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STRATEGIC INNOVATION, COMPETITIVE ADVANTAGE AND FIRM PERFORMANCE: A CRITICAL REVIEW OF LITERATURE

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Abstract

The key essential components of strategic innovation are creativity and ideation, market insights vision and strategy. Literature suggests that firms that encourage a culture of creativity and invention are more innovative and successful. A clear vision and strategy aligned with the overall business strategy that guides ideas and ensures adequate resource allocation is key towards strategic innovation. Considering the significant role of strategic innovation on firm performance, this conceptual study critically examined the empirical, conceptual and theoretical literature regarding the association between strategic innovation and performance of a firm. The study also scrutinized the mediating role of the competitive advantage on the relationship between strategic innovation and performance of a firm. This study finds that the empirical studies conducted so far have yielded contradictory outcomes. Some findings indicate a positive association between strategic innovation and the performance of a firm. Firms that view innovation through a systemic, ecosystem-based lens where partnerships, digital platforms, and stakeholder networks co-create value are better positioned to sustain long-term performance. On the contrary, some studies indicate that there is no significant impact of strategic innovation on firm performance, particularly in certain industries or contexts and in highly regulated industries suggesting that strategic innovation does not always lead to measurable firm performance. The study also finds that strategic innovation leads to competitive advantage by responding to customers' needs, which in turn affects firm performance. The study concludes that while most of the literature indicates positive association between strategic innovation and firm performance, the relationship is influenced by other factors such as industries and market conditions. To further explore how strategic innovation influences competitive advantage and firm performance, future research should utilize longitudinal designs and mixed method approaches.

Key words*:* Strategic Innovation, Competitive Advantage, Firm Performance.

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Introduction

Strategic innovation has been increasingly recognized as a cornerstone for firm performance, especially in the context of rapid technological transformation, global competition, and changing customer expectations (Gao & Xu, 2023). In the last few years, scholarship has advanced understanding of how strategic innovation not only enables competitive advantage but also fosters resilience, adaptability, and sustained growth (Porter, 1985; Teece, Pisano & Shuen; 1997; Wang & Chen, 2022). Organizations are continually searching for sustainable competitive advantage that can set them apart from their rivals (Yang & Yang, 2019; Liu & Zhang, 2024). Despite the general consensus on the importance of strategic innovation, several debates persist within the literature on the causality and directionality of the relationship.

Within strategic innovation studies, two dominant approaches are frequently contrasted: incremental innovation, which entails small, continuous improvements to existing products and radical innovation, which introduces transformative changes that establish completely new markets or disrupt established paradigms (Zhou & Li, 2023; Jansen et al., 2022). The rise of open innovation models blurs the lines between incremental and radical innovation, as firms collaborate with external partners to access novel ideas and technologies (Kim & Mauborgne, 2023). Critics argue that exclusive focus on incremental innovation can create organizational inertia, making firms vulnerable to disruptive changes in the environment (Christensen, 1997).

The impact of strategic innovation and competitive advantage on company's performance has been a subject of previous studies. Firms deploying value innovation achieved higher growth rates and profitability compared to those using traditional strategies (Yang & Yang, 2019). Lee and Chang (2022) posit that strategic innovation is significantly linked to both revenue growth and new market entry success. Reconfiguring value creation and capturing mechanisms, such as through platform-based models or digital ecosystems, is shown to have a strong positive correlation with firm financial performance and market share (Zeng et al., 2022). In contrast, other studies caution that strategic innovation that gives rise to competitive advantage may not remain uncontested for long, as successful innovation often invites imitation (Markides & Sosa, 2013).

This study is anchored on various theories to include Resource-Based View theory (Barney, 1991) which identifies the key attributes that resources must possess to yield sustained competitive advantage: they must be valuable, rare, inimitable, and non-substitutable (VRIN). Dynamic Capabilities Theory (Teece et al., 1997) which posits that it's not only the ownership of resources but the ability of a firm to renew, reconfigure, and adapt its resource base that determines long-term success. Further, the study is anchored on Blue Ocean Strategy theory (Kim & Mauborgne, 2005) which posits that firms should move to "blue oceans" of untapped markets that offer significant opportunities for new ideas and expansion and move away from "red oceans" of intensive competition as this will lead to competitive advantage. By adopting Blue Ocean principles, firms shift from competing on existing parameters to shaping new demand, thereby achieving superior performance outcomes

that are difficult for competitors to imitate. In addition, Generic Strategies theory (Porter,1985) which posits that organizations can gain a competitive edge by employing one of three main approaches: cost leadership, differentiation, or a focus strategy.

Strategic Innovation

Strategic innovation is described as the development and execution of novel concepts that fundamentally transform the way an organization competes (Markides & Sosa, 2013; Zeng et al., 2022). It goes beyond incremental improvements or operational efficiency and involves rethinking business models, entering new markets, or deploying breakthrough technologies. Strategic innovation is defined by Zhou and Li (2023) as the creation and implementation of new ways of doing business, offerings, and procedures or market approaches that reshape the competitive landscape and deliver superior value to stakeholders.

Strategic innovation can manifest in different forms such as process innovation, business model innovation, product innovation and organizational innovation (Tidd & Bessant, 2014). Unlike incremental innovations, which focus on continuous improvements, strategic innovation is characterized by its transformative impact and its potential to disrupt industries. Recent literature positions strategic innovation as a holistic capability that integrates leadership vision, organizational learning, and a proactive stance towards market and technological opportunities (Tang et al., 2024).

