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Market failures in open innovation: implications and policy responses

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Open innovation provides significant advantages for individual firms and may generate wider social benefits. Positive externalities related to knowledge sharing may result from openness itself, and enhanced levels of innovation may lead to otherwise unachieved innovation spillovers. A number of studies have suggested, however, that average levels of OI activity remain well below the level which maximises innovation outputs. Here, we identify four market failures which arise in the process of OI partnership formation and which may be limiting firms OI engagement. Information failures occur which mean firms are unaware of the benefits of OI, lack information on the capabilities of partners and their trustworthiness. Appropriability issues may also mean that levels of OI remain below the social optimum. We develop policy responses to each market failure linked to the development of an OI intermediary and develop a related logic model.