“We believe that a culture of entrepreneurship is a critical factor in generating impactful innovation, both in business and society.”
Executive Summary
Entrepreneurs and startups play an important role in driving economic growth and job creation. In a 2014 report for the G20 Young Entrepreneurs’ Alliance, Accenture estimated that digital entrepreneurs could create 10 million youth jobs in the next five years. Yet despite the mythology that has built up around the disruptive power of startups, the overwhelming majority will need to leverage the market power and scale of larger, established enterprises if they are to be truly successful. For their part, large companies are feeling pressure to innovate and become more entrepreneurial, yet find their culture and structures getting in the way. These two kinds of organizations—entrepreneurs/startups and large enterprises—need to combine their respective, distinctive capabilities and collaborate in new ways in the digital era. The question is: How?

This report, “Harnessing the Power of Entrepreneurs to Open Innovation,” charts the journey to a more ecosystem-based form of innovation than is seen today. Many large companies will claim to have embraced “open innovation” since the concept came to prominence more than a decade ago. Yet in most cases, such innovation is focused on executing predetermined goals: “How can I get others to help me do what I already want to do?” That mindset is not equal to the challenges and opportunities of the 21st century.

Our research indicates that open innovation is actually a journey toward more uncharted and entrepreneurial territory. Advancing on this journey briskly and effectively requires nurturing forms of collaboration that allow large and small companies to keep a closer eye on the value that each side can achieve. True collaboration represents the coming together of parties with complementary skills and resources for mutual gain.

Our report, published in association with the G20 Young Entrepreneurs’ Alliance, discusses differences of intention, culture and trust that can inhibit more effective collaboration. It highlights the government measures needed to nurture more vibrant innovation ecosystems. And it explores how the greater use of digital platforms to collaborate can enable a stronger model of entrepreneurship and innovation.

We argue that to be successful in a world of digitally disrupted markets, large and small companies must break out of their current mindset—one focused primarily on corporate ventures and incubators/accelerators. These models have their place and are part of the mix, but the digital economy requires greater numbers of actors from multiple industry sectors as well as citizens and governments to jointly develop common solutions. We call this “ecosystem innovation,” an approach based on more connected entrepreneurship.

Here is just one example: The Open Automotive Alliance is a global organization comprising technology and auto industry leaders committed to bringing the Android platform to cars. This open development model and common platform is enabling
automakers to more easily bring cutting-edge technology to their drivers, and is creating new opportunities for developers to deliver powerful experiences for drivers and passengers in a safe and scalable way. These solutions require breaking the constraints of traditional collaboration models and call on the automotive sector to work with other industries to co-innovate across a broader ecosystem of specialists.

Ecosystem innovation differs from today’s forms of collaboration between large and small companies that generally take place in the controlled environment of large companies and on their terms. Ecosystem innovation represents a shift to an external mindset in which risks and rewards are shared mutually. It places a “test and learn” model and a shared spirit of entrepreneurship at the heart of innovation. And in an increasingly interdependent world, it demands greater levels of digital collaboration and cooperation among participants in a wider, more dynamic ecosystem.

At the same time, ecosystem innovation does not simply throw ideas into the waters of chaos and wait for a few to float to the surface. One way that order is being brought to market ecosystems is through digitally enabled platforms, which enable companies of all sizes to imagine, design, develop and deploy new products and solutions within a marketable business model. Consider how Philips has teamed with Salesforce to build an open, cloud-based platform to reshape and optimize the way healthcare is delivered.

The HealthSuite platform connects an ecosystem of developers who build healthcare applications, enabling doctors and patients to interact with each other in new ways across the entire spectrum of care, from self-care and prevention to diagnosis and treatment through recovery and wellness.

Our report recommends that large companies set their sights on unchartered, open-ended innovation, and also proactively align their cultures to enable that more entrepreneurial ambition. Companies will have to establish or participate in platforms that bring together a broader range of partners, while accepting more ad hoc governance of the ecosystems these platforms enable. To assist, governments will be required to put in place incentives and regulations that reward large-scale, experimental models that tolerate a greater degree of risk and failure. The report also discusses the need to develop an entrepreneurial culture, an important theme of the 2015 G20 YEA Summit.
The importance of digitally enabled collaboration

Digital innovation is at the heart of improving companies’ performance. Based on our survey of 1,000 large companies and 1,000 entrepreneurs (generally, smaller startups), 97 percent of large companies and 82 percent of entrepreneurs believe that digital innovation is critical or important to their future performance. Collaboration is and will be the engine to accelerate digital innovation—collaboration both inside and outside the “four walls” of a company. The good news is that, as demonstrated by Figure 1, there is a healthy appreciation for working with multiple partners of different kinds.

The promise of collaboration is indeed appealing. According to Figure 2, large companies see collaboration with entrepreneurs as a way to inject new approaches, including technology and talent, into their innovation processes; entrepreneurs see the promise of accelerated commercialization of their products and services through collaboration with large companies. Although the difference between those expectations creates potential misalignments in strategic objectives, our research indicates that 82 percent of large companies admit they can learn from startups/entrepreneurs about how to become a digital business. And half of the large companies feel that they need to work with entrepreneurs to be sufficiently innovative.

