

STRATEGIC INNOVATION, STRATEGIC RESPONSIVENESS, ENVIRONMENTAL DYNAMISM AND ORGANIZATIONAL PERFORMANCE: A REVIEW OF LITERATURE

Lizzy Awuor Odwar¹, Dr. Godfrey Kinyua²

^{1,2}Department of Business Administration, School of Business, Economics and Tourism, Kenyatta University

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Abstract: Organizations today operate in highly dynamic and competitive environments characterized by rapid technological change, shifting customer preferences, and intensified competition. In such contexts, the ability to innovate strategically and respond effectively to environmental changes has become critical for sustaining superior organizational performance. This study examined the relationship between strategic innovation, strategic responsiveness, environmental dynamism, and organizational performance, with a view to explaining how organizations achieve sustainable performance outcomes under conditions of uncertainty. The study was anchored on dynamic capabilities theory and Schumpeter's innovation theory provide the theoretical foundation for strategic innovation by explaining how firms renew competencies and introduce novel products, processes, and business models. Contingency Theory and Strategic Choice Theory underpin strategic responsiveness by emphasizing the need for organizations and managers to align strategic actions with environmental conditions. Environmental Turbulence Theory and Complexity Theory explain environmental dynamism by highlighting the unpredictability, non-linearity, and rapid pace of change in external environments. Finally, Resource-Based View and Expectation Confirmation Theory support organizational performance by linking internal capabilities, stakeholder satisfaction, and sustained competitive outcomes. Through an extensive review of conceptual, theoretical, and empirical literature, the study develops an integrated theoretical model that explains how strategic innovation and strategic responsiveness interact with environmental dynamism to influence organizational performance. Organizational performance was conceptualized in terms of financial outcomes, customer satisfaction, operational efficiency, and innovation outcomes. The study argues that organizations that continuously innovate, respond proactively to environmental changes, and effectively manage environmental uncertainty are better positioned to achieve superior performance and long-term growth. The findings of this review contribute to strategic management literature by providing a multi-theoretical explanation of performance in dynamic environments and offer practical insights for managers seeking to enhance organizational adaptability, competitiveness, and sustainability.

Keywords: Strategic Innovation, Strategic Responsiveness, Environmental Dynamism, Organizational Performance.

1. INTRODUCTION

In the modern business world which is more dynamic and competitive, the success of an organization is heavily anchored on the ability to innovate strategically, effectively respond to market changes, and adapt to environmental turbulence. Organizations in all industries exist in an environment where technological changes are fast, customer demands are changing, and competition is uncertain and volatile, requiring agility and innovation. According to Kim, Park and Lee (2025), strategic innovation helps companies to redefine their processes, products, and business models, developing new

value propositions that can maintain their performance in unstable markets. Companies like Apple, Toyota, and Samsung around the world have proven that sustained innovation and responsiveness are essential in long-term competitiveness. On the same note, Kruglov and Shaw (2024) argue that organizational performance in contemporary economies is dictated by the effectiveness of firms to use innovation and adaptability to attain sustainable growth, profitability, and stakeholder value.

The last two decades have witnessed a growing awareness among scholars and practitioners that strategic innovation cannot be sustained without strategic responsiveness, otherwise, they will not produce tangible organizational results. Strategic responsiveness, which refers to the capacity of an organization to monitor, perceive, and respond to external opportunities and threats in a timely manner, has emerged as a major performance determinant (Chen, Xu, & Zhou, 2021). In the view of Liu, Zhou, and Zhang (2025) say that responsiveness is the solution to the gap between innovation and implementation because it helps the firm to convert strategic ideas into operational effectiveness. Companies that are unable to react promptly to turbulence in the market place tend to lose competitive edge even though they have the capability of being innovative. This responsiveness and innovation interaction is a manifestation of the dynamic capabilities approach, which stipulates that organizations have to reorganize their resources constantly in response to the changing environmental conditions (Teece, Peteraf, & Leih, 2016).

The connection between strategy and performance is also determined by environmental dynamism. It means the pace and uncertainty of the markets, technologies, and regulations, which influence the way the organizations compete and operate. The uncertainty due to high environmental dynamism makes it necessary to have a flexible approach and adaptive learning processes to ensure that performance is sustained (Dong, Zhang, & Chen, 2024). Research indicates that in dynamic environments, fixed strategic planning cannot work, because companies have to create processes and systems that enable the reconfiguration of resources and processes on-the-fly (Eisenhardt & Martin, 2000). With the increasing technological upheavals across the world, environmental dynamism has been a moderating factor on how innovation and responsiveness can be translated into performance results.

In developing economies, the necessity of strategic innovation and responsiveness is even more acute. The challenges that African organizations deal with are multifaceted, such as economic volatility, regulatory changes, and infrastructural constraints that demand dynamic strategic management (Naidoo, 2021). Companies that integrate innovation and responsiveness in such environments are more likely to deliver high performance through matching internal assets with the external requirements. As an example, telecommunications, financial services, and manufacturing are dynamic sectors in Kenya that have shown that strategic innovation enabled by responsiveness to customer and environmental changes can greatly improve competitiveness (Njoroge & Muchemi, 2021).

The emerging body of literature stresses the fact that although strategic innovation is a crucial source of performance, its effectiveness is determined by the extent to which organizations are responsive and deal with environmental uncertainty. Past studies have tended to consider these constructs separately without paying much attention to their interplay in determining performance outcomes. The aim of this review is to summarize available literature on the interdependencies between strategic innovation, strategic responsiveness, environmental dynamism, and organizational performance. Through this, it helps in the comprehension of how organizations can use innovation and flexibility to attain sustainable performance in dynamic environments.

2. STATEMENT OF THE PROBLEM

Strategic innovation has increasingly been recognized as a fundamental driver of organizational performance in contemporary competitive environments. Empirical studies have demonstrated that organizations that invest in innovation capabilities such as product, process, business model, organizational, and marketing innovation tend to achieve improved competitiveness, operational efficiency, and financial performance (Restrepo-Ramírez, 2024; Igbonaju et al., 2025). Similarly, studies across multiple industries have shown that innovation enables firms to introduce new products, improve internal processes, redesign value creation mechanisms, and strengthen market positioning, thereby enhancing overall organizational performance (Clauss, 2022; Guo et al., 2023). Despite this growing body of empirical evidence, the mechanisms through which strategic innovation translates into sustained organizational performance remain insufficiently understood.

A critical limitation in existing literature is the methodological approach adopted by many prior studies. Several empirical investigations examining the relationship between innovation and organizational performance have relied heavily on cross-sectional research designs, which limit the ability to establish causal relationships and capture the dynamic effects of

innovation over time (Wang et al., 2023; Nguyen & Pham, 2024). In addition, a substantial portion of the literature relies on perceptual performance measures collected from single respondents, raising concerns regarding common method bias and measurement validity (Zhang & Duan, 2021; Zhang & Li, 2024). These methodological limitations suggest the need for more robust empirical approaches capable of explaining.

3. OBJECTIVES OF THE STUDY

General Objective

Strategic innovation, strategic responsiveness, environmental dynamism and organizational performance: a review of literature.

Specific Objectives

- i. To review existing conceptual and theoretical literature on the constructs of strategic innovation, strategic responsiveness, environmental dynamism, and organizational performance.
- ii. To identify emerging conceptual, theoretical, contextual, and empirical gaps from the reviewed body of literature.
- iii. To analyse empirical evidence on how strategic innovation and strategic responsiveness influence organizational performance under conditions of environmental dynamism.
- iv. To propose a suitable theoretical and conceptual framework to guide future research on the relationship among strategic innovation, strategic responsiveness, environmental dynamism, and organizational performance.

4. CONCEPTUAL REVIEW

Concept of Organizational Performance

Organizational performance refers to the extent to which an organization effectively and efficiently achieves its strategic objectives by optimizing financial outcomes, operational efficiency, customer satisfaction, and innovative capability in response to its internal and external environment (Richard et al., 2009; Venkatraman & Ramanujam, 1986). Organizational performance is a central construct in strategic management and organizational studies, reflecting the extent to which an organization achieves its objectives efficiently and effectively. Broadly, organizational performance captures both the outcomes of strategic actions and the processes through which organizations utilize resources to generate value for stakeholders. It encompasses financial and non-financial results, including growth, efficiency, innovation, and customer outcomes, which collectively indicate the organization's overall success (Richard et al., 2009).

From a strategic perspective, organizational performance is not limited to short-term financial indicators but also includes long-term sustainability, adaptability, and competitiveness. Scholars argue that performance should be viewed as a multidimensional construct that reflects how well organizations align internal capabilities with external environmental demands (Venkatraman & Ramanujam, 1986; Kaplan & Norton, 2001). This view is particularly relevant in dynamic environments where sustained performance depends on continuous renewal and strategic flexibility.

In contemporary literature, organizational performance is increasingly conceptualized as the outcome of complex interactions among strategic choices, innovation practices, responsiveness mechanisms, and environmental conditions. As such, performance serves as a dependent variable that captures the effectiveness of strategic innovation and strategic responsiveness in enabling organizations to cope with uncertainty and achieve superior outcomes over time (Teece, 2018; Helfat et al., 2007). Organizational performance in this study is measured using profit growth and customer satisfaction as key outcome indicators.

Historical Background and Development of Organizational Performance

The concept of organizational performance has evolved significantly over time, mirroring changes in management thought and organizational theory. Early approaches to performance measurement were rooted in classical management theory, which emphasized efficiency, productivity, and output maximization as primary indicators of organizational success (Taylor, 1911; Fayol, 1949). Performance during this period was largely assessed using financial and operational efficiency metrics.

With the emergence of behavioural and human relations theories, scholars began to recognize the role of human factors in shaping organizational outcomes. Performance was increasingly linked to employee motivation, leadership effectiveness, and organizational culture, expanding beyond purely financial measures (Barnard, 1938; Likert, 1967). This shift marked an important transition toward a more holistic understanding of organizational performance.

The strategic management era further broadened the concept by emphasizing competitive positioning, strategic fit, and long-term value creation. Performance was viewed as the result of aligning organizational strategy with internal resources and external opportunities (Porter, 1985; Chandler, 1962). During this phase, performance assessment incorporated market share, growth, and competitive advantage as key indicators.

In more recent developments, the performance concept has been influenced by systems theory and dynamic perspectives, which emphasize adaptability, learning, and innovation. Modern performance frameworks recognize that organizations operate in volatile environments and must continuously reconfigure resources and capabilities to sustain performance (Helfat et al., 2007; Teece et al., 1997). Consequently, organizational performance is now understood as a dynamic and evolving construct rather than a static outcome.