Competitive Advantage

Competitive advantage plays a key role in the field of strategic management. Porter (1985) defines competitive advantage as the company's ability to surpass its competitors either by providing more value to customers or reducing costs. Porter's generic strategies to include differentiation, cost leadership and focus provide a structure for understanding how organizations can position themselves in the market. Advantage today often depends on a firm's position within broader networks and ecosystems, with strategic partnerships and alliances becoming increasingly vital (Mukherjee et al., 2023).

Scholars emphasize that competitive advantage in the 2020s is increasingly determined by an organization's ability to optimize digital technologies to increase operational efficiency, customer experience, and innovation processes (Zhang & Choudhury, 2022). The integration of machine learning, data analytics and artificial intelligence (AI) not only streamline traditional value chains but also enables the creation of entirely new business models (Mukherjee et al., 2023). Likewise, the work of Lee, Johnson, and Patel (2023) demonstrates how the effective deployment of AI-driven solutions for supply chain management leads to both cost leadership and differentiation, intensifying the competitive landscape.

Firm Performance

Measurements of the firm's performance have gained significant interest in academia and management. The two elements of firm's performance include the angles of measurement of performance and who the firm performs for. Barnard (1938) posits that the performance of the

firm is its achievements of the set objectives. The firm's performance could either be tangible based on financial results and firms value or intangible, such as brand value (de Waal, 2001; Kim & Mauborgne, 2023). Firm performance is the efficiency by which shareholders' motives are achieved and returns maximized (Zhang et al., 2023). Investors keep putting money into a company as long as they believe their investment is worthwhile. If they feel they are not receiving enough value, they stop investing and seek other opportunities.

Various performance metrics have been used by scholars to assess strategic innovation and firm performance. Notable examples of these metrics include return on sales, return on assets (ROA) and profitability (Smith & Lee, 2022; Wang et al., 2023). However, accounting metrics are based on past information and might not represent present-day values accurately. Market measures provide the value of shares issued by the firm and changes in the value of the firm over a period. Thus, the literature also emphasizes non-financial measures to include innovation output which measures the number of patents, new products launched, or process improvements made (Fuchs & Gassmann, 2023), customer acquisition and market share (Kim & Mauborgne, 2023), time to market and R&D productivity (Lee & Park, 2023).

Research Problem

As global markets become more volatile and technologically complex, the linkage between a company's ability to innovate strategically and its subsequent performance outcomes has gained significant scholarly and practical interest. Strategic innovation extends beyond incremental improvements, involving fundamental changes in business models, value creation processes, and competitive positioning (Li & Chen, 2022). Park and Lee (2021) emphasize that strategic innovation is not limited to R&D or new product development; rather, it involves rethinking the firm's core logic and exploring new value networks. It often encompasses technological advancements, organizational change, and the pursuit of new markets (Gao et al., 2023).

Existing literature shows linkage between strategic innovation and performance of firms. Li and Chen (2022) selected a representative sample of manufacturing firms across diverse sub-sectors, ranging from electronics to automotive to consumer goods. The firms were classified based on their engagement with strategic innovation, which was defined through a set of criteria encompassing organizational culture, investment in R&D, adoption of new technologies, and openness to novel business models. The study employed mixed methods, combining quantitative financial data with qualitative interviews of senior management. Revenue growth was measured using year-over-year financial reports, while market leadership was assessed through both market share statistics and third-party industry rankings.

Their findings concluded that the firms engaging in strategic innovation reported higher revenue growth and market leadership. However, their research did not analyse the impact of competitive advantage on the relationship between open innovation strategies and firm performance. This study will analyse the literature on the mediating role of competitive advantage on firm performance thus closing the conceptual gap.

Browne et al. (2024) conducted a multi-year, cross-sectional study examining technology firms of varying sizes, geographies, and specialization areas. Their research encompassed both quantitative and qualitative analyses, utilizing innovative output metrics (such as patent filings, product launches, and R&D efficiency) and financial performance indicators (including revenue growth, profit margins, and market valuation). The study analyzed over 300 technology firms in North America, Europe, and Asia, ranging from agile startups to multinational corporations.

Data sources included company financial reports, patent databases, product release archives, and direct interviews with executives and R&D managers. Their findings indicate that firms that leverage external knowledge, share risks, and adapt swiftly achieve superior innovation output and financial performance. The study by Browne et al (2024) did not cover companies in Africa. Rahman et al. (2025) suggest that research results obtained in a single nation might not be relevant to other nations due to variation in financial, social, regulatory and economic environment. As a result, this research seeks to fill the contextual gaps by examining literature related to Africa.

Research by Osei et al. (2022) casts a fresh perspective on how innovative strategies manifest in Sub-Saharan Africa specifically in small and medium-sized enterprises (SMEs). They found that SMEs in Sub-Saharan Africa that adopted innovative strategies experienced notably higher performance improvements compared to their counterparts in advanced economies. Osei et al. (2022) predominantly use quantitative data which, while allowing for statistical analysis, do not fully explore the contextual and processual aspects of innovation in SMEs. This study aims to close the methodological gaps by analysing literature that covers both quantitative and qualitative data. In light of the established gaps, this research aims to address the following research question: What is the influence of strategic innovation and competitive advantage on firm performance?

Objectives of the Study

The objective of this study is to establish the influence of strategic innovation and competitive advantage on firm performance.

Value of the Study

Understanding the relationship between strategic innovation and firm performance not only enriches theoretical discourse but also provides actionable insights for leaders and stakeholders. The study contributes to the development and refinement of existing theories by providing a framework that links strategic innovation and competitive advantage on firm performance. By synthesizing diverse findings, the study contributes to theory by positioning competitive advantage as a central mediator explaining the inconsistent outcomes in prior research. The study also refines the empirical literature by analysing the emerging propositions on the relationship between strategic innovation, competitive advantage and performance of a firm.