For their part, entrepreneurs value collaboration with large companies for several reasons. Foremost is gaining access to a large company’s distribution network and customer base and becoming a supplier. Also important, however, are the opportunities of tapping into market knowledge and securing investment from corporate venture funds. (See Figure 2.)

Digital collaboration boosts economic growth

Large companies in our survey expect to generate 28 percent of total revenues from digital technologies, products and services in the next three years, up from 16 percent today. And collaboration is expected to be a critical way to increase digital revenues. Today, the proportion of revenues generated by collaboration with startups/entrepreneurs on innovation already represents a significant nine percent of large companies’ total revenues. In three years this proportion of collaborative revenues is expected to rise to 12 percent; in five years, as collaboration accelerates, that number is expected to more than double, to 20 percent.

Figure 1: A strong appetite to work with multiple partners

How important will collaborating with each of the following be in driving your company’s innovation and growth in the next three years?

Source: Accenture Research
Our economic modeling suggests that the more that companies collaborate in their ecosystem, the more they innovate and grow their revenue. There is a strong correlation between the attitudes that enterprises have about collaboration and the likely levels of innovation, revenue and economic growth.

Accenture calculated the Digital Collaboration Index of economies and industrial sectors based on the expected impact of innovation on business performance and investment, the degree of collaboration companies wish to commit to, and the support they feel they get from governments and the broader ecosystem. We found a statistically significant correlation between collaboration, innovation and growth—among both large companies and startups—in all the G20 countries that we analyzed.

A generalized increase in digital collaboration to high performance levels in G20 countries could also raise global GDP by almost US$1.5 trillion or 2.2% of world output. This calculation includes the direct impact on GDP of company revenue growth and the indirect gained through broader value chain effects. This is based on the assumption that all entrepreneurs and large companies performed at the same level as today's top 20 performers in terms of their digital collaboration.

Our research points to three primary challenges large companies and entrepreneurs alike face as they attempt to increase their collaborative work:

1. **An imbalance in perceived commitment needs to be addressed**

   Large companies are committed to the idea of collaboration with entrepreneurs to drive innovation. Indeed, 78 percent of large companies affirm the importance of collaboration compared to 67 percent of entrepreneurs. But are entrepreneurs convinced such commitment exists?

**Caution: Challenges on the journey to more open innovation**

Collaboration that brings together very different types of companies with different cultures and organizational structures is not always easy. "Large companies want to work with startups but do not know how," said the vice president of a Silicon Valley technology campus. An executive from a leading European bank admitted to "lengthy and bureaucratic procedures at large companies" that can inhibit effective collaboration with smaller, nimbler partners.

Large companies often do not know how to integrate their walled-off research and operations into a collaborative economy. Three-fourths of large companies feel that their employees are sufficiently entrepreneurial; yet, of all the entrepreneurs who worked in a large company previously, 75 percent left because they felt that they could not be entrepreneurial within the corporate setting.

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   **Source: Accenture Research**
Entrepreneurs are up to four times more likely to see a lack of commitment from their partners in the collaboration. About 29 percent of entrepreneurs feel that large companies are not committed to the collaborative endeavor; only a marginal share of large companies (7 percent) feel likewise about their startup partners (see Figure 3).

Figure 3: Big companies are more confident than entrepreneurs about their partners’ commitment

<table>
<thead>
<tr>
<th>Large companies currently collaborating or planning to collaborate with entrepreneurs</th>
<th>Entrepreneurs currently collaborating or planning to collaborate with large companies</th>
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<tbody>
<tr>
<td>Very committed</td>
<td>41%</td>
</tr>
<tr>
<td>Somewhat committed</td>
<td>52%</td>
</tr>
<tr>
<td>Not very committed</td>
<td>6%</td>
</tr>
<tr>
<td>Not at all committed</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: Accenture Research

Can entrepreneurs’ confidence be boosted?
Similarly, entrepreneurs feel less confident about the success of the collaboration. According to almost three-fourths of large companies (71 percent), collaboration with their entrepreneurial colleagues was a success. Unfortunately, little more than half of entrepreneurs (57 percent) agree.

Can access be improved?
More than one-third of entrepreneurs (39 percent) would like to collaborate with large companies but do not have sufficient access to them in their country.

Are large companies doing enough?
Large companies currently collaborate, or will collaborate, with startups/entrepreneurs specifically on innovation. However, a significant majority (69 percent) collaborate with only a few select startups on an ad hoc basis instead of collaborating with multiple startups on an ongoing basis.

