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Investigating the link between intellectual capital and open innovation processes: a longitudinal case study

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Investigating the link between intellectual capital and open innovation processes: A longitudinal case study

Abstract

Purpose: This paper investigates the link between Intellectual Capital (IC) and Open Innovation (OI). Scholars worldwide consider the topics as standing alone and so they give scarce attention to the possible link between them. Managerial experiences (and few theoretical contributions), instead, hypothesize a significant role that IC can play over OI processes in order make them successful.

Design/methodology/approach: The methodology of a single case study is used to investigate the link between IC and OI. In particular, an OI process managed by a global company, LEGO, and named *Mindstorms* is rebuilt and analysed herein.

Findings: Intermediate results achieved by LEGO through its OI process were unsuccessful since the company had not developed its own IC (made up of relational, human and structural capital). The subsequent development of IC, instead, has driven to successful results. This suggests that if companies do not develop their IC before launching OI processes, then these processes might be not successful.

Research limitations/implications: One limitation is the use of a single case study. Despite this, the present article is a warning for all the companies: before launching OI processes they need to develop their IC.

Originality/value: To the best knowledge of the authors, this is one of the first works that deepens the investigation of the link between IC and OI. Very often, scholars investigating IC shyly refer to OI, without mentioning it, while the scholars investigating OI allude to IC, without citing it. In this study, IC and OI are investigated together.

Keywords: intellectual capital; open innovation; human capital; structural capital; relational capital; longitudinal case study.

Paper type: Case study.

1. Introduction

Management scholars consider Intellectual Capital (IC) and Open Innovation (OI) as two standing alone fields of research. Generally speaking, when management scholars refer to IC they consider all the intangible resources companies can leverage on in order to attain and sustain their competitive advantage in the market (Galbraith, 1969; Bontis, 1996, 1998; Sveiby, 1997; Carayannis et al., 2014). At the same time, when they refer to OI they pay attention on inbound and outbound knowledge flows that can support and foster companies' innovation processes (Chesbrough, 2003; Gassman et al., 2010).

Over the last decade, some scholars have shyly suspected and investigated the existence of a link between IC and OI (Henkel, 2006; Elmquist et al., 2009; Michelino et al., 2014; Uziene, 2015; Barrena-Martínez et al., 2019; Najar et al., 2020). In particular, Elmquist et al. (2009) recall and support Henkel's view (2006) by underlying the role that IC and OI play in the field of intellectual property. Michelino et al. (2014) leverage IC to test and measure OI. Uziene (2015) argues that IC and OI are related topics since OI processes – concerning inbound and outbound knowledge flows – affect all the resources hold by a company, including the intangible ones, i.e. IC. Barrena-Martínez et al. (2019) propose integrating IC and OI while Najar et al. (2020) investigate the impact of IC on OI. However, despite the above studies, the link between IC and OI still results unrevealed. Undoubtedly it results that management scholars have not fully investigated the link between IC and OI and the implications that this link can have on firms' performance.

In order to fill in this gap, the paper is structured as follows. In section two, there is an extensive review of management literature focused on IC and on OI separately. After that, the research hypotheses rooted in dedicated literature are presented. In section three, the research method is defined. The decision to use a single case study methodology is due to the fact that LEGO Group is a global well-known company producing the so-famous bricks. In particular, LEGO case study is divided into two phases: the first when Lego launches the project named *Mindstorms*, and the second when LEGO launches the “*right to hack*” to *Mindstorms* license. In section four, some reflections about LEGO case study are presented and discussed. In the last section, after underlining the main limitations of the study, some implications for companies are discussed and some implications for management researchers are suggested in order to address the proceeding of future research.

2. Literature review

2.1 Intellectual Capital

IC stands for a set of intangible resources that companies can leverage on in order to attain and sustain their competitive advantage in the market (Galbraith, 1969). Over the years, the concept has been enlarged or enriched, modified or compressed in order to make it as fitting as possible with cognitive aims pursued – at each time – by academics, top managers, consultants and practitioners.

Brooking (1996), for example, maintains that IC is made up of four components. They are market, human, intellectual and infrastructural capitals. Market capital refers to brand, positioning, and distribution and it stands for the power that companies exert in the marketplace. Human capital is related to problem solving capacity, leadership and creativity that employees hold. Intellectual capital (i.e. patents, copyright and trademarks) stands for the intangible resources that companies can protect through legal mechanisms. Eventually, infrastructural capital represents the management philosophy and culture shared inside the company.

Some scholars (Sveiby, 1997; Roos *et al.*, 1997; Stewart, 1997; Bontis *et al.*, 2000) compress the concept of IC by assuming that it is made up of customer capital, structural and human capital while McElroy (2002) enriches the concept by replacing customer capital with social capital. The OECD (1999) proposes an even more compressed classification of IC by assuming that it is made up of structural and human capital. By the former, the OECD refers to software systems

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3 and to networks consequently developed that companies can leverage on in order to compete in the
4 market. By the latter, the OECD refers to all the resources available for ventures. These resources
5 can be both internal and external. Recently, some scholars (Khalique *et al.*, 2011, 2015) have
6 enlarged again the concept by considering six kinds of intellectual capital: human, customer,
7 structural, social, technological and spiritual capital. Even if the debate on the components of IC is
8 still ongoing, most management scholars (Sullivan, 1999; Brennan and Connell, 2000; Petty and
9 Guthrie, 2000; Sanchez *et al.*, 2000; Roos *et al.*, 2001; Peña, 2002; Kaufmann and Schneider, 2004;
10 Boedker *et al.*, 2005; Hormiga *et al.*, 2011; Musteen and Ahsan, 2013; Dhar, 2019) share the idea
11 that IC is made up of three components: human, relational and structural capital. This view is the
12 one embraced in this paper and thus the three components are briefly analyzed in the following
13 lines.
14
15

16 Human capital refers to competences, attitudes and intellectual profile of the employees
17 working in companies. In particular, by competences there is a clear reference to knowledge and
18 capabilities, by attitudes there is a strong allusion to motivation and leadership and, eventually, by
19 intellectual profile there is a reference to intellectual agility, originality or flexibility. Because of the
20 relevance of employees for companies, it is easy to understand the importance that management
21 scholars attribute to human capital (Bontis, 1998; Bontis *et al.*, 1999, 2000; Khalique *et al.*, 2015;
22 Subramaniam and Youndt, 2005; Montequin *et al.*, 2006; Tovstiga and Tulugurova, 2007; Wu *et*
23 *al.*, 2008; Hsu and Fang, 2009; Pedro *et al.*, 2018; Dhar, 2019).

