UNIVERSITY OF NORDLAND

BODØ GRADUATE SCHOOL OF BUSINESS

MASTER THESIS

How are Open Innovation practices applied to the Experience Sector?

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Abstract

Open approaches to innovation have played a significant role in the contemporary organizations lately due to the necessity of different organizations to be competitive and survive, especially after the financial crisis of 2008. (Chesbrough, 2011; Mina et al., 2013) Studying open approaches to innovation aims to improving general comprehension of the subject as well as understanding how the former can help the firm differentiate and be ahead of its competitors.

Despite the fact that open innovation is quite a new phenomenon, it has proven its consistency in manufacturing, IT and pharmaceutical industries. (Chesbrough, 2011) However, the connection between the experience sector, being a part of the services industry, and open approaches to innovation has not been studied broadly enough so it is a very interesting and motivating topic for a research.

The present thesis outlines both the theoretical perspectives on different open approaches to innovation and the essence of the experience sector and strives to investigate whether open approaches to innovation are consistent with this emerging phenomenon in the market.

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1.0 Introduction

1.1 Study background

As Chesbrough (2006) argues, today we have approached the point when the crucial role of innovativeness is overwhelming even in the area of innovation itself. Despite the fact that there are numerous definitions of the "term" innovation and a lot of them are rather abstract, most people have heard of the concept and comprehended how crucial it is nowadays. They seem to agree that it not only concerns the invention and development of a new product, service or experience, but also takes into account its commercialization (Chesbrough, 2006).

After the crisis of the last years of the previous decade, companies tend to pay more attention to innovation as a source of competitive advantage and a way to survive in the ever-changing market environment. Besides that, due to deregulation, globalization, and commodization of the global economy companies have faced an increased pressure to sustain and improve their efficiency and effectiveness to remain competitive (Moore, 2005). It is not sufficient for the firms to make good products or offer high-quality services or experiences to survive anymore; they require proper innovative management and efficient strategies that would facilitate reduction of costs and improvement of productivity. Consumers' needs, wants and demands also accelerate innovation activities and drive various flows of innovation into the market. The contemporary consumer is used to new products or improvements of the existing ones so it is getting more and more difficult to catch up with their desires. Nowadays, consumer can easily get access to the market they seek for and get maximum amount of information which means that they will not accept mediocre products, services, or experiences anymore; hence, firms have to react properly on these modern realities (Ross, 2009).

The concept of innovation is inalienably connected with the theory of Darwinism which poses the question whether it is possible to innovate eternally in order to evolve. In the context of the firm, Moore (2005) argues that in order for the firm to develop and grow, it always has to take care of its competitive advantage through incremental or radical innovation which, in turn, implies accepting a certain share of risk. Jacobsen (2004) states that firms that are continuously innovating are proven to be more successful than the ones which avoid conducting grand transformations and stick to minor adjustments of their business models.

Contemporary researchers of innovation have come to the conclusion that there is no doubt whether the firm should innovate or not, the question is: how to innovate successfully? (Moore, 2005; Michaelidis, 2007; Ross, 2009) Several studies show that a lot of new ideas are doomed to

never be commercialized due to the lack of capabilities in the focal firm (Michaelidis, 2007). The understanding of this issue has finally led to the creation of a new innovation paradigm called "Open Innovation" which presupposes that the firm opens to the external environment, which generates streams of ideas and knowledge both inbound and outbound and creates collaborative interaction among the interested parties thus increasing opportunities to commercialize an idea and get more profit from innovation activities (Chesbrough, 2003). One can mention the examples of IBM, Xerox, Procter&Gamble, and Intel as the firms that have successfully adopted the new paradigm of doing business and reaped off maximum benefits from it.

The most outstanding is the case with Xerox which adopted the open innovation model in 2000. The management of the firm realized that the then existing innovation model of the company became obsolete as it could not support the sustainable level of growth the company was experiencing that year. Thus a decision to try out the open innovation approach was made and the experiment began. Xerox endured radical changes of its business model and processes as well as its organizational culture which were met with strong resistance of employees but finally the initiative proved to be reasonable. In 2007 more than 33% of Xerox products were produced in partnership with other companies which allowed for economical and market benefits for the focal firm (Huston&Sukkab, 2006).

It is becoming increasingly difficult for firms to remain competitive in the contemporary business environment. Despite the fact that innovation has always been regarded as a venturesome activity, today's companies have to deal with a much more substantial level of commoditization as the global economy has evolved and many businesses have moved their production facilities to lower-cost regions (Chesbrough, 2006). Although open innovation seek to provide a faster and more economical approach of introducing a product to the market, even the most prosperous firms still have to handle the issue of commoditization and contracted life cycles of a product. This, in turn, magnifies the probability for the firm to get entangled in the commodity trap, a notion which has serious impact on the innovation success of the company (Chesbrough, 2011). Consequently, in order to survive in this eternal struggle many firms have begun to transform their business models, which has led to the development of the service sector and then the experience sector. As a matter of fact, innovating in services/experiences seems to be a reasonable way out of the commodity trap and a perspective threshold for competitive advantage and sustainable growth (Chesbrough, 2011; West et al., 2013).

After several successful examples such as World Wide Web, Disneyland, Wikipedia, the business community has acknowledged the potential benefits of implementing innovation in

cooperation with the interested parties and has started to perceive it as a must in the development of a value chain (Wladawsky-Berger, 2011). Today, as Chesbrough argues, services (and hence experiences as a sub-part of services) account for sixty-seventy percent of the world businesses in the top 40 economies and around eighty percent in the United States (Chesbrough, 2011). It means that in order to stay competitive, firms have to constantly improve their service/experience offerings and the open innovation paradigm seems to be a significant supporting element in this.

1.2 Rationales and Significance of the Research

Conventionally, innovation research has been devoted to studying innovations in firms involved in manufacturing industries. The most prominent one is probably the General Electric Global Innovation Barometer, a paper which contains deep research on innovation, innovation strategies and policies around the globe (GE, 2013). As opposed to the manufacturing industry where consumers purchase physical goods and use them for a certain period of time, services/ experiences offer a set of characteristics that distinguish them from products and are to be taken into account when innovation are implemented. These characteristics are intangibility, heterogeneity, simultaneous production and consumption, and perishability (Trott, 2008). One crucial difference is that a service/experience is hard to legally protect with patents so if the former becomes standardized, the competitive loss will be unavoidable for the focal firm as the service/experience will be easy to imitate. As a consequence, this creates impediments for an open business model as companies often lack motivation and incentives to open up and involve in collaborative interaction with stakeholders.

The present paper will investigate how innovation in the experience sector can be implemented through the elements and methodology of OI. Most innovation models today are designed for IT and manufacturing industries, however, little is known about the experience sector and innovation in this realm. Thus this thesis sheds light on experience innovation and open innovation practices within the experience sector on the example of seven experience companies from different countries of the world.

The conventional closed innovation model has been a beacon for innovating firms for many years, meaning the innovation process is predominantly conducted internally (Chesbrough, 2003). The boundaries of the firm open when it switches to an open innovation model and external ideas, knowledge and information flow in and out freely. This paves the way for close collaboration between various companies in the pursuit of benefits and gains. The present paper

investigates how firms collaborate in the experience sector and what challenges they have to deal with in order to succeed.

1.3 Personal Motivation

A personal motivation of the authors of the present thesis was primarily related to the specialization on a bachelor program in the field of innovation. Despite knowledge-intensive lectures and seminars at the bachelor level in BSTU Voenmeh (St. Petersburg, Russia), the theory and principles of Open Innovation were not unveiled in proper volumes and if they were, it was predominantly related to manufacturing. However, the world is changing and services/ experiences have started to play a major role in the global economy. The experience sector is a completely new phenomenon which is bound to evolve over years thus it is important to raise awareness about the realm and investigate how open innovation practices can be applied to experiences and see if there are any up-to-date examples of their successful implementation within this sector.

1.4 Research Problem Description

As mentioned above, the innovation process has become increasingly challenging, especially in the service/experience industries where patent legislation is often impossible. Despite the fact that the principles and techniques of open innovation have penetrated in services/experiences deeply, little attention has been paid to this phenomenon so far. Taking into consideration the aforementioned negligence, the purpose of the thesis is to understand:

How are Open Innovation practices applied to the experience sector?

In order to better comprehend the problem statement, it would be useful to define the notions of open innovation and experience innovation:

Open Innovation:

"Open Innovation is the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively. Open Innovation is a paradigm that assumes that firms can and should use external ideas as well as internal ideas, and internal and external paths to market, as the firms look to advance their technology." (Chesbrough, 2003)

Experience Innovation:

"Experience innovation is about shedding light on those dimensions of a new product – including here goods, services, and concepts – and user-product interaction that make it meaningful for a user." (Oksanen et al., 2012)

The following sub-questions have been elaborated to assist in answering the main question of the present paper:

1. *How do the informants understand and define the concept of open innovation?*
2. *What types of openness are practiced in the case companies?*
3. *What are the challenges, opportunities and benefits associated with having an open business model from the perspective of the case companies?*

1.5 Structure of the Thesis

The introductory part of the present thesis provides an overview of the context of the study followed by the reflection upon rationales and significance of the research and the personal motivation of the authors of the thesis.

Chapter Two reflects upon the historical perspectives on innovation which led to the appearance of the Open Innovation paradigm and concludes with the description of the four types of openness which are further investigated in the empirical analysis.

Chapter Three investigates the theoretical perspective on establishing an open business model in the firm, complemented with challenges that may disturb the shift towards a new model. Further on the management of an open business model is considered and its elements are elaborated.

Chapter Four demonstrates existing theoretical knowledge on open innovation in services and experiences. Various peculiarities are considered and main differences from the manufacturing sector are taken into account.

Chapter Five provides an overview of other open approaches different form the Open Innovation paradigm that offer a way to become open from other perspectives.

Chapter Six presents the introduction to the experience economy in order to make the understanding of the object of study more vivid and clarified.

Chapter Seven firstly presents the conceptual model of the research which can be regarded as the visualization of the main research question then the notions of research design and research strategy applied to the present study are elaborated. The chapter also reflects upon methods of gathering data and its further analysis. In addition. seven case companies are described.

Chapter Eight offers a theoretical review of fitness between open innovation practices and experience characteristics in order to justify further empirical analysis. Then the comprehensive analysis of the empirical findings is conducted which draws upon the main theoretical perspectives described in the theoretical part of the present research.

Chapter Nine elaborates the conclusions obtained from both theoretical and empirical findings and provides a synthesis of both. Further on, limitations of the study are discussed as well as implications for future research.

2.0 Theoretical Perspectives on Innovation and Open Innovation

This section reflects upon the existing literature on open innovation, open techniques in innovation, innovation in services/experiences, experience economy and innovation in experience-based tourism. Initially the approaches had emerged from the business models in manufacturing, IT and pharmaceutical industries but due to the increasing importance of services those approaches were incepted into the latter as well. Nowadays the global community is facing another shift from service based to experience based economy thus facilitating the change in the perception of innovation and its openness. Pine and Gilmore stated that experiences were different from services to the same extent that services differed from products thus supposing that the subsequent development of experience-based industries was likely (Pine&Gilmore, 1998).

2.1. The History of Innovation

Open Innovation comes as the result of the long process of studying innovation, and rests upon the research of many previous scholars in many respects. It was Joseph Shumpeter who first reflected upon the role of innovation and entrepreneurship as the engine of the economic growth. He viewed the role of the "new combinations" as defining for the economic development noting that the former broke the economy out of its static mode and set it on a more mobile and dynamic path (Shumpeter,1934). This theoretical perspective was then called "Shumpeter I" and aroused a substantial portion of critique in academic circles, primarily due to the fact that the Shumpeterian definition of innovation was too narrow and referred primarily to new innovations and new entrepreneurs (Hagedoorn, 1996). The subsequent studies clarified that early R&D activities were implemented due to the necessity of sustaining and improving production activities which were unique for each firm, hence those activities were firm-specific or product-based (Mowery, 1983; Chandler, 1990). In other words, the innovation chain started with the technological base formed by the internal R&D which was then exploited by the firm with the view of inventing new products and enhancing economies of scope, thus allowing for economies of scale and providing barriers to entry (Teece, 1986; Chandler, 1990). This theory was elaborated through studying the later works of Shumpeter who had indicated that the entrepreneur was not a single change-agent in the economy anymore and executive managers were to implement the role of the entrepreneur in large corporations (Shumpeter, 1961). These ideas were later called Shumpeter II and focused primarily on internal innovation (Hagerdoon, 1996).

The aforementioned benefits facilitated the appearance of a vertically integrated innovation model where large firms would internalize their firm-specific R&D activities and commercialize them through internal development, manufacturing and distribution processes (Chesbrough, 2006). The successful exemplars of this type were Xerox, AT&T's Bell Labs, and Edison's Menlo Park that revolutionized the implementation of innovation and brought about a significant portion of inventions throughout the twentieth century.

Despite the evident advantages of the vertically integrated innovation model, there were several shortcomings noted in the literature. The first one was the generation of spillovers which brought about little value and could not be exploited properly (Katz&Allen, 1985). Sometimes such technology was licensed to others but more often it would be put apart and never finished. That would lead to the paradox: the benefits of innovation with spillovers were reaped by the ones who managed to capture them rather than the ones who financed the R&D processes (Katz&Allen, 1985; Chesbrough, 2006).

Another core issue with the deep vertical integration of R&D was the Not Invented Here (NIH) syndrome which manifested the unwillingness to use or buy products or ideas which had roots outside the firm (Katz&Allen, 1985).

While the anomalies mentioned above were documented in the scientific literature, they were neither explained nor dealt with under the old model thus leading to unnecessary additional costs of doing business. The scholars of the end of the twentieth century came to a conclusion that such downsides of the vertically integrated innovation model were unavoidable and required reconsideration of the core principles of the innovation process (Leifer et al., 2000; Chesbrough, 2003).

Another core group of antecedents of Open Innovation was prior work on the importance of external technology. Several scholars underpinned the necessity of searching for new technology outside the borders of the organization. The researches emphasized that inbound innovation was as important as the external one as the investments in the former enhanced the ability to utilize the external technology which they called the 'absorptive capacity' (Nelson&Winter, 1982; Cohen&Levinthal, 1990; Rosenberg, 1994; Langlois, 2003). If firms fail to develop significant absorptive capacity they may unite into strategic alliances in order to get the essential external knowledge. This 'network' approach has widely been used in the pharmaceutical and biotechnological industries which are highly technology intensive (Powell et al., 1996; Nooteboom, 1999).

Several models have been created to shed light on how to exploit external knowledge. The first one suggested that the firm could imitate the competitor and free ride on the product and market investments with the view of overcoming the first mover advantage of the innovator (Lieberman&Montgomery, 1998). Another method implies consulting with customers who may be unmistakably valuable in providing good ideas and feedback (von Hippel, 1994).

The rise of intermediate markets has also underpinned the creation of the Open Innovation model. These intermediate markets appear as the incentives for innovation as well as the cornerstone of interaction with more networked structures which transform the way in which innovation is implemented (Gans et al., 2001).

2.2. The essence of the Open Innovation Paradigm

The concept of Open Innovation implies that valuable ideas come not only form the internal surroundings of the firm, but also from the external sources thus providing both the firm and the market with priceless inflowing and outflowing information (Chesbrough, 2006). To make the idea more comprehensible, one should address the following figures which show how the open innovation model is contrasted with the closed innovation model:

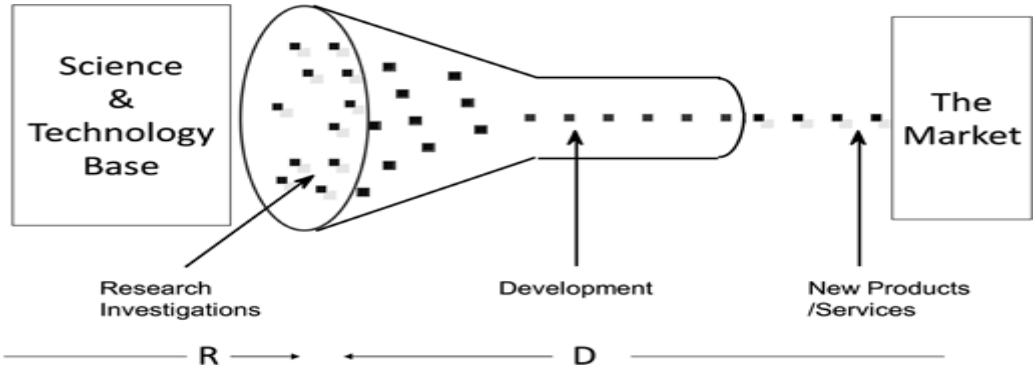

Figure 1: Closed Innovation System (Chesbrough, 2006: 3)

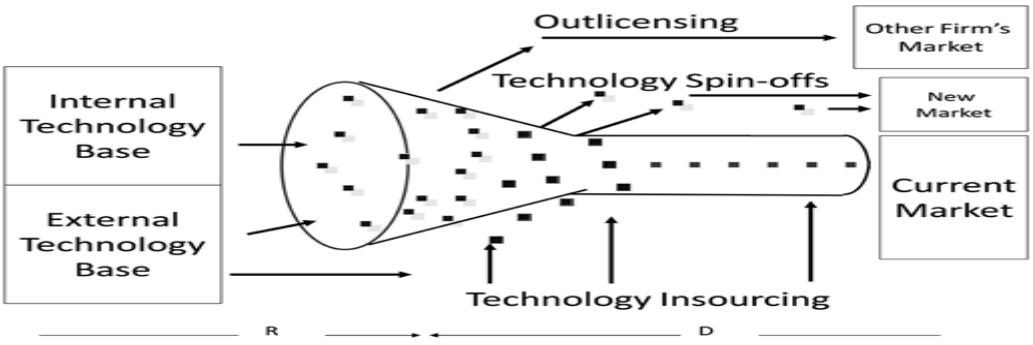

Figure 2. Open Innovation System (Chesbrough, 2006: 3)

Figure 1 represents the innovation process under the Closed Innovation model. Here, R&D activities are implemented through the technological base of the firm; some of the projects are terminated and some are put forward for further development and use. Finally, a certain portion of them is outflowed to the market. The concept is called "closed" because there is only one way for a project to enter and exit (Chesbrough, 2006).

Figure 2 reveals the idea of the Open Innovation model. Here, projects are launched from both external and internal sources and new technologies can be incepted in the process at any stage (Chesbrough, 2006). The CTO of Cisco, Guido Jouret, once said: "By opening up to the wider world we could harvest ideas that have so far escaped our notice" (Mina et al., 2013). In this context, a study conducted by Linder, Jarvenpaa, and Davenport (2003) in various industries indicated that the share of innovative ideas from external sources had accounted for 45% of total ideas, whereas this number had added up to 90% in some retail companies (Drechsler&Natter, 2012).

The Open Innovation paradigm grounded on the wealth of previous research of the vertically integrated innovation model and the absorptive capacity of the firm has several differentiations that seek to overcome the downsides of the earlier approaches.

The first differentiation lies in the very perception of the role of external knowledge. In prior theorizing about innovation external ideas and approaches played either insignificant or complementary role with the firm itself being the locus of innovation. In Open Innovation external knowledge are as valuable and essential as the internal one (Chesbrough, 2006).

A second realm of differentiation concerns the notion of a business model. The Closed Innovation model extolled the benefits of the man of genius' mode (Chandler, 1990) that paid little attention to strategy and hindered the inception of innovation into the market. The Open Innovation approach allows companies to seek for bright people both internally and externally thus fuelling the business model and enhancing its boundaries (Chesbrough, 2003).