2. The cultural divide needs to be proactively managed
The cultures of entrepreneurs and large companies often diverge significantly (see Figure 4) and those differences must be understood and managed effectively if the collaboration is to be successful. For example, entrepreneurs are likely to embrace risk in their innovation process. They look to prototype ideas quickly and fail fast if necessary as a means of clarifying the best path forward. Large companies by contrast are more risk averse and generally proceed more slowly and incrementally to test ideas and avoid failure whenever possible. The two kinds of organizations also differ in governance and decision making. Large companies are more hierarchical in structure, with centralized decision-making processes, while entrepreneurs have more informal structures and decentralized decision making.

Large companies and entrepreneurs also often do not see eye to eye on strategy and commercialization. Large companies are looking for smaller startup partners to be more attuned to their corporate strategy. One financial services executive noted, “Startups are focused on their own value proposition, but instead of just selling their own vision, they should understand what the corporate strategy/vision is.” One other bank executive commented that about 40 percent of managerial time was being spent on internal governance related to the collaboration.

Large companies, of course, are concerned with the commercial success of new ventures and answerability to shareholders. Entrepreneurs, by focusing primarily on the innovative solution, often miss the commercial model, at least in the eyes of corporate executives.

3. More government support is needed
Not everyone is in agreement about whether actions taken by government to support digital innovation and collaboration are sufficient. Many feel governments can do more.

For example, almost three-fourths of entrepreneurs (70 percent) and half of large companies (54 percent) feel that government either has no impact or makes it harder for large companies and entrepreneurs to collaborate (see Figure 5). However, significant differences in perception exist across the G20 countries. Nearly 90 percent of entrepreneurs in the US, South Korea, Japan and Mexico feel government either has no impact or makes it harder to collaborate, and over 70 percent of large companies in Italy, France, Mexico and Russia feel likewise. By contrast, a significant proportion of both entrepreneurs and large companies in Australia, China and India say government is making it easier for large companies to collaborate with startups/entrepreneurs.
Tax. Large companies and entrepreneurs alike see challenges around government policies. Both types of organizations expect specific actions to be taken by government: specific government policies to support the collaboration, intellectual property regulations, public-private partnership investments in collaboration, alternate financing regulations, and access to open data and digital infrastructure. Again, the research data reveals differences across countries. For example, a higher-than-average proportion of entrepreneurs in Germany would like to see specific tax policies that connect them with large companies, and more entrepreneurs in China and India would like their government to provide access to digital infrastructure and open data. Similarly, improvement of regulations protecting intellectual property rights is a higher priority for large companies in Canada and Indonesia, while a majority of companies in Argentina and Turkey say they are not yet aware of the national innovation agenda of their countries.

Data barriers. Data localization measures can prevent firms from adopting the most efficient technologies and can also increase the cost of innovation, according to the Organization for Economic Cooperation and Development (OECD). On the one hand, data protection and security are important. On the other hand, given the nature of today’s globally interconnected economy, many sectors of the economy rely on digitally supplied services and goods that require the ability to transfer some data from one country to another. According to an executive for one global technology and manufacturing company, the desire “is to draw on innovation and creativity globally. But regulatory constraints exist by country.” Striking a balance between apparently conflicting priorities will be crucial to enabling the growth of digital entrepreneurs and digital businesses.
The ultimate destination: Ecosystem innovation

Where is digital collaboration and open innovation among large companies and entrepreneurs headed and how can it be optimized? As shown in Figure 6 (page 12), open innovation is a journey with four phases. Depending on their corporate needs and the market forces in which they operate, some large companies have adopted corporate venturing; others have developed incubators/accelerators; some engage in joint innovation or co-creation; and a select few engage in ecosystem innovation. A handful of early-mover companies simultaneously adopt a mix of all four.

In the future, to benefit from network effects and to maximize the value from collaborating with external partners, large companies will need a cohesive strategy that interlinks corporate venturing, incubators/accelerators and joint innovation, and that also increasingly advances to ecosystem innovation. To move up this ladder of open innovation, companies will need to demonstrate more flexibility of engagement and risk taking. Recognizing and working toward shared value for external collaborators, and building an environment of mutual trust, will be the foundation of ecosystem innovation.

1. Corporate ventures. Interaction with startups often begins with corporate venturing. This form of collaboration is especially important in the eyes of large companies which seek to de-risk financial bets on internal R&D through external investment, and to scout for next-generation technology and innovations. Nearly half of the top 100 companies in the Fortune 500 ranking, and 17 percent of the remaining 400 companies, have a corporate venturing unit, according to Global Corporate Venturing. The annual investment amount doubled in 2014 over the prior year.5

Large companies in our survey have invested on average US$150 million in venture funds for startups/entrepreneurs. About one-third of corporate venture funds are invested in digital technologies and 83 percent of these companies plan to increase their proportion of
investment in digital technologies. While companies are generally satisfied with the return on investment obtained so far, large companies and entrepreneurs alike see corporate venturing diminishing in importance over time—from 36 to 19 percent by large companies, and from 23 to 13 percent by entrepreneurs—preferring joint innovation instead as a means to draw on the technology, skills and talent available outside the four walls of an enterprise.