24 Since the contribution proposed by Granovetter (1985), it is largely accepted the idea that
25 companies need to be in contact and cooperate with other companies. Being in contact and
26 cooperating with other companies is a way for getting tangible and intangible resources that
27 companies are missing, and that they need in order to attain and sustain their competitive advantage
28 (Powell, 1990; Burt, 1992; Uzzi, 1997). In reference to IC theory, relational capital concerns
29 relationships established with stakeholders and the value discerning from them (Bontis, 2001;
30 Montequin *et al.*, 2006; Cabrita and Bontis, 2008; Wu *et al.*, 2008; Hsu and Fang, 2009; Pedro *et*
31 *al.*, 2018; Dhar, 2019).

32 Structural capital can be seen as the formalization of human and relation capitals developed
33 by companies. It comes to existence when companies convert human and relational capital into
34 something new (like organizational culture and procedures, or even patents) that does not depend
35 anymore on employees or stakeholders but belongs to the company itself (Sveiby, 1997; Bontis *et*
36 *al.*, 2000; Subramaniam and Youndt, 2005; Cabrita and Bontis, 2008; Wu *et al.*, 2008; Hsu and
37 Fang, 2009; Hormiga *et al.*, 2011; Pedro *et al.*, 2018; Dhar, 2019).

38 By embracing the idea that IC plays a relevant role in management studies, several scholars
39 have investigated its role in reference to several topics such as business performance (Ahmed *et al.*,
40 2019), to companies' reputation (Ulubeyli and Yorulmaz, 2019), to business incubators (Calza *et*
41 *al.*, 2014), to higher education (Kashyap and Agrawal, 2019) and to entrepreneurship (Peña, 2002;
42 Hayton, 2005; Hormiga *et al.*, 2011; Link and Ruhm, 2011; Musteen and Ahsan, 2013) and
43 achieved results always confirm the relevance of IC in management studies.
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49 2.2 Open Innovation

50 Since Chesbrough's seminal work (2003) about OI, management scholars have largely investigated
51 this topic of research. Some scholars have paid attention on the genesis (Enkel *et al.*, 2009; Loren,
52 2011) and the diffusion (Chesbrough and Crowther, 2006) of OI processes. Other scholars, instead,
53 have addressed their research efforts toward the impact that OI can have on companies' strategies
54 (Chesbrough and Appleyard, 2007; Kelley, 2011) or business models (Frankenberger *et al.*, 2014).
55 Most scholars have paid attention on the implementation of OI processes (Chesbrough, 2004).

56 In reference to the implementation of OI processes, attention has been addressed toward
57 leadership (Heim, 2011) and soft skills (Martino and Bartolone, 2011), crowd selection (Hopkins,
58 2011; Phillips, 2011) and motivations (Carpenter, 2011), absorption of in-bound knowledge
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3 (Scuotto et al., 2019; Matricano et al, 2019) and web applications that can support OI (Rayna and
4 Striukova, 2015). Eventually attention has also been addressed toward the most common mistakes
5 that should be avoided (Gaule, 2011). Still other scholars have tried to foresee the possible
6 developments of OI (Gassman et al., 2010; Shapiro, 2011; Chesbrough, 2012).

7
8 In line with most management scholars, attention is paid on the aspects linked to the
9 implementation of IO processes (Chesbrough, 2004) **in the following lines**. As underlined by Heim
10 (2011), top managers are compelled to foresee customers' needs and desires in advance. In this
11 vein, according to the scholar, top managers are expected to manage them in the best way possible.
12 They need to find the right people who (both inside and outside the company) are expected to join
13 the OI process; to define the processes to be carried out; to shape the organization (make little but
14 required changes, if necessary) and – strictly connected to the previous point – they need to define
15 the tools, instruments and actions able to support the above-cited processes.

16
17 In particular, attention needs to be paid over soft skills (Martino and Bartolone, 2011) held
18 by human resources. By soft skills, the scholars refer to ability of making the process appealing
19 both for insiders and outsiders the company, communicating, building and maintaining good
20 relationships, tolerating uncertainty and being optimists. These soft skills are the necessary premise
21 to develop three categories of dynamic capabilities (Teece et al., 1997; Teece, 2007) inside the
22 company: **1) sensing and shaping opportunities and threats; 2) seizing opportunities; 3) and**
23 **reconfiguring assets and organizational structure.**

24
25 Selection (Hopkins, 2011; Phillips, 2011) and motivation (Carpenter, 2011) of the right
26 crowd are two more critical challenges in OI processes. As for selection, in order to make the OI
27 process as successful as possible, it would be great to involve who has “*high domain knowledge*”
28 (Hopkins, 2011, p. 19) and who has not it but – on the contrary – has “*high creative skills*” (*ibidem*).
29 Of course, it is not always possible to know in advance if one has domain knowledge or creativity.
30 Thus, it can be difficult to select the right crowd. In this vein, it could be useful to offer some
31 incentives, which can be financial or less tangible (Hopkins, 2011), in order to stimulate the crowd.
32 Of course, to determine the right incentive in order to attract the right crowd is difficult as well.

