



Open Innovation

Presentation On Open Innovation By

Sanjeev P.C.

Master Degree student at Tampere University Of
Technology

sanjeev.pc@tut.fi

sanjiv_khum@hotmail.com

March 16th 2012- TUT

Open Innovation Background

Open innovation is a term promoted by Henry Chesbrough, a professor and executive director at the Center for Open Innovation at the University of California, Berkeley, in his book *Open Innovation: The new imperative for creating and profiting from technology*.

Innovation

Innovation is composed of two parts:

- the generation of an idea or invention,
- the conversion of that invention into a business or other useful application.

— Roberts (1988: 12)

Role of knowledge in innovation

Creating a (new) innovation may depend on:

- ✓ Scarce knowledge
(Garcia & Calantone, 2002)
- ✓ Novel combinations of existing knowledge
Cf. Galunic & Rodan, 1998; Kogut & Zander, 2003

Open Innovation Definition

- ❑ Open innovation (OI) is a **paradigm** that assumes that firms can and should use external ideas as well as internal ideas, and internal and external paths to market, as the firms look to **advance** their technology
- ❑ “In Open Innovation, useful knowledge is generally believed to be widely distributed, and of generally high quality.” (Chesbrough, 2006: 9)

Open Innovation Definition

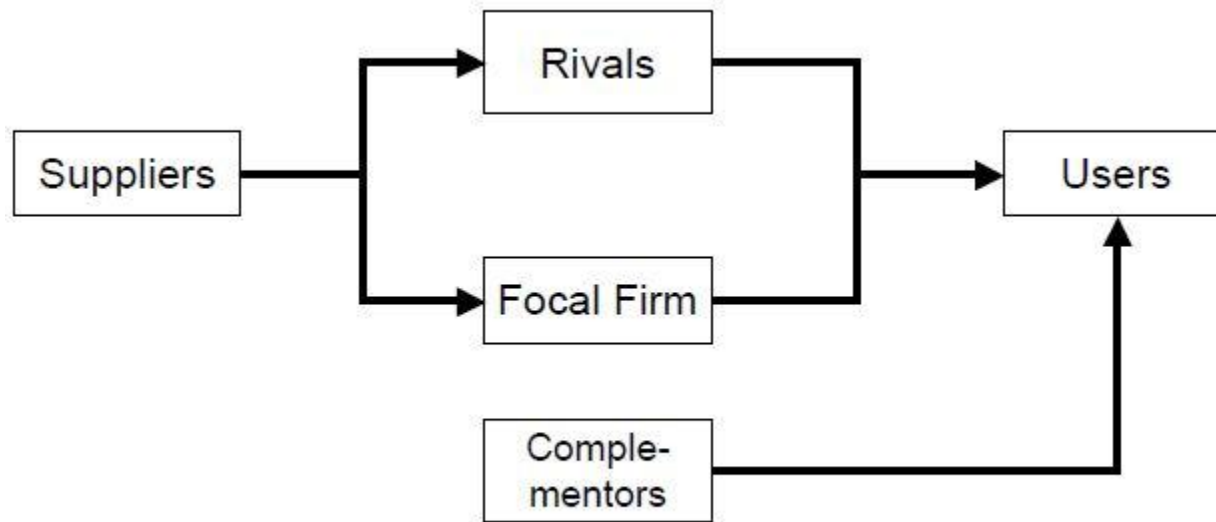
- ❑ Open Innovation suggests that the valuable ideas can come from both inside and outside the company and can go to market from inside or outside the company as well.

Source of Innovation

	Focal Firm	Suppliers	Customers	Rivals
Vertical integration	X			
User innovation	X	†	X	
Cumulative innovation	X			X
Open innovation	X	X	X	X

X = Sources of Innovation; † limited emphasis

Value Network



Concepts of Open Innovation

- ✓ User innovation: Von Hippel (1988, 2005)
 - (a) User know their need best.
 - (b) Direct (toolkits) and indirect (feedback)

Innovation by individual end users rather than suppliers. Ex: Threadless, a T-shirt manufacturing company.

- ✓ Cumulative innovation : Scotchmer (1991, 2004)
 - (a) Shared technological progress.
 - (b) Need rights to each other work