This research adds to policy discussions regarding the significance of integrating strategic innovation and competitive advantage to achieve superior firm performance. Analyzing how strategic innovation impacts performance clarifies the often-complex mechanisms through which new ideas translate into tangible business results. This

research moves beyond anecdotal evidence and intuition, providing empirical data that connects innovative activities to outcomes such as growth of revenues, increase in market share, operational efficiency and customer satisfaction. Practically, the study provides a framework for stakeholders involved in improving firm performance to adopt best practices in strategic innovation and creation of competitive advantage. By rigorously analyzing the innovation-performance nexus, the study helps stakeholders gain valuable insights that inform competitive positioning, strategic planning and resource allocation processes with market-oriented strategies to achieve sustainable performance gains.

Theoretical Foundation

Several theoretical frameworks inform contemporary studies on strategic innovation, competitive advantage and firm performance. The theoretical frameworks include Dynamic Capabilities Theory (DCT) which is the main theory anchoring the study complemented by Resource Based View (RBV) theory, Blue Ocean Strategy theory (BOS) and Generic Strategies. Each of these theories complement the study by providing a dynamic framework for analyzing the interactions between strategic innovation, competitive advantage and firm performance.

Dynamic Capabilities Theory

Teece, Pisano, and Shuen (1997) developed DCT arguing that resource-based views were insufficient for explaining success in volatile markets. They posited that it's not only the ownership of resources but the ability of a firm to renew, reconfigure, and adapt its resource base—its dynamic capabilities—that determines long-term success. The dynamic capabilities view remains prominent, positing that firms' abilities to sense, seize, and reconfigure resources underpin successful innovation strategies (Eisenhardt & Martin, 2000; Wang & Chen, 2022). Recent extensions emphasize the role of ambidexterity, where firms balance exploration (novel approaches) and exploitation (existing competencies) as well as technology to achieve superior performance (Xu & Patel, 2024; Kaur & Narayanan, 2023).

Despite widespread adoption, DCT has faced several criticisms. Critics argue that the theory remains conceptually vague and that empirical research often fails to distinguish clearly between the capabilities themselves and their outcome (Winter, 2002). Furthermore, some suggest that dynamic capabilities may not always lead to competitive advantage, or that their value is contextually dependent. Smith and Tan (2022) argue that most measurement approaches rely on subjective managerial perceptions, which are susceptible to bias and may not accurately reflect the existence or effectiveness of dynamic capabilities.

Dynamic capabilities exist in environments characterized by rapid market changes (Eisenhardt and Martin, 2000). Liu (2024) highlights that different studies operationalize dynamic capabilities in divergent ways, resulting in fragmented findings and difficulty in building cumulative knowledge. Despite the criticism, this theory offers a useful perspective in this study for the purpose of determining whether strategic innovation leads to competitive advantage and firm performance.

Resource-Based View Theory

The Resource-Based View (RBV) theory is linked to the work of Edith Penrose (1959). Penrose emphasized the importance of firm-specific resources and management's ability to utilize them effectively. Later, Wernerfelt (1984) formalized these ideas explicitly arguing that resources, rather than products, should be the foundation for understanding competitive advantage. Barney (1991) further crystallized the RBV framework, identifying the key attributes that resources must possess to deliver long-lasting competitive edge: they must be valuable, rare, inimitable, and non-substitutable (VRIN).

According to RBV, resources encompass tangible and intangible assets managed by a company that allows it to carry out strategies that enhance efficiency and effectiveness. These criteria provide scholars and managers with a practical tool for evaluating organizational assets and strategizing for long-term success. RBV is frequently invoked, with a focus on unique, inimitable resources such as knowledge assets, leadership capital, and organizational culture that drive innovation-led performance (Gao & Xu, 2023). Wei and Yang (2023) underscore the ongoing relevance of these attributes but notes the increasing interplay between tangible and intangible assets in digitalized markets.

Progress in AI and big data analytics have prompted a reconceptualization of what constitutes a "resource" and how VRIN criteria are assessed (Smith et al., 2024). Several scholars (Patel & Choudhury, 2022; Morgan & Gupta, 2022) contend that the theory's definitions of "resource" and "capability" remain somewhat ambiguous, leading to challenges in empirical measurement and practical application. RBV has been criticized for underplaying macro-economic factors such as industry structure, regulatory and competitive environments (Smith et al., 2024). RBV is critical in this study for purposes of analysing whether strategic innovation leads to firm performance.

Blue Ocean Strategy

One influential framework that has emerged over the past two decades is Blue Ocean Strategy theory developed by Kim and Mauborgne (2005). The theory posits that firms should move to "blue oceans" of untapped markets that offer significant opportunities for expansion and move away from "red oceans" of intensive competition as this will lead to competitive advantage. BOS builds upon several streams of strategic management including market creation, value innovation, and non-customer focus. Unlike traditional competitive strategies that emphasize outperforming rivals within established industry boundaries (Porter, 1980), BOS shifts the focus toward redefining the boundaries themselves. Zhang et al. (2023) posits that BOS is specifically effective when paired with digital innovation, helping firms to redefine client interactions and unlock new value curves. As digital ecosystems blur traditional industry boundaries, organizations are increasingly leveraging data analytics and platform-based models to create blue oceans (Jones et al.,2023).

