

#### Open Innovation and How to Use the Crowd

Karim R. Lakhani | k@hbs.edu | @klakhani Harvard Business School | Harvard Institute for Quantitative Social Science Crowd Innovation Lab | NASA Tournament Lab



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#### British Fleet Sinks in 1707 Due to Bad Navigation



The Longitude Prize 1714 - Up to £20,000 Anyone can enter Need a working solution



Sir Isaac Newton – Principle Advisor to the Longitude Committee: "And I have told you oftener then once that it [the longitude] is not be found by Clock-work alone.....Nothing but Astronomy is sufficient for this purpose. And those methods are hitherto only two: one by the motion of the Moon, the other by that of the innermost Satellit of Jupiter."



The Longitude Prize 1714 - Up to £20,000 Anyone can enter Need a working solution







Over 100 Solutions Proposed



The Longitude Prize 1714 - Up to £20,000 Anyone can enter Need a working solution







Chronometer Wins John Harrison Unknown Cabinet Maker



Over 100 Solutions Proposed

## The Top Ranked Super Bowl TV Commercial from 2009

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- Two brothers from Batesville, Indiana win the contest



# Contests and Communities in the Social Media Era



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### Contest to Solve Highly Complex Analytics Problem



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## Broad Engagement (459 Competitors & 2000 Code Submissions)

\$10,000		\$5,000		\$3,000		\$1,750		\$1,500	
Submission	4	Submission	87.1	Submission	4	Submission	4	Submission	14
Score	156,811.82	Score	156,802.37	Score	156,741.03	Score	156,691.70	Score	156,667.32
6		7		8		9		10	
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### Broad Engagement (459 Competitors & 2000 Code Submissions) & High Performance



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### Broad Engagement (459 Competitors & 2000 Code Submissions) & High Performance



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# Uncertainty Haunts Most Research and Innovation Efforts....

"When you come to research and development you can't answer any of the questions.. [...].. You don't know when you are going to get the thing, whether it's going to work or not and whether it's going to have any value whatsoever"

Charles Kettering (VP, General Motors Inventor: Electrical Starting Motor, Ethyl Gasoline, Freon, 186 Patents)



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# .....Finding the Right People is also a Major Challenge

"No Matter Who You Are Most of the Smartest People Work for Someone Else"

Bill Joy (Sun Microsystems, BSD Unix, Java)













#### 244 Years In, Encyclopedia Britannica Went Out of Print in 2012



Note: \*as of 9/12, per comScore global data.

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Source: Kellog School of Management, Shane Greenstein and Michelle Devereux, "The Crisis at Encyclopedia Britannica."

#### Quantity and Variety of Ideas Critical to Innovation Success



#### "Real" Idea Funnels are Far from Ideal



"Crowds" Can Be Organized as Contests or Communities (Boudreau & Lakhani 2013; King and Lakhani 2013)

#### "Crowds" Can Be Organized as Contests or Communities (Boudreau & Lakhani 2013; King and Lakhani 2013)



#### Contests/Competition

- Innovation problem requires diversity of approaches and broad experimentation
- Sponsor not sure what combination of skills and approaches might be useful in solution generation
- Clear rules for participation and winning
### "Crowds" Can Be Organized as Contests or Communities (Boudreau & Lakhani 2013; King and Lakhani 2013)





### Contests/Competition

- Innovation problem requires diversity of approaches and broad experimentation
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### Communities/Collaboration

- Innovation problem requires cumulative knowledge building and aggregation of diverse inputs
- Contributions range from mix & match to co-production with modular tasks and functions
- Informal, norms-based governance

### Contests and Communities Enable Discovery of "Extreme Value" Outcomes Through Lots of Entry







### "Collaborative Crowds" -Historically Important Source of Technical Progress

Allen (1983) - identifies collective invention as a key driver of innovation for blast furnace technology in 19th Century UK (iron making)

Free flow of technical information and voluntary information spillovers amongst "competing" engineers and firms - no patent protection sought