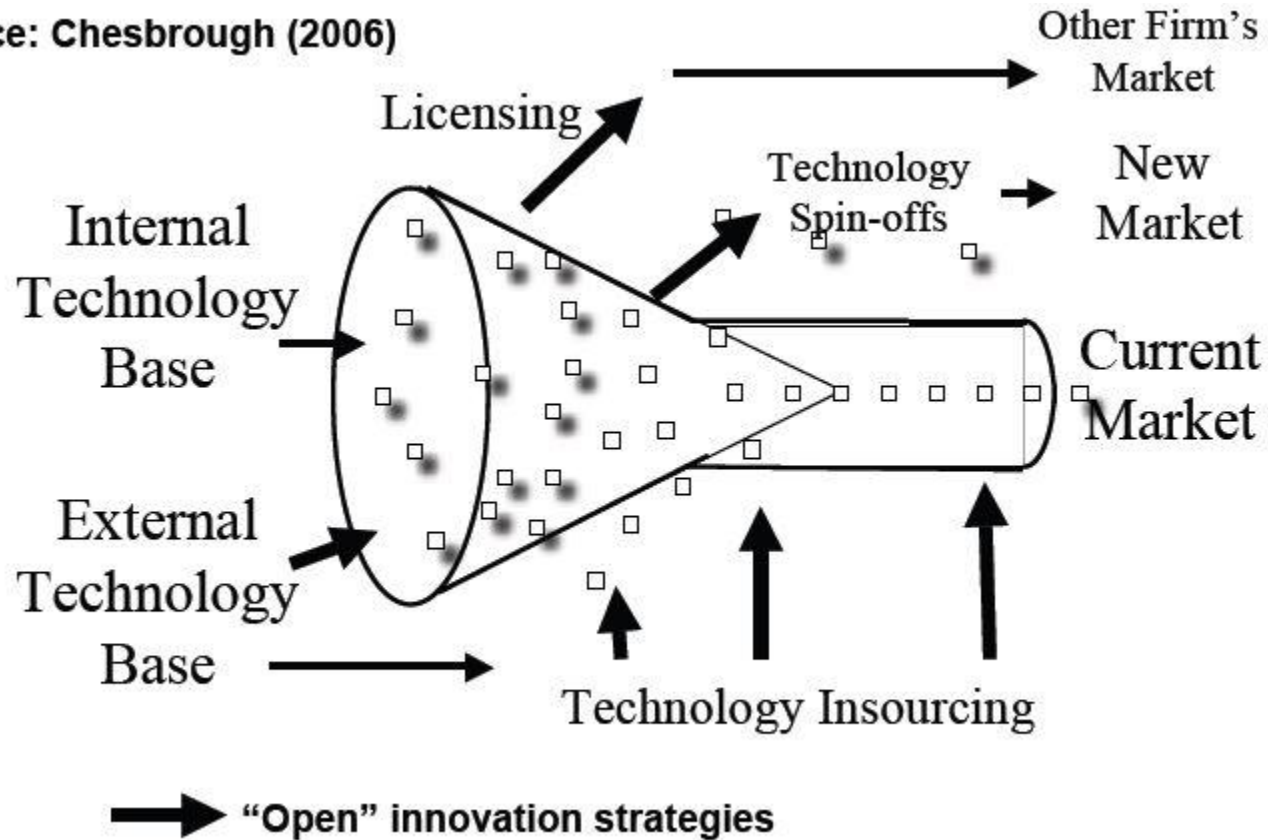
✓ Know-how-trading

Concepts of Open Innovation

- ✓ **Know-how trading:** web-based research and design phenomenon related to open innovation and crowdsourcing. Examples of know-how trading portals include innocentive (R&D), NineSigma (OI service provider) and Starmind.

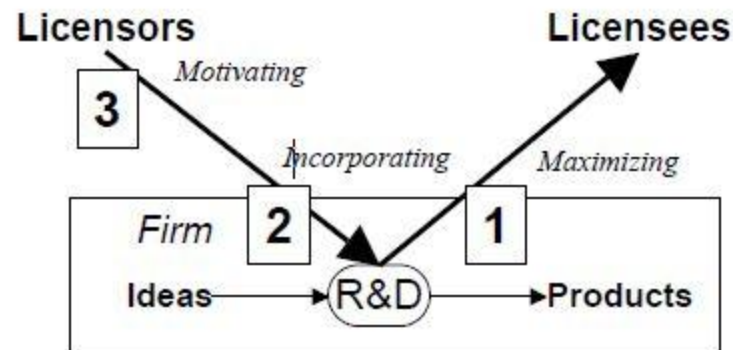
R&D under Open Innovation

Source: Chesbrough (2006)



Key Issues of Open Innovation

1. **Maximizing** returns to internal inventions.
2. **Identifying/incorporating** the external innovations.
3. **Motivating** an ongoing stream of external innovations (with or w/o money)



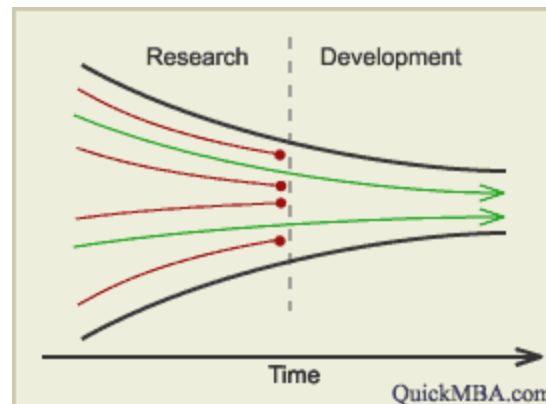
Source: West & Gallagher (2006)

Open source vs Open Innovation

- ❑ Open innovation is sometimes fused with open source methodologies for software development. There are some common ground that both share i.e. both share the external source of information to create value.
- ❑ The main distinguishing factor between the is open innovation focus on both value creation and value capture (help sustain organization position in industry value chain over time) but open source focus on value creation and usually downplay the importance of value capture.

