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# Organizational Innovation, Firm Resources and Organizational Performance: A Critical Review of Literature

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***Abstract:***
*The main purpose of this paper was to look into organizational innovation, firm resources and organizational performance. Most of the studies have been undertaken in both local and international contexts with inconsistent results. The paper was guided bycontingency theory,complexity theory, andorganizational learning theory. As indicated by these theories, different resources and innovations have positive and implications on organizational performance. The organizations which contain superior and adequate resources including machinery, plant and equipment are in a position to perform better than those without resources. Organizational resources stress ideas that entail knowledge and behavior which are transformative in nature. Therefore, organization innovation captures how the new ideas and depicted behaviors in the organization can be used to positively influence performance. Therefore, the essence of organizational innovation aids in understanding why some organizations perform differently compared to others, and howthey direct and control performance.Firm resourcesimprove innovation, create positive corporate reputation, result in competitive advantage and improved corporate performance.*

***Keywords:*** *Organizational innovation, firm resources,organizational performance*

## 1. Introduction

In the modern world, innovation is very critical as it plays a very significant role at both individual and organizational level to the ever-changing environment where most business are conducted. Innovation is categorized as the value-added advantage which contributes to effectiveness in in terms of delivery of services and organizational performance (Pfeffer& Sutton, 2000). It aids in the developing individuals and organizations to benefit by generating newopportunities and needs and accomplishing the benefits already in existence in the market in a diverse manner (Jaskyte, 2011).In the contemporary world, organizations and enterprises embrace innovation as it is largely perceived an important source which generates and leverages competition in uncertain business environment (Dess, &Picken, 2000). The statistics from the report of New World Economic Forum in the year 2018, about 133 million new job opportunities is projected by the year 2022, whereas 75 million are shifted by the technical innovation (World Economic Forum, 2018). Consequently,a report by McKinsey indicates that 84 per cent of the line managers were in agreement that their success in the future depended on the innovation which allowed the respective organizations to globally compete and survive, thereby contributing to their overall economic growth (Myllyla, 2019). Thus, managing of innovations remains a very critical component and pertinent element for organizations as they contribute to performance and their overall well-being in an ever-changing business environment.

The concept of innovation is described as either generation of the adoption of a notion or the behavior which is new and current to the respective organization in a specific business environment (Lam, 2006). Specifically, organization innovation gives emphasis on ideas that are grounded from the point of knowledge and behavior transformative in nature. Therefore, innovation expresses on the current ideas and behaviors at the organizational level which are there to specifically affect it positively in its business operations. It entails production, adoption, assimilation and usage of any kind of a given value-added novelty in both the economic and social spheres. It also comprisesthe increase, renewal of services, expansion of markets, product development, offering of alternatives in the production function and finally the installation of management systems which will cater for emergency cases of the organization. Therefore, from this description, it is evident that innovation entails a process and its outcome concurrently. This particular description of the concept of organizational innovation is comprehensive and wide as it encompasses a number of aspects with regard to the

organization. Therefore, it can be argued that by embracing innovation, an organization in is able to grow in terms of ideas, market, its behaviors and other elements that contribute to performance and the overall well-being of the organization.

According to resource based-view of an organization, it stipulates that not all available company resources contribute to high organizational performance but only the ones which have been in control and owned by the organization (Barney,2011). The arguments of Wang and Mahoney (2009) illuminate more on that through learning from training and development programmes in the organization, it offers human resources with specific knowledge on the immediate competitors in order to engage in inimitable products and services resulting in larger shareholding in the market than their rivals in the business environment. Therefore, innovation enables human resources to be well equipped in terms of skills, ability, knowledge, experience which are relevant and applicable for the organization to thrive. The tactical knowledge obtained by the company is not easy to be replicated and imitated by the competitors, becauseentrenched on the experiences and human skills of a company which contribute to its profitability (Lazear, 2009).Companies which rely on advance technologies through innovation, research and development perform much better in the market environment (Merlo &Auh, 2009; Tajeddini, 2010). Companies which adopt current technologies are obviously known for their greater performance because they believe in acquiring current technologies or their products, research and development in their production which allow perform better in the market environment (Merlo &Auh, 2009;Tajeddini, 2010). Companies that adopt current technologies are obviously known for their greater performance because they believe in acquiring current technologies for their products, research and development in their production which allow them to produce an inimitable product from other competing organizations (Altindag, Zehir&Acar, 2010). Hence, companies should be attentive to the adoption of current technologies and capabilities in order to be sustainable in this dynamic business environment.