Nuvolari (2004) argues collective invention as a crucial source of innovation during early phases of industrialization (Cornish Pumping Engines, Bessemer Steel, Silk Production)

Meyer (2003) shows collective invention's importance to the development of aircraft - pre-Wright Brother's Patents

### Open Source Software Development Leading Modern Example of Innovation Communities

- UNU MERIT Study (2006):
- Large footprint in ICT infrastructure applications (web servers, operating systems, embedded systems, email, web browsers)
- 12 billion euro replacement cost
- 131,000 person years of effort
- Open source -related services could represent ~35% of IT services



## Open at the sou

iPhone

iPod

As the first major computer company to make Open Source development a key part of its ongoing software strategy, Apple remains committed to the Open Source development model. Major components of Mac OS X, including the UNIX core, are made available under Apple's Open Source license, allowing developers and students to view source code, learn from it and submit suggestions and modifications. In addition, Apple uses software created by the Open Source community, such as the HTML rendering engine for Safari, and returns its enhancements to the community.

Mac

Store

Apple believes that using more robust, secure oper subjected to the crucible with this software can be the Open Source commun

iPad

. III AT&T 🛜 7:27 Legal About

The WebKit Open Source Project (including portions from the khtml, kcanvas, kdom, and ksvg2 projects) and JavaScriptCore Project (including portions from the kjs project)

Copyright © 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007 Various contributors as noted below.

Contributors to the WebKit, WebCore and JavaScriptCore projects include: Alexander Kellett, Alexey Proskuryakov, Allan Sandfeld Jensen, Andrew Wellington, Antti Koivisto, Apple Inc., Bjoern Graf, Daniel Molkentin, David Smith, Dawit

Community-based Innovation Critical to Apple's Success - > 200 Projects









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SHOPOURFULL WHAT'S IN PHOTO 12 MONTH DESIGNER CATALOG STOCK? GALLERY CLUB INTERVIEWS







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SUBMIT YOUR

DESIGN

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### Browsing Submissions

Threadless is an ongoing tee shirt design competition. Designs are put into the running to be scored for 7 days. After those 7 days high scoring designs are chosen to be printed and sold from our "SHOP" section!

ROWSE

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JOIN THE

Show Me	That I	With Keyword(s)	
🗹 Designs In The Running	Both Have & Haven't Scored 💌		List'Em!
Designs Completed Scoring			j
>			

#### Listing 1 - 48 of 196 Results



alright by tefem<sup>TH</sup>



by amishtek



BAD by NOPER



BLOG FORUM

the look of love by design love



Need a helping hand! Anyone?

by yeohgh



by the wurst



by annlaug



What's in my mind?

by niko 4





by CDK



FORM4 by conFORM ב יתתבנ **FING OF** 77 NE IT Unique Design by <u>katoon</u>



**Finger Discount** 

<< Prev | 1 <u>2 3 4 5 | Next >></u>





**I**VES

SUBMIT YOUR

BROWSE

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JOIN THE



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## Threadless by the Numbers



Over 500,000 community members

800 designs per week are submitted

134,000 designs from 55,000 individuals

Each design gets over 600 votes – total 80M votes have been cast!

### The Threadless Business Model



### The Threadless Business Model



### Learning from the Community



### Learning from the Community



# Contest are a Historically Important *Alternative* Institution for Driving Innovation....



The Duomo - Florence 1418 - Up to 2,000 Florins

The Longitude Prize 1714 - Up to £20,000



Invention of Food Canning 1800 - Up to 12,000 Francs

### ....Currently Popular as Well.....







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Local Motors – Car Design 2008 – Over 35000 Submits

Ansari X-Prize – Space Travel 1996 – \$10,000,000

Netflix Prize - Movie Rec. 2006 - 2009 Over 5000 Teams - \$1M

#### America COMPETES Act 2010



the co-founder of Sun Microsystems Bill Joy once famously said, "No matter who you are, most of the smartest people work for someone else." This fact calls for a fundamental shift in the way an institution solves problems. Prizes and challenges are part of the solution.

