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Strategic Network Partner Fit, Open Innovation and Organisational Performance: A Conceptual Framework

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Abstract

. This paper is a review of literatures on strategic network, strategic partner fit, alliance, collaboration, open innovation and organisational performance. It discussed on the influence of strategic network partner fit and open innovation on organisational performance in today's competitive environment. This conceptual paper argues that the success organisational performance depends on the ability of the partners to strategically match resources based on some criteria of alliance characteristics relationship with firms' openness in innovation. In order to mitigate risk and create more innovation, firms should be opened towards strategic partnership and innovation. It is critical for firms to be able to identify and evaluate the potential value of the external knowledge from their partners, their own internal knowledge capacity and their alliances network attributes. This to ensure that resources require for the completion of a project are matched. The impact of globalization has seen many giants' corporations collapsed without strategic partnership thus lead to lack of innovation and competitiveness.

Objective: To propose and illustrate a conceptual framework of strategic network partner fit, open innovation and organisational performance.

Results: The literature review discussed in this paper has deliberated the conceptual connection between strategic network partner fit, open innovation and organisational performance.

Conclusion: The paper intends to generate a new theoretical model for strategic network partner fit, open innovation and organisational performance. Since there is a few research pertaining to the mediating role of open innovation towards strategic network partner fit and organisational performance, hence, this study signifies to supplement the literature gap

INTRODUCTION

In today's globalization business trend, competition is getting tougher and riskier. More and more organizations are going into partnership and collaboration to mitigate risk and to secure competitive advantage. Innovation plays a critical role in organization's survival. Firms that are able to innovate constantly may be able to sustain their business and remain competitive in the market. The partnership and collaboration initiatives should focus on innovation to create and sustain the competitive advantage.

Organisational performance is the outcome of an organization's operations. In facing competitiveness and market development situations, organisations need to be well prepared in responding to the challenges for survival.

As such, it is important for firms to undertake strategies as well as to measure performance in order to stay stable (Gabcanova, 2012). Organisational performance is a significant indicator of organisational success (Stegerean and Gavrea 2010; Sethibe and Steyn, 2016). Moreover, many researches show that organisational performance is influenced by innovation (Likar, Kopa & Fatur 2014; Yen 2013). Sethibe and Steyn, (2016) classified organisational performance into financial and non-financial organisational performance. In other words, it is insufficient to measure an organisational performance using a single factor. This statement is supported by Herman and Renz, (2004). Firms can be more innovative and remain competitive through collaboration in innovation.

Strategic alliances and open innovation seem attached as, through collaborations and networks, they help to increase a firm's internal innovative activities (Elisa, 2012; Alliances Progress, 2013). Moreover, firms gain shared knowledge and profit from complementary competencies (Zeng, Xie, and Tam, 2010; Bullinger, Auernhammer and Gomeringer 2004). During the early stage, strategic alliances were seen as a better alternative for mergers, acquisitions, or joint ventures for improving incomes and profits. However, currently strategic alliances are inclining towards learning and experimenting. Depicted in (Open Innovation and Strategy) by Arie Nagel, highlights that strategic alliance is an excellent opportunity for open innovation that is inbound or outbound. Open innovation, on the other hand, demands for strategic alliances, partnerships and merger (Upstate Business Journal, 2016). Thus, strategic alliance and open innovation are linked to one another and complement each other. The strategic alliances and open innovation require firms' openness. In today's environment, a firm cannot innovate in isolation. It has to cooperate with different types of partners to gain ideas and resources from the external environments to keep pace with competition (Chesbrough, 2003a; Laursen and Salter, 2006a).