33
34 Another critical aspect concerning the implementation of OI processes deals with web
35 applications (Rayna and Striukova, 2015). Their relevance is constantly growing for at least two
36 reasons. The first, from the company perspective, is that web applications can minimize costs and
37 maximize knowledge flows (Whelan et al., 2010). In other words, they require minimum
38 investments and they can yield maximum benefits. The second, from the crowd perspective, is that
39 web applications facilitate interaction and communication with the company.

40
41 **According to the above, it is clear that implementing and managing OI processed is risky**
42 **(Gaule, 2011) and that top managers need to pay attention on all the firms-related intangible aspects**
43 **since they can determine successful or unsuccessful OI processes (Kratzer et al., 2017; Candelo et**
44 **al., 2018; Gruenhagen and Parker, 2020).**

45 46 47 48 *2.3 OI e IC: the missing link*

49 **The above literature reviews (respectively about IC and OI) suggest the idea that IC and OI are two**
50 **different, standing alone fields of research. It is largely shared the idea that scholars investigating IC**
51 **(Petty and Guthrie, 2000; Sanchez et al., 2000; Roos et al., 2001; Peña, 2002; Kaufmann and**
52 **Schneider, 2004; Boedker et al., 2005; Hormiga et al., 2011; Musteen and Ahsan, 2013; Dhar,**
53 **2019) underline the relevance of intangible resources (human, relational and structural capital) that**
54 **companies can leverage on in order to attain and sustain their competitive advantage. At the same**
55 **time, it is confirmed that scholars investigating OI (Enkel et al., 2009; Loren, 2011; Chesbrough**
56 **and Crowther, 2006; Chesbrough and Appleyard, 2007; Kelley, 2011; Kratzer et al., 2017; Candelo**
57 **et al., 2018; Gruenhagen and Parker, 2020) highlight how inbound and outbound knowledge flows**
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3 can support and foster companies' innovation processes. In sum, management studies, respectively
4 focused on IC and OI, seem to proceed along quite distinct trajectories.

5 At this stage, some reflections are needed. Scholars focusing on IC consider human,
6 relational and structural capital as variables able to affect business performance (Ahmed et al.,
7 2019), companies' reputation (Ulubeyli and Yorulmaz, 2019), and entrepreneurship (Peña, 2002;
8 Hayton, 2005; Hormiga et al., 2011; Link and Ruhm, 2011; Musteen and Ahsan, 2013; Matricano,
9 2016). Scholars focusing on OI (Kratzer et al., 2017; Candelo et al., 2018; Gruenhagen and Parker,
10 2020) pay attention on the inbound and outbound knowledge flows that can support and foster
11 companies' innovation processes, without clarifying the variables playing a certain role over these
12 processes. At this stage one question spontaneously arises: is it possible to hypothesize a link
13 between IC and OI? Put simply, if human, relational, and structural capitals are resources that play a
14 relevant role in management studies (by affecting business performance, companies' reputation, and
15 entrepreneurship), is it possible to assume that they can affect OI processes as well? Can OI
16 processes be used as framework including the main components of IC (human, relational, and
17 structural capital)?

18 As a matter of fact, from an extensive literature review it results that some scholars have
19 already investigated IC and OI together (Henkel, 2006; Elmquist et al., 2009; Michelino et al.,
20 2014; Uziene, 2015; Agostini and Nosella, 2017; Hussinki et al., 2017; Barrena-Martínez et al.,
21 2019; Najar et al., 2020) and that they have already hypothesized a possible link between IC and
22 OI. These contributions explicitly argue that is worth investigating IC and OI together since some
23 connections between IC and OI are expected to exist. In particular, Barrena-Martínez et al. (2019)
24 invite scholars to consider them as two join forces in management field.

25 Among the above-cited contributions, Najar et al. (2020) propose a theoretical framework
26 rooted in the Resource Based View (RBV) – originally proposed by Penrose (1959) and then
27 developed by other leading scholars (Barney 1991; Teece et al. 1997). According to this framework,
28 certain resources affect the competitive advantage of the firms and so their performance. Najar et al.
29 (2020) assume that IC main components can be considered as idiosyncratic resources affecting
30 OI processes. In their view, only if firms hold and manage these components of IC in a proper way,
31 then these firms can improve the results of OI processes. Specifically, IC components – and, in
32 particular, the way they are managed, combined and exploited – are expected to have a significant
33 role in OI processes. In line with the above contributions, it is undeniable that some steps have been
34 taken in order to investigate and disclose the link between IC and OI. In this vein, the research
35 questions at the basis of this paper are:

36 **RQ1:** Does IC play any role over OI processes?

37 **RQ2:** Can IC be an idiosyncratic resource determining the success of OI processes?

38 In line with the research questions presented above, the present paper aims to investigate a
39 supposed link between IC and OI. The idea at the basis of the current research is that studies about
40 IC consider its main components (human, relational, and structural capital) as resources, factors that
41 can affect innovation processes launched and managed by firms while studies about OI describe the
42 framework in which the above factors might play a role. In line with the contribution authored by
43 Barrena-Martínez et al. (2019), it is conjectured that the main components of IC can have an impact
44 on OI processes. Put simply, it is assumed that the main components of IC can foster and support,
45 delay or impede OI processes.

