



«The Customer is Always Right»

Negative Side Effects of Open Innovation on Managers' Assessment of Employees' Ideas

47th EMAC Annual Conference

Glasgow, 30th May 2018

Laura Braun/Peter M. Fischer/Sven Reinecke

Agenda of Today's Presentation.

1

Problem definition

2

Theoretical background

3

Hypotheses

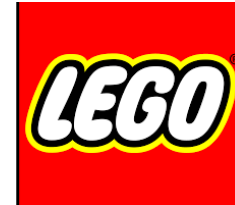
4

Empirical findings

5

Contribution & Further research

Managerial Decision Making in Open Innovation.



(Brabham 2013; Fuchs, Prandelli, and Schreier 2015; Gassmann and Enkel 2004; Stevens, Esmark, Noble, and Lee 2017)

Managerial Decision Making in Open Innovation.

- ❖ Open Innovation and especially crowdsourcing have attracted much attention among academic scholars (Brabham, 2013; Djelassi & Decoopman, 2013)
- ❖ There has been fruitful research on customers' attitudes, behavior and outcomes within such initiatives (e.g. Chan, Kim, & Lam, 2010; Stevens, Esmark, Noble, & Lee, 2017)
- ❖ Investigations on how responsible managers evaluate and select ideas have been comparatively scarce

This research focuses on managerial decision making process and its consequences on internal and external outcomes of innovation processes

Agenda of Today's Presentation.

1

Problem definition

2

Theoretical background

3

Hypotheses

4

Empirical findings

5

Contribution & Further research

Construal Level Theory.

- ❖ Construal level theory offers a framework to explain how individual contexts shape mental representations
(e.g. Wiesenfeld et al., 2017)
- ❖ Continuum of abstraction, from relatively concrete (lower level) to abstract (higher level) cognition (Trope & Liberman, 2010)
 - ❖ Lower construal levels are associated with relatively specific experiences and representations
 - ❖ Higher construal levels involve general and inclusive processing

Hierarchy-dependent Construal Levels.



Top-Management

- Long-term organizational purposes, visions and strategies* (Berson, Halevy, Shamir, & Erez, 2015).
- Top-manager's strategic responsibilities are associated with a higher default construal level, abstract thinking and a stronger creativity focus.



Lower-Level Management

- Definition and execution of concrete plans* (Finkelstein, Hambrick, & Cannella, 2009).
- More likely to process information on lower construal levels, associated with concrete cognition and a strong feasibility focus (Magee, Milliken, & Lurie, 2010; Reyt & Wiesenfeld, 2015).

*Confirmed by a conducted qualitative pilot study with $N = 22$ top and lower-level managers

Anticipatory Regret and Attribution Theory.

- ❖ Decision makers tend to avoid negative consequences and regret by predicting and anticipating possible decision outcomes in advance.
(Connolly & Reb, 2005; Zeelenberg et al., 1996)
- ❖ The estimation of possible consequences of the evaluation of ideas is highly dependent on the information about an idea provider.
- ❖ We argue that managers have a stronger feeling of anticipatory regret, when exposed to an idea from an employee (internal attribution) in comparison to an idea from a customer (external attribution).
(Kelley, 1973).

Agenda of Today's Presentation.

1

Problem definition

2

Theoretical background

3

Hypotheses

4

Empirical findings

5

Contribution & Further research

Hypotheses.

- ❖ Top and lower level managers differ in their role and tasks within an innovation process and hence their construal level.
- ❖ **Top managers** have a strong focus on the creativity and **lower level managers** on the feasibility evaluation of ideas.
- ❖ We assume that managers carefully estimate the consequences of their evaluation behavior (Reb, 2008).

Hypothesis 1: Top managers process idea evaluations on higher construal levels, resulting in a strong focus on the creativity rating. Based on assumptions of anticipatory regret and attribution theory, we expect top managers to rate customer ideas higher on creativity than employee's ideas, while lower level managers do not.

Hypothesis 2: Lower level managers process idea evaluations on lower construal levels, resulting in a strong focus on feasibility. Based on assumptions of anticipatory regret and attribution theory, we expect lower level managers to rate customer ideas higher on feasibility than employee's ideas, while top managers do not.

Agenda of Today's Presentation.