Firms that are using alliances network can obtain more resources than their own capabilities. Once a firm decides to participate in strategic alliance, the next important decision is selecting the right partner (Hitt, Tyler, Hardee and Park, 1995; Thorgren, Wincent and Ortqvist, 2010; Theyel, 2013; Abuzaid, 2014; Hossain, 2015). There were also suggestions by scholars that strategic alliances fail due to inappropriate attribute of partners (Emulti & Kathawala 2001; Abuzaid, 2014) which subsequently, affect business performance (Supriyadi and Ratna Ekawati, 2014). However, there are numerous criteria and factors recommended by scholars that can be used in choosing partners

Many companies have been using open innovation methods in most of their activities for several decades, thus, it is not a new concept. However, Chesbrough (2003; 2007) put together this theory from several concepts developed in the 1980s and 1990s, specifically the concept of complementary assets (Teece, 1986) and since then it has become a topic of research interest by scholars. Topic on open innovation has been receiving an increasing growth of attention not only in strategy, general management and organisational behaviour journals (Gassmann, Enkel and Chesbrough (2010, p. 215) but also in other areas such as economics, psychology, sociology and culture (Huizingh, 2011). A strategic partnership characteristic that fits along with open innovation is able to steer firms toward achieving their desired objectives and goals.

Thus, this paper aims to conceptualize the idea of relating strategic networks partner characteristics and open innovation towards organisational performance. Many researches tend to focus studies on a direct relationship between strategic alliances and business performance but much less is studied on the connection of strategic networks partner fit and organisational performance with open innovation as a mediator. Thus, this is forming a literature gap.

The remainder of the research will progress as follows. The following section will focus on the literature review of the strategic networks, partner fit, open innovation and organisational performance. The third section illustrates the proposed conceptual framework. The last section will conclude the study.

LITERATURE REVIEW

Organisational Performance

Organisational performance is defined as the point at which a firm is capable to meet its own needs for survival as well as to satisfy its stakeholders (Griffin, 2013). On the other hand, Selden and Sowa (2004) illustrate organisational performance as the ability of an organization to achieve its pre-determined objectives and goals. While another, recognised organisational performance as the outcome of an organisation which compared to its expected outputs (Ali, 2006).

Over the years there have been several studies on the factors that determine organisational performance. The performance of any business organization is influenced by the strategies that the firm has chosen. Organization performance involves selection and measuring key variables that permits a firm to identify and monitor its

competitive position in the business. Sethibe and Stein (2016) in their study classified two types of performance measure, the financial and non- financial performance measurement.

In order to assess the financial aspects of the organisational performance, researchers commonly use the accounting-based measures such as profitability, sales growth, return on sales (ROS), return on assets (ROA), return on equity (ROE) or return on investment (ROI) or stock market measures and price earning (P/E) ratio (Likar et al. 2014; Nawaz, Hassan and Shaukat 2014; Tsao and Lien 2013).

On the contrary, the measurement determined by researchers, used for non-financial aspects of organisational performance which is based on the relationship between innovation and organisational performance includes market share, customer satisfaction, productivity, operational efficiency, employment growth, quality, competitiveness, reputation or branding, product attractiveness and quick to market (Sethibe and Steyn, 2016).

Even though the importance of organisational performance is extensively known, there has been considerable argument about the issues of terminology and conceptual bases for performance measurement (Ford & Schellenberg, 1982). Not one single measure of performance may fully explain all aspects of the term (Snow & Hrebiniak, 1980). The easy way to comply with the paper formatting requirements is to use this document as a template and simply type your text into it.

Strategic Networks

For the purpose of this study, the term networks and alliances are interchangeably used as according to Koleva (2002) they are quite synonym. Even though, there are some differences but at certain level they may carry identical purposes. A partnership an 'alliance' usually indicates a pool of similar resources networks' such as knowledge or finances to increase market control via economies of scale. On another note it often means connections between complementary resource owners, knotted together by personal bonds in order to achieve different purposes and tasks.

Networks include firm's set of relationships as in horizontal, vertical or lateral (Hinterhuber and Levin, 1994) with other organizations like customers, other business with different nature counterparts, competitors, suppliers, institute of higher learnings, authorities or other entities. It also consists of interactions of local and global countries and industries. (Partnering Resources, 2018) described networks as the mesh relationships formed by persons or societies in order to get things done. This network supports several functions that individuals need to achieve at work, starting from completing routine transactions to planning, socializing, learning, innovating, and developing their careers. Jarillo (1988) outlines strategic networks as long-term contracts between different but linked organizations that permit firms to benefit competitive advantage over competitors outside the network, whilst Thorgren, (2010) associated strategic networks with exploiting synergies of partners. (Thorgren, 2010).

