
Keeping Secrets Holds Back Innovation



By L. Felipe Monteiro , INSEAD Assistant Professor of Strategy

When it comes to collaborating on something new, secrecy and tension can ruin a beautiful partnership.

In an era of increasingly complex and expensive technological development and shortened innovation cycles, Procter and Gamble's Connect + Develop open innovation programme, is an excellent example of how external knowledge can advance innovation. Since its launch in 2001 the programme has formed more than 2,000 partnerships and been responsible for dozens of innovative products and new processes to increase the firm's productivity.

Openness starts from within

Today more and more companies are looking outside the firm for new ideas and, like P&G, they are adopting principles of open innovation into their business model hoping to enrich their knowledge pool and improve the possibility of finding new and useful combinations of previously disparate ideas. Their efforts (and investments) have met with varying degrees of success.

Which begs the question why are some firms more able to transform knowledge sourced externally into innovative outputs?

Open innovation is not just a matter of getting the right contacts. To get the most out of their open innovation strategy firms must start by creating the right conditions within their organisation. As well as having sufficient resources – both financial and human capital – to implement fresh ideas, companies looking to maximise commercial benefits from collaborative associations, need to enter the partnership with the right mindset, exuding a willingness to share as well as absorb knowledge.

Reciprocity and trust

Studies show that reciprocity and trust are two factors which are consistently important in achieving efficient and equitable outcomes in inter-firm partnerships.

Reciprocity foment the mutual forbearance that lies at the heart of any inter-firm involvement. It's an expectation that the favour one partner provides to the other will subsequently be returned – and a moral obligation on the other's part that it will, indeed, uphold this deal. Trust is an expectation that one partner will not exploit the vulnerabilities of the other when faced with the opportunity to do so.

Being perceived as withholding information makes it very hard to create the trust necessary for any successful collaboration. When sharing information with you, your partner needs to know that you are being open with them.

It also makes it very difficult for your partner to know how they can help. They need to know what YOU need. By not revealing how your operations work, their ability to collaborate is restrained.

Protecting IP

While it's important that firms protect their intellectual property (IP), if they go about it the wrong way they can create an atmosphere of secrecy and tension likely to hamper collaborative efforts.

In those external knowledge sourcing partnerships, it seems best to protect knowledge using legal mechanisms, such as patents and copyright. This type of protection is less likely to create tension. The company is being open with its partners by saying “this is what we do and this is how we're protecting

this knowledge”.

When it comes to systems and processes however, some knowledge is very difficult to patent. And in industries like the chemical sector these processes are very important. Often the only way to protect it is through secrecy.

Unlike legal protection mechanisms, which force firms to disclose and codify their technological activities making public their capabilities and knowledge, secrecy requires firms to hold tight to what they know and do and only show partners the pieces of their operation that they think they need to see. It may be very hard to fully benefit from open innovation when the mindset requires a high level of secrecy.

In our research, **Ready to be Open? Explaining the Firm level Barriers to Benefiting from Openness to External Knowledge**, co-authored with Michael Mol, Professor of Strategic Management at Warwick Business School and Julian Birkinshaw, Professor of Strategic and International Management at London Business School, we studied data provided by more than 12,000 companies to the UK’s Community Innovation Survey (CIS) between 2002 and 2006 and looked at how secretive behaviour influenced the correlation between external knowledge sourcing and the introduction of new products.

The results showed that using secrecy as a strategic knowledge protection hinders the innovation benefits deriving from external knowledge partnerships. The study showed a distinct trade-off between strategies aimed at accessing external knowledge through collaborations with outside parties and those using a secretive behavioural orientation as a strategic knowledge protection mechanism.

Give and take

Value creation occurs by bringing together ideas and resources in novel ways. It requires participants to give and take freely, for example by sharing their semi-formed ideas in the hope that they will spark off new possibilities with others. This type of creative process is quickly undermined if one party is unwilling to make certain resources available, or if they are too guarded in the ideas they contribute.

In business, as in life, successful partnerships are two-way streets and require openness and trust.



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