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# Failure in Using Social Media in an Open Innovation Project Akin to Opening Pandora's Box

110 - Failure

## Abstract

Open Innovation shifts the focus in innovation and technology management from the successful in-house development of one's own ideas and products towards the successful valorisation of firm-external innovation knowledge. Web-based social media figures particularly prominently in the unravelling of consumers' knowledge base. To profit from Open Innovation, however, firms must get adept at filtering and assessing externally acquired know-how with regard to its applicability and potential to enhance the firm's competitiveness. This requires professional and bold innovation management as well as a well-suited organisational design of the Open Innovation process. Based on a firm case example from the German manufacturing industry, this paper shows how a lack of innovation management and organisational prerequisites can lead to severe failure in Open Innovation projects. In so doing, this paper provides some lessons-learned for managers by pointing out some key aspects that should be taken into account when setting up and implementing an Open Innovation project.

## Keywords:

Open Innovation, knowledge, failure, social media, case study, innovation, innovation management, manufacturing industry

## 1. Introduction

In the light of the growing connectedness and exchange between various actors of the innovation system (Lundvall 1992, Edquist 1997, Nelson 1993, Foray 2006), the heightened permeability of firm boundaries, and the increasing openness of innovation processes (Chesbrough 2003, 2006), the accessing of external sources of knowledge has become a key element in innovation (Ebersberger et al. 2011). Open Innovation thus shifts the core focus in innovation and technology management from the successful in-house development of one's own ideas and products towards the successful valorisation of firm-internal and firm-external innovation and technology knowledge, regardless who or which social entity invented the knowledge. This perspective of knowledge generation and valorisation has some implications and requirements for innovation management at the firm-level (Chesbrough 2006; Abele 2013).

First and foremost, firms ought to be able to pinpoint relevant innovation or technology knowledge outside their firm boundaries, even outside their domestic fields of technology, base market or industry. Having identified such external knowledge, firms should also be able to acquire and transform this knowledge successfully into new innovative solutions inside their organisation to ultimately bring about improved competitiveness and economic performance. This ability of firms is referred to as “absorptive capacity” famously coined by (Cohen/Levinthal 1990) and further developed by many others (e.g. Zahra/George 2002). Secondly, firms should be able to adequately and efficiently design, manage and navigate through the various interfaces in the direction of external collaboration partners like suppliers, universities, R&D-organisations, customers, end-users, and competitors along the systematic management of knowledge in- and outflows (Kale/Singh 2009). Thirdly, due to the increasing amount of knowledge in- and outflows, firms must refine their skills in successfully filtering and assessing externally acquired know-how specifically aiming at enhancing the firm’s competitiveness. Both at the organisational as well as the staff level, this requires a favourable environment and culture of leadership, learning and knowledge exchange (Nooteboom 2009; Lane et al. 2002). Furthermore, an added benefit to the institutionalization of the professional management of intellectual property rights helps to prevent the firm from experiencing unintended knowledge drain (e.g. loss of core competencies and strategic know-how).

However, the implementation of these organisational and management prerequisites for Open Innovation frequently presents a problem, particularly for small and medium sized firms. As a result, these firms often dive into an Open Innovation project without being prepared for the increase in complexity that goes hand-in-hand with the innovation process in reaching out to external stakeholders (Som et al. 2014). Based on the case of a German manufacturer of cutting-edge audio equipment<sup>1</sup>, the paper will show how the lack of organisational readiness and collaboration management in a social media-driven Open Innovation project can result in severe, near lethal consequences for the firm. This paper thereby contributes to nurturing further academic discussion and quantitative research on this topic as well as to improving managers’ understanding of the specific nature of Open Innovation processes and their necessary prerequisites in firm-internal innovation management.

## **2. The firm case: cutting-edge audio equipment for new, sophisticated customers**

The enterprise presented in this case study is one of the world’s best-known manufacturers for professional audio speakers that are used primarily in recording studios. It was founded in March 1999. The core technology and competitive advantage lie in special tweeters and midranges that use in-house handcrafted membranes (instead of the usual dome tweeters). This technology allows for a sound as neutral and distortion free as physically possible which, in turn, represents the company’s unique asset. At the same time, this technical innovation defined the aim of the young, ambitious

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<sup>1</sup> The firm case was developed in the study “Organisational and Marketing Innovation – Promises and Pitfalls” for the European Commission DG Research and Innovation (Som et al. 2012). The firm decided to remain anonymous.

company – “to raise standards in audio reproduction noticeably and audibly”. Indeed, the Advanced Dynamic Audio Monitors (ADAM) quickly became game-changers in the world of professional monitoring. As a technological leader in the global professional audio engineering industry, the company has grown rapidly in recent years. Yet, the global market volume of professional audio engineering is limited and characterised by mid-term to long-term product life-cycles<sup>2</sup>. Simultaneously, with the sinking prices of high-performance personal computers and the increasing performance of digital audio recording software (DAW) at this time, more and more hobby musicians have begun building up home recording studios to avoid the high costs of professional studio production. Based on its vast experience in the professional studio monitor market, the enterprise thus decided to enter the home recording and HIFI market.

Given its technological leadership role in the professional audio segment, no sophisticated communication strategy was needed, since the customers were already convinced by the superior technology and the company’s reputation in the respective market segments. Additionally, the existing product portfolio had been tailored to a small number of variations for professional applications. Efforts for design, public appeal and a differentiated product portfolio had not been part of the strategy up to this point. A neglect of a basic corporate design had become the status quo. As a consequence, no marketing or customer relations management professionals were available to serve as a springboard for serving home recording customers. Knowledge about the preferences and demands of home recording customers in the new market, furthermore, proved scarce.

