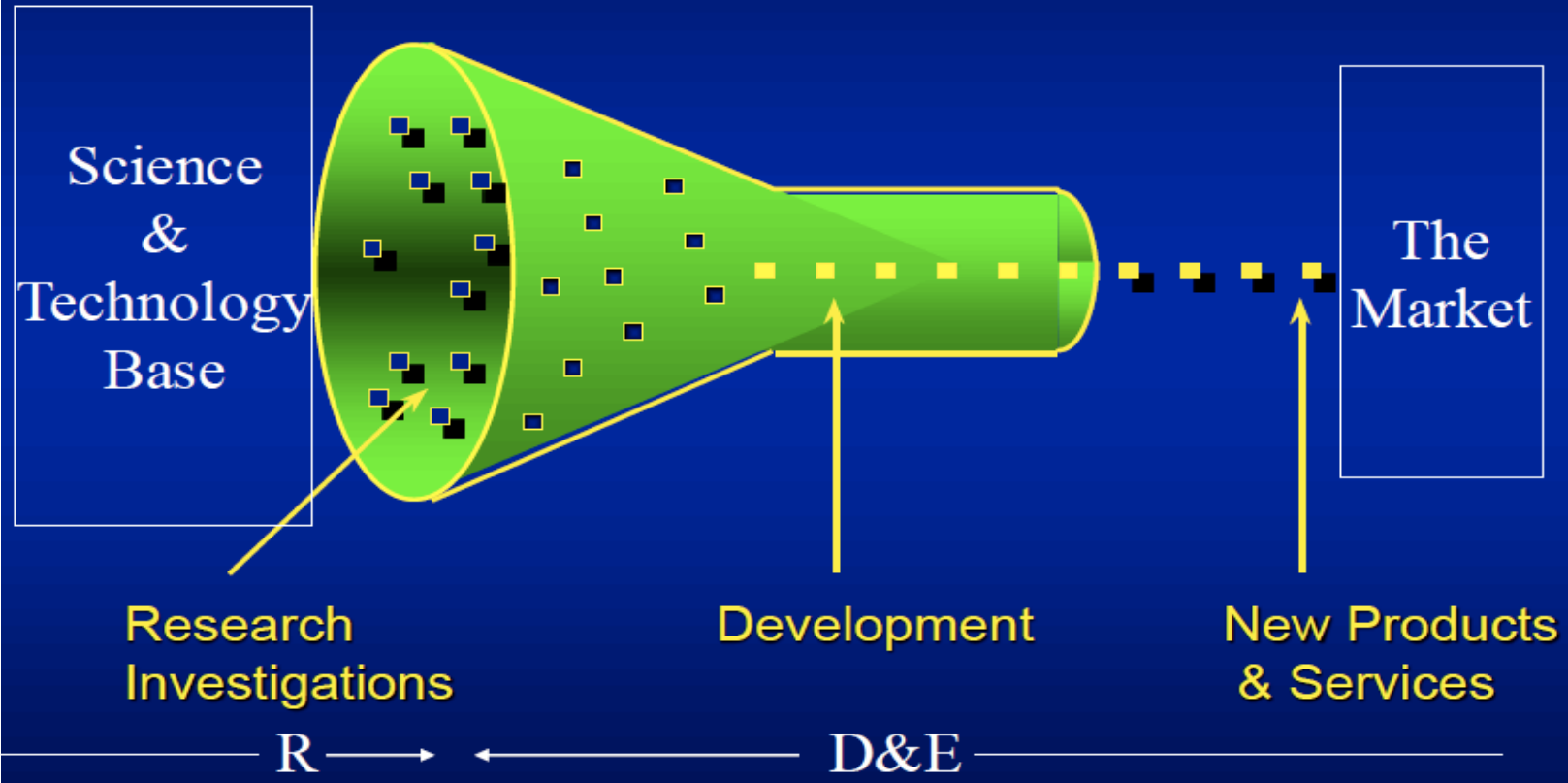


Socio-economic dynamics and organizational conditions of Open Innovation: EU-Latin American SME perspectives

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The Current Paradigm: A Closed Innovation System



