

# Chapter 15

## Open Innovation Strategies in SMEs: Development of a Business Model

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### ABSTRACT

*Open innovation in entrepreneurship already finds its acceptance at all levels of the business industry for adding value to the business. The value could be in the form of economic gain or enhancement of knowledge leading to a sustained financial base. Open innovation adopts various strategies to accomplish the task for enhancing the value gain. Varying by size, nature, pattern, or characteristics of the firm various strategies are being adopted by enterprises. Though largely known to be familiar in corporate business houses, in recent years open innovation is also becoming increasingly familiar in small and medium enterprises (SMEs) and the trend is rapidly increasing. However, despite the potency of open innovation strategies, most of the enterprises are yet to find a sustained business model, especially for the SMEs working at the periphery of that value chain. This forms the basis of the current study. This chapter is trying to formulate a business model incorporating partnership approach from academia, research houses, intermediaries, and other stakeholders.*

### INTRODUCTION

Open innovation has emerged as a new paradigm where firms commercialize external and internal ideas, knowledge, expertise and or technologies and use both external and internal resources. In an

open innovation process, models can be launched by taking ideas from internal or external sources and new technology can enter at various stages of the development process. Models can also go to the market in many ways, such as out-licensing of intellectual property or a spin-off venture in addition to traditional sales channels. Usually, open innovation combines internal and external ideas

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into architectures and systems whose requirements are typically defined by a business model. Eventually, the business model utilizes both external and internal ideas to generate business value, while defining internal mechanisms to claim some portion of that value (Chesbrough, 2003a: xxiv; West, Vanhaverbeke & Chesbrough, 2006). This notion of open innovation, was initially proposed by Chesbrough (2003a; b) and has rapidly gained the interest of both researchers and practitioners, illustrated by a number of special issue publications, dedicated conferences and a fast growing body of literature (Fredberg, Elmquist & Ollila, 2008). This new paradigm inspires enterprises to find the most appropriate business model to commercialize novel products or services, regardless of the existence of any model within the enterprise or must be sought externally (De Jong, Vanhaverbeke, Kalvet & Chesbrough, 2008).

Depending on the demand and reality, open innovation is based on various principles. Among them, the prime ideology could be the necessity to tap external knowledge to enrich the knowledge of the internal experts; the second could be the essentiality of external R&D for an enterprise to generate significant value; the next could be the trend of research that may not be completely dependent on internal resources and profit would be the main aim of entrepreneurship, irrespective of the ideas; and the important one is the acquisition of strategies that are built on a sustained business model, before reaching to the market. (Chesbrough, 2003b; 2003c; De Jong, Vanhaverbeke, Kalvet & Chesbrough, 2008). Apart from other functions, the business model creates value within the value chain and captures a part of it for the focal firm (Chesbrough, 2006b).

However, as this study has found, open innovation business model for small and medium scale enterprises (SMEs) is scant. This could be due to the scarce resources of the SMEs community, despite their major contribution in economy and job market, especially in Europe and other developed economies of the world. Furthermore, due to any

acceptable and experimentally verified business model most of the developing and transitional economies are also not in a befitting situation in adopting open innovation strategies in their business model.

This chapter intends to establish an open innovation business model synthesizing various other business models that are being developed by contemporary researchers and being adopted and accepted by leading enterprises, though hardly they could be designated as SMEs. But, it is expected that with initial support from the parent entities, the spin-off firms can take significant leaps in strengthening their business engines. Along this perspective, the chapter has developed a business model incorporating crucial supports from all stakeholders in a two tier process. Later on the chapter has focused on a few research and practice challenges and hints on future research aspects before the conclusion.

## **BACKGROUND**

Innovation can be termed as the outcome of a set of activities that utilizes knowledge to create new value to those benefiting from its use (De Sousa, 2006). It is clear that successful innovation under complexity, uncertainty and transformation can only be achieved through collaborative approaches that integrate knowledge inside and outside the enterprise. This model, in turn more popularly known as open innovation business model, is being increasingly used by enterprises throughout the world. It has been observed that this format of open innovation business model is a must for SMEs, which usually lack knowledge of competitiveness to fully comply with the innovation process. It has also been observed that larger organizations are increasingly moving away from their traditional R&D approach to a more collaborative approach, varying in nature and context (De Sousa, 2008).

Open innovation reflects the ability of firms to gain access to not only external resources but also

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