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# Conceptualizing Strategic Innovation in a Firm Context: A Theoretical Review and Research Agenda

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## Abstract

The literature on strategic management recognizes the pivotal role played by strategic innovation as a strategic choice in organizations in order to create a sustainable competitive advantage. However, although there are emerging calls for the adoption of strategic innovation in a firm's strategic management process, the concept of strategic innovation is not well understood. The scanty empirical literature reviewed has methodological and conceptual gaps that affect the generalizability of findings even in similar contexts. In this paper, the authors have attempted to review Strategic Innovation and argued that the emerging phenomena from its deployment in firms invite the role of the firm structure and innovative capacity as the firm seeks to enhance its chances of survival in a rapidly changing firm context. The conceptual, theoretical and empirical literature reviewed identified diverse issues that present a case for a theoretical model suitable to advance the current understanding of strategic innovation and the emerging phenomenon in firms. This paper therefore proposes an integrated theoretical model conceptualizing strategic innovation in a firm context and identifies relevant implications for future research.

**Keywords:** Business Model, Firm Context, Innovative Capacity, Organizational Structure, Strategic Innovation

## 1. Introduction

The business environment is changing rapidly forcing organizations to change their operations in order to align their businesses to these changes. Changes that may affect today's businesses include, new technologies, threats from new entrants, mergers and acquisitions, deregulations and uncertainty (Iplik, Topsakal & Dogan, 2014; Adegbile, Sarpong & Meissner 2017). In such a dynamic and uncertain context, successful firms are regarded as those innovating since they recognize the need to create a sustainable competitive advantage so as to outsmart their rivals (Iplik et, al, 2014). These innovating firms try to develop strategies that may turnaround their businesses to ensure long term survival. Firms no longer strive to just create a competitive advantage but seek to create organizational skills and capabilities suitable to address the continuous environmental changes. Firms therefore require relevant strategies championed by competent leaders so as to develop reliable models that guarantee

survival. It is in this context that a strategic option focusing on innovation becomes a suitable choice for adoption in revitalizing the business models in use.

Strategic innovation has recently become a priority for the Top Management Teams (TMTs) in both the developed and developing economies (Yang, Wang, Zhu & Wu, 2012; Denicolai, Zucchella & Morelto, 2018). Irrespective of the type of industry, any successful firm with established products or services risks being sidelined unless its top managers understand the timing and how to develop a new model for their business (Christensen, 1997). Creative leaders use the innovative action to leverage on their internal organizational potential while continuously reviewing their business models in order to remain competitive (Abraham & Knight, 2001). Geroski (1998), posits that it is important not to think of innovation exclusively as a new technology but also as a way of transforming a firm's strategic innovation process for sustainability. For this reason, TMTs require the right competencies to be able to perform effectively and generate suitable capabilities for sustainable competitive advantage. This strategic innovation capability requires strategic thinking and an entrepreneurial mindset to initiate and manage the innovation process in a firm (Alvarez & Barney, 2007; Sanchez, Lago, Ferras, & Ribera, 2011; Kalay & Lynn, 2015).

Globally firms use their innovative capability to create a competitive advantage in the ever-changing business environment (Keupp, Palmié & Gassmann, 2011). Firms therefore require strategies oriented towards innovation and competent leaders to develop reliable models that can be implemented for survival as the firms' success has largely been perceived to be dependent upon generated capabilities more than any other resources (Greve, Hitt, Ireland & Camp 2002; Kodama 2017). In this context Strategic innovation has been considered within the strategic management scholarship as a type of innovation that has the capacity to effectively change a firm's business model (Dogan, 2017) and as a result continues to generate interest in the strategic management field due to this potential impact in redefining existing business models. Firms have for long recognized innovation as a strategic option suitable to improve their competitive advantage (Lopez-Nicolas & Merono-Cerdan, 2011). Hamel (2000) considered strategic innovation as a source of competitive advantage suitable for organizations intending to win in the new economy and creatively revitalize their strategy to remain competitive. This type of innovation has been described as one that follows the Schumpeterian perspective, focusing on innovation of the business model and breaking the industry rules of competition (Christensen, 1997; Kim & Mauborgne, 1999; Markides, 1999, 2006; McGrath, 2010; Teece, 2010; Yu & Hang, 2010; Kalay & Lynn 2015). Strategic innovation is holistic in nature and its focus goes beyond product innovation to encompass the firm's business strategy. While the creation of new products, services, processes or production systems is what is most commonly thought of in addressing the construct of innovation, it is now emerging that what really drives value creation is not merely the product innovation but the business model innovation (Chesbrough, 2010) and thus the reason for firms to consider adopting strategic innovation in their strategic management processes. However, the concept of strategic innovation and management of this innovation in a firm context is characterized by knowledge gaps and theoretical inconsistencies that do not support it (Porter, 1985; Keupp *et al*, 2011). The capacity for a firm to innovate starts with a clearly defined strategy and thus the emerging calls for the adoption of business models aligned towards strategic innovation for sustaining continual innovation of products and services (Pisano, 2015).

### *1.1 Statement of the problem*

Although there are emerging calls for the adoption of strategic innovation and its integration in a firm's strategic management process and context, the concept of strategic innovation has not been very well understood. Despite the fact that Keupp *et al*, (2011) indicated that different scholars have identified a relationship between innovation and other management variables, very few reviews have been done on the construct of strategic innovation (Sammut-Bonnici & Paroutis, 2013). In addition, Palmer and Kaplan (2009), had earlier called on practitioners and researchers to offer suggestions that would enhance the understanding and implementation of strategic innovation. This call has remained unattended to given the status of the extant conceptual and empirical literature that indicates a gap and scarcity of literature regarding an innovative organizational behavior in a dynamic environment (Adegbile *et al*, 2017) and the creation of strategic innovation, systematic and routinized implementation of the innovation process (Ortt & Duin, 2008; Garrigos, Igartua & Signes, 2018).

The conceptualization of strategic innovation emerged from the literature on the managerial understanding of strategy and innovation (Mintzberg, Ahlstrand & Lampel, 1998) thus fueling the persistent lack of understanding. The concepts of strategy and innovation have been studied and advanced as separate concepts since both appear at different levels in the strategic management process. Strategy is mostly undertaken at corporate level while innovation is pursued at the business unit level and more specifically at the product level. Krinsky and Jenkins (1997) argued that with the increased importance of innovation in the performance of firms, both researchers and practitioners are now compelled to combine innovation and corporate strategy so that innovation as a form of strategic option can be pursued at the appropriate level of strategy in firms.

This state of the conceptual literature has also reflected on practice in the industry where in spite of the call to adopt strategic innovation as a strategic choice, some firms still do not understand the importance of integrating their business models to the emerging trends in technology to remain competitive (Markides & Oyon, 2010). It has been argued that competition among firms is about a business model innovation that disrupts the market and industry structure (Zhang, Daim & Zhang, 2018). Thus, firms interested in enhancing their competitiveness need to focus on revitalizing their business models. Strategic innovation fits well in this since the phenomenon arising from its deployment requires firms to review their products or services and organizational structures (Schiavi & Behr, 2018).

In considering adoption of strategic innovation in practice, the reviewed literature views strategic innovation as a strategic choice influenced by factors in the firm's context both within and without. As a typical strategic management phenomenon, the internal conditions defining the firm's climate facilitating or constraining innovation are critical while the strategic option when considered as a strategic resource is applied to help firms confront the realities of the external dynamic environmental settings. In a firm context where the organizational structure allows for autonomy, employees influence the work environment, are free to generate new ideas, seek and apply new knowledge that support the pillars of successful innovations (Pertusa-Ortega, Molina-Azoin & Claver-Cartes, 2010), the climate may be suitable for innovation thus giving the firm an ability to innovate in a way that redefines the business model in response to external environmental demands. On the other hand, centralization limits innovative behavior and organizations find it difficult to generate suitable responses for the demanding external environment (Prajogo & McDermott, 2014; Dedahanov, Rhee & Yoon, 2017). Thus, in discussing integration of strategic innovation, the conditions arising from the internal context as sustained by the firm's work structure that may facilitate or constraint innovation need consideration (Gurkan & Tukelturk, 2017). Although it can be argued that innovation and creativity are considered key to achieving a sustainable competitive advantage (Nybakk & Jensen, 2012), there have been concerns raised as to whether most firms understand the process so as to manage its antecedents and inhibitors. Several authors have highlighted some antecedents to an innovative climate. For example, autonomy, leadership, sufficient resources and innovation behavior or culture (West & Farr, 1989), information flow and motivated individuals (Amabile *et al*, 1996; Sundgren *et al*, 2005), trust, involvement, space for risk-taking, support for new ideas, freedom and space to debate (Tidd & Bessant, 2009). In spite of this, Pisano (2015) posits that although firms invest heavily, innovation initiatives remain a challenge especially where some of these initiatives fail while others are viewed as unsustainable. He further adds that this failure stems from a lack of innovation strategy aligned to the business strategy (Pisano 2015). Thus, there is need for a scholarly attempt to explore the construct of strategic innovation with a view to highlighting its nature that organizations can rely upon to sustain the momentum for continual innovation towards sustained superior performance.