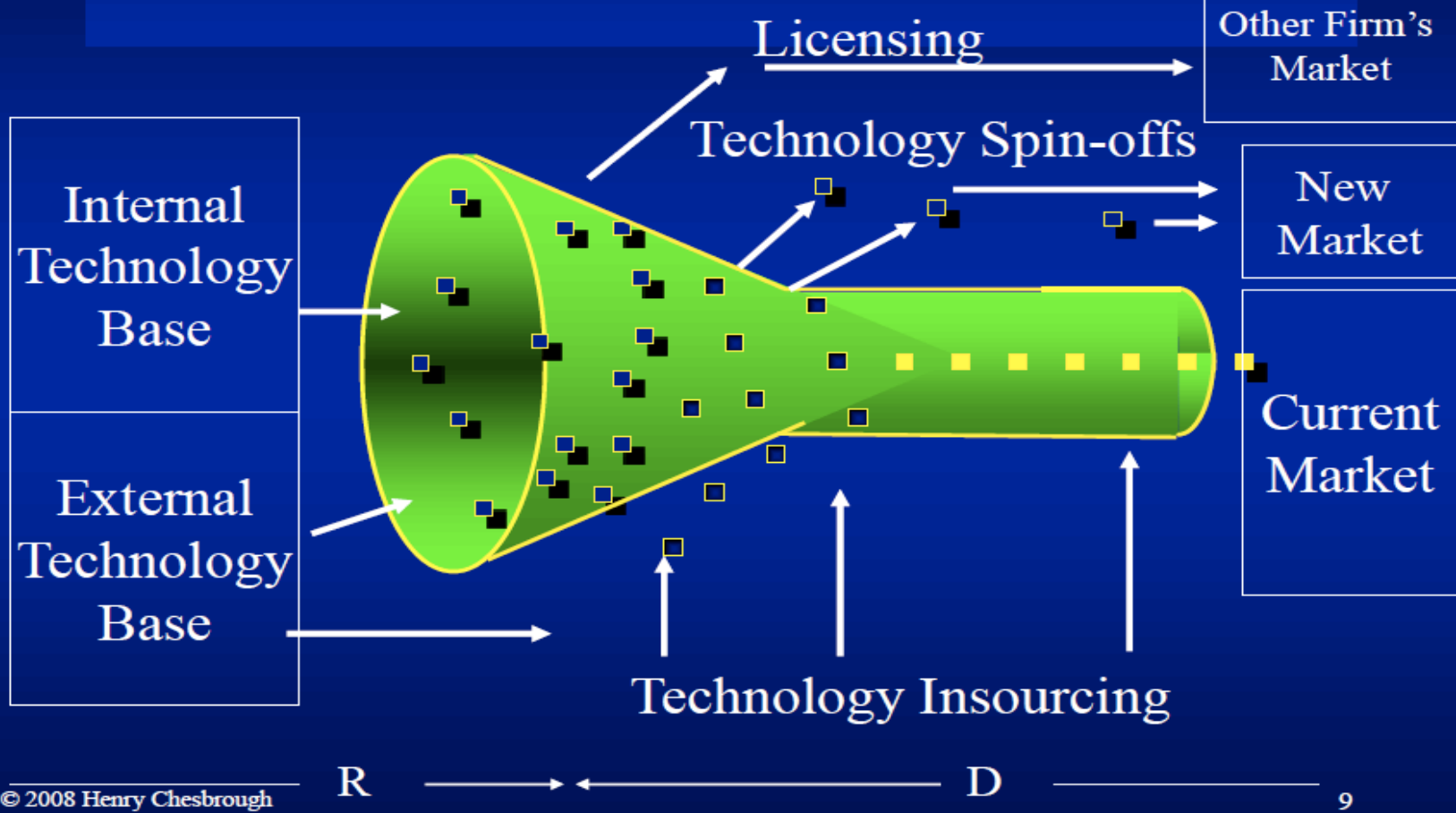
What has changed and drives Open innovation?

1. Transition from goods to service based economy
2. Globalization and regionalism
3. Erosion of oligopoly market positions
4. Deepening of the completion of the SEM
5. 'Europe 2020'
6. Environmental/energy constraints
7. More industry aligned relevant university departments (qualifications apply)
8. Increasingly mobile trained workers
9. Reconfiguration of the R&D global topology: 'R' coming closer to 'D'?
10. Financial crisis...
11. ...

