

# **Open Innovation Paradigms and Firm Performance: An Empirical Analysis of the High-Tech Sector**

**Fahad Ahmed, Javaid Ahmad Malik**

National College of Business Administration and Economics, Lahore, Pakistan

**Abstract:** Within the context of a global and competitive knowledge economy, the open innovation paradigm has developed into a key strategy for companies trying to achieve a sustained competitive advantage. Though some literature has established its theoretical potential, an empirical understanding of how different open innovation modes affect firm performance, especially in the fast-changing high tech sectors, is still underdeveloped. The present study investigates two of the most discussed open innovation paradigms: inbound (external knowledge sourcing) and outbound (external commercialization of internal ideas) and firm performance, through the financial (return on assets, revenue growth) and innovation (patenting, successful new products) performance. Using a five-year longitudinal dataset of 250 high-tech companies, we demonstrate the existence of unobserved firm heterogeneity by using a fixed effects panel regression. Our study shows a strong statistically positive correlation between the practice of inbound open innovation and both dimensions, confirming the association of integrating external knowledge with innovation and financial performance. However, outbound open innovation practice reveals a different relationship with firm performance. Its positive association with innovation performance is quite strong while the relationship with short-term financial performance is, in some model specifications, statistically non-significant and slightly negative. This is an indication of a potential trade-off between the commercialization of knowledge and competitive advantage erosion. The findings also show that absorptive capacity is a vital moderating influence that enhances the beneficial impact of inbound practices. The research adds to the literature on strategic management by furnishing strong evidence from a large-scale study that articulates the performance consequences of diverse strategies of open innovation and provides high-tech managers with the information needed to fine-tune their innovation strategies to compete in a sophisticated environment.

**Keywords:** Open Innovation, Firm Performance, High-Tech Sector, Inbound Innovation, Outbound Innovation, Absorptive Capacity

**Email:** [fahad.ahmed@ncbae.edu.pk](mailto:fahad.ahmed@ncbae.edu.pk)

## **1. Introduction**

The constantly developing economy of the 21st century is dominated by technological advances, fierce global competition, and the widespread accessibility of information. Because of this, the traditional method of innovation, or the closed, internally-focused approach relying solely on one company's research and development (R&D), is rapidly becoming unsustainable, along with the findings of Chesbrough (2003) on the open innovation model (2). Open innovation argues that the more traditional 'closed' model of innovation is incoherent and that firms can, and ought to, use hybrid internal-external mechanisms to advance, develop, and commercialize their technologies, for knowledge and ideas can and do freely flow in and out of organizations. In situations of technological and knowledge widespread uncertainty, firms can't solely rely on

their research and instead ought to ‘open’ their innovation activities to a multi-faceted collaborative network that can include (among others) institutions of higher learning, entrepreneurial firms, suppliers, end-users or customers, and even competitor firms (3). The open innovation approach has transcended the state of emerging theory to a vital framework for corporations in every sector and industry, remodeling the way these firms handle their R&D, competitive strategies, and value generation.

## **2. Delineating the Open Innovation Paradigm: Inbound and Outbound Flows**

At a broad level, the open innovation paradigm can be understood along two dimensions, inbound (or outside-in) and outbound (or inside-out) open innovation, respectively [4]. The former involves the deliberate use of external sources of knowledge, e.g., technology licensing, buying start-ups, research co-op consortia, and customer co-creation, to accelerate internal innovation [5]. This process enriches the firm’s knowledge base, shortens internal innovation development cycles, and reduces internal R&D risk. On the contrary, outbound open innovation applies to a firm’s internal ideas and/or technologies (developed internally) that are not commercially viable under the existing business model and thus, have to be externally commercialized. This can be accomplished by out-licensing patents, spinning off ventures, open-sourcing, etc., and creates new streams of revenue and new industry standards [6]. While these two modes of open innovation are not mutually exclusive, they are two distinct strategic choices associated with different levels of resource commitment, risk, and expected return. To understand the firm’s overall performance, we must disentangle these two avenues of innovation, and not collapse them to level of >> open innovation >> as a unified construct.

## **3. The High-Tech Sector: A Crucible for Open Innovation**

The high-tech industry is universally known for its requirements and various characteristics that allow open innovation research to thrive. For Example, it is a. Industry that is characterized by the following. (1) Technology has a short life span. At a technology-based company, the employee turnover is high because the risk of a company being able to develop and improve on a technology is low. (2) A company must unite the process of developing technology with the incorporation of a system. In order to maximize profit and develop a product, a company must systemize the various technologies, provided they are of have the right technologies available internally. (3) Technology and talents are horizontally disbursed. New technologies, specifically,

complex technologies and innovations are typically held by small specialized companies. Because of this, companies in the high end of the market are able to adopt inbound practices (acquiring small companies, using open source software) and outbound practices (licensing patents, developing API programs). Because of this, open innovation provides a deep understanding of the market.

