

Chapter 5

Open Innovation Strategies in SMEs: Development of a Business Model

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ABSTRACT

Open innovation in enterprises has already obtained its acceptance at all levels of the business industry for adding worth to the business. The value could be in the form of economic expanse 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 recognizable in small and medium enterprises (SMEs), and the trend is rapidly escalating. 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 outmost periphery of that value chain. This chapter is trying to formulate a business model incorporating partnership approach from academia, research houses, intermediaries, practitioners, 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

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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 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).

The initiative of open innovation assumes that corporate innovation activities are more like an open system than the conventional (20th century) vertically integrated model. It was developed based on the observation of a handful of (large) innovative companies and their deviations from traditional exercise. In some respects, the open innovation model can be seen as a call to a return to the late 19th and early 20th century model of innovation, with a rich, diverse market for technology and small, external oriented R&D labs. Research on obtaining innovations includes searching, enabling, filtering, and attaining each category with its own specific set of mechanisms and conditions. Incorporating innovations has been mostly studied from an absorptive capacity perspective, with less attention given to the impact of competencies, society and culture (including not-invented-here). Commercializing innovations puts the most emphasis on how external innovations create value rather than how firms capture value from those innovations. Therefore, the interaction phase considers both feedback for the linear process and reciprocal innovation processes such as co-creation, network collaboration and community innovation (West and Bogers, 2014).

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,

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