

## Chapter 5

# Open Innovation in SMEs: Contexts of Developing and Transitional Countries

**Hakikur Rahman**

*Institute of Computer Management and Science, Bangladesh*

### **ABSTRACT**

*Despite the increased acceptance by corporate business houses around the globe, the adaptation of strategies and concepts belonging to the newly evolved dimension of entrepreneurships, the open innovation (OI), countries in the East, West, or South are yet to adapt appropriate strategies in their business practices, especially in order to reach out to the grass roots and marginal communities. By far, firms belonging to the small and medium sized enterprises (SMEs) sector, irrespective of their numbers and contributions towards their national economies, are lagging behind in accepting open innovation strategies for their business improvements. While talking about this newly emerged business dimension, it comprises of complex and dynamically developed concepts like, management of intellectual property aspects, administration of patents, copyright and trademark issues, or supervision of market trend for minute details related to knowledge attainment.*

### **INTRODUCTION**

Innovation is no more an experimentation, but a genuine reality within the business processes, given the circumstances of economic crisis, global competition and novelties of technologies. Perplexing further to face the reality and overcome crises, firms are day by day adopting newly developed ideas, concepts, and perceptions to fit into the business dimension from within and outside the boundaries of their own entities, thus channeling the entrepreneurships through the paradigm of open innovation (OI). By far, majority of the corporate business houses and multi-national enterprises are competing or collaborating with a common goal in promoting value added products, processes, or services. Notwithstanding, they are transforming the entire business development infrastructure to face the reality and move ahead (Van Hemert & Nijkamp, 2010).

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## ***Open Innovation in SMEs***

Furthermore, it has been observed that over the past two decades, there has been a substantial shift in the global innovation landscape. Multinationals from developed economies are increasingly globalizing their research and development (R&D) activities and are developing an open innovation model to source innovations from outside the firm, including from emerging economies such as those in Africa and Asia. In addition, emerging economy enterprises, which traditionally have played a secondary role in the global innovation landscape, have now begun to catch up in developing their own innovative capabilities (Li and Kozhikode, 2009).

However, it has also been observed that a major portion of the business community that belongs to the small and medium enterprises (SMEs) sector, in spite of their justified contribution to economic growth and employment generation, is not always in advantageous situations in the arena of open innovation due to many factors, seen, unseen, attended, un-attended, researched, un-researched, and deserves further research (United Nations, 2006; World Business Council, 2007). In addition, towards the argument regarding the effect of firm size on the effectiveness of innovation continues, the particularities of open innovation from the perspective of emerging market small and medium enterprises (EM SMEs) need to be addressed (Xiaobao, Wei and Yuzhen, 2013).

Earlier studies suggest that open innovation activities positively influence innovation outcomes in large enterprises. However, few studies have investigated the implications of small and medium-sized enterprises' (SMEs) adoption of open innovation (Parida, Westerberg and Frishammar, 2012). A few studies on open innovation address OI practices in SMEs and how their use of OI and the resulting benefits differ from those of large enterprises. The lack of resources in SMEs to engage in looking outward is said to be a barrier to OI, but at the same time this shortage is mentioned as a motive for looking beyond organizational boundaries for technological acquaintance (Spithoven, Vanhaverbeke and Roijakkers, 2013).

In this context, Edwards, Delbridge and Munday (2005) argue that, in spite of increasing attention being given to the role of SMEs and innovation, there is a gap between what is understood by way of the general innovation literature and the extant literature on innovation for SMEs. They further argue that studies of innovation in SMEs have largely failed to reflect advances in the innovation literature. Supporting these arguments, this study has tried to find out relevance of open innovation among SMEs, and particularly the emergence of OI strategies in developing and transitional economies.

Brunswick and Vanhaverbeke (2015) explore how SMEs engage in external knowledge sourcing, a form of inbound open innovation. They draw upon a sample of 1,411 SMEs and empirically conceptualize a typology of strategic types of external knowledge sourcing, namely minimal, supply-chain, technology-oriented, application-oriented, and full-scope sourcing. They find that each strategy reflects the nature of external interactions and is linked to a distinct mixture of four internal practices for managing innovation. Wynarczyk (2013) assesses the impact of open innovation practices on the innovation capability and export performance of UK SMEs. The overall results exhibit that the international competitiveness of SMEs is highly dependent on the cumulative effects and interrelationship between two key internal components, i.e. R&D capacity and managerial structure and competencies, coupled with two external factors, i.e. open innovation practices and the ability of the firm to attract government grants for R&D and technological development. Along this perspective, Hossain and Kauranen (2016) synthesize the extant literature on open innovation in SMEs. The study finds that adopting OI by SMEs improves their overall innovation performance. They also found that a larger number of studies are based on a quantitative approach.

There are a considerable number of literatures that are available about innovation, and in recent years various models have been suggested to describe its nature. Models have also been divided according

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