In view of this emerging call, this paper undertook to review the extant literature on strategic innovation so as to bring out its defining features suitable to explain its phenomenon when deployed in an organizational context. The paper addresses three objectives, first the paper reviews the extant conceptual, theoretical and empirical literature on strategic innovation and its potential for a firm strategic management phenomenon. Secondly, the paper identifies the emerging phenomenon from the deployment of strategic innovation in the firm context and thirdly, the paper proposes an appropriate theoretical model that describes the phenomenon brought about by the application of strategic innovation in the firm context within a changing business environment.

The authors consider the current paper to be critical in the strategic management field. First, the paper addresses identified knowledge gaps that arise from the manner in which the construct of strategic innovation has evolved affecting the current understanding, conceptualization and subsequent application in organizations. Secondly, given the current developments characterizing most markets and industries, adoption of strategic innovation as a strategic option is considered suitable to revitalize the business models in a way that maturing markets and products tending towards decline can find a solution given the dilemma such development pose to the management of organizations. Thirdly, by integrating the aspects of strategic innovation, a clear understanding of the construct is provided borrowing from a multidisciplinary point of view. In doing so, the paper enriches the current understanding of the construct in that its conceptualization is made clear and the emergent phenomenon arising from its deployment by firms in responding to dynamic business contexts. We consider this as important in not only helping describe the phenomenon but also setting the direction for future research. Towards this, the authors suggest an integrated theoretical model that is underpinned in a multidisciplinary theoretical grounding and identifies lines of relationships that scholars can empirically investigate.

## 2. Review of Literature

To respond to the papers' objectives as stated above, the paper presents a summary of the extant literature on the constructs of strategic innovation, innovative capacity, organizational structure and firm performance as emergent phenomena upon the deployment of strategic innovation in a firm. A further discussion is on relevant theories underpinning the constructs, the empirical work and emergent issues.

### 2.1 Strategic innovation

To respond to the call raised in the problem statement, the authors trace the seeds that lay the ground for the current understanding of strategic innovation to have been sown through the basic concepts that deal with the nature of innovation. Two of these concepts are vital, invention and innovation. Robert and Tucker define invention as creating an idea and bringing it to existence (as cited by Ouma & Kilika, 2018). Grant defines invention as the creation of products and processes through the development of new or a new combination of existing knowledge (as cited by Grafstrom & Lindman, 2017). Grant argues that mostly inventions are outcomes from existing knowledge. He further asserts that innovations are initial commercialization of inventions by producing and marketing a new good or service or by using a new method of production whereas, an innovation can be a package of several inventions.

Extant literature presents various categories of innovation (Garcia & Calantone, 2002). The perspective given by Iplik *et al.* (2014) discusses five types of innovation that are widely used by both researchers and practitioners. These include; product or service innovation, that involves the development of new products, process innovation that involves implementation of new or improved production methods or systems, marketing innovation that focuses on the identification of potential markets and new customers to increase the firms market share, organizational innovation thinking that supports the creation of new administrative structures, workplace and external relationships among others and business model innovation also referred to as strategic innovation. Strategic innovation is grounded on the two dichotomies of innovation suggested by (Das, Verburg, Verbraeck & Bonebakker, (2018) in their perspective that grouped innovations into two categories, incremental and radical innovation. Incremental innovation involves minor changes while radical innovation incorporates technological changes. According to Gobble (2016), a radical product innovation involves a new technology with products in both the existing market and emerging market. On the other hand radical service innovation involves major organizational changes that lead to shifts in the market structures and behavior changes in customers (Das *et al.*, 2018).

The conceptualization of the construct of strategic innovation has been traced to the work of Markides, (1997) that considers strategic innovation as a type of innovation that focuses on the reformation of business and a renewed competing style that is beyond being better than the existing competition. Other scholars who added to this include, Schlegelmich, Diamantopoulos and Kreuz (2003) who defined strategic innovation 'as a fundamental re conceptualization of business models and the reshaping of existing markets by breaking rules and changing the

nature of competition'. A business model articulates the logic and provides data and other evidence that demonstrates how a business creates and delivers value to customers. It also outlines the architecture of revenues, costs, and profits associated with the business enterprise delivering that value (Teece, 2010). Kodama (2017) adds that strategic innovation is a dynamic view of strategy that enables firms to maintain competitiveness and establish sustainable growth. The application of innovation on corporate strategy was then referred to as strategic innovation (Geroski, 1998; Krinsky & Jenkins, 1997; Markides, 1997, 1999; Martinsons, 1993). Hamel referred to this concept as the 'strategy innovation' which he defined as the 'capacity to re-conceive the existing industry model to create new value for customers, make competition irrelevant and create wealth for other stakeholders'. Other concepts include value innovation that renders competition irrelevant, creation of new value and new markets (Kim & Mauborgne, 1999b). The current understanding of strategic innovation has therefore borrowed from the various conceptualizations of the concept. Thus we adopt the description advanced by Schlegemilch, (2003) that observed that: '*Strategic innovation is the fundamental reconceptualization of the business model and the reshaping of existing markets (by breaking the rules and changing the nature of competition) to achieve dramatic value improvements for customers and high growth for companies.*'

Although the definition appears very clear, scholars have continued to use strategic innovation interchangeably with innovation strategy contradicting the understanding of the two constructs. This notwithstanding, the distinction among the two is conceptually clear. Katz, du Preez and Schutte (2010) considered an innovation strategy as "an incrementalist, functional, predetermined plan governing the allocation of resource to different types of innovations in order to achieve a company's overall corporate strategic objectives and, a decision framework in its corporate strategy and objectives in order to focus on the business of the future" (as cited in Ouma & Kilika, 2018). Varadarajan, (2018) commented that understood in this manner, it is fundamentally an organization's focus on innovation types aligned to the corporate strategy level. Pisano, (2015) on the other hand pointed that an innovation strategy must be linked to the firm's business strategy and value proposition which raises the need to address two other critical components: how to create the value capture and determining the types of innovations that the firm should pursue. This argument is advanced due to the requirements of an innovation strategy. Pisano (2015) further observed that Innovation strategy requires a continuous improvement, experimentation, learning and adaptation without which a firm cannot build its capacity to innovate. Thus, borrowing from these comparisons of the two terms, it is clear that innovation strategy is executed within the existing model while strategic innovation ushers in a complete change not only in the firm but also in the entire industry. With this understanding then, we point out that a strategic innovation is to be approached by an organization as a type of innovation strategy with transformational effects on the markets and industries that include, new industries, new products, promotion, distribution, pricing and new markets (Varadarajan, 2018).

From the consensus established from the different perspectives of the understanding of strategic innovation, the authors are of the opinion that strategic innovation is more of the firm's 'redefined business model' that can be regarded as the heartbeat of every enterprise. Arising from this therefore are three dimensions or components of strategic innovation; Value creation, Value proposition and Value capture.

Value Creation as a component of innovation highlights new capabilities that enable a firm to reconfigure both its internal and external resources, new technology and equipment, new processes and structure and new partnerships that include customers and suppliers. The extant literature demonstrates the importance of strategic innovation as a process that creates growth strategies with significant value for customers, consumers and the corporation (Palmer & Kaplan, 2009). Karia (2013) added that strategic innovation has a clear focus to achieve a competitive advantage through improved customer value and new markets while, Yang (2014) emphasized that strategic innovation is a key factor that influences firm performance globally and ultimately increases value to their customers. Strategic innovation brings about a creative strategic positioning through new products, services and business models and is a dynamic view of strategy that enables a firm to maintain its sustainable competitive advantage for sustainable growth (Kodama, 2018). The underlying factor is that a firm's performance is dependent on controllable internal antecedents like the organizational structure and the management aspects of the firm (Sousa, Martínez-López & Coelho, 2008). To this end, firms need to continuously innovate to sustain their positions through either incremental or radical innovations. To advance in this, firms must review their existing

capabilities to reposition their businesses and therefore survival is guaranteed through the constant reflections on performance (Schoemaker, Heaton & Teece, 2018).