3. Research methodology and design

3.1 Research methodology and design

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3 For the present paper, the methodology of single case study is adopted. The origins of this
4 methodology can be dated back at the end of 1980s when Eisenhardt (1989) proposed to build
5 theories from case study research. Over time, several scholars have then confirmed the relevance
6 assumed by this methodology (Dyer and Wilkins, 1991; Yin, 1994; Flyvbjerg, 2006; Eisenhardt and
7 Graebner, 2007; Lee *et al.*, 2007; Baxter and Jack, 2008). Two main conditions lie at the base of the
8 appropriateness of the choice of single case study as research method. First, a single case study is
9 appropriate when there are no copious theoretical and/or empirical investigations that can be used
10 as references (Glaser and Strauss, 1967). Second, the selected case needs to embody some
11 characteristics that make it critical (Yin, 1994). In this research, both these conditions are met. In
12 reference to the first condition, the above literature review has shown that the link between IC and
13 OI is still an embryonic field of research – previous contributions that investigated this issue are
14 few. In reference to the second, in this paper the attention is going to be paid over LEGO
15 *Mindstorms*, one of many innovation projects launched by Lego (such as Lego Architecture, Lego
16 Ideas, Lego Games, Life of George, Cuusoo and Fusion over the last years). At least three
17 characteristics of this project allow considering it as a critical case. The first is the high level of
18 innovativeness and of interest that this project embodies. LEGO *Mindstorms*, in fact, has also been
19 investigated in reference to other fields of research: Klassner (2002) evaluated its suitability for
20 artificial intelligence and robotics courses; Nguyen (2013) investigated its programming language
21 usability and Chao (2012) studied its influence on students creativity. This discloses that the case,
22 because of its implementation and of its impact, can be used to investigate several managerial
23 aspects. The second characteristic is related to the involvement of the company as a whole. As it
24 will be shown in the next pages, in fact, in the LEGO *Mindstorms* case external sources are
25 combined with internal ones, internal processes are modified, and top managers are involved. This
26 means that many units of the company have been affected by this project and so links and cause-
27 effect relationship can be fruitfully investigated. The third characteristic deals with the dynamics of
28 the project. The fact that the process did not proceed as established (it was not successful in the
29 beginning, but it was in the end) means that important changes have been introduced and this makes
30 it a perfect a case for a single case study. Thus, given the uniqueness and the relevance of LEGO
31 *Mindstorms* project, we feel confident that we selected a critical case.

32
33 Overall, the high level of innovativeness of the project together with the involvement of the
34 company as a whole (in terms of external sources, internal processes and top managers) makes
35 LEGO *Mindstorms* an interesting case also regarding the link between OI and IC. In fact, the aim of
36 generating and adopting innovative ideas leveraging external sources directly recalls OI processes
37 while the involvement of various intangible resources of the company in the management and
38 implementation of the project refers to the IC components. Thus, focusing on LEGO project
39 provides an opportunity to study the links between OI and IC.

40
41 Obviously, some methodological issues might deal with the choice to leverage on single
42 case studies. Baxter and Jack (2008), who recall the seminal work published by Yin (2003), invite
43 to question about caution required when conducting a single case study and about difficulties that
44 can emerge when reporting it. Management scholars underline the difficulties in generalizing
45 achieved results and in proposing theories or models leveraging a single case study (Dyer and
46 Wilkins, 1991; Eisenhardt and Graebner, 2007).

47
48 At this stage, before focusing on LEGO *Mindstorms*, however, it is appropriate to specify
49 the origin of collected data and to investigate the story of LEGO in order to understand the
50 company's relationships and linkages with innovation.

51
52 Data and information on LEGO *Mindstorms* have been collected in a retrospective way
53 starting from the inception of the project (1998). Collected data come from several sources. Some
54 of them derive from chats and forums with key speakers belonging to the community of Adult Fans
55 Of LEGO (AFOLs). These data give major insights about the case of LEGO. Others derive from
56 websites (Davis, 2013), books (Robertson and Breen, 2013) and papers (Klassner, 2002; Antorini et

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3 al., 2012; Chao, 2012; Jennings, 2019) concerning LEGO. They all are secondary data that enrich,
4 complete and clarify the analysis. Because of used sources, noticeable interest has been paid to
5 ethnography (Dilger et al., 2019; vom Lehn, 2019) and – above all – to chat-room or web-based
6 ethnography (Shoham, 2004; Garcia et al., 2009; Hoffman and Novak, 2009). In particular, the
7 focus of attention is addressed towards the scientific description of individuals and their cultures.
8 Accordingly, in-depth content analyses (Neuendorf, 2016; Gaur and Kumar, 2018) have been
9 carried out in reference to texts, chat-rooms and forums (Thelwall et al., 2010; Pollach, 2012). This
10 allows identifying and highlighting specific written parts (i.e., statements, pronouncements, claims)
11 that disclose the factual approach to the observed phenomenon. In line with Rowlinson et al.
12 (2014), these written parts have been analysed as a means of interpreting the wider culture, trying to
13 understand the historical actors under investigation on their own terms.

14
15
16 The description of the origin and the nature of collected data allows to better specifying the
17 method adopted in this work. Since the LEGO *Mindstorms* case study is concerned with lived
18 experiences and focuses on contextual distinctiveness of the research context (the individual case
19 studied), it can be considered a “micro-history” (Miskell, 2018). The value of these studies “lies in
20 the peculiarities and complexities of the individual cases studied, which allow for valuable insights
21 to be generated into individual (and organizational) behaviours” (*ibidem*, 217). The generation of
22 these insights is consistent with the widespread idea that a single case study can be used to build
23 and/or corroborate theoretical developments (Eisenhardt, 1989; Dyer and Wilkins, 1991; Yin,
24 1994).

25
26 Eventually, it has been underlined that the investigation of the link existing between IC and
27 OI is at the preliminary stage. Since exploratory research takes place when problems and issues
28 under investigation are in a preliminary stage, our study can be considered as explorative (Babbie,
29 2007).

3.2 *The story of Lego*

30
31
32 As for the story of the company, the origins of Lego can be dated back in 1934, when Ole Kirk
33 Christiansen, a carpenter based in Billund (Denmark), launched his company. By mixing two
34 Danish words “*leg*” and “*godt*” (literally meaning “play” and “well”), it derived the name of the
35 company. Ole Kirk Christiansen had already a woodworking business, started in 1916. In 1930, he
36 decided to focus on the production of children’s toys.