1

Problem definition

2

Theoretical background

3

Hypotheses

4

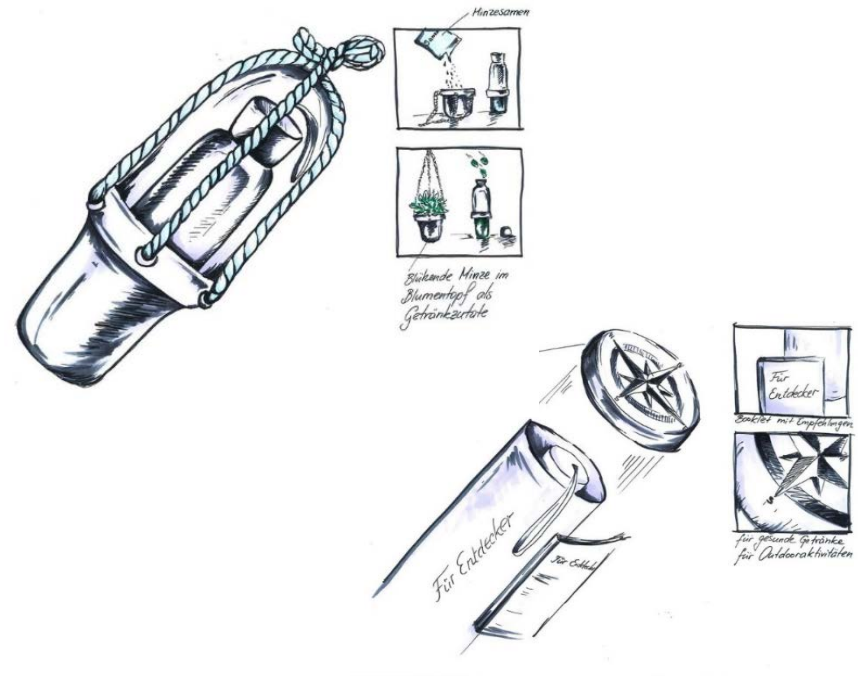
Empirical findings

5

Contribution & Further research

Methodology

- ❖ Online experiment
- ❖ Between subjects design, participants were randomly exposed to one stimulus
- ❖ Stimuli: pretested packaging ideas for the launch of an innovative water bottle



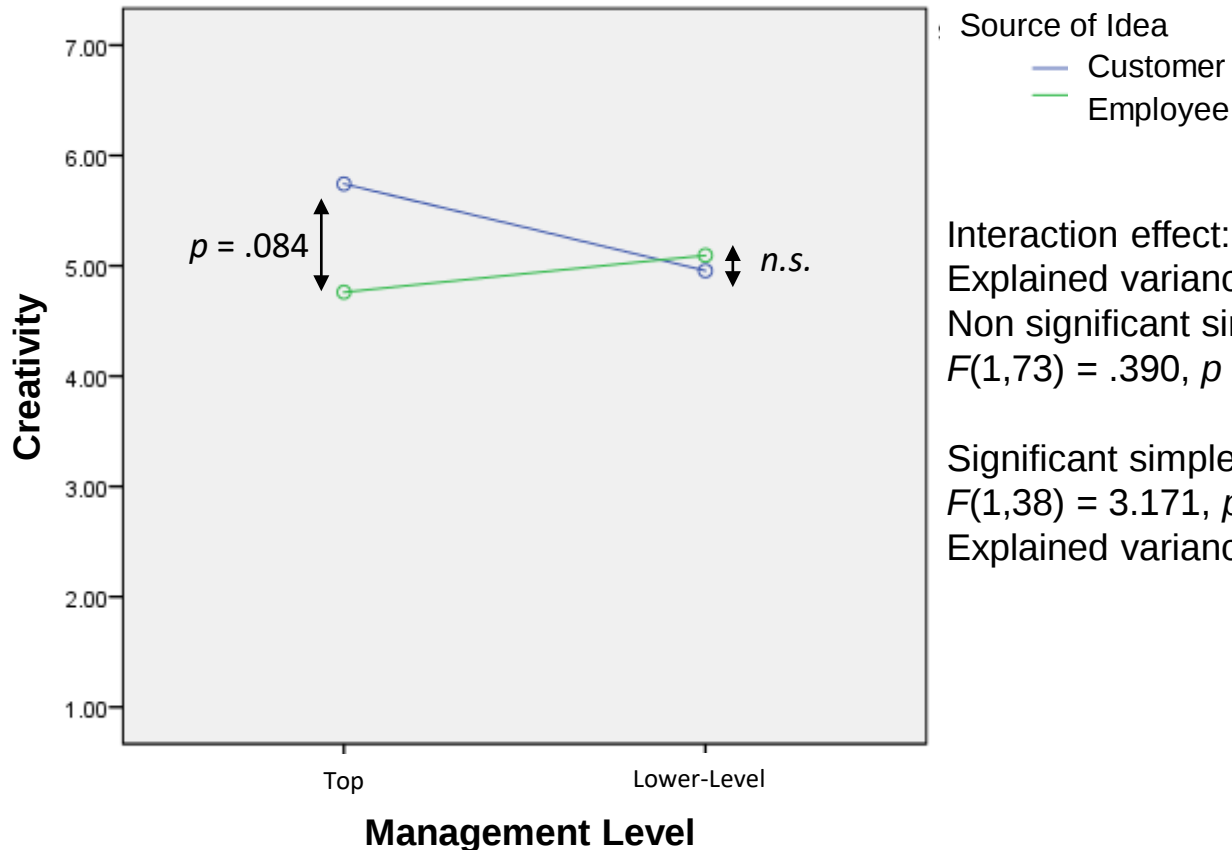
Sample.