Organizational performance is an important indicator to gauge whether the firm is progressing well (Stegerean&Gavrea 2010). Organizational success is connected to the skills of employees, the quality of stipulated strategic plans, the personnel development and the capacity to adapt and digest the nature and dynamics of the entire environment of the business (Carvalho et al. 2016).In the management studies, the concept of organizational performance is an importantindicator to assess the overall success of the organization (Stegerean&Gavrea 2010). From various empirical studies and researches, it is evident that there is a significant connection between organizational performance and organization innovation (Oke, Walumbwa& Myers 2012, Yen 2013, Likar, Kopa&Fatur 2014). Further, firm performance and innovation are assessed through the allocated time which heavily depends on the time lag in regard to innovation activities and the expected outcome (Likar *et al*. 2014). O'Connor *et al*. (2008) specify time lag that exists between innovation and its effect on firm performance to range 3-6 straight years. Therefore, it is paramount to note that by emphasizing on the short-term indicators of performance which include operating income, sales growth and return on investment (ROI) may not be suitable for measuring firm performance but instead they may indicate that strategies of innovation are not working, hence the impact may be felt in longer-term period (Ndregjoni&Elmazi 2012).

Though investigations have been carried out on organizational performance in the area of management, very minimal has been put into effect regarding its suitable measures in assessing its effectiveness on the innovative activities. Moreover, the brief literature reviews indicators that investigators and researchers have only discussed on typologies of the concept in matters of financial and non-financial components, with little emphasis given to other appropriate dimensions which include the objective and subjective measures. The current paper, therefore, is intended primarily to undertake the most frequently employed instruments. The study findings might be applied to act as the lens through which to establish the typologies that are financial and non-financial; objective versus subjective-firm performance. The instruments might also be applied to establish whether the selected indicators played a significant role in the study outcome. This might rise to the collation of a more in-depth and current literature that may form a basis for future researches in selecting measures to be used in organizational performance.

## 2. Theoretical Framework

This paper was anchored by contingency theory which postulates that once the organization in perspective aligns itself to its business environment of the setting of operation then the respective organization will enhance its performance (Lawrence &Lorsch 1967).Subsequently, the alignment results in a superior performance. Therefore, seeking the ideal alignment is a priority that the organization should undertake (Donaldson, 2001). The theory highlights the association which exists between two variables as being affected by other stated variables. Therefore, no in-depth list of best strategic choices will be applicable to all organizations and situations (Ginsberg &Venkatraman, 1985). Secondly, complexity theory shows how sophisticated structures shift and adapt to the environment. The main contention of complexity theory is how the order creating rules and regulations occur in inherently fluid manner and non-linear way in the dynamic systems running on the edge of an uncertain and volatile environment (Burnes, 2005). Here, the whole idea of organizational changes intended is disputed, whereas the developing approach where the power and progressive organizational changes define the survival of the organization which is the central argument of complexity theory (Stacey, Griffin & Shaw, 2002). This theory conceives organizations as being complex systems which are capable of self-adjusting to progressive changes as a consequence of the erratic and vibrant phenomenon of the external environment (Brown &Eisenhardt 1997). The inference is that strategic leadership of these organizations require to quickly change effectively to adaptive solutions.

