

Open Innovation in Arab Family Businesses A Must or an Oxymoron?

In the Arab world, family businesses are the backbone of most economies owing both to their economic contribution and to their socio-political impact. Accordingly, the sustainability of family businesses is of vital importance to the region's further development and successful integration into the global marketplace. As businesses in the Arab world, and indeed, around the world face growing pressure to compete not only locally but on a global scale, it is critical that new ideas are initiated, developed, and implemented at an increasingly fast pace. The process of generating these ideas, or, in other words, the innovation process, deserves a closer look. In many corners of the world, individuals, companies, and institutions alike are engaging in what has become known as Open Innovation. This trend is linked to the opening up of platforms, networks, and information flows forming partnerships between several, often unrelated constituents. In the lead article of Tharawat magazine's 6th volume, the aim is to explore the applicability of the Open Innovation concept to the Arab family business construct.

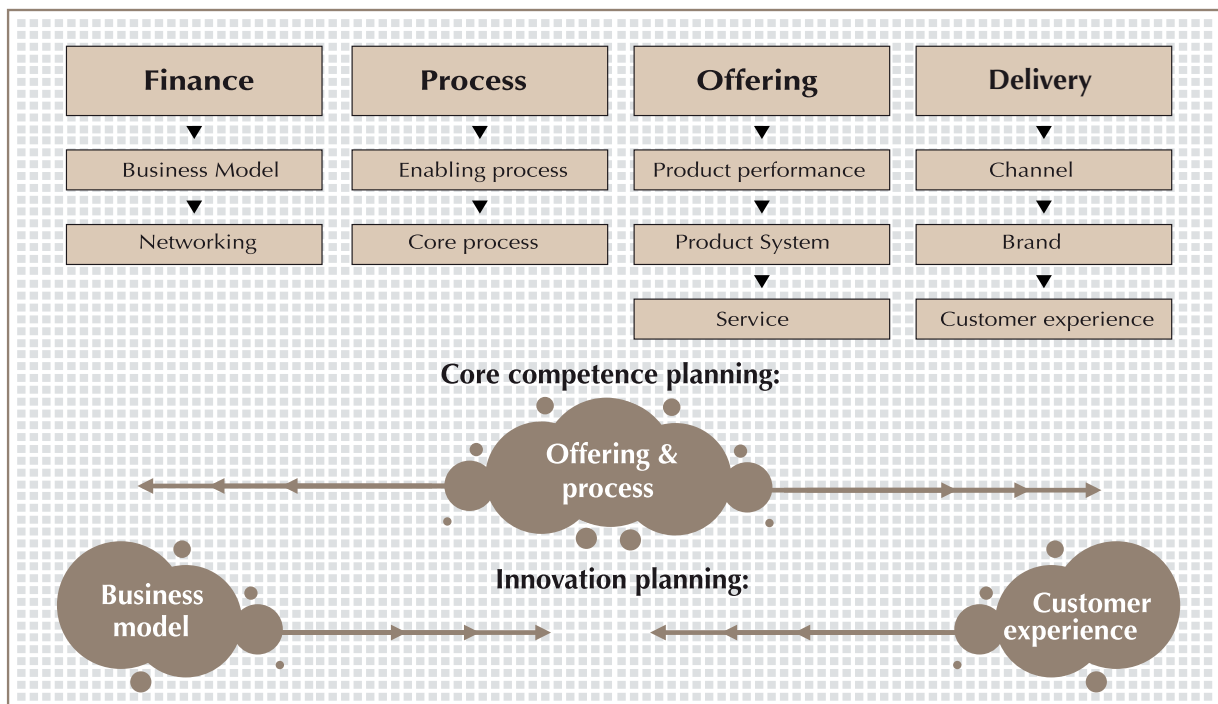
No matter where you go in the world, the characteristics most frequently associated with family businesses are an orientation towards longevity, risk-averse behaviour, and a strong protective instinct of the family name. None of these characteristics seems to induce an innovative spirit. And yet, several family businesses in the Arab world have managed to outlast many generations. Is such continuity possible without a propensity towards innovation? Whether intentionally or not, family businesses apparently are innovators. Families that do not adapt their strategies to externalities are often the ones failing to pass on the business from one generation to the next. The new economic landscape has certainly stimulated innovation and we have seen several examples of family businesses developing their own technologies or