Gulati (1998) demarcated strategic alliances as voluntary preparations between organizations involving exchange, sharing, or cooperation in developing products, technologies, or services. In addition, Hitt, Tyler, Hardee and Park (1995) summed up that strategic networks are established because firms do not always have all of the resources to compete effectively in particular markets. Moreover, they do so because of the uncertainty and the desire to share risks. However, the assessment and selection of partner fit are important to be considered by managers in making alliance partner decisions.

Strategic alliance selection is a serious aspect of a firm successful development (Abuzaid, 2014; Supriyadi and Ratna Ekawati, 2014; Işoraitė, 2009). The network built could benefit firms in not just sharing and combine information, skills, and resources to develop advanced innovation and mitigate costs and risks (Van, Gils and Zwart, 2009) but also can compete efficiently (Thorelli, 1986)

Previous researches claimed that many strategic alliances fail due to the attribute chosen of the partners (French, 2015; Elmuti and Kathawal, 2001) in particular at the stage of planning (Abuzaid, 2014). Many scholars learned that even predominant strategic alliance management may not be enough to overcome poor partner selection (Cummings & Holmberg, 2012).

A body of researchers has identified several criteria and factors that can be used to guarantee successful strategic networks partner (Abuzaid, 2014; Thorgren, 2010, Wu, Shih and Chanm, 2009). These criteria and factors are known as significant determinants of firm's towards strategic alliances performance

Partner Fit

Jalali (2017) studied the effect of partner characteristics on export performance of alliances with time based emphasis. He extracted from several literatures and enlisted partners' characteristics according to his concerns and importance of his study which include theory, context, time and international economies-based. He anticipated the relevant alliance characteristics are financial assets, access to distribution channel, institutional knowledge, intangible assets (non-technological), international market knowledge, links with buyers and suppliers, managerial capability, previous alliance experiences, reputation of partners, technological capability and trust representation. Using quantitative method, he found that partner characteristics provide different effects on alliances export performance. The characteristics effectiveness is based on the time frame.

Abuzaid (2014), studied on the impact of strategic alliance partner characteristics of 13 Jordanian Pharmaceutical companies with the sample unit of 122 managers and head of divisions in strategic alliances, marketing and production areas on firm's innovation. The alliance partner characteristics include partner complementarity, partner compatibility and partner commitment. His study revealed that the strategic alliance partner fit had a significant impact on the pharmaceutical companies' innovation. These characteristics impacted incremental innovation more than radical innovation.

Thorgren, Wincent and Rosqvist (2010), identified determinants of firms strategic attributes as 'partner fit', They emphasized, high capability complementarity and high compatibility as motivators for firms to engage in the inter-organisational relationship. They explained about how partner fit influences networking firms' corporate entrepreneurship specifically. In addition, mediating variables as researchers' viewed, are required to unleash the potential of partner fit synergies for corporate entrepreneurship. Results of their study showed a positive indirect relationship between partner fit and corporate entrepreneurship.

Mohr and Spekman (1994), based on other literatures focused on commitment, coordination, interdependence and trust as important attributes of partnerships in their study within the perspective of vertical partnerships in the computer industry. Multiple regression was used for this study and results show that except for interdependency, other primary characteristics are significantly associated with partnership success. Their findings offer insight into how to better manage these relationships to ensure success.

For the purpose of this research we posit the term partner fit as partner characteristics or attributes which identifies to capture potential partner synergies. If there is no such mesh fit, there will be a risk that synergies do not happen or situations do not run smoothly since there is no alignment between partners. Thus, having explained about strategic network and the importance of partner characteristics, this study will use the concept term of strategic network partner fit to describe the integration linkage of alliances with the numerous aspects of networks and the characteristics or attributes require for business partnership competence and success.