Thirdly, the paper used organizational learning theory which posits that an individual organization should shift its operations to go in tandem with its changing business environment in order to continue being competitive in the erratic and uncertain environment of the business (Murray &Donegan, 2003). In this theory, transferring and sharing of information and knowledge occur at either the individual level or employees, particularly when it is being conducted by inexperienced employees. The theory is taken to be a sum of individuals who are combined through learning and training

experiences and programmes all the way to the working interactions in the respective organization, skills and knowledge acquisition (Goh, 2003; Lopez, 2005). Organizational theory is limited specifically where it largely focuses on the methods and processes of a coordinated system alteration via the individual employees or employees as sole resources. According to Stewatt (1996) and Lopez (2005), for superior performance to achieved, the tactic of undisrupted learning should be underscored by supporting individuals and employees to have fresh knowledge and skills and learn more from the available experience. Skills and knowledge act as the recipe of uniqueness in terms of human capital that is difficult to imitate and is developed via organizational learning. The organization that embraces learning will come up with multifaceted capabilities which are not easy to replicate, transfer and copy, therefore they become a basis for the organization to qualify togenerate above average performance.

**3. Empirical Review**

Yeh-Yun Lin & Yi-Ching Chen (2007) conducted a study to examine whether innovation aspects led to organizational performance in Taiwan. Information was gathered using a telephone survey using 2000service and manufacturing firms in Taiwan. The research findings revealed that 80 percent of the covered firms engaged in some sort of innovation, where two major thematic innovations existed, that is, marketing and technological innovations. The results of the findings on innovation revealed that there was a significant relationship among the studied variables.

Wang &Ellinger (2008) examined innovation performance and organizational learning where the study findings from the hypothesis formulated revealed that there existed a connection between environmental perception, its antecedents and innovation performance at two levels which included the individual and innovation performance.Mitroulis&Kitsios (2014) analyzed the connection of innovation management strategies and firm performance. From the study results, it was established that innovation strategy within the overall strategy of the organization provided an avenue for a more effective strategy of the business operations to contribute to superior performance. Moreover, the emergence of market orientation produced a significant effect to attaining a sustainable competitive advantage to present addedvalue of the business operations. Bearing in mind that innovations have a connection between satisfaction of customers and organizational performance. It was conceived that strategically, organizations could be capable of attaining intelligence and strengthen its strategies in order to produce a vibrant hybrid strategy which is adjusted to its current needs, capabilities and resources. In addition, each innovation in an organization obtains competitive edge as compared to its competitors. If the respective organization prospers in the innovation management, it produces resources and capabilities and their competitive advantage which will in turn contribute to organizational performance.

Ombaka,Machuki, &Mahasi (2015) examined on external environment, organizational resources and organizational performance. The paper reviewed literature on the factors of innovation, organizational resources and external environment. From the study results, it was revealed that organization resources impacted firm performance. Nevertheless, this effect was subjected to various factors, key among them was innovation and external environment. In an effort to come up with knowledge gaps on how resources and performance were affected by innovation and external environment, the investigation found that these components affected organization performance independently.Sethibe&Steyn (2016) investigated organizational innovation and organization performance. The study used a literature review methodology which was systematic in nature to classify researches which investigated the association of innovation and firm performance. The research results revealed that organizational profitability, return on assets and sales growth for most measures were employed to assess accounting-based financial measures of firm performance. Moreover, Tobin's Q was established to be the most preferred market based measure of firm performance. The study showed customer satisfaction, market share and productivity as the most preferred non-financial based measures used for assessing firm performance.

Zhang, Khan, Lee and Salik(2018) examined technological innovation and management innovation of firm performance.Analysis of moment structures (AMOS) was employed to test the model where data was gathered from 304 top managers and CEOs in Pakistan. The findings of the study revealed that technological innovation and management innovation positively influenced sustainability and organization performance. Sustainability component was employed as the mediating variable between management of innovation and firm performance and partial mediating role which existed between technological innovation and firm performance.

