

## Chapter 14

# Profit Expansion Method by Standard as an Outbound Open Innovation

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### **ABSTRACT**

*Among open innovations, standardization activities that do not cause some source of profits, such as issuing standard essential patents for standardized technologies, can be said to be offering-type outbound open innovations. Technology providers require a careful strategy to make a profit from standardization activities. The core of this is to determine in what state the technology in the target product itself will be kept, which is the technology control strategy. What is particularly important is to determine what information will be proactively disclosed based on the theory, utility, and implementation of the technology, and what information will be kept secret. In this chapter, the author examines several cases of standardization and, by focusing on those that earned profits, presents technology management strategies that generate profits using standardization.*

### **INTRODUCTION**

Although the term “open innovation” was coined in the United States, it is widely used among Japanese companies and treated like a magical term that will reform their innovation systems. The phrase “open and close strategy” is also commonly used in Japan. Whether it is called open innovation or an open and close strategy, these are activities that many Japanese companies have been conducting actively for quite a while and are not a newly introduced type of strategy. Although Japanese companies have thus far not clarified their meaning, these concepts are actively used in corporate activities because they involve simplified technology management methods, which were previously based on know-how, successfully organized in a convincing manner.

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In this section, I focus on the activity of “standardization” that companies have been implementing for a long time. As will be described later, standardization is one of the tools that generate outbound open innovation. I reanalyze various well-known cases of standardization activities, both successful and failed, from the viewpoint of success and failure of outbound open innovation, and then attempt to sort out the roles of standardization of business strategies that utilize outbound open innovation.

## **OUTBOUND OPEN INNOVATION AND STANDARDIZATION**

### **Outbound Open Innovation**

Outbound open innovation has been discussed since the first paper (Chesbrough, 2003) in which Chesbrough talked about open innovation. However, inbound open innovation is more company-oriented, as open innovation and its study have progressed, while there is little research on outbound open innovation. Furthermore, regarding standardization, in the book “Open Innovation: Researching a New Paradigm” (Chesbrough, Vanhaverbeke, and West, 2006), Simcoe discussed open standards and intellectual property rights (Simcoe, 2006). However, the intensively discussed matter here is what is included in intellectual property rights, such as standard essential patents. This corresponds to “selling” in the four open innovation forms classified by Dahlander and Gann (2010). When discussing business standardization, this issue of standard essential patents is often mentioned, but this is not a pure standardization activity. The standardization activity corresponds to “revealing” in the four open innovation forms classified by Dahlander and Gann (2010). Further, regarding outbound open innovation, it has already been pointed out that the possibility of generating profits for resource providers is low (Helfat and Quinn, 2006).

For this reason, in this section, I proceed with an analysis focusing on this “method of generating profits for resource providers.” If it is not possible to earn profits as a business, there is less value for the entity holding the technical information in proactively advancing outbound open innovation.

### **Open Closed Strategy**

The term “Open Closed Strategy is a phrase that came to be known in Japan through the books of Mr. Senoo et al. (Senoo, 2009; Ogawa, 2014; Tatsumoto, 2017). The basic line of thinking is that, by choosing to open parts, brand recognition increases, and by increasing the number of collaborators and participants, cost reductions and market expansion are achieved, and in closing-off high-selling parts, profits are ensured. In the examples presented in these prior studies, many were seen to secure profits by opening up some among many technologies, and monopolizing others.

The management of the combination of these multiple technologies is the same manner of thinking as in the open innovation shown above, and for this reason open-closed strategies were widely adopted as open innovation success strategies within Japan.

Conversely, it is well known that within original technical information there are things that should be opened and things that shouldn't be. With particular regard to patent applications, it is fundamental to intellectual property management to distinguish between the information described in application documents and the know-how that is not described, concealed information. In the examples too, within a single technology cases can be seen distinguishing between information to be opened and information not to be opened.

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