

Postcard from the Vanguard of Innovation - Silicon Valley, California.

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Postcard (3): Lessons of Innovation - How open is open enough?



How Open is Open Enough?

Dear friends,

I am happy to send you this postcard from the vanguard of innovation, where I have visited (physically and virtually) many places over the past couple of years. So, in this case, greetings from Silicon Valley, a place you will hopefully all get to visit, and, coincidentally, now the home to the inventor of the concept of Open Innovation, Henry Chesbrough.

What a bustling place! Of course, while COVID-19 has had an impact here as well as everywhere else, it is nonetheless clear that this area remains one of the most innovative places on the planet. And it seems that a key ingredient in the 'secret sauce' is the idea of Open Innovation - people, ideas, and capital moving across firms to facilitate a lively ecosystem.

It is exciting to watch these efforts unfolding - not just because of the important problems they may help solve, but also because they can teach us a lot about where innovation, and in particular innovation strategy is moving. That is, if people, ideas, and capital move freely across firms, and we need many firms to come together for customer value to be created (think about how many "firms" there are on your mobile phone, right now, in the form of hardware, software, and data!), what does this mean for our thinking of how to protect innovation in some form to reap financial profit from it? While it is clear that Open Innovation may allow firms to produce innovation at a quicker pace, and maybe even in new ways and domains, how can they ensure that the benefits of these efforts do not simply accrue to others?

Why would you want to be open?

It all started with a simple realization, most clearly put in words by Sun Microsystems' Bill Joy: "No matter who you are, most of the smartest people work for someone else." Interestingly though, that would

not only imply that firms could improve their own R&D efforts by working more strategically with others; at the same time, that implies that R&D conducted in-house might be seen as more valuable elsewhere. This logic of allowing R&D inputs and outputs - or simply 'knowledge' more generally - to cross the boundary of the firm in a strategic and managed way is what is behind Henry Chesbrough's original idea of Open Innovation. It is not anarchy; it follows a plan (Chesbrough, 2003a, b).

Here, in the vanguard of innovation, Open Innovation has long been practiced, extensively. Smart leaders have learned to trust in the process; rather than hiring "hands" they can supervise while working on topics these firms understand well, such leaders hire "heads" to help them tackle questions they did not even know they had, to discover entirely new approaches to innovation in industries including high tech sectors such as pharma or ICT, as well as supposedly less technology-intensive sectors such as energy or furniture (Alexy & Reitzig, 2012).

Which new places can you get to, by being open?

Looking back from the vanguard of innovation, there are a lot of firms and managers scared of being open; scared of losing IP, scared of a different mode of work, scared of losing control. Out here, those worries are just a distant memory, with being open merely representing openness as one more arrow in the quiver of managers (Alexy, Criscuolo, & Salter, 2009, 2012; Salter, Criscuolo, & Ter Wal, 2014). Even more, clever strategists have discovered that this arrow works in "bad weather" - under environmental conditions where firms need someone else to work with, but usually cannot find them, because it is (1) too costly to find potential partners, (2) too expensive to design collaboration contracts with them, or, even worse, (3) because those partners available do not want to work with you. It seems that cleverly use of Open Innovation strategies holds the power not just to make R&D better, but to allow for entirely new strategic moves (Alexy, George, & Salter, 2013).

In fact, the talk here in the vanguard is what would happen if literally everything was open: no IP protection on software or hardware owned by companies, shared development of new projects, and free exchange of ideas within and across firms, even competitors. Why should firms still exist, and how would they achieve competitive advantage? I would argue that, even in such a world, customers will value service - consulting, integration, and maintenance, among others; brand should still matter, too (Alexy, West, Klapper, & Reitzig, 2018). As such, it is hardly surprising that firms who hold strong capabilities in these areas have been the first to embrace pro-active strategies of opening up their own knowledge, and heavily push for open standards (Alexy & Reitzig, 2013), hoping to rally others around their technologies to build innovation ecosystems playing the openness game most aggressively (Dattée, Alexy, & Autio, 2018).

Even here in the vanguard, there is a lot of anxiousness about predicting who will come out as a winner of such increased openness. In the end, it may simply be the customer, who will have better access to more variety. Yet, it may also be employees, who can collaborate more fluidly across firm boundaries on self-selected projects (Majchrzak, Griffith, Reetz, & Alexy, 2018). In any case, it is clear that managers and firms will need to adapt to this more rapid pace of innovation, if they do not want to miss out on future opportunities and be relegated to fighting over crumbs instead of getting big slices of cake.

What should managers do?

From observing what is going on here in the vanguard of innovation, there seem to be three recommendations that any firm thinking about Open Innovation can easily implement:

1. **START SLOWLY:** nothing seems to kill a move toward Open Innovation faster than trying to start with an all-encompassing Open Innovation strategy. Given just how much it changes about work, nay-sayers need to be convinced by evidence that Open Innovation is good even for them. Start with small scale projects staffed with volunteers, who can then become your openness ambassadors. Then, gradually expand your efforts, and make sure to offer training to everyone who needs to develop new skills to work in an open world.

2. **INSTITUTIONALIZE OPENNESS FROM THE TOP:** if you have top management on board, make sure to use this to create roles and rules to foster Open Innovation. P&G, one of the most prolific open innovators, has anchored Open Innovation firmly in its strategy (along the lines of "We need X% of revenues coming from new products developed outside the firm" to increase the pace at which this fast-moving consumer goods firm is running) and its organization structure (with specific Open Innovation agents as well as incentivization packages). Learn that Open Innovation, at least initially, is the enemy of "on time, on budget" - there may often be a fundamental clash with established evaluation metrics, so make sure to resolve it before scaling up openness.

3. **GO BEYOND TRANSACTIONS:** all too often, two-party collaborations, such as alliances, are taught to be about trying to strongarm the other party before it strongarms you. Such distrust is not just antithetical to the basic idea of collaboration - it is bad for business. In an Open Innovation world, everyone could work with everyone, and everyone can talk to everyone. If your firm develops the reputation of being pushy, self-centered, and only in for the best for itself, it is quite likely you will quickly find yourself at the sideline of future development. Smart open innovators have realized that the idea of "karma" is quite real, and quite important.

Looking back from the vanguard, the path ahead for everyone hoping to come here may not be completely free of obstacles. Yet, learning from those who have come here, you will find that all of these obstacles can be navigated to define your very own course to your very own spot here, at the open innovation vanguard.

I will be looking forward to seeing you!

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