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Reflections on Open Strategy

Julian Birkinshaw

Abstract. As the process of strategy-making in companies becomes more inclusive and transparent, new theoretical perspectives are needed to make sense of these changes. In this short paper, I put forward a simple framework covering four aspects of the Open Innovation phenomenon – commons-based production, crowd-based inputs to decision making, collective buy-in and action, and collective sense-making in the capital markets. I describe each of these in turn, using examples from the papers in this special issue of LRP.

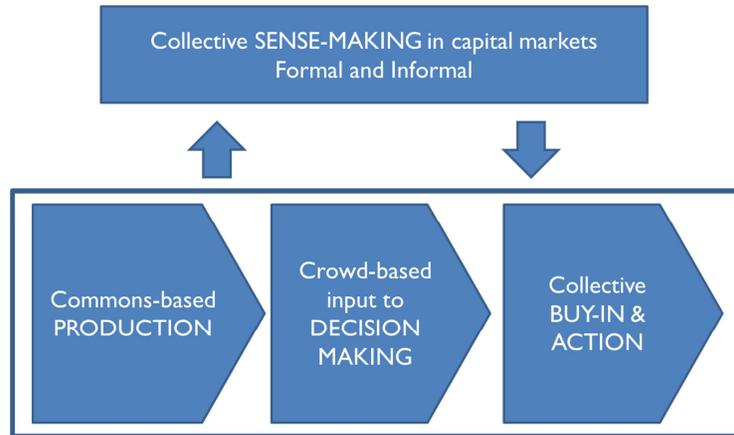
Research on the process of strategy-making has often acknowledged the role of multiple actors at different levels in the firm, and the value of sharing information widely as a means of gaining buy-in and alignment (Bower, 1970; Burgelman, 1983; Hodgkinson, Whittington, Johnson and Schwarz, 2006; Kellermanns, Walter, Lechner and Floyd, 2005; Pettigrew, 1992; Wooldridge and Floyd, 1990). However, as this special issue of LRP shows, the level of openness in strategy-making has increased markedly in recent years. Two important dimensions of openness, as Whittington et al (2011) observed, are the level of inclusiveness (who is involved) and the transparency of the process (how much information is shared). But there are also questions about how much openness extends beyond the traditional boundaries of the firm; the extent to which openness enables value creation *and* value capture; and how sustainable Open Strategy programs are over time.

In short, these emerging changes in practice cause us to revisit a number of the basic themes that strategy researchers have studied for a long time. In this short paper, I offer some reflections on this exciting new area for research, building on insights gained from my own research and consulting work, as well as my reading of the eight papers in this volume.

Framework – aspects of openness

The easiest way to define Open Strategy is in terms of what it is not. The traditional model of strategy-making was elitist and secretive: a small number of executives at the top of the firm (plus their advisors) were involved in the formulation process, and information about key decisions was shared on a need-to-know basis. In truth, this traditional model is a caricature that few firms entirely lived up to, but it provides a useful anchor to our understanding of the ways in which strategy-making is changing, namely towards giving employees and outsiders more involvement in the process and more information about what is decided.

Figure 1. Open Strategy Framework



The framework (figure 1) suggests four aspects of the Open Strategy phenomenon. The first is what Benkler and Nissenbaum (2006) call *commons-based peer production*, where people come together voluntarily to create “information, knowledge or cultural goods.” The most well-known examples are Wikipedia and open-source software products such as Linux, Firefox and Apache, created by large numbers of independent individuals working together “without relying on either market pricing or managerial hierarchies to coordinate their common enterprise” (2006: 394).

The idea that people in a social community might work together to create something of value has been around forever, but the Internet makes such collaboration vastly more efficient. A large body of research has now emerged examining the effectiveness of the products created in this way, the mechanisms used to enable collaboration, and the motivations of individual contributors (e.g. Dahlander and Gann, 2010; von Hippel and von Krogh, 2003; Shah, 2006).

