TRICKS AND PITFALLS IN OPEN INNOVATION MANAGEMENT

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Abstract

Innovation represents a powerful tool through which organizations creates, maintain or increase their competitive advantage. In addition innovations may improve effectiveness of business processes or may facilitate development of new markets. New trends in innovation management like Open Innovation management came to become a respectable phenomenon in managing organization prosperity.

Open Innovation (OI) is a concept which has been attracting attention not only of academic sphere but also business entities over past several years. Companies like IBM and Lego proved that Open Innovation can accelerate and increase the efficiency of the innovation process. Academic institutions have also caught up with this new innovation trend and recognized the importance of Open Innovation for the next industrial development. For this purpose OI-net platform, which encompasses as many as 50 European academic institutions which have tackled OI topic, was established.

This paper specifically deals with the examination of Open Innovation role in professional service sector. It specifies possible approaches and action to be brought into effect so that the OI may generate benefits for the company. As a conclusion an Open Innovation is believed to be a suitable managerial tool for the increase of prosperity in professional services sector.

Key words: Open Innovation, service sector, competitive advantage

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Introduction

Innovation represents a tool through which organizations maintain or increase their competitive advantage, improve business processes or develop new markets. In today's globalized markets and economic situation, innovation plays an even more crucial role in a company's success. Companies that fail to innovate, die. New trends in innovation have been appearing in innovation management at a rapid pace. Yet one trend in particular has made a significant mark on the current innovation field. Its central idea, that not all innovation

activities must be contained within the innovating company, shows new directions and perspectives for managing innovation.

Open Innovation (OI) is a theme that has been gaining popularity in academic literature and the corporate environment over the past few years. Examples from companies like IBM and Lego show Open Innovation can accelerate and increase the efficiency of the innovation process. Public institutions have also caught up with the new innovation trend. The European Commission even put Open Innovation topic on agenda in Conference on Sustainable Economy & Society held in 2013.

Open Innovation is on the agenda of many companies. This is not surprising as Open Innovation is often portrayed as a universal cure to a company's innovation problems. Yet few companies have managed to master it. Further examples of best practices, along with academic research are still needed to develop a deeper understanding of the factors affecting Open Innovation.

Part of this research is aimed at examining Open Innovation in the services industry, a topic which has not yet been significantly compiled in foreign or Czech academic research. After all, examples of Open Innovation in the services industry have not been appearing to the extent of companies in other industries. Particular focus will be directed at the professional services sector, which groups together some of the largest service-oriented companies in the world. Open Innovation is supposed to become a powerful managerial tool which would help generate competitive advantage in various branches not only in industrial but also in service sector.

1. Research objectives and scientific methods used

The main objective of this paper is to analyse current development in OI application as well as to identify Open Innovation best practices for a professional services firm operating in Central Europe.

The research comes out of thorough literature search to identify and reveal key progress in Open Innovation management. Then interviews were conducted among back office employees including members of the executive committee, directors, partners, managers and consultants. Interviews provided a base for gaining valuable feedback from employees who were involved in implementing the innovation program. Apart from being able to directly target these key employees, other advantages to using interviews were identified. These include the flexibility to choose questions throughout the duration of interviews and the possibility to focus on specific issues in greater detail. However, a disadvantage to interviews is the loss of anonymousness of the respondents, which can lead to distorted answers. Finally information excerpted from literature was combined with that

obtained by interviews so that the synthesis of facts resulting in the set of corrective measures and Open Innovation models may be put into practice.