**Citi Ventures** has developed a complete, end-to-end system utilizing a strategy comprised of venture fund, Global Innovation Labs, Citi’s Acceleration Fund, an internal incubator, startup accelerator programs and strategic partnerships. Citi Ventures has CEOs of Citi’s regional businesses on its Board, and runs a Catalyst Program of seconding staff from business units to Citi Ventures on a two-year rotational program.

3. **Joint innovation.** Joint innovation or co-creation is seen as the most effective model of collaboration by all organizations surveyed—86 percent of large companies and 91 percent of entrepreneurs. Although only about 26 percent of large companies currently collaborate in this way, 38 percent expect to do so within the next three years. The practice of joint innovation is also expected to increase among entrepreneurs—from 26 percent today to 36 percent in three years. Joint innovation enables the partners to collaborate more broadly and maximize market opportunities more effectively than they could achieve independently. Although an important stage in the overall journey, joint innovation’s center of gravity remains with the large corporation and its innovation and R&D process. Startups are expected to contribute their ideas within an environment of solving the large corporation’s problems and needs. Although partners may work toward the development of a common solution, they may or may not share control.

2. **Incubators/Accelerators.** These programs are typically run alongside corporate ventures. They are currently used by about one-third of large organizations, a percentage expected to hold steady over the next few years. At the same time, entrepreneurs anticipate the importance of incubators to increase, and generally desire large companies to make startups more a part of their DNA. Their desire indicates that startups would like more emphasis to be put on mentoring, coaching, and access to knowledge capital and other assets—critical components of successful incubators—as a stepping stone toward joint innovation.

**Telekomunikasi Indonesia:** Key initiatives of Indonesia’s Telkom are the Indigo Incubator and DDB Accelerator; others include the Bandung Digital Valley and the Jogja Digital Valley business incubators. Telkom also has a corporate venture program in partnership with Fenox venture capital. Telkom engages multi-stakeholder participation, commonly known as the quad-helix ABG-C (academia, business, government and community).

**General Electric** has several co-creation arrangements with start-ups. For example, its joint venture with Local Motors, an online community of car enthusiasts (engineers, mechanics, and industrial designers), to design new vehicles. Another example is GE’s partnership with Quirky, a crowd-sourced innovation platform, to invent connected products for the home.

4. **Ecosystem innovation.** In this more radical step in the open innovation journey, innovation occurs among a broader ecosystem of collaborators working on a more equal footing. Ecosystem innovation enables enterprises to look beyond their four walls to bring in ideas more quickly, enhance their innovation programs, and also create shared value at the intersection of corporate performance and society to solve big or common problems.
Journey of Open Innovation
— from the perspective of a large company

Figure 6: Charting the journey of open innovation

**Corporates Ventures**
- Equity investment made by a large corporation or its investment entity into a high growth and high potential, privately-held business.
- **Objective**: to de-risk financial bets on R&D through external investment, scout for next generation technologies or innovations.
- **Size matters**: large company in charge of providing financial support.

**Incubators/Accelerators**
- Set up or sponsorship of startup accelerators, by a large company either independently or jointly with other actors, which are fixed-term programs focused on mentorship and educational components.
- **Objective**: to insource innovation and R&D, scout for next generation technologies or innovations.
- **Size matters**: large company in charge of providing financial support.

**Joint Innovation**
- Collaboration agreement entered by a large company with one or more startups for co-creation, where partners work towards the development of a common solution.
- **Objective**: to insource innovation and R&D, and maximize market opportunity.
- **Size matters**: large company tends to exert stronger influence in the co-creation process.

**Ecosystem Innovation**
- Creation of a broad ecosystem of partners to jointly develop new technologies or market solutions and integrate their components, typically through a digital platform.
- **Objective**: to create shared value often at intersection of corporate performance and society to solve big or common problems.
- **Size does not matter**: orchestrator of the product or platform may exert stronger influence.

**Importance Today vs Future**

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<th></th>
<th>NOW</th>
<th>FUTURE</th>
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<tbody>
<tr>
<td><strong>Large Companies</strong></td>
<td>36%</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Entrepreneurs</strong></td>
<td>23%</td>
<td>13%</td>
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Source: Accenture Research
## Best Practices

1. **All inclusive vision, outside looking-in with inside looking-out**
2. Well-articulated and aligned goals, key performance indicators to monitor progress, effective governance structures
3. Engagement of top management and frontline business units
4. Organizational structures and processes reflecting agility and other cultural characteristics akin to entrepreneurs
5. Integrated, long-term programs on the journey toward Ecosystem Innovation
6. Providing mentoring and coaching to investee companies on top of funding
7. Identifying complementary partners for longer term progress to joint or ecosystem innovation

## Challenges

1. Misalignment in strategic and financial goals can make fund ineffective
2. Poor investment decisions from lack of alignment with corporate objectives
3. Loss of top venture fund talent due to poorly designed financial incentives
4. Being overly risk averse
5. Delay in approval and cumbersome processes signals weak commitment

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**Source:** Accenture Research
Digital platforms, and platform-oriented companies, are a major enabler of ecosystem innovation. According to the Massachusetts Institute of Technology, “In 2013, 14 of the top 30 global brands by market capitalization were platform-oriented companies—companies that created and now dominate arenas in which buyers, sellers, and a variety of third parties are connected in real time.”

