

# How to Prevent Crowdsourcing Disasters and Leverage Positive Side Effects of Open Innovation

Johann Füller, Katja Hutter and Niclas Kröger

**High rewards at high stakes** ✕ More knowledge, better understanding of needs, fresh ideas, solutions to unsolved problems – these are the traditional benefits organizations seek from crowdsourcing. Not all companies, however, are aware that while the gains can be high, the risks can also be substantial. Prior research suggests that about half of all crowdsourcing campaigns fail. Crowdsourcing contests may turn out to be a nightmare for the sponsoring organization when participants do not behave as envisioned. Some contests are hijacked, and participants start to bash, shame or ridicule a company instead of being cooperative and supportive. Often such “firestorms” – negative, highly emotional posts in social media – arise when management acts in undesirable ways from participant perspectives (see Box 1 for examples). On the other hand, there is more to gain from the practice than innovative ideas. Positive side benefits from crowdsourcing can involve increased brand awareness, well-established customer relationships, or an innovative brand image. The difference between disaster and victory depends on how well a company succeeds in handling its crowd.

## KEYWORDS

**Open Innovation, Contest, Fairness, Online Community, Conflict, Crowdsourcing**

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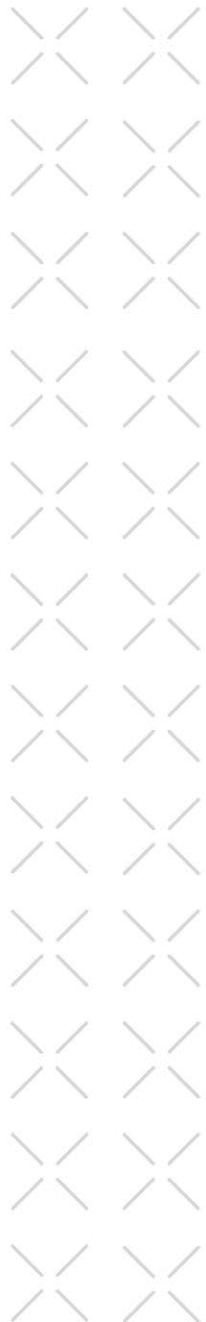
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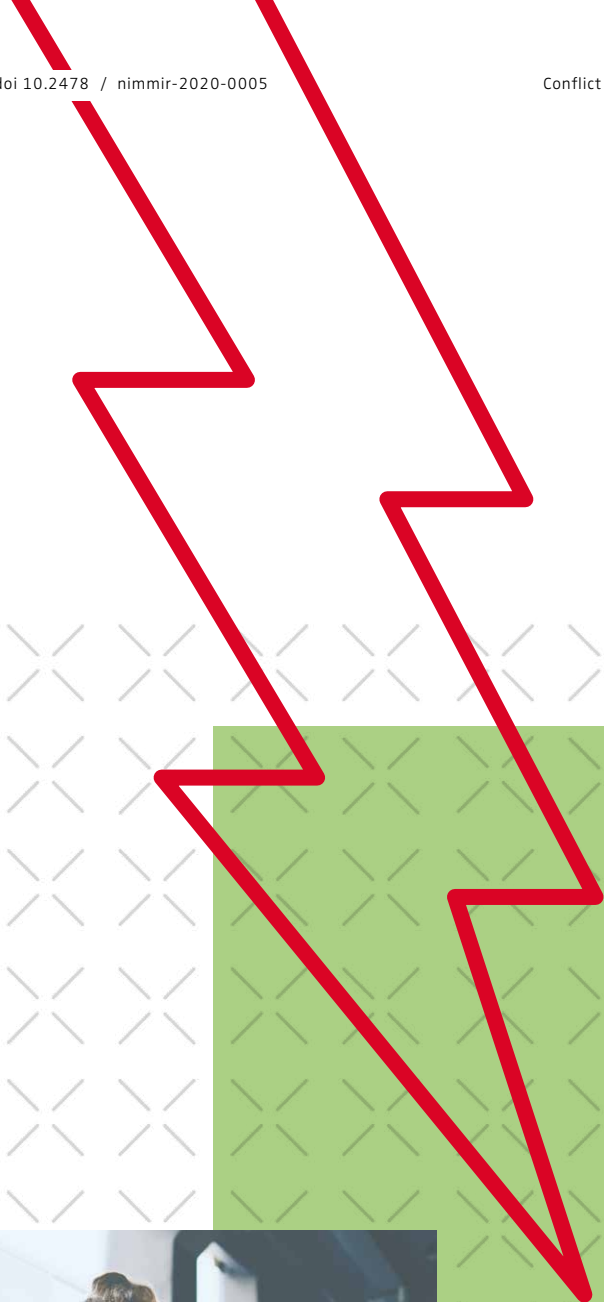
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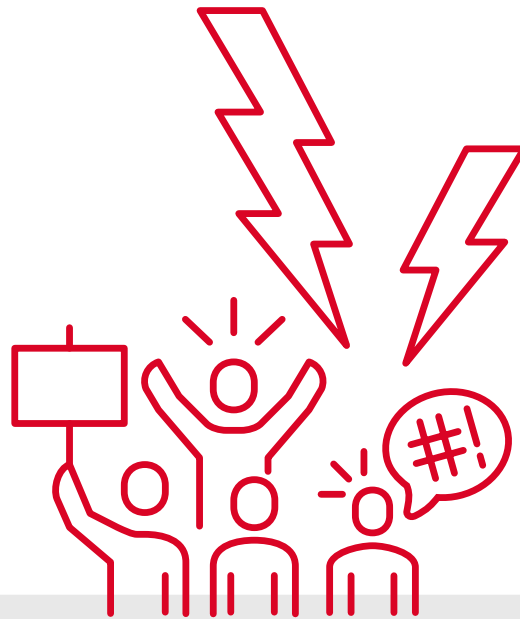
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To prevent “firestorms,” project sponsors need to insure fairness throughout their contests.





