CHAPTER ONE

1.1 Background to the Study

Organizations exist in dynamic markets that have changing technology and to survive in t hat competitive environment they innovate. Innovation is the means or way of translating an idea, skill or invention through; adopting new operating practices, offering of new produ cts and services or creation of new skills and competencies The innovation ability is very i mportant factor increasingly viewed in developing and sustaining competitive advantage These innovation strategies will assist the organization to have a unique advantage which calls competitive advantage.

Despite massive investments of management, time and money innovation remain a frustr ating pursuits in many companies. Innovation initiatives frequently fail, and successful in novators have a hard time sustaining their performance. The problem with innovation impr ovement efforts is rooted in the lack of innovation strategy. The innovation strategy answe r the following questions like how will innovation create value for potential customers? Ho w will the company capture shares of the value its innovation generate? What types of inn ovation will allow the company to create and capture value and what resources should eac h type receive?

Small and Medium Enterprises (SMEs) are globally recognized as catalysts for global eco nomic growth. SMEs are considered key drivers of socio-economic development and comp etitiveness due to their multifaceted contributions to the economy. SMEs also play a critic al role in the penetration of new markets and stimulate growth and development of econo mies (UNDP, 2015). SMEs are central in national development strategies aimed at stirring up economic activity and reducing unemployment and poverty. Despite the crucial role pla yed by SMEs in economic growth, the enterprises face serious challenges that stifle their p otential contribution to development. One of the 21stcentury challenges for most firms es pecially SMEs is increasing global competition in a market that is very dynamic .The preva iling business environment is characterized by increasing globalization, rapid technologica l advancement and short product cycles. This requires firms to establish and maintain thei r competitiveness for survival and growth.

Innovation is one of the key features of entrepreneurial behavior that has been significantly linked to SMEs. Innovation is widely acknowledged as a core factor to increased productivity and competitiveness. It is one of the key practices underpinning the survival and competitiveness of firms in a competitive globalised environment. A firm should be able to compete effectively if it generates a specific and durable differentiating factor and innovation is one of the key ways through which firms can create the differentiating factor. Within the business context, innovation is often considered the basis of strategic change through which firms can gain and sustain competitive advantage. An essential tool of firm strategies, innovation can enable firms to differentiate their products, improve efficiency, penetrate new markets and raise market share to establish competitiveness. Based on this notion, SMEs are increasingly turning to innovation to develop and sustain their competitiveness.

Innovation is describe as "the explicit tool for entrepreneurs and firms" leading to the growth of a strong and vibrant SME sector. It is also seen as "a business practice that firms can employ to achieve their objectives by the implementation of better methods and processes for competitiveness. A firm's ability to compete is largely determined by its capability to create a specific and durable differentiating factor and be achieved through innovation among other firm activities. Innovation is increasingly becoming a vital competence factor and source of strategic change for sustained competitive advantage. Intense competition requires firms to be competitive for survival. Small firms in developing countries need to enhance their competitiveness to survive by surmounting the limitations in their local markets to thrive. A thriving SMEs due to their contribution will also have an impact on the competitiveness of economies.

Despite the fact that there is agreement and acknowledgement on the need and importance of competitiveness for firms and economies, a concise definition of the concept still remains elusive. Competitiveness is a multifaceted and relative concept that makes it complex Competitiveness as the ability of an enterprise to increase its market share, profit and growth while sustaining its position in the market for a period of time". Competitiveness is dependent on dynamism, innovation and the ability to change and adjust.

Enterprise competitiveness is the ability to sustain a market position by providing quality p roducts on time and at competitive prices. Hence for firms to be competitive they need the flexibility to rapidly adjust to changes in the market by strengthening their innovative capa city. Competitiveness is a function of several firm factors that are interrelated and include productivity, market share, profitability, efficiency, product range, value creation and custo mer satisfaction. Sources of firm competitiveness include product differentiation, product/ service quality and variety, novelty, process efficiency, cost reduction, adoption of technolo gy and export attractiveness.

Competitive enterprises are expected to exhibit higher growth rate in terms of sales and rev enues, better returns on investment, higher market share, higher market access and control of distribution as compared to non-competitive firms. Such firms are characterized by redu ced production cost leading to increased profits and have the ability to sell in the market w hile meeting market requirements.

This study examine the relationship between innovation strategy and competitiveness of s mall scale business

1.2 Statements of the Problem

1. Lack of open innovation affects product quality.
2. It has been identified that negligent in open innovation affect the product price a nd capacity to gain competitive edge over the competitors.
3. Inadequate internal sourcing affect product quality.
4. Lack of internal sourcing affects the product price in order have edge over the co mpetitors.