Two dominant approaches are frequently contrasted: incremental innovation, which entails small, continuous improvements to existing products and radical innovation, which involves groundbreaking changes that create blue oceans (Zhou & Li, 2023; Jansen et al., 2022). Studies

caution that the "blue ocean" created may not remain uncontested for long, as successful innovation often invites imitation (Markides & Sosa, 2013; Nguyen and Carter, 2023). This has led to interest in dynamic capabilities and the sustainability of competitive advantage following blue ocean creation. Some scholars have argued that BOS lacks sufficient attention to execution risk, resource availability, market timing, and potential legal or regulatory hurdles (Leavy, 2005; Abraham, 2013). While the strategy is conceptually appealing, executing it is often complex (Smith et al., 2025).

Despite the criticism, BOS aligns directly with the study's focus on strategic innovation as a driver of firm performance, as the framework advocate for leveraging visionary leadership, customer insight, and innovative thinking to redefine industry norms. Thus, the concept fits seamlessly within the study's argument that strategic innovation, when guided by a clear vision and creativity, enables firms to create and maintain a distinct edge over competitors in fast-changing and unpredictable environment.

Generic Strategies

Porter (1985) identifies three broad strategies utilized by companies to achieve competitive advantage: cost leadership, differentiation and focus strategy. A cost leadership strategy entails being the lowest cost producer in the market and therefore making higher margins than rivals. A differentiation strategy entails producing products that are perceived as unique within industry. Differentiation can be based on product attributes, technology brand image, customer service, or other factors (Porter, 1985). The focus strategy targets a specific segment of the market, whether defined by geography, customer type, or product line. Within this segment, a firm can pursue either differentiation or cost leadership. Porter (1985) suggests that firms must continuously upgrade their resources and capabilities to maintain their advantage.

Recent studies continue to validate the relevance of Porter's generic strategies, but with significant contextual adaptation. Kim et al., (2004) emphasize that cost leadership, differentiation, and focus remain robust frameworks, but their implementation now requires greater agility and digital orientation and combination of online and offline operations. Differentiation strategies, according to Pereira et al. (2023), increasingly depend on innovation, customer experience, and sustainability. Companies that differentiate through digital customer interfaces, personalized offerings, and eco-friendly value propositions report stronger brand loyalty and higher margins (Kumar & Verma, 2024).

The focus strategy, once seen as a niche player's tool, is redefined by micro-segmentation enabled by big data. Singh & Patel (2022) argue that firms can now pursue focus strategy at scale, targeting specific customer clusters with unprecedented precision. Studies also highlight the role of AI and advanced analytics in reshaping competitive positioning (Almeida & Sun, 2023). While Porter's frameworks have been widely adopted, they are not without critiques. Some scholars argue that Porter's generic strategies do not account for hybrid approaches or the blurring lines between cost leadership and differentiation (Miller, 1992). Despite these critiques, Porter's work remains foundational and is very important in this study for purposes of analysing whether competitive strategies lead to firm performance

and whether competitive advantage serves as a mediator in the relationship between strategic innovation and company's performance.

Empirical and Conceptual Studies

The empirical review of the relationship between the study variables is covered in this section. It analyzes literature on strategic innovation, competitive advantage and firm performance. This includes an extant examination of the topic, methodology adopted and findings so as to gain clarity on the study objective, critique and identify knowledge gaps that have been bridged through the current research.

Strategic Innovation and Firm Performance

Vărzaru and Bocean (2024) examined how digital transformation influences innovation activities, specifically focusing on how digital technology impact impacts revenues. The researchers conducted a large-scale quantitative study using Eurostat and firm-level data across multiple European countries, applying econometric modeling to assess correlations between digital adoption levels and innovation output. The results showed that implementing modern digital technologies like data analytics, cloud computing and AI significantly increases both product and organizational innovation, with a strong positive effect on innovation-driven revenue. Interestingly, the study also found that firms' innovation performance depends on their digital maturity level and management's strategic orientation toward digital investment. The main gap identified was the lack of qualitative insights into how firms internally manage digital transformation processes to achieve innovation gains, prompting calls for future mixed-methods research that integrates managerial perspectives and case-based evidence.

Lee and Chang (2022) analyzed 500 manufacturing firms in Asia and found that strategic innovation was significantly linked to both revenue growth and new market entry success. In technology-intensive sectors, such as ICT and pharmaceuticals, research suggests a particularly strong influence of strategic innovation on a company's performance (Uddin & Sadiq, 2023). On the other hand, research within the service industry emphasizes the significance of customer centric innovation and digital transformation strategies (Mehta et al., 2024). Collaboration with external partners, including startups, universities, and competitors, fosters access to diverse knowledge sources and accelerates time-to-market for innovative offerings (Li et al., 2023).

Digital Transformation Capability Framework developed by Warner and Wager (2019) offers a comprehensive approach for organizations aiming to succeed in their digital transformation journeys. By systematically developing strategic, technological, and customer-centric capabilities, companies can manage challenges of digital transformation and achieve sustainable competitive advantage. Reconfiguring value creation and capture mechanisms, such as through platform-based models or digital ecosystems, is shown to have a strong positive correlation with firm financial performance and market share (Adner et al., 2019; Zeng et al., 2022). Implementation of modern technology such as blockchain and AI has enabled firms to unlock new products and process innovations, leading to improved operational efficiency and revenue growth (Park & Lee, 2023) in line with BOS.

Recent global disruptions have spotlighted the need for strategic agility and innovation as tools for resilience (Teece et al., 2023; Smith & O'Neill, 2025).