37
38
39 Over the 1940s, LEGO underwent a very deep change by replacing the wood made toys
40 with plastic toys. For the first time, children could assemble, disassemble, re-assemble and so on
41 their plastic trucks. Later on, in 1949, after buying the patent from an English company named
42 Kiddicraft, LEGO started working on interlocking bricks that were sold on the market only in 1953.

43
44 At the beginning, interlocking bricks were not fully accepted by customers. The main reason
45 was that parents wanted their children to play with safe toys (made up of healthy materials, like
46 wood, and not of plastic) and so the shift was not so fast. Ole Kirk Christiansen, however, decided
47 to go on with interlocking bricks. In this vein, after patenting the basic brick (in 1958) that could be
48 assembled, disassembled and re-assembled even more easily, LEGO decided to stop the production
49 of wood made toys and to focus only on plastic interlocking bricks. Since then, the best cycle of
50 LEGO story started and it lasted for a very long time.

51
52 By the end of 1990s, instead, it begun the worst cycle of Lego story since competitive
53 dynamics in the toys market totally changed because of three main aspects. First, new competitors
54 entered the market offering similar products at a lower price. As a consequence, LEGO started
55 losing its primary position in the market. Second, LEGO realized that its supply chain was too
56 expensive. Based on a strategy of differentiation, in fact, too many items were offered and, of
57 course, to produce all of them caused diseconomies of scale (Andersen and Gadde, 2019). Third,
58 children worldwide were asking for more technological plays (like videogames). Interlocking bricks
59 did not look appealing any more. Based on these premises, in 2003, LEGO reported a loss of 240

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3 millions US dollars. Analysts were sure that LEGO was destined to fail, but family management
4 was not. For this reason, LEGO realized a huge investment of more than 170 million US dollars.
5 Contemporarily, a radical change in the leadership was promoted: instead of another family
6 member, an external CEO (Jørgen Vig Knudstorp) was assumed. In this new course, LEGO focused
7 on cost reduction and on a new product development strategy (involving users as designers) in order
8 to face an always-increasing competition. This new course was – and actually it is still being –
9 successful. In fact LEGO reached again a positive financial performance in 2007 and financial
10 results are more than satisfying nowadays.
11
12

13 3.3 Phase 1: Lego launches Mindstorms RIS

14 One of the choices that allowed LEGO to be successful again was its new product development
15 strategy involving users as designers.
16

17 The origins of this new approach can be dated back in 1998 when the projects entitled
18 *Mindstorms Robotic Invention System (Mindstorms RIS)* was launched. In order to involve users as
19 designers, a computer scientist from MIT, Seymour Papert, and some of his graduated students
20 were asked to design a programmable robot. The robot designed by the graduate students (they are
21 outsiders of the company, but they are potential customers for Lego) was commercialized.
22 However, LEGO top managers realized that other potential customers might not have been able to
23 use the programming language adopted by MIT professors and students because of its complexity.
24 For this reason, LEGO top managers commissioned another software, more simple than the
25 previous one, to National Instruments, in order to involve as many customers as possible.
26

27 LEGO *Mindstorms* was a new set of LEGO robots centred on a programmable microchip
28 that allowed a long range of movements and behaviours. The product became an instant hit and
29 80,000 sets were sold in the first three weeks so that the New York Times defined it as a “*new*
30 *revolution*” for LEGO (Mindell et al., 2000, pg. 3).
31

32 Despite the positive premises, something was going wrong on the market. Within two/three
33 weeks after the launch of LEGO *Mindstorms*, adult hackers started reverse engineering the
34 firmware and started developing another software that could be used to program these robots.
35 Suddenly LEGO top managers realized that a growing number of users were “*hacking*” the software
36 and developing application and extensions to the original code.
37

38 From LEGO top managers’ perspective, the news was unexpected for two main reasons. The
39 first reason was that more than 1,000 users were hacking the original software launched by LEGO.
40 Despite the legal aspects (on which attention is going to be paid in the next lines), LEGO top
41 managers thus realized that a big community of users had an unexpected need to satisfy. They were
42 so interested in LEGO products to the extent that they were hacking the original software. This also
43 meant that more projects than expected were going to be proposed about LEGO products. Surely,
44 this was unexpected but positive news. The second and negative reason, instead, was that LEGO
45 top managers had selected the wrong target when launching LEGO *Mindstorms*. In fact, users
46 cracking the code and making their own toys and applications were not children, but adults. They
47 were aged over 18 years old, they knew how to crack a code and to hacker a software. This meant
48 that the main target identified by LEGO top management was not appropriate.
49

50 Immediately, LEGO top managers reacted in a defensive way by arguing that users were
51 expected only to consume, not to develop, LEGO products. In-house product developers were
52 expected to do this. As rebuilt by Robertson and Breen (2013, pg. 182): “*Not surprisingly, some*
53 *LEGO managers fretted that the hacking breakout, which spread across the Internet in a matter of*
54 *weeks, would lead to people pirating the code and creating robotics kits that would bit into the*
55 *Mindstorms market, which was still in its infancy. The company’s lawyers were even more alarmed.*
56 *They pushed to hit the hackers with cease-and-desist letters ordering them to stop mucking with the*
57 *company’s intellectual property*”. Later on, the same LEGO top managers were not sure about what
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they had to do in reference to LEGO *Mindstorms* since there were too many discrepancies between defined and implemented aspects of phase 1 of *Mindstorm* project (see Table 1).

Table 1. Discrepancies between defined and implemented aspects of phase 1 of *Mindstorm* project.

| Topics... | ...defined (before starting the project) | ... and implemented (after starting the project) |
|-----------------|--|--|
| Software | A simple software was thought to let customers design their robots | Customers hacked the simple software and started designing complex/unexpected robots |
| People involved | Several customers paid for the original software | Several customers downloaded the hacked software |
| Outcomes | Proposals of new robots by a selected target | Proposals of new robots by a not selected target, with several and different ideas |

Source: authors' elaboration.