1.3 Research Question

1. To what extent does open innovation improve product quality?
2. How can open innovation increase product price?
3. What is the relationship between internal sourcing and product quality?
4. To what extent does internal sourcing affect product price?

1.4 Objective of the study

1. To examine whether open innovation improve product quality.
2. To ensure open innovation increase product price.
3. To determine if internal sourcing promote product quality.
4. To ascertain whether internal sourcing increase product price.

1.5 Research Hypotheses

HO_1 There is no correlation between open innovation and product quality.

HO_2 There is no correlation between open innovation and product price.

HO_3 Internal sourcing has no significant effect on product quality.

HO_4 : There is no correlation between internal sourcing and product price.

1.6 Significance to the Study

Innovation strategy is very vital and essential to any organization in order to stand out and have competitive edge over its competitors in the market. This is necessary because Nigeri a's industries needs to adopt an innovation strategy that would enable them to meet up cu rrent trends global marketing

This study is also importance to different entrepreneurs who need the information to analy ze the present marketing environment in order to predict the future prospect. The study will also benefit other future researchers in the same field with the literature to support their ar guments and hence improved knowledge. These will have enriched available information on impacts of innovation strategy on competitiveness of small scale business

1.7 Scope of the Study

This research work will focus on the impact of innovation strategy on competitiveness of small scale business with specific reference to block industries in Ilorin east local governm ent area.

1.8 Limitation of the Study

The major limitation that is likely to be encountered in the course of this research may include the following:

1. Reluctance of the respondents to give all needed information with fear of being reprimanded by their superior.
2. Insufficiency of financial resources needed to ensure that the study cover a wider scope.
3. Inadequate time to carry out the research.

1.9 Clarification of terms

Open innovation: Open Innovation was defined as the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively (Henry Chesbrough, 2003).

Internal sourcing: A decision to produce goods within the organization when it is the best possible option for saving money and producing the necessary goods to continue operations.

Strategy: it is can be describe as a plan of action designed to achieve a long – term or overall aim in organization

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter will review literature related to the topic under study. The essence of the revie w is to discuss the contribution made by scholars, theorists and researchers in the researc h field. It will also discuss on the conceptual, theoretical and empirical frame work.

2.1 LITERATURE REVIEW

Manufacturing firms of varying size in both developed and developing countries are opera ting under highly uncertain and dynamic market conditions .According to Frambach, Prab hu and Verhallen, such market conditions along with the turbulence of technology are forcing manufacturing firms to look for alternative way of survival and growth. And for many of these firms innovation in general and competitiveness in particular has long been considered as the primary source of strategic competitive advantage. In light of this importance, a substantial number of scholarly works has given immense attention to the investigation of factors that enhance innovativeness and competitiveness of small scale business. With respect to recent works by Kim and Lee and Wang and Wang, innovation is a knowledge intensive organizational process that entirely depends on the individual and group learning activities within an organization. In support of the notion Martin-de Castro et al. point out that, continued innovation and innovation performance in an organization is crucial.

2.2 Conceptual Review

The last decades has been characterized by rapid social, political and technological change. There is recognition of various phrases such as 'globalization, global warming, the borderless world, personal computer and the Internet' that have entered the vocabulary of this era. The movement in organizations and business are becoming more complex rather than simple, dynamic than steady and aggressive in nature than tame. In this period, there is confusion in the meaning of innovation and invention. Invention is an idea, a sketch or model for a new or improved device, product, process, or system" whereas "An Innovation in the economic sense is accomplished only with the first commercial transaction involving the new product, process, system or device" Thus innovation is the utilization of new ideas which stem from the bedrock of ideas and is in essence characterized by change. Moreover, in turbulent periods organizational can become flexible when they try incessantly to reinvent their business model. The accomplishment of innovation can be reached through technological facilities, trained workforce and management support for innovation.

There is widespread ambiguity about what is exactly meant by the concept of Innovation strategy. This is clear in literature where researchers and managers have attributed various meanings to the concept of innovation.

The purpose of this chapter is to explore the variety of definitions provided by several researchers worldwide in literature available in the public domain for the concept innovation and that of innovation strategy in order to arrive at an understanding of theory on innovation, which forms the foundation for the implementation of innovation strategy by organizations and institutions.

