

Abstract

One of the foundational questions underlying research in technology management relates to identifying characteristics of economic environments that enable firms to appropriate value for their innovations. This article addresses the case of licensing as a value appropriation mechanism, and examines markets where technology firms license the innovations to industrial customers. The licensed innovations offers some performance (or cost) benefit to the adopting downstream industrial customers and thus have the potential to "create value" for them. Still, despite creating significant value for their customers, many technology firms are often unable to gain much value through licensing.

This article offers a general analytical framework of technology markets where innovations are licensed. Analysis of this framework offers a novel characterization of how a technology firm's ability to appropriate value for her innovation is affected by the (i) competition and heterogeneity in the downstream industrial market, and (ii) the nature and size of value created by the innovation. Lastly, from a normative perspective, the framework also offers managerial guidelines about both the type of technologies that are most promising (from the licensing perspective), and the licensing mechanisms that enable providers to appropriate greatest value from their technologies.