Strategic Innovation and Competitive Advantage

Empirical studies have demonstrated that firms that engage in strategic innovation can achieve superior results in respect of profitability, market share and shareholder value. Billi and Bernardo (2025) aimed to explore how the combined impact of IT innovation, digital transformation and sustainability strategies shapes the overall performance of firms, particularly in terms of competitiveness and long-term growth. Using an empirical quantitative approach, they gathered data from a broad sample of European firms and employed regression analysis to examine the combined and individual effects of digital transformation initiatives and sustainability orientations.

Billi and Bernardo (2025) study found that firms that simultaneously adopt digital and sustainability strategies experience superior operational and financial performance compared to those that focus solely on digital transformation. Additionally, IT innovation acted as a mediating factor, strengthening the association between digital initiatives and sustainability-driven performance gains. Despite these insights, the study's cross-sectional design presented a gap, as it could not capture the dynamic evolution of digital and sustainability strategies over time. Therefore, the need for future research to adopt longitudinal designs and sector-specific analyses to better understand causal directions and industry variations.

Investment in research and development (R&D), efficiency in startups, talent development, and technology infrastructure are critical enablers of strategic innovation (Zahra & Pearce, 1989; Ferreira et al.,2025). Partnerships with customers, suppliers, research institutions, and even competitors can enhance the firm's innovation capacity (Chesbrough, 2003). The advancement of AI, big data and Internet of Things is reshaping the innovation landscape, offering unprecedented opportunities for creating competitive advantage. The integration of sustainability and digital technologies underpins many strategic innovations, enabling rapid adaptation and personalized value creation (Hernandez et al., 2023; Niguse et al., 2025).

Competitive Advantage and Firm Performance

Zhang et al. (2022) explored how firms adopt technology such as advanced analytics and AI to gain a competitive advantage. They used a mixed-methods strategy to examine how advanced analytics and AI impact firm performance. The researchers gathered data from a large sample of firms across various industries operating in the US. Statistical techniques such as regression analysis were used to assess the impact of analytics and artificial intelligence adoption on essential performance metrics such as increase in revenue, market share, and overall profitability. Zhang et al. (2022) conclude that the strategic use of advanced analytics and artificial intelligence is a significant differentiator for firms operating in fast-changing environments, enabling them to achieve superior business outcomes.

García et al. (2025) conducted a cross-industry meta-analysis and demonstrated including

intangible assets like implicit knowledge, brand equity, and digital competencies have a more pronounced impact on performance than traditional tangible assets. Their findings underscore the importance of combining resource orchestration with strategic renewal to maintain competitive advantage. Singh and Ahmad (2024) find that organizations that invest in cross-functional teams, rapid experimentation, and iterative product development are better positioned to anticipate market shifts and respond to disruptions, thus sustaining their competitive edge.

Recent empirical studies highlight how partnerships, alliances, and co-creation with customers, suppliers, and even competitors can produce synergies that are difficult for rivals to imitate (Nguyen & Stewart, 2022). Stakeholder-centric approaches are linked with greater legitimacy and trust, while framing and enhancing strategic innovation as a vital driver of competitive advantage (Camuffo, 2022; Mathipa, 2025). Industries with rapid technological change or low entry barriers make it difficult to sustain advantages long enough to impact performance positively (Wiggins & Ruefli, 2005).

Strategic Innovation, Competitive Advantage and Firm Performance

Cen and Lin (2025) investigated the relationship between digital innovation and corporate performance of SMEs seeking to understand how digital technologies drive innovation capacity and performance improvements. The research utilized a quantitative approach by collecting data through survey from SMEs across various industries in China, analyzing the data through structural equation modeling (SEM) to identify causal relationships between digital transformation practices and innovation outcomes. The findings revealed that digital transformation significantly enhances both product and process innovation by fostering data-driven decision-making, improving collaboration, and enabling the integration of new technologies into business operations. However, Cen and Lin (2025) acknowledged gaps related to the contextual limitations of their sample, noting that the study was confined to a single national context, thus limiting generalizability.

Kobusingye, Xiao, and Ntizoyimana (2025) explored how digital transformation influences the growth of the SMEs in East Africa by examining the mediating roles of innovation and market expansion capabilities. Utilizing a mixed-methods approach, the study combined survey data from SMEs in Kenya, Uganda, Rwanda, and Tanzania with in-depth interviews to capture both quantitative relationships and contextual nuances. Results demonstrated that digital transformation positively impacts innovation capacity, which in turn enhances firms' ability to expand into new markets and achieve sustainable growth. Integrating digital technologies with everyday life has resulted in efficiencies and business opportunities (Ndemo & Mkalama, 2023).

Kobusingye et al. (2025) highlighted that digital adoption enables SMEs to overcome geographical and infrastructural constraints by improving connectivity, operational efficiency, and customer engagement. Nonetheless, the study identified significant gaps in resource accessibility, digital literacy, and policy support that hinder the full realization of digital transformation benefits in developing economies. Future studies were recommended to explore policy frameworks, funding mechanisms, and digital ecosystem

development to support SME digital innovation in emerging markets.

Smith et al. (2025) demonstrated that the impact of innovative initiatives on firm success was largely channeled through the creation of unique capabilities that rivals could not easily replicate. Zhang and Wu (2024) further argue that the mediating role of competitive advantage becomes even more pronounced in turbulent environments, such as those characterized by rapid technological change or shifting consumer preferences. In their study of high-tech firms, they observed that only those organizations that translated innovation into sustained competitive advantages experienced long-term performance improvements.