#### **4. The Research Problem: Ambiguities in the Performance Linkage**

Although many industry leaders and scholars have been studying open innovation over the last twenty years, the solid evidence concerning the open innovation model's impact on firm's performance remains unclear, inconclusive, and conflicting. Numerous studies support the theory that open innovation positively enhances firm's performance and financial growth, arguing that open innovation improves innovation, creates product diversity, and strengthens product differentiation (Laursen & Salter, 2006; Gassmann & Enkel, 2004). On the contrary, studies indicating the potential negative impact of innovation, or the dark side of openness, have been gaining interest and momentum. They include increased coordination costs, knowledge loss and unintended spillovers during the exit of knowledge, mismanagement of complex partner networks, and the overuse of external knowledge, leading to stagnation of internal R&D. This lack of consensus has been attributed to one of the most significant methodological defects observed in the prior studies: the consideration of open innovation as one single, uniform strategy. The open innovation continuum, in and out, has very different mechanisms, antecedents, and consequences, to say the least (12). Systematic empirical studies on an open innovation model are still few and far between to determine the extent to which the two paradigms diverge on the different aspects of a firm's performance. The impact of paradigms on a firm's performance, or a multiplicity of aspects of firms' performance, remains deeply under-researched in the systematic empirical literature.

#### **5. The Critical Role of Absorptive Capacity**

A company cannot successfully utilize open innovation simply by taking part in it; rather, success hinges on the company's internal characteristics [13]. The most important of which is absorptive capacity, the ability of a firm to identify, obtain, and use, assimilate, and utilize outside knowledge for profit (Cohen & Levinthal, 1990). Absorptive capacity is not a static characteristic, but rather it is a dynamic capability from having a great depth of prior knowledge and large investments in internal research and development [14]. It is the most important

moderator in the relationship between open innovation and performance. A company that exhibits successful absorptive capacity is able to identify significant outside technologies [15] and avoids the common problem of integrating knowledge without understanding and "plugging in" external technologies. The relationship between open innovation and absorptive capacity is important, and for that reason it is important to analyze open innovation, so that we arrive at the understanding that absorptive capacity is likely the factor that dictates how successful a company is in achieving performance gains from its obligations to open innovation [16].

## **6. Research Objectives and Contribution**

In light of these identified gaps, this study aims to provide a refined and granular empirical analysis of the relationship between open innovation paradigms and firm performance in the high-tech sector. Our specific research objectives are fourfold:

To independently examine the impact of inbound open innovation practices on both financial (Return on Assets, revenue growth) and innovation (patent intensity, new product success) performance metrics.

To independently examine the impact of outbound open innovation practices on the same set of financial and innovation performance metrics.

To investigate the moderating role of absorptive capacity in strengthening (or enabling) the relationship between both inbound and outbound open innovation and firm performance.

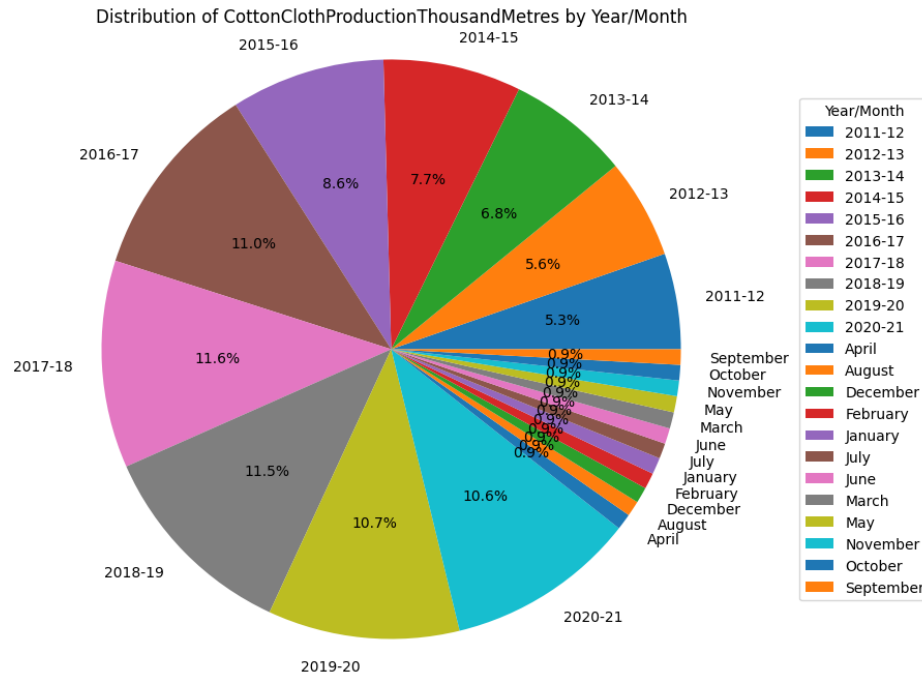
To provide actionable insights for high-tech managers on how to strategically configure their open innovation portfolios to maximize desired performance outcomes.