Perspectives of Organizational Performance

Organizational performance is viewed from multiple theoretical perspectives, each emphasizing different dimensions of effectiveness and success. One prominent perspective is the financial performance perspective, which focuses on outcomes such as profitability, return on investment, and revenue growth. Financial performance remains a critical indicator of organizational performance because it reflects the firm's ability to generate sustainable profits and efficiently utilize resources Vintilă (2025).

Another important perspective is the operational performance perspective, which emphasizes efficiency, quality, productivity, and process effectiveness. It is defined as the extent to which organizations effectively achieve their goals through efficient utilization of resources and successful execution of operational strategies that deliver value to stakeholders Serbinenko (2025). Operational performance is particularly relevant in understanding how strategic innovation improves internal capabilities and execution.

The customer-based perspective conceptualizes organizational performance in terms of customer satisfaction, retention, loyalty, and perceived value. Organizations that prioritize customer value creation achieve improved competitive advantage and stronger market performance because satisfied customers are more likely to remain loyal and recommend the firm to others Homburg, Theel, and Hohenberg (2022). Customer outcomes are increasingly recognized as leading indicators of sustainable performance.

A further perspective is the learning and innovation perspective, which links performance to an organization's ability to generate new knowledge, innovate, and adapt. From this standpoint, performance is enhanced when organizations foster learning, experimentation, and continuous improvement (Crossan, Lane, & White, 1999; Teece, 2018). This perspective directly connects organizational performance to strategic innovation and responsiveness.

Finally, the balanced or multidimensional perspective integrates financial, operational, customer, and learning dimensions into a comprehensive framework for assessing performance. The Balanced Scorecard approach exemplifies this view by emphasizing the interdependence of multiple performance dimensions in achieving strategic objectives (Kaplan & Norton, 2001). This integrated perspective provides a robust foundation for examining how strategic innovation, strategic responsiveness, and environmental dynamism jointly influence organizational performance.

Measurement of Organizational Performance

Organizational performance has been measured in diverse ways across strategic management and organizational studies, reflecting its multidimensional nature. Scholars generally agree that performance encompasses both financial and non-financial indicators, capturing the extent to which an organization achieves its strategic objectives efficiently and effectively (Richard, Devinney, Yip, & Johnson, 2009). Early literature emphasized financial metrics such as profitability, return on investment (ROI), sales growth, and market share as primary indicators of performance (Venkatraman & Ramanujam, 1986). These measures remain important because they provide objective evidence of organizational success and shareholder value creation. However, financial indicators alone are often criticized for being backward-looking and insufficient in capturing intangible value drivers such as innovation capability, customer loyalty, and operational efficiency.

To address these limitations, scholars introduced broader frameworks such as the Balanced Scorecard, which integrates financial measures with customer, internal process, and learning and growth perspectives (Kaplan & Norton, 2008). This multidimensional approach recognizes that sustainable performance depends not only on immediate financial returns but also on customer satisfaction, process efficiency, employee productivity, and innovation outcomes. Empirical studies have increasingly adopted this integrated approach. For instance, Wilden and Gudergan (2015) measured performance using both financial growth and competitive positioning, while Jansen et al. (2006) combined subjective assessments of market performance with objective growth indicators. Such approaches enhance construct validity by capturing both tangible and intangible performance outcomes.

In recent studies, researchers have also distinguished between objective and subjective performance measures. Objective measures rely on audited financial data or market statistics, whereas subjective measures depend on managerial perceptions of performance relative to competitors (Dess & Robinson, 1984). Although objective measures are considered more precise, subjective measures are widely used in strategic management research due to limited access to financial data, especially in privately held firms or emerging economies. Research suggests that subjective performance assessments are strongly correlated with objective data, making them acceptable proxies when financial records are unavailable (Wall et al., 2004).

Given the strategic nature of the present study, organizational performance is conceptualized as a multidimensional construct reflecting both financial and market-based outcomes. Specifically, this study measures organizational performance using profit growth and customer satisfaction as core indicators. Profit growth captures financial sustainability and the organization's ability to convert strategic initiatives into economic returns. Customer satisfaction reflects market acceptance, service quality, and competitive positioning, which are critical for long-term sustainability. These measures are selected because they align with both the financial and customer perspectives of the Balanced Scorecard framework (Kaplan & Norton, 2008) and are widely validated in empirical research examining the impact of strategic innovation and responsiveness on performance outcomes (Hitt, Ireland, & Hoskisson, 2023; Wilden & Gudergan, 2015). By integrating financial and non-financial indicators, this study ensures a comprehensive measurement of organizational performance that reflects both short-term profitability and long-term strategic competitiveness.

Concept of Strategic Innovation

Strategic innovation refers to the deliberate and systematic reconfiguration of an organization's strategic logic, core activities, and value creation mechanisms with the aim of achieving superior performance and long-term competitiveness (Hamel, 2000). Unlike incremental or operational innovation, which focuses on continuous improvements within existing frameworks, strategic innovation challenges dominant industry assumptions and redefines how organizations compete and create value (Markides, 1997). It involves fundamental changes in products, processes, business models, and organizational structures that reshape the organization's strategic trajectory.

From a strategic management standpoint, strategic innovation is a mechanism of organizational renewal that enables firms to escape competitive convergence and avoid strategic stagnation. Scholars argue that as industries mature and competitive advantages erode, organizations must innovate strategically to reposition themselves and sustain relevance in the marketplace (Hamel, 2000). Strategic innovation therefore serves as a proactive strategic response rather than a reactive adjustment, allowing organizations to shape their competitive environments instead of merely adapting to them.

In increasingly dynamic and uncertain environments, strategic innovation has become a critical determinant of organizational survival and success. Rapid technological change, globalization, and evolving customer expectations have reduced the effectiveness of traditional efficiency-based strategies. As a result, organizations that embed innovation into their strategic decision-making processes are better positioned to generate new growth paths, enhance resilience, and sustain organizational performance over time (Teece, 2018). In this study, strategic innovation is operationalized through product innovation (new products and market differentiation), process innovation (technology adoption and cost reduction), business model innovation (revenue redesign and market creation), organizational innovation (management practices and communication systems), and marketing innovation (use of digital tools and technology integration).

Perspectives of Strategic Innovation

One prominent perspective on strategic innovation is the resource-based perspective, which views innovation as a function of how organizations deploy and recombine internal resources and capabilities. Drawing from the Resource-Based View, this perspective argues that strategic innovation emerges when firms leverage valuable, rare, inimitable, and non-

substitutable resources to create new strategic positions that competitors find difficult to replicate (Barney, 1991). Innovation, from this perspective, is rooted in internal strengths rather than external pressures alone.

The dynamic capabilities perspective extends this view by emphasizing that resources alone are insufficient unless organizations possess the capability to renew and reconfigure them in response to environmental change. Strategic innovation is therefore seen as a dynamic process involving the sensing of opportunities, seizing them through innovative actions, and transforming organizational capabilities over time (Teece, Pisano, & Shuen, 1997). This perspective highlights the role of managerial judgment, organizational learning, and strategic flexibility in sustaining innovation-driven performance.

Another important viewpoint is the market-based perspective, which frames strategic innovation as a response to competitive forces and changing customer needs. From this perspective, organizations innovate strategically by redefining market boundaries, creating new demand, and delivering novel value propositions that disrupt existing competitive structures (Kim & Mauborgne, 2015). Strategic innovation thus becomes a means of achieving differentiation and competitive advantage in contested markets.

The organizational learning perspective conceptualizes strategic innovation as an outcome of continuous learning, experimentation, and knowledge integration. Organizations that foster learning cultures are more likely to generate innovative strategies because they encourage exploration, tolerate failure, and institutionalize learning mechanisms (Crossan, Lane, & White, 1999). This perspective emphasizes that strategic innovation is cumulative and path-dependent, shaped by prior experiences and knowledge bases.

Collectively, these perspectives demonstrate that strategic innovation is a multifaceted phenomenon influenced by internal capabilities, external market conditions, learning processes, and environmental change. Integrating these perspectives provides a holistic understanding of how strategic innovation contributes to organizational performance.

Dimensions of Strategic Innovation

Strategic innovation is widely conceptualized as a multidimensional construct encompassing several interrelated dimensions that jointly shape organizational outcomes (Damanpour & Aravind, 2012). Product innovation represents one of the most visible dimensions and involves the introduction of new or significantly improved products or services. Product innovation enhances organizational performance by differentiating offerings, meeting evolving customer needs, and strengthening market competitiveness (OECD, 2018). Collectively, product novelty, Garcia and Calantone (2002), product quality improvement Damanpour (2014), and product line expansion Kotler and Keller (2016), serve as important indicators of product innovation within the strategic innovation construct. These indicators capture the diverse ways in which organizations transform ideas into marketable products that create customer value and enhance competitive advantage. As emphasized by Crossan and Apaydin (2010) and Damanpour and Aravind (2012), organizations that effectively develop innovative products are better positioned to adapt to environmental dynamism, respond to competitive pressures, and achieve sustained organizational performance

Process innovation focuses on redesigning internal operations and workflows to improve efficiency, quality, and flexibility. Through process innovation, organizations can reduce costs, enhance speed, and improve reliability, thereby supporting the effective implementation of strategic initiatives (Damanpour & Aravind, 2012). Process innovation is particularly important in enabling organizations to scale innovation outcomes and sustain operational performance overall, process automation as emphasized by Damanpour and Aravind (2012), process efficiency improvement, Tidd and Bessant (2021), and process flexibility Slack and Brandon-Jones (2019), serve as key indicators of process innovation within the strategic innovation construct. These indicators capture the various ways in which organizations redesign and optimize internal processes to support innovation implementation and operational excellence. As highlighted by Damanpour and Aravind (2012) and OECD (2018), firms that effectively innovate their processes are able to scale innovation outcomes, enhance productivity, and sustain competitive advantage in dynamic and uncertain environments.

Business model innovation represents a more transformative dimension of strategic innovation. It involves changes in how organizations create, deliver, and capture value, including modifications to revenue models, value chains, and customer engagement mechanisms (Teece, 2010). Business model innovation allows organizations to unlock new sources of value and redefine competitive rules, making it a powerful driver of long-term performance. Studies done on Value proposition innovation Osterwalder and Pigneur (2010), revenue model innovation, Teece (2010), Chesbrough (2010) and value

network reconfiguration Zott, Amit, and Massa (2011) represent key indicators of business model innovation within the strategic innovation construct. These indicators capture the strategic transformation of how firms organize their resources, engage customers, and generate revenue. As highlighted by Teece (2010) and Zott et al. (2011), organizations that successfully innovate their business models are better positioned to adapt to environmental changes, exploit emerging opportunities, and sustain superior organizational performance in increasingly dynamic markets.