Joseph Schumpeter was first to define innovation as "the creation of new combinations". The definition, however, has developed over time and been interpreted very differently (Sauber & Tschirky, 2006).

Forsman (2010) defines "innovation as the generation and implementation of new or improved processes, products/ services, production methods or single actions aimed at increasing the competitiveness of an enterprise"..

Oslo OECD Innovation manual defines "innovation as the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations" (OECD, 2005). According to the manual, the essentials of innovation include newness and commercialization whereby the products, process, methods are brought to the market and to practical use includes products, processes and methods developed by the firm and those adopted from other external organizations (OECD, 2005).

Drucker describes innovation as "the explicit tool for entrepreneurs and firms" leading to the growth of a strong and vibrant SME sector.

Porter et al (2006) describes innovation as "a business practice that firms can employ to achieve their objectives by the implementation of better methods and processes for competitiveness. A firm's ability to compete is largely determined by its capability to create a specific and durable differentiating factor and be achieved through innovation among other firm activities (Porter et al 2006). Increasing global competitive pressure, shortened product lifecycles and ease of imitation make it necessary for firms to innovate to sustain competi tiveness (Hamid & Tasmin, 2013).

2.2.1 Innovation as a Basis for Competitive Advantage

Schumpeter had long acknowledged innovation as a critical basis for a competitive advan tage that is sustained. A new definition was provided by the economist as combination of factors of production that are new and conditions of production by entrepreneurs. Schump eter identified new combinations which include creating new products or features being br ought to a product, through production processes that are new, new markets promotion, ra w materials sources or semi-finished products supply should be controlled, and implement ation of organizational structures that are new (Ren et al ., 2010).

2.2.2 Innovation and Firms Performance

A firm performance is related to the ability of the firm to gain profit and growth in order to achieve its general strategic objectives. It is a consequence of the interaction between acti ons taken in relation to competitive forces that allow the firm to adapt to the external envir onment, thereby integrating competence and usefulness.(Keizer et al.) emphasized that th e firm's innovation performance depends on the opportunities provided by their external en vironment. This implies that SMEs becomes very competitive in an emerging market when they give importance to innovative activities that build their reputation in the market enviro nment.

Essentially, the key reason for innovativeness is the desire of firms to obtain increased bus iness performance and increased competitive edge. It was found that outlook of firms tow ards innovations has high score in the competitive environments so as to gain higher com petitive lead.

2.2.3 Innovation strategy

An innovation strategy is a plan used by a company to encourage advancements in techn ology or services, usually by investing in research and development. The extent of organiz ation's emphasis on either the internal or external knowledge has been credited to have an influence on the innovation performance of manufacturing organizations. Consequently, organizations have the option of pursuing either the open innovation or internal sourcing strategy in their new product generation and development process. From strategic management perspective, both the open innovation and internal sourcing strategies strive for the achievement of superior innovation performance through the development of organizational competence. According to Day firms pursuing the open innovation strategy usually allocates enough R&D resources, acquire new technology, and accumulate better human resource competence. Such capabilities and competences are hard to be imitated by competitors and have considerable long term effect on the competitiveness.

Nine Components of an Innovation Strategy

Component	**Option**	**Type**
1. Type	Product, Process, Strategic/Business Model Discrete	Discrete
2. Level	Radical to Incremental	Continuum
3. Impact	Disruptive to Sustaining	Continuum
4. Collaboration	Open vs. Closed	Discrete
5. Place	In-house, Greenfields, Outsourced	Discrete

6.Risk s	High to Low Risk Profile	Continuu m
7.Maturity	Inconsistent, Formalized ,Insti tutionalized	Discrete
8.Resourc es	Operations, Execution, Capab ility Improvement	Discrete
9. Driver s	Technology ,Market, Financia l, Legal	Discrete

2.2.4 Innovation Types:

Different types of Innovation have been identified in innovating firms. These types are bas ed on two conventional ways of categorising innovations; the object of change and the ne wness or extend of the change.

This first categorisation based on the object of change was proposed by Schumpeter (19 34). Accordingly, innovation is categorised into product, process, market and organization al innovations. Based on the second categorization in relation to the "newness" or "radical ness" the degree of change, innovation is categorised as being radical or incremental.

OECD Innovation Manual identifies four main types of innovation based on the object of c hange and these are product, process, marketing and organizational innovations (OECD, 2 005).

Schumpeter (1939) on the other hand classified innovations into five types: new products; new processes (technological process innovation and organisational innovation); new sou rces of supply/raw materials; new markets and new ways organisation.