The third point of departure is that the prior model of innovation had no recognition of outflows of knowledge and technology. Even when firms went to the external market to absorb external data, they did it purely for internal development. The Open Innovation paradigm implies that outward flows of technologies help find the right ways to the market and create external channels that assist in managing R&D projects (Felin&Zenger, 2014).

The fourth differentiation is the approach towards knowledge landscape. In the old proprietary model, external knowledge were considered to be scarce and unreliable (the NIH syndrome)

whereas the Open Innovation paradigm implies that useful knowledge are spread everywhere and of high value for the firm. The crucial task then is to get connected to the sources of these knowledge (Chesbrough, 2006; Gulshan, 2011).

The fifth point of differentiation concerns the treatment of intellectual property. Prior theories perceived IP as a byproduct of innovation and its function was purely defensive (Chesbrough, 2006) whereas the Open Innovation approach integrates IP in the core of the innovation process and implies that its value should not be underestimated as IP facilitates the use of new markets and exchange of knowledge (Chesbrough, 2006; Ziegler, Gassmann & Friesike, 2014).

The rise of intermediaries in innovation markets is the sixth area of difference. Due to the increased openness of innovation, intermediate markets have begun to play a significant role providing information, giving access to technology and knowledge, implementing financial transactions (Chesbrough, 2006).

One more distinguishing point is related to management control and the approach to assessing the performance of a firm's innovation process. New metrics exploited in Open Innovation are expected to modernize the system of evaluation and contribute to more accurate and comprehensive assessment (Chesbrough, 2006).

It must also be noted that one should bear in mind several shortages (or, as Chesbrough puts it, anomalies in Open innovation). The first one is related to how the Open innovation concept treats spillovers. There is no direct explanation of how they should be handled. The second anomaly concerns the treatment of intellectual property. The Open Innovation framework perceives IP as a new class of assets but no coherent explanation of how it should be exploited has been designated yet. The third issue, which is of crucial importance for this research project, concerns the application of the Open Innovation concept in service industries, including the experience-based tourism sector. Until now, the evidence adduced to support this model, has been grasped almost exclusively from high-tech and pharmaceutical industries, leaving the question of its use and appropriateness in more mature and lower-tech industries open. (Chesbrough, 2006; West&Gallagher, 2006)

2.3 The Four Types of Openness

Openness is characterized by different forms of interaction between the firm and its stakeholders and thus brings up the issue of the boundaries of the firm. In this context, open innovation literature can be regarded as an attempt to determine the balance point between internal innovation and partnering with external actors. (Hargadon, 2003)

Dahlander and Gann (2010) have designated four types of openness (see Table 1) which, in case of their presence in the firm, determine whether the latter is closed or open with regard to innovation. According to Huizingh (2010), the model offered by Dahlander and Gann serves as a good basis for further empirical research as it allows the scholar to better comprehend the activities relating to every type of openness and check how effective they are for different organizations in different industries.

Table 1: The Structure of Dahlander and Gann's (2010) forms of openness

	Inbound Innovation	**Outbound Innovation**
Pecuniary	Acquiring	Selling
Non-pecuniary	Sourcing	Revealing

Chesbrough (2006) argues that in spite of the fact that openness should be placed on the continuum according to the Open Innovation paradigm, some elements of the firm can be still left closed, however, the more open the firm, the sooner it is likely to grasp the benefits of being open. In order to better understand the notion of "openness" and its impact on the firm, the four types of openness will be investigated in detail below.

Revealing: Outbound Innovation – non-pecuniary

Revealing as the type of openness refers to "how internal resources are revealed to the external environment" (Dahlander&Gann, 2010: 703). Among the advantages of this type of openness one could mention the greater chances of cumulative advancements as new ideas are not protected by patents thus facilitating building upon each other's work and leading to greater cumulative profit in the long run. However, it is not always obvious for the firm which internal resources should be revealed because the firm usually possesses little knowledge about internal resources of its competitors thus it is likely to protect its knowledge in order to avoid giving additional aid and competitive advantage to other firms (Laursen&Salter, 2006).

Selling: Outbound Innovation – pecuniary

This type of openness has to do with "how firms commercialize their inventions and technologies through selling or licensing out resources developed in other organizations" (Dahlander&Gann, 2010: 704). Researchers argue that licensing out technologies and inventions has become more common as it allows to more fully leverage investments in innovation and deal with spillovers (Chesbrough, 2006; Chesbrough&Rosenbloom, 2002). Nevertheless, there are

several issues concerning this type of openness. The first one refers to firms being reluctant to reveal information as they cannot estimate the potential value and are afraid of losing the development without getting compensation for it. (Arrow, 1962; Chesbrough&Rosenbloom, 2002) This is known as the Arrow Information Paradox, which will be discussed later in detail. This "disclosure paradox" is probable because not everything can be patented, especially in service or experience industries. The second issue with licensing out is difficulties the firm faces when predicting the expected value of a product (service, experience). Open innovation requires that the buyer and the seller come to an agreement concerning the disclosure of information, however, different companies may pursue different strategies and have various capabilities thus complicating the process of calculating the expected value of the product, service or experience. (Lichtenthaler, 2009; Dahlander&Gann, 2010).

Sourcing: Inbound Innovation – non-pecuniary

This type of openness refers to "how firms can use external sources of innovation" (Dahlander&Gann, 2010: 704). Chesbrough (2006) argues that firms that manage to create a synergy between internal processes and external ideas may benefit from generating better final products as the base of resources becomes larger and innovative ways to the market appear. The main downside of sourcing is that firms may lose the balance between internal innovation and external ideas and devote too much time to sourcing ideas and technologies (Dahlander&Gann, 2010). Ahuja and Katilja (2002) argue the firm should always seek for the balance point between the scope and depth of the external search and its internal technologies.

Acquiring: Inbound Innovation - pecuniary

This is a type of openness that "refers to gaining input to the innovation process through the market place" (Dahlander&Gann, 2010: 705). In other words, this type of openness characterizes how firms license-in and gain feedback from outside. The advantage of acquiring is that it may give the firm competitive advantage as well as increasing the efficiency of the IP. The main issue with this type of openness is that it is difficult to maintain interactions and ties with a large number of partners. (Chesbrough, 2006)

Table 2 summarizes the main traits of every type of openness mentioned above and points out similarities and differences among them.

Table 2: Comparison of four different types of openness (Dahlander and Gann, 2010)

	Outbound innovation **Revealing**	**Outbound Innovation** **Selling**	**Inbound Innovation** **Sourcing**	**Inbound Innovation** **Acquiring**
Logic of exchange	Non-pecuniary – indirect benefits	Pecuniary – money involved in exchange	Non-pecuniary – indirect benefits	Pecuniary- moned involved in exchange
Focus	Revealing internal resources to the external environment	Out-licensing or selling products in the market place	Sourcing external ideas and knowledge from suppliers, customers, competitors, consultants, universities, public research organizations	Acquiring inventions and input to the innovative process through informal and formal relationships
	Advantages and disadvantages shaping extent of openness			
Advantages driving openness	Marshal resources and support	Commercialize products that are ”on the shelf”	Access to a wide arraw of ideas and knowledge	Gaining access to resources and knowledge of partners
	Gaining legitimacy from external environment	Outside partners may be better equipped to commercialize inventions to the mutual interest of both organizations	Discovering radical and new solutions to solving problems	Leveraging complementarities with partners
	Foster incremental and cumulative innovation			
Disadvantages driving closeness	Difficult to capture the benefits that accures	Over-commitment to own product and technologies make it difficult to out-license	Many sources create an attention problem	Difficult to maintain a large number of ties with different partners
	Internal resources can leak to competitors		Difficult to choose and combine between between too many alternatives	Risk of outsourcing critical dimensions of the firms business

3.0 Understanding the Open Business Model

This chapter will explain the concept of open business models and shed light on advantages and issues with regard to such models. Open business models have an impact on organizational design which has to be alternated in comparison to the conventional business model – this issue will also be reflected on in the chapter. In the end of the chapter the concept of open innovation management will be discussed.

3.1 Open Business Model

The crucial importance of a business model is accentuated by Chesbrough who argues that ideas and technologies have little value individually; rather, one should look at them through the prism of a business model. The scholar points out that a proper business model allows the firm to convert separate ideas and technologies into economic profit by aggregating the former into an interlinked system (Chesbrough, 2007). A business model lies in the heart of the company and fulfils two major functions: value creation and value capture (Chesbrough&Rosenbloom, 2002). Value creation is seen as the aggregation of activities which increase the worth of goods or services through organizing a proper value chain including the focal firm and a network of its stakeholders (Chesbrough, 2006). Value capture is regarded as the process of setting or obtaining a unique resource, asset or position through a series of activities which allows the firm to get competitive advantage over other players in the market (Chesbrough, 2007).

In the conventional firms such series of activities are performed by the company itself, but Chesbrough (2006) argues that there has been a shift from individual value creation to what he calls "the division of innovative labor". The open innovation model assists in organizing such a division of labor by making the process of a value creation as a system in which the firm develops a technology or an idea but instead of putting it into the market itself, the firm attracts other parties with which it cooperates or sells the technology to. This is how the market of IP and technologies is created, however, the system should be organized in such a way that would allow the firm that initialized the process to benefit from such cooperation, otherwise it would be more efficient to let the ideas and innovation out to the market without intermediaries (Chesbrough, 2007). Chesbrough (2007) suggests that in order to establish a cooperation in such a way that would be beneficial for all the parties, the firm has to put strong emphasis on innovating its business model which implies opening up to incoming and outcoming flows of knowledge, information, ideas, and technologies.

Nowadays business environment is experiencing the rising cost of the development of innovation and the shortening life cycle of products. In other words, it means that the cost of production is going up whereas the revenues obtained from selling the final product go down. Chesbrough (2011) argues that open business model is a good solution to the aforementioned issues as it implies dealing with both costs and revenues in a different manner thus minimizing the negative effects of the problem. The process of leveraging innovation and technologies allows the firm to economize on costs, whereas the streams of revenue increase as the firm does not serve the market itself directly but it rather shares this activity with other parties through licensing, franchising, joint ventures, etc (Chesbrough, 2006).

Despite all the obvious benefits of opening up the business model, the firm may face different challenges while implementing the transition. The most common ones are the Arrow Information Paradox (AIP) and the Not-Invented-Here (NIH) syndrome.

3.1.1 Arrow Information Paradox

Chesbrough (2007) argues that the firm with the open business model has to a high extent concentrate on the markets of intellectual property. However, it is not always easy to determine the degree of openness while managing IP due to the existence of the Arrow Information paradox. When a potential buyer of a technology considers a purchase, they would want to get information about its capabilities before making a deal thus obtaining valuable data without compensating for it. In case of a fraud the seller of innovation will lose valuable information without any reimbursement. Thus many firms are reluctant to reveal ideas, technologies and innovation and prefer to keep them internally (Aslanni&Lari, 2011).

3.1.2 Not-Invented-Here Syndrome

Another reason of why the firm might feel unwilling to open up may be related to its confidence in internal capabilities and belief in possessing the best ideas and technologies already, thus the firm may consider there is no need for searching for valuable ideas and technologies outside its boundaries. However, in order to implement open innovation the process of external search of innovation has to be integrated into the business model thus creating a system of internal and external channels (Chesbrough, 2006). The main barrier to such integration is the NIH syndrome which refers to the reluctance of firms to adopt an idea or a technology because of its external origin (Trott, 2008). These days this issue is being discussed widely in business circles and firms have started to perceive innovation as an interactive process which links the internal and external environments of the company (Mention, 2011).

3.2 Organizational Design and Networks

Several research on open innovation and its management have accentuated the necessity and the importance for the innovating firm to form ties and interactions with external parties through establishing networks and integrating them into the organizational design (Hagerdoon, 1993; Becker&Peters, 1998; Mention, 2011). Chesbrough (2006) argues that such cooperation can be viewed as a stimulus for innovation activities as it allows the firm to economize on scale and scope, reduces market uncertainty, provides complementary knowledge and opens new opportunities. Simard and West (2006) have investigated the topic and found out that firms can be connected differently as the ties may be deep or wide as well as formal or informal.

Deep ties allow the firm to exploit knowledge and technologies already existing in the market but in the possession of other firms whereas wide ties provide the firm with an opportunity to explore and discover new ideas and technologies (Simard&West, 2006).

Formal ties are contractual agreements between cooperating firms that legally set the borders of interaction. Nevertheless, such agreements may lead to the formation of informal ties between collaborating parties, thus facilitating new formal ties (Vanhaverbelke&West,2006; Simard&West, 2006).

Support of value networks is the primary function of the open business model, according to Chesbrough (2004). Powell (1990) introduced the notion of "network organization" which he regarded as the means to form solid inter-organizational ties by constant reinforcement of reciprocity and interdependency of members of the network. These ties, whether they are deep or wide, formal or informal, give the firm access to complementary knowledge, information, ideas, technologies which all have positive impact on innovativeness of the firm (Vanhaverbeke&West, 2006). However, Simon and West (2006) argue that more ties do not necessarily lead to better innovation. It is important for the firm to realize the role of each party in the network and adjust its management. The subsequent subpart reflects on some challenges that firms may face while managing networks.

3.3 Open Innovation Management

Simard and West (2006) argue that it is of crucial importance for the firm to maintain ties that best comply with the innovation strategy and consistently improve the overall portfolio of the network. With regard to this, the main challenge for the firm lies in identifying how the network effects innovation and value creation as well as measuring incoming and outcoming flows of knowledge which serve as the core element of the innovation strategy. (Simard&West, 2006)

Chesbrough (2006) also suggests that another issue is the provision of access to internally generated idea to other parties. The scholar accentuates that the main goal of using intermediaries is to help innovators exploit external ideas more rapidly and effectively and assist the former in searching of new markets and opportunities thus creating mutual benefit. If the proper system of monitoring the flows of knowledge is established, the Arrow Information Paradox will be less likely to occur, however, mutual trust and confidence in each other is essential to support solid cooperation activities and normal functioning of the network (Chesbrough, 2006).

3.4 Knowledge sharing

With regard to open innovation and building networks, the appearance of knowledge-based organizations looks as the effective solution to the aforementioned challenges. A knowledge-based organization requires all its employees to share the culture which facilitates the promotion of virtues of knowledge acquisition and sharing (Bogers, 2011). Managing knowledge sharing is the essential element of organizational openness. This has become crucially important especially after the rise of the knowledge-economy in which knowledge is regarded as a vital resource that requires proper management in order to get the most out of it (Enkel, Gassmann&Chesbrough, 2009). In order to manage knowledge properly, the firm has to take into account that different types of knowledge exist and they vary in their transferability. Bogers (2011) draws attention to explicit knowledge that are easily transferred and shared between members of the network whereas tacit knowledge, which are context-dependent, are communicated on the individual level and this process is time-consuming and expensive. Therefore, as Enkel, Gassmann and Chesbrough (2009) suggest a systemic framework of knowledge has to be created in order to manage firms and support cooperative relationships between different parties as well as capitalizing on both tangible and intangible resources.

4.0 Open Innovation in Services/Experiences

Open service/experience innovation remains a relatively unexplored realm of research. There has been a few successful exemplars of implementing open innovation in the manufacturing, pharmaceutical, IT industries (Xerox PARC, IBM, Microsoft, Bayer) but the amount of such in the service industry is significantly less primarily due to the fact that open innovation approach in services requires reconsidering the very idea of the business and the approach to innovation itself (Chesbrough, 2011; Mina et al., 2013). The main question to be addressed then is how the service/experience sector differs from the manufacturing one, and what the difference in open approach to innovation between the aforementioned sector is.

Traditional industrial economics would underestimate the increasing role of services which were regarded as unprogressive. However, services constitute eighty percent of economic activity in the United States and more than sixty percent of economic activity in the top forty economies of the world (Chesbrough, 2011). The recession which began in 2008 gave rise to several disruptive new forces that have changed the global economy:

- The worldwide spread of useful knowledge, information and technology.
- Increased global competition and higher rates of growth in the developing countries have led to the enhancement of welfare and standards of living there whereas most developed countries have suffered severe stagnation.
- The advanced economies have been facing high levels of debt that are financed by lending from poorer developing countries. (Chesbrough, 2011: 19)

The aforementioned disruptive forces have created the commodity trap which contemporary product-focused firms find hard to overcome. The commodity trap comprises the following realities of global economy and business:

- It is getting harder for firms to differentiate their products as knowledge and insights supporting business processes have become widely distributed thus toughening the struggle for survival in the market (Djellal et al., 2013).
- Manufacturing of products is making a move to the areas with low production costs which shifts the emphasis from value of the product to its cost (Chesbrough, 2011).
- The amount of time before a new product is taken over by a newer one in the market has shrunk, thus making firms get involved in a struggle for customers (Mina et al, 2013).

Chesbrough argues that in order to overturn the aforementioned economic realities and compete effectively firms have to alternate the way they perceive innovation and growth, which would

mean changing the whole mind-set (Chesbrough, 2011). In other words, companies are expected to move away from a product-oriented innovation which has predominated for more than a century and lean onto an open service-based innovation approach which implies the enhancement of the firm's boundaries and creation of complementary benefits for the customer (Mina et al., 2013). Chesbrough emphasizes that innovation in services is a sustainable way for the firm to grow and compete but it requires transforming products into platforms that include both internal and external innovations and are surrounded by a constellation of value-added services (Chesbrough, 2011). The realities are that contemporary customers are not satisfied with the final service itself anymore unless it is complemented with support and experience. Those firms that manage to provide top-class services and grant their customers the best experience win the market race, others have to move from the pedestal (Chesbrough, 2011; Mina et al., 2013).

Several studies have indicated a few challenges of alternating business models and making a shift from product-oriented towards service-oriented innovation. The main issue is that the role of the customer, the role of the supplier, the interaction between market players, the design of the supply chain and logistic channels are different in service-based business models. (Chesbrough, 2011) In order to overcome these issues Chesbrough created the framework of open services innovation which was supposed to escape the commodity trap and provide sufficient growth. The framework includes the following four concepts that will be investigated below (see Figure 3).