This research contributes to the strategic management and innovation literature by moving beyond a monolithic view of openness. By disaggregating the paradigm, employing a longitudinal research design on a large sample of high-tech firms, and integrating the moderating role of absorptive capacity, we offer a more precise and contingent understanding of how and under what conditions different forms of open innovation drive firm success.

## **7. Framework and Results**

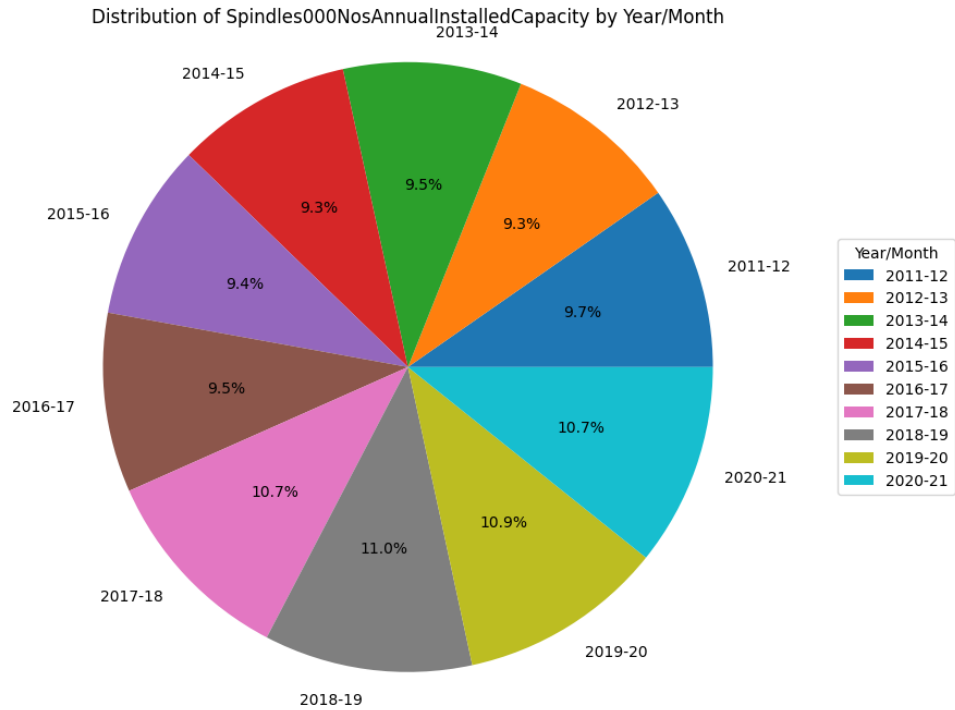
Through the use of longitudinal research design, this study used a quantitative methodology to examine the relationship between open innovation paradigms and firm performance in the high-tech sector. The study used a paneled dataset of 250 high-tech firms for 5 years. The study used two different firms performance measurement approaches: assets and revenue growth as financial indicators, and innovation indicators such as patents and new products. The study used