Summary of Empirical Literature Review and Research Gaps

Prior research has produced inconsistent results on the impact of strategic innovation on a company's performance. Most studies have focused primarily on developed and emerging economies in Europe, United States and Asia, resulting in limited contextual coverage. Furthermore, the studies have not examined the competitive advantage as a mediator when studying the relationship between strategic innovation and firm performance. By closing these gaps, a thorough insight into the impact of strategic innovation on a company's performance is gained. The synopsis of the study is postulated on the table below. It identifies the researcher, outlines the study's focus, describes the methodology, highlights the key findings, points out gaps in existing research, and explains how the current study addresses those gaps

Table 1: Summary of Empirical Literature Review and Research Gaps

Researcher	Focus/title of the study	Methodology	Major findings	Research gaps	How the current study fills the research gap
Li and Chen (2022)	The influence of strategic innovation on revenue increase and achieving market leadership.	Positivist approach, cross sectional survey, multiple regression analysis.	Firms engaging in strategic innovation reported higher revenue growth and market leadership.	Contextual gap: Their research concentrated on manufacturing firms in China. This results in a limitation regarding the generalizability of the findings.	This study analyses the available literature covering various geographical locations for generalization purposes closing the contextual gap.
Brownie et al. (2024)	The impact of open innovation strategies on technology firms.	Positivist approach, spline regression multivariate analysis.	Firms that leverage on external knowledge, sharing risks, and adapting swiftly achieve superior innovation output and financial performance.	Conceptual gap: The study did not examine the effects of competitive advantage on the relationship between open innovation strategies and firm performance.	This study examines the existing literature regarding how competitive advantage mediates the relationship between strategic innovation and firm performance thus closing the contextual gap.
Osei et al. (2022)	Impact of innovative strategies on performance in Sub-	Positivist approach, multivariate analysis.	SMEs in Sub-Saharan Africa that adopted innovative strategies experienced notably	Methodological gap: The research used quantitative data, which, while allowing for	This study aims to close the methodological gaps by analysing literature that covers

	Saharan African SMEs		higher performance improvements compared to their counterparts in more developed economies.	statistical analysis, do not fully explore the contextual and processual aspects of innovation in SMEs.	both quantitative and qualitative data.
Zhang and Wu (2024)	The mediating role of competitive advantage in turbulent environment.	Positivist approach, regression analysis.	In volatile and unpredictable markets, competitive advantage acts as a crucial connector influencing the relationship between organizational capabilities and firm performance.	Empirical gap: There is a lack of consensus on how to operationalize competitive advantage in empirical studies.	This study reviews literature showing several measures of competitive advantage closing this empirical gap
Nguyen and Stewart (2022)	The power of partnerships, alliances, and co-creation in modern business	Positivist approach, spline regression multivariate analysis.	Partnerships, alliances, and co-creation with customers, suppliers can produce synergies that are difficult for rivals to imitate.	Practical knowledge gap: There is a lack of consensus on measurement of co-created value.	This study reviews literature showing measurement of value closing this practical knowledge gap.

Study Methodology

This study adopted a critical literature review methodology to conceptually examine the relationship between strategic innovation and company's performance, while incorporating competitive advantage as a mediator. Drawing on extensive empirical, conceptual, and theoretical sources including Cen and Lin (2025), Billi and Bernardo (2025), Vărzaru and Bocean (2024), Kobusingye et al. (2025), and foundational works such as Barney (1991), Porter (1985), and Teece et al. (1997), the study explored how creativity and ideation, market insights, vision, and strategy collectively shape strategic innovation and influence firm outcomes. The review emphasized that firms fostering a culture of creativity and experimentation tend to be more innovative and successful. It also highlighted the importance of aligning innovation vision and strategy with overall business goals to ensure adequate resource allocation and sustained competitive advantage.

The methodology involved a comprehensive and critical assessment of both empirical and conceptual studies published between 2019 and 2025, complemented by seminal theoretical works (Webster and Watson, 2002). Inclusion criteria focused on studies addressing the intersection of strategic innovation, competitive advantage, and firm performance across different industries and regions. Sources were identified from peer-reviewed journals, with additional materials included through backward and forward citation tracing to ensure conceptual completeness (Grant & Booth, 2009). Each study was coded for its research design, methodological rigor, key constructs, and findings. The approach ensured that both convergent and divergent empirical evidence-particularly those showing inconsistent relationships between strategic innovation and firm performance were systematically compared and evaluated.

Analytically, the review applied thematic synthesis and critical evaluation to integrate findings under three major themes: (1) components of strategic innovation to include creativity, ideation, market insight, vision, and strategy (2) the direct link between strategic innovation and firm performance, and (3) the mediating role of competitive advantage. The review revealed contradictory empirical outcomes. While most studies supported a positive relationship, some reported insignificant results particularly in highly regulated or mature industries.

The analysis adopted a critical stance to identify contextual moderators such as industry dynamics, organizational culture, digital maturity, and market turbulence that influence the strength of these relationships. This methodological approach provided a conceptually integrative framework linking strategic innovation, competitive advantage, and firm performance. While the critical review highlighted the dominance of positive associations in existing literature, it also underscored the need for future empirical research employing longitudinal and multi-contextual designs to unpack the complex dynamics between strategic innovation, competitive advantage, and firm performance across varying industries and market conditions.

The study also used structured review frameworks such as SALSA (Search, Appraisal, Synthesis, and Analysis) and Torraco's integrative literature review model (Toracco, 2016). The SALSA framework guided the systematic identification of relevant literature through transparent search strategies, rigorous appraisal of study quality, and structured synthesis of findings across diverse

contexts. This approach enhanced methodological transparency and replicability while reducing selection bias in the review process. In parallel, Torraco's model supported the development of a conceptually integrative perspective by enabling the comparison, critique, and reconceptualization of existing theories on strategic innovation and firm performance. The integrative logic of Torraco's framework facilitated the identification of gaps, inconsistencies, and emerging patterns within the literature, specifically how the competitive advantage serves as a mediator. Notably, the application of SALSA and Torraco's models reinforced the analytical rigor of the study and strengthened its contribution to theory building and future empirical research.