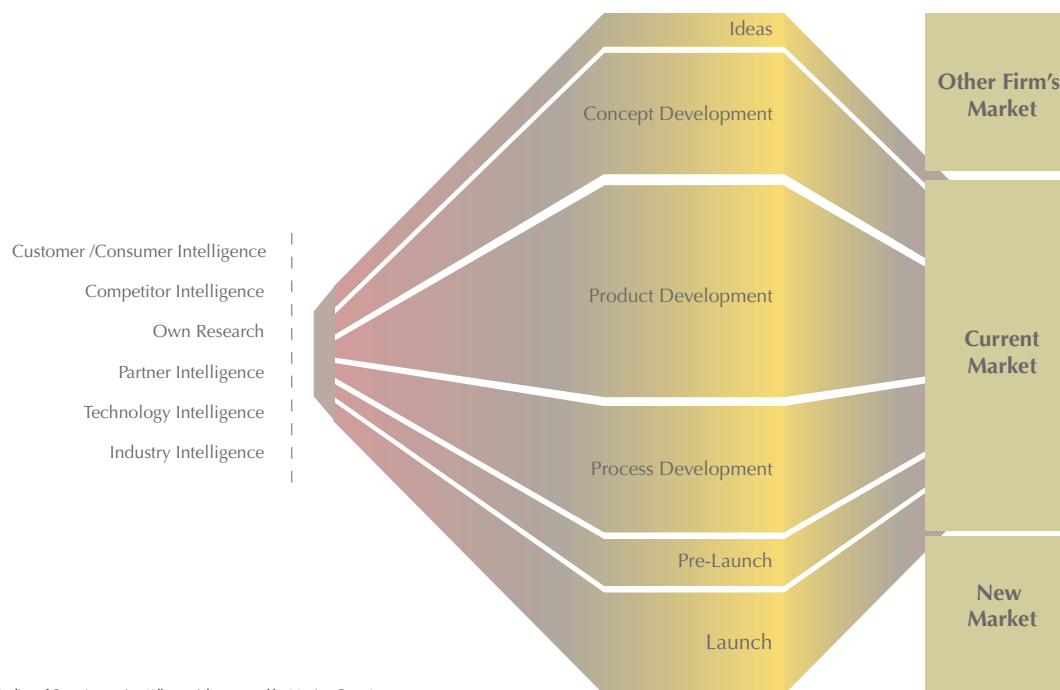
value propositions. An industrial family business in the Gulf, for example, had activities in manufacturing and assembling pre-engineered buildings. The family developed its own patent and gathered experts from all over the Arab world to create a software-lab supporting their new product. Another family business, active in construction material, worked with its suppliers to develop new production lines, which would meet the needs of a fast growing Middle Eastern and Asian market. Changes may be slow, and not always intentional, but they do happen. However, whether and how fast new ideas are accepted and adopted will strongly depend on the family itself. Recent economic developments urge agents to become even faster and more focused in their innovation. Teamwork is required, alongside global and

integrated thinking. The concept of Open Innovation comes to mind as an option to enable family businesses to compete in such an environment and to adapt to the speed of innovation that surrounds them.

What is Open Innovation?

The term 'Innovation' can be broadly characterised as 'new, and value creating'. Furthermore, true innovation should refer to more than simply new offerings around products and services or processes. It is increasingly important to consider the full spectrum of innovation possibilities from new business models to new customer experiences in order to lead in today's world (See 'The Ten Types of Innovation').