Alternatively, innovations are classified as radical or incremental based on the nature or de gree of newness. Radical innovations are defined as unique, novel and influential innovati ons that involve major advances/ changes that lead to the substitution of existing product s/ services based on existing technology. They involve revolutionary changes; serve as the prompts for completely new technological path (Varis & Littunen, 2010).

Radical innovations are either new to the market, industry, and country or world. These inn ovations offer significant unprecedented performance that lead to the creation of new mar kets or transformation of the existing ones (Leifer *et al.*, 2001).

Radical innovation requires completely new knowledge, technology and/or resources while they provide more benefits and utility (Varis & Littunen, 2010; Trott, 2008). They also requir e a high degree of internal R&D, hence are more supported by cooperation of the firm with universities and research organizations (Todtling & Kaufuman, 2001).

On the other hand incremental innovations provide improvements in the functionality and performance of an already existing product/ service or processes. Such innovations includ e adaptations, refinement, enhancements or line extensions by adding new features (Garci a & Calantone, 2002). This is the most common type of innovation in many organizations especially in SMEs and it builds upon existing knowledge and resources within a firm.

There are indications of a relation between innovation novelty and impact dimensions of i nnovations (Keijl, 2011). Radical innovations are thought to be the driving forces that chan ge industries due to their high impact and competitive advantages (Ahuja & Lambert, 200 1). Schumpeter (1947), sees radical innovations as quite important to firms implementing them and other firms in the same industry as they lead to Industry changes. These innovat ion are influenced by firm characteristics and its networks.

2.2.5 Challenges for innovation management

SMEs face unique challenges for innovation. Abouzeedan et al. (2013) argue that these ch allenges include scarcity of resources, complexity of scientific field, coordination of the op erative functions of the firm, and access to up-to-date scientific excellence. Even though lic ensing out the knowledge of SMEs to external parties is beneficial for them, it is not appro priate for short-term benefits (Andries and Faems 2013). Christensen et al. (2005) highligh ted that the complexity of interplay between technology entrepreneurs and incumbents.

van de Vrande et al. (2009) argue that most SMEs face challenges that are related with or ganizational and cultural issues to deal with the increased external contacts. These challenges include venturing, customer involvement, external networking, research and development (R&D) outsourcing, and external participations. Moreover, SMEs in developing countries face different challenges from the SMEs in developed countries. Vrgovic et al. (2012) suggest that, in developing countries, a government agency using innovation hubs, could help SMEs to connect, communicate and collaborate with independent inventors and other parties to jumpstart innovation practices.

However, Wynarczyk (2013) argue that in the international competitiveness, SMEs are highly dependent on two key internal components – R&D capacity, and managerial structure and competencies, and two external factors open innovation practices and the ability of the firm to attract government grants for R&D and technological development.

2.2.6 Policy for open innovation

Open innovation has appeared as an alternative method for providing SMEs with R&D outsourced services as a strategically focused approach (Albors-Garrigós et al. 2011). Csath (2012) argues that embracing open innovation is essential for SMEs to grow internationally and they need an educational system which encourages and appreciates creativity, criticism, self-discipline, self-motivation, desire for knowledge and life-long learning, openness, and cooperation.

Hemert et al. (2013) claimed that policy makers may not be aware of the importance of various networks for SMEs. Innovation support schemes from the public actors are useful to sensitize SMEs towards open innovation practices (Kamp and Bevis 2012). Kim et al. (2014) suggested that team size, perceived uncertainty, and fostering outbound openness are pivotal for the success of open innovation policy. They argue that effective medium team size is appropriate to provide public support for the cooperation and collaboration. Eco-innovation is increasingly becoming an integral part even for SMEs. SMEs may embrace informal, systematic, and open innovation approaches for eco-innovation (Bocken et al. (2014).

McAdam et al. (2014) argue that policy should devise to integrate SMEs in network support programs to encourage the initiation and development of such networks. Roper and Hewitt-Dundas (2013) believe that in many countries public funding is provided to university and company R&D centers to act as a catalyst for open innovation whereas public funding should focus towards the needs of SMEs. Suh and Kim (2012) suggested that public policy initiatives differentiating from networking strategy are better to facilitate open innovation in service SMEs.