Digital platforms are generally owned or orchestrated by a single company that controls the development of core products or services. However, the success of the platform depends on the ability of the leader to nurture the ecosystem of players and participants, including startups, encouraging them to offer value-added services on the platform.

Platform models can be innovation-based, such as that used by ARM Holdings, which develops the instruction set and architecture for ARM-based products. It does not manufacture products but instead licenses architectures to third parties that design their own products using one of those architectures. Alternatively, platforms can be market-making environments. The transportation service Uber and the lodging rental service Airbnb are examples in the business-to-consumer area.

Huawei launched LiteOS, an operating system designed for running connected appliances and machines which the Chinese company says is the lightest of its kind and 20 percent faster than other systems. Huawei’s LiteOS is open-source – implying developers can modify the code and use it in a wide range of devices. Huawei is currently working with domestic and overseas partners to make an ecosystem centered on LiteOS.

**Ecosystem Innovation: How do we get there?**

If the ultimate goal is ecosystem innovation—a more open, equitable form of collaboration involving multiple partners on platform-based ecosystems—let’s be realistic. Most large and small enterprises are not even perfecting today’s requirements for more modest, direct and predictable forms of joint innovation between smaller, closed groups of partners. We, therefore, present recommendations that at least get all stakeholders more fully aligned on the essentials of digital-based joint innovation. This foundation can then support more radical advances in open innovation in the future. The critical focus, therefore, must be to advance to more digitally enabled collaboration.

**Actions for large companies**

*Open up effective two-way collaboration by adapting culture, creating open networks and partnering with other players*

*Visibly embrace collaboration top–down*

A clear strategy for collaboration is the single most important factor for successful collaboration between large companies and entrepreneurs. The strategy needs to be supported by a centralized and coordinated governance structure and well-defined goals and KPIs. Most important, it requires a compelling vision and participation by corporate leaders who embrace a win-win mindset with regard to the collaboration. It is often relatively easy to find bottom-up support for collaboration with startups. However, without a clear mandate from senior executives, the enthusiasm may wane.
Clearly define success

When startups are selling products or services to a large company, that corporate must work to define what future success looks like. Well-articulated goals can help shape which startup relationships to nurture. Many times, there is a quick impulse and excitement to focus on the innovations coming from the startups as a guide for what a large company should do. However, starting first with a goal or vision can give both the corporate and the startup a “true north” view of where the partnership can go, potentially helping to advance the journey to joint and ecosystem innovation. It’s a partnership based on synergies, not simply a client/supplier relationship. When large companies and startups are collaborating on ecosystem innovation, however, setting goals is less straightforward. Imposing boundaries on a digital platform development, for instance, might hamper true innovation. In that case, the focus of defining success needs to be on dialogue, social conventions and shared values that bring together the orientations and motivation of all stakeholders in the ecosystem.

Unilever’s Foundry Ideas platform amplifies the company’s efforts, acting as a hub for entrepreneurs and consumers to work together, to tackle some of the most defining sustainability challenges of our time. Example: The Pureit range of water purifying products, which was developed in collaboration with technology partners and scientific and public health institutions, and rolled out in many countries that face a shortage of affordable clean water.
Budget for success
It is also important to budget for success beyond simply scanning for startups, investing in a startup, or even piloting the technology in the corporate’s market. Ultimately, the goal is broad adoption of a startup’s innovation in the marketplace. Budgets to enable a pilot are a good start. However, if the pilot is successful, then significant additional budget will be required to take that technology to scale and operationalize it. Those steps require investment in the licensing of the technology at scale, as well as budget to technically integrate and customize the innovation. Many efforts stop at the pilot phase because leaders did not plan for success.

Seed an “intrapreneurship” culture
Large companies and entrepreneurs are often at opposite ends of the culture spectrum. Companies will need to move closer to the startup culture on dimensions like speed of decision making, agility of processes, and risk-taking appetite. Corporate initiatives such as sending employees to work inside startups, and allowing employees to invest in startups being incubated within the organization, can help create a stronger “intrapreneurship” culture, embedding a “startup DNA” into the organization. For example, Mondelez International’s Mobile Futures initiative empowers its employees to launch their own startups incubated within the company, and sends brand managers to work for a week with other startups identified from its accelerator program. An internal survey showed that 75 percent of Mondelez employees believe the company should think more like a startup, up from 35 percent the year before.

Facilitate access
Although collaboration today is digital, it nevertheless sometimes requires physical infrastructure—for example, renting office space at an accelerator campus such as RocketSpace. Proofs of concept can also be tested at Innovation Labs like AT&T Foundry and the Verizon Innovation Center. Increasing access in the digital world could take the form of an ongoing innovation contact center on a company’s portal, beyond fixed-duration programs such as hackathons.