## BOX 1

## Beware of “firestorms”: Innovation Contest (Near-) Fails



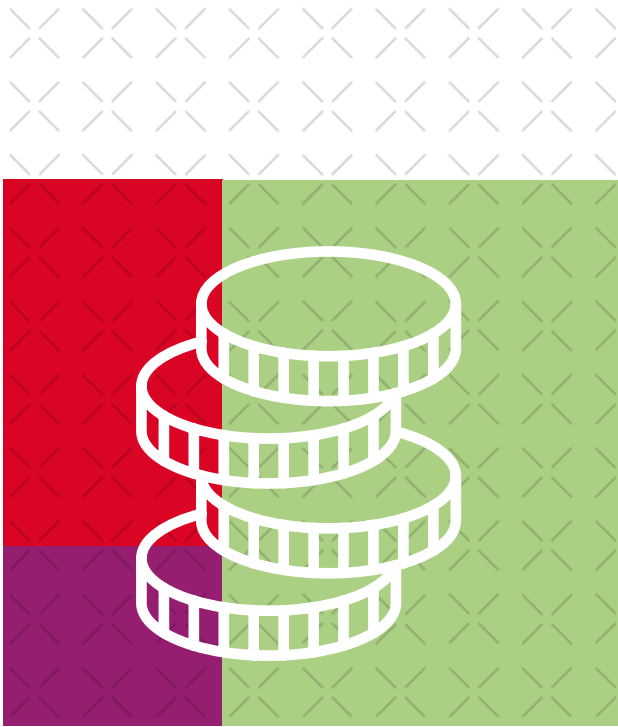
The notebook brand **Moleskine** caused a wave of indignation when asking designers – a significant part in their online community – to submit “free” designs and subrogate IP rights for a new blog logo. Outraged freelancers voiced their anger, feeling that their livelihoods were threatened. Some used their design skills to submit deformed Moleskine logos. Hundreds of community members expressed disagreement with the incentive scheme in more than 500 comments on the brand’s Facebook fan page and on Twitter. Thousands of customers openly declared their intent to boycott Moleskine.



In the case of **Pril**, participants felt betrayed when Henkel, a German detergent manufacturer, changed the rules for the winner selection process. Henkel had launched a web platform asking for label designs for detergent bottles. The design “Chicken Flavored Pril,” which was the community’s favorite submission, ultimately was not approved by the company. Instead, Henkel chose a design with lower community ratings. Participants felt overruled and engaged in active resistance, voicing and sharing their dissatisfaction on the Pril Facebook page and across the web. Henkel had to face a lasting PR debacle, including reports outside the community on German television and in major German online newspapers.



An example of conflict management that avoided the escalation of a firestorm is that of **SPAR**, one of Austria’s leading retail chains, that set up a community platform to generate new shopping bag designs. A jury selected the winning design, which was intended to be produced in a run of one million bags. Resistance emerged, as a minority of participants did not agree with the jury’s decision; the contest had been promoted as design-focused, but the winning bag relied on word-play and had no graphical elements. Participants could not understand the jury’s decision and felt their work was disrespected. Immediate and appropriate conflict management applied by the community moderator eventually pacified the contested atmosphere. The unanticipated reactions prompted SPAR to revise its decision to print and distribute the winning bag. Instead, the company implemented the second and third-ranked designs, which had been accepted by the community.



»  
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**Understanding participants' expectations helps avert negative distortions** ✕

In online contests consumers, designers, lead users, students, software developers, or other experts donate time to contribute know-how, often for free, and may reveal their own intellectual property (IP) to companies. To avoid negative turns in online competitions, it is important to understand why people engage. Organizations need to pay close attention to what participants expect to gain. They can be persuaded to share creative ideas, offer candid opinions of products, and spend valuable time only if their expectations are to be met. Besides intrinsic interest in a project, which is a precondition for participation, there are other crucial aspects that require careful planning.

