

# MEET



## Henry Chesbrough

Executive director of the Center for Technology Management at the Haas School of Business, University of California, Berkeley, USA

As an executive in Silicon Valley in the 1980s and 1990s, Dr Henry Chesbrough witnessed the failure of some of the world's most innovative companies to take advantage of their discoveries. While teaching at Harvard, Dr Chesbrough put his experiences on paper, writing 'Open Innovation: The New Imperative for Creating and Profiting from Technology' (Harvard business school press, 2003). Dr Chesbrough has since returned to California, where he is executive director of the Center for Technology Management at the Haas School of Business, a part of the University of California, Berkeley. In this exclusive interview, Dr Chesbrough shares his thoughts on Open Innovation.

Dr Chesbrough, welcome to Password, and congratulations on the success of your book. What is Open Innovation?

Open Innovation means 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. Put differently, Open Innovation means that not all the smart people work for you, and that no one can afford the 'Not Invented Here' syndrome anymore.

What factors have made Open Innovation necessary?

Firstly, the increased mobility of the technical workforce. As lifelong careers within a single firm become less common, people will carry useful knowledge with them from one company to another. Of course the original company receives no compensation for the training and experience they have provided for the departing employee, while the hiring company benefits from that knowledge and experience.

Secondly, the increasingly high quality of university research, and the increasing interest of university faculty in industry problems. As government support for research declines, industry support has picked up the slack. This has shifted the research priorities of faculty towards problems of concern for industry. And it diffuses useful knowledge to society as a whole.

Thirdly, the increased importance of venture capital and private equity in financing start-up companies. This adds fuel to the diffusion fire, pulling ideas and people out of corporate and university labs and putting them into the market.

Finally, the increasingly global character of markets means that great ideas and technologies can arise from anywhere in the world.

You live and work in the United States, and many of the companies you've studied are based there. Is Open Innovation most applicable to the American economy? How relevant is it to firms who do a large part of their research and business outside the United States?

I wrote the book from research I had conducted within the US, so I did not know how applicable its ideas would be to other countries. But the book has been given the greatest reception in the Silicon Valley, Japan and Western Europe. I think the interest from Japan stems from its struggles to unlock the human capital that is bottled up inside a fairly small number of very large companies. They see Open Innovation and its emphasis on spin-offs and intellectual property as important to Japan. In Europe, by contrast, the interest in Open Innovation stems from how to make better use of the excellent universities and strong corporate research organizations that exist there.

4

Where does Philips rank in your list of open innovators? In what areas has Philips achieved notable success with the concept?

I have not had the chance yet to work with Philips on these questions. I hope that through interviews like this, and opportunities to engage with senior executives there, I will learn more about the company. I sense a genuine enthusiasm within Philips for the concepts, and the Philips CEO himself has publicly expressed his interest in seeing approaches like this take hold within Philips. One Philips development that I do know about is its recent agreement with New Venture Partners, LLC to create spin-offs out of underutilized Philips technologies. This should help Philips unlock some of the great ideas that currently lack a business model to go to market.

Open Innovation sounds like a logical concept. Are there arguments against it as well?

There are two general sources of resistance to Open Innovation in almost every large, successful company. The first source is our old friend, the 'Not Invented Here' syndrome. Companies strive to recruit 'the best and the brightest' to work for them, and these very bright people naturally tend to discount the capabilities of other people and organizations in relation to their own. And companies reward these people for discovering new technologies themselves, NOT for identifying equally good technologies in other places.

The second source of resistance comes from the business units of the company. They want to have a monopoly over the use of all ideas that are developed within the company. When in fact their business models are well-suited for some, and poorly suited for others. These latter cases usually just pile up on the shelf, and become a dead weight on the company. There can be real value, and potentially valuable hints for new growth directions,

by letting these ideas go out to the market.

Can you describe how a company would go about adopting Open Innovation. How does the company's thinking need to change, from upper management on down?

This is a very useful question, because Open Innovation does imply a great deal of change. Senior levels of management will welcome the focus on business models, and their ability to connect technology development to economic value. They are tired of hearing how they need to spend more money in R&D, when they sense that their model of R&D is not delivering adequate value. I actually think most R&D departments will welcome the ideas in Open Innovation. There is a widely shared sense in R&D groups whom I talk to that things cannot continue as they have in the past. I would go so far as to say that there is a hunger for a new path forward. Without a new approach, corporate R&D is likely to be cut back more and more by top management. Open Innovation provides an approach that can support a renewed corporate commitment to R&D, albeit with less internal focus and greater external connection. For front-line engineers and bench scientists, Open Innovation offers an exciting role for them that emphasizes the larger picture and requires their assistance to integrate the myriad different pieces of technology together into systems and solutions that work. It shows a much, much bigger world to them, beyond the four walls of their own company.

✕tras online

- [IdeaFlow](#) (Web log about innovation)
- [Academy of Management](#) (information about conference on Open Innovation)
- [R&D Management](#) (will devote an issue to Open Innovation later this year)