Given this background, the management decided to launch a new marketing concept. The tasks at hand were defined by the new specialist for marketing and included the development and implementation of a corporate identity, a more informative and convincing website and the use of social media (Twitter, Facebook, participation in relevant online forums). The use of social media, in particular, constitutes a marketing innovation for the company, as, this was completely new to the firm. The goal of this marketing innovation was not only to ensure a positive public image, but to open up a more direct and interactive channel between interested customers and the company. To increase the firm’s knowledge of their new home recording customers and to get new innovation impulses about how the existing product portfolio could be enlarged, the team ultimately decided to launch an Open Innovation project. They surveyed home recording customers about their needs, requirements and ideas about how the loudspeakers might be adapted to their demand. A new staff position for marketing was created that was supposed to take responsibility for this Open Innovation activity.

### 3. The Failures

Alongside the Open Innovation activity, a number of failures took place that can be summarised along the following three dimensions:

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<sup>2</sup> The cost of the installation of a professional audio monitoring system in a recording studio ranges between 100,000 Euros to 500,000 Euros, which – particularly for smaller studios – is not seldom a “once in a lifetime” investment.

### *Marketing failure*

Having opened-up the new communication channels to their new customer target group, the company got completely overwhelmed with inputs and inquiries. It was a particular surprise that the home recording customers turned out to be very well informed about the specific technical details of the loudspeakers. Their level of technical savvy was comparable to that of professional users'. What followed then was that the impulses coming in were of a technical calibre that could not be handled by the newly installed marketing employee alone, made all the worse by the fact that he had not been involved in technical development so far at all. The firm missed out on first gathering together some key information and analysing their new target group before involving them in an Open Innovation project. Last but not least, the design of the organisational interface (new marketing position) turned out to be completely inadequate, as, not one single technical staff member from product development had been involved from the get-go. Due to the vast amount of input and the high technical specificity, many of the external inquiries ultimately remained unanswered.

### *Communication failure*

Given that many engaging customers failed to receive any feedback or answers to their impulses, they started registering their complaints in online-forums and communities, as, they felt that they were not being taken seriously. Moreover, it turned out that the customer community is highly self-organised. Negative posts of single users quickly diffused throughout the community and spilled over into different communities and user groups. Worst of all, complaints and negative posts even reached the online communities of professional audio engineers who still represented the core customer group at this time. When the company began deleting unfavourable posts on their platform, uproar ensued. The company then suffered fatal damage in its reputation both among professional and home recording communities.

### *Organisational failure*

The surge in complexity attached to the opening of a firm's communication channels along an Open Innovation project was hence completely underestimated. Lacking professional structures for customer relationship management and marketing, the organisational frame conditions were woefully inadequate. On the whole, the Open Innovation staff were prepared neither to handle massive external feedback nor to provide decent communication to the customers. There was no ex ante definition of clear goals that should be pursued by the Open Innovation project. That being the case, the firm failed to conduct a systematic assessment and likewise failed to set up a filter on the externally provided ideas, ultimately resulting in suboptimal feedback to the customers.

## **4. Implications for managing Open Innovation projects**

The firm illustrated in this case managed to eventually react to these failures in the end by adapting their communication and organisational interfaces. The internal Open Innovation project team was

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expanded with technical expertise and additional employees. Moreover, it posted a letter of apology in various online communities and it every participant was guaranteed personal feedback from the CEO. Finally, a new loudspeaker targeted for home recording was released, which had taken into account some of the external *input* (new design, lower price, but similar performance features like the professional model). The firm nevertheless faced a serious blow to its reputation that also played itself out in decreasing sales over the next few months. What's more, the expert who interviewed the CEO stated that "...there is no second chance to do things right" in Open Innovation. If the opinion of customers' deteriorates, then there is no direct control of social media communication channels. Open Innovation means to open-up operative and communicative frontiers towards customers and users. This means that Open Innovation like many other types of organisational innovation is happening at the very "beating heart" of a firm (Som et al. 2012). There is no way to test it out in a prototypic setting or an isolated lab. Finally, the firm ended up with some lessons-learned which are briefly summarised below and strongly supported in existing management literature on Open Innovation (e.g. Ili 2010; Mortara/Minshall 2011).

Open Innovation is likely to increase the complexity for the enterprise, because external ideas and impulses by customers and users do not necessarily correspond with the firm's own vision, strategy, and goals. To combat the complexity head-on, then, an Open Innovation project firstly has to align itself completely with the competitive strategy of the given firm by defining concrete goals and outcomes that should be achieved by it's opening process. Criteria can be derived by means of the strategic fitting of external ideas, which can also be assessed transparently. Once this is done, a firm-internal project team is needed which actively involves all the relevant stakeholders. In the given example, this would have been participants from technical development, management, and marketing/sales. Thirdly, before addressing the external partners, it is recommendable to do some proper analysis about how they are organised and structured along different communication channels. Moreover, it would be most preferable to gather together some information about their knowledge base and purchasing preferences. After this is done, the next step would be to develop a communication (e.g. selection of media, type of communication) and project design (e.g. incentives, face-to-face vs. social media) appropriate for the target group. As it becomes clear from the firm case presented in this paper, it is of particular importance to provide all engaging users with a feedback that their input has been received and will be thoroughly assessed. Afterwards, they have to be informed whether their idea will be pursued or not. Open Innovation thus is unlikely to provide easy solutions, nor to compensate for a lack of international innovation management and creativity (Som et al. 2014). On the contrary: the case example shows that Open Innovation activities require a superior level of professionalised management and preparation in order to not end up opening up "Pandora's Box".

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