

Innovation with Network Effects but without Open Standards in the Defense Industry

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This paper studies the extent and character of product innovation in a technology where there are strong network effects but where there is not a generally accepted system of open standards. The analysis applies a theoretical framework of network effects to the cases where there are open and closed standards to the defence industry. Specifically, we examine the implications for innovation from the development of network-centric defence agencies accompanied by the creation of system integrators in the defence industry. The results show that although these developments are expected to have a number of positive impacts, such as enhanced security and gate-keeping of the relevant technologies, they are also likely to adversely affect product innovation.

Keywords: Defence Industry, innovation, network, standards, RMA