Organizational innovation encompasses changes in organizational structures, management practices, governance systems, and cultural norms. This dimension supports strategic innovation by fostering coordination, collaboration, and alignment between strategy formulation and execution (Volberda, Van Den Bosch, & Heij, 2013). Organizational innovation ensures that innovative strategies are supported by appropriate internal systems and processes.

Collectively, past literatures have identified organizational structure flexibility (Volberda et al. (2013) managerial practice innovation, Birkinshaw, Hamel, and Mol (2008), and organizational culture Schein (2010) for innovation represent key indicators of organizational innovation within the strategic innovation construct. These indicators capture the ways in which organizations redesign their internal systems, leadership approaches, and cultural environments to support strategic change and innovation implementation. As highlighted by Volberda et al. (2013) and OECD (2018), organizations that successfully innovate their internal structures and management practices are better positioned to coordinate complex innovation activities, respond to environmental dynamism, and sustain superior organizational performance.

Marketing innovation refers to developing novel ways of applying marketing elements to create value for customers (Ilić, Ostojić, & Damjanović, 2014). It involves the adoption of a marketing method that is significantly different from previous approaches used by the firm (Shergill & Nargundkar, 2015). Recent literature highlights that marketing innovation can be driven not only by producers but also by consumer activism and co-creation, thereby expanding the traditional firm-centric perspective. Marketing channel innovation and pricing innovation are widely recognized as key indicators for assessing marketing innovation because they reflect significant changes in distribution and pricing mechanisms that firms use to engage markets and create value (Sharon & Thierry, 2020).

Adoption of Strategic Innovation in Strategic Management and Outcomes

The adoption of strategic innovation within strategic management involves embedding innovation into the processes of strategy formulation, implementation, and evaluation. Strategic innovation adoption requires leadership commitment, strategic intent, and deliberate resource allocation to support innovation initiatives (Hamel & Välikangas, 2003). Without integration into strategic management processes, innovation efforts risk remaining fragmented and failing to deliver meaningful performance outcomes.

Organizations that successfully adopt strategic innovation align innovation initiatives with long-term strategic objectives. This alignment enables firms to pursue innovation systematically rather than opportunistically, thereby enhancing coherence between innovation activities and organizational goals (Volberda et al., 2017). Strategic innovation adoption also requires balancing exploration of new opportunities with exploitation of existing capabilities, a challenge that demands effective strategic leadership.

Empirical and theoretical studies consistently show that the adoption of strategic innovation enhances organizational performance by improving adaptability, competitiveness, and resilience. In the short term, strategic innovation contributes to improved efficiency, customer satisfaction, and responsiveness. In the long term, it supports sustainable growth and strategic renewal by enabling organizations to continuously redefine their competitive positions (Teece, 2018).

However, the outcomes of strategic innovation adoption are contingent upon contextual and organizational factors. Environmental dynamism influences the pace and effectiveness of innovation outcomes, while strategic responsiveness determines how quickly and effectively innovation is translated into action. Organizations that combine strategic innovation with high levels of responsiveness are more likely to achieve superior performance in turbulent environments (Hitt, Ireland, & Hoskisson, 2020).

The balanced scorecard model prescribes the use of financial and non-financial indicators for evaluating organizational performance (Kaplan & Norton, 1992, Kinyua, 2015). Financial indicators such as operating profit serve as lagging measures of firm performance, reflecting past outcomes (Kaplan & Norton, 1996; Muthoni & Kinyua, 2020). In contrast, non-financial indicators such as customer satisfaction, process efficiency, and capacity building function as leading measures that provide early signals of future organizational performance and align with current and future operating

conditions. Operating profit captures the firm's ability to generate earnings from its core operations essentially reflecting outcomes from past managerial decisions (Saputra *et al.*, 2023). Customer satisfaction is a manifestation of the degree to which a firm effectively deliver customer value (Kotler & Keller, 2016). Process efficiency evaluates how effectively enterprises deploy resources to optimise cost and productivity (Kuusmanen & Johnson, 2010). Moreover, capacity building underpins long-term organizational performance by enhancing employees' competencies, knowledge, and the overall capability of the organization to achieve its strategic objectives (Garvin, 1993; Kaplan & Norton, 1996).

Mediating Role of Strategic Responsiveness

Strategic responsiveness refers to an organization's deliberate and coordinated capacity to detect environmental shifts and react to them swiftly, flexibly, and effectively in order to sustain competitive positioning and performance outcomes. It embodies the organization's agility in translating strategic intent into timely action, particularly under conditions of uncertainty and volatility (Teece, 2007; Doz & Kosonen, 2010). In the context of mediation, strategic responsiveness provides the explanatory link between strategic innovation and organizational performance. While strategic innovation introduces novel products, processes, business models, or managerial systems, these innovations do not automatically generate superior performance. Their success depends on how quickly and appropriately the organization responds to market signals, technological developments, competitive moves, and regulatory changes. Thus, strategic responsiveness explains the mechanism through which innovation efforts are operationalized, aligned with environmental demands, and ultimately transformed into performance gains (Zahra, Sapienza, & Davidsson, 2006). Without responsiveness, innovation initiatives may remain symbolic, delayed, or misaligned with customer needs, thereby weakening their impact on profitability, growth, and overall effectiveness.

From a theoretical standpoint, the construct of strategic responsiveness is primarily anchored in Dynamic Capabilities Theory, which posits that firms achieve sustainable performance by sensing opportunities and threats, seizing them through timely decisions, and transforming internal capabilities accordingly (Teece, 2007). Responsiveness is embedded within the "seizing" and "transforming" dimensions, as it reflects the speed and adaptability with which organizations reconfigure resources and processes in response to change. Contingency Theory further reinforces this logic by asserting that organizational effectiveness depends on the degree of fit between strategy and environmental conditions (Donaldson, 2001). In this sense, responsiveness operationalizes the alignment mechanism between strategic innovation and contextual demands. Systems Theory also contributes by viewing organizations as open systems that must continuously adjust internal subsystems in response to external stimuli to maintain equilibrium and performance stability (Katz & Kahn, 1978). Collectively, these theoretical perspectives suggest that responsiveness is not merely reactionary behavior but a structured, capability-driven process involving rapid decision-making, flexible structures, cross-functional coordination, and adaptive learning.

Empirically, scholars have measured strategic responsiveness using multidimensional indicators that capture both speed and adaptability. Doz and Kosonen (2010) conceptualized strategic agility through leadership unity, strategic sensitivity, and resource fluidity, emphasizing decision speed and organizational flexibility. Clauss, Abebe, Tangpong, and Hock (2019) measured responsiveness using firms' ability to quickly adapt products and processes to environmental changes. Hitt, Ireland, and Hoskisson (2023) linked responsiveness to rapid strategic adjustments and proactive opportunity exploitation, demonstrating its positive effect on performance in dynamic industries. Tangja and Toombs (2023) operationalized responsiveness through environmental scanning intensity and timely implementation of strategic initiatives. Similarly, Bansal and Gupta (2024) emphasized that responsiveness is reflected in swift product modifications, rapid cost restructuring, and immediate customer-focused actions. Across these empirical studies, common measurement themes include speed of response, flexibility in resource allocation, proactive strategic adjustment, and timeliness of managerial decisions, confirming responsiveness as a dynamic capability that enhances the effectiveness of innovation strategies.

Drawing from both theoretical grounding and empirical evidence, this study operationalizes strategic responsiveness using two central indicators: timely response to environmental changes and speed of strategic decision-making. Timely response reflects the organization's ability to implement innovative initiatives in alignment with shifting market demands, technological advancements, and competitive pressures. Speed of decision-making captures managerial agility in evaluating information, committing resources, and executing strategic adjustments without delay. These measures are selected because they directly represent the mediating mechanism through which strategic innovation translates into improved organizational performance. Theoretically, they align with the "seizing" and "transforming" elements of Dynamic Capabilities Theory

(Teece, 2007) and the fit principle of Contingency Theory (Donaldson, 2001). Empirically, prior studies have shown that decision speed and response timeliness significantly mediate the innovation–performance relationship, particularly in volatile and competitive environments (Clauss et al., 2019; Hitt et al., 2023). Therefore, the chosen indicators provide a focused, parsimonious, and theoretically justified measurement of strategic responsiveness appropriate for examining its mediating role in the relationship between strategic innovation and organizational performance.

Moderating Role of Environmental Dynamism

Environmental dynamism refers to the degree of instability, unpredictability, and rapid change in an organization's external environment, including shifts in technology, customer preferences, competitive intensity, regulatory frameworks, and market structures (Dess & Beard, 1984). It captures the extent to which environmental conditions fluctuate over time and the difficulty firms face in forecasting future developments. In the context of moderation, environmental dynamism influences the strength and direction of the relationship between strategic innovation, strategic responsiveness, and organizational performance. While strategic innovation and responsiveness generally enhance performance, their effectiveness is not uniform across all environments. In highly dynamic contexts, innovation and responsiveness become more critical for survival and growth, whereas in stable environments, their impact may be less pronounced. Thus, environmental dynamism conditions how strongly strategic innovation translates into performance outcomes by either amplifying or weakening its effects.

The moderating logic of environmental dynamism is strongly grounded in Contingency Theory, which argues that organizational effectiveness depends on the fit between internal strategies and external environmental conditions (Donaldson, 2001). Under this perspective, there is no universally superior strategy; instead, performance outcomes are contingent upon contextual factors such as environmental volatility and uncertainty. Dynamic Capabilities Theory further strengthens this argument by positing that firms operating in turbulent environments must continuously sense, seize, and reconfigure resources to maintain competitiveness (Teece, 2007). When environmental dynamism is high, the value of strategic innovation and responsiveness increases because firms must constantly adapt to survive. Conversely, in relatively stable environments, excessive innovation may create unnecessary costs or complexity, potentially reducing performance efficiency. Systems Theory also contributes by emphasizing that organizations, as open systems, must continuously adjust to environmental inputs to sustain equilibrium (Katz & Kahn, 1978). Together, these theoretical foundations justify environmental dynamism as a contextual moderator rather than a direct performance driver.