3.4 Phase 2: LEGO launches a "right to hack" to *Mindstorms* license

After carrying out proper evaluations, LEGO top managers had two main alternatives about the proceeding of the project *Mindstorms*. On the one hand, supported by the company's lawyers, LEGO top managers were inclined to stop hackers and protect the original code and software launched by LEGO's in-house product developers. On the other hand, supported by the members of *Mindstorms* development team, LEGO top managers tried to read and interpret what was happening from a market perspective.

From the development team perspective, LEGO top managers could learn three main lessons. First, as highlighted, LEGO top managers had selected the wrong target. The project was thought and implemented in reference to children (aged between seven and ten years old) but – instead – the users were adults (aged over eighteen) who could crack a code and hacker the software and, above all, who were already fans of LEGO. Second, top managers had to admit that original and creative ideas were coming from users (outside the company) and not from in-house product developers. The former were improving what the latter had done before in order to make LEGO products more fitting with their desires and expectations. The third, and maybe the most important one, was that LEGO realized that a community of adult users (aged over eighteen) were really interested in improving LEGO products. As noticed by Robertson and Breen (2013, pp. 182-183), in fact, "unlike the LEGO Group's lawyers, the *Mindstorms* development team believed that the hacking signalled that they had come up with a winner. Adult hobbyists wouldn't take the trouble to dig into the brick and write alternative code if they didn't think the *Mindstorms* platform was worth developing".

By comparing the approaches shown by lawyers and by members of development team, LEGO top managers made up their mind. Unexpectedly, they decided to bit on what was happening and to radically change their strategy. They decided to make available source code, run competitions and – above all – they put a "right to hack" to the *Mindstorms* software license. The view sponsored by members of development team prevailed over the one promoted by lawyers. The reason why this happened has never been communicated officially. According to analysts and consultants, LEGO top managers realized that "a sizeable number of adults (mostly men) were once again beckoned by the brick" (Robertson and Breen, 2013, p. 130). Over the decades, in fact, many kids outgrown with LEGO were still interested in LEGO bricks. The creation of some dedicated websites (brickshelf.com and bricklink.com) favoured the exchanges of insights, ideas and projects among Adult Fans Of LEGO (AFOLs) that, as a matter of fact, are the "hard-core LEGO

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3 customers” (*ibidem*, p. 131). LEGO top managers realized that there was a community of adult
4 users that had developed around LEGO *Mindstorms*.

5
6 The act of hacking *Mindstorms* software was a clear warning for LEGO top managers. Adult
7 users had needs and desires that were totally different from children. They were asking for new
8 products able to satisfy their more sophisticated expectations but LEGO was ignoring them because
9 they were not part of its main target. The launch of the “*right to hack*” was a clear signal of the new
10 approach toward adults.

11 According to the ongoing of *Mindstorms* project, the new approach that LEGO has adopted
12 towards AFOLs has proven to be successful. As a consequence, in fact, in 2006 a new project
13 named *Mindstorms NXT* was launched among the AFOLs. In reference to *Mindstorms NXT*, LEGO
14 decided to establish a *Mindstorms* User Panel (MUP). Only key developers - in particular, users and
15 designers - could work on new LEGO projects since the beginning. Of course, they were required to
16 abide by a non-disclosure agreement. As for the incentives, the selected key developers could
17 receive some LEGO products and *Mindstorms NXT* prototypes for free.
18
19

20 21 **4. Discussion**

22 LEGO *Mindstorms* project is a very interesting case in management studies, and particularly in the
23 field of OI. The way LEGO launched the project, the risk of failure because of users hacking the
24 software, the solution sponsored by members of development team and shared by LEGO top
25 managers and the further ongoing of the project allow speculating on the link that can exist between
26 IC and OI. In this vein, the following subsections (in particular 4.3) are useful to bring the concepts
27 of IC and OI together.
28

29 *4.1 Analysis of Phase 1*

30
31 In 1998, when the project *Mindstorms* was launched, LEGO top managers did not seem so aware of
32 what they were going to do. As noticed by Robertson and Breen (2013, p. 213), before the project –
33 and actually even when the project was implemented – LEGO top managers were confident of the
34 company’s traditional vision according to which “*unsolicited ideas*” were not accepted. In other
35 words, new ideas about new products had to be thought and developed in-house. Only the
36 development team was involved in these activities. For this reasons, when the project *Mindstorms*
37 was launched, LEGO top managers were not interested in selecting a crowd to involve (as usual, the
38 project was addressed towards children aged between seven and ten) and in developing the
39 appropriate base of skills and capabilities able to decode outside in flows of knowledge.
40

41 By reading the above lines in the light of IC, then, it is clear that LEGO top managers did
42 not seek for external opportunities since there was an internal team dedicated to this. For this
43 reason, LEGO did not spend so much time in developing their relational capital. The usual target
44 was expected to buy the license and play with it. No further implications were related to the launch
45 of *Mindstorms* (again, the product became an instant hit and that was what LEGO top managers
46 wanted). Eventually, LEGO top managers did not expect any ideas or insights coming back from
47 crowd. For this reason, LEGO top managers did not spend so much time in developing their
48 relational capital. On a dedicated forum, an AFOL argues: “*The usual target was expected to buy
49 the license and play with it. No further implications were related to the launch of Mindstorms*”.
50

51
52 LEGO top managers did not expect any ideas or insights coming back from crowd. For this
53 reason, members of development team were not expected to be ready to decode what the crowd
54 wanted by LEGO.