Value proposition involves new offerings, new customer segments, new channels and new customer relationships. Considering the importance of managing the strategic innovation process, Palmer and Kaplan, (2009) presented, seven strategic innovation dimensions that support the management of strategic innovation in a firm. These are; a managed innovation process that considers all the activities from the innovation initiation to implementation (Daft & Albers, 2013), strategic alignment, industry foresight (Markmann & Heiko (2015), customer and consumer insight (Kindstrom & Kowalkowski 2014), core technological and competence leveraging, organizational readiness and finally a disciplined implementation. Even though literature gives highlights on how to manage the firm's strategic innovation, for a systematic understanding and planning of this process, Sammut-Bonnici and Paroutis, (2013) in a debate on the dominant logic of strategic innovation argued for the need to have a more systematic approach. Given the nature of strategic innovation, firms require specific skills set, deliberate planning and implementation in order to get the benefits of any innovation (Bucherer, Eisert & Gassmann 2012; Cresswell & Sheikh 2013).

Value capture involves the new revenue model and new price or cost structure (Lehmann-Ortega & Schoetti, 2005; Teece, 2010; Clauss 2016; Sniukas, Lee & Morasky 2016). It defines how the value propositions are translated into revenue. Value capture demonstrates how a firm acquires resources that cover its costs and achievement of profits that lead to sustainable performance (Teece, 2010). Literature indicates that the ability of firms to use different mechanisms to capture value from their innovations would vary from technological to industry context (James, Leiblein & Lu, 2013). An integration of these dimensions defines a firm's business model that relates to the entire business system (Clauss 2016; Sniukas, Lee & Morasky 2016).

An immediate implication arising from the understanding so far advanced on the construct of strategic innovation is indicating that adoption of strategic innovation gives rise to some form of innovative capability at both firm and industry levels (Teece, 2017). The key question arising from this implication is where this capability derives from, its drivers, key dimensions and components as these are key to guiding how theoretically it may be modeled and practically applied. From the reviewed literature, the authors observe that the nature of innovation strategy may be facilitated from two sources, (i) external environmental conditions and (ii) internal organizational conditions. With regard to where innovation derives from as well as the drivers of strategic innovation, Schlegelmilch, *et al*, (2003) suggested a list of four drivers of strategic innovation that comprise of strategy process, culture, people and resources. Using this as a foundation, Mckenzie (2014) identified indicators under each driver as follows; Strategy process indicators are; role of strategy, strategy frontier and strategy development process, Culture indicators are; values, beliefs and innovative culture, People indicators are Staff characteristics, staff management, role of top management and leadership, networks and partnerships and Resource indicators are technology resource, finance resources. Following a similar approach, Iplik *et al*, (2014) established that strategic innovation in the large manufacturing firms can be operationalized by considering innovative outputs such as; cost savings, achieving competitive advantage, new markets, improved service quality, decrease delivery time of service, follow up on technology and increased customer satisfaction. These factors appear to depend to a large extent on the configuration adopted by the organization to organize and coordinate work through its organization structure. The organization structure will thus be an important internal organizational condition necessary to drive and sustain innovation.

The structure is required in providing conditions for sustaining innovation in that the structure determines how people work in an organization. The way people work to bring out innovations and sustain a level of creativity is either facilitated or inhibited by the structural dimensions of formalization, standardization, specialization and centralization (Burns & Stalker, 1961; Lawrence & Lorsch, 1967; Mintzberg, 1979). For example, from extant literature on decentralization of relevant information for decision making indicate that organizational structures can optimize efficiency in organizations (Dessein & Santos 2006). To manage the strategic innovation process calls for an appropriate organizational structure for a smooth implementation and facilitation of organizational learning that allows for access to knowledge for improved capacity to innovate (Martínez-León & Martínez-García, 2011).

In terms of the role of the external environment, we point at the firm's competitive environment that has been recognized as a key distinguishing characteristic in strategic management (Porter 1980). Machuki and Aosa, (2011) argue that the external environment provides three dimensions comprised of dynamism, complexity and munificence within which both threats and opportunities are suitable to be a source of innovation. Teece, (2010) highlights key drivers that lead firms to innovate or redefine their business models as globalization and technological advancements. This advancement enables a firm to introduce discoveries in the market faster than their competition (Teece 2010). Other drivers include competition and changing customer needs and changing regulation (De Reuver, Bouwman, & MacInnes, 2009).

With the stage set by both the internal and external conditions, we note that deployment of the strategic innovation embracing value creation, value proposition and value capture will enable a firm to generate a satisfactory level of innovative capability. This emerges as an important aspect of the discussion on strategic innovation given observations that have indicated that even though the types of innovation discussed are likely to give rise to some form of innovative capability, a number of scholars have noted that the innovation capability does not necessarily translate into innovation outcomes because these capabilities need to be exploited through a supportive organizational context to improve performance (Grabner, Posch & Wabnegg 2018). Given this challenge, an attempt to ensure that firms benefit from their innovation initiatives, strategic management comes into play as a management technique that organizations use to plan for the future of an organization and it includes the creation of a vision through the development of long-term strategies. Several organizations have realized that strategic planning is a fundamental aspect in helping them cope with sudden contingencies, both internally or externally. To improve innovation performance, firms need to have a strategy, systems, culture and collaboration with other firms which require a strategic perspective and thus leading to the adoption of the construct of strategic innovation (Schroeder, 2013).

In conclusion of the discussion on strategic innovation, it is now emerging from the literature reviewed that application of strategic innovation has implications for the business model in a way that touches on both the organization's internal and external conditions ( Wang & Kimble, 2016) Externally the conditions of external environment that create business opportunities become critical for consideration and internally within the firm, the conditions enacted to support the drive for innovation also need consideration if adoption of the construct of strategic innovation is to deliver credible value to an organization and sustain its competitive advantage. Thus from the review of the literature undertaken in the study, we deduce that consideration of three sets of factors is critical to understanding the outcomes and context of the deployment of the construct of strategic innovation as : the internal conditions leaning towards the firm's innovation capacity, the context of the firm's innovation and the outcomes of the firm's innovation. It is therefore evident that the firm's potential to sustain the quest for innovation based on its outcomes to the organization largely depends on the firm's innovative capacity and strategic innovation influences the level of a firm's innovative capacity that is a critical factor that affects firm performance since innovative capacity helps define long term strategies that determines a firm's survival (Noble, Sinha & Kumar, 2002) and in creating sustainable competitive advantage. We suggest that in line with this reasoning a consideration of the three related constructs is important; firm's innovative capacity, firm's organizational structure and firm performance.

## *2.2 Firm's innovative capacity*

Innovative capacity can be considered as a form of capability that may derive from the firm's strategic innovation as a strategic choice. One of the key requirements for a firm's survival in the context of innovation is the level of innovative capacity. Fundamentally an innovative firm must have an innovative firm culture that facilitates continuous creativity. Barney (1991) asserts that the ability to innovate as an internal resource of a firm is a critical competence to any firm. Innovativeness explains the firm-level orientation towards innovation (Hurley & Hult, 1998) and ability to increase a firm's growth that emanates from the innovative adaptation and extension of the firm's resource base (Wernerfelt, 1984). Literature indicates that the concepts of innovation and innovativeness are often confused and their perspectives used interchangeably (Garcia & Calantone, 2002). Koc (2007) argued that Innovative capacity refers to the firm's capacity to engage in innovation that involves new processes, development of new products, or generation of new ideas. Innovativeness provides flexibility to a firm to engage



in different options that lead to survival in the long term (Banbury & Mitchell, 1995). From the above definitions, innovation capacity and innovative capacity seem to imply the same thing because innovation capacity is both a process and an outcome (Achi, Salinesi & Viscusi 2016).

The components of innovative capacity as discussed by Gans and Stern, (2003) are noted as a *common innovation infrastructure* that supports innovation in the firm and industry of choice. This includes financial and human resources aligned to a firms' technological advances. Secondly, *cluster-specific innovation environment* where firms level of innovative intensity or vitality is dependent on specialized inputs, context for firm strategy and rivalry, local and sophisticated demand conditions, associated industries and finally the *quality of firm linkages* that enhance both upstream and downstream technical advances to improve productivity. This includes both formal and informal organizations and networks. Though related to these components, Neely and Hii, (2012) asserted that a firm's innovative capacity is determined by culture, internal processes considered and the external environment.