Kraśnicka, Głód&Pośpiech (2018) analyzed pro-innovation organizational culture, management innovation and the enterprise performance. The study targeted 301 firms based in Poland where the research findings confirmed the existence of an association between management innovation and firm performance in the firms selected, though this association was not so strong. Moreover, the formulated hypothesis on the mediating role of culture of the organization was supported partially where the findings enriched the existing knowledge gaps in regard to management innovation, enterprise performance and organizational culture.Laban &Deya (2019) examined ICT firms and strategic innovations in Nairobi City County, Kenya. The study targeted 14 ICT companies conducting cellular mobile, data, internet service segments that controlled over 96.4% of the market share in Nairobi County, Kenya. The information used for the study was gathered from 98 subjects who were included the chief strategy officers, directors in charge of innovations, directors in charge of strategy and managers who were selected using purposive sampling. The multiple regression model variance was employed to establish the association between the studied variables. The study results revealed that market innovation was the major predictor of firm performance which was followed by product innovation and then process innovation whereas organization innovation contained the lowest effect as it was moderately employed.

Al-Thehli&Ahamat (2019) analyzed creativity in human resource management and management innovation where the study used a review study approach where document analysis was utilized. The study showed that innovation

and in the respective organization was necessary to growth an overall performance of the organization.The study revealed that creativity and innovation as components of competition played critical roles in the success of the organization. Innovative institutions were required to possess skills and expertise to generate, acquire and transfer knowledge and also modify behaviours using methods and procedures to mirror own current knowledge and insights of the business environment.

Alharbi et al. (2019) reviewed a paper on organizational innovation. The study findings found that innovation formed the most critical component in the modern world because the aspect of innovation contains a substantial influence on performance and overall survival of the organization. research findings depicted innovation had a substantial influence on firm performance and survival of the organization. In essence, the concept of innovation aids the organization in attaining competitive edge over its immediate rivals and to expand the market share by producing current and unique products and services for clients and customers. When the respective organization is able to attain this, it will maximize its benefits and profitability which in turn contributes to the success of the organization. Therefore, it was suggested that respective managers to ensure that there exists effective innovation to address the five thematic domains of processes, strategy, organizational setting, affective linkages and organizational learning. The five thematic domains aid an organization to encourage the spirit of individual innovation which is in regard to its employees which eventually transforms to organization innovation.

## 4. Conclusion

From the review of the empirical literature, the current paper has uncovered various knowledge gaps as there is no unanimity with regard to the association between firm performance and organizational resources. In this case what has not been extensively covered and supported is the role played by organization innovation to influence organizational performance. Again, there exists lack of clear logical framework for assessing organization innovation and clarifying its overall organizational outcome. Various empirical investigations which have been conducted in connection with innovation and firm performance show that through innovations, organization in perspective is able to be renewed. Nevertheless, there is still neither unanimity on its effect on organization performance nor an elaborate logical framework to support this assertion. It is evident that from the literature reviewed, various empirical investigations have been carried out on organization innovation and performance. Nonetheless, the moderating influence of resources and performance association has not been the chief focus for researchers, therefore, the developed model is hoped to bridge the knowledge gap.

## 5. Implications of Study

Although various empirical have been conducted with regard to organization innovation, firm resources and organizational performance, there still exists hope which entails researches of the recent past, conceptualizations and their subsequent effect on performance which are still rudimentary and incomplete. The current paper suggests a model which is integrated with the stipulated variables to capture the likely effect of organizational performance. Lack of unanimity on the effect of organizational performance and organizational innovation depict slack of consensus but how those variables function empirically is not well explained. The current paper suggests that the association which existsbetween organization innovation and firm performance which is moderated by organizational resources contribute to sustained competitive advantage off the firm.

In this paper, the empirical and conceptual works covered with regard to firm performance, organizational innovation, and firm resources are largely fragmented, thereby blurring the overall picture of tools and drivers of organizational performance. This depicts existence of prospects that can enhance the conceptualization that would concretize the exhibitions of the studied variables in order to explicitly depict the tools and drivers of organizational performance. The current paper suggestsa conceptual model which can be used to guide empiricalinvestigationsto address the knowledge gaps described and identified.

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