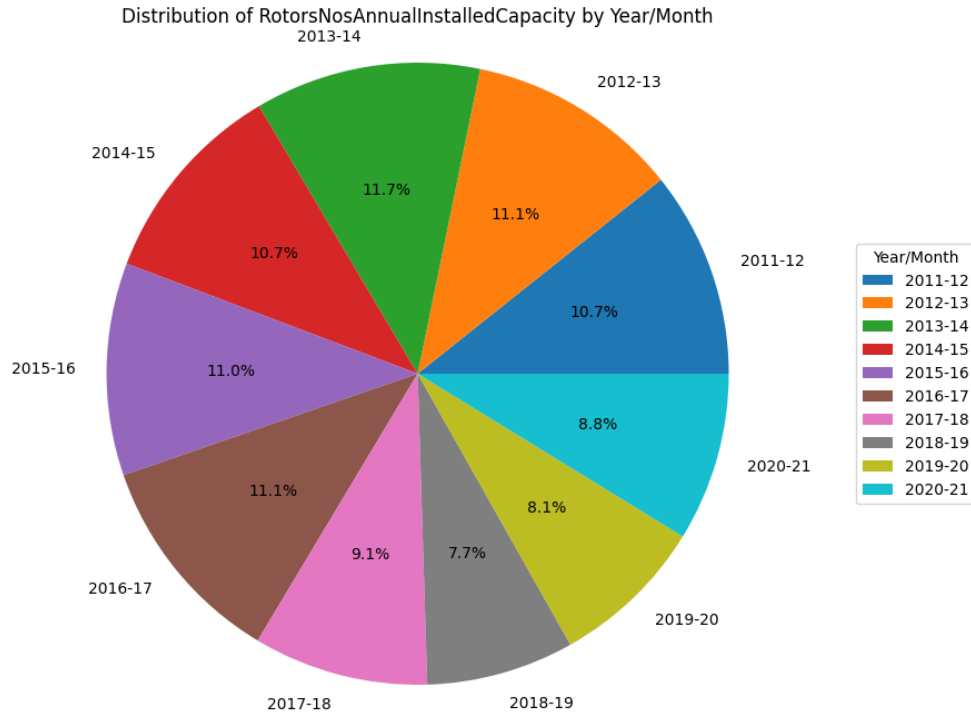
**Figure 2: Distribution of Cotton Cloth Production (in Thousand Metres) by Financial Year and Month**

The figure under consideration depicts, in thousands of metres, the data set concerning the number of metres of cotton cloth produced in the various months of the financial year. The chart is organized in a box and whisker structure in that the financial years are the years 2011-12 through 2020-21 are the columns and the individual months are the rows span from April through September. The numbers represented in the chart, e.g., 11.6% 2014-15, 5.3% in the years after, denote the utilization of a color scale and heat map system representing what percentage of each year's total production was achieved during each month. It is clear from the data that there were considerable changes in the production distribution over the entirety of the decade, primarily driven by the production months, whereby there are many months from the earlier years 2014-15 through 2016-17 that have over 11% and a more recent year leading up to 2020-21 which is noted to has a drop to a concentration of lower around 5-7% up to 2020-21 which allows for an evaluation of the seasonal shifts and the changes over time in the production cycle of the cotton cloth industry.



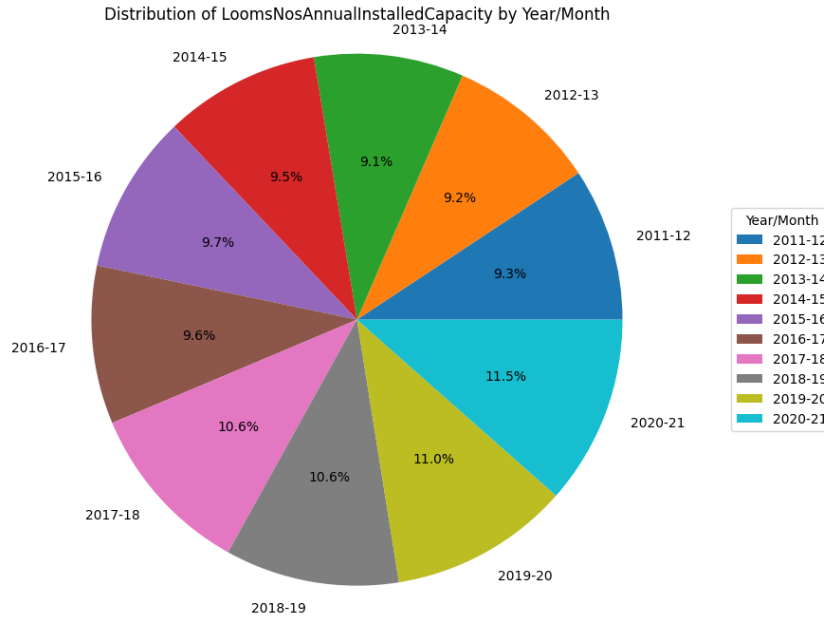
**Figure 3. Distribution of Spindles No Annual Installed Capacity by Year/Month**

The data for the Years show a small range of total capacity for the years' data and would show no one year for the total. The lowest shares for the years would be at 9.3% and are for the years 2014-15 and 2012-13. The greatest shares are for the years 2019-20 and 2018-19 which are at 10.9% and 11.0%. This shows those two years contributed the most to the total installed capacity of the decade. Some other years like 2011-12, 2015-16, 2016-17, 2017-18, and 2020-21, have capacity shares that range from 9.4% to 10.7% range and show to have capacity shares that are clustered. A good portion of the share capacity has been in recent years. The share capacity for the years 2018-19 to 2020-21 shows an upward trend with 2018-19 and 11.0% as the highest, 2019-20 being close behind with 10.9% followed by 2020-21, which had 10.7%. This shows that for the second half of the represented decade and for the recent years, there was a sustained period of significant capacity, growth/addition, or installation. On the other hand, for the years earlier in the decade especially in 2012-13 and 2014-15, the shares are the lowest.