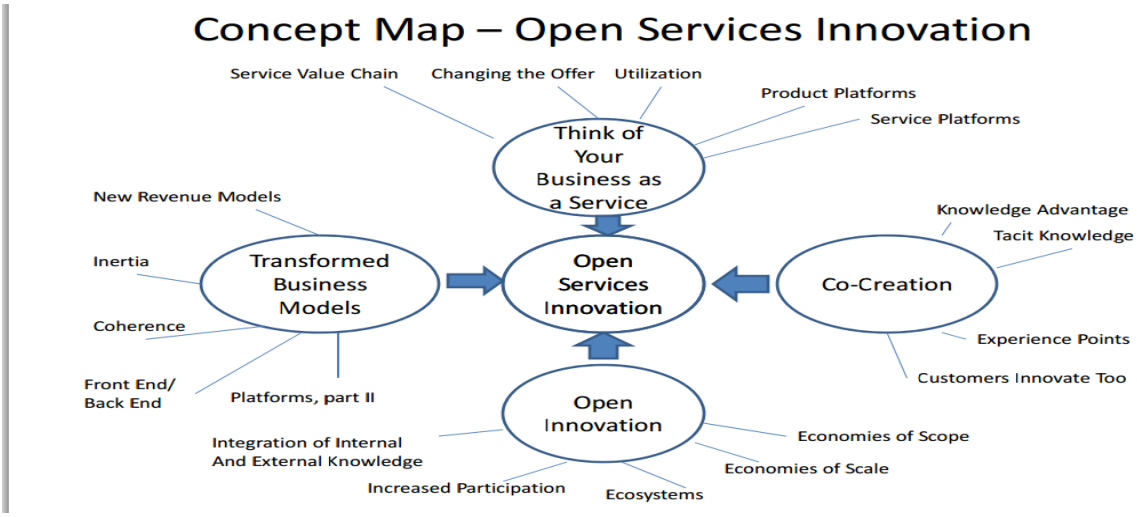

Figure 3. Concept Map of Open Services Innovation (Chesbrough, 2011: 18)

The first concept ('think of your business as a service') implies thinking of an existing business regardless of its type as an open services business. This is assumed to help provide and maintain differentiation in a market with the commodity trap (Chesbrough, 2011). The thing is that product businesses have successfully implemented a few methods of advancing their innovation

capability which can be also used in services business. The most important and influential ones are:

- Six Sigma process quality control which views every business activity as a process that must be controlled and optimized in order to achieve cost reduction. This is done by following five major steps in turn: Define, Measure, Analyze, Inspect, Control (DMAIC). The aforementioned steps are better explained in the following table:

  Table 3. Six Sigma DMAIC process (Singh et al., 2014: 5)

Steps	Key Processes
Define	• Define the requirements of the customer • Define the project boundaries • Define the process by mapping the business flow
Measure	• Measure the process to satisfy customer's needs • Develop a data collection plan • Collect and compare data to determine issues and shortfalls
Analyze	• Analyze the causes of defects and sources of variation • Determine the variations in the process • Prioritize opportunities for future improvement
Inspection	• Improve the process to eliminate variations • Develop creative alternatives and implement enhanced plan
Control	• Control process variations to meet customer requirements • Develop a strategy to monitor and control the improved process • Implement the improvements of systems and structures

- Total Quality Management which presupposes that products must be created properly the first time and defective products must be carefully investigated in order to determine the root cause of the issue (Chesbrough, 2011).
- Supply chain management emphasizes the necessity of firms to share information with core customers and suppliers due to the necessity of careful monitoring and coordinating of inventories and orders throughout the whole supply chain (Lotfi et al., 2013).
- Customer relationship management (CRM) is a framework which helps firms find better contact with customers, get aware of their needs and develop a better understanding them with the view of reducing customer-related costs and sustain solid relationships (Nettleton, 2014).

The problem with the aforementioned practices is that despite their positive influence on businesses both developed and developing countries have got enough knowledge and capabilities to implement them, thus making it far more difficult to differentiate and survive in the struggle for the customer.

On that occasion it has become crucially important for businesses to take a more careful look at customers. Chesbrough argues that regardless of the nature of a business, one should think about it as creating a complete experience for its customers. The desire to deliver outstanding customer experience goes hand in hand with a portion of tension which characterized by the necessity to treat each service transaction individually in order to customize the final offering for the customer. Along with achieving customer satisfaction businesses strive for achieving as maximum cost reduction as possible which requires amalgamating individual offerings creation and doing it in a homogenous way. In order to achieve efficient production and satisfy every single customer it is of crucial importance for a firm to find the golden middle here and manage both customization and standardization in the best compromising way (Chesbrough, 2011).

Along with alternating organizational processes it is also important to change organizational structure in order to reach the balance between customized services solutions for customers and achieving economic efficiency in delivering those services. Chesbrough claims that a company should split itself into customer-facing front-end units which must be linked to standardized back-end processes (Chesbrough, 2011). Figure 4 visualizes this idea.

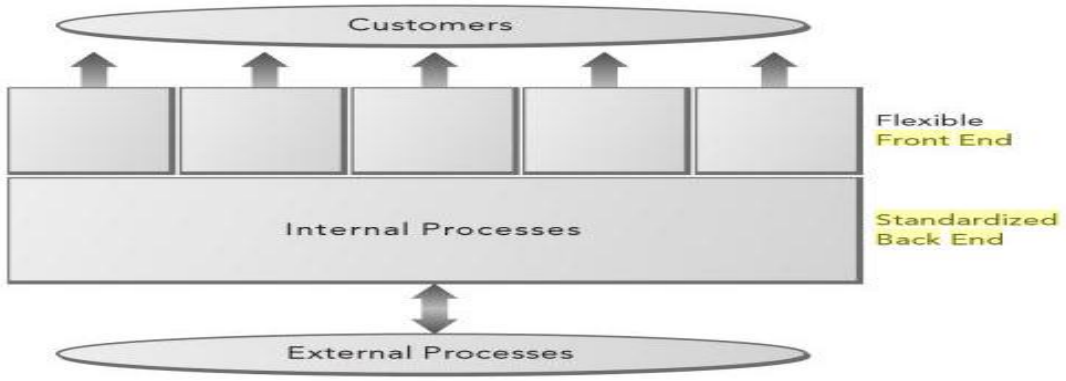

Figure 4. Customized front-end organization with standardized back end (Chesbrough:, 2011: 21)

The front-end customer-facing units develop, package, and deliver customer offerings for clients and their main task is to satisfy a customer. The back-end function in such businesses implies providing standardized services that, if necessary, are easily alternated or transformed at little or no cost for individual customers. To sum up, the front-end customer-facing units focus on delivering customer value and revenues whereas the back-end units strive to minimizing costs (Chesbrough, 2011).

However, changing the organizational structure and finding the balance between customization and standardization is not enough to achieve highest performance, thus a business should go

further to implement services innovation and inviting customers directly into the process. The second concept of the Open Services Innovation Framework is related to the co-creation or changing the role of customers in the innovation process. Instead of treating customers as the final consumers companies need to get them involved in the innovation process. This is essential because when businesses offer services it is hard to specify individual needs because much of the information or knowledge used while providing these services is tacit. This tacit knowledge appear as an obstacle to sustain effective communication between customers and suppliers. In that case firms have to develop and successfully implement techniques that would help overcome or, at least, manage tacit knowledge. This can be done through closer interaction with customers by involving them in the innovation process at early stages and modify the process if necessary so that the customers could share or convey tacit knowledge and help open up the innovation process (Chesbrough, 2011).

The next concept of the Open Services Innovation Process includes shifting from closed to open innovation as dictated by the contemporary business environment. Open services innovation is supposed to assist in reducing costs, sharing risks and rewards, accelerating the time of delivery innovations to the market (Mina et al., 2013). The open services innovation model implies that companies use both external and internal sources of knowledge to turn ideas into final offerings that can have both internal and external routes to the market which depend on the current business model (Chesbough, 2011). There are several examples of successful implementation of Open Innovation in services. One exemple is the British Broadcasting Corporation (BBC) that set up an open innovation community to get into contact with external individuals and firms in order to successfully react on the proliferation of digital technology media and markets (Chesbrough, 2011). Several researchers argue that firms cannot be competitive in the contemporary market if they rely solely on internal knowledge as the latter are restricted in scope, thus only parallel experiments of several participants, including suppliers and customers, can result in diversified choices fostering innovation. In other words, the integration of both internal and external knowledge is a key to put forward open services innovation (Chesbrough, 2011; Felin&Zenger, 2013; Gambardella&Panico, 2013). Chesbrough also argues that the creation of a business ecosystem in which several parties rival is crucial for benefiting from the variety of competencies obtained from open innovation (Chesbrough, 2011).

The final concept of the Open Services Innovation Framework points at the necessity of transforming the existing business model by opening it up. Moreover, this alternation should be fundamental and bring about a lot more value than it does before transformation (Mina et al., 2013). The main issue with the new business model is the inertia that follows transformation.

Once a firm experiences this inertia it is at risk of missing out on new innovation opportunities if the latter conflict with the logic of the business model. This inertia can be identifies once one looks at the metrics used to evaluate the success of the new business model. Product-oriented companies focus on the financial metrics related to the product such as inventory levels, gross margins, failure rates, and so on. Quite the contrary, service-based business models track customer retention rates, the lifetime value of the customer, customer profitability customer satisfaction levels, and so on (Chesbrough, 2011). Scholars argue that successful services innovators have to deal with this inertia and organize their business models in a way that would create new services offerings (Mina et al., 2013; West et al., 2013; Chesbrough, 2011). The striking example of the aforesaid is the world-known company called Johnson&Johnson. It markets certain drugs from different diseases. Until the end of the last century Johnson&Johnson would focus solely on the prescribing physician but new market realities forced the company to alternate its business model and pay more attention to patients as the customers, tracking that all the mandatory requirements related to the drugs were complied with and the right patients got the drugs (Chebrough, 2011).

It must be noted that organizations with service-based models differ significantly from the ones which are product based. Most product organizations treat services as something that has to be provided but that does not contribute a lot to the final success. It turns out that services department is often perceived as a slough and little attention is paid to improve its efficiency (Mina et al, 2013). Services-oriented business models operate in a different way. The services function is the avant-gard element of the whole model and most efforts are directed to the enhancement of its efficiency and profitability (Chesbrough,2011).

Summing up, the Open Services Innovation Framework appears to be one of the essential perspectives necessary to foster innovation in services. Since the business realities reflect the shift from products to services it is important that firms quickly react on the new business environment and adapt their innovation processes to the services context (Chesbrough,2011).

5.0 Other Open Approaches to Innovation in Services/Experiences

This chapter reflects upon other open approaches different from the Open Innovation Paradigm by Chesbrough and speculates on their advantages and disadvantages.

5.1 Shumpeter III

As stated in the very beginning of the chapter, it was Joseph Shumpeter who first formulated the key essence of innovation. However, his early work, so-called Shumpeter I, and the late work, Shumpeter II, conflict with each other rather significantly, what made researchers investigate the works of Shumpeter more carefully and make an attempt to formulate a Shumpeter III approach which is of high importance for this research paper.

In the early work, Shumpeter defined the role of the entrepreneur and described it as a unique person with unique innovation whose motives were not always driven by the desire to earn as much as possible. The entrepreneur is a person standing aside from trends and fashion whose main function is to alternate economic structures and create new combinations (Shumpeter, 1934). By contrast, in his later work, Shumpeter pointed out that that the entrepreneur as a social party was not relevant anymore so the scholar excluded social function of the entrepreneur. Shumpeter argued that innovations became integrated in the business processes of large corporations and turned into routine-activities (Shumpeter, 1947). On that occasion, it is important to underline the distinction between the entrepreneur and routine-based innovation. The main difference lies in motives and rationales of the two approaches, although they can exist at the same time (Fuglsang, 2008). According to Shumpeter, "heroic entrepreneurs" were totally replaced by large corporations (Shumpeter, 1947), which is wrong as the reality reveals that large corporations and entrepreneurs can successfully co-exist, however, the role of entrepreneur has shifted from individualism to a more systemic level (Fuglsang, 2008). On that occasion Fuglsang et al. argue that the new Shumpeter III approach is emerging nowadays with major emphasis on services innovation as dictated by the contemporary business realities (Fuglsang, 2008, Mina et al., 2013). The main idea of this new approach lies in the combination of market and social mechanisms which require the development of new creativity and diffusion of innovation as well as forming new strategic areas of innovation where a lot of interested parties are interlinked and get involved in the process and contribute to the final efficiency of innovation (Fuglsang, 2008).

What is of utmost importance for this research project, is the services orientation of Shumpeter III. Service providers get very linked to their front stuff and their thoughts and ideas due to the

fact that services are usually produced and consumed by both the provider and the consumer. The thing is that the majority of innovations in the services industry are regarded as social innovations as they are often related to the issue-oriented work of the front stuff instead of being directly linked to a business strategy of the firm. Hence, the savvy service provider will do their best to have service workers involved in the enhancement and development of work as much as possible along with close interaction with the final consumer. As a result, the employee and the consumer get more and more interlinked at the systemic level in the innovation processes which is a new paradigm, because previously the worker and the consumer would develop services only at the individual face-to-face level (Fuglsang, 2008).

5.3 User-based innovation in services

User-based approach is another open approach in innovation which appears to be a core challenge in services as it implies combining efficiency and orientation on the final consumer (Valminen&Toivonen, 2011). The main issue here is two different viewpoints concerning the aforementioned notions: efficiency is related to expansibility and extensibility of services while user-orientation opts for offering unique and unforgettable experience for the consumer at the individual level. The overall success of the services business then becomes possible only if both challenges are treated equally (Sundbo&Toivonen, 2011).

In recent years, productization of services has been regarded as a sustainable solution to the problem of efficiency. In contemporary innovation models the user (the customer) has been put in the middle of the process so scholars talk about user-based productization, which blends the notions of efficiency and user-orientation and implies systematic analysis of user needs and their fulfilment (Valminen&Toivonen, 2011; Kim&Mauborgne, 2000).

There are several approaches to productization. The one of high relevance for this project work assumes productization based on a service model or a systematic development process. Some scholars have focused on the systematization of the development process; others have investigated the modelling of service which underpins its systematic development.

Cooper&Edgett (1997) reflected upon the importance of a formally-staged development process which they argued was a necessary prerequisite for a successful service. Initially, the model had been widely used in manufacturing, but later on it was integrated in the services industry (Engvall et al., 2001). The subsequent studies revealed four basic elements of the development process: idea generation, development, piloting and commercialization (Cooper&Edgett, 1997).

Another group of scholars have focused on modelling the service. The main works on the topic belong to Edvardsson (1996, 1997) who created the model explaining how individual unique service can be combined with formal pre-planned service. The main idea in the Edvardssonian model is that the service company cannot implement successful service product without the final user but it has capabilities to produce prerequisites for to make the process of creating a service well-functioning and attractive for the customer. The prerequisites include three basic components:

- The service concept which sorts out the customer's needs, wants and demands and looks for methods of satisfying them. The content and structure of the service is clarified at this stage.
- The service process serving as a prototype for each and every customer process and explaining the array of activities that should function without failures once the service has been produced.
- The service system aggregates all the resources necessary for the production of the service, including the personnel, the business environment (internal and external) and the structure of the organization.

In the Edvardssonian model, all the three prerequisites are regarded as totally equal from the developmental point of view (Edvardsson, 1997).

Leaning on the analysis of the service modelling and systematic development, Valminen&Toivonen (2011) suggested a framework epitomizing the crucial points in the productization of services which served as a platform for user-based innovation. Figure 5 illustrates the framework.

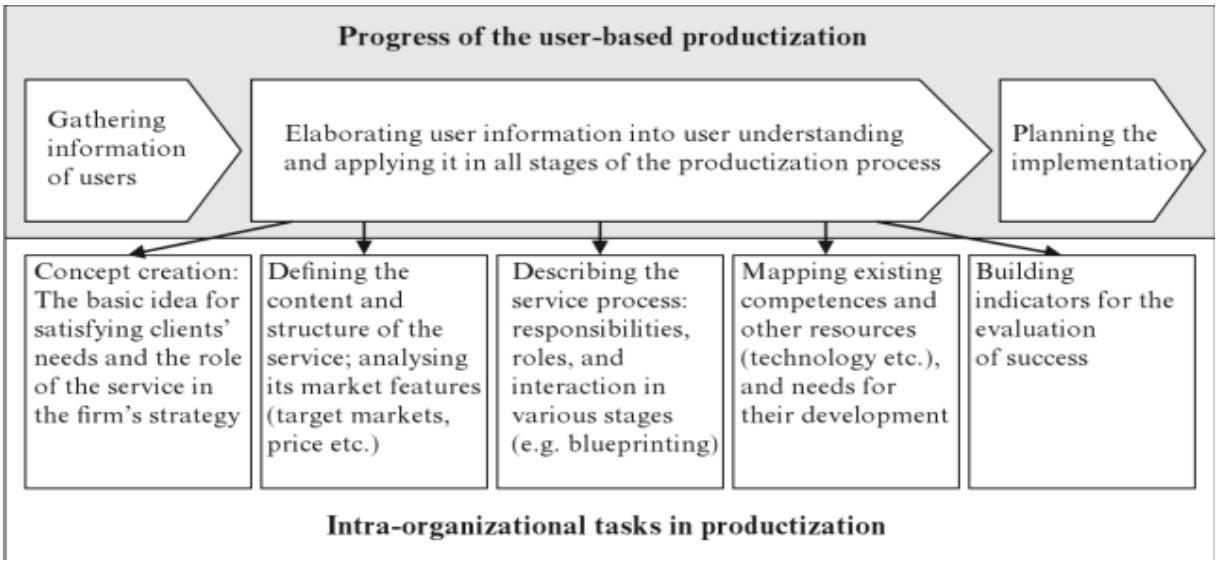

Figure 5. The framework for user-based productization (Valminen&Toivonen, 2011: 381)

The upper part of the table describes the productization process under the user-orientation angle. Both the introductory and the termination stages of the model are outward-oriented which means that the consumer is the main priority for the business exploiting the framework. The middle and the lower parts of the framework are related to the internal processes of the firm but the main idea here is the requirement to take into account information obtained from the user and optimize the organizational structure in a way that would maximize the customer's satisfaction (Valminen&Toivonen, 2011).

It must be noted that productization has a significant effect on the organizational learning. First of all, productization process can be utilized as means to creating shared understanding of the target service. This means that various service ideas are elaborated through the collective work of different staff members (Sundbo&Valminen, 2011). Once the productization has been completed, the systemized service serves as a threshold for user information to be integrated in the model. This perspective of productization brings about two interlinked tasks which are to be handled at the next stage: the challenge of shared understanding within the organization and the use of information that emerges from interaction with customers (Valminen&Toivonen, 2011).

The next stage of the user-based approach implies linking productization and innovation. Under this issue, there are two ways of organizing innovation processes: the stage-gate approach and the rapid application approach (Valminen&Toivonen, 2011). Figure 6 represents how productization can be linked to innovation under both models.

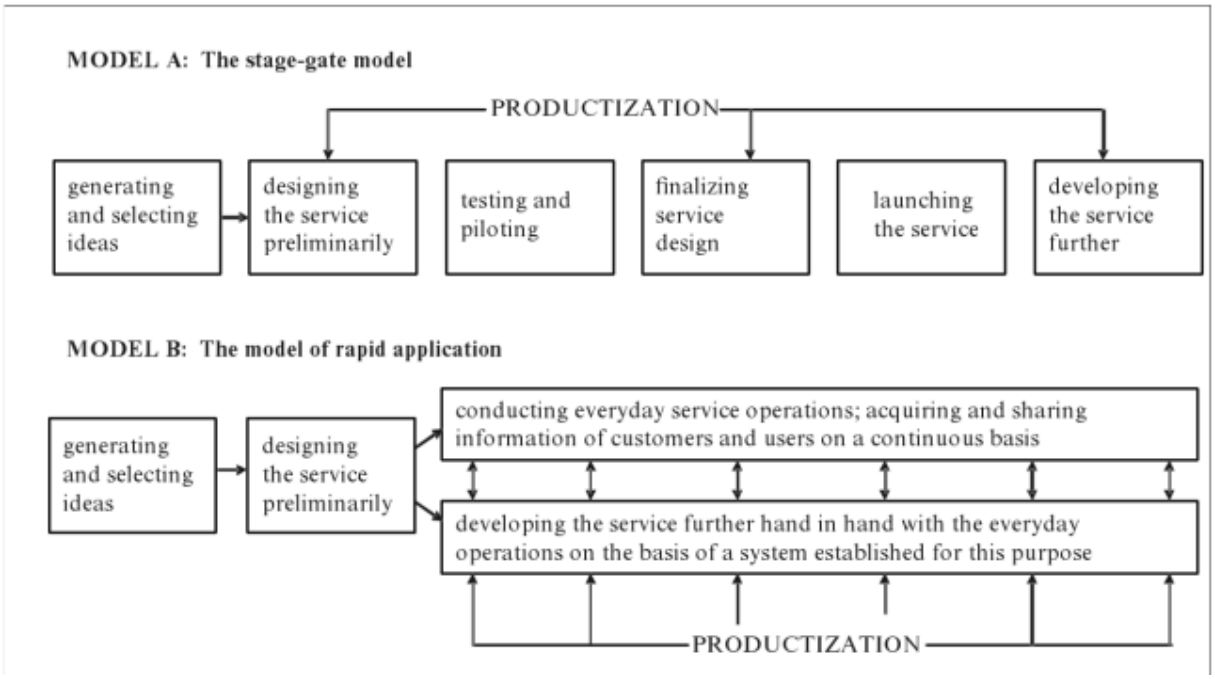

Figure 6. Combining innovation and productization (Sundbo&Valminen, 2011: 388)

In the stage-gate process, the transformation of an idea into an innovation takes place apart from practice (Cooper&Edgett, 1996). The stage-gate framework used to be regarded as the perfect way of implementing innovation but it has aroused enough criticism recently due to its slowness and intra-organizational focus (Valminen&Toivonen, 2011). Thus researchers argued that the model of rapid application would better fit contemporary business realities as it merged planning and execution of innovation and relied predominantly on real-life experience (Engvall et al., 2001).