Empirical studies provide strong evidence for the moderating effect of environmental dynamism. Zahra and Covin (1995) demonstrated that the positive impact of innovation on firm performance is significantly stronger in dynamic and hostile environments. Jansen, Van Den Bosch, and Volberda (2006) found that exploratory innovation contributes more to performance under high environmental dynamism, while exploitative innovation is more effective in stable contexts. Miller and Friesen (1983) observed that dynamic environments accelerate decision-making cycles and increase the need for strategic flexibility, thereby intensifying the role of adaptive capabilities in driving performance. More recently, Wilden and Gudergan (2015) showed that dynamic capabilities have a stronger effect on performance in turbulent markets compared to stable ones. Similarly, Kohlbacher, Weitlaner, Hollosi, Grünwald, and Grahl (2018) found that environmental dynamism positively moderates the relationship between innovation capabilities and competitiveness. These findings collectively confirm that environmental dynamism shapes the effectiveness of innovation and responsiveness strategies.

From a measurement perspective, environmental dynamism is commonly operationalized using indicators such as rate of technological change, variability in customer preferences, intensity of competitive actions, frequency of regulatory shifts, and unpredictability of market demand (Dess & Beard, 1984; Miller & Friesen, 1983). Recent studies have emphasized perceptual measures, where managers assess the speed and unpredictability of changes in their operating environment (Jansen et al., 2006; Wilden & Gudergan, 2015). This approach recognizes that strategic decisions are often based on managerial interpretation of environmental volatility rather than purely objective data. Scholars also differentiate between technological dynamism, market dynamism, and competitive dynamism, each contributing to overall environmental turbulence (Teece, 2007). Consistent across studies is the idea that higher levels of environmental change increase uncertainty and compel firms to rely more heavily on innovation and responsiveness capabilities.

In this study, environmental dynamism is operationalized using two core indicators: market changes and environmental uncertainty. Market changes reflect the frequency and intensity of shifts in customer needs, competitor strategies, and industry trends. Environmental uncertainty captures the unpredictability of technological, regulatory, and economic

developments that influence strategic decision-making. These indicators are selected because they directly reflect the contextual volatility that influences the innovation–performance and responsiveness–performance relationships. The choice is theoretically justified by Contingency Theory, which emphasizes environmental fit (Donaldson, 2001), and Dynamic Capabilities Theory, which highlights the importance of adapting to turbulent contexts (Teece, 2007). Empirically, prior research confirms that market volatility and uncertainty significantly moderate innovation–performance relationships (Jansen et al., 2006; Wilden & Gudergan, 2015). Therefore, environmental dynamism is conceptualized in this study as a critical boundary condition that strengthens or weakens the effect of strategic innovation and strategic responsiveness on organizational performance

5. THEORETICAL LITERATURE REVIEW

Dynamic Capabilities Theory

Dynamic Capabilities Theory was originally advanced by Teece, Pisano, and Shuen (1997) to address limitations of static resource-based explanations in environments characterized by rapid technological change and market volatility. The theory asserts that sustainable organizational performance depends not merely on possessing valuable resources, but on the firm's capacity to purposefully integrate, build, and reconfigure internal and external competencies to address shifting environmental conditions. Central to this perspective are three interrelated capabilities: sensing opportunities and threats, seizing opportunities through timely strategic decisions, and transforming organizational assets to maintain strategic alignment (Teece, 2007).

Over time, Dynamic Capabilities Theory has evolved from a macro-level conceptual framework into a more granular theory emphasizing micro foundations, including managerial cognition, organizational learning routines, leadership orchestration, and governance mechanisms (Teece, 2014). Proponents argue that the theory provides a robust explanation for why some firms consistently innovate and adapt while others stagnate, even when operating under similar environmental conditions. However, critics contend that the theory suffers from conceptual elasticity, measurement ambiguity, and a tendency toward tautological reasoning—where firms are said to possess dynamic capabilities because they perform well, and perform well because they possess dynamic capabilities (Arend & Bromiley, 2009; Barreto, 2010).

Building on this foundation, Eisenhardt and Martin (2000) further explained that dynamic capabilities consist of identifiable organizational processes such as product development routines, strategic decision-making processes, and alliance-building mechanisms. These processes allow firms to systematically reconfigure resources and adapt their strategic activities in response to environmental changes. According to these authors, firms that effectively manage these processes are able to introduce innovative products, redesign organizational structures, and respond quickly to market shifts. In dynamic environments, the ability to rapidly combine and recombine organizational resources becomes a key determinant of strategic innovation and firm performance.

Later contributions by Teece (2007) refined the theory by introducing three core dynamic capability functions: sensing, seizing, and transforming. Sensing refers to a firm's ability to identify emerging technological opportunities and market needs through research, scanning, and learning activities. Seizing involves mobilizing resources to capture these opportunities through investments, new business models, or innovation initiatives. Transforming, on the other hand, involves continuous renewal of the firm's asset base through restructuring, reconfiguration of resources, and organizational change. These capabilities enable firms to leverage internal knowledge, skills, and technologies to drive innovation and remain competitive in turbulent environments.

More recent research has emphasized the role of dynamic capabilities in fostering strategic innovation by enabling firms to continuously adapt their resource configurations. Helfat and Peteraf (2015) argue that dynamic capabilities allow organizations to modify existing capabilities and develop new ones as environmental conditions evolve. Through learning mechanisms, knowledge integration, and strategic experimentation, firms can leverage their internal resources to create innovative products, services, and processes. Consequently, Dynamic Capability Theory provides a powerful framework for explaining how organizations sustain innovation and competitive advantage by continuously renewing and redeploying their strategic resources.

In the context of the current study, Dynamic Capabilities Theory serves as the anchor theory, underpinning the interaction among strategic innovation, strategic responsiveness, environmental dynamism, and organizational performance. The theory integrates seamlessly with the study by explaining how organizations deploy innovation and responsiveness as

adaptive capabilities in turbulent environments to achieve superior performance outcomes. The theory assumes volatile environments, resource erosion, bounded rationality, and the necessity of continuous renewal. Despite its limitations, it is justified due to its extensive empirical application in studies examining innovation–performance and responsiveness–performance relationships under environmental dynamism (Teece, 2018; Wilden et al., 2019).

Schumpeter’s Innovation Theory

Schumpeter’s Innovation Theory, articulated by Joseph Schumpeter (1934), provides one of the earliest theoretical explanations of innovation as the engine of economic and organizational transformation. The theory conceptualizes innovation as the introduction of new combinations, including new products, new production methods, new markets, new sources of supply, and new organizational forms. Schumpeter argued that innovation disrupts existing equilibria through a process of creative destruction, whereby new innovations render existing technologies, competencies, and business models obsolete.

The theory has evolved from a macroeconomic explanation of industrial cycles to a firm-level strategic management framework emphasizing innovation as a deliberate strategic choice. Supporters argue that Schumpeter’s theory explains why firms must continuously innovate to maintain competitiveness and performance in dynamic markets. However, critics note that the theory places disproportionate emphasis on radical innovation while offering limited insight into incremental innovation, organizational learning processes, and internal capability development (Nelson & Winter, 1982; Fagerberg, 2003).

Schumpeter (1934) identified five major forms of innovation that drive economic and organizational transformation. These include the introduction of new products, the development of new production methods, the opening of new markets, the discovery of new sources of raw materials, and the creation of new organizational structures. Through these innovations, firms are able to enhance productivity, improve efficiency, and respond to changing consumer needs. In this sense, innovation is not limited to technological change alone but also includes organizational and market-related transformations that improve firm competitiveness.

Schumpeter later expanded his theory in Schumpeter (1942) in *Capitalism, Socialism and Democracy*, where he introduced the concept of “creative destruction.” This concept describes how new innovations continuously replace outdated technologies, products, and business models, thereby reshaping industries and economic systems. According to Schumpeter, firms that successfully introduce innovative products or processes disrupt existing market structures and create new opportunities for growth. This process of creative destruction encourages firms to continuously innovate in order to remain competitive and avoid being displaced by more innovative competitors.

Schumpeter’s Innovation Theory remains highly influential in modern strategic management and innovation research because it highlights the central role of innovation in driving firm performance and long-term competitiveness. Contemporary scholars argue that firms that consistently invest in innovation are better able to adapt to changing environments, develop unique capabilities, and achieve sustainable competitive advantage. As such, Schumpeter’s theory provides a foundational explanation of how innovation activities—such as product innovation, process innovation, and business model innovation—contribute to organizational performance and economic development.

Within this study, Schumpeter’s Innovation Theory supports strategic innovation, particularly product, process, and business model innovation as mechanisms through which organizations reshape competitive positions and enhance performance. The theory assumes imperfect competition, entrepreneurial agency, and innovation-driven advantage. It is justified because it establishes a foundational link between innovation activities and organizational performance, which remains central to contemporary strategic management research (OECD, 2018; Teece, 2018).

Contingency Theory

Contingency Theory emerged from the seminal works of Burns and Stalker (1961) and Lawrence and Lorsch (1967), challenging universalistic management principles by arguing that organizational effectiveness depends on achieving alignment or fit between internal structures, strategies, and external environmental conditions. The theory posits that organizational practices that are effective in stable environments may become dysfunctional in turbulent contexts, necessitating adaptive and flexible arrangements.

The theory has developed through extensive empirical studies linking environment, structure, leadership, and performance. Proponents praise its contextual realism and adaptability, arguing that it explains why strategic responsiveness becomes critical under environmental uncertainty. Critics, however, argue that contingency theory lacks predictive precision, as the concept of “fit” is often defined inconsistently, and causal mechanisms are difficult to isolate empirically (Drazin & Van de Ven, 1985; Donaldson, 2001).

Further development of the theory was provided by Lawrence and Lorsch (1967), who examined how organizations respond to varying environmental demands. Their research demonstrated that different departments within the same organization often require different structural arrangements depending on the level of environmental uncertainty they face. For example, departments that operate in rapidly changing environments may require more flexible and decentralized structures, while those operating in stable environments may function effectively under more formalized and standardized systems. Lawrence and Lorsch emphasized that organizational performance improves when internal organizational structures align with environmental complexity and uncertainty.

Contingency Theory was also extended by Donaldson (2001), who emphasized the importance of achieving structural fit between organizational strategy, environmental conditions, and organizational design. Donaldson argued that organizations must continuously adapt their structures and processes to align with changes in the external environment in order to maintain effectiveness and competitiveness. In dynamic and competitive environments, firms may adopt more flexible organizational designs, innovative strategies, and decentralized decision-making processes to respond quickly to market changes and technological developments.

Despite its strengths, Contingency Theory has been criticized for being largely descriptive rather than predictive, as it explains how organizations adapt to environmental conditions but does not always provide clear guidance on how managers should determine the most appropriate structure for a given situation. Nevertheless, the theory remains highly influential in organizational and strategic management research because it highlights the importance of aligning organizational strategies, structures, and processes with environmental conditions. In the context of innovation and organizational performance, Contingency Theory helps explain why firms must adapt their innovation strategies and organizational practices to fit changing environmental conditions in order to remain competitive and effective.