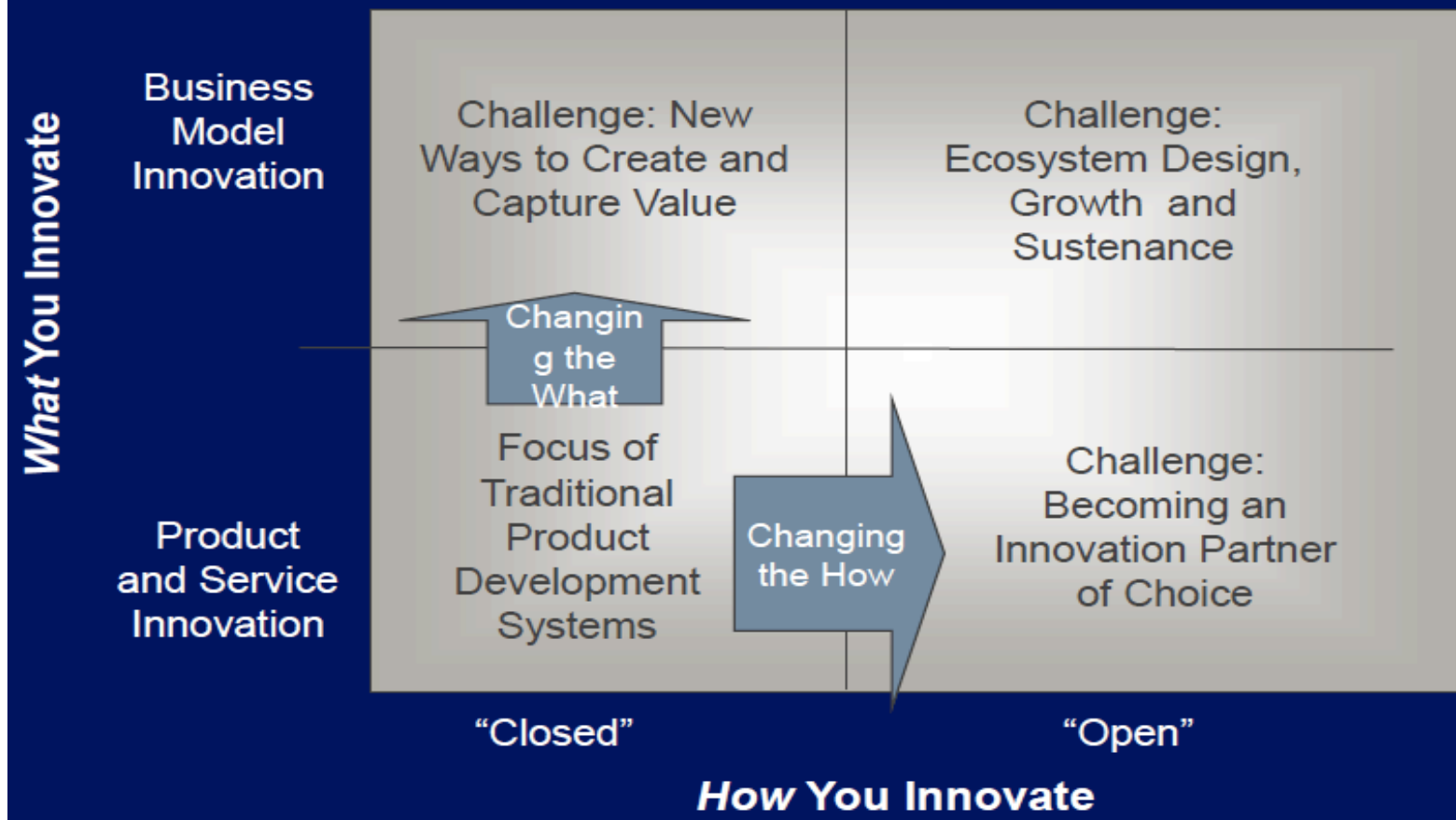
Open Innovation encompasses three sets of dimensions:

1. There is the inside-out movement, or *technology exploitation*, in which existing technological capabilities are leveraged outside the boundaries of the firm;
2. There is an outside-in movement, also referred to as *technology exploration*, in which external sources of innovation are used to enhance current technological developments;
3. In a fully open setting, companies combine both *technology exploitation* and *technology exploration* in order to create maximum value from their technological capabilities or other competencies.