Synthesis of the Key Study Variables

Drawing on the existing theoretical and empirical literature, efforts have been made to analyse the association between strategic innovation, competitive advantage and firm performance. Dynamic Capabilities Theory, Resource-Based View Theory and Blue Ocean Strategy are supported by various empirical researchers who identify a positive correlation between strategic innovation and firm performance. Consequently, the study extends existing theoretical models by emphasizing the reciprocal and evolving relationship between innovation and competitiveness.

Collectively, these empirical findings substantiate that strategic innovation as a critical enabler of competitive advantage, thus grounding the conceptual arguments of this study in robust, real-world evidence. The conceptual model shows linkages between strategic innovation, competitive advantage, and organizational performance. The independent variable is strategic innovation, the study mediating variable is competitive advantage while the firm performance is dependent variable. The conceptual framework showing the link between independent, mediating, and dependent variables is shown in Figure 1 below:

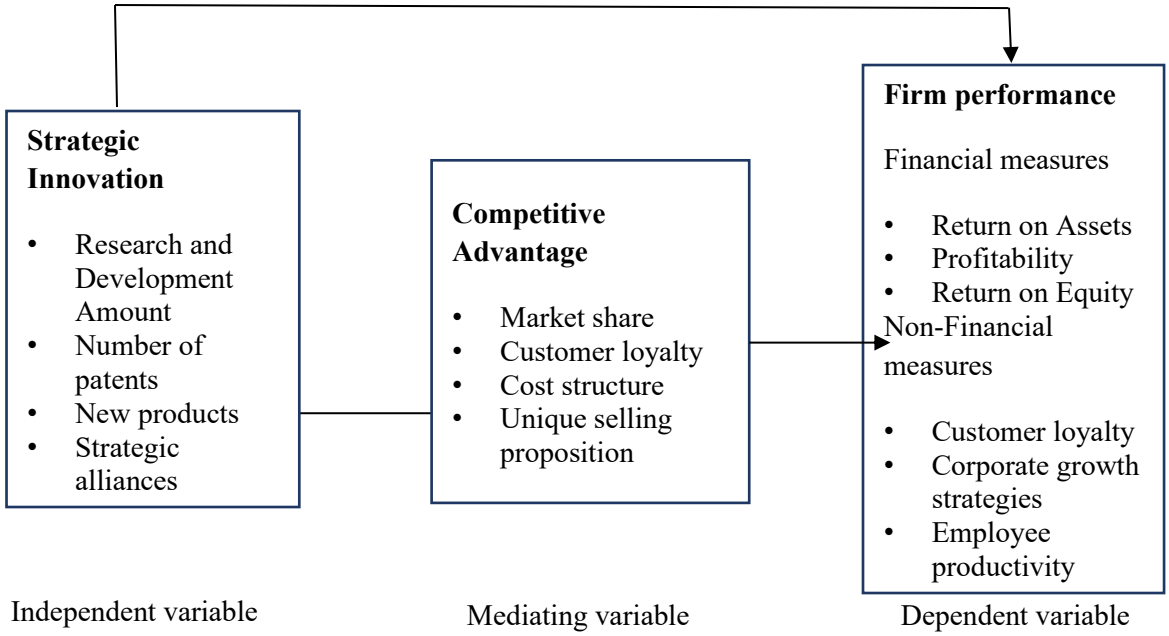

Fig 1 Conceptual Model

Emerging Propositions

Strategic innovation and firm performance continue to gain interest among researchers although this area of research has produced mixed findings. Most of the studies have found positive association between strategic innovation and company's performance in line with the Blue Ocean Strategy and Dynamic Capabilities Theory (Li & Chen ,2022; Müller et al., 2024; Brownie et al.,2024).

Recent studies look at how implementation of new technologies like blockchain, AI and Internet of Things have enabled firms to unlock new products and process innovations, leading to improved operational efficiency and revenue growth (Park & Lee, 2023). To strengthen empirical grounding, several studies provide concrete evidence linking strategic innovation to competitive advantage and improved firm performance across diverse contexts. For example, Cen and Lin (2025) found that digital transformation-driven innovation significantly enhanced product development and process efficiency among Chinese SMEs, leading to measurable gains in market competitiveness. Similarly, Billi and Bernardo (2025) empirically demonstrated that firms integrating digital innovation and sustainability strategies achieved superior financial and operational performance, confirming that innovation can be a direct source of competitive differentiation. Thus, the first proposition from this study is that: *Strategic innovation relating to adoption of emerging technologies could be positively associated with firm performance.*

Some studies however show negative association between strategic innovation and firm performance. Tushman and O'Reilly (1996) and Christensen (1997) suggest that strategic innovation is most successful in dynamic or disrupted markets. In stable or highly regulated industries, innovative strategies may fail to gain traction or even backfire. Thus, the second proposition from this study is that: *Strategic innovation could be negatively associated with firm performance in highly regulated industries.*

Recent studies highlight how partnerships, alliances, and co-creation with customers, suppliers, and even competitors can produce synergies that are difficult for rivals to imitate (Nguyen & Stewart, 2022). Strategic alliances enable access to complementary resources and capabilities, accelerating innovation and market entry (Allen & Saito, 2023). Rapid technology adoption, coupled with strategic alignment of information technology investments with business goals, is widely regarded as a prerequisite for competitive superiority (Miller et al., 2024). Chen et al. (2023) found that strategic innovation significantly strengthened competitive edge, resulting in better financial results and increased market success.