In the current study, Contingency Theory supports strategic responsiveness, explaining why organizations must adjust decision-making speed, coordination mechanisms, and strategic priorities in response to environmental dynamism. The theory assumes environmental heterogeneity, rational adaptation, and structural flexibility. Its inclusion is justified because the study explicitly examines responsiveness as contingent on environmental conditions rather than universally effective (Donaldson, 2016; Sousa & Voss, 2008).

Strategic Agility Theory

Strategic Agility Theory was advanced by Doz and Kosonen (2008) to explain how firms sustain competitiveness in fast-changing environments through the ability to sense emerging trends, rapidly make strategic decisions, and fluidly reallocate resources. The theory identifies three core dimensions of agility: strategic sensitivity, leadership unity, and resource fluidity, which collectively enable organizations to respond coherently and decisively to environmental change.

Doz and Kosonen (2008) further explain that strategic agility is built on three core organizational capabilities: strategic sensitivity, leadership unity, and resource fluidity. Strategic sensitivity refers to an organization’s ability to detect emerging opportunities and threats in the business environment through continuous environmental scanning and learning. Leadership unity involves the ability of top management teams to make fast and coherent strategic decisions without internal conflicts. Resource fluidity refers to the organization’s capacity to redeploy resources—such as capital, knowledge, and human skills—toward new strategic initiatives. Together, these capabilities allow organizations to rapidly adapt to changing competitive conditions.

Building on this foundation, Teece, Peteraf, and Leih (2016) argue that strategic agility enables firms to sustain competitive advantage in rapidly changing technological and market environments. According to these authors, firms that possess strategic agility can quickly transform their business models, adopt new technologies, and explore new market opportunities. Strategic agility therefore plays a critical role in enabling firms to innovate, restructure internal processes, and respond effectively to disruptive changes in the business environment.

The theory evolved from earlier discussions on flexibility and adaptive strategy, offering a more integrative explanation of how responsiveness translates into performance outcomes. Proponents argue that strategic agility enables firms to exploit opportunities faster than competitors. Critics caution that excessive agility may undermine strategic coherence, leading to reactive decision-making and short-termism if not anchored in a clear strategic vision (Overby et al., 2006; Tallon & Pinsonneault, 2011).

In this study, Strategic Agility Theory reinforces strategic responsiveness, explaining how responsiveness acts as the conduit through which strategic innovation influences organizational performance. The theory assumes rapid environmental shifts, information asymmetry, and coordination challenges. It is justified due to its relevance in linking responsiveness, innovation execution, and performance under turbulence (Doz & Kosonen, 2010; Teece, 2018).

Complexity Theory

Complexity Theory, applied to organizational studies by scholars such as Stacey (1995), conceptualizes organizations as complex adaptive systems characterized by nonlinearity, emergence, self-organization, and feedback loops. The theory argues that organizational outcomes cannot be fully predicted from initial conditions because interactions among agents generate emergent behaviours, particularly under environmental turbulence.

Anderson (1999) further elaborated that in complex environments, organizations must constantly adapt to changing conditions through learning, experimentation, and feedback mechanisms. Complexity Theory emphasizes that organizations operate in environments characterized by nonlinearity, uncertainty, and interdependence, where small changes can produce disproportionately large effects. For example, a minor technological innovation or regulatory change may trigger major shifts in competitive dynamics across an industry. As a result, firms must remain flexible and responsive to emerging patterns within the system in order to sustain competitiveness.

The theory was further extended in organizational research by Uhl-Bien, Marion, and McKelvey (2007) through the development of Complexity Leadership Theory. These scholars argued that leadership in complex organizations should focus on enabling adaptive processes rather than imposing rigid hierarchical control. In complex environments, innovation and strategic change often emerge from decentralized interactions among individuals and teams rather than from top-down directives. This perspective highlights the importance of fostering collaborative networks, knowledge sharing, and experimentation within organizations to support adaptive innovation and strategic transformation.

The theory has gained prominence in explaining innovation, strategic change, and adaptation in uncertain environments. Supporters argue that it captures the realities of environmental dynamism better than linear planning models. Critics, however, highlight its abstract nature, methodological challenges, and reliance on metaphorical constructs that complicate empirical testing (McKelvey, 2004; Anderson et al., 2014).

In this study, Complexity Theory supports environmental dynamism, explaining why volatility increases uncertainty and necessitates continuous innovation and responsiveness. The theory assumes unpredictability, co-evolution, and decentralized decision-making. It is justified because the study examines organizational performance in environments where linear strategies and static planning are insufficient (Stacey, 2011; Uhl-Bien et al., 2007).

Systems Theory

Systems Theory, proposed by von Bertalanffy (1968), views organizations as open systems that continuously interact with their environments through inputs, transformation processes, outputs, and feedback mechanisms. The theory emphasizes interdependence among subsystems and the need for equilibrium through adaptation and coordination. Over time, Systems Theory has been applied to explain organizational alignment, responsiveness, and performance under environmental change. Proponents argue that it provides a holistic understanding of how environmental forces influence organizational outcomes. Critics contend that the theory can be overly descriptive and may underplay issues of power, agency, and strategic choice unless integrated with complementary theories (Katz & Kahn, 1978; Scott, 2003).

In the current study, Systems Theory supports environmental dynamism, explaining how external changes propagate through organizational subsystems to affect strategic innovation, responsiveness, and performance. The theory is justified because the study treats performance as an outcome of systemic adaptation to environmental pressures (Scott & Davis, 2007).

Resource-Based View (RBV)

The Resource-Based View was formalized by Barney (1991), arguing that firms achieve sustained competitive advantage through resources that are valuable, rare, inimitable, and non-substitutable (VRIN). The theory explains performance heterogeneity across firms based on internal resource endowments rather than industry structure alone.

RBV evolved to incorporate intangible resources such as knowledge, capabilities, and organizational culture. Proponents argue that it provides a strong internal explanation for performance differences. Critics, however, argue that RBV underemphasizes environmental change and dynamic competition, making it insufficient as a standalone theory in turbulent contexts (Priem & Butler, 2001; Kraaijenbrink et al., 2010).

Further development of RBV emphasized the role of organizational capabilities in leveraging resources effectively. Grant (1996) argued that capabilities represent the firm's ability to integrate and coordinate its resources in order to perform strategic activities. According to Grant, resources alone do not create competitive advantage; rather, it is the firm's ability to combine and deploy those resources through effective organizational processes that determines performance outcomes. This perspective highlights the importance of knowledge, learning, and managerial coordination in transforming resources into productive capabilities that support innovation and strategic success.

In this study, RBV supports organizational performance, viewing strategic innovation and strategic responsiveness as strategic capabilities that enhance performance. The theory is justified because innovation capabilities are treated as performance-enhancing resources when deployed effectively within dynamic environments (Barney et al., 2011; Helfat & Peteraf, 2003).

Institutional Theory

Institutional Theory, advanced by DiMaggio and Powell (1983), explains organizational behaviour as shaped by institutional pressures arising from regulatory, normative, and cognitive forces. The theory argues that organizations adopt similar structures and practices through coercive, mimetic, and normative isomorphism to gain legitimacy and ensure survival. The theory has evolved to incorporate organizational agency and strategic responses to institutional pressures. Critics argue that early formulations overemphasized conformity at the expense of innovation and performance outcomes (Oliver, 1991; Greenwood et al., 2008).

The theory further illuminates how organizations adjust their strategic behavior under conditions of uncertainty. According to DiMaggio and Powell (1983), organizations facing uncertainty tend to imitate practices that are perceived as legitimate or successful within their institutional environment, a process referred to as mimetic isomorphism. When market conditions or technological developments become unpredictable, firms often adopt strategies similar to those of leading competitors or industry leaders. This behavior reduces uncertainty and signals legitimacy to stakeholders such as investors, regulators, and customers. As a result, institutional pressures shape the strategic choices organizations make when navigating dynamic and uncertain environments.

Institutional Theory also highlights the role of coercive and normative pressures in influencing organizational responses to environmental dynamism. Coercive pressures arise from regulatory institutions such as governments and industry authorities that impose rules and standards on organizations. In highly regulated sectors, such as banking or telecommunications, firms often modify their strategic actions to comply with new policies, regulations, or compliance requirements introduced by regulatory bodies. Normative pressures, on the other hand, originate from professional norms, industry associations, and educational institutions that shape accepted standards of managerial behavior. These institutional forces can encourage organizations to adopt innovation strategies, governance practices, and operational structures that align with prevailing professional norms.

Despite its usefulness, Institutional Theory also recognizes that organizations do not respond to environmental dynamism solely through passive conformity. While institutional pressures often encourage similarity across organizations, firms may also pursue strategic adaptation and innovation to maintain competitiveness. In dynamic environments, organizations must balance the need to conform to institutional expectations with the need to innovate and differentiate themselves in the marketplace. Therefore, Institutional Theory provides an important framework for understanding how institutional pressures interact with environmental uncertainty to shape strategic behavior, organizational adaptation, and long-term performance.

In the current study, Institutional Theory supports organizational performance, explaining how strategic innovation and responsiveness are shaped by regulatory frameworks and competitive norms under environmental dynamism. The theory is justified because legitimacy considerations influence innovation adoption and responsiveness strategies, particularly in regulated and competitive environments (Scott, 2014; Zucker, 1987).

6. EMPIRICAL LITERATURE REVIEW

Strategic Innovation and Organizational Performance

Kaiba (2025) carried out a critical review of literature on strategic innovation, competitive advantage and firm performance. The linkage between strategic innovation and firm performance was underpinned by dynamic capabilities theory augmented by resource-based view. Strategic innovation was construed as research and development, patents, new product, and strategic alliances. Extant literature provided substantial evidence that strategic innovation serves as a significant driver of firm performance, impacting financial results, market positioning, and operational efficiency. In as much as the study extensively reviewed existing empirical and theoretical work, it did not include context-specific empirical data to test or confirm the causal link between strategic innovation and firm performance. Future research should prioritize the collection of empirical data across

Strategic innovation has been widely examined as a critical driver of organization performance. Restrepo-Ramírez (2024) examined the relationship between strategic innovation orientation and organizational performance in the study titled. The findings demonstrated that strategic innovation orientation positively influences organizational performance by strengthening firms' ability to develop new strategies, technologies, and business models that enhance competitiveness and market responsiveness. Despite these findings, the study identified a research gap in that the research primarily used cross-sectional data, limiting the ability to assess the long-term impact of strategic innovation on performance. Future research should employ longitudinal research designs and panel data analysis to capture the dynamic effects of strategic innovation over time.