❖ Sample:

- ❖ 113 German-speaking managers
- ❖ 34.5% top management, 65.5% lower-level management
- ❖ Gender: 21.2% women, 78.8% men;
- ❖ Average age: 46.30 years (SD = 9.22)
- ❖ Departments: marketing (38.9%), organizational strategy (23%), sales (15.9%), innovation (6.2%), other (16%)

Results.

Evaluation of Creativity of an Idea Dependent on Individual Management Level and Idea Source



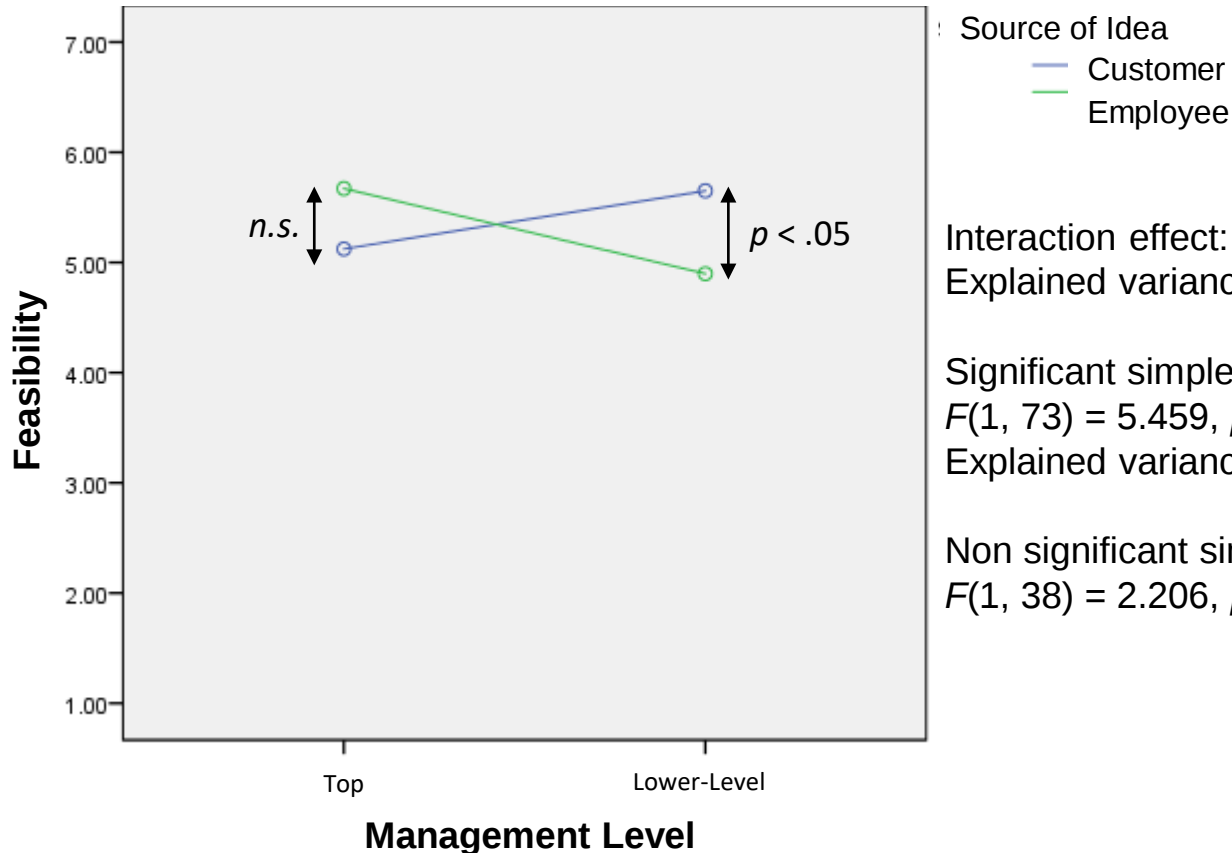
Interaction effect: $F(2,111) = 4.334$, $p = .040$
Explained variance (R^2) = 8.2%
Non significant simple effect for lower-level mgmt:
 $F(1,73) = .390$, $p = n.s.$

