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Open Innovation: A New Paradigm for Understanding Industrial Innovation

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1.1 Defining Open Innovation

The Open Innovation paradigm can be understood as the antithesis of the traditional vertical integration model where internal research and development (R&D) activities lead to internally developed products that are then distributed by the firm. If pressed to express its definition in a single sentence, Open Innovation is the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively. Open Innovation 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 they look to advance their technology. Open Innovation processes combine internal and external ideas into architectures and systems. They utilize business models to define the requirements for these architectures and systems. The business model utilizes both external and internal ideas to create value, while defining internal mechanisms to claim some portion of that value. Open Innovation assumes that internal ideas can also be taken to market through external channels, outside the current businesses of the firm, to generate additional value.

The Open Innovation paradigm treats R&D as an open system. Open Innovation suggests that valuable ideas can come from inside or outside the company and can go to market from inside or outside the company as well. This approach places external ideas and external paths to market on the same level of importance as that reserved for internal ideas and paths to market in the earlier era.