#### Proposal for Prizes at NSF (2006)



#### AT THE NATIONAL SCIENCE FOUNDATION

Committee on the Design of an NSF Innovation Prize Board on Science, Technology, and Economic Policy Policy and Global Affairs

> NATIONAL RESEARCH COUNCIL OF THE NATIONAL ACADEMIES

Legislative and Policy Interest in Encouraging Prize-based Contests to Elicit Innovation



### **Optimal Design of Research Contests**

By Yeon-Koo Che and Ian Gale<sup>\*</sup>

#### Digging for Golden Carrots: An Analysis of Research Tournaments

By CURTIS R. TAYLOR\*

The Optimal Allocation of Prizes in Contests

By Benny Moldovanu and Aner Sela\*

# Strategy and Dynamics in Contests

Kai A. Konrad

OXFORD



## Well Established Theoretical Foundations for Contest Design

## Empirical Evidence Lags Theory

- "Owing to the limited experience with innovation prizes, relatively little is known about how they work in practice or how effective they may be as compared with, for example, R&D grants and contracts, or tax incentives."
- Similar concerns by scholars (Brunt, Lerner and Nicholas 2011; Murray, Stern, Campbell and MacCormack 2012; Williams 2012)

### INNOVATION INDUCEMENT PRIZES

THE NATIONAL SCIENCE FOUNDATION

Committee on the Design of an NSF Innovation Prize Board on Science, Technology, and Economic Policy Policy and Global Affairs



## Mission for Crowd Innovation Lab

Lab partners: NASA, Harvard Medical School & TopCoder + additional partners

Over 650 contests completed - for a variety of software applications.

Executed 17 computational algorithm development challenges (14 exceed benchmarks): Computational biology, space sciences and advanced analytics

Managed four large-scale HMS grant funding processes (\$25,000 to \$800,000)

Dual objectives - solve innovation problems & drive causal inference

### InnoCentive as a Modern Implementation of Innovation Contests



### R&D Labs

#### Knowledge Broker

110,000 independent scientists

### Context:

- 1. R&D Labs inside of major multinationals are not able to solve certain scientific problems
  - Their own internal and external experts cannot obtain solutions
- 2. Hope to get solution by going to distributed scientists that they do not know who may have an answer

### **Example Problem from InnoCentive.com**

### **INNOCENTIVE 3109**

R4-(4-HYDROXYPHENYL) BUTANOIC ACID POSTED: June 26, 2001 DEADLINE: Nov 30, 2001 \$25,000USD

Solution Criteria: Synthesize following chemical:

2 steps or fewer >80% overall yield >95% purity <\$100/Kg 2.0g white to off-white solid







221 individuals express interest in solving problem and create project rooms on InnoCentive.com site



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# Solution to Problem

221 individuals express interest in solving problem and create project rooms on InnoCentive.com site

- 10 individuals from 7 countries submit chemicals for analysis
- Retired scientist with wet lab in his backyard wins



InnoCentive Solver Dr. Werner Mueller

# Unconventional Individuals Win in Innovation Contests

- Study of 166 problems involving over 12000 scientists from InnoCentive
- Focus on what predicts winners
- What explains who creates a winning solution?
  - Technical Marginality: Increasing distance between solver's own field of expertise and the problem field
  - Social Marginality: Women scientists, when they enter, more likely to win

Organization Science Vol. 21, No. 5, September-October 2010, pp. 1016–1033 ISAN 1047-7039 [INSAN 1526-5455] 10 [2105] 1016

### Marginality and Problem-Solving Effecti Broadcast Search

Lars Bo Jeppesen Department of Innovation and Organizational Economics, Copenhagen Business School, 2000 Frederiksber