Pipeline of Open Innovation (All copyrights reserved by Monitor Group)

Open Innovation is a management discipline deployed to create value by linking a combination of partners, customers, suppliers, and the “wisdom of masses” to supply new ideas and identify solutions. This includes not only the outside-in perspective on activities within the pipeline – often called “co-creation” but also the inside-out commercialisation of innovation results, the overlaying of the strategy framework, and the required infrastructure (See ‘Pipeline of Open Innovation’).

An illustrative example of Open Innovation is that of the Goldcorp company:

By early 2007, Canada’s Goldcorp, North America’s 3rd largest gold producer had stock-piled more gold than the Bank of Canada. How could this be? Ten years earlier the senior management had proposed shuttering Goldcorp’s largest mine, Red Lake, due to high exploration costs and low expectations of the old mine. But, management and fortunes do change. In 1998, a visionary outsider named Rob McEwen was brought in as Goldcorp’s

new CEO. Mr. McEwen was a positive and optimistic man who believed that there must be new ways to look at the mining business. In 2000 he attended a conference at MIT on Open Systems and was so inspired that he decided to lay open his ‘Red Lake mine problem’ to the world. Against conventional wisdom in the mining industry that data is the most precious and secret resource, all of Red Lake’s geological data was posted on the Internet and a cash prize was promised to individuals with the best gold estimates. The ideas flooded in. Mathematicians, geologists, researchers, military officers, chemists, engineers, and people of all sorts from over 50 nations got involved. Participants identified 110 gold sites on the Red Lake property – 50% of which had not been identified before by Red Lake employees. Over 80% of the new targets yielded substantial quantities of gold. Mr. McEwen stated that this process shaved three years off of the normal exploration time and has created tremendous value for Goldcorp and its shareholders. Goldcorp was valued at \$100 million in 1999. By 2008 the company was worth over \$9

billion and has since used its might to acquire its largest competitor.

Challenges for Family Businesses

Arab family businesses do encounter particular problems but also advantages in the innovation process due to their inherent characteristics. In family businesses, emotional resistance as well as conservative attitudes can pose significant obstacles for new ideas. One of the chief motives for this hesitant behaviour is the protection of the family’s well-being and name. As opposed to what can be seen in the Western world, families are still the core organisational units around which Arab society is built. Often, if not always, family comes first. Innovation strategies, in order to be successfully implemented, need to take this rooted attitude into consideration and align as much as possible with family values. But is this an achievable objective?

At its heart, Open Innovation is about sharing information and knowledge. However, it also implies letting others into one’s thought process. The idea of ceding control of data and company information is a daunting prospect for

any senior manager or CEO. In the application of Open Innovation to Arab family businesses this would be of major concern; for family members losing control and ownership of the company's ideas and information would most likely be viewed as a threat. The idea of moving part of the innovation process outside of the organisation may be met with emotional resistance and fear for the family name's safety. Yet, working with 'outsiders' may be the best way to adapt swiftly to an ever-changing business environment.

On the other hand, family businesses also seem to have certain characteristics that would enable them to become exceptionally strong Open Innovators; the success of Open Innovation just like the success of Arab family businesses is directly and strongly correlated to the quality of its surrounding social and business network. A lot of time and energy of family businesses is bestowed on the maintenance and creation of relationships with their peers, their staff, non-family employees, suppliers, and clients. The relationship-orientation of family businesses could represent an important step towards Open Innovation.

A remarkable example of what one could call 'Internal Open Innovation' is demonstrated by the Almajdouie Group in Saudi Arabia:

SPARK is an Idea Generation Program adopted by the Almajdouie Group since 2003. The basic concept is that each company within the holding structure gathers its employees at least once a month for a brainstorming session. The goal is to generate new ideas from individuals in various functions. These ideas can be either

of a general nature or can pertain to a specifically defined subject area called a 'SPARK Theme'. The ideas are then classified into categories such as cost savings, process improvements, environmental sustainability, etc.. The program has changed the group's culture entirely and has created an atmosphere of participation, transparency, and mutual interest. During the course of the program 25,000 ideas have been generated and savings of SR15 Million have been achieved. Every year during the SPARK annual event, the group organises a speech by an international expert in the innovation field who also audits the group's program and suggests further improvements. In addition, Almajdouie Group has recently implemented the SimNet software, allowing even more efficiency in the absorption of new ideas arising from the SPARK initiative.