2.2.7 Networking

Networking is an effective way to facilitate open innovation among SMEs (Lee et al., 2010). However, Heger and Boman (2014) found that network partnership is primarily used for activities such as data collection and limitedly used for fundamental activities such as strategy and decision-making. They also found that SMEs may benefit substantially from network approaches to foresight opportunities. Innovative SMEs are more inclined to network with other SMEs and institutions (Hemert et al. 2013).

McAdam et al. (2014) demonstrated that knowledge-based open innovation and social network constructs support the concept of horizontal collaborative networks. SMEs need to give attention to both formal and informal relationships with various stakeholders in terms of open innovation (Padilla-Meléndez et al. (2013). However, Pullen et al. (2012) found that a relatively closed, focused, and consistent networking approach results in high innovation performance.

Török and Tóth (2013) found that the personal networks still play an important role in the success of SMEs. Managing multiple networks are challenging for SMEs. Consequently, SMEs need to trade-off between intensive and extensive networks, and they are very cautious regarding with whom they should build network (Hughes 2009). In general, SMEs prefer networking with customers over suppliers (Theyel 2013).

2.2.8 Product quality

Aksu (2013) defines quality as: "the conformance to a set of customer requirements that, i f met, result in a product or service that is fit for its intended use." Wiele, Dale & Williams (2 013) presents a slightly different perspective with their emphasis on the energetic properti es of quality: "Quality is what surprises and delights the customer." Pycraft, Singh & Phihl ela (2014) and Stamatis (2003) try to reconcile some of these different views in their defin ition of quality: "Quality is consistent conformance to customers' expectations." With refer ence to Pycraft and Stamatis's definition of quality, the use of the word "conformance" im plies that there is a need to meet a clear specification (the manufacturing approach).

The definitions of Crosby (2000) and Aksu (2013) support this viewpoint of quality. The use of "customers' expectations" attempts to combine the user and value based approach es. The definitions of Feigenbaum (2013) and Ishikawa (1988) support this viewpoint of quality. It recognizes that the product or service must meet the expectations of customers, which may be influenced by price. Key aspects of quality and how it's diffused throughout the business are rooted in the concept of quality management.

1. Quality planning - Quality planning is implemented as a means of "developing the produ cts, systems, and processes needed to meet or exceed customer expectations." [1] This incl udes defining who the customers are, determining their needs, and developing the tools (s ystems, processes, etc.) needed to meet those needs.

2. Quality assurance – Quality assurance is implemented as a means of providing enoug h confidence that business requirement and goals (as outlined in quality planning) for a pr oduct and/or service will be fulfilled. This error prevention is done through systematic mea surement, comparison with a standard, and monitoring of processes.

3. Quality control – Quality control (QC) is implemented as a means of fulfilling quality re quirements, reviewing all factors involved in production. The business confirms that the g ood or service produced meets organizational goals, often using tools such as operational auditing and inspection. QC is focused on process output.

4. Quality improvement - Quality improvement is implemented as a means of providing m echanisms for the evaluation and improvement of processes, etc. in the light of their efficiency, effectiveness, and flexibility. This may be done with noticeably significant changes or incrementally via continual improvement.

Customers recognize that quality is an important attribute in products and services, and suppliers recognize that quality can be an important differentiator between their own offerings and those of competitors (the quality gap). In the past two decades this quality gap has been gradually decreasing between competitive products and services. This is partly due to the contracting (also called outsourcing) of manufacturing to countries like China and India, as well internationalization of trade and competition. These countries, among many others, have raised their own standards of quality in order to meet international standards and customer demands.

2.2.9 Product price

Price is the value placed on what is exchanged. It is the total of all the value that consumers exchange for the benefit for having or using the product or service. Price is very important to marketers, of all marketing mix, price is the only variable a marketer can charge to respond to changes in demand or to the actions of competitors. Pricing is very important because it affect organizational profits which are very important for their immediate and long term survival. It is the only element of the marketing mix that produces revenue while all other elements represent cost.

Pricing objectives

Price objectives are the overall goals a company wants to achieve through it pricing effort. Since the pricing objective influence decisions in most functional areas, the organization must decide what it wants to achieve with a particular product. Reich, Robert B (2008).The objectives must be consistence with the company's overall mission and purpose. Each possible price a firm sets has different impact on such objectives as profit, sales revenue, and market share.

A company can set any of the following objectives for itself

1. **Survival**: Survival objectives are important when company is faced with over ca pacity, intense competition or changing consumer taste. To keep the plants on, and inventories down, at least in the short run firms will cut prices.

2. **Optimum profit:** this involves setting profit objectives at the levels that manage ment and owners view as satisfactory.