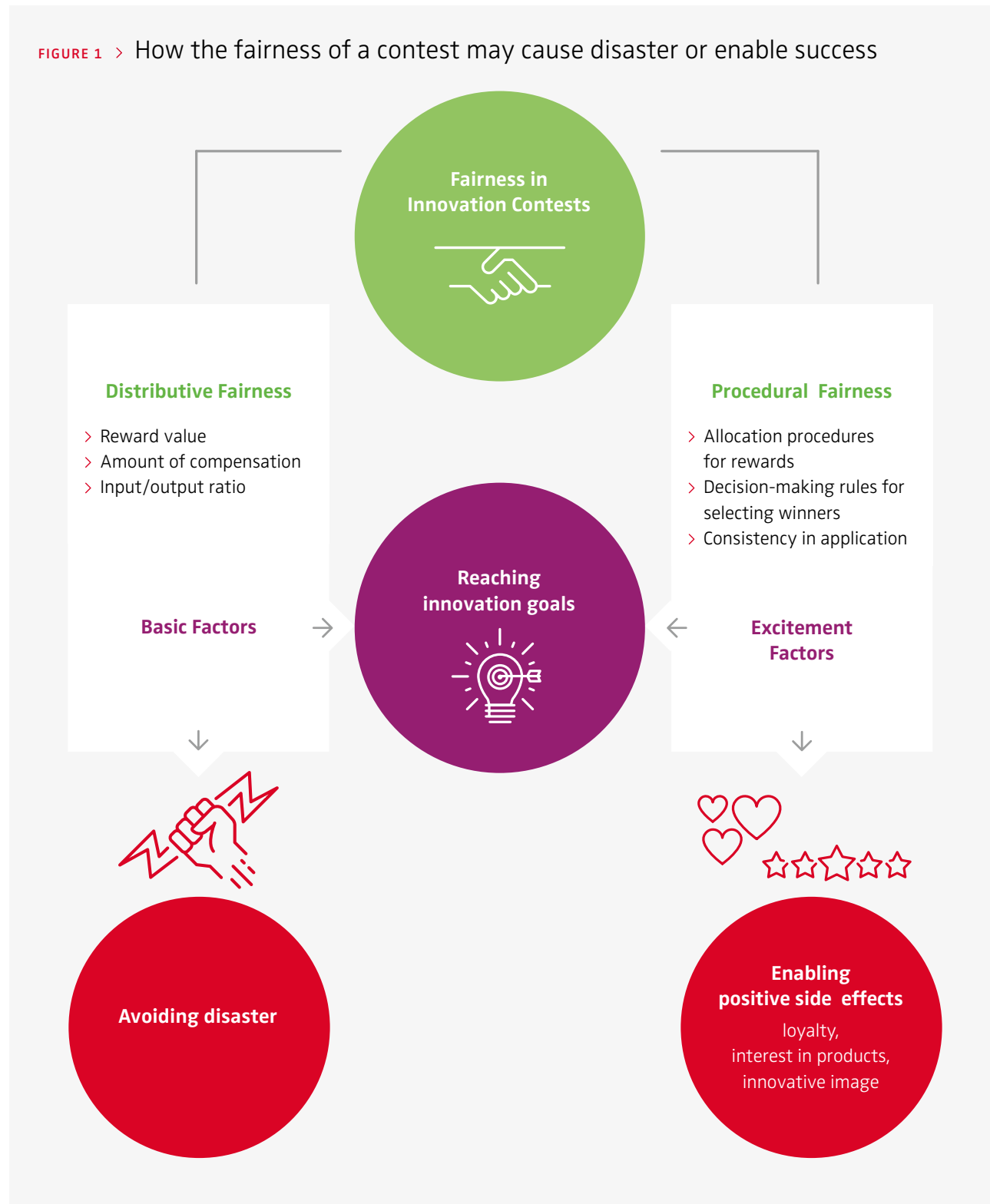
> **Offered incentives** ✕ Even if personal interest plays a key role, incentives are part of the game. Participants may be attracted by what a company offers in return for engagement besides monetary incentives like cash prizes, financial compensation, financial participation in product success, special offers and giveaways. Non-monetary incentives such as industry experts' feedback, a warm thank-you, an appointment at the company to further elaborate an idea, or an official naming as co-developer are additional motivators. Similarly, recognition from the organization's leadership throughout the selection process, and the prestige of associating with a well-known company are further motivators. Overall, crowdsourcing participants