55 Over phase 1, LEGO top managers totally ignored that new opportunities could come from
56 the outside (structural capital), that other targets could be involved in the innovation process
57 (relational capital) and that members of development team had to be ready to interact with external
58 promoters of new ideas (human capital), see Table 2. As argued by Davis (2013), “*LEGO actually
59 provides one of the great examples on how not to innovate*” during phase 1 of *Mindstorms* project.
60

Table 2. Results emerging from the analysis of Phase 1.

| |
|---|
| Over Phase 1, LEGO top managers totally ignored that... |
| new opportunities could come from the outside (structural capital) |
| other targets could be involved in the innovation process (relational capital) |
| members of development team had to be ready to interact with external promoters of new ideas (human capital) |

Source: authors' elaboration.

4.2 Analysis of Phase 2

The act of hacking *Mindstorms* software has caused an impressive change in LEGO's approach to innovation. In rebuilding and analyzing *Mindstorms* project, Robertson and Breen (2013, pg. 183) underline that "LEGO switched from contemplating lawsuits against hackers to actively encouraging them to reinvent *Mindstorms* in ways that LEGO itself had never imagined". The merits of this can be attributed to the members of development team that (against the view supported by the company's lawyers) sponsored the openness of LEGO innovation process and to LEGO top managers who decided to share their vision. According to this, LEGO top managers decided to encourage the proposal of new products (even if due to the hacking of the original software) instead of trying to control or restrict them. New unsolicited ideas were welcome and, actually, were even stimulated by the company itself. In order to foster this process, LEGO top managers decided to refer to several targets. On a dedicated website, An AFOL declares: "Even if *Mindstorms* was born in reference to children, we (adults) could join it as well".

Adults, rather than children, had proven to be more inclined to design and co-create new products since they are "hard-core LEGO customers" (Robertson and Breen, 2013, pg. 130). In this vein, LEGO started exploring a broader range of innovation sources. Eventually, in order to bring users' external ideas into the company, members of development team involved users themselves in annual conferences and meetings in order to interact with them and made AFOLs part of LEGO innovation process. Nowadays there are more than 20 million AFOLs in the world who are very close to the company and it seems possible to maintain that they are the primary source of innovations. As expressed by an AFOL on a platform: "It is easy to understand that the new approach adopted by LEGO after launching the right to hack to *Mindstorms* license is totally different now".

The new approach adopted by LEGO after launching the "right to hack" to *Mindstorms* license is totally different from the previous one (see Fig. 1). As underlined by Lindegaard (2013), in fact, LEGO has undergone very deep changes. In reference to its structural capital, LEGO has gone from "select strengths put to play" to "full potential realized strengths". In reference to its relational capital LEGO has moved from "creativity from the few" toward "systematic creativity from the many" and from "succeeding together" toward "succeeding more together with more people". This is also underlined by Antorini et al. (2012). Eventually, in reference to its human capital, LEGO has gone from "a relatively closed culture" toward "a culture of openness". Involvement of customers was a preminent task to achieve (Andersen and Gadde, 2019).

The ones above are radical changes that cannot be ignored since they mainly deal with organizational culture (Zwick et al., 2008; Hatch and Schultz, 2010). According to a previous study (Di Minin et al., 2016, p. 44), one of the main risks emerging in most of industries is that "shared cultures are extremely difficult to achieve and preserve". LEGO has really faced this risk. When *Mindstorms* project was launched, in fact, organizational culture was still the one adopted when the company was launched (more that seventy years before). Another AFOL, in a chat-room, argues:

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3 “Our act of hacking the license and the software has compelled LEGO to upgrade and modify their
4 innovation culture in a fast and radical way”.

5
6
7 - INSERT FIGURE 1 ABOUT HERE -

8 9 4.3 Revealing the link between intellectual capital and open innovation processes

10
11 At this stage, it is possible to respond to the two research questions posed at the beginning of the
12 paper. LEGO *Mindstorms* project – and in particular the passage from phase 1 to 2 – shows that
13 human, relational and structural capitals play a significant role over OI processes and so a link
14 between IC and OI does exist. Management scholars investigating OI processes cannot ignore IC
15 and *vice versa*. Even if the terminology used really differs (see Table 3), concepts at the bases of IC
16 and OI are linked. Structural capital, cited in reference to IC literature, stands for new opportunities
17 that companies aspire to get to from the crowd; relational capital, the second component of IC,
18 clearly refers to the crowd involved in OI processes; eventually, the third component of IC, i.e.
19 human capital, represents competences, knowledge and skills that companies need to develop in
20 order to internalize ideas coming from the outside. So, according to the above, IC does play a role
21 over OI processes (the first research question).

22
23
24
25 Table 3. Similarities and differences between IC and OI studies.

| 26 Topics | 27 Labels/definitions assigned to 28 topics in reference to 29 IC literature | 30 Labels/definitions assigned to 31 topics in reference to 32 OI literature |
|-----------------------|--|--|
| 33 New opportunities | 34 Structural capital | 35 New ideas coming from the 36 crowd |
| 37 People involved | 38 Relational capital | 39 The whole crowd or specific 40 targets involved |
| 41 Internal knowledge | 42 Human capital | 43 Tools useful to decode ideas 44 coming from the outside |

45 Source: authors' elaboration.

46
47 After matching the components of IC with the main concepts of OI, it is possible to
48 investigate the role that IC plays over OI processes. As emerged by LEGO case study, companies
49 need to define their structural, relational and intellectual capitals in a proper way in order to
50 increase the chance of success of their OI processes (as it was for LEGO during phase 2). This
51 seems to suggest that IC plays a priority role over OI processes. In other words, if companies do not
52 develop their IC before OI processes are launched, then these processes might not be successful.
53 This result is in line with framework of RBV (Penrose, 1959) and so it seems reasonable to argue
54 that IC can be an idiosyncratic resource affecting the success of OI processes (the second research
55 question).