The stage-gate model integrates productization in a way that the latter becomes a natural part of the innovation process at the preliminary stage. In the beginning, the idea is formed, then innovation is implemented, then the service is tested and piloted. On the basis of information obtained from consumers, the service concept is then modified. Productization comes into action every time when there is a need for modification. It must be noted that under the stage-gate model new services do not remain the same once they have been launched. Quite the contrary, they are exploited by users who give their feedback and can be alternated if the former are not satisfied (Valminen&Toivonen, 2011). Sundbo (2008) reflected upon the necessity to organize channels that would assure gathering of the ideas of users at this after-innovation stage. The scholar argues that consumers can easily come up with valuable ideas that would assist in improving the service (Sundbo, 2008).

The model of rapid application implies that a new idea is set out to the market very quickly after it has been approved and considered reasonable. The main difference of this model is that the innovation process and the actual delivery of the service go hand in hand with testing and piloting being integrated in service operations in the markets. Productization begins at the preliminary stage of designing a service as in the stage-gate model, but then its intercourse with the innovation process may be different depending on the actual method of doing rapid application (Valminen&Toivonen, 2011).

Summing up, the following conclusions about the user-based innovation model can be made:

1. Productization should not be confused with standardization because the former implies that efficiency is not the only perspective of the approach.
2. Productized services create the learning platform which serves as a stepping stone for implementing successful services innovation.
3. Productization and innovation are mutually interlinked processes.

6.0 The Experience-based Economy Concept

The conditions of modern intense competition in most consumer markets and increasing consumers' sophistication forces service companies to seek for new approaches to strengthen their market position. The last fifteen years have been noted by the application of a comparatively new experience economy concept to business and economic activities which signifies the ongoing strengthening of the service industry, albeit upgrading the notion of "service" itself, adding a new element – experience – to its core (Sundbo&Flemming, 2013).
Initially, this management approach has been introduced by Joseph Pine and James Gilmore in their article and lately in the book "The Experience Economy" in 1999 where one of the key postulates of the proposed concept was the evolution of the consumer's values due to the shift from agrarian economic stage to the so-called "knowledge economy" (Alvin Toffler 1980; Pine&Gilmore,1998; Sundbo&Flemming 2009). The scholars claimed that gradually, the same as agriculture and manufacturing economy was replaced by the services economy, the latter is on the verge of being substituted by a new core element – experience (Pine&Gilmore,1998, Darmer&Sundbo, 2008). Experience became the new value-creating element enhancing businesses' competitive advantage due to peoples' willingness to pay a higher price for provision of memorable and meaningful experience. (Hosany&Witham,2009; Pine&Gilmore,1998,1999)

As it was mentioned by Jon Sundbo and Flemming Sorensen, there is no authorized definition of the experience economy concept, nevertheless, a vast majority of books and articles come to the point that "the experience economy concerns activities carried out in the public and private sector that focus on fulfilling peoples' need for experiences" (Sundbo&Flemming 2009,p.1). The notion of experience has been grasped by Pine and Gilmore from the sphere of personal customers' involvement, either passive or active, in experience creation. Furthermore, the authors have focused on the role of "experience supplier" who, through "entertaining, intellectual, educational and escapist realms", provides and directs experience environment (Pine&Gilmore, 1999; Boswijk et al., 2007). It is claimed that experience involves prominent sense highlighted by long-lasting memorable emotion which fascinates consumers personally and touch inmost feelings (Pine&Gilmore, 1999; Hosany&Witham,2009; Sundbo&Flemming 2009; Schmitt, 1999,2010). As an example, Pine and Gilmore considered tremendously successful "takeoff" of the Starbucks company, which with every sold cup of coffee provides customers with unforgettable feelings, memories and atmosphere. They underlined that the main value is not created by the product itself but by experience surrounding the product or the service. Moreover, as it is predicted by Ralph Jensen in his book "The dream society" (1999) the

potential customers consumption decision will be influenced by intangible aspects which producer endows the product or service with (Jensen 1999; Boswijk, 2007).

While the definition of customers' experience varies in accordance with the time and market development, Darmer and Sundbo claim that there are several alternatives concerning this notion. The experience can be considered as a core product, for example a theatre play which is surrounded by something more significant and intangible than just a place of performance or decorations; as a supplementing product, such as dinner in a restaurant which is accompanied by specific thematic atmosphere or show**;** or as a connection with a human mental process of creation (Darmer&Sundbo, 2008).

The notion of customer experience can be recognized as a crucial strategic element for firms preserving competitive advantage (Schmitt, 2010). Following the Verhoef et al.'s (2009) idea, customer experience as a system of mutual relation between service or product consumers , who participating on psychological and physical levels (Kim et al. (2011)), and its' providers, in terms of value experience, initiates development of a new sphere of research "co-creation of value in consumption" (Prebersen, 2014). However, value concept can be defined from different perspectives which are "goods-dominant logic" (G-D logic) and "service-dominant logic" (S-D logic) (Vargo & Lush, 2004: Prebersen, 2014). As far as G-D logic is concerned, a core meaning of value creation lies in exchange, in other words, value, increasing goods' worth, is produced by firm's performance on the market; while from S-D point of view, in contrast to G-D logic where producers and customers contribution in value creation significantly differ to each other, as it was argued by Vargo and Lush, consumer has immediate participation in value creation on production or customization stages, the roles of customer and producer integrated and the value is co-created through the customers involvement (Vargo&Lush, 2004; Prebersen, 2014).

According to Sundbo and Hagadorn-Rasmussen view, the experience is a core product and the notion of *concept,* general framework for the products, designates "the overall conceptualization of experiences", which core activities provide (Sundbo & Hagedorn-Rasmussen, 2008, p. 94). In other words, the total core experience product consists of the core, the main activity like a theater play, kayaking trip or visiting of art gallery; the core experience, crucial element, the story of the core which adds the sense and framework to understand the core activity, for example story can be produced by actors players giving interview in terms of theatre play, by meeting local people in terms of kayaking trip and by guide's excursion in terms of art gallery visiting. Moreover, peripheral experiences "side-activities" such as cleaning of a stage, restaurants, shops, food, etc take essential part of the model of experience economy (see Figure 7). In general, the total

experience product is value creating basement for experience-based firms (Hagedorn-Rasmussen, 2008).

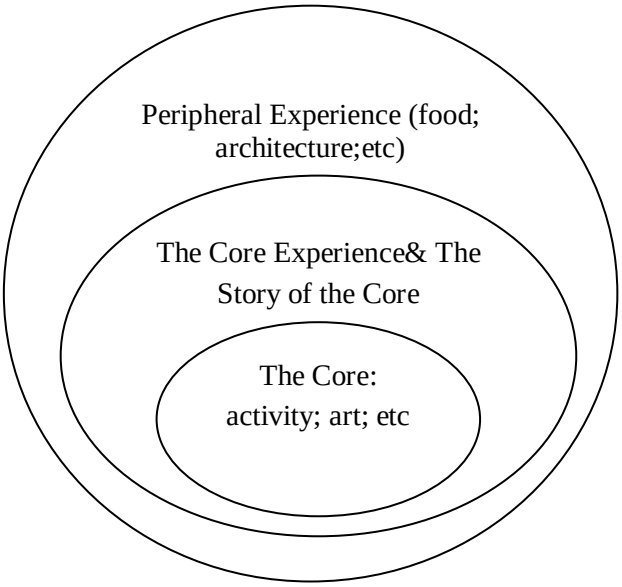

Figure 7: The total experience product (Sundbo & Hagedorn-Rasmussen, 2008: 98)

7.0 Methodology

The initial part of the chapter introduces a conceptual framework for the thesis and the subsequent two sections the research design and the research strategy used when collecting empirical data. The final section reflects upon ethical considerations and limitations of the study.

7.1 Conceptual Model

The conceptual model (see Figure 8) represents a visual image of the research question: "How are OI practices applied to Experience Innovation?" The model is based on the studies from the theoretical part as well as the works of Chesbrough (2011) on open innovation in services. Since experiences are a logical continuation of services, on could render the perspectives from the service sector to the experience sector. The model demonstrates three focal variables:

1. internal exploitation of external resources of innovation;
2. letting internal innovation to flow outside the boundaries of the firm;
3. establishing an open business model.

In order to assess whether OI practices are applicable to the experience sector, seven experience providers will be analyzed further in the research.

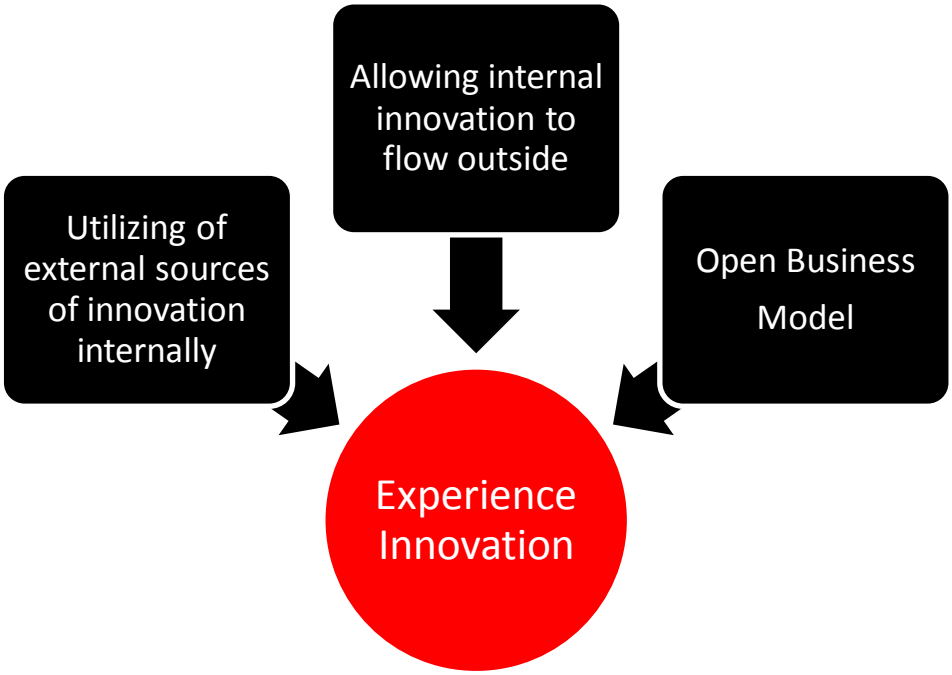

Figure 8: Conceptual Framework: OI practices applied to experience innovation

7.2 Research Design

The research seeks to find out whether OI practices can be applied to experience innovation. Theoretical studies in this field are rather scanty so the explorative initiatives are fully justified. The essence of the research question presupposes close penetration into innovation processes in the experience sector which signifies that the research design is to be built in the corresponding manner.

The research design is a framework that sets a direction of the research process; it is a plan according to which empirical data is collected and interpreted (Saunders et al., 2009). When investigating information which does not imply checking hypothesis, the qualitative approach is the most relevant method (McBurney&White, 2010). Conger (1998) argues that qualitative design allows the researcher to elaborate unexpected ideas and investigate them. Another advantage of the qualitative research was the provision of complex descriptive pieces of information which reflected how the case companies exploited the principles of OI in their innovation processes. The subsequent section describes the research strategy.

7.3 Research Strategy: Case Study

This research is based on the constructive research approach. The main essence of the aforementioned type research lies in solving a problem which belongs to a specific domain. This is done by creating an artifact (various diagrams, models, charts, etc) that solves the problem and allows for making theoretical contributions. The constructive research approach implies following several steps which are derived from Kasanen et al (1993) and go as follows:

- Find a problem which is practically relevant. The creation of the open innovation paradigm and the subsequent open approaches to innovation has facilitated the appearance of several academic approaches and challenges. This research aims at solving the issue of applicability of open approaches to innovation to the experience sector and finding out ways of doing that.
- Get comprehensive understanding of the realm of the research. This is done, first of all, theoretically through deep investigation of relevant literature on the topic and various related topics. Then the empirical data is collected inside the case company or several companies. The process of data collection is described later in this chapter.
- Create an innovative solution idea. This implies constructing a solution which elaborates the problem by developing a construct. The process of creating the construct includes several iterations starting from gaining theoretical and empirical knowledge and then

proceeding to making contributions to the construct. On the whole, the construct has academic theoretical perspectives in its core which are complemented by empirical findings.

- Show that the solution works. This step literally means integrating the idea of the solution into the case company or several companies and make sure that the former proves to be effective and improves the situation. However, integration and implementation of open approaches to innovation is a long-term process, the results of which can be seen several years after. Thus the integration and implementation of the solution is not included in the scope of this research. However, the results obtained by this research might be of great use for existing firms in the experience-based tourism industry who would want to go open and collaborate with their stakeholders.
- Demonstrate that theoretical and empirical findings contribute to the construct. Besides, the construct will appear to be a scientific contribution itself. In addition to the construct, it is useful to find linkages and connections between theoretical perspectives and empirical findings in order to prove that the information in the research can be applied in academic and/or business circles.
- Evaluate the scope of the applicability of the solution idea and the construct. In other words, this step checks whether the idea(s) presented in the research are relevant for the case company(ies) and whether it is possible to generalize the findings and apply them to other organizations in the industry possessing same characteristics and attributes.

The methodology selected for this research is based on qualitative research methods. This way of conducting research has been chosen as it provides enhanced understanding of the phenomena and allows for deeper and comprehensive explanation of their characteristics and peculiarities.

7.4 Data Collection

The collection of data in this research is three-fold. First, the basis for further empirical research was formed through extensive investigation of relevant theoretical perspectives and findings on the topic, namely, the open innovation paradigm introduced by Chesbrough, Shumpeter III approach, user-based approach, the concept of experience economy and the essence of the experience-based tourism industry. The second part involves plunging in the corresponding environment of several case companies existing in the experience-based tourism industry with the view of investigating their operational and innovation processes and finding out how they perceive open innovation and the extent to which they implement it. This is done by getting involved into the ecosystem of the firms, reading relevant information about them and taking

part in various initiatives and looking how daily processes take place in the firms. The third step of data collection implies conducting interviews with representatives of the case firms in order to discover how the latter innovate, what steps they undertake and how they survive in the changing environment and sustain their competitiveness. The aim of the last step is to affirm the core elements of the construct on the example of real-life organizations.

The comprehensive and deep review of literature provided various perspectives on the use of open innovation in various types of organizations working in different industries from manufacturing to experience. This first part allowed the authors to look at open innovation from different angles and create the comprehensive image of the process of open innovation in general and its implementation in the experience-based tourism industry, in particular. This was done by snowballing the previous research on the topic and investigating the most relevant and noticeable pieces of work in order to form a holistic picture of the main perspectives with regard to open innovation and experience-based tourism. In the end of the chapter, the summarizing table was formed in order to generalize the main findings and create a platform for the empirical research.

The second part implied investigation of several companies operating partly or fully in the experience-based tourism industry in order to complement the literature review part and create a more profound and deep understanding of the subject on the agenda. The comparison between the observations and the literature was also made which allowed the authors to start forming the construct.

The third part involved the interviewing process. Ten semi-structured interviews were conducted with people involved to some extent in open innovation processes and able to explain the role open innovation in the companies they work in. The companies were selected on the basis of the following criteria:

1. A company at least partly created experience for the consumer.
2. A company had an inclination to go open and co-create with its stakeholders to some extent.
3. A company used innovation as means of development.
4. A company gained some reputation in the area it operated and existed on the market for more than five years.
5. A company was ready to cooperate with stakeholders and be involved in the network.

The representatives of the companies selected for the interview are all managers or have some administrative power in the organizations they work in. All of them were contacted in advance either by telephone or e-mail and appointments were made.

The interview questions were designed based on the findings from the literature review chapter and the investigation of the companies in the realm of the experience-based tourism industry. The main sub-topics of the interview included:

- information about the respondent;
- brief information about the company;
- the role of innovation in the company;
- collaboration with external parties;
- issues with regard to collaboration;
- openness of the company;
- value co-creation and involvement in the network with stakeholders;
- experience proposition;
- building customer loyalty.

The sub-topics of the interview aimed at investigating the role of innovation, open innovation and experience in the company and finding the link between the three notions. It was also important to find the approach to open innovation every company followed and explore how a certain mode of open innovation contributed to the development of the company. Nevertheless, questions could be alternated during the interview dependent on the answers of the respondent, which is the main advantage of semi-structured interviews as the latter allow the interviewer to control the pace of the interview and out emphasis on the main issues and upcoming subjects which may appear during the conversation.

The interviews were organized in three ways dependent on the level of access to the organization. Two interviews were conducted in the face-to face manner, six interviews were made through Skype and two interviews were obtained via e-mail as the representatives of the company could not find time for a conversation but agreed to send written answers to the interview questions. The face-to-face interviews were recorded and the consent to record was got from the interviewees. The recording machine was placed on the table in front of the interviewee in a way that minimized their discomfort. The face-to-face interviews were conducted in quiet rooms with friendly environment and benevolent ambience. All the interviews were conducted directly by the authors of the paper.

The questions were reviewed by the supervisor of the research paper and peer colleagues. This was done in order to ensure that the interview guide was made properly and all the main issues were covered.

In cases when the interview answers did not properly reflect the position of a company's representative, the authors of the paper sent additional questions to the interviewee, asking the latter to specify their answers in the written form which helped form a more holistic picture of the case companies and comprehend the role of open innovation in the companies under supervision more deeply.

After all the audio interviews were conducted, they were transcribed by the authors of the paper, then the texts and the recordings were checked once again on order to minimize errors and achieve maximum accuracy.

The selection of the interviewees was conducted based on their role and contribution to the company. The following criteria were taken into account:

- position;
- years in the company;
- background;
- previous roles and experiences.

All the information obtained from the interviews served as a basis for forming the construct along with the findings from literature review.

7.5 Case Companies

This section provides a brief overview of the companies under investigation in the present study.

Bodegas Faelo

Bodegas Faelo is a Spanish household winery which produces various sorts of home-brewed wine according to the traditions taking roots from the beginning of the twentieth century. All the production processes do not involve modern equipment as the owner of the winery believes that the wine would be spoiled if technological progress is integrated into the process of wine-making. In terms of open innovation activities, the firm offers a tremendous experience to its guests by allowing everyone to become a part of the production process and assist in growing grapes and smashing them when it is time to do that. Besides, various guided tours are organized

to the place where visitors can get acquainted with the history of the region, try local food and beverages, and buy exclusive kinds of home-brewed wine which are not sold in ordinary stores.