Since innovations are a critical factor to a firm's competitiveness, growth and survival, most firms will seek mechanisms and sources to attain high levels of innovativeness in order to face the stiff competition (Nieto & Santamaría, 2006). Chiesa *et al.*, (1996), (as cited in Koc 2007) notes that innovative capacity has very many factors and dimensions and it would not be practical to include all of them in an empirical study. As a result, a researcher should select factors that are relevant in a given context. Koc (2007) noted that innovative capacity in the large manufacturing firms in Turkey was driven by the technological environment or technology strategy, idea quality, idea generation and development technological acquisition and exploration. However, Suarez-Villa (2007) noted that inter-firm networks are critical to a firm's innovative capacity and subsequently lead to an impact at the national level. Marotti de Mello (2008) added that innovative capacity is a result of the inter-relationship between organizational culture, competence, resources and relationships with other firms. A continuous measurement of innovation capacity provides a comparison between firms, sectors or industries as sources of innovations (Suarez-Villa, 2007).

The firm's innovative capacity is theoretically considered a product of both the firm's infrastructure and the external conditions. The firm's infrastructure may be studied from the point of organizational structure. Given the importance of innovative capacity, a fundamental question a firm could ask is in regard to the decisions that concern the ideal innovative related structures that translate into performance outcomes. The successful innovating firms will always strive to consider structures that facilitate an innovative environment. It is important to note that the strategies that a firm can adopt to provide a competitive advantage can only be found in an appropriate organizational structure. Thus, there is the need to study how strategic innovation is influenced by the construct of organizational structure to subsequently affect firm performance.

### 2.3 Organizational structure

The deployment of strategic innovation in the firm context is dependent on the organizational design. The ability of a firm to innovate, presents challenges and opportunities to lead to new managerial practices and new organizational forms. In the Schumpeterian theory of innovation, Schumpeter (1950) visualized organizational changes that influenced the new products, processes, new markets, new business models as creative destruction that calls for a new way of doing things. As a result, this paper considers organizational structure as a construct of interest since it influences how this strategic choice is implemented. Chandler (1962) demonstrated this interest in his study that concluded that structure follows strategy. Subsequent attempts have continued to demonstrate the role of structure in providing a supportive climate for the implementation of innovative strategies. The earlier studies on structure focused on understanding its dimensions that offer potential for creating and sustaining this climate for successful strategy implementation (Burns & Stalker, 1961; Lawrence & Lorsch, 1967)

Mintzberg (1973) defines organizational structure as a way that work is divided, shared and coordinated while (Hold & Antony, 1991) adds that an organizational structure is a model that explains different relations in an organization. Organizations with less complex structures and an appropriate decentralization structure, have more effective supervision and improved company performance (Belassi & Fadlalla, 1998; Chang & Lung, 2002). Structure configures the context within which power and control are exerted, duties are fulfilled and strategic

options are formulated (Hunter, 2002; Spanos *et al.*, 2001). It influences resource allocation, favours internal and external communication, and strengthens organizational ability to respond to changes in business environment, to learn and innovate (Chen, Huang & Hsiao, 2010; Martínez-León & Martínez-García, 2011). The firm context therefore will influence the firm's level of innovativeness that will subsequently determine firm performance.

Extant literature exists on the multi-dimensional view of organizational structure. Schine (1971), (as cited in Ahmady, Mehrpour & Nikooravesh 2016), presents three dimensions of organizational structure, the hierarchy, functional and inclusion. The Aston group adopted the Weber's concept of bureaucracy since it was an ideal type of organization with different variables. The major variables identified were, specialization formalization, standardization, centralization and configuration. Burns and Stalker (1968) classified the organizational structures into mechanistic or organic depending on the levels of standardization, formalization and centralization. The highly mechanistic organizational structure with inherent bureaucracy inhibits timely response to a changing environment while a low organic structure characterized by low degree of formalization and centralization facilitates creativity and innovative performance (Burns & Stalker, 1968). Pugh, Hickson, Hinings and Turner (1968) established the dimensions of complexity, centralization, formalization and stratification in the context of an organization's ability to establish was to implement and achieve its objectives, Reimann (1973) viewed the organizational structure in form of decentralization, formalization, specialization and administrative intensity and finally Robbins (1994), considered the dimensions of complexity, centralization and formalization as the basic structures of organizational structure (as cited in Erol & Ordu, 2018).

Even though the organizational structure presents a multi-dimensional perspective, Follet (2010) notes that all the researches done indicate an overlap in the dimensions identified. However, the literature reviewed reveals the key structural dimensions as; formalization, standardization and centralization. First, formalization is a core dimension of structure as discussed by the Aston Group (Pugh *et al.*, 1963). It refers to the existence of documented procedures for bureaucratic control reducing the amount of communication required (Daft 1995). This structure standardizes operations in the organizations. Secondly, standardization involves employees working according to standardized procedure where behaviors are routinized with high predictability levels. Work is done uniformly (Daft 1995). In the formalized and standardized structures, employees are accountable to any actions taken. Thirdly, centralization is the concentration of authority at the top level of the organization that focuses on the hierarchy of authority while decentralization is the extent to which decision making is dispersed in the firm with greater autonomy and responsibility resulting in improved employee participation and information flow (Hage & Aiken, 1967). In addition, Lawrence and Lorsch, (1967) through the contingency school of thought observed that the level of uncertainty in an environment impacts the development of internal elements in organizations.

Organizational structure is seen as an organizational resource or capability that enhances the organization's capacity to innovate (Andrews, 2010). Thus, it may be considered as a contingent factor that conditions the manner in which the deployed strategic innovation brings about desired forms of capacities and subsequent firm performance. Further still, Felin and Powell, (2016) note that an organizational design is a dynamic capability that managers can harness to sense, shape and seize opportunities in the complex business environment. The division, delegation and coordination of work, affects the cooperation and internal communication, influencing access and flow of knowledge and exchange of ideas, may hinder experimentation and acquisition of new knowledge that continuously favor innovation. Although from the discussion, organizational structure is key to each firm, in order to attain the organizational goals and objectives, the structure as a capability must be reconfigured to facilitate this endeavor through employee commitment.

The turbulent and volatile external environment pose threats to business survival. The success of many firms depend on how they respond to the changing external environment. Burns and Stalker (1961) posited that in a dynamic external environment, high formalization decreases organizational adaptability to environmental changes and increases the risk of the firm's failure. On the other hand, adapting an organic organization structure, flexibility and creativity is emphasized leading to improved firm performance (Burns & Stalker 1961).

#### 2.4 Firm performance

Strategic innovation is one of the innovation strategies that has assisted firms improve their overall performance (Wang & Ahmed, 2004). This type of strategy is crucial in enhancing performance, market advantage, sales growth and profitability (Sandvik *et al*, 2014). Strategic innovation is considered as a strategic choice that maximizes resource productivity in a firm (Nandakumar, Ghobadian & Reagan, 2011). As a result this influences resource efficiency, networking, entrepreneurial and R&D. Viewed in this manner, application of strategic innovation fulfills an important aim of the adoption of strategic options of performance. All management disciplines consider firm performance as the ultimate dependent variable of interest (Bourne, Melnyk & Bititci, 2018). All forms of market competition make firm performance critical in the current dynamic business environment. This construct therefore is a focal point in any business activity as an indicator of organizational effectiveness. In spite of the importance of organizational performance, very little theoretical research has been done to give direction on the choice and construction of performance measurement (Richard, Devinney, Yip & Johnson, 2009).

Performance measurement is critical for effective organization management. The substantial number of research studies and balanced scorecard implementations in multiple organizations demonstrate the popularity of this topic. Despite the increased need for performance measurement several companies and organizations have a challenge to effectively implement a performance management system (PMS) suitable for the organization (Couturier & Sklavounos, 2019). Organizations that continuously perform well always plan to maintain a predetermined level of performance and at the same time optimize performance by reviewing their existing performance elements. Examples of these elements include; efficiency, quality of innovation, profitability and effectiveness (Oyemomi, Liu, Neaga & Alkhuraiji, 2016). Schlegelmilch *et al*, (2003) noted that the ultimate performance derived from strategic innovation includes *customer value* derived from a proactive value creation. Strategic innovators will pursue non-customers to identify new offerings. The other is competition positioning by making competition irrelevant through superior value.