Significant simple effect for top mgmt:
 $F(1,38) = 3.171$, $p = .084$
Explained variance (R^2) = 18.6%

* Controlled for type of stimulus

Results.

Evaluation of Feasibility of an Idea Dependent on Individual Management Level and Idea Source



Interaction effect: $F(2,111) = 4.524, p = .036$
Explained variance (R^2) = 20.5%

Significant simple effect for lower-level mgmt:
 $F(1, 73) = 5.459, p = .022$
Explained variance (R^2) = 25.1%

Non significant simple effect for top mgmt:
 $F(1, 38) = 2.206, p = n.s.$

* Controlled for type of stimulus

Results.

Summary of Results

- ❖ Manager's individual hierarchy level affects the evaluation of ideas from different sources, in terms of feasibility and creativity ratings:
 - ❖ Top managers tend towards distinct creativity ratings of an idea, dependent on its source
 - ❖ Lower-level managers showed no difference in their creativity evaluations, but altered their feasibility rating in respect to the source of ideas
- ❖ Our analysis yielded that especially the evaluation of customers' ideas benefit from these rating biases:
 - ❖ Lower-level managers rated the ideas from customers higher than ideas from employees in respect to feasibility
 - ❖ Same effect for creativity in the top-management condition

Discussion and Practical Implications.

- ❖ We argue that decision makers' avoidance of possible negative consequences results in a sponsorship of customers' ideas
- ❖ We first show that open innovation seems to be a double-edge sword for companies
 - ❖ Decision makers may lower perceived risks by evaluating customers' idea more favorable on the decision maker's main criterion
 - ❖ The promotion of customers' ideas obviously will have a downside as it leads to a lower appreciation of employees' ideas

Agenda of Today's Presentation.

1

Problem definition

2

Theoretical background

3

Hypotheses

4

Empirical findings

5

Contribution & Further research

Research Contribution and Future Research.

- ❖ The main academic contribution of this research is twofold:
 - ❖ Initial evidence on managers' avoidance behavior regarding the evaluation of ideas and its negative consequences for the assessment of employees' ideas in an open innovation context
 - ❖ Contribution to current literature on managerial decision making and respective biases within innovation processes
(Mueller, Melwani, & Goncola, 2011; Wiesenfeld, Reyt, Brockner, & Trope, 2017)
- ❖ Limitations and Future Research
 - ❖ The small sample and inhomogeneous group sizes managers result in less statistical power.
 - ❖ Future research need to provide empirical process evidence for our hypothesized effects.
 - ❖ Manipulations of failure culture appear to be promising in this regard.

Thank You for Your Attention.



Laura Braun

Doctoral Candidate & Research Associate



Laura.Braun@unisg.ch



+41 71 224 71 71



Peter Mathias Fischer

Assistant Professor of Marketing



Peter.Fischer@unisg.ch



+41 71 224 2888



Sven Reinecke

Associate Professor of Marketing



Sven.Reinecke@unisg.ch



+41 71 224 2872

Literature.