Open Innovation

Partnership is an important ground in applying open innovation principles to alleviate business synergies, stimulate economies and enable entrepreneurs (Upstate Business Journal. (2016). Open Innovation (OI) has become more and more vital for both practice and theory over the years since it was introduced in 2003 by Henry Chesbrough. He also made a paradigm from closed innovation model to the OI model (Chesbrough, 2003a). Chesbrough also expresses that OI is the used of internal and other companies' ideas to promote new businesses. He identifies five key features of the new innovation process, comprising:

1. Make contacts or networking
2. Collaboration with partners, customers, competitors, universities, and others
3. Corporate Entrepreneurship through corporate venturing, start-ups and spin-offs
4. Buy and sell intellectual property and create markets for technology
5. Research and Development (R&D) for competitive advantage in the marketplace

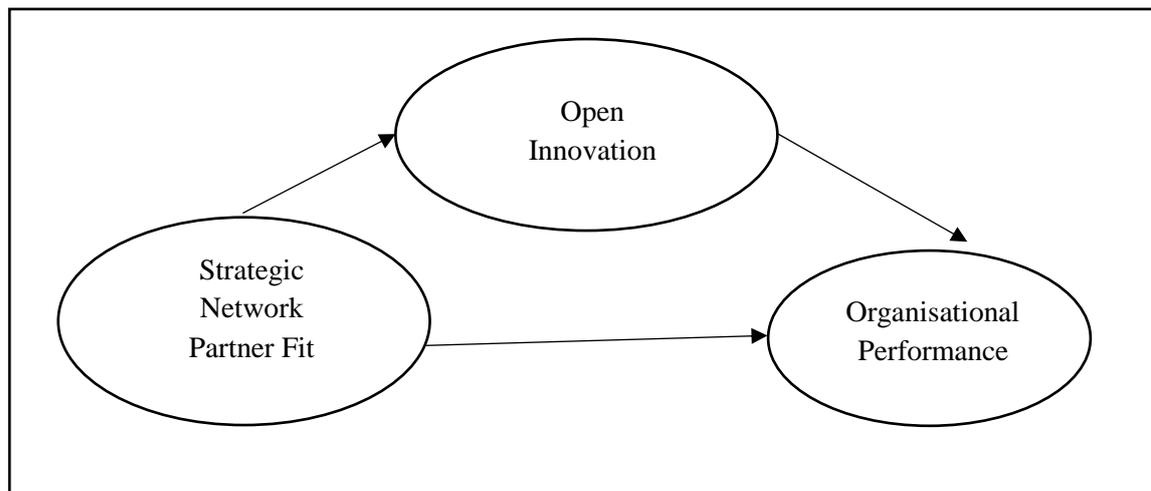
Researchers have identified three different types of open innovation and are classified as inbound open innovation, outbound open innovation and coupled mode open innovation. The inbound open innovation specifies the inflow of innovative ideas and knowledge from external source, while the outbound is the outflow of an organization's innovative ideas and knowledge to external bodies and finally, the coupled mode is the combination of inbound and outbound (West and Bogers, 2014; Gassmann and Enkel 2004).

Liang, Chen and Pee (2013), investigated how different the independent variables, there are knowledge management strategies and IT capabilities, influence the implementation of open innovation. In addition, to find out if the adoption of open innovation mediates both independent variables and dependent variable (organisational performance). In relation to the results between OI and organisational performance it is found that the higher level of open innovation leads to higher organisational performance. Moreover, inbound OI and outbound OI have different effects on organisational performance in different economic contexts.

According to Dries et al, (2013), OI can occur at the different stages of innovation. It may be at the front end or idea generation phase, at the idea realization or development phase and the commercialization phase. In this paper, OI is considered from the perspective of strategic network partner fit. A substantial amount of research has been dedicated to various aspects of innovation partnerships, such the motives for and impacts of collaboration. However, the essential characteristic of partner selection for open innovation has received limited attention from scholars (Li, Eden, Hitt and Ireland, 2008). Thus, this conceptual paper contends that the success of organisational performance is based on the ability of the partners to strategically fit resources based on compatibilities, complementarity and commitment of network relationship with firms' openness in innovation. In addition, there are very limited studies on the role of OI as a mediator.