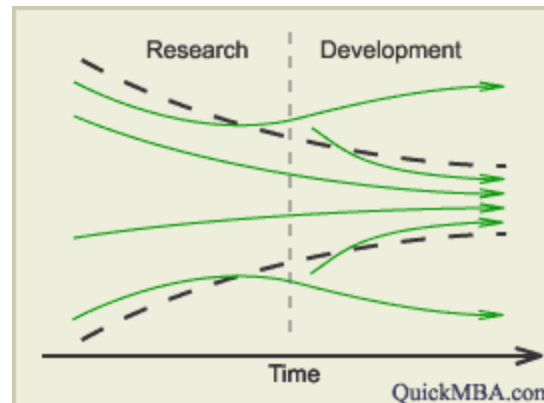
Open vs Closed Innovation

- ❑ The paradigm of closed innovation says that successful innovation requires control. A company should control (the generating of) their own ideas, as well as production, marketing, distribution, servicing, financing, and supporting.
- ❑ **Closed Innovation concept**



Erosion of closed Innovation Paradigm

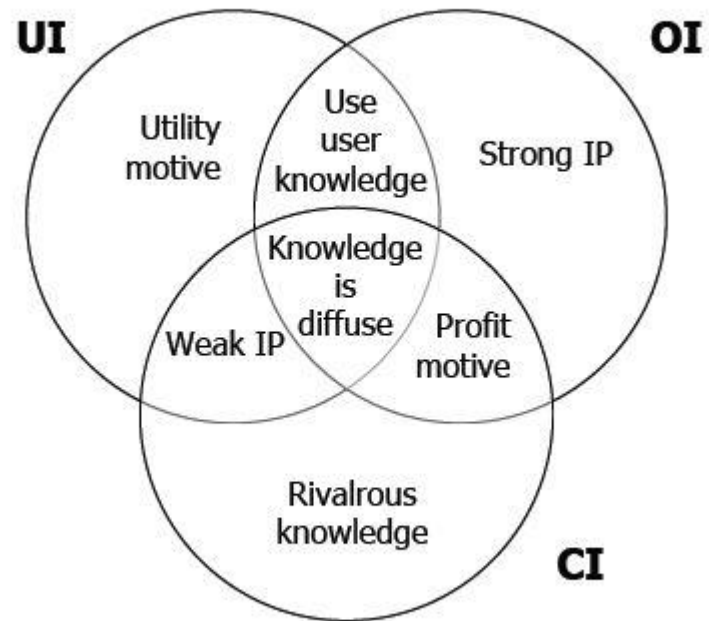
- ❑ Increased mobility of skilled workers
- ❑ Expansion of venture capital
- ❑ External options for unused technologies
- ❑ Increased availability of highly-capable outsourcing partners
- ❑ Open Innovation concept



Comparison of open & closed innovation

Closed innovation	Open innovation
The smart people in the field work for us.	Not all the smart people in the field work for us. We need to work with smart people inside and outside the company.
To profit from R&D, we must discover it, develop it, and ship it ourselves.	External R&D can create significant value: internal R&D is needed to claim some portion of that value.
If we discover it ourselves, we will get it to the market first.	We don't have to originate the research to profit from it.
If we create the most and the best ideas in the industry, we will win.	If we make the best use of internal and external ideas, we will win.
We should control our IP, so that our competitors don't profit from our ideas.	We should profit from others' use of our IP, and we should buy others' IP whenever it advances our business model.

Similarities across O/U/CI



Source and use of knowledge

<i>Knowledge</i>	Vertical integration	Open innovation	User innovation	Cumulative innovation
<i>Source</i>	Firm	Expert	User	Many firms
<i>Flows</i>	Within firm	Across firm boundaries	From user	Multi-directional
<i>Revealing</i>	Within firm	Sold	Freely revealed	Spillovers
<i>Ownership</i>	Within firm	Under IP	n/a	Dispersed

In a nut shell

In sum, future innovation process must focus outwards for knowledge and innovation rather than within its own boundary.

References

- http://openinnovation.berkeley.edu/speaker_series/OISS_Sep_14_2009.pdf
- <http://www.emotools.es/static/upload/files/Openinnovationparadigm.pdf>
- http://en.wikipedia.org/wiki/Open_innovation
- http://en.wikipedia.org/wiki/Closed_innovation
- http://books.google.fi/books/about/Open_innovation.html?id=4hTRWStFhVgC&redir_esc=y
- <http://tutopen.cs.tut.fi/course12/>
- http://www.eic2011.com/fileadmin/user_upload/eic2011/Programme_for_the_European_Innovation_Conference_2011_-_Final.pdf
- <http://www.slideshare.net/adebuche/120208-e20-s-open-innovation-workshopppt>
- <http://www.slideshare.net/openinnovation/open-innovation-presentation-684192>
- <http://www.quickmba.com/entre/open-innovation/>
- [Open Innovation \(Henry Chesbrough\)](#)

Any Comments, Questions???