#### Karim R. Lakhani Technology and Operations Management Unit, Harvard Business School, Boston, Massachusetts 021

We examine who the winners are in science problem-solving contests characterized by open by mation, self-selection of external solvers to discrete problems from the laboratories of large intensive companies, and blind review of solution submissions. Analyzing a unique data set of involving over 12,000 scientists revealed that technical and social marginality, being a source and heuristics, plays an important role in explaining individual success in problem solving. The solution was positively related to increasing distance between the solver's field of technical exof the problem. Female solvers—known to be in the "outer circle" of the scientific establishment better than men in developing successful solutions. Our findings contribute to the emerging litributed innovation by demonstrating the value of openness, at least narrowly defined by disclosibarriers to entry to nonobvious individuals. We also contribute to the knowledge-based theory of effectiveness of a market mechanism to draw out knowledge from diverse external sources to so

Key words: open innovation; problem solving; marginality; gender; broadcast search History: Published online in Articles in Advance February 22, 2010. Η

Innovation Contests Well Suited for High Uncertainty Problems - TopCoder Data > 800 contests ~5000 coders

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DOI 1

#### Incentives and Problem Uncertainty in Inno Contests: An Empirical Analysis

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Key question in contest design is about how many competitors should enter?

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- Lots of entry means lower probability of winning - less incentives to work hard

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# Can the Crowd Beat Harvard Medical School?

- Objective: Improve on NIH MegaBlast algorithm for nucleotide sequence alignment for immunogenomics
- Experiment: Generate and evaluate external solver participation in development of gene-sequencing tools applied to immunoglobulin and antibody genomics
- Two week long competition \$2000 prize pot x 3 on TopCoder.com

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#### Antibody Sequence Clustering - Scripps Research Institute (\$7500 - 10 Days - 40 People)



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Crowds Enable Discovery of Extreme Values Through Lots of Entry and Diversity in Participation Pool



#### For **Any** Distribution F - We Can Calculate Number of Draws Needed to Achieve a Quality Objective



# The Quantile of Expected Value of **n** Draws from Several Distributions



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## But Internal Experts May Still on Average Be Smarter than the Crowd



#### Expected Value of Max Under Normal Distribution



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# Diversity of Approaches in Solving the X-Prize Automotive Challenge



TW4XP Germany 1 wheel at front 2 wheels at back



KWAY MOTORS Italy 2 wheels at front 1 wheels at back



APTERA California 2 wheels at front 1 wheel at back



X-TRACER Switzerland 1 wheel at front 1 wheel at back

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## Diversity of Participants in X-Prize Automotive Challenge



Provider Screening System for Medicaid Management Information System Built Through Contests (12 Months)



#### Provider Screening System for Medicaid Management Information System





**V** June 2014 Harvard ARE INVESTORS BAD FOR BUSINESS? **Business** The Price of Wall Street's Power Managing Investors

#### FORUM ON HEALTH CARE INNOVATION

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HEALTH ACCELERATION CHALLENGE +-->

**How to Spot Talent** 

(Hint: Experience Is Overrated)

SEEKING CARE INNOVATIONS READY TO SCALE

## HBS Experiments with **Open Communities** and Contests

Clay Christensen engages over 200 alumni to understand the Capitalist's Dilemma

- Produced a Harvard Business Review article w/ all collaborators listed as coauthors - a 1st for HBR
- Created an innovation assessment quiz for organizations to avoid the Capitalist's Dilemma trap

HBS/HMS Health Acceleration Challenge to identify proven health care innovations ready to scale for impact

 Yielded almost 500 applications and thousands of comments



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## Internal Development

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## Internal Development

Define the Problem

H



## Internal Development

Define the Problem Find the "Right" Workers

H



## Internal Development

Define the Problem Find the "Right" Workers Incentivize Effort

H



## Internal Development

Define the Problem Find the "Right" Workers Incentivize Effort Monitor Effort

H



## Internal Development

Define the Problem Find the "Right" Workers Incentivize Effort Monitor Effort Motivate and Energize Workers

H



## Internal Development

Define the Problem Find the "Right" Workers Incentivize Effort Monitor Effort Motivate and Energize Workers Redefine the Problem

H



## Internal Development

Define the Problem Find the "Right" Workers Incentivize Effort Monitor Effort Motivate and Energize Workers Redefine the Problem Develop Criteria for Evaluation