The Open Innovation Paradigm

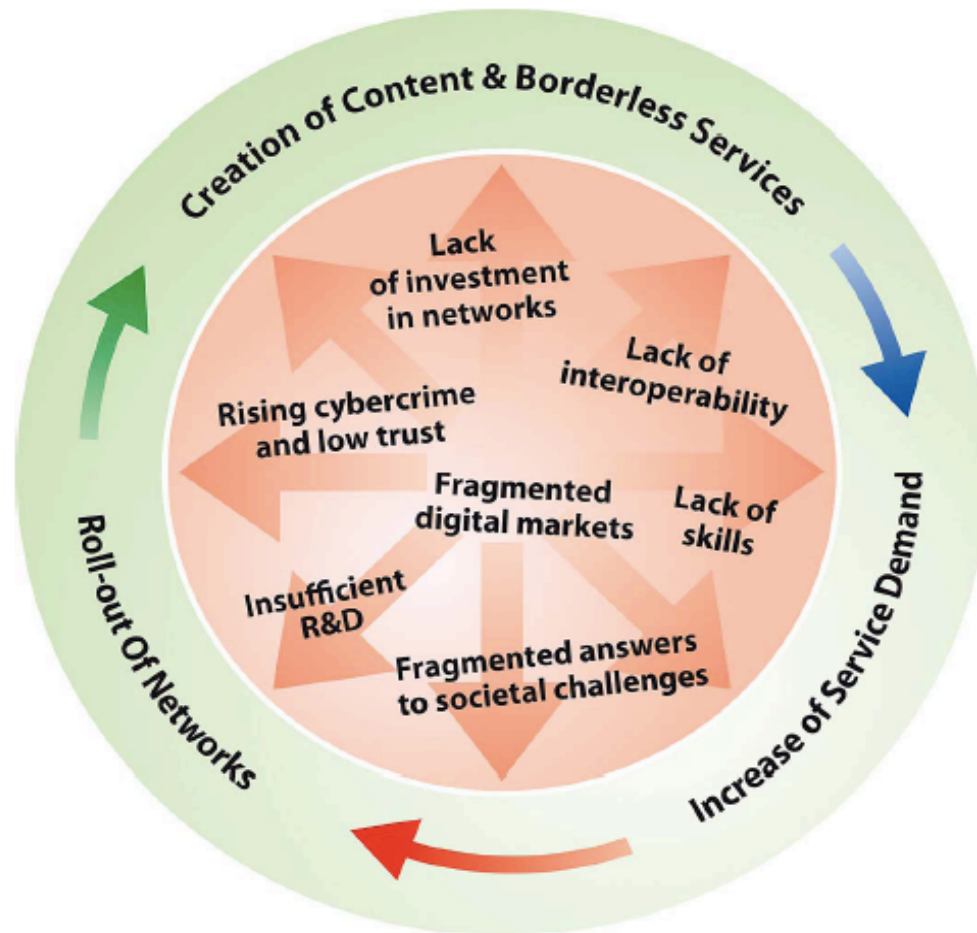


Sustaining Innovation Capabilities: *What You Innovate* and *How You Innovate*



But... our situation in the EU and Latin America...

Virtuous/...Vicious circle of the digital economy



Source: European Commission, *A Digital Agenda for Europe*, 2010.

Mainstream approaches see Open Innovation as a direct antithesis of the previous innovation model, where vertically integrated firms developed a technology, right from the research stage to commercialization, in an exclusive environment.