Microsoft Innovation Centers, present in over 100 locations worldwide, connects Microsoft’s customers with startups under the ‘Grow through Customer Access’ Program. These centers, embodying partnership with local government, universities and industry partners, are incorporated within Microsoft Ventures under the integrated ‘Build, Scale, Expand’ model. They offer three years of free software, developer tools, and free Azure Cloud Services under the ‘Build through BizSpark’ program.

Create a “network effect”
Entrepreneurs are seeking access to large companies’ networks and customers, as well as to become a supplier, so it is important to step up incubation/accelerator programs that enable this access. It is also important to enable entrepreneurs to “supply into the supply chain” of large companies, because many startups will not qualify on the high standards of vendor due diligence. Incorporating involvement with corporate leadership in these incubators/accelerators is a key to success, as is broadening engagement at all levels. Corporate representatives can offer winning use cases, guidance on features, and perhaps also anonymized data to the startups to help them hone in on what is important to the corporate in real commercial environments.

Digital industry platforms—either creating them or participating in them—are another way to broaden an ecosystem of collaborators to drive open innovation. Rapid advances in cloud and mobility not only are eliminating the technology and cost barriers associated with such platforms, but also are opening up this new playing field to enterprises across industries and geographies.

Mahindra Group’s Automotive Division in India co-creates with its suppliers and dealers in the areas of plant quality and manufacturing. Both Mahindra and the dealers reaped the benefits, from addressing vehicle defects to shaping new product features, including more productive relationships and faster cycle times. Co-creation began to spread in the extended supply chain network and other divisions.

Collaborate, don’t compete, with government and peer corporates in supporting startups
It is important for large companies to partner with government agencies on industry accelerators. Consider, for example, Resources Innovation through Information Technology (RIIT), which provides an ecosystem to Australian entrepreneurs in the resources sector. RIIT follows a public-private partnership model, working with support from the Australian government and local companies.

Large companies can also team with peer corporates, both from within and outside their industry, to mentor startups under different roles. Natura Cosméticos, for example, works with Banco Santander to mentor small and medium enterprises in Brazil on financial literacy.
Actions for entrepreneurs
*Align, adapt and adopt mentors—and time it right*

Align to the market
Companies assign high importance to the alignment of business priorities by startups. It is important for entrepreneurs to recognize the specific needs and interests of large companies if they are to effectively collaborate with them and serve as suppliers. According to Maria Gotsch, president and CEO at the Partnership Fund for New York City, “Smart startups in our FinTech Innovation Lab program change their value proposition after understanding what the bank needs. They may use the same core technology but will configure it differently to meet a specific problem at the bank.”

Adapt culture
Entrepreneurs and large companies are often at opposite ends of the culture spectrum. Entrepreneurs will need to be mindful of the nuances of a large company’s culture when it comes to things like institutionalized processes and intellectual property concerns. Given their accountability to multiple internal and external stakeholders, large companies will typically take longer to decide and act than entrepreneurs. On both sides, strong leadership and change management will be required to build trust among collaborators.

Adopt mentors
Many entrepreneurs are creative but may lack the professional skills (process, structures, etc.) and interest to manage operations in a growth phase. It is important, therefore, to bring in professional management, as well as experienced mentors from large companies, venture capital boards and bridgemaker networks.

For example, Futurpreneur Canada and Spin Master Ltd. have partnered to offer financing, mentoring and expert-led workshops for high-performing entrepreneurs. Through the Spin Master Innovation Fund, entrepreneurs get advice and guidance and build their networks with experienced executives.

Time it well
Many large companies are not looking to support startups at the ideation or seed stage. Many large companies view “new products at speed” as a key measure of success. That means it is critical that entrepreneurs have a commercially viable solution in place before approaching a larger company as a collaborator. Still, market testing an early-stage product will be important as well to ensure it meets the interest of large companies before entrepreneurs invest more resources into a finished product.
Actions for governments
Participate, facilitate, incentivize, connect, adapt regulation, educate and enable both alternative financing and early-stage financing

Governments’ role in policy making and reforms in the business environment—reducing obstacles to business entry, lowering administrative costs of compliance, creating a level playing field and increasing transparency—are critical to facilitate the creation and growth of small enterprises, and subsequently their collaboration with large enterprises. To achieve this end, regulators may need to adapt or remove restrictive policies and then regulate only if truly necessary.

Given the interdependence of the various players in the development of an open innovation ecosystem, governments have a particularly important role to play even beyond policy making. This role is centered on bringing together all stakeholders in the ecosystem and investing in early-stage, high-risk and high-potential innovations without over-subsidizing them.

The predominant presence of the government serves as a sort of guarantor on risks and attracts a stronger portfolio of corporates to co-invest. Take the case of the FIWARE platform, one of the initiatives under the European Commission’s Digital Agenda 2020. The FIWARE platform provides a simple yet powerful set of Application Programming Interfaces (APIs) that ease the development of smart applications in multiple vertical sectors. The specifications of these APIs are public and royalty-free.