2. Open Innovation as a new paradigm

2.1 The nature of Open Innovation

Open Innovation as a term was first coined by Chesbrough (2003, p. 43). As per Chesbrough *"Open Innovation means that valuable ideas can come from inside or outside the company and can go to market from inside or outside the company as well. This approach places external ideas and external paths to market on the same level of importance as that reserved for internal ideas and paths to market during the Closed Innovation era."* Even though Chesbrough's definition of Open Innovation is widespread in literature, there has been effort to further ramify the concept. West and Gallagher (2006, p. 320) offered following definition: *"Open Innovation means systematically encouraging and exploring a wide range of internal and external sources for innovation opportunities, consciously integrating that exploration with firm capabilities and resources, and broadly exploiting those opportunities through multiple channels."* The Open Innovation approach changes the interaction between the company and the environment in which it operates. At these circumstances the boundaries of the firm become penetrable from both the inside and outside. The firm can deploy innovation internally based on external and internal ideas and technologies. However, the firm can also allocate ideas to external parties, who commercialize them through their own innovation projects. This concept is sometimes illustrated as *Open Innovation funnel* (**Chyba! Nenalezen zdroj odkazů.**). This contrasts to the Closed Innovation model, which assumes there is no other path for ideas to enter the firm, nor leave the firm as products or services. Henry Chesbrough (2006) provided strong evidence of eroding factors affecting the traditional Closed Innovation paradigm. Chesbrough has built a strong case for Open Innovation, but does not provide a descriptive model for deciding between the two approaches. This may be due to real-life examples, where most companies actually choose a combination of both approaches. The Open Innovation trend may seem inevitable, but it is important to determine if a company is ready to implement Open Innovation.

2.2 Open Innovation process

The question which shall be raised is how Open Innovation affects the innovation process. A detailed description of the OI methods used in the innovation process will be provided, followed by real-life examples from companies devoted to Open Innovation. The methods described will be conducive to the development of process which are applicable in the professional services industry. It clearly shows the innovation process in connection with the firm's

boundaries. The Open Innovation process can therefore be divided into three core processes based on the different sources of innovation and paths to the market. Gassmann and Enkel (2004) provide the following division:

- **The outside-in process** - integrating external knowledge, customers and suppliers.
- **The inside-out process** – bringing ideas to the market, selling intellectual property (IP) and out-licensing.
- **The coupled process** – combining the both outside-in and inside-out processes in strategic networks.

The coupled process is essentially a hybrid of the other two processes, so for simplicity, only the outside-in and inside-out processes will be analysed in the following subchapters.

3. Open Innovation in the services industry

Notwithstanding fact that literature on the topic of Open Innovation in the service sector is scarce and there is a general consensus among academics that more research is necessary. If Open Innovation is to succeed as a new paradigm to innovation it will need to be able to adapt to serve the service industry. Chesbrough (2011) examines the problem of applying Open Innovation to the services industry. Vargo et al. (2004, p.5) offer a reason for the lack of research in the field. According to them, research in the innovation of services has been stunted by a traditional product-based focus in economics and business thinking. Accounting systems, for example, are built to precisely track inventory along the production lifecycle of a product. Important service-oriented measures like customer satisfaction, on-time delivery and employee satisfaction are not commonly found in accounting practices. Innovation in the service industry differs from that which come into effect in the manufacturing sector. Apart from the basic differences in tangibility, consumption and storability of the end product, there are certain differences that make the services industry more suitable for applying Open Innovation. Pedrosa (2013) came to conclusion that the adoption of Open Innovation principles is closely tied with some distinct mangers´ characteristics and experience which facilitate transfer and exploitation of external knowledge and promote their easier conversion into Open Innovation.

In addition majority companies in the service sector rely less on in-house R&D for developing innovation than companies in the manufacturing sector (Sheehan, 2006, p.45). Open Innovation in the service industry can also benefit from the intangibility of individual services. This characteristic not only shortens the time-to-market period of new services, but it can also increase the extent of the innovation system from a few innovators to a myriad of innovating partners (Sandulli, 2009, p. 52). Obviously the role of customer may be different,

since services offer a direct contact between the provider and customer. Customers may be more accustomed to participating in the development, offering and feedback of services. On the other hand, certain characteristics discredit the use of OI in the services industry (Sandulli, 2009, p. 26). The approach which has attracted a great deal of attention over past decade was Customer centric approach (Jiřinová et al., 2013). This approach directly incorporates customer´s opinion into innovation process and thus customers become participants in innovation process. Innovative service is thus designed to fit in properly with customer needs and by this way it acquires attributes of Open Innovation. Open Innovation remains in spotlight of banking sector as well where banks strive to incorporate customer´s opinion into innovation process by means of focusing on two strategies, specifically combined with *inside-out* versus *outside in* Open Innovation (Gianiodis, 2014).