H



#### Internal Development

Define the Problem Find the "Right" Workers Incentivize Effort Monitor Effort Motivate and Energize Workers Redefine the Problem Develop Criteria for Evaluation **Pray** for Performance





## Internal Development

Define the Problem Find the "Right" Workers Incentivize Effort Monitor Effort Motivate and Energize Workers Redefine the Problem Develop Criteria for Evaluation **Pray** for Performance

## Contest




### Internal Development

Define the Problem Find the "Right" Workers Incentivize Effort Monitor Effort Motivate and Energize Workers Redefine the Problem Develop Criteria for Evaluation **Pray** for Performance Contest

Define the Problem

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### Internal Development

Define the Problem Find the "Right" Workers Incentivize Effort Monitor Effort Motivate and Energize Workers Redefine the Problem Develop Criteria for Evaluation **Pray** for Performance

### Contest

Define the Problem Develop Criteria for Evaluation

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### Internal Development

Define the Problem Find the "Right" Workers Incentivize Effort Monitor Effort Motivate and Energize Workers Redefine the Problem Develop Criteria for Evaluation **Pray** for Performance

### Contest

Define the Problem Develop Criteria for Evaluation Set Prize

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### Internal Development

Define the Problem Find the "Right" Workers Incentivize Effort Monitor Effort Motivate and Energize Workers Redefine the Problem Develop Criteria for Evaluation **Pray** for Performance

### Contest

Define the Problem Develop Criteria for Evaluation Set Prize Attract Solvers

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Define the Problem Find the "Right" Workers Incentivize Effort Monitor Effort Motivate and Energize Workers Redefine the Problem Develop Criteria for Evaluation **Pray** for Performance

### Contest

Define the Problem Develop Criteria for Evaluation Set Prize Attract Solvers Test Solutions

H





### Internal Development

Define the Problem Find the "Right" Workers Incentivize Effort Monitor Effort Motivate and Energize Workers Redefine the Problem Develop Criteria for Evaluation **Pray** for Performance

### Contest

Define the Problem Develop Criteria for Evaluation Set Prize Attract Solvers Test Solutions **Pay** for Performance

# What Motivates People to Participate in Crowd Work?

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# Extrinsic

Cash, Job Market Signals, Community Prestige


# Extrinsic

Cash, Job Market Signals, Community Prestige

# Intrinsic

Fun, Enjoyment, Learning, Autonomy, Taste



### Extrinsic

Cash, Job Market Signals, Community Prestige

# Intrinsic

Fun, Enjoyment, Learning, Autonomy, Taste

# Prosocial

Community Belonging, Identity



# Extrinsic

Cash, Job Market Signals, Community Prestige

# Intrinsic

Fun, Enjoyment, Learning, Autonomy, Taste

# Prosocial

Community Belonging, Identity

# Recall: Most People Lose in Contests

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# When Do Crowds Don't Work?







# Missing Governance





17 Comments / I Shares / W 85 Tweets / Stumble / Email

More +



17 Comments / f Shares / 185 Tweets / Stumble / Email



### Incentives Mismatch

More +



17 Comments / I Shares / J 85 Tweets / Stumble / Email

More +







17 Comments / I Shares / W 85 Tweets / Comments / Email

More +







### Task Interdependence

# Local Motors: A "Born Open" Firm



# Local Motors: A "Born Open" Firm





# Direct Digital Manufacturing Challenge

+





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# Crowds are Available on Demand to Solve a Range of Tasks



### Quantity and Variety of Ideas Critical to Innovation Success



### A Framework for Organizing Crowds

(King & Lakhani 2013)

Distributed		
Selection		
Knowledge		
Concentrated		
	Narrow	Broad
Idea Generation Knowledge Distribution		

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### A Framework for Organizing Crowds

(King & Lakhani 2013)



### A Framework for Organizing Crowds

(King & Lakhani 2013)









#### Idea Generation Knowledge Distribution



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# The Future Is Already Here, Its Just Not Very Evenly Distributed - William Gibson



# Thanks!

# k@hbs.edu | @klakhani