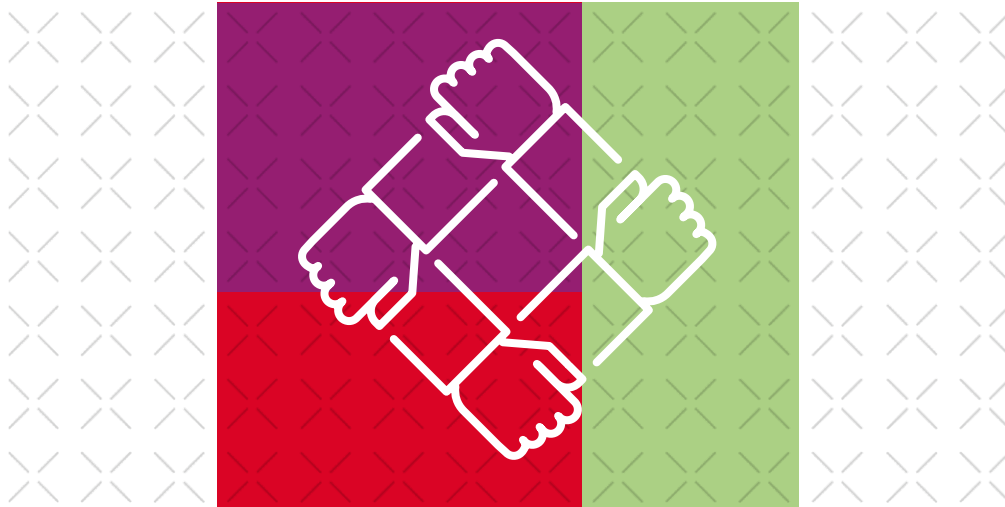
are heterogeneous not only in their expectations but also in their skills and contributions. Expectations may differ depending on the innovation task and stages of the process. Some users may be more interested in generating new ideas and solutions, while others prefer the evaluation and selection of product concepts. The incentives offered should suit these different desires and types of challenges.

> **Fairness** ✕ Community members must feel fairly treated and learn to trust the contest provider. Figure 1 shows how fairness can be insured and signaled to participants and how it affects the outcome of a contest. Distributive fairness refers to the offered prizes: the amount of money and the number of prizes that can be earned. Whether the prizes are considered fair depends on what participants are expected to contribute, for instance, fair terms and conditions regarding the transfer of intellectual property rights. Procedural fairness refers to a transparent and consistent process, how winners are selected, as well as the quality of day-to-day interactions. While distributive fairness is a basic requirement for avoiding negative behavioral outcomes, procedural fairness serves as an engagement factor that engenders positive behavioral outcomes.

The contests of Moleskine and Pril (see Box 1) are two well-known examples that ended up in a publicity disaster because they violated participants' sense of fairness.

FIGURE 1 > How the fairness of a contest may cause disaster or enable success





Moleskine's incentive scheme for its target group of freelancers was poorly thought out. Their choice to award only the winner with a cash prize while requiring the transfer of IP rights from all participants regardless of whether they won or not was perceived as an insult and an unfair practice. In the case of Pril, it was the change of the rules in the selection of the winning design that inspired outrage, as participants felt cheated.

> **Community Management** ✕ Related to some of the intrinsic rewards mentioned above, active community management is another important factor in providing value for participants. Throughout its duration, a contest requires attention, monitoring, and responsiveness to community requests. Innovation platforms must encourage intensive interaction to establish relationships and encourage community formation. It is critical to maintain direct, honest feedback in order to encourage involvement and promptly recognize contributions. This feedback helps participants to continuously learn about the topic and to satisfy their intrinsic drive for personal advancement; it also helps the community to devise more tailored ideas and solutions. Moderators should be on hand to answer emerging questions on the topic and the challenge requests. Conflict management also requires prompt intervention, since an unfriendly climate within the community or disruptive behavior from individuals damages the community spirit and deters participation. The Spar shopping bag contest provides an example of a social media disaster that was avoided successfully with transparent communication and timely, appropriate conflict management (see Box 1). The design, usability, and participant mix of an online platform output are other factors that affect community coherence. Given the foregoing, it can be beneficial to partner with intermediaries like platform providers for professional community management services.

**Crowdsourcing benefits beyond innovation** ✕ Organizations that run innovation contests fairly, with a lively, motivated community may benefit from additional positive effects, as well. According to our studies, the close interaction of contest participants with a company increases brand loyalty and responsiveness to new products. This is partly a function of exposure and regular contact: devoting time, skills and personal engagement to help a company develop new ideas fosters identification; participants may become passionate about the brand or product. Consumers engaged in crowdsourcing create a relationship to "their" new product even before it physically exists. The positive effects can extend to a broader public through an influencer effect. Studies have found a link between a company's engagement in value co-creation activities and its perceived innovativeness in general. Broadcasting the innovation approach enhances a company's image as an innovator. ✕



#### FURTHER READING

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