The example of the Almajdouie Group's SPARK initiative shows that Open Innovation does not always require outside partners, or at least not to begin with. The mindset that was created throughout the group by initiating such 'innovative discipline' holds great potential for future ventures that may additionally include outsiders.

Should you consider Open Innovation?

For many firms, Open Innovation is no longer an option but an imperative. By increasing market access, Open Innovation can help to efficiently discover new ideas, spur speed to market, and improve leverage on investments. Open Innovation can reduce the risk inherent in opportunity development and can help to shift from a fixed to a variable cost structure.

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Last but not least, Open Innovation can help the reputation of a firm through innovation leadership and standard setting.

Of course, not all businesses need embrace Open Innovation. If an industry has few competitors, long development cycles, and no need for

standardisation, a company is likely to benefit little from partners. If in addition, an organisation is the leader in its market, has good IP protection, and minimal likelihood of new entrants, Open Innovation is unlikely to pay dividends. Family business managers can use the following checklist to

assess whether Open Innovation is worthwhile for their companies. If the answer to many of these questions is 'yes', then Open Innovation should be of high value (See Questionnaire 1).

Should YOU consider Open Innovation?

- Is patent protection important for your business?
- Can you clearly articulate your innovation challenges?
- Is innovation cost becoming an overwhelming burden?
- Do you see the need for innovation without knowing where it should come from?
- Is your industry leaning towards standards and common platforms?
- Do you feel an unbalance between need for speed and required development time?
- Is the number of potential innovation projects steadily growing?
- Is your industry characterised by multiple innovators including surprising newcomers?
- Is it almost impossible to oversee the entire value chain till the end customer?
- Does the family business structure favour collaborative efforts?
- Do you have an innovation pipeline in place?
- Do you face strong competition with talented human capital, knowledge and financial means?
- Do you recognise potential value from partnering with customers, suppliers, experts and the broad masses?
- Can you imagine that your innovations could be leveraged outside your own company?
- Do you have family business members with interests in particular innovative fields?
- Does your family business have a decision making process that would allow to integrate outside innovation quickly?
- Does the family have human and financial resources to allocate to Open Innovation management?
- Does the family face challenges in growing in certain industries due to a lack of innovative strategies?

Are You Ready For It?

There are some Arab businesses that have mastered some form or other of Open Innovation and are off and running. Yet, to many the concept is still foreign and has not revealed

its potential benefits. It is one thing, however, to identify the need for Open Innovation strategies, and it is another to ask whether the family and the business are willing and ready to absorb the type of structural and mentality

changes it requires. The following questions can help to evaluate the current status and mindset of the family business (See Questionnaire 2):

Are YOU ready for Open Innovation?

Status:

- Do you have a strategy, family governance, and infrastructure that favours/encourages/allows Open Innovation?
- What share of revenue do you generate from innovations based on partnership involvement?
- Are your partnerships mainly transactional (one-offs) or sustainable (long-term relationship)?
- How many ideas come from outside sources and what is their quality?
- How much do you co-create innovations (involvement in stage-gate-process)?
- What is the involvement of partners in the commercialisation of your innovations?

- Are there any existing ventures and partnerships, which could be a platform for Open Innovation?