56 57 5. Limitations of the study, managerial implications, and future research

58
59 This paper falls in the list of contributions aiming to investigate the link existing between IC and OI
60 (Henkel, 2006; Elmquist et al., 2009; Užiene, 2015; Agostini and Nosella, 2017; Hussinki et al.,
2017; Barrena-Martínez et al., 2019). Results achieved through the above contributions – related to
manufacturing Spanish firms (Barrena-Martínez et al., 2019) or to micro firms and SMEs involved
in the production of machinery or instruments and located in Italy (Agostini and Nosella, 2017) –
confirm that connections between IC and OI exist and, in particular, it seems that OI has its

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3 foundations in the IC theory. IC, in fact, is expected to have an impact on OI processes. Thus, they
4 do support the idea that is worth investigating IC and OI together.

5
6 LEGO case study – in line with the above-cited studies – confirms that IC and OI concepts
7 are closer than expected and that IC plays a key role over OI processes. Accordingly, it is
8 reasonable to argue that even more cases about companies implementing OI processes are needed to
9 prove or deny our findings.

10 In this vein, after highlighting the main limitations of this study, some implications for
11 companies and management researchers are presented in the following lines.

13 *Limitations*

14 The main limitations of the present study are intrinsic with the methodology of case studies
15 (Eisenhardt, 1989; Yin, 1994). Some misunderstandings (Flyvbjerg, 2006) and questions (Baxter
16 and Jack, 2008) are generally referred to it. These misunderstandings and questions cannot be
17 managed, reduced or even eliminated in the short run. For this reason, readers need to be conscious
18 of the above limitations even if they also need to be aware that single case study methodology is the
19 best one that can be used to investigate a complex and unique phenomenon that is not going to take
20 place again according to a comprehensible format.

23 *Implications for managers and scholars and conclusions*

24 LEGO case study has major implications in terms of suggestions for companies aiming to
25 implement OI processes. By reading and analyzing the case study with a critical approach, in fact, it
26 seems that a link between IC and OI exists. Particularly, as emerged by LEGO case study, IC is pre-
27 requisite to implement successful OI processes. Companies should realize that IC is at the basis of
28 OI.

29 The final aim of OI processes is to support and foster companies' innovation processes
30 (Chesbrough, 2003; Gassman et al., 2010) that – in the long run – are going to be embodied by
31 companies in the form of organizational culture and procedures. Simply put, the final aim of OI
32 processes seems to be the development of structural capital (i.e. new ideas coming from the crowd).
33 Of course, companies that are more able to drag external knowledge and that understand earlier the
34 market needs will be able to offer a superior customer value but a managerial effort is required to
35 sustain the process (Badir et al., 2019).

36 In order to develop their structural capital, companies implementing OI need to manage the
37 whole process in the most effective way. Top managers need to be aware that inbound and
38 outbound knowledge flows can be more or less than expected (in terms of quantity), specialist or
39 unfocused (in terms of quality), difficult to decode or – on the contrary – they can be easily
40 accessible and fruitful. The fact that inbound and outbound knowledge flows can be more or less
41 than expected, specialist or unfocused, depends on the selection of the crowd for the OI process. A
42 targeted or non-targeted crowd can positively or negatively affect the results of OI processes. In
43 other words, a prerequisite to the launch of OI process seems to be the selection of relational
44 capital. At the same time, the fact that inbound and outbound knowledge flows can be difficult to
45 decode or easily accessible and fruitful seems to depend on the soft skills that employees working
46 in the companies hold. These soft skills seem to recall competences, attitudes, and intellectual
47 profile that employees are expected to have. This suggests that a prerequisite to the launch of OI
48 process seems to be the availability of human capital.

49 From the above, it is clear that companies should apprehend a twofold lesson. First, they
50 cannot underestimate the relevance of their IC (just like LEGO did during phase 1 of *Mindstorms*
51 project) if they aim to implement successful OI processes. Second, IC needs to be developed
52 according to an established order. For a start, companies need to clarify that they are trying to
53 develop their structural capital. They need to define whether they look for a new organizational
54 culture, original procedures or innovative products/services. Once clarified the aim to pursue, they

1
2
3 need to develop their relational capital. The selection of the right crowd to involve is a prerequisite
4 in order to get appropriate insights, ideas and knowledge. Eventually, in order to make the OI
5 process successful, companies need to have an appropriate human capital, able to decode inbound
6 knowledge flows.
7

8 Of course, LEGO case study has major implications in terms of suggestions for management
9 researchers as well. In particular, attention of management scholars should be addressed toward the
10 existence of the link between IC and OI.

11 First, worldwide management scholars are expected to propose new contributions able to
12 verify the link between IC and OI. As already said, the body of literature about this topic is not so
13 conspicuous (Henkel, 2006; Elmquist et al., 2009; Užiene, 2015; Agostini and Nosella, 2017;
14 Hussinki et al., 2017; Barrena-Martínez et al., 2019; Najar et al., 2020) and so more research is
15 evoked. Both qualitative and quantitative studies can be useful to strengthen this field of research
16 and make it accepted and shared by scholars.
17

18 Second, management scholars are expected to further investigate the link between IC and
19 OI. According to LEGO case study, IC is a pre-requisite to OI. If companies do not develop their
20 IC, OI processes are not going to be successful. This result differs from the result achieved by
21 Užiene (2015), arguing that OI processes affect all the resources hold by a company (including IC),
22 but is line with other and more recent contributions (Barrena-Martínez et al., 2019; Najar et al.,
23 2020) arguing that IC affects OI processes.
24

25 Because of the few cases available, an interesting avenue of future research might be to
26 investigate the influence relationship between IC and OI by linking it with the performance of the
27 OI processes. Quantitative studies that retrospectively try to link the direction of this relationship
28 with the (perceived and objective) performance of the OI efforts conducted by firms might be
29 appropriate.
30

31 Hopefully, other scholars could propose new contributions about the link between IC and OI
32 and add something to an emerging topic of research on which companies need to leverage more and
33 more in order to face an always increasing market competition.
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Figure 1.

Decisions about structural, relational and human capital over phase 1 and 2

