**Balancing open and closed innovation: Business strategy as determinant**

This chapter deals with the question if and how a company’s business strategy might impact its degree of openness and its innovation performance. How does a firm’s strategic orientation affect its innovation approach and its balance with respect to an open or closed innovation paradigm?

**Introduction**

Despite an approved affiliation between strategy and innovation (Gianiodis et al., 2010), the impact of strategy on the application of diverse collaborative innovation formats has not been satisfactorily investigated yet (Keupp and Gassmann, 2009). Nevertheless, the examination of this relationship is fundamental, as it significantly affects a firm’s innovativeness (Droge et al., 2008) and financial performance (Fiss, 2011). Research is still not clear about the balance between open versus closed innovation leading firms to achieve a certain innovation performance. With respect to the degree of openness, business strategy might act as determinant. In this context, case studies analyzing distinct strategic archetypes help with approaching this question.

**Theoretical concept**

In order to analyze dissimilar business strategy forms considering both market orientation and internal structures and processes, the Miles and Snow (1978) strategy concept provides the core structure. Since its introduction, this conceptualization has been among the most extensively investigated and confirmed strategy frameworks (Fiss, 2011; Hambrick, 2003). Hence, the business landscape can be represented via three proactive strategic archetypes which we redefine as the “opportunity-seeking Prospects”, the “market segment securing Defenders” and the “dual-oriented Analyzers” as hybrid in between. Due to the fact that the “Reactors” as fourth archetype do not act proactively, but rather reactive, innovation as such does not play an important role. Consequently, we focus on the three proactive strategy archetypes towards innovation in our research.

Based on the original Miles and Snow (1978) strategy typology which was extended by market and innovation orientation characteristics (DeSarbo et al., 2005; Fiss 2011; Slater and Mohr, 2006), we could deduce distinct innovation strategies, behaviors as well as collaborative innovation formats affecting innovation performance. Businesses vary in performing opportunity search and in opening up towards the external environment (Laursen and Salter, 2006). Certain companies exploit collaborative innovation formats to skim a range of ideas and insights from external actors, whereas others emphasize in-house R&D and rarely cooperate with external actors. Via a multiple case study analysis it shall be examined if business strategy determines the balance of open versus closed innovation and shall demonstrate if and how firms can successfully deduce this balance from their strategic orientation.

**Methodology**

In order to classify prosperous firms with different business strategies for a multiple case study analysis, data of a non-compulsory innovation survey of the years 2010 and 2011 (N=241) was considered. Thirteen successful companies with different business strategies were selected considering their market position, turnover and reputation in the market. These multiple cases were analyzed in detail (Eisenhardt, 1989) and could be categorized according to the Miles and Snow (1978) strategy typology. Both big companies as well as small and medium-sized enterprises with different industry affiliations were included to study polar types (Eisenhardt and Graebner, 2007). In order to augment validity, data collection was based on semi-structured interviews and combined with information from firm-internal documents and archival data (Yin, 2003).
Results

The multiple case study analysis supported the existence of the three proactive strategic archetypes which deduct different innovation practices from strategy. The opportunity-seeking Prospectors aspire technology leadership and broadly open up to the environment. Scouting activities and early trend identification are crucial for this archetype which cooperates with a variety of external partners. Opportunity-seeking Prospectors frequently include their propensity towards open innovation within their strategy formulation. Due to the fact that they are experienced with respect to diverse open innovation formats, they commonly utilize a well-elaborated system for measuring and benchmarking the success of their open innovation efforts. Based on this archetype’s willingness to take risks, its willingness to cannibalize and its future orientation, the opportunity-seeking Prospectors usually gain a substantial percentage of their revenues from radical innovations.

The market segment securing Defenders are positioned at the other strategic end, since they go for market segment leadership. Furthermore, they put an emphasis on maintaining their existing market shares. As a result, market segment securing Defenders strive for cost leadership and attempt to considerably optimize their internal processes. Regarding this objective, a great degree of firm openness is not essential. In its place, market segment securing Defenders concentrate on the results of their in-house R&D and the internal production depth. Because of efficiency reasons, this archetype predominantly integrates current customers or suppliers in the internal innovation process if opening up. Our analysis shows that especially a close and adjacent linkage with the current customers is crucial for the market segment securing Defenders. Other external knowledge sources are less important and are hardly exploited. This orientation and the propensity towards efficiency bring the market segment securing Defenders to create a significant percentage of their revenues via incremental innovations.

The dual-oriented Analyzers are positioned between the two other strategic extremes. In some marketplaces they emphasize the strategy of an opportunity-seeking Prospector, while in other markets they behave as a genuine market segment securing Defender. This duality sometimes results in a profitability problem if the top management is not able to deal with the complexity of this dual strategic orientation. However, since we only selected profitable dual-oriented Analyzers for our multiple case study analysis, they excellently dealt with this issue. In contrast to the opportunity-seeking Prospectors and market segment securing Defenders, the dual-oriented Analyzers put an emphasis on the collaboration with other firms and business units, especially across industry boundaries. According to the findings from our multiple case study analysis, we discovered that internal and external cross-industry innovation is typical for the dual-oriented Analyzers. With regards to commonly well-established partnering concepts, dual-oriented Analyzers often utilize dissimilar KPIs for measuring the success of their partnerships.

Implications

We consider our empirical results to be germane for theory and practice in order to understand that innovation management should be geared to a firm’s business strategy. It is apparent that all three proactive strategic orientations can lead firms to success if they closely educe their innovation practices from strategy. There is no need for broadly and deeply opening up to the external environment if a firm follows the strategy of a market segment securing Defender. Instead, the company should exercise purposive innovation practices to enhance resource efficiency, accelerate time-to-market and create a product or service in close collaboration with current customers or suppliers.

However, if a firm acts as opportunity-seeking Prospector or dual-oriented Analyzer and continuously searches for methods to revolutionize
markets, it is likely to maintain a greater degree of firm openness. Frequently, these firms use more progressive open innovation formats, e.g. cross-industry innovation, cooperative business modeling, netnography and others. Consequently, R&D managers should always consider a firm’s strategic orientation and its vision, when executing (radical) changes in its innovation management. Hence, we were able to approach the question to which extent companies should balance their open and closed innovation activities in order to be successful.

Outlook: Future research regarding strategy archetypes of collaborative innovation

| What is the influence of certain innovation cultural aspects on the degree of firm openness regarding dissimilar strategy archetypes? |
| What do successful strategic “Best Practices” look like with respect to innovation cultural attributes? |

At a glance – Summary

| A company’s innovation management should be geared to its business strategy. |
| Although the innovation approaches of the three proactive strategy archetypes differ from each other, all three types can achieve a great success in the markets. |
| The opportunity-seeking Prospectors successfully utilize a variety of open innovation formats, whereas market segment securing Defenders tend to focus on their internal R&D and on the integration of current customers and suppliers. |
| With respect to their duality, the Analyzers frequently use cross-industry innovation approaches. Internally, they frequently rely on collaborations across business units, whereas externally, innovation projects with partners of distant industries are characteristic. |

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Further readings