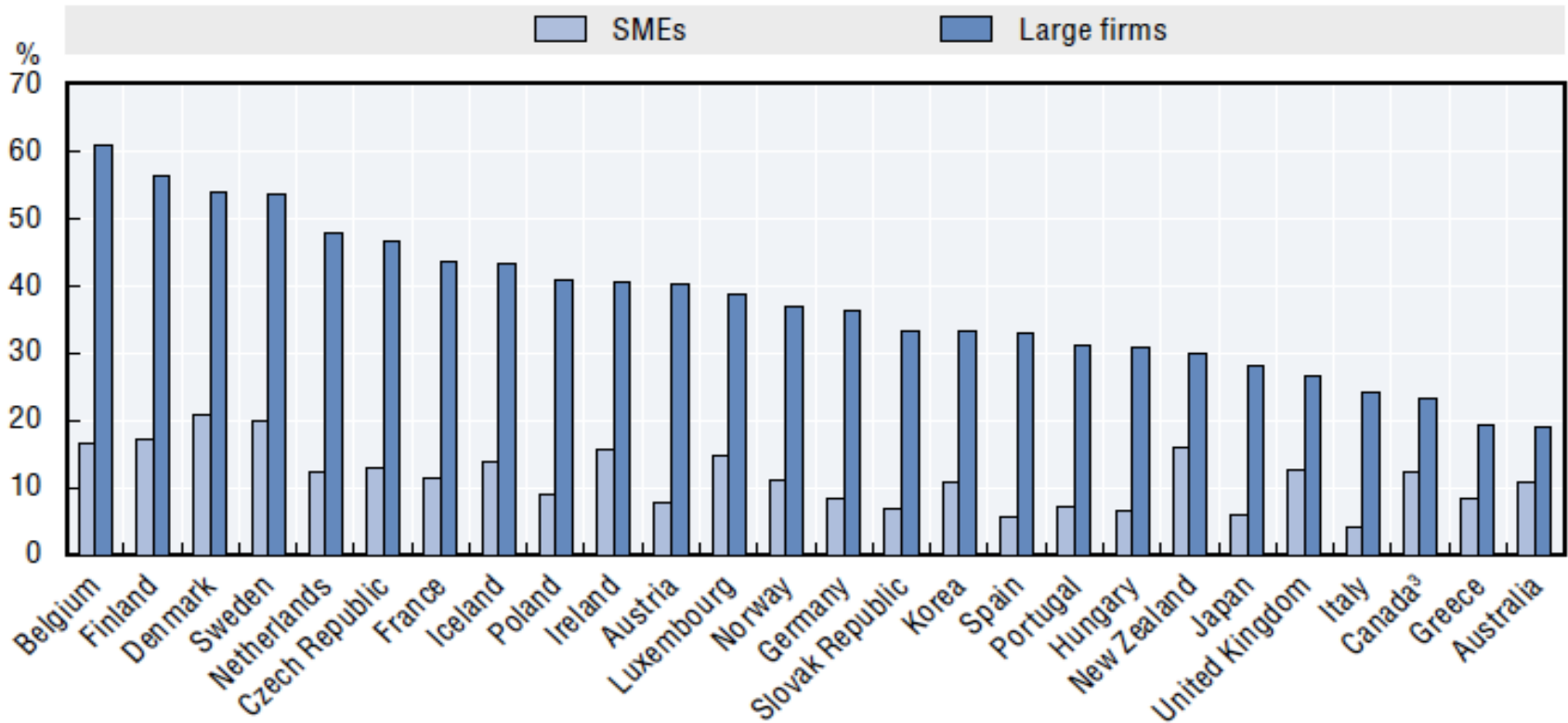
They identify 5 key elements of Open Innovation:

1. Networking
2. Collaboration
3. Corporate entrepreneurship
4. Proactive IPR management
5. R&D as a way of obtaining a competitive advantage but also developing a company's 'absorptive capacity'.

Leading EU approaches examine refer to the involvement of *all* actors in the innovation ecosystem... which leads to *a context-specific* concept of Open Innovation for SMEs, which focuses on:

- *Extensive networking* between all actors involved in the innovation process (including industries, universities and research organizations, public entities, end-users and end-user communities) to enable the development of positive spillover effects within the ecosystem;
- *User involvement and user centrality*, to involve the user throughout innovation since he is both the starting point (technological needs) and the ultimate aim (service convergence) of innovation. This reflects a “service pull” model of innovation, where the role of the user is critical;
- Innovation thus becomes a *co-creation* process between the industry or service provider and the user. Related to this is a form of crowdsourcing, to capture valuable ideas produced by communities, and essential to make the best use of ‘societal capital’.

Companies Collaborating in Innovation Activities (by size)



Open Innovation benefits for SMEs:

- Large firms increasingly value collaborative partnerships
- Large firms create platforms that seek supportive investments from SMEs
- Users (customers) initiate more innovation activities, a big opportunity for SMEs
- SMEs can expand geographically now at lower cost
- Greater rewards to specialization in Open Innovation

Open Innovation Challenges facing SMEs:

- Less internal R&D capability
- Less ability to absorb external R&D
- Less market power, weaker ability to capture value
- Less IP (usually, not always)
- IPR enforcement often too expensive

Advantages of SMEs in Open Innovation:

Size: Markets that are too small for large firms can be attractive

Focus: greater ability to execute for a specific segment or set of customer needs