Torres

Torres is the largest industrial winery in Spain which accounts for thirty-four percent of wine produced in the country. After the crisis of 2008, the company had to take action and attract new customers. Thus an initiative called "Torres Wine Tourism" was organized which allowed the participants to plunge into the world of wine and wine as well as visiting medieval castles and degustate various meals and beverages in the picturesque environment.

Sant Pere

Sant Pere is a young yet ambitious café in the heart of Alicante, Spain which puts main emphasis on experience and impression its guests get rather than food and drinks it offers. All-day-long shows, bright costumes, remarkable dances is what makes the visitor love the place. The food is also respectable but the café does not offer anything exclusive so the place is not the case for gourmets.

Hard Rock Café Paris

Hard Rock cafe Paris is one of the many bars spread all over the world. The place allows its guests to delve into the world of rock music and spend time combining the atmosphere of a rock concert and trying various food and beverages. The narrow specialization of a place nevertheless attracts numerous visitors every single day who want to recreate, listen to their favourite music and have fun.

Ice Bar Paris

Ice Bar is an attempt to create an analogue of the Finnish and Dutch attraction adding a somewhat Parisian flavor to the place. The attraction is for those who want to experience something extraordinary, namely, wrap themselves in a blanket and drink warming alcoholic beverages while listening to live concerts or taking part in different activities on stage.

Moulin Rouge

Moulin Rouge is probably the place which does not fit the demands of a young generation but is the one which makes respectable guests from all over the world make a reservation several weeks in advance. The world-famous cabare follows the traditions established in the beginning of the twentieth century but has to adopt to the changes in the market in order to remain competitive.

Guinness Club Brussels

Guinness Club is a comparatively young bar which focuses on British beer and aims at creating an unforgettable ambience of an Irish pub in the heart of Brussels. Irish beverages, Irish costumes, Irish approach to drinking is what makes a place stand out and catches attention of those who want to relax in the unconventional atmosphere.

7.6 Data analysis

Data analysis implies elaborating the information collected through empirical research. There are several techniques for qualitative data analysis. This research follows the technique of thematic coding which involves recording and identifying passages of text or images generalized by a common topic or idea which allows the researcher to sort the data into categories and thus form a framework (Gibbs, 2007). This research implies three steps of data analysis which is correspondent to the three steps of data collection. Table 4 summarizes the data analysis approach used in this paper.

Table 4. Data analysis approach

Step of data collection	***Name of step***	***Sub-topics***	***Description***
First	Literature review	Innovation; Open innovation in manufacturing; Open innovation in services; Shumpeter III;	The sub-topics were reflected in the literature review part sequentially thus forming a holistic picture of the main

		User-based approach; Experience economy; Experience-based tourism industry; Open approaches to innovation in the experience-based tourism industry	topic
Second	Investigation of companies	History and background; Core business; Innovation; Open innovation;	The sub-topics were derived from careful investigation of the environment of the case companies
Third	Interviews	Role of innovation in the company; Value co-creation; Opening up; Role of open approaches to innovation in the company; Forming networks; Collaboration with stakeholders; Providing experience; Building customer loyalty;	These sub-topics were elaborated through the empirical data obtained from the interviews

The present method of data analysis was used to identify the main factors underlying the main topic of this research and define issues that could contribute to the elaboration of the construct and forming of the solution. The first step (literature review) identified the main perspectives on the subject and allowed the authors to form the basis for the future research. After reviewing the

academic data, links to the real-life businesses were made by investigating the environments of the case companies. Finally, validating of the elements of the construct was made through conducting interviews. The present type of data analysis complies with the principles of the constructive approach and simplifies the process of finding relationships between theoretical and real-life perspectives on the topic.

7.7 Validity and trustworthiness

The validity and trustworthiness of the research comply with the selected methodology. First of all, the constructive approach is done in such a way that ensures that the construct is build based on theoretical and empirical findings, offers solution to a practical problem, and has a contributive effect. Thus the research followed a sequential approach implying gradual elaboration and specification of every step. In addition, there is a possibility to check every step and provide coherence of the research. Finally, the research is goal-oriented, it is done to investigate a specific topic and propose a certain solution to the issues of the topic.

The construct is formed on the elaborate literature review. The central element of this step is the Open Innovation approach introduced by Chesbrough which is complemented by other open techniques which together create a holistic theoretical image of the topic.

Then the authors of the paper have plunged into the environment of ten case companies in order to find out how theoretical perspectives work in real-life situations. Semi-structured interviews provided empirical data which supplemented the construct and contributed to the profound investigation of the topic.

However, there are probable issues with validity and trustworthiness which have to be taken into account:

1. The interviews involved a single participant.
2. The authors of the present paper were involved in the environment of the case companies for certain periods of time which may cause a degree of personal bias.
3. The constructive approach is new and lacks acceptance and recognition.

8.0 Analysis and Discussion

8.1 Theoretical Fit of Open Innovation Practices applied to Experience Innovation Theory

Before starting the analysis of the empirical findings concerning seven providers of experience and their approaches to open innovation, it is worth investigating the fit between open innovation and experience innovation from a theoretical point of view.

8.1.1 Experience Characteristics

Experiences as a concept have a strong correlation with services therefore one could suppose that they possess almost the same characteristics which distinguish them from products. Levitt (1981) argues that there are four major aspects that differentiate services (experiences) from physical products: *intangibility, simultaneity, heterogeneity, and perishability.*

The *intangibility* aspect of experiences in terms of the OI perspective possesses both advantages and shortcomings. The evident advantage is the ability of the firm to constantly update and improve its experience innovation as a process of co-creation with different parties which allows the innovating firm to diminish costs on the innovation in comparison to the product-oriented company. Chesbrough (2006) also accentuates the importance of the transaction of IP between firms as a crucial aspect in open innovation, however, the intangibility aspect of experiences complicates this process. Moreover, the aspect of intangibility may be deceiving when considering physical and non-physical actions. A non-physical action (walking around the Disneyland, for example) is absolutely intangible but physical acts (degustation of wines, for instance), complementing the experience, appear to be tangible thus creating a portion of confusion. Summing up, the intangibility aspect presupposes that the firm will have to intensively interact with its stakeholders interested in innovation in order to achieve recognition due to the fact that experiences cannot usually be touched but they can rather be shared and communicated to the interested parties. If the firm succeeds in creating the shared understanding of the experience it offers, then it would be able to carry the innovation forward in the market and gain recognition.

The *simultaneity* aspect of experiences is the mandatory prerequisite in the scope of the OI paradigm. The OI concept implies integrating customers and other interested parties in all the stages of innovation thus creating the network and co-creating development. Thus within the framework of open innovation the aforementioned characteristic of open innovation is a crucial element of experiences. However, the simultaneity aspect also presupposes close communication between the front end and the back end of the firm so as all the interested parties

could clear comprehend the process of the experience creation and offering. Since the production and consumption of the experience happen simultaneously, the back end of the firm needs to accurately understand how the experience is delivered in order to innovate better and constantly improve it.

Experiences are often regarded as being *heterogenic* as their production is continuous and the interaction between various customers and firms is always unique and can hardly be predicted in advance. This heterogeneity aspect makes the process of imitation of the experience very complicated as the customer's perception of the quality of the final product (experience) is completely subjective and varies as response to different factors and circumstances. Theoretically, if the nature of the experience is heterogenic, there would be little pressure on the firm when revealing its intellectual property and resources. Moreover, experiences often appear to be personalized or oriented on the individual, which, in turn, emphasizes their heterogenic nature and enhances customer loyalty as the subjective perception of the experience is often stipulated by its uniqueness and originality. However, the firm might be entrapped if the experience offering does not have much in common with the supplier of this offering or, in other words, there is a gap between the front and back ends of the company, because this may simplify the process of experience imitation thus contributing to standardization instead of personalization which contradicts the essence of experience economy and open innovation. As a matter of fact, this standardization/personalization issue casts light on the fact that different experiences are likely to be revealed to various extents in different markets. There is no panacea for this problem, however, firms that aspire to deflecting competitors from imitating the experience, might try to rethink its core values and the way the experience is created so as to avoid getting entangled in the commodity trap.

The fourth aspect of experience is *perishability* which presupposes that experiences cannot be preserved or stored. This means that workforce should be used at full capacity otherwise the firm would be losing market opportunities and purposelessly aiding its competitors. Thus capability evaluation and careful planning are key elements for proper management of experiences. In the context of open innovation this signifies that managers often forget to integrate open innovation techniques in the process of experience delivery and fail to embed them into responsibilities of workers. While all innovating companies have a R&D department comprising a team of innovators, other departments are often failed to be taken into account in terms of innovation. The major issue here is to ensure that all workers in the company understand the innovation policy of the firm and are integrated in the innovating activities. If this condition is fulfilled, the

perishability aspect of experiences will not affect the implementation of open approaches to innovation in the firm.

8.1.2 Experience Innovation

Theoretical perspectives on the concept of experience innovation reflected in the theoretical background part of the present paper underpin the main thesis that experience innovation processes are different from other innovation processes in the sense that they are less formal and imply close interaction between the firm and its stakeholders. Den Hertog et al. (2010) describe experience innovation as resembling the system of trials and errors which leads to a set of issues with regard to open innovation as the latter implies a set of simultaneous activities erasing the borders between search and implementation of innovation.

Der Hertog et al. (2010) argue that there are six capabilities that are essential for experience innovation. The first capability is concerned with *signaling of user needs and technological options*. In other words, it means that the firm has to constantly monitor the market and catch the ongoing trends along with understanding the signals sent by the potential consumers and turn those signals into a wholesome experience offering. This capability also has high relevance in the context of sourcing for inbound innovation. The second capability is about *conceptualizing* an experience offering and is highly relevant for implementation of open innovation in terms of outbound innovation. The firm has to be able to specify its value proposition and make it comprehensible for its stakeholders. *(Un)-bundling* means the firm's ability to elaborate experience offerings by building on offerings already present on the market or reconfiguring the firm's offering in order to simplify it and make it more understandable for customers. With regard to OI, the main benefit of unbundling is that the firm is able to see the short- and long-term advantages from it. Building up on each other's work is essential for successful implementation of open innovation. *(Co)-producing and orchestrating* lies at the very heart of the open innovation paradigm, as it is absolutely necessary for proper management of inflows and outflows. OI implementation also presupposes strong collaboration between firms in different forms like joint-ventures, alliances, etc. which stipulates the capability of *stretching and scaling*. The last capability requires the internal environment of the firm to *learn and adapt* for successful implementation of open innovation.

Summing up, theoretically, the present study has found open innovation practices to be similar to the capabilities needed for experience innovation and therefore there is reasonable fit between implementation of open innovation and capabilities required for innovation of experiences. The major findings are summarized in Table 5.

Table 5. Experience Innovation Capabilities with regard to OI

Experience Innovation Capabilities	Open Innovation Practices
Signaling user needs and technological options	Yes
Conceptualizing	Yes
(Un)-bundling	Yes
(Co)-producing and orchestrating	Yes
Scaling and stretching	Yes
Learning and adapting	Yes

8.1.3 Summary of findings

The investigation of the theory has signified that both the aspects of experience and the capabilities required for experience innovation indicate that both inbound and outbound flows of innovation are essential to survive in the contemporary market environment. However, the theory to a certain extent denotes that there are cases when outbound innovation turns out to be much more complicated to implement than inbound innovation. Standardization of experiences as one of the major issues may decrease the firm's ability to share ideas with its stakeholders. Therefore, if the company decides to go open and blur its boundaries, it should personalize experience offering and create the scent of uniqueness and originality in order to outpace its competitors.

8.2 Terminology clarification

This section reflects on how the representatives of the case companies understand the concept of OI. For the sake of simplicity, the name of the firm will be used as a synonym of the interviewee themselves although it is important to accentuate that the perception of OI is then regarded as the interviewee's subjective point of view. It is also relevant to point out that all the interviewees are either heads of their companies or managers that hold positions related to the innovation processes in the companies. The empirical findings suggest that open innovation is regarded differently throughout the firms although there are several common points. Table 6 below summarizes the way the interviewees define and understand innovation and open innovation.

Table 6. Innovation and Open Innovation Understanding

Company	***Innovation***	***Open Innovation***
Bodegas Faelo (home winery)	Innovation is very important for us. It is about adding new elements to the existing business model. Although we stick to the traditional way of doing our business and rely on already existing wines that we have produced for seventy years, we always try to improve our production processes and get the most out of the grapes	Open Innovation means opening up to new trends in the market. These days the trend is the orientation on the consumer. We want to know what our clients want and desire thus we organize guided excursions and degustations to help them understand their wishes
Torres (industrial winery)	Innovation is what we do to catch up with the ever-changing market realities. It concerns our products, processes and post-production services	Open Innovation is the exploitation of networks of stakeholders in order to remain competitive and be able to develop new products and create a positive brand image
Sant Pere (experience restaurant)	Innovation is the ability to change the mindset. It means thinking differently and doing things differently	Open Innovation is about seizing the ideas from outside and using them successfully inside
Guinness club (experience night club/bar)	Innovation is everything for us. We understand that our clients want to experience that ambience of rock'n'roll and drink their favourite beer. We are ready to change constantly in order to fulfil their needs	Open Innovation is a constant dialogue with our suppliers, our guests and artists that play live music in our bar. We want to get better so we suggest that our customers decide what they want to drink, eat and listen to
Hard rock café Paris	Innovation is what helps us	We understand that our guests

(experience bar)	attract as much visitors as possible. It concerns new drinks and food as well as sustaining the unique atmosphere of Hard Rock Café known worldwide	come to Hard Rock Café not only to drink beer and eat burgers but also get unforgettable memories and delve into the ambience of their favourite music and interior. Open Innovation helps us identify what people want and get better.
Ice bar Paris (experience bar)	We think that innovation is offering something completely new, something that has never been done before	We are always trying to collect as much feedback from our guests as possible. This helps us improve things we do here and come up with new improvements
Moulin Rouge Paris (cabare)	New shows, new programs, new costumes, new dancers – these are all innovation. These things are extremely important if you want to maintain the reputation of the place like ours.	Initially Moulin Rouge has reserved a certain niche in the market and followed the same tradition for many years. Nowadays more and more cabares are appearing in Paris and we have to listen to our customers in order to stay competitive and remain the main attraction of this kind not only in France but in Europe as well.

The aforementioned words of the interviewees signify that the term "innovation" is perceived differently but the general idea of what it is remains similar to a certain extent. All the interviewees agree that a new idea has to be let out into the market and only after that it can be considered an innovation. None of the interviewees have mentioned global innovation, rather they accentuated the necessity of complementary innovations that add up to the existing business model.

The understanding of open innovation turned out to be rather limited among the interviewees. Almost all of them mentioned the importance of inbound innovation, i.e. the necessity to co-create, form networks and source externally. On the other hand, only three interviewees reflected on outbound innovation: selling and/or revealing internally generated ideas and sharing intellectual property to improve the final experience offering.

The findings from the empirical data are not astonishing as the experience sector is rather young and not much attention has been drawn to open innovation in this sector so far. The following sections of the present paper will investigate the types of openness in the case companies and rationalize the choice of a certain type.

8.3 Inbound Flows

In this section empirical findings will be investigated with the view of identifying which type of inbound openness is present in every case company. First of all, the non-pecuniary flow – sourcing – will be touched upon and after that the pecuniary flow – acquiring – will be considered. In the last part of the section the summary of the results will be provided.

8.3.1 Sourcing: Inbound Innovaion – Non-Pecuniary

Sourcing handles the issue of exploitation of external sources of innovation (Dahlander&Gann, 2010). The non-pecuniary type of flow signifies that the firm exploits information and technology without spending money on it during the innovation process. It is the non-financial kind of getting valuable knowledge and ideas.

All the firms that were under observation during the research were aware of sourcing. All the interviewees pointed out that monitoring the market, finding out the needs of customers, valuable ideas and technology as well as cutting-edge processes, were the ordinary practice for them as it allowed the firms to exploit the collected information in the innovation process. Despite being present, sourcing was not a formally organized process in all the firms. Only three out of seven respondents claimed that this type of innovation was integrated in the business model on a regular basis. The three interviewees also accentuated the importance of overlooking the market not only locally but also worldwide in order to grasp the best practices and examples.

Torres, being one of the most prominent Spanish producers of wine and brandy, experienced severe crisis in 2008-2009 as a result of the whole economy of Spain being in decline. In order to attract as much customers as possible and promote the brand, the management of the company initiated the “Torres Wine Tourism” innovative campaign which attracted new inflows of

visitors and customers as it allowed the latter to not only degustate the products of the winery and get acquainted with the process of wine-making, but also complement it with sightseeing and visiting one of the three medieval castles located in the region thus getting a portion of experience that motivated them to purchase Torres wines and brandies . As a matter of fact, the mixture of cultural and food tourism yielded luminous results: in 2014 Torres was awarded as the world's most admired wine brand. The idea to combine culture and wine-making came from looking at similar practices in the world. The notion was then conceptualized and modified through the use of focus groups and brainstorming so as to ensure that it fit the Spanish market and responded the needs of potential customers. Several trial tours were organized, then the feedback was collected and the campaign was alternated until the management of the firm ascertained that all the valuable comments and opinions of the testers were taken into account. These days Torres aspires to enhancing the scope of the campaign through looking for partnerships with places of interest throughout the whole territory of Spain so as to offer as much alternatives of wine tourism to its customers as possible.

In the case of Bodegas Faelo the prominent innovation was the opening of the online store. The company got positive feedback from its visitors concerning the quality of experience it provided while acquainting the tourists with the traditions of household wine-making. However, many visitors had claimed that the location of the winery was not comfortable enough so the owner decided to launch an online store in order to satisfy customer needs and increase sales. The interviewee from Bodegas Faelo also accentuated that the effectiveness of business increased due to the heavy work related to the analysis of companies in other industries. He pointed out that knowledge that Bodegas Faelo obtained from successful examples from other industries was much more valuable than the one got from the analysis of the competitors.

Sant Pere experience café also implemented sourcing in its innovation process. The respondent from the firm emphasized the crucial importance of sourcing as the well of valuable knowledge and ideas. A large portion of innovation came to the business model from the tourist attraction industry where some approaches and traits were obtained. Furthermore, customers also contributed a lot to the creation of the experience café as they provided valuable feedback on the type of experience they would love to get while having lunch or dinner.

Hard Rock café Paris utilizes the network of stakeholders as a source of inbound innovation. Since Hard Rock café is the global chain, there are strong requirements regarding the choice of suppliers and the way customer needs should be satisfied. Although the firm has to obey the rules of the centre located in the USA, there are some specific peculiarities of French

environment and culture that has to be taken into account. In order to fully response to the needs of the market, Hard Rock café Paris has to interact with a wide range of various businesses in different sectors in order to maintain the unrepeatable ambience of the Hard Rock café and combine it with the scent of French culture, traditions and preferences of its residents. In order for this to be achieved, the interviewee mentioned, ideas and information from all the stakeholders has to be considered, sorted out and the most valuable knowledge are integrated into the innovation process. The respondent also pointed out that since the market environment was constantly changing and more and more attractions of the same kind appeared every year, Hard Rock café Paris always had to improve the quality of experience it provided. He added that food and music were not sufficient anymore; live shows, merchandize, musical artefacts on the wall – that was what guests had always wanted to see in every Hard Rock café in the world and that was what distinguished Hard Rock café from other places of the same kind.