3. **Maximum current revenue**: the approach involves setting price at a level to max imize sales revenue. This requires only estimating the demand levels

4. **Return on Investment:** this is a profit-related pricing objective. It focuses on gett ing a profit on the cost invested on the company's production activities.

5. **Maximum Market Share:** market share is a product of sale in relation to total in dustry sales. This involves setting the lowest price assuming that the market is price sensitive and this in turn drives patronage.

6. **Cash flow:** the objective here is to recover cash as fast as possible. This pricing objective is use particularly for product with potential to have a short product lif ecycle.

7. **Status quo:** due to factor such as being in favorable position (market share, pub lic image, profit level) not wanting to disturb the prevailing market conditions, a company may adopt a status quo pricing objective which focuses on maintaini ng the market share, market competition, and achieve stability.

8. **Product quality:** this involves building high quality product and pricing them mo re than competitors. The high price is expected to dictate product quality and th e high cost of research and development (R&D).

2.2.10 Internal sourcing strategy

A decision to produce goods within the organization when it is the best possible option for saving money and producing the necessary goods to continue operations. Organizations f ace challenges to improve their financial standing. Challenges such as product design and quality, cost of goods sold, and cycle time contribute to an organizations financial health. To assist organizations better control these factors, supply chain management technique s, when implemented improve costs, delivery cycle times, and quality. Elram, Tate and Billi ngton(2010) Supply chain management achieves these goals through the use of strategic sourcing .Strategic sourcing leads organizations to decide whether they want to keep certa in activities in-house or internally or if they want to outsource or have certain activities don e externally for them by another organization or supplier. Service

Organizations Internal Sourcing

Based in part on the make or buy concept, many service organizations to keep some busin ess functions internally. Internal souring often results in an organization retaining what it d oes best as part of its core competencies. Therefore, it can focus on what it does best and taking care of its customers. Moreover, the function of selecting and controlling an outsou rcing service organization is expensive. Organizations often retain innovative services inter nally such as service consulting, financial auditing, or research and development.

Manufacturing Organizations Internal Sourcing

Manufacturing organizations face the same set of questions as service organizations on when and how to keep business functions within the organization or out of the organizatio n. Manufacturing organizations differ from service organizations because of the products they provide instead of just a service as the service organizations provide. However, manuf acturing organizations wish to identify and retain their core competencies. By refining and executing core competencies through the use of value engineering and make versus buy a nalysis for a particular part, organizations can quickly distinguish what functions can be i nternally or externally sourced. Often many manufacturing organizations keep final produ ction or assembly in-house along with research and development. Because these function s drive a manufacturer toward their ultimate goal of customer satisfaction by way of one's mission, vision, and value statements, these core competencies are left internally.

2.2.11 Competitiveness

Ramasamy defines "competitiveness as the ability of an enterprise to increase its market share, profit and growth while sustaining its position in the market for a period of time". According to Porter (1990) firm competitiveness is "the ability of a given firm to successfully compete in a given business environment". According to him competitiveness is dependent on dynamism, innovation and the ability to change and adjust.

Lall (2001) on the other hand considers competitiveness as "the ability of a firm to do better than others in terms of profitability, sales and market share". He argues that firm competitiveness is essential for them enhance and defend their position in the market.

Altenburg *et al.* (1998) defines enterprise competitiveness as "the ability to sustain a market position by providing quality products on time and at competitive prices". Hence for firms to be competitive they need the flexibility to rapidly adjust to changes in the market by strengthening their innovative capacity.

Firm competitiveness is also considered as "its ability to outperform rivals with an impact on its present market share" (Stojcic, Hashi & Telhaj, 2011).

Pedraza (2014) defines competitiveness as "the ability of firms to products that meet market requirements while ensuring profits overtime for the firm to enable it survive and thrive in competition". Competitiveness is a function of several firm factors that are interrelated and include productivity, market share, profitability, efficiency, product range, value creation and customer satisfaction. Sources of firm competitiveness include product differentiation, product/ service quality and variety, novelty, process efficiency, cost reduction, adoption of technology and export attractiveness (Pedraza, 2014).

Competitive enterprises are expected to exhibit higher growth rate in terms of sales and revenues, better returns on investment, higher market share, higher market access and control of distribution as compared to non-competitive firms (Selcuk, 2016). Such firms are chara cterised by reduced production cost leading to increased profits and have the ability to sell in the market while meeting market requirements. These factors ensure constant profits wi th an increasing market share in the face of competition (Pedraza, 2014).