Participate: Immerse government officials in the startup world
Provide exposure to officials on the workings of a successful ecosystem and needs of startups. As an example, government officials from Canada, Brazil, Poland, Spain, Ireland and South Korea do three-month rotations on the Rocketspace campus in San Francisco to experience and connect into the entrepreneurial ecosystem.

Facilitate: Develop co-financing models
Government funding, paired with private sponsorship, has a strong positive impact on the entrepreneurship ecosystem. Examples include the Centre for Innovation Incubation and Entrepreneurship (CIIE) in India, established in 2007 by the Indian Institute of Management Ahmedabad (IIMA) with support from the government of India and Gujarat and which also draws on private-sector sponsorship from large
companies and financial institutions. CIIE’s purpose is to create an ecosystem of development initiatives that inspire young entrepreneurs, with programs that include both “inspiration” and “incubation.” The diverse board of CIIE includes academics, successful entrepreneurs and corporate executives who guide the operating team of students and young entrepreneurs in managing multiple programs.

I incentivize: Incent collaboration between large companies and startups

Large companies should be incentivized to collaborate more effectively. For example, business leaders could be encouraged to donate a day to sharing their expertise with young entrepreneurs, and they could encourage their employees to become mentors, as done by Futurpreneur Canada. Revised tax policies can also better support the collaboration between large companies and entrepreneurs.

Connect: Create collaboration networks

Collaboration between incubators (in different locations, with different industry focus, etc.) is critical to nurturing cross-disciplinary talent, particularly in places where multidisciplinary universities such as MIT are missing. The UK government, for example, is offering some of its grants to a “group of universities” rather than to a single university. At the international level, entrepreneurs are asking for a G20 entrepreneur visa to facilitate collaboration across national boundaries.

Create new policies: Encourage a borderless physical world

Smaller ecosystems are increasingly connected to the big ones; people are connecting with peers in other countries. But policy needs to catch up. According to Adiba Barney, CEO of SVForum in Silicon Valley, “Policies in countries are not moving as fast as the global population right now. It is still very complicated to set up an actual business and get temporary work permits.” Governments need to adapt their policies for this new, borderless physical world. Rather than trying to create another centrally located Silicon Valley, governments could support the growth of a global network of interconnected ecosystems, which might be even more innovative and competitive.

Adapt data policies: Balance data sharing with privacy and security concerns

Many digital business models require the sharing of data across industry sectors, and there will be growing demand for cross-border data exchange. Both will require balancing the importance of data sharing with privacy and security concerns. Even within established cross-border trading regions, more work is required. The European Union recently published its initial plans for the digital single market, which includes proposals to encourage cross-border online business within the EU while safeguarding data privacy and security. The US government has published a digital trade policy anchored around a “digital dozen” of principles that aim to “secure and protect innovation, a free and open Internet, and commerce without barriers.” Alternative policies to data localization such as implementing the “accountability principle” should be encouraged to facilitate the transfer of data across G20 countries.

Educate: Develop skills and talent

Entrepreneurship education, fostering “learning agility” as a key competence, and ongoing managerial training are often inadequate in many countries. Promoting collaboration between government agencies, businesses and stakeholders is critical for entrepreneurial skills and talent development. King Abdullah University of Science and Technology (KAUST), which operates the Innovation and Economic Development Center, has enabled Saudi Arabia to increase the number of knowledge-based startups by providing a structured development process and by using its accelerators to grow startups to a maturity level where they can raise funding from established investors.

Broader access: Enable alternative financing

Broaden and deepen startups’ access to alternative sources of funding, such as equity crowdfunding, by supporting and harmonizing policies, regulations and standards, and by improving the availability of credit-related information on startup/entrepreneur performance. Financial regulations applied to crowdfunders should help assure transparency and consumer protection, but be supportive of healthy competition among firms and the growth of the industry.

Create more inclusive funding: Facilitate early-stage financing mechanisms for young, high-growth firms

Government intervention is especially needed where the early-stage funding market is not developed enough because of the limited experience of high-growth startups that are looking for ways to scale up their business, or because of limited trust on the part of private investors. Take the case of the Technology Development Foundation of Turkey (TTGV). Soft loans and compulsory company contributions, which are the main principles behind TTGV’s support, have provided important benefits to Turkey’s Research & Development capacity through the "multiplier effect" by promoting an increased contribution of public funds to R&D expenses in the private sector.
Actions for bridgemakers

Provide access to supply chains, accelerate the network effect, bridge the cultural gap, provide shared spaces and support specialized clusters

Bridgemakers constitute a group of public- and private-sector organizations, including government agencies, R&D centers, universities, venture capitalists and service providers that can create open innovation environments. These kinds of organizations can act as intermediaries to help connect organizations to appropriate partners, act as a buffer between partners with conflicting cultures, provide support in mitigating risk, and assist in piloting and deploying technologies.