Ice Bar Paris is another example of mixing a restaurant with a tourist attraction. The representative of Ice Bar Paris argued that it was the successful case of launching an ice bar in Amsterdam that inspired the owners of the French version of the bar to set up such a business. Ice Bar Paris initiated the sourcing process based on the successful example of the bar in Amsterdam with the view of copying the best practices implemented in Holland and complementing it with French hints. The interviewee accentuated that the case in Amsterdam helped Ice Bar Paris to save sufficient time on marketing and positioning of the attraction. However, he added, there were a lot of knowledge yet to be commercialized in the market and there was always things that needed improvement.

Moulin Rouge is the world-famous cabare that has always attracted numerous visitors from all over the world. The representative of the firm said that customers had always been the major source of innovation for Moulin Rouge. Since there are quite a lot of similar attractions nowadays, the company has to not only maintain the world-class quality of the place but also invent new ways to attract visitors. The interviewee emphasized the crucial role of customer feedback and its impact on the existence of Moulin Rouge. He also added that successful practices as well as failures of the competitors were also of great use for the company so constant monitoring of the market and seizing valuable ideas and knowledge were the formalized practice in Moulin Rouge.

Sourcing is also a crucial element in the business model of Guinness Club. The owner of the place claimed that every year managers of the club went to Ireland in order to derive the traditions of drinking beer there which helped to create the analogous ambience in Brussels. The

interviewee also mentioned that initially he aspired to opening a simple bar in the Irish style, however, based on the feedback from customers, he decided to invest money into the organizations of live shows with musicians playing various kinds of music. Nowadays, five years after opening, Guinness Club turned into a tourist attraction where visitors can drink different kinds of stouts and lagers as well as listen to various live music and even sing themselves during karaoke nights organized every weekend.

All the respondents reflected upon the important role of customers as their major source of innovation, however, the scope of interaction differed quite significantly among the firms. Bodegas Faelo got too much input from visitors that from time to time it turned to be a challenge to handle all the information obtained for a small household winery. The owner of Bodegas Faelo accentuated that it was very important in that case to maintain linkage with those visitors who contribute and provide feedback for them as well. Hard Rock Café Paris is located on the other side of the continuum. The interviewee from the firm claimed that due to a large amount of privacy and confidential information there had always been a bit problematic to get in close touch with customers and obtaining insights from them was a complicated task at times.

Despite the fact that some companies had formalized the process of sourcing and integrated it into their business models whereas others considered it less relevant than other types of innovation, on the whole, all the case companies utilized that instrument in their innovation processes. The benefits and effectiveness of sources was also indisputable and all the interviewees agreed that sourcing could contribute a lot to successful implementation of innovation.

8.3.2 Acquring: Inbound Innovation - Pecuniary

Acquiring is another type of the inbound innovation process which implies that the company has to purchase valuable ideas, knowledge and technology from the external environment and this is its main difference from sourcing (Dahlander&Gann, 2010).

Bodegas Faelo, being a household winery, has not implemented acquiring to this date. All the inbound innovation is concerned with sourcing primarily from customers who to a large extent determine the development of the firm. The second reason for the absence of acquiring, as the interviewee from Bodegos Faelo mentioned, is the respect to traditions which has always defined the business processes in the firm. Nevertheless, the respondent argued that the market was very demanding and in the future the company would probably have to turn away from the authentic

ways of producing wine and integrate contemporary equipment in the production process which would, in turn, require acquiring of innovation.

On the contrary, Torres as an industrial winery always has to keep abreast of the latest technology in wine-making in order to maintain the leading positions in the Spanish market. The respondent from the firm made an example of barrels in which wine is usually blended. They have to be made of a special type of steel which would preserve the taste of wine without spoiling it with chemicals. Since there is no steel of sufficient quality in Spain, Torres has to acquire it from American suppliers who are at the cutting-edge of steel production. Another example is the type of bottles in which Torres's wine and brandy are kept and sold. The prolate and tapering to the end design of the bottle has been modified many times in order to achieve the maximum preservation of taste and flavor. However, this innovation is not internal and was acquired from the German suppliers of glass.

Hard Rock café Paris, being a branch of the global chain, follows the approach of the centre which implies acquiring innovation from a wide range of business partners as well as competitors. This concerns food, music, interior and even the organization of a merchandize store. The representative of the firm mentioned that the latest innovation acquired was the setting of a special music amplifier which automatically determined the style of music based its intensity and adjusted its settings to make the music sound perfectly without damaging hearing of visitors. The gadget cost a lot of money but had to be purchased as a response to the complaints of some guests in the American version of Hard Rock café which disliked the loud and suppressing music in the bar. The interviewee also said that even some burners' names had to be acquired. For example, the world-famous Jack Daniels Burger is the property of TGI Friday's, however, the company sells the right to produce this burger to various competitors in order to promote the recognition of the brand.

Ice Bar Paris is the example of both sourcing and acquiring form the same source. i.e. the analogous Ice Bar in Amsterdam. The representative of the firm said that the owner was so impressed by the way the Dutch competitors did business that he acquired a lot of ideas and knowledge along with the brand name as he considered the business model of the Dutch competitor almost impeccable. Another example of acquired innovation is the mechanism of temperature control which makes it possible to create the atmosphere of a castle of ice and prevent the latter from melting.

Sant Pere café and Moulin Rouge has not been largely involved in acquiring of innovation so far. In the case of Sant Pere café, its owner mentioned, there is no sufficient resources to implement

acquiring since the attraction is very young and needs time to grow. Thus sourcing and internal innovation are major elements of the innovation process for the company. Moulin Rouge, on the contrary, does not need to acquire innovation as it is the hallmark of excellence in the sector itself and its management prefers licensing out ideas and technologies instead of purchasing them, the respondent from the company argued.

Guinness Club is also a relatively young tourist attraction so in terms of innovation it acquires very little, namely, the right to sell Guinness beer and the use of the brand's name in the bar. The interviewee from the firm said almost nothing about this type of innovation but he mentioned that in the future the company was planning to turn into a chain and then a lot of ideas and knowledge would have to be bought and only sourcing would be insufficient.

Summing up, the empirical findings have reflected acquisition processes in Torres, Hard Rock Café Paris, Ice Bar Paris, Guinness Club. The first three firms are rather mature and possess sufficient resources for pecuniary innovation. Guinness Club is a young attraction but has to acquire a component of the experience, namely, the right to use the name of the brand and an exclusive right to sell a variety of Guinness's flavours. All the aforementioned experience innovations are a consequence of the acquisition of a technology, knowledge or idea which have contributed to making an attraction more attractive.

8.3.3 Summary of findings

On the whole all the case companies are involved in inbound innovation to a greater or lesser extent. The empirical findings confirm the thesis of Sandulli (2010) who argued that there is strong correlation between service companies and inbound innovation. Experience companies, being the disciples of service companies, can then also be included in this case. The exploitation of external resources has been admitted valuable and helpful by all the interviewees. However, acquiring has not been the case for all the firms. Bascavusoglu-Moreau et al. (2012) argue that complexity of innovation and intensiveness of technology determine the shift from sourcing to acquiring. The higher are the former, the larger is the shift towards acquiring. The empirical findings in the present research partly approved this notion: mature companies that need development and enlargement tend to acquire more than the ones that are young because the former require more advanced and up-to-date technologies to maintain their reputation and leading positions in the correspondent markets.

The summarizing table below generalizes the findings from the empirical research.

Table 7. Inbound Innovation in the Case Companies

	Bodegas Faelo	***Torres***	***Sant Pere***	***Hard Rock café Paris***	***Ice Bar Paris***	***Moulin Rouge***	***Guinness CLub***
Sourcing	**YES**	**YES**	**YES**	**YES**	**YES**	**YES**	**YES**
Acquiring	**NO**	**YES**	**NO**	**YES**	**YES**	**NO**	**YES**

8.4 Outbound Flows

This section investigates two different types of outbound flows and reflects upon whether these kinds of innovation bear relation to the case companies in this research paper. The first half of the section observes the process of revealing and the second one concerns selling. In the end the summary of the findings is provided.

8.4.1 Revealing: Outbound Innovation – Non-pecuniary

Revealing is the opposite form of sourcing which is not related to financial activities and concerns the issue of how the firm exposes its internal knowledge and ideas to the external environment without being compensated for them (Dahlander and Gann, 2012).

Revealing is not straightforward in the case companies. All the interviewees talked insufficiently on this topic, however, some findings are relevant for the research. The common aspect of all the seven firms is that when they do revealing they expose themselves specifically to external organizations. For instance, Hard Rock café Paris have participated in different networks. One of the most representative ones was the network gathering all the dining attractions in France concerning the theme of rock music and everything connected with it. Within the borders of the network, the information about business strategies and market opportunities was revealed freely. However, whence the market realities worsened, the network agreement proved to be inefficient and the union was terminated. Another example is the network where Hard Rock Café Paris participated along with three leading concert agencies of France. The agreement did not concern the free distribution of information and knowledge; rather, it put emphasis on how different flows of information helped improve the quality of the experience and provide top-class services. Hard Rock café's burgers and beer were sold during various concerts that took place n France during a year. After the expiration date, the network was unformed. Hard Rock café Paris is also a member of a network comprising the case company and two narrowly specialized cafes which

also put emphasis on a certain style of music and target certain groups of customers. In this network business strategies are not revealed but successful practices are shared. Henkel (2006) claims that some companies do not intend to reveal information or properly select it before revealing as they wish to reduce the risk of substantial competitive loss.

Sant Pere café, Moulin Rouge Paris, Guinness Club and Ice Bar are not involved in revealing processes as the interviewees from the companies said. The general consensus among the respondents from these firms was that they did not want to do that because of the fear of losing a first-mover advantage over their competitors when internal secrets were to be revealed. The business information, internal knowledge and ideas, the respondents argued, are especially relevant nowadays as the world is changing rapidly and the possession of the first-mover advantage is highly valuable. If internal knowledge are revealed, this creates a threshold for those firms that have more complementary assets and can quickly seize the opportunities in order to obtain a first-mover advantage. However, the representative from Torres argued that it was presumptuous to think that all the new ideas, knowledge and technologies were unique. Sometimes new ideas turn out to be a modified version of the already existing idea thus, the interviewee said, it is worth considering the potential cumulative value from revealing as one cannot imagine how big the idea can become when it is looked upon from different angles by various actors. Those firms that agree to reveal valuable information are often reasoned by the future expected value they could benefit from or the complementary benefits they may obtain, for example, by modifying the existing experience offering based on the efforts of other firms that exploit the same ideas or knowledge (Dahlander and Gann, 2010).

Among all the case companies, Torres seems to be the one which practices revealing most of all. The company has been involved in the network with other industrial wineries all over Spain. Although every company in the network possesses their own secret recipes and technologies of production, business strategies and market tendencies and expectations are shared. The interviewee from the firm mentioned that revealing was of high value for the company as it facilitated the promotion of Spanish culture of wine-making and sharing of specific nuances that would contribute to the increase of the overall consumption of Spanish wines thus benefitting for all the members in the network. Such partnership has proven to be successful and still exists.

Bodegas Faelo also reveals knowledge but it happens due to the nature of the firm. Since the winery is household and the traditions of wine-making have been developed for decades, the firm shares their ways of production with customers, tourists and competitors. The head of Bodegas Faelo argued that every household winery in the world had its unique hints of

production which made risk of imitation almost impossible thus he was not afraid of competitive loss, rather he would accentuate that revealing contributed a lot to the promotion and recognition of the winery.

A research by Baldwin and von Hippel (2009) designates that innovators intend to reveal knowledge an technology due to two major reasons: 1) if there are complications with proper protection of IP and technology and 2) if reasonable benefits are obtained by innovators once the information has been revealed. Linux et al. (2006) argue that firms may open up and share knowledge and technology when they are in need of support from the external environment. There is strong positive correlation between the amount of support needed and the degree of revelation. A small household winery like Bodegas Faelo does not have sufficient resources to promote the brand thus it reveals knowledge in order to attract customers.

To sum up, all the interviewees perceive revealing as a long-term activity which does not necessarily brings benefits and if it does, the gains are not immediate, rather they are obtained in the long perspective. For, Sant Pere café this is considered one of the crucial obstacles. Due to the fact that the firm is small and young, it cannot risk its knowledge and wait for long-term benefits. Thus Sant Pere café focuses on activities that allow to get immediate positive gains in order to develop the business.

Chesbrough (2006) argues that for successful implementation of open innovation firms need to reveal valuable information and at the same time protect it from unwanted spillovers. Thus the main question on the agenda is the following: what internal ideas and knowledge to reveal, to whom and why. It is straightforward that revealing occurs when the firm has the opportunity to reap off benefits from it. Then the question arises: what are the benefits that the firm can obtain from sharing knowledge? The respondent from Hard Rock café Paris argues that once the idea has been revealed, the opportunity to get feedback on the idea appears which could possibly contribute to the improvement of the idea before letting it out in the market. The interviewee accentuated that this worked especially well in the service (experience) industries where the product was intangible and could be improved at any time without stopping the production. However, if the experience has been commercialized too early and lacks quality, it may create negative impact on the firm's reputation. This is the downside of the innovation in service (experience) industries. In contrast, manufactured goods can be be commercialized and if the error is noticed, they are withdrawn from the stores, the production is paused, the good is modified and then let out in the market again. This could do harm to the good, but it is not likely to damage the reputation of the company. The respondent from Torres supports the

aforementioned ideas. He claimed that within the scope of the experience, the offering and the firm were closely interconnected. Thus if things go poorly with the service (experience) offered the reputation of the firm is at risk. However, the interviewee from Torres concluded, this is of high importance especially for SME's with limited amount of resources while large companies usually possess enough capabilities to stay in the game in any case.

Overall, there are both advantages and downsides of revealing. It must be understood that whether the idea revealed to the market is good or bad determines the following actions of the market players. It is very important to clearly consider to whom and why the information is revealed and what the consequences of this action are. However, as mentioned above, three out of seven case companies support revealing and consider it part of their business models. They agree to share ideas and knowledge as they believe it would contribute to the development of the firm. Nevertheless, one should realize that revealing is based primarily on trustworthiness thus mutual respect and benevolence are essential to increase cumulative benefits.

8.4.2 Selling: Outbound innovation – Pecuniary

Selling touches upon the financial gains from innovation and concerns the process of commercialzing and/or licensing out the internal ideas and knowledge (Dahlander and Gann, 2012). Chesbrough (2003) argues that internal knowledge should not be "stored on the shelf", rather the firm exploit the external way to the market by selling it to external organizations in order to add economic value to this knowledge.

Large companies like Torres can afford externalization of their internal innovation by selling it to other entities which, in turn, could exploit it and innovate themselves. The problem is that small companies usually do not have anything to sell. The empirical research has indicated that only one out of seven case companies implements selling whereas others do not find it efficient for their businesses. It has been found that some case companies acquire innovation but all the firms, except Torres, do not participate in selling as they do not anything to sell as they either are not involved in innovative activities much, or do not want to sell their ideas and knowledge due to the fear of competitive loss. The example with Bodegas Faelo and their openness to everyone interested in wine and its production as well as Spanish culture brings benefits to the firm but what if some of the ideas and knowledge were sold, not granted? And what if some ideas that has not been considered valuable may be valuable for someone else? The owner of Bodegas Faelo answered that the company paid respect to the traditions of the predecessors and did not intend to be involved in selling of ideas and knowledge in the foreseeable future.

As a matter of fact, it turns out that the knowledge that the case companies find incompatible with their business strategies could create somewhat economic value for other entities which might find proper ways to exploit these ideas. Some knowledge could be transformed into alternative ideas that could create simultaneous flows of revenue. Other ideas might need updating and improvement in order to fit a business model. However, in order to develop the idea better, the firm need feedback from stakeholders.

In fact, almost all the case companies have mentioned the issue of the degree of openness and the amount of information to reveal. These limitations are directly related to the arrow information paradox discussed in the theoretical part. There is always a problem for the firm to find a balance point and determine the amount of ideas to be shared and risks related to this action. There is always a fear that a counterpart will reap the benefits of the idea without compensating for it. Thus proper protection mechanisms should be developed when necessary.

8.4.3 Summary of findings

The results obtained from the empirical analysis of the outbound innovation flows in the case companies indicate that all the firms need to see potential benefits from implementing such types of innovation. When these benefits are translucent and unobvious, the companies are reluctant to share knowledge due to the risk of competitive loss. However, some ideas which are thrown away could be of use for other entities or for the creator of the idea with some alterations. All in all, more mature and larger companies are more likely to implement outbound innovation because they 1) have more resources to share and 2) are less sensitive to risks related to exposure.

Table 8 summarizes the empirical findings on outbound innovation.

Table 8. Outbound Innovation In the Case Companies

	Bodegas Faelo	***Torres***	***Sant Pere***	***Hard Rock café Paris***	***Ice Bar Paris***	***Moulin Rouge***	***Guinness CLub***
Revealing	**YES**	**YES**	**NO**	**YES**	**NO**	**NO**	**NO**
Selling	**NO**	**YES**	**NO**	**NO**	**NO**	**NO**	**NO**

8.5 Open Business Model

This chapter examines the business models of the case companies to identify whether the former are organized in a way that facilitates the implementation of open innovation allows the firms to reap off maximum benefits from inbound and outbound innovation. The chapter is split into two major parts. The first one explores the organizational design of every case company in order to realize how internal and external environment of the firms affect their innovation strategies. In the second part, the relationship between the business models and the openness of the firms is investigated through the prism of organizational culture, knowledge-sharing and IP management.

8.5.1 Organizational Design

It is argued that cooperative partnerships facilitate the reduction of market and technological uncertainties, sharing of costs, inflow of complementary assets, access to new markets, achievement of economies of scale and scope (Ahuja, 2000; Mina et al., 2012). However, in order to seize all the aforementioned benefits the firm must be organized in a manner that allows for incoming and outcoming flows. This chapter examines the internal design of the case companies and its relation to innovation processes as well as external ties that facilitate innovation.

8.5.1.1 Internal Environment

All the case companies have started, to a greater or lesser extent, modifications of their organizational designs in order to achieve a greater degree of openness. To begin with, the working environment in all the organizations has been established in such a way that reflects openness and desire to interact. Torres accentuated that eighty percent of innovation that occurred were a direct consequence of workers' interaction. In order to promote such interaction, Torres has organized open layouts that provide room for sharing of ideas and knowledge within the boundaries of the firm. The same layout phenomenon is the case for five out of seven case companies. However, the answers of the interviewees have revealed one interesting peculiarity. When asked about the working environment in the organizations, the respondents from large firms (Torres, Hard Rock café Paris, Moulin Rouge) designated that they could only speak on behalf of the departments they worked in whereas the rest of the firm remained obscure. In the context of openness, it implies that organizational layouts have proven to be efficient and valid only within particular departments but not throughout the whole organization. This may also mean that larger firms that seek for openness might need to modify not only physical environment, but also extend internal ties and interactions.

It must be mentioned that implementation of open innovation can be assisted with the use of proper OI software. For example. Torres has integrated two open innovation platforms in its business model, namely, Inside-out OI. Inside-out OI provides an option to integrate the whole value chain and combine the whole network of stakeholders into an OI community. However, Torres has used it solely for organizing and promoting openness within the boundaries of the organization. In Torres, OI is regarded as the tool aiding in making the internal system more open and systemizing of innovation processes by establishing a ground based on which interested parties could contribute positively to the development of the firm. The respondent from Torres claimed that the launch of Inside-out was a step towards conceptualization of openness inside organization and the employees turned out to be the cornerstone of everything. The major advantage of the Inside-out is also the ability to provide feedback on ideas through a special forum within the forum.