Specialization: ability to develop deep knowledge of a specific domain

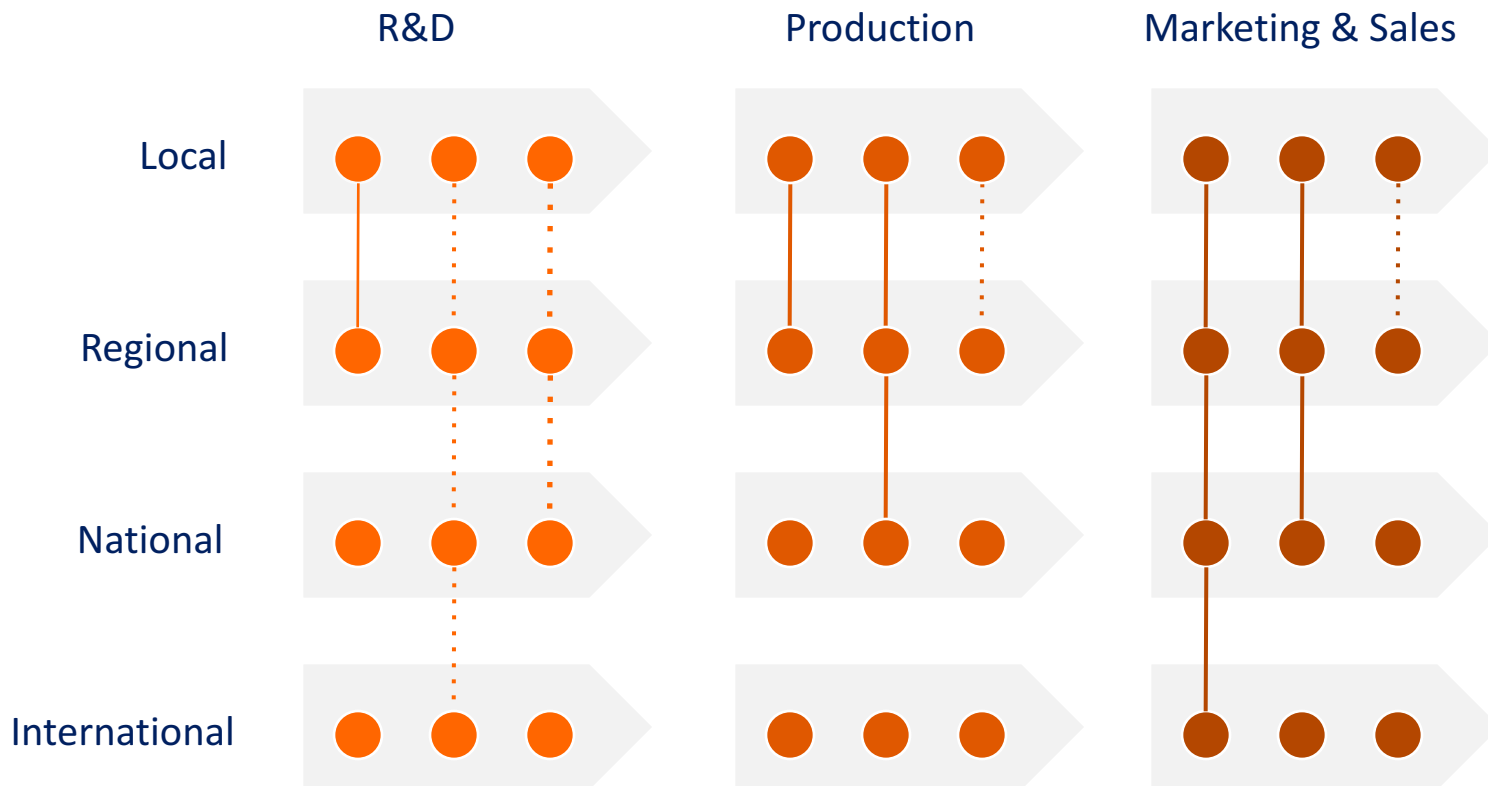
Entrepreneurial: external focus on results, much less internal politics

