

# Open innovation practices on innovation performance of IT startups in Sri Lanka

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The IT sector is a key driver of economic growth. Sri Lankan IT startups face significant hurdles in innovating and competing globally. This study examines the effect of open innovation practices on the innovation performance of IT startups in Sri Lanka. It addresses the status, impact, and challenges of open innovation practices on the innovation performance of IT startups. The research employs a mixed-methods design, and data was collected through piloted and validated questionnaires and structured interviews. The total population consisted of 822 individuals, and a sample of 312 startups. The study employs random sampling methods and a survey strategy to collect data. Additionally, five founders of these startups were selected for the interview. The findings show that IT startups receiving funds at an early stage dominate, with Pre-seed and Seed funding leading significantly, highlighting challenges in scaling and accessing advanced financial backing. In addition, both outside-in and inside-out open innovation significantly increase innovation performance in Sri Lankan IT startups, with R&D cooperation intensity as a key moderator. Furthermore, the findings underscore how startups interact with external stakeholders, including academic institutions, technology partners, and customers, to drive innovation and remain competitive in the Sri Lankan business landscape. Key practices include collaboration with universities for knowledge sharing, customer-driven innovation to align products with market needs, sustainability-focused initiatives, and data-driven decision-making. However, research illustrates that startups encounter several challenges, including stringent government regulations on data privacy and cyber security, environmental compliance costs, labour laws, and complexities in intellectual property protection.

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