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# Open Innovation: The New Imperative For Creating And Profiting From Technology



## Synopsis

In today's information-rich environment, companies can no longer afford to rely entirely on their own ideas to advance their business, nor can they restrict their innovations to a single path to market. As a result, says Harvard Business School Professor Henry W. Chesbrough, the traditional model for innovation—which has been largely internally focused, closed off from outside ideas and technologies—is becoming obsolete. Emerging in its place is a new paradigm, "open innovation," which strategically leverages internal and external sources of ideas and takes them to market through multiple paths. This path-breaking analysis is based on extensive field research, academic study, and the author's own longtime experience working in Silicon Valley. Through rich descriptions of the innovation processes of Xerox, IBM, Lucent, Intel, Merck, and Millennium, and the many spin-offs that have emerged from these firms, Open Innovation shows how a company can use its business model to identify a more enlightened role for R&D in a world of abundant information, better manage and access intellectual property, advance its current business, and grow its future business. Arguing that companies in all industries must transform the way they commercialize knowledge, Chesbrough convincingly shows how open innovation can unlock the latent economic value in a company's ideas and technologies.

## Book Information

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## Customer Reviews

I was very disappointed in this book. The title and the buzz about the book lead me to believe that this book was about the revolutionary idea of "open innovation". Open Source, the approach that

developed Linux operating system and other software modules and applications, has demonstrated the power of a loose collaboration that operates in an open environment. This book is not about the "open innovation" that is a generalization of the unique approach that worked in Open Source. Instead this book is about running R&D organizations in a more open way - that is balancing internal R&D with the acquisition of the results of external R&D, and the commercialization of internal R&D internally and externally to the company. I also think that the book could be misleading for at times the author intermixes the words innovation and technology. Yet, we know that there is a lot of capital to be created with innovations that are not based on technology but exploit the changes caused by technology. And, as a thirty-year veteran of IBM, it was hard to read that the first time that IBM invented "open innovation" was with the advent of the Internet in the mid 1990s. In reality, there were many "open innovation" efforts within IBM as early as 1970 that produced significant revenue. The author points to the failure of PARC as an R&D failure. I would argue just the opposite. PARC was extraordinarily successful as an R&D effort. Look at how many fundamental innovations relative to personal computers that got developed. It was operational and executive failure that resulting in Xerox's inability to commercialize on what they had. This is not the fault of a "closed innovation" model. The "closed innovation" model created what it was supposed to create.

As we have come to expect from Harvard's Professor Chesbrough, Open Innovation is a wealth of insight and knowledge in how organizations can transform themselves by blending the best of their internal know-how and external sources of perspectives. Beginning with an interesting historical vantage point, Chesbrough introduces us to innovation structures as they have evolved at the beginning of the twentieth century, through the establishment of central research & development facilities and beyond. It was historian Alfred Chandler who first researched the economies of scale that resulted from the internal research & development facilities. As it points out in the book, 'these R&D facilities were so successful in extracting more efficiency out of increased understanding that they created natural monopolies in many leading industries, or economies of scope'. But many erosion factors have weathered these fortresses of knowledge, and now Chesbrough maintains that innovations, however clever, are worth nothing until a viable business model is found to exploit them. The function of a business model, according to the author and colleague Richard Rosenbloom, is to: articulate the value proposition; identify a market segment; define the structure of the firm's value chain; estimate the cost structure and margin, describe the position of the firm within the value network and to formulate the competitive strategy of the offering. So invention is not enough. Organizations must follow the path to commercialization, but that route often means it must

work collaboratively with many others. This approach has many ramifications on company structure and ways of working.

In general reading 'open innovation' is inspirational and interesting. It seems to be good researched and it is easy to read without hurting my intellect. It basically presents the story of the failure of and subsequent changes in the research strategy of Xerox, IBM and AT&T and contrasts this with Intel's successful strategy of concentration on process and product innovation instead of research.

Chesbrough neatly conveys the basic argument that large companies have to open their research departments and include partners outside the firm as sources of new technology. Research findings that do not fit into the firm's business model should be realised in new ventures. The firm stories, based mainly on Harvard Business School cases, certainly offer some insights for managers of large corporations. As an academic however, I have some reservations. Though the book is better than other business books, it follows the same pattern: find a catchy expression (open innovation), declare a paradigm shift, present some case stories that are supposedly representative and take some short cuts towards generalizations. IBM and AT&T are hardly representative for the whole industry. This might be important since there are certainly examples of highly profitable companies that would rather fit into the 'closed innovation' model that the author declares dead. Secondly, it is not totally clear that open innovation model is really a new paradigm. At the beginning of the last century (according to the author the origin of the closed innovation model) many European companies took advantage of innovations from universities and public research labs (organic chemistry, x-ray).

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