As opposed to closed innovation Open Innovation still does not provide the mechanisms needed to support the sharing of tacit knowledge**.** Moreover many innovations in the services industry cannot be patented, which makes it more difficult to enforce and protect intellectual property rights.

When discussing Open Innovation methods suitability for services it is possible to resort to one of the few studies dedicated to this topic was performed on Korean small and medium sized enterprises (SMEs) operating in service industries. Based on a division of the types of collaboration proposed by Lee et al. (2010). The authors came to the following conclusions:

1. Collaborative activities, particularly networking, can be inefficient in service sectors. This is because services are intangible assets. Transferring intangible knowledge is more costly and time-consuming than with tangible assets.
2. Technology acquisition, based on licensing, was found to be the most efficient collaborative activity. The reason for this is technology acquisition may require less dependency on partners than under R&D partnerships or networks.
3. SMEs conducting networking activities focus less on organizational innovation. Organizational innovation should receive a higher priority for structuring more effective networks and facilitating organizational interaction (Yongysoon, S. et al., 2012, p. 359).

4. Developing Open Innovation models for the professional services industry

There is little evidence that Open Innovation model to be workable in service industry has been already developed. Theoretical modelling based on Open Innovation principles has been

limited to defining structural categories (Gould, 2012, p.4) with minimal focus on industrial (Ozman, 2011, p.27) or cultural (Salmi, 2010, p.21) differentiation. The conclusion made by Lee et al (2010), on collaborative models being less efficient in SME's in the service industry, has lead me to examine strictly collaborative Open Innovation models. In order to obtain key underlying data for OI models elaboration an interview of key employees on current innovation practices were conducted. The interviews were then conducted in three phases:

Phase 1: These interviews were focused on gaining opinions from employees holding positions in lower management and operations. This included members of the marketing team, the i-Portal administrators, Regional Data Centre Director, Service Centre teams and employees who had submitted ideas to the innovation portal. The interviews were focused on determining strengths and weaknesses of the current innovation program.

Phase 2: Members of the upper management were approached to share their stance on the innovation program. Interviews were conducted with the Regional Innovation Leader, Polish Innovation Leader, Regional Talent Supervisor, Chief Strategy Officer and the Regional Risk Managing Partner.

Phase 3: The final phase of the interviews took place once the corrective measures, OI recommendations and models had been proposed. The same group of top-managers and partners were addressed to validate the ideas and provide their feedback on the direction of the firm's innovation program.

The Open Innovation model was purposefully developed for service company operating in a financial business, consultancy and auditing In this context as many as six Open Innovation models were proposed like Ecosystem model, Idea competitions - Talent model, Customer integration model, Supplier integration model, Innovation networks and intermediaries model and Internal bridges model. All these models were properly validated. For the illustration Idea competition model is presented in more detailed structure.

4.1 Idea competition – Talent model

The findings in chapters 6 and 7 show the analysed company practicing idea competitions through channels such as the I-Portal and Fast Track. Idea competitions however have not been focused on external innovators such as clients or partnering organizations. Instead, the focus has been on collecting ideas from innovative employees.

A reason for this limited focus could be complicated intellectual property (IP) issues involved with collaborating with external parties. Idea competitions require the hosting organization to set out clear rules over the ownership and exploitation of IP. Examples of idea competitions in companies like Kraft and Adidas have shown hosting organizations retaining the ownership of

the submitted ideas. This can deter external innovators from participating. Therefore, the incentive mechanism is primarily based on intrinsic motivation, such as the challenge of participating and peer recognition (Lakhani, 2005, p. 4). In order to lessen the risks involved with the transfer of IP in an innovation competition and target innovation partners with attractive incentives, the professional services industry should primarily focus on 'business case' innovation competitions as proposed by Lindegaard (2010, p. 173). The prospect of employment and developing ideas into service offerings could be motivators for talented innovators.