Nevertheless, at first, the integration of Inside-out met strong resistance among the employees of Torres. It turned out that encouraging the workers to share ideas, provide feedback and evaluate information was not an easy thing to do and there was no automatic positive reaction on the initiatives of the management. Only after the integration of certain behavior into the organizational culture, did the situation change. The employees expressed a lot of resistance because they were frustrated with the additional workload and could not see the benefits of such work. The respondent from Torres mentioned that there were some enthusiasts who were full of bright ideas but the general behavior of the employees was pretty reserved and inactive so it took quite a lot of time before the workers finally realized the benefits of openness and interaction.

Hard Rock café Paris has also tried to integrate similar software in its business model with the view of founding a community of stakeholders. The problem was that such a step proved to be insufficient and cost a lot of money whereas the management of Hard Rock café Paris did not see the expected positive results from the initiative. Thus two years after launching, the software initiative was terminated.

Summing up, all the case companies have an inclination to become more open but only two of them have commenced the movement towards openness. Torres has successfully established an organizational open layout and transformed its organizational culture so that the OI software could be successfully launched. Hard Rock café Paris, albeit failed to integrate the OI software, tried to unite all the stakeholders for the sake of the common goal and succeeded in that initiative, although not virtually yet.

8.5.1.2 External Environment

It can be concluded from the empirical research that all the case companies have commenced a movement to a more open business model. This is predominantly related to the opening of the innovation processes for employees and launching OI software systems in the organizations. However, the external environment of the case companies has not been aligned with the innovation processes yet so it is worth looking at the organization of relationship between the firms and other external parties.

Even though Inside-out software allows for close interaction between the firm and its stakeholders, Torres has not taken this advantage yet. As described in the previous section, it was Hard Rock café Paris that tried to tie the whole network through the OI software but that initiative failed. The issue was probably related to the lack of organizational support that is essential for becoming open and promoting close interaction at all levels of organization. When asked about the reasoning on the initiative, the respondent from Hard Rock café Paris accentuated that the primary goal of integrating OI software was an attempt to take a shared innovation approach and create enhanced opportunities for the focal company, namely, Hard Rock café Paris.

Almost all the respondents claimed that they were going to open up towards external environment in the upcoming years, however, it was a long process and the benefits from that activity were long-term. The interviewee from Sant Pere café argued that opening up to both customers and suppliers would be a major goal and an important strategic element once the company had gathered enough money to invest in such initiative. Besides, it is important to build certain infrastructure that serves as a basis for openness. Furthermore, the opening of inbound flows should be complemented with constant feedback for contributors of ideas and knowledge.

The head of Guinness Club outlined that Belgian businesses are not always willing to communicate and interact in a manner that is essential for open innovation. The interviewee accentuated that although Guinness club was a young developing company with constant lack of resources, the problem that lied beyond openness was much broader. He argued that the business model should be open from all the possible perspectives but that was a rare case and the absence of such models was the main impediment to adequate interaction between Belgian companies. The representative from Ice Bar Paris supported the aforementioned idea and added that French organizational culture did not fit the requirements of the open innovation paradigm. French managers seem to think that all the valuable information should be kept within the boundaries of the firm and it is the place where maximum profits are obtained. This view is contrary to the

American perception of doing business, for example. The interviewee from Ice Bar Paris also pinpointed that one should question the chances to become open once the general attitude to openness was rather skeptical and even negative. The representative from Torres also claimed that the firm had faced certain issues with interaction and engagement of its counteragents who were often unwilling to open up and share ideas and knowledge. He suggested that this had happened due to the lack of maturity among managers when it came to open innovation. The of Bodegas Faelo made it clear that the counterparts of his firm often seemed to be eager to interact and share but, in fact, when it came to real actions some of them moved out of business.

Among the seven case companies, only Torres has managed to create a working network which is closely tied up. The ties allow the firms to share ideas and knowledge, discover new technologies, organize collaborative marketing campaigns, improve value chains. One of the latest inbound innovation in Torres, Torres Wine Tourism campaign, would not be possible, had it not been due to the close partnership between the winery, several hotels and Catalanian municipality that allowed the winery to organize tours to the medieval castles with wine degustation.

Another example of the unsuccessful initiative towards network approach is related to Bodegas Faelo winery. In 2011 the winery made an attempt to sign a contract with Elche Taxi in order to make access to the winery more comfortable. However, the contract was not signed due to the absence of motivation from the side of Elche Taxi that considered it less profitable than ordinary rides.

Moulin Rouge Paris, being unwilling to share ideas and knowledge, got involved into a network united under a specific goal of making the world a better place. The company put strong emphasis on CSR and created strong ties with other entities looking in the same direction but this has little relation to innovation processes.

Summing up, despite the fact that more than a half of the case companies have managed to establish interactions with other entities, there is no evidence that there exist mechanisms that have been established to constantly seize value that is created through such interactions. The process of value capturing seems to be episodic. Nor did the case firms put emphasis on the value creation that could be reaped off through outbound innovation and external ways to markets. All the case companies, except Moulin Rouge, expressed a desire to become more open and in the upcoming years modify their organizational designs in a manner that would fit the implementation of open innovation. However, none of the interviewees, except Torres, has a solid plan for fulfilling these initiatives; nor do they know how, when and for whom this should

be done. The main reasoning under the absence of concrete plans was that the companies had either no infrastructure or resources to create the proper open business model. Changing a traditional business model into an open one implies enormous investments and devotion from both managers and employees. However, the former often tend to be immature for an open business model and the latter express strong resistance towards this innovative approach. On the whole, none of the companies in the present research have indicated strong desire and commitment to completely transform their business models and become completely open. As a consequence, quite few investments are made into this direction of innovation activities.

8.5.2 Managing an Open Business Model

The management of innovation in the experience sector requires a set of dynamic capabilities, namely, signaling user needs and technological options, conceptualizing, (un)-bundling, (co)-producing and orchestrating, scaling and stretching, learning and adapting. In addition to the aforementioned capabilities, another dimension is required to implement open experience innovation: inbound and outbound flows. Despite the fact that co-producing and orchestrating are regarded as an essential capability in service (experience) innovation, it pays little attention to the process of forming and identifying ties which are most valuable in underpinning the innovation strategy of the firm. Nor does the aforementioned capability consider the management of the network portfolio, which is a prerequisite for successful interaction and consequently implementation of open innovation (Simard and West, 2006). These aspects are of crucial importance for an open business model.

From the perspective of Torres, the OI concept was designated as the upper level of leadership in a sense that it required close interactions with interested parties in order to develop, grow and maintain competitive advantage. The owner of Bodegas Faelo pinpointed a similar view: OI is about believing that sharing and trusting is better than protecting. These two notions are compatible with the theory of OI which implies that not all the smart people work for you and the firm has to source externally in order to get better. Hard Rock café Paris also accentuated the importance of management capabilities with regard to open innovation. The interviewee argued that the absence of proper managerial skills was probably the main challenge that needed to be overcome before the firm could successfully practice open innovation. The literature on open innovation designates that the firm needs to possess a diversified set of dynamic capabilities in order to reap off the maximum from innovative processes. The later research on innovation has indicated that if the aforementioned skills are insufficient, the firm must learn how to effectively

operate inflows and outflows in order to boost the innovation process. It has been proven to be the most deliberate and inalienable strategy in the contemporary market realities.

The case of Moulin Rouge highlighted the importance of mutual trust as an essential prerequisite for inbound and outbound innovation. The company implanted no outbound innovation primarily due to the lack of trust and fear of competitive loss. The ability to achieve trust and reliability is crucial for managing relationship between entities being the basis of the relationship, especially in cases when no IP rights are on the agenda. Trust is usually based on mutual values, rights and norms which are cherished by the parties involved. Torres exemplifies this thesis. The firm shares a set of common values with its stakeholders and puts strong emphasis on reliability and confidence in its business partners rather than suspecting them in cheating. This mutual trust is underpinned by the movement towards the same goals despite the fact that the members of the network operate in different, albeit closely linked together, markets. The interviewee from Torres pointed out that trustworthy relationship with other entities had changed over time; at first, they were pretty limited but as years went by the relationship enhanced through successful exchange of ideas and knowledge.

In the context of forming close interactions and the amount of time this process requires, the question of whether the firm should do it itself arises. Lee et al. (2010) suggest an intermediated network model where the intermediary takes a burden of establishing a network and bringing all the interested parties together. This might also be a solution to the arrow information paradox which is regarded as the main obstacle of implementing OI as the firms, as many of the interviewees mentioned, are afraid of revealing business secrets and valuable ideas and knowledge as this action may lead to unwanted consequences.

Torres also cast light on another important aspect of managing open innovation. Apart from the necessity of dynamic capabilities, the firm should also encourage its employees to actively participate in the innovation process. This requires a setting of a proper organizational culture.

8.5.2.1 Organizational Culture

As previously stated, the internal environment needs to be organized in a manner that supports the implementation of open innovation. The shift from the "not invented here" attitude to "proudly found externally" perception is essential. This implies the modification of the organizational culture in a way that facilitates open innovation processes. Employees need to accept the integration of a new culture and develop their absorptive capacity. In the case companies there seems to be no footprint of the "not-invented-here" syndrome so this is not an

issue for them. All of the firms have to a greater or lesser extent sourced or acquired ideas and technologies in their innovation strategies. Thus one can conclude that the notion of exploiting external ideas has been utilized by all the case companies. With that being stated, other aspects of organizational culture are identified.

In the case of Moulin Rouge, the lack of sufficient managerial capabilities provoked a resistance towards outbound innovation among the very top management itself. The lack of willingness and zeal among those who set the rules and settle the direction of innovation processes resulted in the company's resistance towards going open. It is obvious that without managerial support none of open innovation initiatives can be put into practice.

Torres shed another light on the same issue. Here the employees were the main constraint whereas the management was willing to become more open. The former were hesitant and unwilling to share ideas that were raw and not well-prepared and expressed reluctance to do extra work related to filling in documents and using Inside-out software. In this case the management of Torres managed to handle the problem. The interviewee claimed that panel sessions and weekly meetings were organized in order to promote the concept of open innovation and highlight its benefits as well as free classes of Inside-out were organized in order to teach the employees the elements of the program and enforce their confidence. Finally, several brainstorming sessions were organized where all the employees could share raw ideas and ensure that there was nothing frightening in that.

In general, there seems to be a tendency among the case companies to choose a conventional top-down approach with regard to transforming of the organizational culture. The employees were given regulations and instruction about what to do and how to behave but were not provided with sufficient autonomy which resulted in them misunderstanding their roles and perceiving their new responsibilities as something they were just ordered to do.

On the whole, in the case companies no holistic method of creating an open organizational culture has been found out. There are some evident attempts to become more open but they are more episodic rather than systematic. This resulted in the following downside: once the challenge occurs it is not foreseen and handled in advance because the organizational culture is conventional and presupposes that issues are dealt with once they have occurred and not the other way round. Furthermore, despite the fact that knowledge-sharing was a well-known issue among the case companies, it had not got been widely addressed by the management of the firms, in spite of the fact that knowledge-sharing was of crucial importance with regard to OI. The next section reflects more on this topic.

8.5.2.2 Knowledge sharing

Bogers (2011) argues that proper management of knowledge in the firm is the key driver to successful collaborative innovation. Sundbo (1997), in turn, accentuates tacit knowledge as a crucial factor of a successful innovation policy. Tacit knowledge has to be dispersed throughout the firm which is a complicated managerial task but it cannot be rejected as tacit knowledge are an inalienable element of an open business model.

As discussed in the previous sections, knowledge-sharing in all the case companies seemed to be a troublesome area which needed substantial improvement. All the respondents comprehended the significance of knowledge-sharing and some of them mentioned various procedures and techniques that were applied to boost the dispersion of knowledge throughout the organization. The main issue to be tackled within these activities is that such procedures facilitate the promotion of explicit knowledge internally while they do not provide the solution to the dispersion of tacit knowledge.

Another perspective of knowledge-sharing is absorptive capacity. The point is that distribution of knowledge and absorptive capacity are two inalienable prerequisites for knowledge-sharing. They have to be implemented simultaneously and constantly. A failure to provide proper knowledge-sharing internally within the boundaries of the firm is doomed to have a negative effect on the distribution of knowledge outside the organization.

All the interviewees agreed that the management of the firms could do a lot more with regard to knowledge-sharing as that issue did not get enough consideration from the managerial side so there was a broad room for improvement in this area. In addition, certain managerial mechanisms have to be worked out sand put in place to assist in promotion of knowledge-sharing. However, as the interviewees stated, there were certain people in every firm who themselves were the drivers of knowledge distribution and what is most interesting they were willing to do it complimentary without waiting for compensation. As a matter of fact, the dispersion of ideas and knowledge tend to initially occur in the informal surroundings and then became more formal and led to the formation of certain ties.

8.5.3.3 Incentives

Another aspect that has to be taken into account with regard to open innovation is incentives. The open innovation paradigm requires close interaction of stakeholders hence the incentives and motivation for collaborative actions need to be investigated.

Torres opened its organizational system for the interested parties almost immediately as the management of the firm assumed that every member of the network was willing to contribute and take part in the innovation process for the sake of benefit for the whole community. The large promotion campaign drew attention to the Torres Wine Tourism campaign and a lot of stakeholders were engaged in the network providing sufficient input to the system. However, the process soon slowed down. The assumption that every member of the community had a wish to open up and contribute for the sake of the common business turned out to be a bit false. As the interviewee from Torres noted, that probably happened because of the lack of motivation and visible short-term benefits. Furthermore, he added, this could be rationalized by the absence of certain managerial skills as well as the risk of losing power. It must be understood that if the managers of the firm were to delegate authority, at least partly, to the members of the network and the employees so that the latter could take part in the innovation process of the firm, the managers would have to release a share of their power which could be unbeneficial for them. This is a common issue for small firms but even large companies like Torres face this challenge. The interviewee from Hard Rock café accentuated that the process of disempowering is a great challenge and an average manager would always hold on to the authority he or she had. All the aforementioned challenges combined are apparent to contradict the managerial incentives to implementing open innovation and building up an open business model. Approval from the managerial side is absolutely essential otherwise none of the open innovation initiatives will ever come into the world. Hard Rock café also pointed out several other explanations of why the network approach failed to succeed. The first one concerns the age gap in the management of the firms involved. A relatively high share of the employees in the network were elderly which means that they might find it complicated to adapt to new technologies and new routines. As a result, the share of those who may contribute decreases which makes it harder to find reliable counteragents. Another aspect of incentives concerns various bonuses. If any contribution is complemented with a bonus as a reward for the contribution, the engagement is likely to stop once such rewards have been terminated. This is a question of intrinsic and extrinsic motivation. In this case, the management of the firm has to come up with other motivational elements to enhance intrinsic motivation and suppress the extrinsic one.

Torres also accentuated that the launch of Inside-out went hand in hand with a bundle of challenges. The first one, as mentioned earlier, was a strong resistance among the employees. The goal of using the software was to collect as much valuable ideas and information as possible and then put them into the innovation process but the employees avoided doing extra work and could not get used to the new regulations and responsibilities. Finally, Torres's management realized the necessity to incentivize its employees and created a system of rewards which up to date underpin the actions of the staff. It is interesting to note that both the management of Torres and Hard Rock café tends to believe that their employees are a priori intrinsically motivated to share and contribute.

All in all, we can conclude that only two out of seven firms have tried to create a collaborative community. The empirical findings have also indicated that incentive systems are of crucial importance for going open because not everyone is ready to contribute freely and properly crafted bonus systems are likely to boost this process.

8.5.3.4 IP management

Von Hippel and von Krogh (2006) argue that non-pecuniary revealing of knowledge and ideas can often be the best way for innovators to maximize profit from innovation. Innovators have a choice between revealing innovation for free, keeping it internally, or licensing it out. There are two possible reasons of why the firm may decide to reveal information: it is often likely that the information is not unique so there is no need to hide it and/or the firm will incur no loss at all regardless of whether the information is revealed or not. However, when talking about new technologies, the situation is a bit different. It is highly likely that the technology obtained is unique thus there is no point revealing it freely and thus IP starts playing a crucial role. When the firm realizes that an idea can be commercialized, it is likely to put legal protection on the idea with the view of avoiding its competitors imitating it or selling/licensing the idea out. The problem is that with the IP management of experience innovation things are not that easy. Only if the experience offered is supplemented with a technological adding, can the innovator protect its IP with ordinary patent procedures. However, it often happens that the experience offered misses a technological elemeent hence in this case other mechanisms of protection have to be used. As a matter of fact, all the firms that go open and implement open innovation are bound to protect their ideas and knowledge (Henkel, 2006).

Drechsler and Natter (2011) argue that IP mechanisms often serve as the main driver for open innovation. The arrow information paradox becomes especially relevant in cases when companies possess a limited amount of resources. Henkel (2006) argues that in such situations

the firm is likely reveal more with the view of getting even more back. In other words, external support starts to play a major role here and it is more beneficial for the firm to reveal information rather than put protection on it. For larger companies, on the other hand, the case goes the other way round. Brand name, resources, dynamic capabilities, reputation, recognition – these elements play a great role for larger firms and can substitute the lack of intellectual property.

The empirical findings have indicated that, except from the Torres winery, all the other case companies implemented selling of their ideas and technology in order to facilitate their innovation processes. The management of intellectual property as an alienable part of outbound processes of open innovation seems to have an impact on opportunities for outbound innovation within experience. The process of selling ideas within the experience-based tourism industry turns out to be a complicated activity as a result of the lack of IP protection and companies seems to be avoiding it when possible. Within the case companies, except from Torres, the arrow information paradox is vividly visible. The buyer wants to know what they purchase before payment is done and if the information is not that unique or valuable than they would not be willing to pay for what they already know or have. The lack of managerial capabilities may also be the case here. If the firm is to sell its ideas and knowledge, it has to find the right balance in order to persuade others to buy information, on the one hand, and maximize profit from the transaction, on the other hand. In this case, intermediaries may serve as an appropriate solution. These intermediaries could be the linking chain in the transfer of information, possessing proper skills to show the product sold at its best and persuade others to buy it.

8.5.3 Summary of findings

The empirical results have clearly indicated that all the case companies obviously lack a fully open business model. It looks like the internal organizational design and culture are not crafted well-enough to serve the requirements of open innovation and handle implementation of inbound and outbound innovation. The reason is that the management of the firms has not undertaken activities that would facilitate open innovation processes and provoke changes at all levels of the organization. The reason of that is the probable lack of competencies and skills. A set of procedures handling the change of organizational design and culture has to be implemented, knowledge-sharing has to be boosted and mechanisms that protect IP in the experience sector have to be found. The presence of trust among the stakeholders also seems to be an important and necessary requirement. All the aforementioned steps are a time-consuming process which may be faced with strong resistance at all levels of the organization. Involvement of intermediaries seems to be a vital solution for the majority of the problems as the former possess

required skills to address the issues. This solution would also tackle the problem of the arrow information paradox which seems to be overwhelming in all the case companies and seriously affects the shift towards an open business model.

