

# Chapter 31

## Research on Open Innovation in China: Focus on Intellectual Property Rights and their Operation in Chinese Enterprises

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### ABSTRACT

*This paper concentrates on how to effectively protect and efficiently use intellectual property under an open innovation model in China. A variety of strategic choices of intellectual property use under an open innovation model are proposed to promote the healthy development of intellectual property operations of enterprises in China.*

*In the knowledge economy era enterprises experience extremely severe competition the intensity of which may be seen in the rate of technology innovation: finally technological innovation can result in the creation of intellectual property (Wu, 2006). “Even great technologies no longer can be relied upon to earn a satisfactory profit before they become commercialized” (Chesbrough, 2007). The effective ways to achieve the commercial value of intellectual property rights relies on the use of intellectual property. An in-depth study of this subject has important theoretical and practical significance for improving the international competitiveness of Chinese enterprises and for protecting their intellectual property rights.*

### 1. OPEN INNOVATION

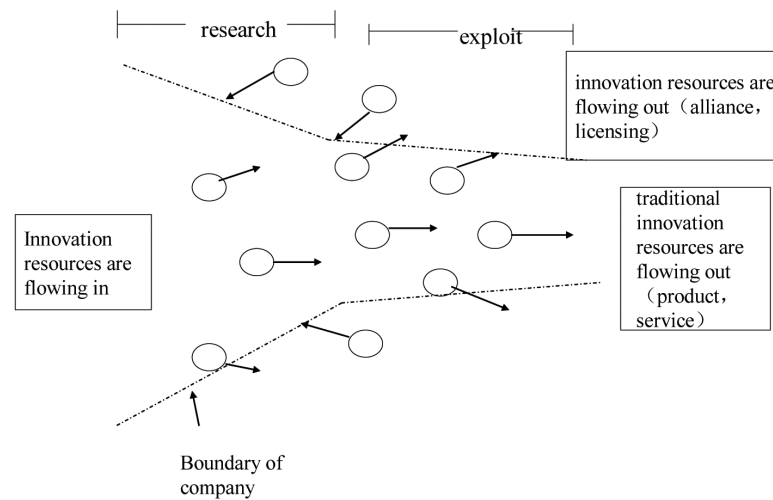
Open innovation was defined by Henry Chesbrough, a professor at Harvard Business School, in 2003. He believes that in an open innovation model, companies should use internal and external

strength to develop new products and to commercialize them (Chesbrough, 2005). Figure 1 shows the open innovation model.

In the closed innovation model, the steps from new products development to the market are completed within one enterprise. This process involves the use of their own strategic assets,

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Figure 1. A model of open innovation and its practice in China



technology and financial assets, the hiring of a large number of the most creative talents to work for the company, the investment in a lot of advanced equipment for production, the conducting of internal independent research, and the use of their own marketing channels to make sales and generate profits. The outflow of innovative resources is products and service, which for the purpose of this paper we call industrial operation of intellectual property.

However, in an open innovation model, companies pay more attention to the flow of internal and external resources in the enterprise, as the boundaries of these become blurred. Chesbrough and Crowther (2006) divide the open innovation into two parts: inbound open innovation and outbound open innovation according to the flow direction of the open innovation. When absorbing external resources, and integrating the external resources to meet the needs of enterprise development, such as through access to technology licensing, purchasing, establishment of strategic alliances with partners or competitors, we operate in an in-bound open innovation environment. When the company exports the resources through selling, licensing or freely releasing their patents and other non-economic means to obtain benefits

or increase in the competitiveness of industry as a whole, these are export-oriented open innovation.

In short, whether in-bound or out-bound open innovation, all activities stress the importance of intellectual property operations. Companies should enhance cooperation with the outside world and commercialize their own intellectual property as quickly as possible in order to make the largest and best business profits.

## 2. THE THEORETICAL SUPPORT OF INTELLECTUAL PROPERTY RIGHT AND ITS OPERATION IN OPEN INNOVATION

Intellectual property operation is not isolated: it is built on the basis of capital operation, and inextricably linked with property theory and competition theory.

### (1) Marx's Capital Theory Provides a Theoretical Basis for Intellectual Property Operation

The total capital formula tells us that the process of capital production and circulation is unified. The

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