2.2.12 Competitive Advantage

A competitive advantage is an advantage gained over competitors by offering customers greater value, either through lower prices or by providing additional benefits and service th at justify similar, or possibly higher, prices. Han et al. (2007) found that business competi tiveness will increase through improvements in four dimensions which are quality, cost, de livery and flexibility. For growers and producers involved in niche marketing, finding and n urturing a competitive advantage can mean increased profit and a venture that is sustaina ble and successful over the long term.

2.2.13 The Essence of Competitive Advantage

To begin, it may be helpful to take a more in-depth look at what it means to have a compet itive advantage: an edge over the competition. Essentially a competitive advantage answe rs the question, "Why should the customer purchase from this operation rather than the co mpetition?" For some ventures, particularly those in markets where the products or service s are less differentiated, answering this question can be difficult. A key point to understan d is that a venture that has customers has customers for a reason. Successfully growing a business is often dependent upon a strong competitive edge that gradually builds a core o f loyal customers, which can be expanded over time. (Barney 2009)

Producers and suppliers familiar with farming and ranching may know that successful ve ntures in the agriculture industry have typically operated in a commoditized, price-driven m arket, where all parties produce essentially the same product. Such conditions imply that t he ultimate "winners" are the most cost-efficient producers, meaning that agricultural prod ucers have historically relied on strategies that focused on lower costs and higher volumes (i.e. a bushel of hard red winter wheat is assumed to be of similar quality across the entire high plains region, meaning each bushel is assumed to be of the same value; so there is a n incentive for producers to keep prices low and volume high).

With the advent of product differentiation and niche and direct marketing, that reality has changed, and now there are niche markets in which both individual and wholesale buyers are looking for products with very specific characteristics or special services. These characteristics often use strategies that don't focus on costs and volumes exclusively; rather the product or service may be of premium quality, be differentiated from other products and services available in the market (such as organic, natural, or humane production), or have a value-added component (i.e. flavored meats, pre-washed salad mixes, etc.). Successful ventures perform a combination of business activities well, including marketing, production, distribution, finance, customer service, and/or other activities important to the enterprise. However, a competitive advantage is often a single key element that gives an edge to a business beyond what the competition has or does.

2.2.14 Competitive Advantage Evaluation Process

When a business is just starting out, it may be worthwhile to perform a comprehensive evaluation of the business' goals and how it might fit into the market.

Evaluate Resources

The basis for a competitive advantage often lies in the resources and abilities that are already available, even though the resources may not initially be recognized. Begin by taking a critical look at the existing resources and product/service offerings. What does the venture have that could be used as an advantage? Reading through the potential options for competitive advantage above, which of these resources are already available and which does the venture need to obtain in order to focus one or more of the strategies?

Clarify Goals

Has a clear idea of what the venture seeks to accomplish been established? Businesses with specific and achievable goals tend to have better and more consistent growth. Challenging, but realistic goals should be written out to help clarify what the business will do for itself and its customers in the future. These goals will become benchmarks for success and will help maintain focus among all involved parties.

Define Customers

Determining the products and services customers want and cannot get from the competiti on is a first step toward defining the business' potential customers. Once the needs and w ants of the potential customers have been established, the characteristics of those custom ers can be examined in an effort to identify commonalities. For instance, the development of salad mixes came from the realization that for convenience, some consumers needed a pre-washed and mixed salad alternative, rather than bunches of greens that needed to rins ed and spin-dried.

When developing a hypothesis about what potential customers will buy, speaking to poten tial customers will provide an understanding of their needs. This may help the venture to le arn about what features customers need and what they will pay for, and provides an oppor tunity to ask them for additional suggestions. Additionally, there are many research source s available through publicly available sources, and venture-specific research can be organi zed through surveys, focus groups, questionnaires, and observation. Such research can he lp the venture to be sure that there is a large enough market for the product/service.

Examine Competitors

With an understanding of what customers want and an idea of how this can be provided, i t is important to take a look at other ventures that might be targeting the same market. Firs t, look at the direct competition. For example, a venture selling fresh produce in a farmers' market would have direct competition from other vendors at the market, while the indirect competitor would be grocery stores in the same area. Once the competition has been ident ified, compare the strengths and weaknesses of the competition to the strengths and weak nesses of the venture. This will provide more insight as to where the venture's competitive advantage lies.