Of the papers in this special issue, only Appleyard and Chesbrough (2017) examine commons-based peer production directly – they refer to it as the “content” branch of Open Strategy, as distinct from the “process” branch that I discuss below as crowd-based decision making and collective buy-in and action. Appleyard and Chesbrough (2017) shed light on the dynamics of commons-based production over time, noting that some open platforms (e.g. Google’s Android operating system) become more closed, while other platforms evolve in the other direction from closed to open (e.g. Sun’s Java community). They show how these shifts are driven by a mix of internal factors (i.e. whether the firm has the necessary capabilities in-house) and external factors (i.e. the competitive threats and opportunities in the marketplace).

The second aspect of Open Strategy-making is what I call *crowd-based input to decision making*. Here, the ‘crowd’ is a large number of individuals (employees of the focal firm and/or a community of external stakeholders) who provide their insights and views to a process that is controlled by the firm. Sometimes this process is about generating new ideas, sometimes it is about building on or evaluating existing ideas and options. In comparison to commons-based production, the level of input and commitment from individuals is significantly lower¹. There are many examples of such schemes in the popular business press (e.g. Howe, 2008; Surowiecki, 2005) and there is now a sizable academic literature in this area as well (e.g. Boudreau, Lacetera and Lakhani, 2011; Enkel, Gassmann and Chesbrough, 2009; King and Lakhani, 2013; Reitzig and Sorenson, 2013).

Most of the papers in this special issue are concerned with aspects of crowd-based inputs to decision making. Luedicke, Husemann, Furnari and Ladstaetter (2106) describe the fascinating case of the German Premium Cola collective, which encourages its large community of stakeholders to get involved in shaping the strategy and decision-making process that is run by its central organiser 'Ulrich' and a small core team. Malhotra, Majchrzak and Niemiec (2017) document an Open Strategy formulation process put in place by New Zealand's Land Care Research, to get public input into pest control and eradication. Hutter, Nketia and Füller (2017) describe an internal process in Siemens for creating and validating new sustainable business opportunities. Baptista, Wilson, Galliers and Bynghall (2017) examine a variety of companies, including Virgin, HSBC and Philips, that use social media to get external input into their strategic activities.

These papers highlight some of the important challenges in managing crowd-based input to decision-making. Firms need to give careful thought to how the process is structured to avoid endless wrangling and self-promoting behaviour (Malhotra et al, 2017), and it is important to encourage people to contribute in multiple ways, not just by offering a few ideas, if the scheme is to create a 'sense of community' (Hutter et al, 2017). And for such schemes to have a lasting impact, those at the centre have to develop new capabilities – they have to become adept at incorporating inputs from the 'crowd' into their decision making while still maintaining some level of coherence and decisiveness (Baptista et al, 2017; Luedicke et al, 2017).

The third aspect of Open Strategy is generating *collective buy-in and action* in line with a chosen course of action. In other words, rather than asking people to contribute their time, ideas or judgment in *formulating* strategy, this is about getting them to shift their attitudes and/or behaviour to *implement* a chosen way forward. Of course, effective strategy implementation has always been about getting large numbers of people to understand and buy into a course of action (Kellermanns et al, 2005). One thing that has changed, perhaps, is the notion that getting people more involved earlier on in the process will increase the overall level of buy-in and commitment. For example, the software company Red Hat has become well-known for opening up its strategy process to large numbers of employees (and external stakeholders), and the CEO, Jim Whitehurst has noted that the process is slower but leads to "better decisions, better engagement and better execution" (Whitehurst, 2015). A second important feature of collective buy-in and action is the role of technology, and social media in particular, in changing behaviour. In a very different context, the mass demonstrations during the Arab Spring were orchestrated in part through Twitter and Facebook. Tools such as Slack and Yammer are increasingly used by firms to improve buy-in and alignment among employees.

In this special issue, one paper focuses specifically on collective buy-in: Mack and Szulanski (2017) make a distinction between 'participation' (which is about crowd-based input to decision making) and 'inclusion' (which is about collective buy-in and action), and they argue that the appropriate blend of these two approaches depends to a large degree on how centralized the firm is. Some of the other papers described above also touch on collective buy-in, most notably Luedicke et al (2017) who show how the German Premium Cola collective is sustained over time by keeping their stakeholders involved in agenda-setting and governance.