Speed: faster decisions, faster execution, faster results

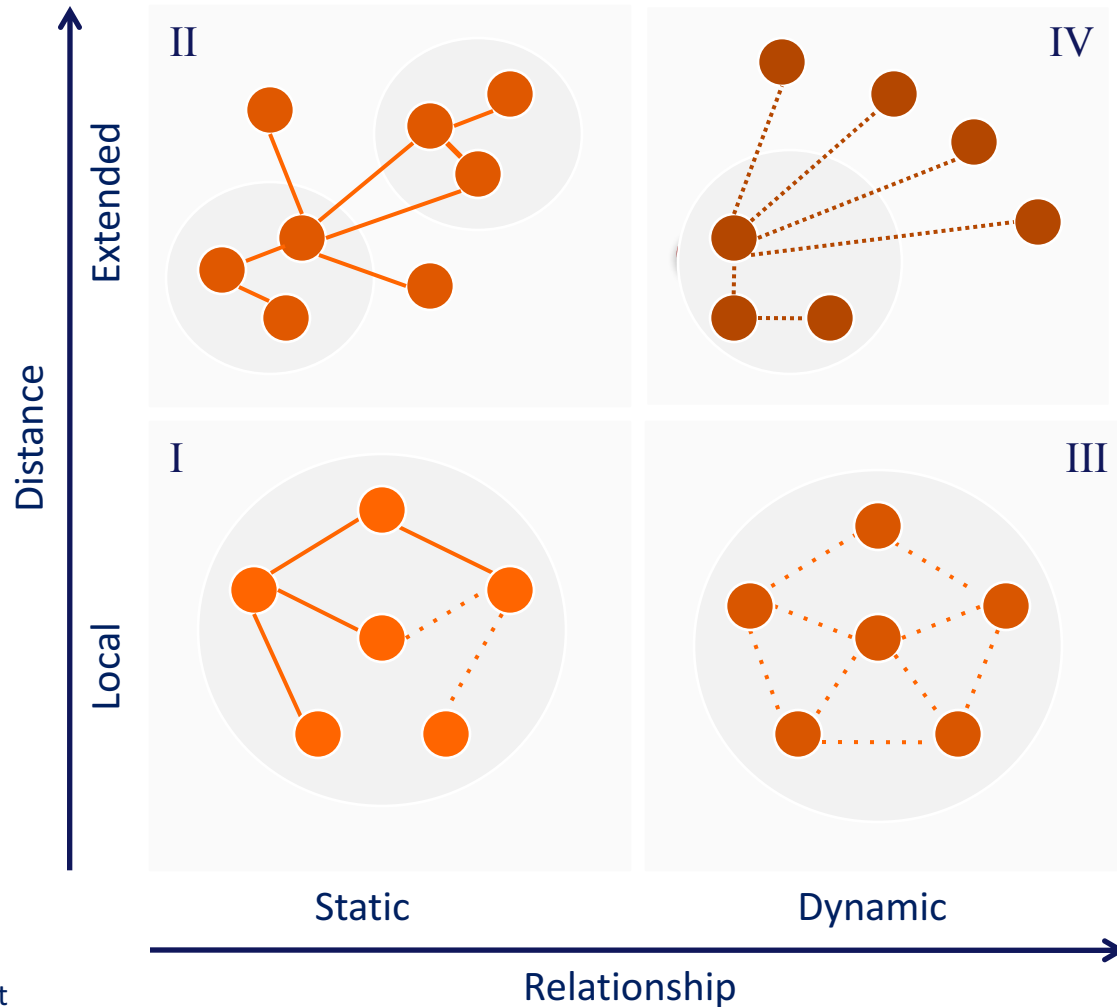
...but SMEs need 'clustered' approaches to benefit from Open Innovation...

- *Extended clustering* involves selecting and aggregating capabilities of clustered SMEs at regional, national, or international level in ways that help overcome the regional geographical boundaries and functional limitations of traditional clusters
- *Dynamic clustering* involves flexibility and adaptability in the configuration of 'virtual clusters' that can aggregate and scale-up competencies of particular SMEs within the value chain.

Clustering on the value chain



Mapping *extended and dynamic clustering*



EU-Latin America SME Issues for Open Innovation in Europe 2020:

- Alignment of business models with broader social and societal changes
- Environmental compliance and energy efficiency
- Product and service design: green/grey issues
- Legal issues and IPR management: Are Intellectual Property laws and enforcement sufficient for Open Innovation? Will stronger IPR regimes help or hurt the inflow and outflow of ideas?
- Marketing, branding and design methods: the potential and liability of social network technologies
- New forms of cross-regional and cross-border business organization.

Broader issues:

- Where will the basic science come from?
- Will companies accept external ideas as willingly as they do internal ones?
- Will companies allow internal ideas to flow outside to other businesses?
- How can companies manage Open Innovation?
- How can universities and research institutions rise to the challenge of working more effectively with industry?
- How can SMEs obtain the necessary financial and human capital to innovate and grow?
- Will large companies collaborate or exploit?

Thank You

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