Additionally, Igbonaju et al. (2025) investigated the impact of strategic innovation systems on firm performance. The study employed a quantitative methodology grounded in the dynamic capabilities and knowledge-based view, collecting survey data from organizations implementing strategic innovation initiatives. The data were analysed using structural equation modelling and path analysis to determine how strategic innovation systems influence innovation outcomes and overall firm performance. The findings indicated that strategic innovation systems significantly improve firm innovation performance by enabling organizations to integrate knowledge resources, enhance innovation capabilities, and develop adaptive strategies for competitive advantage. However, the study identified a research gap in that the research focused mainly on internal capabilities without adequately examining external environmental factors that may influence the effectiveness of strategic innovation systems. In the future, researchers should employ multi-level modelling and comparative industry studies to examine how environmental conditions moderate the relationship between strategic innovation systems and firm performance.

Additionally, empirical study conducted by Biko and Waithaka (2025) on innovation Strategies and Organizational Performance among Commercial Banks adopted a descriptive survey research design, collecting primary data from managers involved in strategic decision-making within organizations. The data were later analysed using descriptive statistics, correlation analysis, and regression analysis to determine the influence of innovation strategies on organizational performance. The findings revealed that strategic innovation practices, including product, process, and technological innovation, significantly improve organizational performance by enabling firms to respond to market changes and create competitive advantage. The study concluded that organizations that adopt comprehensive strategic innovation approaches tend to achieve superior operational and financial performance. However, the study identified a research gap in that the research focused primarily on the direct relationship between innovation strategies and performance without examining mediating or moderating variables. Therefore, the authors suggested that future research should apply advanced analytical techniques such as structural equation modelling to examine the mediating role of strategic capabilities and the moderating effect of environmental dynamism in the innovation–performance relationship.

Product Innovation and Organizational Performance

Wang et al. (2023) conducted a study survey from 412 manufacturing firms and analysed the relationships using structural equation modelling (SEM) in order to investigate the influence of product innovation capability on organizational performance using a quantitative research design. The findings revealed that firms with stronger product innovation

capabilities achieved higher levels of financial and market performance through improved product differentiation and customer value creation. Product innovation was found to enhance competitiveness by enabling organizations to introduce novel products that respond to changing customer needs. However, the study presents a methodological gap, as it relied on cross-sectional data, limiting the ability to establish causal relationships between innovation activities and performance outcomes over time. The research gap exposed therefore calls for future research to employ longitudinal designs and panel data analysis to examine the dynamic effects of product innovation on organizational performance across different time periods.

Singh and Rao (2024) examined how product innovation strategies influence organizational performance across firms operating in competitive industries. Using a survey of 356 firms and regression analysis, the study found that organizations that consistently invest in product development and differentiation achieve superior operational efficiency, market share growth, and customer satisfaction. Product innovation was identified as a strategic mechanism through which firms sustain competitive advantage and adapt to market changes. Despite these findings, the study reveals a conceptual gap because product innovation was examined in isolation without integrating other innovation dimensions such as process or business model innovation. Future research should adopt multi-dimensional innovation frameworks that analyse how product innovation interacts with other forms of innovation to jointly influence organizational performance. A study carried out by Aksoy (2017) examined how innovation culture, marketing innovation, and product innovation affect the market performance of SMEs in an emerging-market setting. The study was carried out as an empirical quantitative investigation and, according to accessible summaries, used data from 326 Turkish SMEs. The research adopted a unified model in which innovation culture, marketing innovation, and product innovation were analyzed together to explain SME market performance.

García et al. (2022) explored the relationship between innovation capabilities and firm performance by focusing on product innovation as a critical mechanism through which innovation resources translate into performance outcomes. The study used secondary firm-level data and applied panel regression analysis to examine the relationship across multiple firms over several years. The findings demonstrated that firms with stronger innovation capabilities are more likely to develop successful new products, which in turn significantly improve profitability and market competitiveness. Product innovation was shown to act as a pathway linking organizational resources with performance outcomes. However, the study presents a theoretical gap because it primarily relied on the resource-based view and did not incorporate complementary theoretical perspectives such as dynamic capability theory that could better explain how firms continuously reconfigure innovation capabilities. Future studies should integrate multiple theoretical perspectives to explain the mechanisms through which product innovation enhances organizational performance. Larios-Francia, Ferasso, and Beliaeva (2023) examined the relationship between innovation and firm performance in MSMEs in emerging countries, focusing on the wearing apparel sector in Peru and Colombia. The study was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) on a sample of 104 SMEs. It tested how product innovation and business process innovation relate to multiple dimensions of performance, including organizational, economic, commercial, and productive performance.

Additionally, in order to examine the relationship between market orientation, product innovation, and firm performance, Zhang and Duan (2021) used data collected from 380 firms and analyse through structural equation modelling (SEM). The results showed that product innovation significantly mediates the relationship between market orientation and organizational performance by enabling firms to convert customer insights into innovative product offerings that enhance competitiveness and profitability. The study demonstrates that product innovation acts as a critical link between strategic market responsiveness and performance outcomes. Nevertheless, the research reveals a methodological gap because it relied on perceptual performance measures obtained from single respondents, which may introduce common method bias. Future research should incorporate objective performance indicators and multi-source data to strengthen the reliability and validity of the findings.

Process Innovation and Organizational Performance

A vast body of literature considers process innovation as an imperative for effective performance of an organization (Barney, Ketchen & Wright 2021). The study conducted by Nguyen and Pham (2024) revealed that process innovation significantly enhances organizational performance by improving operational efficiency and reducing production costs, thereby enabling firms to achieve better profitability and productivity levels. In the study, process innovation was considered as an indicator in how improvements in production processes influence efficiency and competitiveness. However, the study

presents a methodological gap, as the cross-sectional research design limits the ability to capture the long-term effects of process innovation on performance outcomes. This gap represented calls for future research, whereby longitudinal and panel data approaches should be employed to better understand the dynamic relationship between process innovation and organizational performance over time.

Ahmed et al. (2023) examined the impact of operational and process innovations on firm performance across multiple industries. Using survey data from 367 firms and applying multiple regression analysis, the study assessed how process improvements in production systems, workflow management, and operational procedures influence firm productivity and competitiveness. The results concluded that organizations implementing continuous process improvements experience significant gains in operational performance, quality enhancement, and cost efficiency. Although Process innovation was identified as a critical mechanism through which organizations strengthen internal capabilities and improve overall performance, the study reveals a conceptual gap, as it focuses primarily on operational improvements without integrating complementary organizational factors such as leadership capabilities, organizational learning, or strategic orientation that may influence innovation outcomes. This research gap exposed demonstrate that there is need to develop integrated models that combine process innovation with organizational capabilities to better explain performance variations.

Martínez-Costa and Jiménez-Jiménez (2022) analysed panel data from several firms across multiple industries using panel regression techniques on how process innovation contributes to firm performance through the development of internal capabilities. The study confirmed that firms investing in advanced production processes, automation technologies, and workflow redesign achieve higher efficiency levels and improved organizational performance. Additionally, Process innovation was shown to enhance the ability of firms to optimize resource utilization and maintain competitive advantage. Nevertheless, the research presents a theoretical gap, as it primarily draws on operational management perspectives and does not sufficiently integrate broader strategic management theories such as dynamic capability theory to explain how firms continuously adapt their processes in dynamic environments. Li and Atuahene-Gima (2021) examined how firms utilize process innovation strategies to improve organizational performance in competitive environments. The study utilized survey data collected from 342 firms and analyzed using structural equation modeling (SEM) to assess the impact of process innovation on operational efficiency, quality improvement, and financial performance. The results revealed that process innovation significantly improves firm performance by enabling organizations to streamline internal processes, reduce operational inefficiencies, and enhance product quality. Despite this positive outcome, the research highlights a methodological gap because the study relied heavily on perceptual performance measures obtained from single respondents, which may introduce common method bias. This research gap exposed demonstrate that it is imperative to employ multi-source data and objective performance indicators to strengthen empirical validity.

Business Model Innovation and Organizational Performance

Clauss (2022) used a quantitative survey design involving 376 firms across different industries, to empirically examined the influence of business model innovation on organizational performance by focusing on how firms redesign value creation, value delivery, and value capture mechanisms and the data were analysed using structural equation modelling (SEM). The study demonstrated that business model innovation enables organizations to reconfigure their value creation systems in ways that improve competitiveness and long-term sustainability. Nevertheless, the research reveals a methodological gap because the study relied on cross sectional survey data, limiting the ability to observe how business model innovation influences performance over time. This gap calls for future research that should employ longitudinal research designs and panel data analysis to capture the long term performance effects of business model innovation.

Foss and Saebi (2022) carried out a survey data from 350 firms and applied regression analysis to evaluate the influence of business model innovation on financial and market performance indicators. The findings revealed that organizations engaging in systematic business model innovation achieve improved profitability, market expansion, and stronger competitive advantage compared to firms relying on traditional models. However, the study presents a conceptual gap, as it treats business model innovation as a single construct without distinguishing between its different components such as value creation, value delivery, and value capture. Future studies should therefore develop multi-dimensional models of business model innovation to better understand how each component influences organizational performance.

Additional study done by Guo et al. (2023) explored the effect of business model innovation on firm performance by analysing the role of strategic capabilities in facilitating innovation outcomes. Using data collected from 401 firms and analysed through structural equation modelling, the study found that business model innovation significantly improves

organizational performance by enabling firms to reconfigure resources, develop new value propositions, and respond effectively to market changes. The study further demonstrated that firms with stronger strategic capabilities are better positioned to leverage business model innovation to enhance performance outcomes. However, the study reveals a theoretical gap, as it primarily relies on the resource based view and does not sufficiently incorporate other theoretical perspectives such as dynamic capability theory that could explain how firms continuously adapt their business models in dynamic environments. Future research should integrate multiple theoretical frameworks to provide a more comprehensive explanation of the relationship between business model innovation and organizational performance.

Zhang and Li (2024) examined how business model innovation contributes to organizational performance in highly competitive environments. The study utilized survey data collected from 389 firms and applied hierarchical regression analysis to test the relationship between business model innovation and firm performance indicators such as profitability, market growth, and operational efficiency. The findings showed that firms that continuously redesign their business models are better able to capture emerging market opportunities and achieve superior performance outcomes. Business model innovation was therefore identified as a critical strategic mechanism that enables firms to sustain competitive advantage and improve long-term organizational performance. Nevertheless, the study highlights a methodological gap, since performance measures were based largely on perceptual data obtained from single respondents, which may introduce common method bias. Future studies should incorporate objective performance indicators and multi-source data collection methods to improve empirical robustness.