- Bartlett, Christopher A. and Sumantra Ghoshal (1994), "Changing the role of top management: Beyond strategy to purpose," *Harvard Business Review*, 72, 79-88.
- Berry, James W. (2012), "Do we have creative differences? How we construe creativity influences the salience of novelty and usefulness," (accessed August 23, 2017), [available at <https://cdr.lib.unc.edu/indexablecontent/uuid:57cfac10-a3c2-4a19-9050-0e3790f77f34>].
- Berson, Yair and Nir Halevy (2014), "Hierarchy, leadership, and construal fit," *Journal of Experimental Psychology*, 20, 232-246.
- Brabham, Daren C. (2013), *Crowdsourcing*. Cambridge: MIT Press.
- Burgoon, Erin M., Marlone D. Henderson, and Arthur B. Markman (2013), "There are many ways to see the forest for the trees: A tour guide for abstraction," *Perspectives on Psychological Science*, 8, 501-520.
- Chan, Kimmy Wa, Chi Kin Yim, and Simon S.K. Lam (2010), "Is customer participation in value creation a double-edged sword? Evidence from professional financial services across cultures," *Journal of marketing*, 74, 48-64.
- Cropanzano, Russell and Marie S. Mitchell (2005), "Social exchange theory: An interdisciplinary review," *Journal of management*, 31, 874-900.
- Cui, Anna S. and Fang Wu (2016), "Utilizing customer knowledge in innovation: antecedents and impact of customer involvement on new product performance," *Journal of the academy of marketing science*, 44, 516-538.
- Field, Andy (2009), *Discovering Statistics Using SPSS*. London: Sage Publications.
- Finkelstein, Sydney, Donald C. Hambrick, and Albert A. Cannella (2009), *Strategic leadership: Theory and research on executives, top management teams, and boards*, Oxford: Oxford University Press.
- Fuchs, Christoph, Emanuela Prandelli, and Martin Schreier (2010), "The psychological effects of empowerment strategies on consumers' product demand," *Journal of Marketing*, 74, 65-79.
- Fuchs, Christoph, Martin Schreier, and Stijn MJ van Osselaer (2015), "The Handmade Effect: What's Love Got to Do with It?," *Journal of marketing*, 79, 98-110.
- Gassmann, Oliver and Ellen Enkel (2004), "Towards a theory of open innovation: three core process archetypes," (accessed on August 23, 2017) [available at: <https://www.alexandria.unisg.ch/274/>].
- Greenwald, Anthony G., Debbie E. McGhee, and Jordan LK Schwartz (1998), "Measuring individual differences in implicit cognition: the implicit association test," *Journal of personality and social psychology*, 74, 1464-1480.
- Magee, Joe C., Frances J. Milliken, and Adam R. Lurie (2010), "Power differences in the construal of a crisis: The immediate aftermath of September 11, 2001," *Personality and Social Psychology Bulletin*, 36, 354-370.
- Mahr, Dominik, Annouk Lievens, and Vera Blazevic (2014), "The value of customer cocreated knowledge during the innovation process," *Journal of Product Innovation Management*, 31, 599-615.
- Mueller, Jennifer S., Shimul Melwani, and Jack A. Goncalo (2012), "The bias against creativity: Why people desire but reject creative ideas," *Psychological science*, 23, 13-17.
- Mueller, Jennifer S., Cheryl J. Wakslak, and Viswanathan Krishnan (2014), "Construing creativity: The how and why of recognizing creative ideas," *Journal of Experimental Social Psychology*, 51, 81-87.
- Oliver, Richard L. (1977), "Effect of expectation and disconfirmation on postexposure product evaluations: An alternative interpretation," *Journal of applied psychology*, 62, 480-486.
- Polman, Evan and Kyle J. Emich (2011), "Decisions for others are more creative than decisions for the self," *Personality and Social Psychology Bulletin*, 37, 492-501.
- Reyt, Jean-Nicolas and Batia M. Wiesenfeld (2015), "Seeing the forest for the trees: Exploratory learning, mobile technology, and knowledge workers' role integration behaviors," *Academy of Management Journal*, 58, 739-762.
- Stevens, Jennifer, Carol L. Esmark, Stephanie M. Noble, and Na Young Lee (2017), "Co-producing with consumers: how varying levels of control and co-production impact affect," *Marketing Letters*, 28, 171-187.
- Trope, Yaacov and Nira Liberman (2003), "Temporal construal," *Psychological review*, 110, 403-421.
- Trope, Yaacov and Nira Liberman (2010), "Construal-level theory of psychological distance," *Psychological review*, 117, 440-463.
- Wiesenfeld, Batia M., Jean-Nicolas Reyt, Joel Brockner, and Yaacov Trope (2017), "Construal Level Theory in Organizational Research," *Annual Review of Organizational Psychology and Organizational Behavior*, 4, 367-400.
- Yaniv, Ilan and Eli Kleinberger (2000), "Advice taking in decision making: Egocentric discounting and reputation formation," *Organizational behavior and human decision processes*, 83, 260-281.