Several scholars have identified several indicators that are financial and non-financial indicators to inform on a firm's effectiveness, Return on Investment, Return on assets, profit margins, market share, increase in sales, market growth rate, (Kaplan & Norton, 2008; Selvam *et al*, 2016). In addition Carayannis and Provan, (2018) note that innovation can be measured at the input, process and output level indicators such as, percentage sales or profits of the innovation, idea generation, patents and brand reputation. This broad spectrum of measure helps clarify trends and developments over time (Saunila, 2016). It then becomes evident that such a scholarship considers indicators that are both financial and non-financial.

Burris, Edward, Graham and Jones, (2018) note the difficulty in measuring innovation as a single dimension because of its diverse definitions and at the same time noting that innovation is not only abstract but also uncertain. A multiple array of measures have been suggested; 'patent index to capture inventiveness, a technical worker index to capture innovative capacity, and an engagement index to capture opportunities for regional collaboration outside formal channels' although this may be useful, it remains a challenge for scholars to measure intangible innovation. Given the debate and diversity of approaches to performance measurement by different scholars, Richard, Devinney, Yip and Johnson, (2009) call for research that 'examines triangulation using multiple measures, longitudinal data and alternative methodological formulations as methods of appropriately aligning research contexts with the measurement of organizational performance.' The extant literature indicates the measure of innovation performance instead of the ability to innovate over simplifying the complex nature of the sources of innovations (Neely & Hii, 1999). Most of the challenges include the need to find measurement methods that predict measures of innovation performance to provide a holistic picture through innovation performance measurement (Saunila, 2017).

Failure to address inconsistency in the definition and measurement of firm performance as a dependent variable makes it difficult to make research comparisons between different studies in similar sectors. However, Couturier and Sklavounos (2019) note the few studies on the practical use of performance instruments after implementation and lack of adequate practical tools. From the discussion on firm performance, various indicators have been noted but the performance measurement of strategic innovation remains unclear although literature highlights the important role of strategic innovation in businesses today. It remains a challenge to manage what cannot be

measured. Possible solutions to this include the need for a firm to identify all the objectives and expected outcomes with a proposed performance measure at different levels. In view of this discussion, the authors propose a much broader perspective of the construct of performance concerning the antecedent factor of strategic innovation that reflect performance measures of both financial and non-financial that considers, market share and competitiveness.

### 2.5 Review of relevant theories

Relevant theories have been considered to help build a case for a theoretical framework on strategic innovation in a firm context. This paper has explored these theories whose basic postulates are discussed and each linked to an aspect of the emerging phenomenon from the deployment of strategic innovation. The theories identified include: The Schumpeterian theory of innovation, Game theory, Resource based view of the firm, the dynamic capability theory, the contingency theory and the Balanced Scorecard.

#### 2.5.1 The Schumpeterian theory of innovation

The Schumpeterian Innovation theory was developed by Schumpeter (1934). The theory forms the foundational attributes that anchor the arguments and understanding of strategic innovation. The theory posits that the business cycles are as a result of innovation that leads to prosperity and that entrepreneurship is key in an uncertain business environment where the entrepreneur must be astute in combining the key factors of production to produce the target goods or services innovatively for survival. The theory postulates a firm's development is as a result of creative pathways that involves, new product launch, new or improved production systems, access to new markets, new supplies of the required materials and creation of a new industry. The development process may be prosperous or in a recession and to survive, entrepreneurs must be very creative and knowledgeable (Schumpeter, 1934). The entrepreneurship perspective brings into play the role of leadership in the innovation process in that a leader with an entrepreneurial mindset will identify new business models with potential for growth. Further still, the theory posits that while firms face different challenges, an economic situation like recession requires that leaders become proactive and innovative. The theory continues to argue that this can only happen through a reformation process that involves introduction of new products, use of new production methods, new markets, development of new raw materials as alternative sources and rearrangement or realignment of industries. As discussed by Schlegelmich *et al.*, (2003), strategic innovation is a way of redefining the business model, having an open-minded exploration, experimentation and creating new ways of doing things. In addition the theory argues that the organizational structure and leadership determines the firm's ability to innovate for economic growth. The theory's recognition of an organization's role in the innovation process, aligns strategic innovation within the organizational structure arguing that the organizational structure and leadership determines the firm's ability to innovate for economic growth. This alignment presents an opportunity for firms to design structures that facilitate innovativeness that determines the firm's future in a dynamic business environment. The main focus of this theory is the ability to define strategic innovation, type of leader that creates a strategic innovation and the context within which this type of innovation thrives. The theory makes a way for a choice strategy based on innovation. The authors propose that the arguments of this theory are suitable to underpin the construct of strategic innovation.

#### 2.5.2 The Game theory

The proponents of the game theory are Neumann and Morgenstern (1944). The theory is the mathematically operationalized theory of strategic interactions that postulates that social and economic issues or concerns are like games of possible strategies illustrated by mathematical models. The theory aims to model situations where decision makers make specifications that may have mutual, conflicting or have certain consequences (Geckil & Anderson, 2010). The theory posits that a firm makes a decision that affects the decisions of other firms. A specific game is clear on the required procedures that include, governing rules, interactions and possible strategies, preferences of play offs, information on the game and equilibrium (Bicchieri & Sillari, 2005). The Game theorists refer to these decisions as 'strategies' that are calculated as per the decision maker's preference and these decisions affect other firms, in this case the competitors in order to maximize profits, improve market share and remain sustainable (Ozkan-Canbolat, Beraha & Bas, 2016).

The postulates of this theory explain the nature of strategic innovation as a game changer where any competitive challenges or pressures require a firm to create new avenues or different games that are competitive and strategic innovation is about re-conceptualization of markets and industries to create a better value proposition (Markides, 1998; Ozkan-Canbolat *et al*, 2016). It also explains the procedures and strategies that form a basis for the value architecture and proposition as components of strategic innovation to maximize profits.

### 2.5.3 Resource Based View of the firm

Penrose (1959) discovered the critical relationship among the available resources in a firm that includes the ability to produce and the associated growth rate patterns. She introduced the firm's innovative capacity on the use of resources as seen in her theory of enterprise growth. The RBV theory borrows heavily from her work. The RBV was first theorized in 1991 after Barney's work on firm resources and sustained competitive advantage (Barney, 1991).

The RBV emphasis is on the firm's distinct and specific valuable, imperfect inimitable and rare (VRIN) resources and capabilities that create a firm's competitiveness. Innovation is a driver to a firm's success against all its competitors and therefore a rare capability that is very valuable (Damanpour, 1991). Firms encourage innovativeness or capacity to innovate in order to improve firm performance. This is done through strategic practices or processes like strategic innovation. Firms are heterogeneous in terms of the strategic resources they own and control (Amit & Schoemaker, 1993). The RBV explains the performance heterogeneity among different firms (Barney & Clark, 2007) and organizational resources and capabilities determine a firm's capacity to innovate (Lee C, Lee K, & Penning, 2001). At the same time lack of financial support limits a firm's capacity to innovate. Innovation is from the inside of a firm and it builds on a firm's available resources and capabilities to support innovative activities.

The postulates of RBV suggest that a firm's resources determine the firm's competitive advantage in a given market, thus impacting on its financial performance. While firms present different resources and capabilities, if configured well, strategic innovation and innovative capacity can create sustained competitive advantage.

The authors note that the RBV is relevant to the construct of strategic innovation because when strategic innovation is deployed as a strategic choice, the firm regards this as resource that is Valuable, Rare, Imitable and Non substitutable (VRIN) for firm performance. Secondly RBV is critical to strategic management as a discipline and complements the Schumpeter's innovation theory that calls for a creative combination of factors of production for prosperity and economic growth.

### 2.5.4 Dynamic Capability theory

The dynamic capabilities theory was developed by Teece, Pisano and Shuen (1997) as an extension of the RBV. The theory explains '*the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments*' (Teece *et al*, 1997). The theory posits the importance of a company's capacity to recognize opportunities in the marketplace, seize them and creatively adapt in the dynamic environment. DC is a game changer in the field of strategy and management, especially in firm performance. High-level routines, or zero-order capabilities, are considered the managerial and organizational processes that reflect patterns of current practice and learning (Teece & Pisano, 1994).