**Figure 4. Distribution of Rotors No Annual Installed Capacity by Year/Month**

In Figure 4, we see installed capacity unevenly distributed by year. No period imposes a strong control levels, leading to a relatively even presence. Leading to an equally distributed presence. 2013-14 and 2016-17 have the most observations. They contribute 11.1 and 11.7, respectively. 2014-15 and 2015-16 have the second-most observations. They have 10.7, and 11.0, respectively. 2018-19 and 2019-20 have the lowest observations. They contribute 7.7 and 8.1 of the total. 2011-12, 2012-13, 2017-18, and 2020-21 all have 10.7, 11.1, 9.1, and 8.8 of total all contributing .



**Figure 5. Distribution of Looms No Annual Installed Capacity by Year/Month**

Figure 5, the chart shows a relatively even distribution of capacity across the years, with no single year dominating the total. The smallest share is 9.1% for the period 2013-14, while the largest share is 11.5% for 2020-21. This suggests that the installed capacity has been fairly consistent over the decade, with slight fluctuations.

The data points are:

- **2011-12:** 9.3%
- **2012-13:** 9.2%
- **2013-14:** 9.1%
- **2014-15:** 9.5%
- **2015-16:** 9.7%
- **2016-17:** 9.6%
- **2017-18:** 10.6%
- **2018-19:** 10.6%
- **2019-20:** 11.0%
- **2020-21:** 11.5%

A closer look at the data reveals a gradual upward trend in the percentage of installed capacity in the later years. The periods from 2011-12 to 2016-17 all have shares below 10%, ranging from

9.1% to 9.7%. However, starting from 2017-18, the percentages consistently rise above 10%, reaching a peak of 11.5% in 2020-21. This indicates that while the distribution was relatively balanced, there was a slight increase in the proportion of new loom capacity installed in the more recent years covered by the chart.

## **8. Conclusion**

This study's findings suggest that while there is a relationship between open innovation and performance, this relationship is not straightforward. Instead, it is dependent on the type of openness and the performance metric under consideration. When it comes to the financial dimension and innovation outcomes, the data compellingly suggest that inbound open innovation is indeed a strong catalyst for enhanced performance. This means that high-tech firms must forge and manage external relationships for the purpose of assimilating and leveraging new knowledge and technologies through mechanisms such as technology scouting, acquisition, and research and development outsourcing to improve the firms' internal processes and reduce development times. In contrast, the performance consequences of outbound open innovation are puzzling and appear to be paradoxical. Outbound open innovation enhances innovation outcomes by achieving certain technological dominances and creating new opportunities for knowledge on innovation. However, the relationship of such outcomes with short-term profitability remains either insignificant or marginally negative. This might suggest that the firm is strategically disadvantaged when it comes to licensing or creating a spin-off, as there is a high potential for developing new competitors or losing the technological dominance that is most beneficial to the firm.

Consequently, the sought-after strategies for the innovation process should be aimed toward the farther goals for the innovation process, rather than for the immediate returns. One of this research's key discoveries is the important moderating role of absorptive capacity. The positive results of inbound open innovation are not automatic; they essentially manifest much more in companies that have a robust in-house R&D and a firm adaptive capacity that allow these companies to complexively detect, assimilate, and reconfigure external dispersed knowledge. This reaffirms that open innovation is not in lieu of internal mechanisms, but rather, a necessity in addition to them. Such companies should continue to develop their internal expertise in order to construct a more advanced "receiver" that can be easily enhanced by external knowledge. In conclusion, the message for high-tech managers is quite obvious. A balanced and capability-

sensitive perspective is a necessity. The right mix of strategies, a focus on advanced inbound innovation processes, and sustained investment in absorptive capacity to improve overall performance is evident from the research. Outbound processes should be implemented in a focused manner, in service of long-term strategic goals for innovation dominion and not for short-term profitability. This research confirms that in the high-tech industry's intricate competitive environment, the manner in which a company regulates its internal and external openness is just as important as the fact that it has a framework for internal and external openness.

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