Open up access to supply chains

As noted, many startups may not initially qualify on the high standards for a large company’s vendor due diligence processes. Bridgemakers can enable connections for such entrepreneurs into the supply chain—for example, into vendors of large companies. At the same time, bridgemakers can help maintain a level of quality in the vendors that they engage with.

Accelerate the network effect of role models and mentors

Connecting new entrepreneurs with established, successful ones is extremely valuable, creating a positive effect on culture and confidence. Successful entrepreneurs are often most effective at investing in and mentoring next-generation startups. Take the case of New York City. Through five types of influence—inspiration, mentorship, investment, serial entrepreneurship and former employee spinouts—New York City’s technology sector is benefitting from a virtuous cycle in which entrepreneurs grow their businesses, become
successful, and reinvest their human, financial and social capital in the next generation of startups. DoubleClick, Buddy Media and AppNexus are three successful entrepreneurs that have influenced more than 400 New York tech firms. Similarly, Chennai city has emerged as India’s enterprise software hub over the last decade with a string of startups—Freshdesk, India, Unmetric, ChargeBee, HappyFox and others—being formed following in the footsteps of Zoho, a successful business software company.

**Nxtp Labs** is an incubator and venture capital arm of Nextperience, the Argentina-based digital business solutions provider. With operations in Argentina, Chile, Colombia, Mexico and Uruguay, Nxtp Labs is an early-stage fund for tech companies in Latin America. The Labs is backed by a powerful network of entrepreneurs, investors, executives and organizations who believe in building the best ventures with global impact.

**Bridge the cultural gap**

Universities play a critical role in closing the communications and cultural gap through applied research projects involving large corporates, entrepreneurs and students. Take the case of the Boston–Cambridge cluster which is a formidable hub for biotech and pharmaceutical innovation. A key factor behind this region’s success is the high concentration of world-class research universities and academic medical centers, including renowned institutions such as Harvard University and Massachusetts Institute of Technology, which attract substantial R&D funding for joint research programs between academia/students, startups, large companies and other players.

**Provide shared spaces**

Serendipity plays a big role in entrepreneurship—unplanned interactions that result in new ideas. Bridgemakers can provide the physical spaces to allow entrepreneurs and mentors to mingle for that serendipity to occur. For instance, Media Development Authority of Singapore provides space and infrastructure and acts as an anchor tenant in the building for media companies to interact.

**Connect the ecosystem to support specialized clusters**

Vertical depth of innovation arises from a flourishing industry and/or from concentration of large companies in a city. For example, consider New York City and London for financial services technology, Berlin and other German cities for industrial equipment and the Internet of Things, and Houston and Perth for energy technology. The establishment of Fintech Labs in New York, London and Hong Kong illustrates market specialist collaborations. Universities functioning as bridgemakers can also facilitate interaction between stakeholders from different sectors to encourage vertical depth, such as in the Boston–Cambridge biotech cluster.

**Conclusion: Eyes on the prize**

Over the last decade, the digital economy has been driven and dominated by technology startups. The next decade may see the awakening of the entrepreneurial spirit among incumbent industry leaders—regaining competitive advantage, disrupting their own markets or inventing new ones. But to do so, they will need to change the way they innovate, shifting from traditional small-scale and self-serving collaboration with innovators and instead harnessing the power of digital collaboration across a broader ecosystem. In short, they must break open today’s approaches to open innovation and push further.

To succeed, they must take several fundamental steps. Companies will need to shift their mindsets away from collaboration oriented to a predetermined goal or business idea, to an approach that is more open and entrepreneurial. This, in turn, will require cultural transformation—creating an environment of more trust, and more equal commitment to risks and rewards. Finally, large companies and entrepreneurs alike need to commit to using digital technologies and platforms to reach and work with a greater range of talent, ideas and business models.

The journey will not be easy. But by taking these steps, large and small companies can work together more effectively to drive toward entrepreneurialism and innovation. When they achieve true open innovation, they will generate significant business and macro-economic growth.
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About G20 YEA (Young Entrepreneurs’ Alliance)
The G20 YEA is a collective of leading entrepreneurially-minded organizations representing the G20 countries who seek to promote youth entrepreneurship as a powerful driver of economic renewal, job creation, innovation and social change. The G20 YEA Summit is a forum held prior to the G20 Summit of political leaders where young entrepreneurs from the G20 countries meet with their peers, learn best practices in growing dynamic companies. The G20 YEA provides leadership to G20 political leaders in promoting youth entrepreneurship through policy recommendations and sharing best practices in the areas of access to funding, coordinating support initiatives, innovation, enhancing the entrepreneurship culture, regulation and taxation, and education and training.
About the research

Accenture explored the views and attitudes of entrepreneurs and large companies relating to collaboration and innovation. The research, conducted in cooperation with the G20 Young Entrepreneurs’ Alliance, comprised of the following:

• An online survey of 1,002 entrepreneurs and 1,020 executives at large companies
• In-depth interviews with 20 executives at companies and institutions
• Analysis of the digital business and collaboration landscape in all G20 countries
• Proprietary economic modelling to create the Digital Collaboration Index, based on the survey data

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