9.0 Conclusion

Open Innovation is a relatively new paradigm of implementing innovation which is regarded as the cutting-edge point of departure for the contemporary firm. It concerns inbound and outbound flows of the company which allow for proper and more efficient exploitation of innovation capabilities. Up to this day, the vast majority of the contemporary research in the field has been concerned with the implementation of open innovation in manufacturing and IT industries. The exemplars in this realm are P&G, Xerox, IBM. These early adapters of the paradigm have been large multinational companies that have had enough internal and external capabilities to integrate open approaches to innovation in their business models. For such companies, the main motivation for sharing, selling, acquiring and revealing ideas and technology is indisputably linked to the opportunity of obtaining a reasonable financial gain in the short-run. Thus managers of large multinationals can clearly see benefits and downsides of each open innovation attempt and modify business strategies when necessary. Furthermore, such corporations have always had their own R&D department in which heavy loads of financial resources have been invested. These departments are involved in developing new products and improving existing ones as well as protecting technologies and information with legal instruments such as patents. With the integration of open innovation, the companies have begun to sell or license out those patents that are not relevant for them (spillovers) and gain financial income from the technologies and knowledge that were previously "left on the shelf". Simultaneously, large multinationals have started to constantly monitor the market to identify consumer wants, needs and demands and investigate if there are any innovative products and/or patents which are of value for them and can be purchased or sourced. Thus it happens that if there is a product in the market which is relevant and needed for the firm, it would be purchased, modified and put back in the market under the new brand. This has been proved to be a profitable and efficient substitute for in-house production of innovation. However, all the aforementioned remarks are predominantly related to manufacturing while there are few studies and examples of open innovation in service and experience industries. Thus the present research aims at answering the following research question:

How are Open Innovation practices applied to Experience Innovation?

This question is not only relevant and important when comprehending how OI practices are conducted in the experience industry, but also it provides an overview of various peculiarities of the experience industry which require attention when open innovation is implemented within this realm. For example, several research have designated the issue of treating intellectual property

within experience industries as it is often impossible to patent an experience, which , in turn, brings about other problems.

9.1 Conclusion of OI applied to Experience Innovation in Theory

Theoretical studies on service/experience open innovation have identified that services/experiences should be differentiated from physical goods in a sense that the former are heterogenic, intangible, produced and consumed simultaneously, and perishable. The literature review concerning the fit between open innovation practices and capabilities of the firm have signified that there is sufficient and reliable connection between the two notions which allows for further empirical research. However, there is one limitation concerning the extent to which experiences are standardized. Theoretically, experiences are heterogenic but this trait may be somewhat deceiving when considering human resources as this one is not that sufficient when speculating on experiences. When the firm is short of the aforementioned component, it loses a variety of potential opportunities the former unveils. The heterogeneity component of the experience clearly designates the difference between one or another experience, thus it presupposes certain implications for the firm. It helps the company to determine the most profitable point in the portfolio of experiences produced and leverage them.

9.2 Conclusion of Empirical Findings

This part casts light on which open innovation practices seven case companies put main emphasis on while moving towards a more open business model. Through semi-structured in-depth interviews with seven experience providers from several countries of the globe which have expressed interest and desire to, at least, attempt to implement open innovation and integrate the corresponding software into their business models, this research provides insight on how open innovation is practiced within the experience industry.

The present study investigates the following three sub-questions which complemented the analysis of the main question of the research with regard to the seven case companies:

1. How do the informants understand the concept of OI?
2. What type(s) of openness are practiced in the firms?
3. What are the challenges, opportunities and limitations within the shift towards an open business model from the case companies' points of view?

The general answers to the above-mentioned questions are summarized in Table 9.

Table 9. Answers to Sub-questions

	Bodegas Faelo	***Torres***	***Sant Pere***	***Hard Rock café Paris***	***Ice Bar***	***Moulin Rouge***	***Guinness Club***
The concept of OI is understood	**YES**	**YES**	**YES**	**YES**	**YES**	**YES**	**YES**
Type of openness in the firm	**INBOUND**	**INBOUND/ OUTBOUND**	**INBOUND**	**INBOUND**	**INBOUND**	**INBOUND**	**INBOUND**
Open Business Model	**NO**	**NO**	**NO**	**NO**	**NO**	**NO**	**NO**

How do the firms (their representatives) understand and define the concept of open innovation?

The initial empirical findings have designated that all the respondents possess somewhat comprehensive and strong understanding of the main elements of the open innovation paradigm. However, their perception of open innovation has turned out to be rather limited in a sense that that all the interviewees accentuated the importance and vital role of inbound innovation, namely, sourcing and acquiring, but only two of them pinpointed the necessity of revealing and selling as outbound innovation. The crucial role of both inflows and outflows with regard to open innovation seems to have been overlooked and misunderstood.

What types of openness are practiced in the firms?

The results of the empirical research have pinpointed that six out of seven case companies have confined themselves solely to inbound innovation and limited their open innovation activities predominantly to gaining input from customers. This is logically valid as the majority of the interviewees argued in favor of inbound innovation, omitting the essential role of outbound flows. Thus the main focus for all the firms except for Torres as to reap off maximum benefits from leveraging off inbound innovation. Torres clearly stands out of the group as its respondent

has pointed out that the firm implements both inbound and outbound innovation and its management obviously understands that there is the most effective way to an open business model. Hard Rock café Paris has also made an attempt to reveal and sell through the mechanism of the network cooperation but that initiative failed.

The tendency to limit open innovation practices to inbound innovation seems to be omnipresent. Nevertheless, several interviewees have mentioned that it is just the beginning of the long way to complete openness and it is rational to start from sourcing and acquiring as opposed to revealing and selling. This is quite a reasonable point as inbound innovation in the case companies are basically regarded as getting feedback from customers who are the well of ideas and demands and for whom value is usually created. In particular, experience sector is primarily concerned with feedback from customers as the experience is produced and sold simultaneously so it is the customer who tests it, gives comments and the experience is modified if necessary. Companies understood the importance of collecting customer feedback long time ago but the open invitation paradigm is much more concerned with the firm's ability to integrate customers in the business model in a more cooperative and collaborative way to facilitate the development of innovation in a completely new way. The empirical findings have shown that despite solely confining themselves to inbound innovation, the average level of open innovation practices has increased over the last several years. In cases with Torres and Bodegas Faelo, the companies have managed to fully integrate the consumer in their business models and reap off maximum benefits from this collaborative interaction. Summing up, the implementation of open innovation seems to be more episodic and fragmentary rather than have been put on the endless stream.

Even though the dominating role of sources of external ideas has been given to customers by the respondents, other parties have also been defined as contributors. Torres and Hard Rock café Paris have tried to establish networks with the view of obtaining enhanced external ideas and technologies. The first company has made a breakthrough and succeeded primarily due to proper managerial work and persuasion of the employees. The second company has failed to create an effective network due to the lack of managerial skills and fear of revealing its ideas and knowledge. Torres and Hard Rock café Paris have also acquired specific open innovation software and integrated it into their business model but the second firm failed to make its employees believe in the expediency of software exploitation.

The interesting finding from the interviews is that for many of the firms getting internal feedback from the employees has also been a prioritized direction and common practice. The OI software launched in Torres and Hard Rock café Paris has facilitated this process and allowed for easier

and more structured collection of ideas and knowledge. Other companies have used standard methods of gathering feedback from employees such as meetings and brainstorming. The internal process of idea generation in the case companies is rather comprehensive; employees dispute and score their ideas prior to getting comments from the management. Except for Torres, there has been no holistic strategy of integrating and promoting the encouragement of giving feedback among the employees and this has led to certain impediments on the way towards an open business model. The conventional top-down approach has proven to be badly compatible with the open innovation practices, however, the managers showed strong reluctance to share power and give more autonomy to their employees. In order to establish a constant inbound flow of ideas and knowledge from the employees, it is of vital importance for every case company, except Torres, to transform their organizational structure and organizational culture in a way that would promote openness and facilitate trustworthy relationships inside the firms. Another issue with the employees is that they have little motivation to express their ideas as it adds not much to their welfare but they risk being ashamed and oppressed. The managers have to develop a strategy at the highest level and prioritize it so that the employees believed that the concept of open innovation would be beneficial for them and would bring additional rewards to them in the long run. In other words, one cannot fully become open, once the corresponding open innovation culture has not been nurtured.

The empirical findings have also determined that the larger the company is, the farther it has advanced in establishing an open business model. This is not surprising as large companies like Torres and Hard Rock café Paris (as part of a global chain) possess more resources and capabilities to prioritize open approaches to innovation and develop a network of interested parties with the view of reaping off maximum benefits from the collaborative activities.

What are the challenges, opportunities and limitations with having an open business model form the case companies' point of view?

The relevance and potential benefits of an open business model have been admitted and understood by the case companies but it is predominantly limited to taking care of inbound innovation flows. However, while concentrating solely on one aspect of open innovation activities, the companies have failed to grasp the full potential of the paradigm which requires taking into account outbound flows as well.

The main reason for the lack of outbound innovation practices among the case companies is primarily connected with the lack of motivation and fear of revealing ideas and knowledge. The most prevailing reason for the omission of outbound flows is the overwhelming idea in the case

companies that their management saw more benefits in conducting the process of inbound innovation instead. This was mostly due to the huge involvement and influence of customers in experiences. Some of the firms have also pointed out that the an experience they offer has become somewhat standardized and their management is afraid of simply losing their ideas without being compensated for them.

Another issue with setting an open business model is the lack of required skills to manage this model. None of the respondents has mentioned any kind of investments with regard to the skillset need for implementing open innovation although some of the firms have sent their managers employees to various training programs in the realm of experience sector which a priori means that the people have obtained some knowledge about sourcing and acquiring but missed out on knowledge about how to handle an open business model. In order to survive in today's ever changing markets, an experience company has to create a holistic model of its innovation processes and aspire to grasp maximum benefits within its borders as well as learn to create value outside its borders as well. Open innovation practices are bound to increase profits when additional flows of revenue are generated.

Another important issue with regard to open innovation as the empirical findings have indicated is the necessity to properly manage internally generated ideas and technology. Most of the firms typically focus on input from employees or from customers. However, the case companies tend to regard internal opportunities as a way to exploit ideas and technologies. However, the OI paradigm presupposes that internally generated innovation needs to be integrated into a business model rather than simple exploited. The study has also indicated that trying to define a general consensus on what open innovation is and develop a single mechanism of its integration seems to be a troublesome and complicated task, at least, within the case companies.

The results of the empirical research have demonstrated that different providers of experience are open from different perspectives and in to different extents. Larger companies tend to get more open as they have more resources to do it whereas emerging firms often have nothing to share or sell. This directly affects the outbound aspect of open innovation. Hence all the firms deliberately out main emphasis on inbound innovation activities and five out of seven case experience companies seem to have overlooked selling or licensing out their ideas and technology. Only Torres and Hard Rock café (to a limited degree) have managed to engage themselves in a network and facilitate outbound flows.

The present research has indicated that none of the case companies have managed to form an open business model to its full. More advanced open innovation techniques, such as spin-offs or

joint ventures, have not been utilized so far. All of the respondents have argued that it requires substantial financial investments but only the representative from Torres has claimed that the firm is gradually moving towards a complete openness and possess enough resources to do it.

9.3 Implications of the Conclusions

The present research is among the first ones concerning the realm of open innovation in the experience sector. The results obtained indicate that OI is not only a paradigm that the firms tend to integrate step-by-step, but also it has been found out that the companies comprehend the benefits from sourcing and acquiring ideas and knowledge as well as technologies in the pursuit of inbound innovation. On the other hand, the potential gains from revealing internal ideas and technology have not been realized so far thus the benefits of opening up to external environment do not seem to have led to any kind of outbound innovation, except for the two companies. It could be argued that it happened due to the inability to find a balance point between what should be shared and revealed and what should be kept inside and hidden.

This thesis has made an attempt to enhance general understanding of the changes that experience providers may come across once they have succeeded in adopting the open innovation paradigm to a certain extent. It looks that the experience firms have failed to correctly determine the leverage point between information that is to be revealed and the one to be sold. Similarly, the balance point between revealing and sourcing also seems to be missing. Reliable distribution channels and a proper functioning network can be regarded as a valid solution. One thing seems to be indisputable: this leverage point has to be found in order to facilitate proper functioning of an open business model.

Experiences are difficult to protect with intellectual property rights, however, there are many other ways to solve this problem and find a balance point. They are primarily concerned with persuading other parties to cooperate with the focal firm rather than compete with it. These leverage points can often be found in the heterogeneity characteristic of the experience. It allows for determining those customers that prefer the focal firm due to their positive attitude towards an experience it offers. However, this is not the case for standardized experiences and other approaches should be utilized. These may include a creation of a strong and recognizable brand name, becoming a leader in innovation, providing an outstanding benefit for the customer, etc. Regardless of the type of a leverage point in possession, the firm has to nurture it, as this point appears to be an instrument that facilitates closer interaction with interested parties and promotes licensing off of ideas and technology and forming collaborations and joint ventures.

When the leverage point is identified, it has to be incorporated into the organizational culture thus creating a certain model of corporate behavior which is compatible with the open innovation paradigm. This is very important as those firms that manage to transform their organizational culture are likely to face an emerging stream of ideas and knowledge within and beyond the borders of the company. In addition, when the management of the open firm obtains enough skills to understand what types of flows will bring about maximum profits, they will be able to lift up the company's bottom line as well as achieve sustainable growth.

An initial direction of improvement for the case companies may be the management of spillovers. As a matter of fact, none of the respondents has touched upon this issue which may mean that spillovers are not handled in these companies at all. It is a crucial shortcoming as the latter could be commercialized and additional profits could be obtained. Open Innovation theory would suggest that the firm pursues a strategy that would enhance capabilities in order to fully understand the hidden value of the ideas that may seem irrelevant. Instead of rejecting an inappropriate idea, one could think that the idea could be useful for another party or just needs to be improved. In other words, it is very important for any firm to understand that all the ideas should be treated thoroughly otherwise some potentially priceless ideas can be missed. Companies should not disregard an opportunity to take benefits out of spillovers.

Summing up, the present paper contributes to enhanced understanding of open innovation practices in the experience sector. The empirical research has demonstrated that providers of experience in majority do not see any opportunities for outbound innovation within their businesses. Figure 9 below provides a service perspective of the Chesbrough's OI funnel, which can also be exploited within the experience sector. It treats ideas and technologies and adds an initial trend search which is essential for providing incremental innovation. Furthermore, it splits the inflows into several components thus simplifying the model and facilitating its better understanding and application. Hopefully, the empirical findings along with the Chesbrough's OI funnel will encourage experience companies to attempt to apply OI elements and become more open. This is the point when experience firms make a step from just being a provider of an experience towards becoming a breakthrough innovator in the sector.

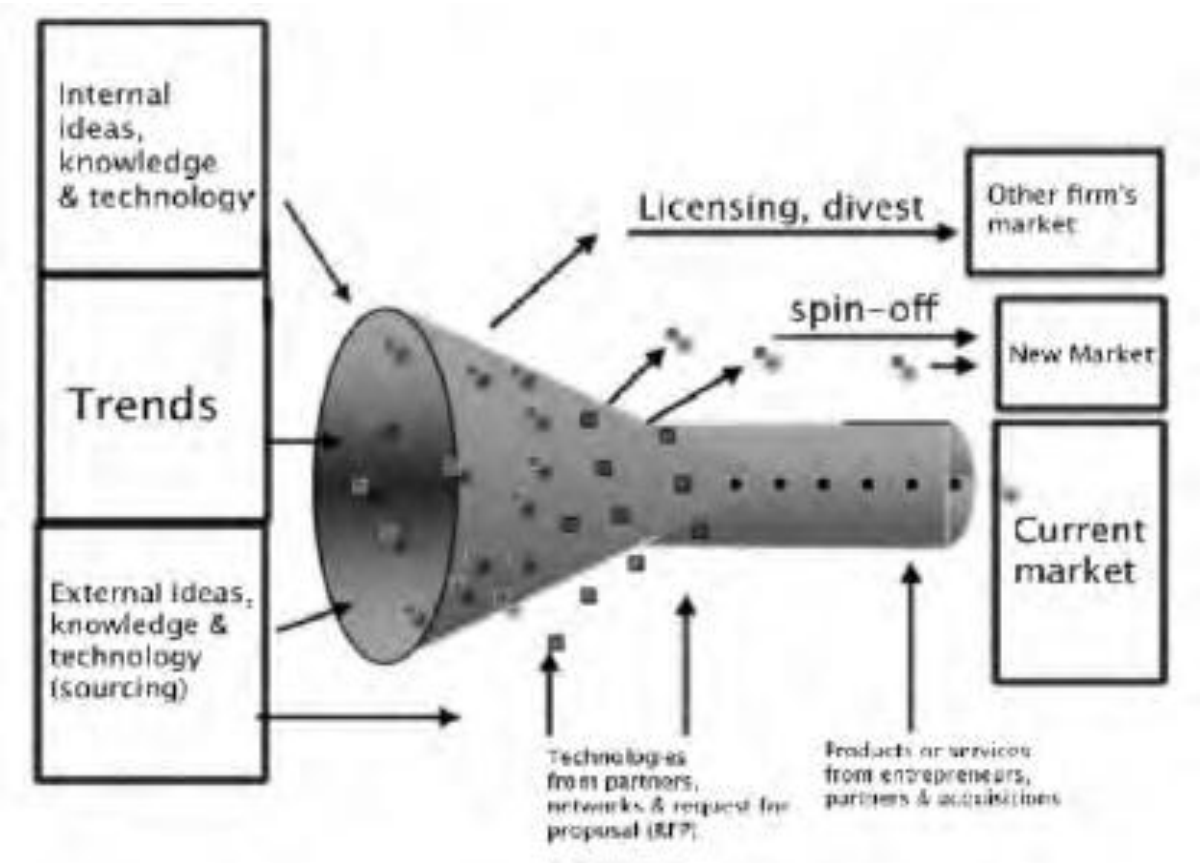

Figure 9. Open Innovation Funnel for Service/Experience Innovation (Chesbrough, 2006)

9.4 Limitations

With regard to the assumption about the continuous pace of innovation, the present paper has taken into consideration only those innovations that have occurred during the last three years within the case companies. As a consequence, those innovations that took place before the mentioned period has not been taken into account and investigated.

The research is grounded on qualitative data from only seven experience firms and one representative from each of the companies. Reflecting on the inferences and considerations of only one subject per firm brings up a question of generalizabilityof the research. Since the empirical data has been obtained from only one subjective opinion from only seven case companies, the findings are therefore not generalizable.

The open innovation paradigm offers a constellation of various approaches and techniques. In order to make the research more understandable, the authors have tapered the scope of the study down to those perspectives that are most common and prevalent in all open innovation research,

namely, inbound and outbound innovation. This brings about an issue of validating OI practices with regard to the experience sector.

The main goal of the present paper was to define whether OI was adaptable to experience products and to add on to the heritage of knowledge about open experience innovation. However, this study is the case when more additional questions have arisen while others have been answered. Due to the relative novelty of the field of study, it seems to get even more complicated to indisputably support the empirical findings without the support of other external qualitative studies.

9.5 Future Research

Due to the fact that the topic of the present research is novel, there are endless directions of future research. Specifically, it would be very relevant to conduct a quantitative study within the scope of the experience sector in order to determine whether the almost ultimate absence of outbound innovation is an omnipresent peculiarity of the experience sector in general.

It would very reasonable to conduct research of leverage points and how the firms should manage them with regard to outbound innovation.

The present study has not vividly demonstrated the probable impact a national culture might have on forming networks, establishing collaborative interactions and the desire to share. This was mostly due to the fact that these aspects stand beyond the scope of the present research but in general it would be useful to reflect on the influence of national culture on OI practices.

The topic of crucial importance for future research concerns the role of an open innovator in terms of characteristics he/she possesses and activities an open innovator implements. It would also be vitally important to figure out how projects and relationships could be monitored and measured. Another realm of research may touch upon the processes of decision-making in order to identify how innovative ideas and knowledge should be treated.

One of the main challenges that the case companies in the present paper have faced concerns the lack of motivation among employees and third parties to cooperate and share. Thus it would be useful to attempt to understand incentive mechanisms that can be exploited in order to increase the recognition of open innovation.

Taking into account that none of the companies have made significant progress on their way towards a fully open business model, one could suggest that the academic world misses out on holistic integrated theories concerning this issue.

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