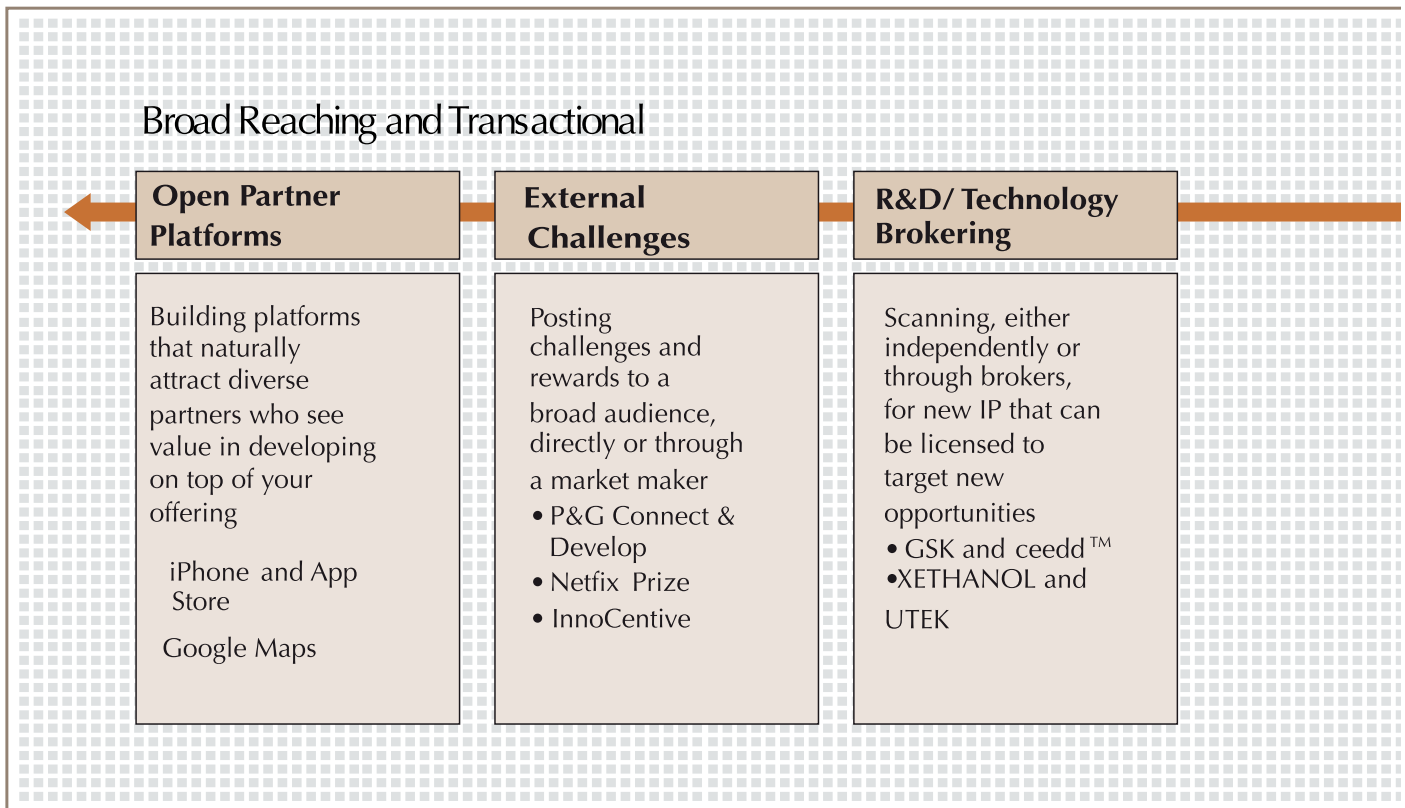
Mindset:

- Are you satisfied with the status above or do you see necessity for change?
- Does Open Innovation fit into the family's value system?
- Can you imagine sharing power, knowledge and economic success with third parties?
- Is the next generation able and willing to handle Open Innovation systems?
- Are there outside/non-family experts at hand to make Open Innovation sustainable?

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Partnership Models

In Open Innovation, there is no one partnership model that works best. Different models can be valuable depending on the context of the business environment, the players involved, and the specific agenda. One way to structure the various options is along the dimension of broad reaching and transactional versus focused and collaborative partnering (See 'Partnership models').

Indeed, the concept of partnerships is not at all foreign to Arab family businesses. While keeping their traditional relationship with the East, Arab family businesses, especially those from the Gulf, turned to Europe and the USA to acquire franchises and licenses in order to trade products or to establish small and medium-sized companies for semi-finished products.

