The Influence of the Entrepreneur’s Open Innovation Strategy on Firm Performance: Empirical Evidence From SMEs in Kenya

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ABSTRACT
This article helps identify the main factors influencing the performance of small and medium agribusiness enterprises in Kenya. The study proposes five research hypotheses, each tested on a sample of 150 agribusiness enterprises using multiple regression analysis. The results show that the use of external partners, such as scientific research establishments and commercial consultants, influences the firm’s performance. This influence is moderated by factors like internal capabilities and the firm’s degree of openness to innovation.

KEYWORDS
Entrepreneurship, Firm Performance, Internal Capabilities, Open Innovation, SMEs, Sources of Knowledge

1. INTRODUCTION
Open innovation (OI) represents a more encompassing framework for understanding the phenomenon of generating value via innovation (Zhang et al., 2018; Schroll and Mild, 2011). The concept developed by Chesbrough (2003) has established important strategies in the world of business, institutional and academia. It represents a new way of looking at innovation as a new paradigm shift for functional innovation process and research. Thus, the concept has enlisted major concern for researchers, managers, and policymakers in analyzing innovation as an interactive process rather than an exclusive one (Chesbrough, 2003). Small and medium enterprises (SMEs) are more inclined to succeed in their innovation activities by using a wide range of spectrum of partners and external knowledge to take advantage of their expertise, to overcome the limits of their resources and to share uncertainties and costs related to innovation activities (Fakhreddine, Amara, and Landry, 2012).

It is in this perspective that this paper pursues to understand better the concept of the OI process in SMEs. The particular choice of SMEs can be explained in particular by their presence in the industrial fabric of the majority of countries and their importance in job creation. Moreover, SMEs are often considered as a bastion of innovation (Becheikh, Landry, and Amara, 2006; Massa and Testa, 2008).

Innovation activities are also one of the most important factors of international competitiveness, productivity, production and employment performance of many countries (Lee, Park, and Park, 2010). In recent years, innovation has become one of the main concerns of business leaders who want to
penetrate new markets, increase their profitability and improve the value of their goods and services (Barrett and Wynarczyk, 2009; Barron, Hultén, and Hudson, 2012). The review of the literature reveals the complex nature of OI, given the existence of various internal and external factors whose interactions influence a firm’s innovation activities and performance (Huizingh, 2011).

The concept of OI has been widely studied in the context of large companies (Chesbrough, 2003; Criscuolo, Haskel, and Slaughter, 2010; Laursen and Salter, 2006, 2004; Lichtenthaler, 2008). Some researchers have analyzed the over-all effect of OI on organizational performance and recognized the positive effect of such aspects as involvement of firms with OI (Chaston and Scott, 2012), OI inclination (Hung and Chiang, 2010), the publication of OI events (Noh, 2015), OI capabilities (Ahn, Minshall, and Mortara, 2013), OI application (Huizingh, 2011), open search strategies (Cruz-Gonzalez, Lopez-Saez, and Navas-Lopez, 2015), technology association portfolio (Faulds et al., 2010). Most of these studies have focused on the effect of incoming external knowledge and found a direct positive effect of external knowledge sourcing on firm performance (Vrontis et al., 2016; Wang, Chang, and Shen, 2015). However, these studies did not focus on the entrepreneur’s OI strategy when analyzing the OI aspects and the studies were not sector specific. Furthermore, researchers have used the concept of absorptive capacity to understand the contingency of OI on firm performance (Wang, 2018). SMEs require appropriate knowledge basis and compatible cognitive ability to integrate and transform external knowledge. Such capabilities are highly reliant on the firm’s strategic behavior and human resource. Thus, some researchers proposed that entrepreneur open innovation strategy is important but ignored component of firm technology absorption capacity and performance (Jelenek, 2015; Huggins and Thompson, 2017). Studies that have focused on open innovation within agribusiness enterprises remains rare.

Agribusiness sector in Kenya contributes about 25% of the GDP. Despite this, the sector still performs below its potential due to climate change, inadequate technical skills and inadequate collaborations with research institutions. Furthermore, the sector contributes 18% of the total formal employment with about five million smallholder farmers engaged in agribusiness enterprises (AGRA, 2017; Oduor et al., 2018; GOK, 2016). The government has identified agribusiness sector as a major component in attaining economic development through the transformation of subsistence farming to an innovative commercial sector that would guarantee food security by the year 2020 (Ong’ayo, 2017).

However, agribusiness enterprises operate in an increasingly turbulent environment characterized by financial crises, globalization of trade and the new knowledge economy. According to Broughton (2011), during the economic crisis, SMEs were most affected compared to large firms (Wymenga et al., 2012). This reflects the fact that most of SMEs have fewer resources in terms of human, financial, and technological resources in relation to large companies to withstand the pressure of environmental instability (Barron, Hultén, and Hudson, 2012). In order to be successful, SMEs has no choice but to increase the effectiveness of its innovative strategies and adapt them to the context of uncertainty (OECD, 2005). According to previous researchers (Barrett and Wynarczyk, 2009; Barron, Hultén, and Hudson, 2012), innovation is considered a fundamental element of economic gains and social factors contributing to the achievement of competitive edge in both regional and international markets (Oltra, Flor, and Alfaro, 2018).

Entrepreneur’s innovation strategy represents an array of relationships, ability, and communication with external stakeholders. Thus, firm challenges may arise due to the complexity of these relationships and how the firm manage them to gain competitive advantage. Entrepreneur strategic mechanisms play a critical role in enhancing or lessening OI efficiency. Thus, the main objective of this article is to assess how firm ought to align their human resources strategies with their open innovation practices to ensure profitability of small agribusiness enterprises, which is little explored, especially in developing countries. The paper attempts to answer the following questions: Do SMEs adopting an opening strategy obtain better results in innovation? Do internal human resource competencies moderates the relationships between the OI and firm performance?
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