Strategic innovation capacity is a critical competence in an organization that allows it to reconfigure the business model in order to address any issues arising from the rapidly changing environment. At the same time, the ability to innovate determines how the firm reconfigures both the internal and external resources to create value for survival in a dynamic environment. The organizational design is also a dynamic capability that managers can harness to sense, shape and seize opportunities in the environment. The authors therefore consider this theory suitable to underpin the construct of strategic innovation and innovative capacity as key competences in positioning a firm in a complex business environment.

### 2.5.5 The Contingency theory

The contingency theory was developed by Fielder (1964). This behavioral theory contends that no best way exists on organizing. An optimal organization is always contingent to both internal and external constraints. To complement the RBV where organizational structure is seen as a capability, Fielder argues that the structural contingency is a major framework used to understand the shape of an organization. No universal perspective exists to manage an organization. The theory postulates that an organization's effectiveness is influenced by an outcome of a fit between its structure and the contingencies that reflect the position of the organization (Burns & Stalker, 1961). The major contingencies are environment (Burns & Stalker, 1961), size of the firm (Child, 1975) and strategy of the firm (Chandler, 1962). Pennings (1992) asserts that the environmental stability influences the mechanistic structure that fits a stable environment that is applicable to routine operations where formalization and standardization procedures work better. The organic structure fits an unstable environment that is applicable to a highly participatory approach that is decentralized with less job specialization that enhances innovation and knowledge sharing. The size contingency influences the bureaucratic structure that leads decision making by rules that is dictated by the number of employees. On the other hand, the strategy contingency influences the divisional structure. Chandler (1962) argues that the functional strategy is appropriate for undiversified strategy where efficiency is by specialization and diversified strategy leads to coordination of activities for efficiency. According to the contingency theory, organizations' structures are shaped by the alignment to these contingencies.

The postulates of this theory demonstrate the relevance of organizational structure and its importance to firm performance. An organization's effectiveness is influenced by an outcome of a fit between its structure and the contingencies that reflect the position of the organization. Some key dimensions drawn from the theory influence the level of innovativeness in a firm and effectiveness of the operations that determine the level of performance. People will influence the design of the organizational structure given the complex environment due to uncertainty. Strategic innovation is a process within an organizational structure that is aligned in a turbulent environment with a view to have a business model that guarantees survival. The authors are of the opinion that this theory underpins the construct of organizational structure.

### 2.5.6 The Balanced Scorecard

The Balanced Scorecard was developed by Kaplan and Norton (1992) The BSC was reviewed as a powerful strategy and performance tool for organizations. The BSC is premised on the firm's need for both tangible and intangible assets to gain sustainable competitive advantage. The model has four perspectives that are interrelated and therefore determine the firm's progress in creation of value to the customer. The financial perspective provides reliable insights into the operations management and sustainability of the choice strategy. The associated indicators are profitability of the firm, sales, Return on investment, return on assets, cash flow and revenue (Ouma & Kilika, 2018). The customer perspective defines the quality, price and service or product. This perspective considers a firm's attractiveness to targeted customers. Kaplan and Norton, (1992) advice is that firms concentrate on a business model that focuses on high customer satisfaction. An example of indicators include; customer retention, market segment, client acquisition, client satisfaction, and profitability. The internal business processes perspective examines the processes that add value in the organization processes, activities and decisions and finally the learning and growth perspective that measures the organizations capacity to learn and innovate.

The postulates of this framework are applicable to firm performance as an outcome of both tangible and intangible assets as described through the four perspectives of finance, customer satisfaction, internal business processes, learning and growth. The BSC framework not only provides the basis upon which firm performance measurement metrics are built but also assists in strategic planning and communication of set goals (Iranzadeh, Nojehdeh & Emami, 2017). Since the construct of strategic innovation is about redefining the business model, this framework provides a clear guideline through the four perspectives that support choice of the strategy, target customers, business processes and finally learning and growth that is critical to measure an organization's capacity and ability to innovate. In this regard, the authors consider the BSC as a framework with a broad scope in the measurement of firm performance.

## 2.6 The Case for a Theoretical Model

In an effort to build a case for strategic innovation in the firm context, the literature so far reviewed has raised important issues that set the stage for the evolution of a phenomenon that may form a basis for a new theoretical model. We regard consideration of the emerging issues to be important in presenting and justifying a case for the needed model that advances knowledge in the discipline of strategic management. Advancement of knowledge in a scholarly and acceptable scientific manner requires a sound basis upon which that knowledge is underpinned. In modeling a phenomenon, the theorizing requires identification of the constructs, with clear roles that each is expected to play according to the perspective by (Nachmias F. & Nachmias D., 2004). Resulting from the above understanding, we identify the possibility of a phenomenon arising from the nature of strategic innovation when adopted in an organization as a strategic option. In this context, the emerging phenomenon arises from two aspects: the potential brought into an organization by the construct of strategic innovation and the context in which the strategic option is optimized.

In the first instance, the reviewed literature has been able to demonstrate evidence of a crystallized set of knowledge on the construct of strategic innovation. The literature has been able to bring out a clear understanding of the construct in a way that its nature and characteristics are understandable. This understanding is depicted through the various definitions, dimensions and drivers of strategic innovation in organizations such that a clear set of indicators are discernible. From the literature, strategic innovation can be operationalized through three components: value creation, value proposition and value capture. Value creation is operationalized using indicators of new capabilities, new technology and equipment, new process and structure. On the other hand Value proposition is operationalized using new offerings, new customer segments, new channels and new customer relationships. Finally, value capture is operationalized using revenue model and new price structure (Lehmann-Ortega & Schoetti, 2005; Teece, 2010; Clauss 2016; Sniukas, Lee & Morasky 2016).

In this regard, strategic innovation ushers into the systems of an organization innovative capacity which when interpreted from the resource based perspective is a form of capability/competence that becomes a source of sustaining competitive advantage. The competitive advantage is manifest when a firm is able to continually post satisfactory performance through various dimensions, namely financial that include, return on investment, return on assets, profit margins, increase in sales (Kaplan & Norton, 2008; Selvam *et al*, 2016). Some of the non-financial include, increased market share, market growth rate, idea generation (Carayannis & Provan, 2018), customer value, competition positioning (Schlegemilch *et al*, 2003), inventiveness, innovative capacity, (Burrus *et al*, 2018) and market advantage (Sandvik *et al*, 2014). In terms of the context, the adopted strategic option of strategic innovation is applied in the context of two factors: the prevailing climate in the firm as conditioned by the firm's infrastructure and the external environmental conditions that offer the opportunities for a firm to respond through adoption of the strategic option. In view of these components that emerge to define a phenomenon, the understanding of the construct earlier established further sets the stage for the description of the emerging phenomenon in a way that scholarship in strategic management can rely on to practically assess the behavior of the phenomenon as an aspect of firm strategic behavior.

We find support for the above logic from not only the theoretical and conceptual literatures but also from scattered pieces of empirical work. Evidence to the above possibility is found in a number of empirical studies reviewed. The authors noted the possible relationships between strategic innovation and other concepts with the use of various variables that have an implication on the direction of future research. Most of the empirical work investigated the influence of strategic innovation and firm performance. The examples include the following; Muchemi and Moronge, (2012) and McKenzie, (2014) investigated the impact of strategic innovation in the financial sectors in Kenya and South Africa respectively establishing a positive relationship between strategic innovation and performance. Kariuki, (2014) exploring strategic innovation in the telecommunication industry in Kenya established that strategic innovation has a positive effect on organization's performance. Pilisi, Namusonge and Ng'eno, (2016) in their pursuit to understand the effect of strategic innovation capability in the vendor managed retail supermarkets in Kenya noted that strategic innovation as a capability significantly affects performance. Ildiko-Csilla, (2018) explored strategic innovation management in global companies and established an innovation management model matched to the firm's corporate strategy leads to long term performance.