At a later stage, however, several family businesses took things further and established joint-ventures to accelerate industrial development and to allow their people to develop specialised industrial knowledge. Families treading this path had to resolve the challenges of sharing control with their partners. In order to manage this, progress in family governance and organisational structure were observed. This allowed families to keep control while developing a series of partnerships entering various new business sectors and markets. Open Innovation does not seem such a far way off.

How to approach Open Innovation?

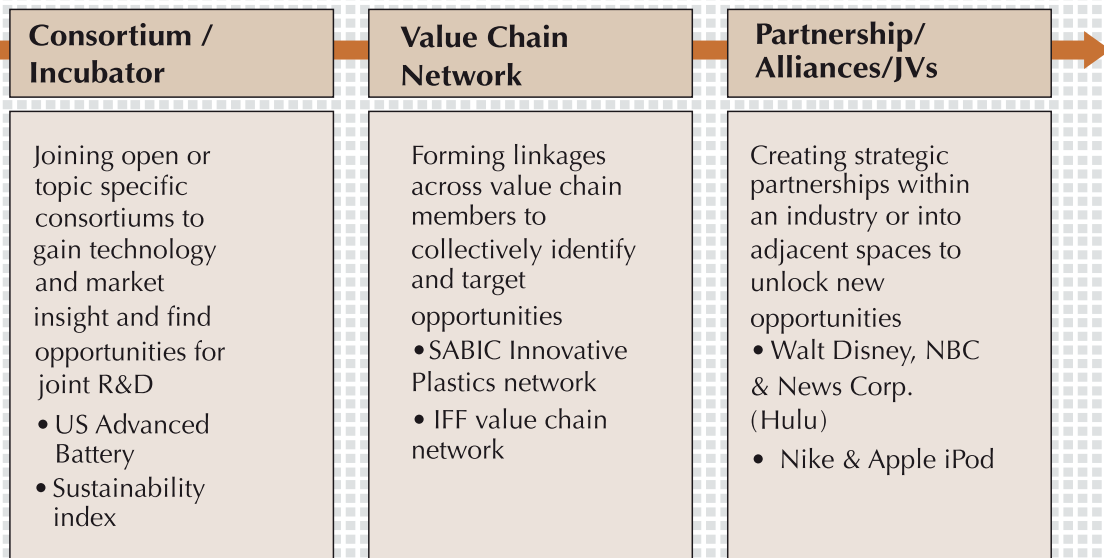
Following a careful stepwise approach is the most promising way for family businesses, to get started in Open Innovation:

1. Test the readiness for Open Innovation: It may take workshops and several months to provide a full understanding and to obtain the necessary commitment by decision makers. Without this commitment, it will be very difficult to successfully implement any of the following steps.

2. Start to explore Open Innovation within the family conglomerate. Often, it is possible to learn from each other and build on existing synergies. The famous wording "if IBM only knew what IBM knows" probably led to the very successful Innovation Jam, the largest online brainstorming session ever with 150.000 participants resulting in 46.000 ideas and 10 new businesses created.

3. Review the existing relationships with other industrial

Focused and Collaborative



Partnership models (All copyrights reserved by Monitor Group)

players the family business is involved with. It is much easier to start a successful innovation partnership when trust is already established. Different models of partnership will be appropriate in different industries.

4. Establish the Open Innovation concept in parallel with an explicit communication program inside and outside the companies; develop capacity building programs to ensure common knowledge – and probably even more importantly – a common mindset across the organisation.

Conclusion

In an increasingly competitive world marked by swift technological change, demanding customers, and shorter product lifecycles, it no longer seems possible to ignore Open Innovation as an option. Open Innovation is a lever that can help companies to

build and maintain agility. And, as we discovered, Open Innovation is not necessarily an oxymoron vis-à-vis Arab family businesses. The example of the Almajdouie Group in Saudi Arabia shows that some family businesses already have some sort of process under way – usually without specifically calling it Open Innovation. However, families must assess their businesses honestly and determine which approach matches the organisation's style, goals, and appetite for change. ♦

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