Organizational Innovation and Organizational Performance

Baumane-Vītoļiņa, Woschank, Apsalone, Šumilo, and Pacher (2022) study on Organizational Innovation Implications for Manufacturing SMEs Findings from an Empirical Study, examined how organizational innovation practices such as cross-functional teams, quality management systems, workplace organization, outsourcing, and external relationship management affect organizational performance. It used an empirical survey of more than 600 SMEs from various industries to assess the performance implications of these practices. The findings showed that organizational innovation contributes positively to organizational performance by strengthening internal coordination, improving management systems, and supporting more systematic innovation management. The study is important because it treats organizational innovation as an operational and managerial capability rather than only an administrative change. However, it presents a methodological gap because the evidence is based on a single empirical design and does not trace how these practices affect performance over time. Future research should therefore use longitudinal designs and more advanced causal models to examine the persistence of organizational innovation effects on performance.

Ayinaddis (2023) investigated the effect of different innovation dimensions on firm performance using descriptive and explanatory research designs, with analysis based on correlation and multiple linear regression. The results showed that organizational innovation was positively and significantly related to firm performance, alongside product and process innovation, although product innovation showed the strongest effect. The study demonstrates that firms with a stronger orientation toward organizational innovation tend to perform better because they improve structures, routines, and internal systems that support efficiency and adaptability. The main weakness is a conceptual gap, since organizational innovation was examined as only one component within a broader innovation-orientation model rather than as a fully unpacked construct with its own dimensions. Future research should therefore develop more fine-grained models of organizational innovation by separating its structural, managerial, and cultural dimensions and testing their distinct effects on performance.

Additionally, Vahter and Vadi (2024) study explored how organizational innovation interacts with technological innovation and how these changing combinations affect firm performance over time. Using Spanish panel data for manufacturing firms from 2008–2016, the authors analyzed whether forming or ending the joint adoption of technological and organizational innovation leads to performance gains or losses. The findings showed that some sequential and simultaneous shifts toward combining technological and organizational innovation generate significant performance premia, confirming that organizational innovation matters for performance, especially when aligned with complementary innovation types. At the same time, the study found that maintaining joint adoption is often costly and difficult for firms. The key unresolved issue is a theoretical gap, because the evidence shows complementarity effects but still leaves open the deeper organizational mechanisms through which firms coordinate and sustain these innovation bundles. Future research should therefore integrate dynamic capability and organizational design perspectives to explain how firms maintain high-performance combinations of organizational and technological innovation.

Vahter and Vadi (2024) used PITEC panel data for 3,795 manufacturing firms covering 2008–2013 in their study titled An integrated model of organisational innovation and firm performance: Generation, persistence and complementarity. The study found empirical evidence that organizational innovation functions as an innovation capability and that it contributes to firm performance directly and through reciprocal relationships with product and process innovation. The findings further showed that organizational innovation is not an isolated activity but part of a broader capability system that helps firms achieve superior performance. The study identifies a major methodological and integrative gap in earlier literature: much prior work had studied either the antecedents of organizational innovation or its outcomes, but not both in one unified framework. Future research should extend this line by testing broader integrated models across sectors and time periods, while also examining whether the same performance relationships hold under different environmental conditions.

Marketing Innovation and Organizational Performance

Peng, Qin, and Tang (2021) conducted an empirical study examining the influence of marketing innovation on firm performance under varying market environments. The study employed a quantitative research design using survey data from firms in China, and the data were analyzed using structural equation modeling (SEM) to test the relationships between marketing innovation dimensions and firm performance. The findings indicated that marketing innovation significantly enhances firm performance, particularly when organizations adopt both market-driven and market-driving innovation strategies. The study also revealed that environmental factors such as competition intensity and technological turbulence moderate the relationship between marketing innovation and performance. However, the study relied primarily on cross-sectional data and perceptual measures of performance, which limited the ability to establish causal relationships. The authors suggested that future studies should adopt longitudinal research designs and objective performance indicators to better capture the long-term effects of marketing innovation on organizational outcomes.

Consequently, a study done by Naji Afrasyaw Fatah and Shanyaz Omer Amin (2025) investigated the relationship between marketing innovation and firm performance using a survey-based research design involving 93 respondents from different industries, including electronics, food and beverage, advertising, travel, and automobile sectors. The results showed a significant positive relationship, suggesting that firms adopting innovative marketing practices achieve improved competitiveness and stronger performance outcomes. However, the study was constrained by a relatively small sample size and reliance on self-reported questionnaire responses, which may introduce response bias and limit generalizability. The study therefore recommended that future research should employ larger sample sizes, multi-industry datasets, and more advanced analytical techniques such as structural equation modeling to enhance robustness and external validity.

Empirical investigation by Kolapo, James, and Ehiaguina (2021) explored how marketing innovation capability contributes to firm performance within manufacturing firms. The study adopted a cross-sectional survey design with stratified random sampling, collecting data from manufacturing firms and analyzing it using Pearson correlation and multiple regression analysis. The results indicated that marketing innovation capability has a significant positive effect on firm performance alongside other innovation capabilities such as product and process innovation. The study highlighted that organizations that develop strong marketing innovation capabilities are more likely to achieve higher competitiveness and improved performance outcomes. However, the research mainly focused on innovation capability as a broad construct and did not isolate the specific mechanisms through which marketing innovation affects performance. Future research is therefore recommended to investigate specific marketing innovation dimensions and their interaction with environmental and organizational factors.

Ayinaddis and colleagues (2023) conducted an empirical study to examine the influence of different innovation types (product, process, marketing, and organizational innovation) on the performance of micro and small manufacturing firms. The study adopted a descriptive and explanatory research design and collected primary data from manufacturing enterprises using structured questionnaires. The researchers employed quantitative statistical analysis techniques, including regression analysis, to determine the effect of the innovation variables on firm performance. The findings indicated that marketing innovation significantly contributes to firm performance by enhancing firms' ability to differentiate products, improve customer relationships, and strengthen competitive positioning in the market. The results further showed that firms that actively adopt innovative marketing strategies achieve higher growth and operational performance compared to firms that rely on conventional marketing approaches. However, the study focused primarily on micro and small manufacturing firms within a specific regional context, which may limit the generalizability of the findings across industries and larger firms. Future studies should examine the role of marketing innovation across different sectors, firm sizes, and institutional environments, and also incorporate longitudinal research designs to better understand the long-term effects of marketing innovation on organizational performance.

Strategic Innovation, Strategic Responsiveness and Organizational Performance

Empirical scholarship increasingly converges on the view that the performance implications of strategic innovation are not uniform across contexts, but are instead contingent upon the degree of environmental dynamism confronting an organization. Environmental dynamism defined by the speed, frequency, and unpredictability of changes in markets, technologies, customer preferences, and competitive behaviour shapes both the risks and rewards associated with innovation. In highly dynamic environments, innovation becomes a critical strategic necessity for survival and competitiveness, whereas in stable environments, innovation may generate weaker or delayed performance effects due to lower urgency for change and higher emphasis on efficiency and exploitation.

Evidence from emerging and transitional economies further reinforces this moderating logic. Chen, Wang, and Huang (2021), in their study of manufacturing firms operating in volatile Asian markets, found that environmental dynamism significantly strengthens the positive relationship between strategic innovation and organizational performance. Firms engaging in product, process, and business model innovation achieved superior growth and profitability when technological and market changes were rapid and unpredictable. However, under more stable environmental conditions, the innovation–performance relationship weakened, highlighting diminishing marginal returns to innovation in predictable contexts.

The moderating influence of environmental dynamism is particularly pronounced in digital and technology-driven industries. Khin and Ho (2019) empirically demonstrated that digital and strategic innovation exert a stronger positive effect on firm performance when environmental dynamism is high. Their moderation analysis revealed that rapid technological change and competitive intensity heighten the payoff of innovation by increasing the relevance of speed, adaptability, and experimentation. This study illustrates how environmental dynamism magnifies the strategic importance of innovation by accelerating obsolescence and intensifying rivalry.

Empirical evidence supporting this mediating role is provided by Chan, Teoh and Yeow (2023), where he examined the relationship between strategic innovation and firm performance, focusing on the mediating role of strategic responsiveness in dynamic business environments. The study was motivated by the need to understand how firms translate innovative strategies into improved performance outcomes, particularly under conditions of rapid technological and market changes. The researchers adopted a quantitative research design and collected primary data from senior managers working in manufacturing and service firms. Structured questionnaires were used to measure strategic innovation, strategic responsiveness, and firm performance. The data were analyzed using Structural Equation Modeling (SEM) to test the proposed relationships among the constructs. The findings showed that strategic innovation positively influences firm performance, but this relationship becomes stronger when organizations demonstrate high levels of strategic responsiveness. Strategic responsiveness was found to partially mediate the relationship between strategic innovation and performance, indicating that firms must not only develop innovative strategies but also possess the capability to respond quickly to environmental changes in order to realize the benefits of innovation. Despite these contributions, the study focused mainly on firms operating in technologically intensive industries, which may limit the generalizability of the findings to other sectors. Additionally, the study relied on perceptual measures of performance reported by managers, which may introduce measurement bias. This suggests the need for future research using objective performance indicators and broader industry samples.

Suder et al. (2025) examined how entrepreneurial orientation influences firm growth through the mediating role of strategic flexibility, a capability closely related to strategic responsiveness because it reflects a firm's ability to adapt strategies and resources quickly in response to environmental changes. The study aimed to determine whether entrepreneurial firms achieve better growth outcomes when they possess the capacity to rapidly respond to market conditions. The researchers conducted a longitudinal study of small firms operating in the Polish printing industry, collecting data from 150 firms during the COVID-19 crisis and 145 firms afterward. The study employed Structural Equation Modeling (SEM) to test the mediating and moderating roles of strategic flexibility in the relationship between entrepreneurial orientation and firm growth. The findings revealed that entrepreneurial orientation positively influences firm growth and also enhances strategic flexibility. Importantly, strategic flexibility mediated the relationship between entrepreneurial orientation and firm growth in stable market environments, indicating that firms translate entrepreneurial strategies into performance outcomes through their responsiveness capabilities. However, the study also found that the mediating role of strategic flexibility changes under hostile market conditions, where flexibility becomes a moderating factor rather than a mediator. This suggests that the effectiveness of responsiveness mechanisms may depend on environmental conditions. The research therefore highlights a contextual gap, suggesting further investigation into how strategic responsiveness operates across different environmental conditions.