Another stream was on strategic innovation as a foundation for a business model where Faghih, Dastourian, Sajadi, Henten, and Foroudi, (2018) analyzed a framework for business model with strategic innovation in the ICT sector in Iran establishing that a well designed business model is a reflection of strategic innovation in the business affecting performance. We observed organizational structure linked to innovation performance and other variable. Muturi (2015) investigated organizational structure and internal processes in the manufacturing sector in Kenya and established that the organizational structure has an influence on a firm's internal processes affecting performance. Main-Idarraga and Cuarata (2016) explored the influence of organizational structure and innovation in Columbian firms revealing that the strategic co-alignment of differentiation, formalization and decentralization influences innovation. Dekoulou and Trevillas, (2017) explored organizational structure, innovation performance and customer relationship value in the Greek advertising and media industry revealing a positive relationship between organizational structure and firm performance. Lastly, others like Rhee *et al*, (2010) linked innovativeness to performance. In their exploration on drivers of innovativeness and performance of SMEs in South Korea established that a firm's innovativeness requires an entrepreneurial orientation, market orientation and strategic thinking in order to improve performance in firms while Iplik *et al*, (2014) investigated strategic innovation in the hotel industry in Turkey found the need to continuously improve their innovative capacity. Oliva *et al*, (2018) further investigated the innovation process in firms in Brazil noting the importance of innovation to a firm's competitiveness. Exposito and Sanchez-Llopis (2018) analyzed innovation and business performance for Spanish SMEs and noted that the strength of innovation performance is dependent on the type of innovation strategy leading to performance.

In reference to the phenomenon that is emerging, we point at the need for documentation of the phenomenon in terms of theorizing so as to offer an opportunity for expressing the crystallized sense of understanding in the form of a theoretical model. In advancing knowledge in a given field, scholars have pointed at the critical role that theory plays (Lee & Kerlinger, 2000). Scientific research has often seen scholars split into two streams based on the role of induction and deduction. The stream of scholars leaning towards induction is of the view that phenomenon first needs to be observed and thereafter conclusions made and thus propositions are logically arrived at as a result of the observations. On the other hand, the stream leaning towards deduction suggests that we arrive at conclusions as a result of interpretation of the meaning contained in data. Arising from the two are two competing strategies on the place of theory in research: theory before research strategy or research after theory strategy. In our case, we are guided by the theory before research whereby researchers start with a theoretical framework, formulate hypotheses, and logically deducing from the results of the study in a hypothetico-deductive method (Sekaran, 2003).

Having justified the need for a theoretical model based on the above three points, we conclude the justification by raising the need for testing developed models in empirical work. As earlier argued by the stream of scientists subscribing to the strategy of theory before research, we base our argument on the need to measure the behavior of a phenomenon practically in a suitable context after which tested hypotheses can be confirmed or disconfirmed and feed into the originally developed theoretical model. In scholarship, an opportunity to test a model empirically would be considered an opportunity for advancing knowledge in that abstract propositions advanced at the abstract level find an opportunity for validation at the empirical level (Wacker, 1998). In view of the background that has faced the evolution of the construct of strategic innovation and its subsequent manner of adoption and application in organizations, proposing a new model offers this opportunity for validating the crystallized understanding resulting in the phenomenon depicted in the proposed model. Thus we propose a new model as summarized in figure 1 page 15.

### **3. The Proposed Theoretical Model**

In view of the above discussion and an attempt to integrate the construct of strategic innovation in the strategic management literature, the authors propose a new theoretical model to inform this debate. The proposed model is based on the pillars of strategic innovation, innovative capacity and firm context. In theory building, the scholars endeavor to identify these constructs that build the emerging phenomenon, their respective roles in the phenomenon and the likely impact anticipated. In this regard, the authors propose in a new theoretical model



linking strategic innovation and firm performance in a firm context. The proposed model illustrates the relationship between the constructs and the possible indicators. Refer to figure 1 below

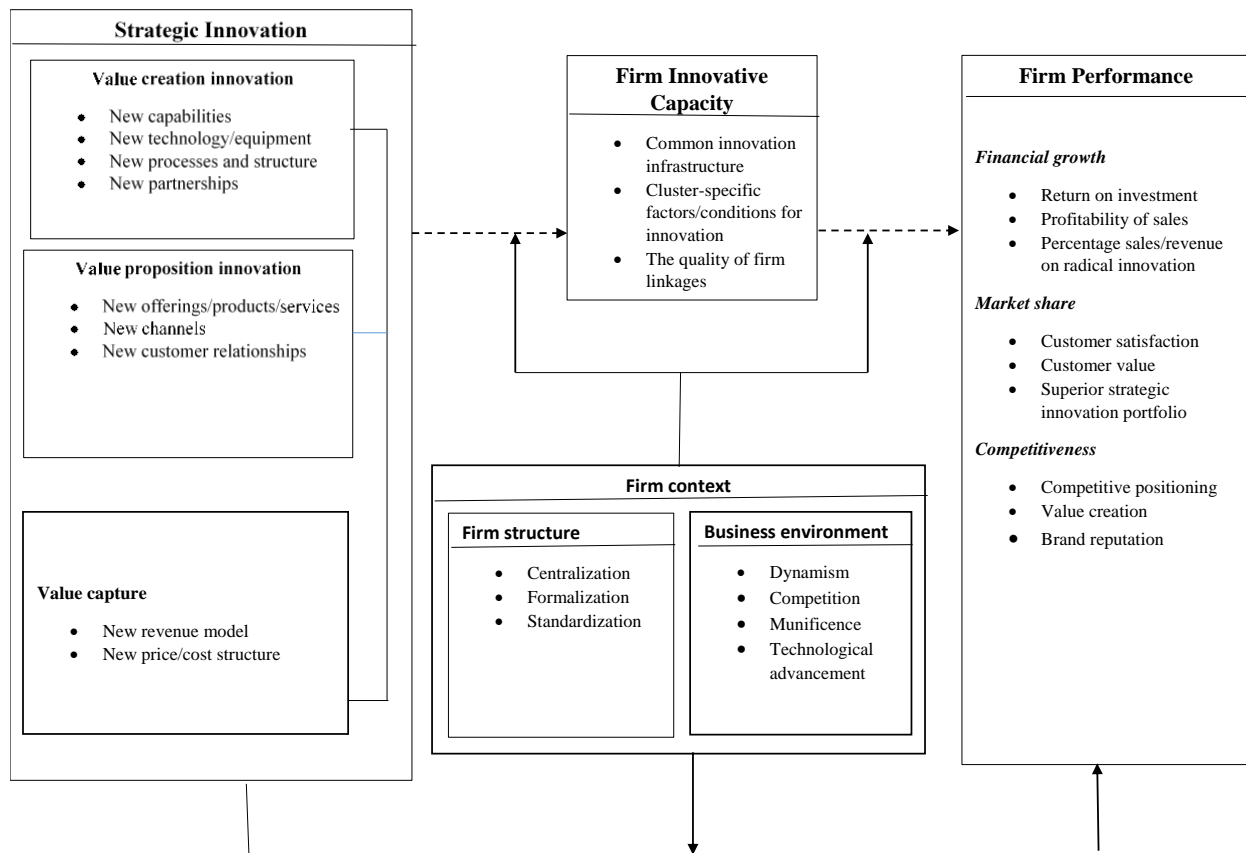


Figure 1: A theoretical model on strategic innovation in a firm context

### 3.1 Strategic Innovation and Firm Performance

Strategic innovation aims at maximizing value creation through the re-conceptualization or redefinition of the business model which is also referred to as the corporate strategy innovation (Schlegelmilch *et al*, 2003). The objective is to increase value creation while maintaining a sustainable competitive advantage since strategic innovation tends to expand a firm's boundaries by creating diverse options. Strategic innovation shapes the future of a firm and therefore an important factor for any firm's sustainable competitive advantage and financial performance. Strategic innovation has been operationalized through the consolidated dimensions and drivers by Schlegelmilch *et al*, (2003); Palmer and Kaplan, (2009); Lehmann-Ortega and Schoetti, (2005); Teece, (2010); Clauss (2016); Sniukas, Lee and Morasky (2016). These dimensions are based on literature and theories that include the Schumpeter theory of innovation, Resource based view (RBV) and Dynamic capability (DC). With the business environment becoming more competitive, firms are becoming even more aggressive in the identification of competitive strategies to improve performance and a continued growth (Kanyuga, 2019). Firm performance is the ultimate dependent variable of interest in any firm (Bourne *et al*, 2018). However, given that performance is a multi-dimensional construct, the extant literature presents diverse dimensions that are both financial and non-financial. The financial indicators include, Return on Investment from the innovation, percentage of sales from the radical innovation, R&D relative to sales, percentage profit of the total while on the other hand the non-financial indicators, new business model, project management approach employed, employee training on innovation, percentage of working time for the top management on innovation, any new industry standards set (Carayannis & Provan, 2018). Other non-financial indicators include, customer satisfaction, market share, patents and brand reputation.