CONCEPTUAL FRAMEWORK

Figure 1 show the proposed conceptual framework based on literature review. Open innovation is a mediating variable between strategic network partner fit and organisational performance. Three main propositions are proposed for this conceptual paper.



CONCEPTUAL FRAMEWORK

Fig. 1

Strategic Network Partner Fit and Organisational Performance

Strategic Networks Partner Fit is an important driver towards firms' innovation. The effect of partners' resources and characteristics on organisational performance has become a crucial theme in alliance portfolio research. An alliance portfolio is a pivotal firm's set of all direct alliances, which take several forms and occur across both vertical and horizontal boundaries (Wassmer, 2010). The results of the study by Abuzaid (2014) reflected that the strategic alliance partner characteristics had a significant effect on pharmaceutical company's innovation performance. Therefore, it is anticipated that the strategic network partner fit has positive relationship with the organisational performance.

Proposition 1: Strategic networks partner fit has significant positive relationship with organisational performance

Strategic Network Partner Fit and Open Innovation

OI means a firm is increasingly using external knowledge to accelerate its internal innovation process. It is due to the attentiveness of inter-firm collaboration for innovation that networks become relevant to open innovation and vice versa (Chesbrough, 2003, 2006; West, Vanhaverbeke and Chesbrough, 2006). Such cooperation allows firms to improve their innovation performance by maximising the benefits of creation and commercialization paths externally. However, selecting partner(s) with suitable characteristics for collaborative projects is the core challenge that firms have to face before they can achieve the advantages of collaboration. Solesvik and Westhead (2010) describe that the right partner is the vital feature of open-innovation success. Therefore, it is anticipated that strategic networks partner fit has positive relationship with OI.

Proposition 2: Strategic networks partner fit has significant positive relationship with Open Innovation

Open Innovation and Organisational Performance

OI was initiated when experts realized firms that intended to commercialize both, their own ideas as well as other firms' innovation would seek for new approaches to bring their in-house ideas to the marketplace. This is due to firms inclining need for external new knowledge as well utilizing their internal new ideas. Innovation process depends intensely on knowledge (Gloet and Terzioki,2004) and profiting from the open innovation network attributes are crucial for firms' success or failure (Enkel, 2010). Chesbrough et al. (2006) deliberated "open innovation is the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively". Hence, it is anticipated that open innovation has positive relationship with organisational performance.

Proposition 3: Open Innovation has significant positive relationship with organisational Performance

CONCLUSION

Strategic Network Partner Fit which leads to collaboration amongst firms plays a vital role in handling the fast-changing business environment. Selecting the right partners for networking and collaborating in projects is the focal challenge that firms have to face before they can gain the benefits of business synergies and success. More so, the alliance network is substantiated by the firms being open towards innovation. It is anticipated that in this twenty-first century, where there is market turbulence, sustaining organizational performance can be made more secured by firms if they were to collaborate with other organizations in the development of new products as well as operational processes. Strategic alliances with which their characteristics matched and network with openness for innovation is able to direct firms toward achieving their desired objectives and goals.

For the purpose of this study the term strategic network partner fit is used to identify the integration of the strategic decision a firm makes on searching its network partners or alliances to collaborate and with characteristics that fit. This paper has discussed and conceptualised the relationship of strategic network partner fit and open innovation towards organisational performance. Past studies have connected each of the variables, however, due to the fact that both of the determinants, strategic network partner fit and open innovation, are relatively developed into a new concept, little to none research has been done to relate them. Therefore, this paper shall contribute to fill in the literature gap as well as extending the literature on strategic network partner fit, open innovation and organisational performance. An imminent research will be done to validate the proposed model by empirical research.

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