Extending this argument, Kornelius et al. (2021) examined the relationship between strategic planning and firm performance, focusing on the mediating role of strategic maneuverability, which reflects a firm's ability to respond quickly and adapt strategically to environmental changes. The purpose of the study was to determine whether organizations that formulate strong strategies achieve improved performance through their ability to respond flexibly to dynamic environments. The researchers conducted a quantitative study using survey data from companies operating in Malaysia, particularly within the construction industry. Data were collected from senior managers using structured questionnaires measuring strategic planning practices, strategic maneuverability, and firm performance. The analysis was conducted using Structural Equation Modeling (SEM) to test the hypothesized relationships. The findings showed that strategic planning significantly improves firm performance; however, the relationship becomes stronger when firms demonstrate higher levels of strategic maneuverability. Strategic maneuverability was found to mediate the relationship between strategy formulation and organizational performance, suggesting that organizations must not only formulate effective strategies but also develop the ability to respond rapidly to environmental changes. Despite its contributions, the study focused primarily on firms within the construction industry, which limits the generalizability of the findings across sectors. In addition, strategic maneuverability was used as a proxy for responsiveness, and the study did not explicitly conceptualize strategic responsiveness as a separate construct, leaving a conceptual gap for future research.

Recent empirical studies continue to validate this mediating relationship. Ahmad, Rording, and Ng (2023) examined firms across diverse industries and confirmed that strategic responsiveness significantly mediates the relationship between strategic innovation and organizational performance. Their mediation analysis showed that innovation improves performance indirectly by enhancing firms' ability to anticipate environmental shifts, respond proactively to threats, and exploit emerging opportunities. The study highlights that responsiveness enables firms to avoid innovation myopia, where innovative initiatives fail due to misalignment with external realities.

More recent evidence by Bansal and Gupta (2024) strengthens the argument by showing that strategic responsiveness fully mediates the relationship between strategic innovation and long-term performance sustainability in volatile markets. Their findings suggest that innovation initiatives that are not matched with rapid strategic response mechanisms often lead to delayed market entry, misallocation of resources, and erosion of competitive advantage. The study emphasizes that responsiveness transforms innovation from a static strategic intent into a dynamic performance driver.

Overall, the reviewed empirical literature provides compelling evidence that strategic responsiveness is a central mediating variable linking strategic innovation to organizational performance. Strategic innovation supplies the ideas, capabilities, and strategic options, but strategic responsiveness determines how quickly and effectively these innovations are implemented, adapted, and leveraged in response to environmental demands. Despite this growing body of evidence, gaps remain regarding longitudinal validation and the interaction between responsiveness and environmental dynamism, which the current study seeks to address by explicitly modelling strategic responsiveness as a mediator in dynamic organizational contexts.

Strategic Innovation, Environmental Dynamism and Organizational Performance

Empirical scholarship increasingly converges on the view that the performance implications of strategic innovation are not uniform across contexts, but are instead contingent upon the degree of environmental dynamism confronting an organization. Environmental dynamism defined by the speed, frequency, and unpredictability of changes in markets, technologies, customer preferences, and competitive behaviour shapes both the risks and rewards associated with innovation Jansen, Van Den Bosch, and Volberda (2006). In highly dynamic environments, innovation becomes a critical strategic necessity for survival and competitiveness, whereas in stable environments, innovation may generate weaker or delayed performance effects due to lower urgency for change and higher emphasis on efficiency and exploitation.

One of the earliest empirical studies to explicitly model environmental dynamism as a moderator is Zahra and Bogner (2000), who examined technology-intensive firms operating under varying levels of turbulence. Their findings demonstrated that strategic innovation had a significantly stronger positive effect on organizational performance when environmental dynamism was high. In contrast, under relatively stable conditions, innovation investments produced marginal performance gains, as firms could rely on established routines and market positions. This study provides foundational evidence that environmental dynamism amplifies the value of innovation by increasing uncertainty, shortening product life cycles, and intensifying competitive pressure, thereby making innovation a decisive performance lever rather than a discretionary activity.

Building on this perspective, Jansen, Van den Bosch, and Volberda (2006) provided more nuanced moderation evidence by distinguishing between exploratory and exploitative forms of innovation. Their empirical analysis showed that environmental dynamism strengthens the performance impact of exploratory innovation such as experimentation and radical innovation while weakening the relative effectiveness of exploitative innovation focused on incremental improvement. This finding suggests that environmental dynamism does not merely influence whether innovation matters, but also determines which types of innovation are most performance-enhancing, reinforcing the argument that innovation strategies must be contextually aligned.

Further empirical validation is offered by Wilden and Gudergan (2015), who examined the relationship between dynamic capabilities, strategic innovation, and performance under different environmental conditions. Their results indicated that innovation-related capabilities yield superior performance primarily in environments characterized by high volatility and uncertainty. In low-dynamism contexts, the costs associated with sustaining high levels of innovation capability such as experimentation, coordination, and learning investments may outweigh the performance benefits. This study underscores the moderating role of environmental dynamism in determining the cost–benefit balance of strategic innovation.

Evidence from emerging and transitional economies further reinforces this moderating logic. Chen, Wang, and Huang (2021), in their study of manufacturing firms operating in volatile Asian markets, found that environmental dynamism significantly strengthens the positive relationship between strategic innovation and organizational performance. Firms engaging in product, process, and business model innovation achieved superior growth and profitability when technological and market changes were rapid and unpredictable. However, under more stable environmental conditions, the innovation–performance relationship weakened, highlighting diminishing marginal returns to innovation in predictable contexts.

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From a dynamic capabilities perspective, Teece, Peteraf, and Leih (2016) provided empirical insights showing that innovation-driven performance advantages are most salient in environments characterized by complexity and change. Their findings suggest that environmental dynamism strengthens the link between strategic innovation and performance by increasing the need for continuous resource reconfiguration and strategic renewal. Although their study focused on capabilities rather than innovation per se, it offers strong indirect evidence that environmental dynamism conditions the effectiveness of innovation as a performance driver.

Managerial cognition and strategic decision-making also play a role in this moderation relationship. Bourgeois (2019) found that environmental dynamism influences how managers perceive uncertainty and respond to innovation opportunities. In dynamic environments, managers are more likely to support experimentation, risk-taking, and strategic innovation, thereby strengthening the innovation–performance relationship. Conversely, in stable environments, managerial focus shifts toward efficiency and control, reducing the marginal contribution of innovation to performance outcomes.

Service-sector studies further corroborate the moderating role of environmental dynamism. Santos-Vijande, López-Sánchez, and Trespalacios (2012) demonstrated that strategic innovation improves service performance primarily under conditions of high market turbulence. Environmental dynamism intensified the positive effects of innovation on customer satisfaction, service quality, and market growth by forcing firms to adapt offerings rapidly to changing customer expectations. This evidence highlights that environmental dynamism not only strengthens innovation–performance relationships but also reshapes the mechanisms through which innovation creates value.

More recent empirical work by Kollmann, Stöckmann, and Kensbock (2020) provides robust moderation evidence in entrepreneurial and growth-oriented firms. Their findings indicate that environmental dynamism amplifies both the risks and rewards of strategic innovation, making innovation a critical determinant of performance under uncertainty. Firms that fail to innovate strategically in dynamic environments experience rapid performance decline, while innovative firms achieve accelerated growth and competitive advantage.

Overall, the reviewed empirical literature provides compelling and consistent evidence that environmental dynamism acts as a critical moderating variable in the relationship between strategic innovation and organizational performance. Strategic innovation yields stronger, faster, and more sustainable performance outcomes when environmental conditions are volatile, complex, and unpredictable. Conversely, in stable environments, innovation may generate weaker or delayed returns, emphasizing the contingent nature of innovation effectiveness. Despite these insights, prior studies often examine moderation effects within narrow contexts or single industries, creating a gap that the current study addresses by integrating environmental dynamism into a comprehensive, multi-dimensional innovation–performance framework.

7. CONCLUSIONS

The relationship between strategic innovation, strategic responsiveness, environmental dynamism, and organizational performance is the core focus of this independent study. The main objective of the study was to develop a suitable theoretical model that illustrates how strategic innovation influences organizational performance, with strategic responsiveness acting as the mediating variable and environmental dynamism serving as the moderating variable. Drawing from the reviewed theoretical and empirical literature, this study demonstrates how innovative capabilities within an organization drive adaptability, resilience, and competitiveness in an ever-changing business environment.

Through an extensive review of theories, the study identified the Dynamic Capabilities Theory, Resource-Based View (RBV), Contingency Theory, Institutional Theory, and Schumpeter's Innovation Theory as the guiding theoretical frameworks. These theories collectively explain how organizations leverage internal and external resources, strategic flexibility, and adaptive learning to enhance their performance. The model proposed integrates the various dimensions of strategic innovation product, process, business model, and organizational innovation—linking them to organizational performance outcomes, which include profitability, market share growth, customer satisfaction, and operational efficiency.

The study found that strategic innovation enables organizations to develop unique capabilities and reconfigure existing resources to respond effectively to market challenges. Firms that foster a culture of innovation are better equipped to seize emerging opportunities and mitigate environmental threats. The inclusion of strategic responsiveness as a mediating variable emphasizes the importance of flexibility, proactive planning, and timely decision-making in translating innovative ideas into measurable performance improvements. Responsive organizations convert innovative initiatives into actionable outcomes that enhance operational excellence and competitive advantage.

Furthermore, the moderating role of environmental dynamism underscores that the effectiveness of innovation depends largely on external conditions such as technological turbulence, market competition, and regulatory pressures. In highly dynamic environments, innovation-driven organizations achieve superior performance by swiftly aligning their strategies with market demands. Conversely, in stable environments, firms may rely more on incremental innovations to sustain long-term growth. The findings suggest that adaptability to external changes determines the extent to which innovation contributes to overall performance.

The proposed theoretical model therefore offers a holistic perspective on how internal innovation practices and external environmental forces interact to shape organizational success. It highlights that continuous learning, adaptive leadership, and strategic resource allocation are essential for organizations aiming to thrive in uncertain markets. Strategic innovation must not only focus on creative ideas but also on their timely implementation and responsiveness to change.

In conclusion, the study contributes to academic and practical understanding by bridging theoretical and empirical insights on innovation, responsiveness, and environmental dynamism. The findings provide a valuable foundation for managers and policymakers seeking to enhance organizational agility and performance through innovation-led strategies. Future researchers can build on this framework by empirically testing the model across different sectors and contexts to strengthen its applicability and generalizability in the field of strategic management.

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