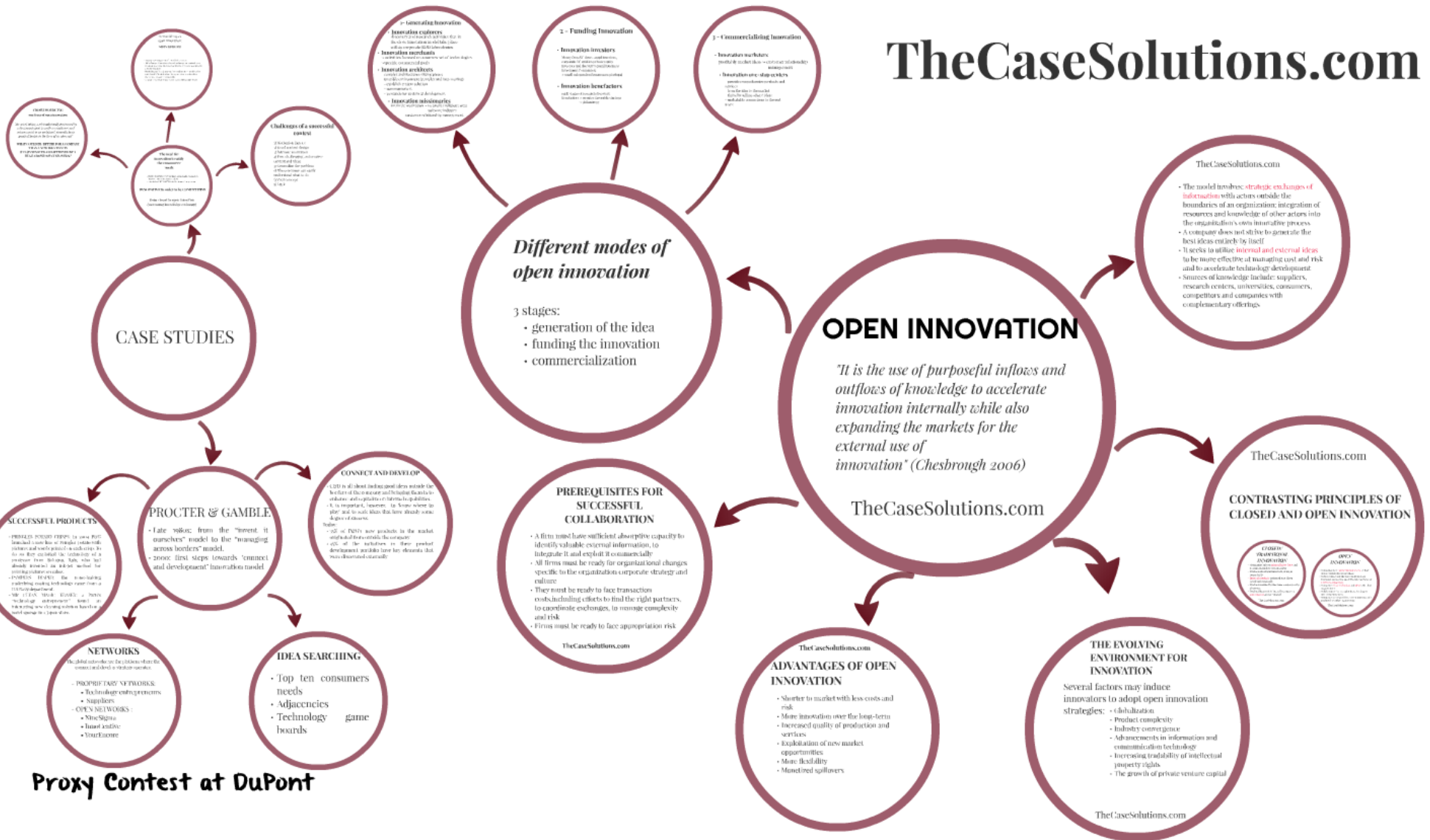


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OPEN INNOVATION

"It is the use of purposeful inflows and outflows of knowledge to accelerate innovation internally while also expanding the markets for the external use of innovation" (Chesbrough 2006)

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- The model involves: **strategic exchanges of information** with actors outside the boundaries of an organization; integration of resources and knowledge of other actors into the organization's own innovative process
- A company does not strive to generate the best ideas entirely by itself
- It seeks to utilize **internal and external ideas** to be more effective at managing cost and risk and to accelerate technology development
- Sources of knowledge include: suppliers, research centers, universities, consumers, competitors and companies with complementary offerings



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CONTRASTING PRINCIPLES OF CLOSED AND OPEN INNOVATION

CLOSED/ TRADITIONAL INNOVATION

- Companies rely on **internal know-how** and existing technology for new ideas
- Products developed internally using in-house R&D
- **Internal products** preferred over those developed externally
- Products marked by the same company or by a licensee
- Product ideas not in line with company's **core interest** are terminated

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OPEN INNOVATION

- Companies look **beyond the boundaries** of their own organizations for new ideas
- R&D resources outside the organization are leveraged. Companies tap skills and experience of **external collaborators**
- Companies **share technology** and **ideas** with other organizations
- Collaborators free to exploit the technology in non-competing areas
- Companies can expand the current offerings with product from other organizations

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PREREQUISITES FOR SUCCESSFUL COLLABORATION

- A firm must have sufficient absorptive capacity to identify valuable external information, to integrate it and exploit it commercially
- All firms must be ready for organizational changes specific to the organization corporate strategy and culture
- They must be ready to face transaction costs, including efforts to find the right partners, to coordinate exchanges, to manage complexity and risk
- Firms must be ready to face appropriation risk

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THE EVOLVING ENVIRONMENT FOR INNOVATION

Several factors may induce innovators to adopt open innovation strategies:

- Globalization
- Product complexity
- Industry convergence
- Advancements in information and communication technology
- Increasing tradability of intellectual property rights
- The growth of private venture capital

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ADVANTAGES OF OPEN INNOVATION

- Shorter to market with less costs and risk
- More innovation over the long-term
- Increased quality of production and services
- Exploitation of new market opportunities
- More flexibility
- Monetized spillovers