Hence, the open talent model is based on integrating idea competitions into the recruitment processes in order to attract new ideas and talent. The innovation partners collaborating in the talent model are the company's current employees and future employees.

Process description

The open talent model can be defined in the following process:

1. Define a theme to the contest
2. Invite and attract participants
3. Specify terms of the contract
4. Collect and evaluate business cases
5. Reward
6. Develop and test service prototypes, coach innovation teams
7. Commercialize

Criteria to be imposed on the model

- The following criteria have been selected from examples of idea competitions:
- A creative theme exists for ideation
- Motivation to attract contestants
- Marketing and brand recognition
- Infrastructure to assess entries
- Clear rules outlining intellectual property rights
- Infrastructure to coach, develop and commercialize ideas

Example from other member firm

The Australian member firm's implementation of an open talent model in its innovation program can serve as an excellent example. A few years ago the firm hired a talented physics graduate to its Technology unit through an innovation challenge, which was aimed at university students. Here, the graduate developed an interactive SMS technology known as J-Mango. The student eventually launched his own company, but he still plays a key role in furthering many of the company's technology-based innovations. Developing the

functionality into a commercial application may have started with the individual, but it was moved forward with the help of talented employees in the company.

To demonstrate the effectiveness of attracting talented staff through innovation contests, the company saw the number of graduate applications to the company increase threefold from the launch of the innovation program. Not to mention success stories like these boost interest from firms wishing to have their own innovation programs consulted.

4.1.1 Scope of the model

An advantage to this model is its focus on one of the main pillars of the corporate strategy, which is Talent. The company under this model focuses on creating an innovative environment, which attracts talent to the company. The talent model could be valuable to integrating the innovation program into the company's recruitment and talent development programs. Validation will be focused on implementing the talent model within the current recruitment processes in the Central Europe member firm.

4.1.2 Validation of the model

Validations of the model were conducted through interviews with the following partners across the region, while the very talent model was validated by Executive committee member for quality and Innovation leader in Central Europe (MR). Other key person who participated in validation of other models were Chief strategy officer and Innovation leader in Poland.

- Executive committee member for quality stated*: „This model seems applicable. In CE, most of the people hired are trained in economics, accounting, and law. Talent for innovation has certain boundaries in this sense. Other member firms, like the UK, hire psychologists, chemists, and people from different professions and try to incorporate them into the business. This creates a multi-professional environment for innovation and new ideas. Which is absent in CE."*
- Innovation leader in Central Europe stated*: „Talent is a key asset in our firm and it would only make sense to target it through idea competitions and other innovation activities. It should be emphasized that good ideas do not have to come from people with degrees. I could see these competitions not only focused on students, but also on other recruitment groups".*

It has been proven that aforementioned models answer the purpose and can be applied in practice. Both models were accepted by key company executives and can be processed as business case.

5. Conclusion

Open Innovation represents approach where external subjects take part in company innovation process in the way of creating synergies among these subjects. The concept of OI is relatively new and was firstly addressed by Chesbrough at the beginning of millennium. Since then this concept has been grabbed and adapted to serve purposes of both business and non-profit sector. Properly designed and adapted OI then may contribute to competitive advantage and company value creation. This paper deals with Open Innovation practice which is exemplified by cases taken from service sector. In order to make OI application more feasible it is advisable to elaborate innovation models which represents adaptable framework for smoother OI incorporation into company innovation process. In this particular case potential for OI utilization in service sector was explored. It was proven that OI concept might be applicable in service sector to bring benefits to both internal and external subjects. There are a lot of prerequisites or criteria which substantiate viability of business model. In particular Consultancy Company was chosen as a pilot project where viability of OI concept was tested. First of all six Open Innovation models were devised for the professional services industry, which were further successfully validated through interviews with innovation leaders. As an example Idea Competition – Talent model was presented. Having this type of model in force the company can better utilized company intellectual capital and effectively transform it into shareholders´ value. By the evaluation of interviews with innovation leaders it was proven that OI models creates inevitable framework for design, elaboration and implementation of OI in consultancy business. As a conclusion OI represents a new paradigm in company innovation process potential of which is expected to be fully utilized in the future.

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