The justification for adoption of strategies is to impact the firm's performance. The nature of strategic innovation is such that it exerts significant impact on the systems of an organization that sustain performance (Kodama, 2017). The various dimensions of this strategy drawing from diverse streams of literature are expected to enhance the firm's levels of performance. The argument from the conceptual and empirical literature indicates that components of strategic innovation stand to influence aspects of a firm's performance in diverse sectors. One study done by Kalay and Lynn, (2014) aimed at investigating the impact of strategic innovation on firm innovation performance in Turkey. The study established that firms that have adopted strategic innovation increase profit levels, create a higher customer value and competitive positioning. Muchemi and Moronge, (2012) and McKenzie, (2014) investigated the impact of strategic innovation in the financial sectors in Kenya and South Africa respectively. The studies established that strategic innovation has a positive influence on strategic innovation capacity, creation of new markets and product innovation that explains variation in performance. Faghih *et al*, (2018) analyzed a framework for business model with strategic innovation in the ICT sector in Iran establishing that a well designed business model is a reflection of strategic innovation in the business affecting performance. Kariuki, (2014) reviewed strategic innovation in the telecommunication industry in Kenya and established that strategic innovation has a positive effect on organization's performance. Ildiko-Csilla, (2018) explored strategic innovation management in global companies and established that a good understanding of innovative culture with clear measurement based on an innovation management model matched to the firm's corporate strategy leads to long term performance. In view of the extant theoretical and empirical evidence, it is anticipated that the diverse dimensions of strategic innovation will have a direct contribution to the firm's level of performance. Thus, we propose that;

*Proposition 1: The deployment of a firm's strategic innovation has potential to positively influence the diverse dimensions of the firm's performance.*

### *3.2 The Role of Innovative Capacity*

Koc (2007) argues that Innovative capacity is the firm's capacity to innovate by developing new processes, development of new products, or generation of new ideas. Innovativeness provides flexibility to a firm to engage in different options that lead to survival in the long term (Banbury & Mitchell, 1995). From the conceptual review, the firm's innovative capacity can be operationalized by the following indicators; common innovation infrastructure, cluster-specific innovation environment and quality of firm linkages (Gans & Stern, 2003). These indicators are based on literature, the RBV and DC theories that take cognizance of innovative capacity as a capability in the firm that determines how the firm continuously positions itself in the dynamic and unpredictable business environment. The ability to innovate determines how the firm reconfigures both the internal and external resources to create value for survival in a dynamic environment (Teece, 2007; Grant, 2010). Anderson, Potocnik and Zhou (2014) note that creativity and innovation work together to influence a firm's competitiveness and long term survival and as a result, firms with creative teams tend to register improved performance.

Evidence from empirical literature reveals that the firm's innovative capacity determines the extent to which a firm creates its strategic innovation forcing firms to strategically redefine their business, to create new ways of competing in order to offer new value for consumers and other stakeholders. For these firms to be successful they have to discover and exploit new strategic positions that emerge from time to time as the industry evolves. In the study done by Rhee *et al*, (2010) in their exploration on drivers of innovativeness and performance of SMEs in south Korea, it was established that a firm's innovativeness requires an entrepreneurial orientation, market orientation and strategic thinking in order to improve performance in firms while Iplik *et al*, (2014) investigating strategic innovation in the hotel industry in Turkey found that firms need to continuously improve their innovative capacity. Oliva *et al*, (2018) further investigated the innovation process in firms in Brazil and established that innovation is critical to a firm's competitiveness and subsequent economic development in the domestic context. Exposito and Sanchez-Llopis (2018) analyzed innovation and business performance for Spanish SMEs and established that the strength of innovation performance is dependent on the type of innovation strategy and the performance dimension. The study further recommended the use of a multi-dimensional approach to innovativeness. With this understanding, the authors propose that;

*Proposition 2a: A firm's innovative capacity derived from the deployment of strategic innovation mediates the relationship between the deployed strategic innovation and the emerging firm performance*

*Proposition 2b: Even though the strategic innovation deployed in a firm influences its performance, the firm's innovative capacity determines the strength of this relationship.*

### 3.3 The Role of Strategic Firm Context

The literature reviewed noted that strategic innovation adopted by a firm depends on both the firm structure and business environment. Further still, its creation is triggered by both internal and external firm context (Bucherer *et al.*, 2012). Key drivers of firms to innovate or redefine their business models include globalization and technological advancements. This advancement enables a firm to introduce discoveries in the market faster than their competition (Teece 2010). Other factors include competition and changing customer needs and changing regulation (De Reuver, Bouwman, & MacInnes, 2009). As a result of these factors, the dynamism in the environment determines the implementation success of a firm's strategy. Chandler (1962)'s work concluded that structure follows strategy. From the extant literature, the firm structure is actually influenced by the firm's corporate strategy. To implement the strategy successfully, the structure must be aligned accordingly because organizational structure is an endogenous factor that influences innovation (Main-Idarraga & Cuaratas 2016). From the conceptual review several dimensions exist but this paper proposed the dimensions by Burns and Stalker, (1968) to operationalize the organizational structure construct. The indicators consider the continuum of mechanistic and organic levels of structure that include formalization, standardization and centralization. High organic levels of organizational structure enhance innovation in firms. Extant literature on decentralization of information flow, communication and decision making indicates that organizational structures influence employee's level of creativity, the firm's optimization of efficiency and performance in organizations (Bolton & Dewatripont 1994; Robbins, 1996). Decision making autonomy allows functional managers to establish linkages within the firm to foster creativity and distribution of resources (Gerwin & Moffat, 1997). Andrews (2010) asserts that organizational structure as a key capability contributes to the organization's capacity to innovate. And while the ability to redefine the business model is integral to dynamic capabilities, the organization's design influences the strength of its dynamic capabilities (Leih, Lindenn & Teece, 2015). The evidence from empirical literature reviewed indicated an influence of the organizational structure on the relationship between strategic innovation and performance. Muturi (2015) investigated organizational structure and internal processes in the manufacturing sector in Kenya and established that the organizational structure has an influence on a firm's internal processes affecting performance. Main-Idarraga and Cuarata (2016) explored the influence of organizational structure and innovation in Columbian firms revealing that individual differentiation has no significant effect on innovation but rather the strategic co-alignment of differentiation, formalization and decentralization influences innovation. Dekoulou and Trevillas, (2017) explored organizational structure, innovation performance and customer relationship value in the Greek advertising and media industry revealing a positive relationship between organizational structure and firm performance. Thus the paper proposes that;

*Proposition 3: The relationship between deployed strategic innovation, firm's innovative capacity and emerging firm performance is moderated by the firm's organizational structure.*

## 4. Recommendations, conclusion, limitations and future research

The objective of this paper was to review existing conceptual, theoretical and empirical literature to establish an understanding of the construct of strategic innovation in a firm context, effect of its deployment in firms and then propose an appropriate theoretical framework to model the relationships between strategic innovation and the emergent phenomena of structure, innovative capacity and emerging firm performance.

Strategic innovation, seen as a strategic option, was found to be of great importance in strategic management in pursuit of a redefined corporate strategy to position a firm in a dynamic environment. In addition, the paper reveals the role played by the firm context and the business environment as key to the relationship between strategic innovation, innovative capacity and firm performance. The arguments on the relationship between these constructs are anchored on strategic innovation as a re-conceptualization of the firm's business model, the Schumpeterian theory on innovation, Game theory, RBV, DC, BSC and the Contingency theory. This then formed the basis of the proposed theoretical model where several propositions based on the conceptual and theoretical considerations have been suggested.

Although there was extant literature reviewed, the authors noted some limitations on the fact that strategic management draws from different disciplines that may not have been very comprehensive on how a firm's strategic management influences its performance and the limited literature on strategic innovation in diverse sectors. This paper therefore calls for more engagement from scholars and practitioners to strengthen knowledge on the adoption of strategic innovation in the firm context and emerging phenomenon.

Secondly, the several propositions require validation empirically through an appropriate research design taking into considerations the identified indicators. This framework can be applied in the education sector in order to make education relevant in the market place, hospitality industry in the tourism sector to make it more vibrant and the manufacturing sector for competitiveness and sustainable growth. The manufacturing sector offers an opportunity to explore the implementation of the creative green innovation concept as an example of strategic innovation that has potential for value creation. Currently the need for social and environmental sustainability is progressively influencing economic policy decisions that impact on firm performance. The paper recommends further research to consider the influence of knowledge creation on strategic innovation. In conclusion, this paper contributes to the strategic management body of knowledge through the insights discussed on the constructs considered.

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