In East African context, Kobusingye et al. (2025) reported that SMEs leveraging digital and market innovation capabilities expanded into new markets more effectively, achieving sustainable growth. Moreover, Vărzaru and Bocean (2024) established that firms adopting advanced digital technologies saw increased turnover from innovation activities. Collectively, these empirical findings substantiate that strategic innovation whether technological, organizational, or market-based serves as a critical enabler of competitive advantage, thus grounding the conceptual arguments of this study in robust, real-

world evidence. Thus, the third proposition from this study is that: *The relationship between strategic innovation and firm performance is mediated by competitive advantage.*

Limitations of the Study

Despite offering valuable conceptual insights, this study is limited by its dependence on information drawn from existing literature and secondary data sources. As a critical literature review, it synthesizes findings from existing empirical and theoretical works but does not collect or analyze primary data. Consequently, the conclusions drawn depend heavily on the quality, scope, and methodological rigor of the reviewed studies. Variations in research designs, sample characteristics, and contextual focus across these sources may introduce inconsistencies and potential biases. This limitation constrains the study's ability to make definitive causal claims on the association between strategic innovation, competitive advantage, and company's performance.

Another limitation lies in the contextual diversity and generalizability of the reviewed studies. Much of the referenced empirical research is performed in specific regions such as Asia, Europe, and parts of Africa or within certain industries, including manufacturing, technology, and services. As a result, findings may not fully capture the dynamics of strategic innovation in other contexts, particularly in under-researched regions or emerging markets with distinct institutional and cultural environments. Additionally, differences in firm size, resource availability, and market maturity can influence how strategic innovation translates into performance outcomes, limiting the universal applicability of the conclusions.

Finally, the study is limited by its conceptual focus and absence of longitudinal or quantitative validation. While the review effectively identifies patterns and theoretical linkages, it does not empirically test these relationships over time or across varying market conditions. The mediating role of competitive advantage, though well-theorized, remains conceptually inferred rather than statistically confirmed. Future studies should therefore employ cross-sectional and longitudinal designs, cross-industry data, and mixed-method approaches to validate and provide a more comprehensive insight into how strategic innovation drives competitive advantage and firm performance. Addressing these limitations will strengthen empirical reliability and increase the practical significance of future research in this field.

Conclusion

This study reviewed the theoretical and empirical literature on the association between strategic innovation, competitive advantage and firm performance. Literature robustly supports the assertion that strategic innovation is positively correlated with firm performance across financial, market, and operational metrics. Research reaffirms the foundational importance of competitive advantage in driving firm performance while highlighting digital transformation, sustainability, knowledge management, and human capital as critical, contemporary sources. Empirical findings underscore the need for a holistic approach, integrating resources, capabilities, and stakeholder engagement. As competitive

landscapes evolve, firms that proactively adapt and innovate are best positioned to achieve superior and sustainable performance.

Research suggests that the connection between strategic innovation and firm performance is mediated by competitive advantage and that the relationship is contingent upon a variety of external and internal influences, including leadership, organizational culture, and environmental context. As digitalization, sustainability, and geopolitical uncertainty reshape the corporate landscape, ongoing research continues to refine our understanding of how firms can strategically innovate for enduring success. The emergence of platform-driven business models and digital ecosystems requires firms to innovate not just within organizational boundaries but also across networks and alliances.

The conceptual study concludes that theoretical and empirical literature supports existing theories and provides insights as to the merits and demerits of strategic innovation. Strategic innovation is undeniably central to the discourse on firm performance and competitive advantage. By transcending incremental adaptation and embracing radical change, firms can reshape their strategic trajectory and outperform their rivals. Further research is recommended on the complex dynamics between strategic innovation and performance across different industries and market conditions.

The reviewed literature demonstrates that strategic innovation is not uniformly beneficial; rather, its effectiveness depends on the firm's strategic alignment, leadership orientation, and absorptive capacity. For instance, while firms with agile structures and strong innovative cultures tend to convert innovation initiatives into measurable performance gains, those in highly regulated or resource-constrained environments often fail to achieve similar results. This suggests that strategic innovation functions as a contingent, context-dependent mechanism and its success shaped by how well firms integrate creativity, market insight, and strategic intent with their resource base and competitive positioning. Therefore, companies need to build dynamic capabilities that allow them to consistently detect changes in the market, capitalize on new opportunities, and adapt their resources accordingly to sustain their competitive edge.

Moreover, a critical interpretation of the evidence indicates that competitive advantage operates as both a mediator and an outcome within the innovation–performance nexus. While prior studies often treat it as a static intermediary, this review highlights that competitive advantage evolves through iterative learning and strategic renewal. Firms that view innovation through a systemic, ecosystem-based lens where partnerships, digital platforms, and stakeholder networks co-create value are better positioned to sustain long-term performance advantages. Consequently, the study extends existing theoretical models by emphasizing the reciprocal and evolving relationship between innovation and competitiveness, rather than a linear cause-effect pathway. This deeper synthesis enriches understanding of strategic innovation as a dynamic, adaptive process that continuously reshapes firm trajectories and market positions.

Ethical Approval

Ethical approval was not required for this study as it relied exclusively on published and secondary data

sources and did not involve human subjects or identifiable personal data

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Conflicts of Interest

There are no conflicts of interest in the research.

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