2.2.15 Types of business strategies:

Strategic orientation refers to the manner in which a firm adapts to its external (industry/c ompetitive) environment (Miles & Snow2009). An effective strategy maximizes the efforts of people within the organization. If they understand the strategy, it is much easier to incre ase the efforts of them and they are able to apply it to the various decisions. The best way to understand and embrace the strategy for people is to involve the people in creating the strategy (McFarland, 2008: 72). One of the most prominent strategy typologies which describe the relationship between the strategic orientation of firms and their performance was developed by Miles and Snow (2009). According to this typology, firms follow one of the four strategic orientations (prospector, defender, analyzer, and reactor) to achieve firm performance. If management does not select one of these strategies, then the organization will be slow to respond to opportunities and probably show an ineffective performance in its sector (Hambrick, 2008). A description of these four strategic orientations is provided in the table below

Strategic Orientation	**Description**
Prospectors	These firms are externally oriented firms that strive to create competitive advantage by leading the market in pioneering new products and developing innovative techniques and processes. They are constantly involved in monitoring the external environment with the aim of responding quickly to early signs of opportunities and exploiting the benefits of being a first entrant or pioneer in a new product/market area. They have a broad and flexible product/market domain, because they are continually modifying them to take advantage of perceived opportunities, hence, they have a high requirement for marketing and a broad technological base.
Defenders	In contrast to prospector, these firms are internally oriented organizations. They stress efficiency, and are tightly organized firms focused on maintaining a niche with a limited range of products or services. As a result of their narrow focus, these firms seldom need to make major adjustments in their technology, structure, or methods of operation, and devote their primary attention to improvi

ng the efficiency of existing operations. Because defenders abhor risk, they tend to lag beh ind industry competitors in innovation, seeking only proven op portunities in their area of expertise.

Analyzers These firms blend the characteristics of both the prospector and defender ori entations. These firms are able to focus on efficiency and prod uctivity when the market is stable, while at the same time cauti ously moving into a new domain with scanning and innovation when the market is dynamic or turbulent. However, they only m ove into a new domain after its viability has been proven by pr ospectors.

These organizations do everything that defenders do but in mo deration and at the same time are imitators in that they take ot her firms' promising ideas and market them successfully.

Reactors These firms do not have a consistent product-market orientation and only re spond to competitive circumstance when forced to do so in a c haracteristically inconsistent and unstable manner. Their beha vior is unstable and their decisions are oriented towards the sh ort as opposed to the long term. They do not attempt to mainta in an already acquired defined product/market domain, nor do they try to capitalize on viable environmental opportunities or t ake true risks

2.3 Theoretical Review

2.3.1 Open Innovation Theory

Open innovation theory, one of the popular theories of innovation, argues that firms, in ord er to adopt innovative strategies and enhance their technology, must use internal and exter nal ideas of innovation, and also, internal and external market channels (Chesbrough, 2009). The theory implies that firms should not be limited to internal ideas and market pathways, but consider external ones that could be equally crucial. To adopt innovation, SMEs face a number of barriers including absence of innovation resources, methods and managerial capabilities. Yet, these type of enterprises demonstrate strong abilities to improve their innovation constantly. Above all, open innovation offers an opportunity to SMEs, that they can extensively exploit external innovation resources as well as scientific innovation ideas and managerial means (Chesbrough, 2009).

2.3.2 Schumpeterian Theory of Innovation and Entrepreneurship

The theory is part of the innovation based endogenous growth models put forward by Joseph Schumpeter (Schumpeter et al 2008). The theory outlines the role of Entrepreneurship and Innovation in economic growth. The theory posits that there is a continuous process of change in economies and markets. In such a dynamic economy, there is a force within the economy that accounts for change and growth personified in the entrepreneur. Schumpeter et al describes the entrepreneur as "an agent of innovation and pivot of change" (Schumpeter et al 2008).

In a dynamic world innovation and entrepreneurship are important for economic growth (Schumpeter et al 2008). Entrepreneurship is all about innovation and the function of entrepreneurs is to carry out new combinations of factors of production leading to discontinuous and radical change which forms the basis of economic development. Schumpeter attributes economic development to innovation which may include; the launch of a new product or modification of an already existing product; the application of new methods of production, opening of a new market; use of new sources of supply or raw material and the creation of a new industry structure".

He views innovation as a "process of industrial transformation, responsible for the transformation of the economic structure through the process he terms as 'creative destruction'. According to the theory, innovations lead to economic growth and the entrepreneur is the one who innovates. The entrepreneur is responsible for allocating existing resources to new u