The fourth aspect of Open Strategy is *collective sense-making* of a firm's chosen strategy in the capital markets (i.e. shareholders, institutional investors, banks and analysts). In privately-owned

firms collective sense-making is rarely an issue, because the top executives and the owners are either the same people or they work closely together. But for listed companies, the information gap between investors and executives is large, which leaves space for intermediaries such as analysts and media commentators to interpret and make sense of the information provided by executives.

To the extent that executives are pursuing a more Open Strategy agenda, we would expect them to provide greater transparency to the capital markets as well as to other stakeholders. Two of the papers in this special issue address this issue. Gegenhuber and Dobusch (2017) examine two new ventures that adopted a policy of radical openness to external audiences, and they show that this helped them build legitimacy early on, though the amount of openness was gradually scaled back (and shifted from two-way dialogue to one-way broadcast) as the ventures became more successful. Yakis-Douglas, Angwin, Ahn and Meadows (2017) examine a large dataset of mergers and acquisitions, and specifically the extent to which firms engaged in voluntary disclosure of information on these deals to their investors. They show that firms are more transparent when their strategy departs from the norms in their industry, presumably because they want to help investors to make sense of what they are doing, and therefore to generate support for their chosen course of action.

Both of these papers suggest that greater openness to investors and analysts is a “good thing” because it helps them to construct a more accurate understanding of what the firm is doing. But it also goes without saying that firms deliberately keep a lot of information back from their investors, partly because they don’t want it to end up in the hands of competitors, and partly because they don’t want their every move scrutinised and second-guessed by people who may not fully understand the strategic context in which the firm is working. Understanding the trade-offs between these two perspectives, and the extent to which they are changing over time, are interesting questions for future research to consider.

A research agenda

This framework is useful as a way of describing the various aspects of Open Strategy-making addressed in this special issue. But it leaves a number of issues unaddressed, and in this final section I would like to suggest what some of these issues might be, and how they might be addressed in future studies.

One is the *tension between value creation and value capture*. As Gary Hamel once noted, many firms claim to have an open innovation or Open Strategy-based way of working, but they don’t have open balance sheets. In other words, it is all very well to work with external partners as a way of creating value, but long-term success is ultimately about capturing value in the form of above-average profits (Moran and Ghoshal, 1999). Most of the papers in this special issue don’t explicitly address this tension between value creation and capture. Appleyard and Chesbrough (2017) is the notable exception, as it specifically looks at the way some firms have deliberately shifted their level of openness over time, sometimes even towards less openness, as a way of securing their strategic position in a dynamic marketplace.

Another is the *negative consequences of openness*. It goes without saying that greater openness in strategy-making has costs as well as benefits, and it is useful to think through what these costs are likely to be, and how they might be measured. For example, greater inclusiveness in strategy making

is very time-consuming for senior executives, it involves them giving up some level of control, and it creates high levels of expectations for employees that are hard to fulfil. Greater transparency brings a slightly different set of costs – it is an additional burden on employees, it can lead to problems of social comparison and envy (e.g. if salary information is shared), and it can stifle creativity (Bernstein, 2012).

A third issue is the *role of firm boundaries* in Open Strategy making. Of the papers in this special issue, some involve openness to employees within the firm, while others involve openness to external stakeholders. Yet, strangely, the way senior executives treat these two very different groups of people, for example in terms of how to make an open-strategy discussion forum work well, are remarkably similar. It might be very interesting for future research to address this point explicitly, for example by identifying the types of roles employees are allowed to play that outsiders are excluded from, or to see if the various mechanisms for stimulating openness vary in their effectiveness when you cross the boundary of the firm.

To conclude, this special issue serves two very useful functions. First, it provides a window on some important phenomena in the business world today around greater inclusiveness and transparency in strategy-making. Second, it opens up some important new lines of theoretical inquiry, as to why firms behave the way they do, and what the consequences of these new ways of working might be. In this short essay, I have sought to provide some perspective on how the eight papers in the special issue fit together, and to suggest some interesting avenues for future research.

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ⁱ There are of course some activities that straddle the boundary between commons-based production and crowd-based input. For example, in some idea tournaments or 'jams' people are asked to come up with ideas and then, if successful, they are invited to develop them further with colleagues to create a product or service. Such cases would therefore transition from 'input' to 'production' in figure 1.