

# Innovation Capability and Strategic Agility

Subjects: Management

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## Strategic Agility and Innovation Capability

### 1. Definition

Due to the nature of business environments as volatile and unforecastable, organizations are required to have appropriate capabilities such as strategic agility and innovation capability [1-4]. Strategic agility encompasses organization ability to sense and adapt to changes in the work environment and add value to its customer in combination of leadership support. On the other hand, innovation capability as the ability to produce novel products based on novel processes [5] is very critical for organizations. Despite the results on the effect of strategic agility on innovation capability [6-10], there is a little knowledge on the effect of former construct on the later one in the Middle East business environment, particularly in Jordan. Therefore, this study aimed at investigating the impact of strategic agility on innovation capability.

Keywords: strategic agility ; innovation capability ; organizational performance ; corporations

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### 2. Theoretical Background and Research Hypothesis

**Strategic Agility.** Strategic agility refers to a set of activities implemented by organizations to add value in volatile and unforecastable business environments [11]. According to Sampath and Krishnamoorthy (2017), strategic agility as a meta-capability is related to the assignment of appropriate resources to improve distinctive competencies among the organization functions in line with maintaining agility to ensure a balance of competencies over time [1]. Doz (2020) emphasized that strategic agility helps organizations to avoid “rigidity traps” and over-focusing on external embeddedness by moving to prohibit organizational recession and orienting toward more operational flexibility [2–4]. Doz and Kosonen (2010) viewed strategic agility as a vital capability adopted by organizations to formulate and modify their business model to become more interactive [12]. The authors argue that there are three exceptional capabilities of strategic agility: (a) strategic sensitivity, (b) resource fluidity, and (c) leadership unity. Strategic sensitivity plays a fundamental role in increasing the ability to recognize the surrounding environment and sense its changes, whether opportunities that organizations can exploit or threats that organizations should avoid through planning and future prediction activities and the development of alternatives to face possible scenarios [3,13]. Resource fluidity is related to organizational capabilities to reshape and acquire a set of new resources and capabilities that help organizations to add value for customers and shift towards contemporary business models [12]. Resource fluidity has an effect on the short-term capabilities of organizations, as represented by operational capabilities, and has a long-term and strategic effect on the organizational and structural capabilities of organizations [14]. Leadership unity refers to “one of the administrative response features of the business environment dynamics” [15]. It represents leaders’ support for policies, cooperation and collective commitment, in addition to stimulating decision-taking processes more quickly, where time plays an important role in such a rapidly changing environment [16–18].

**Innovation Capability.** Most of the countries around the world and organizations that seek excellence and leadership in their industrial sector allocate huge budgets for innovation that are mainly based on research and development processes because of their impact on accelerating the pace of growth and prosperity [19,20]. However, innovation is related to the availability of a set of innovative capabilities and the desire of individuals or organizations to translate creative theoretical ideas into practice [21]. Ferreira et al. (2020) labeled innovation capabilities as complex activities that contribute to the

generation and acceptance of new ideas to give rise to a set of products, services, or business models [22]. Ganguly et al. (2020) defined innovation capabilities as the ability to compose and manage resources to produce a range of novel products and services [5]. Lumpkin and Dess (2015) described such capabilities as a part of “the cultural openness to innovation” that organizations adapt by relying on mobilizing energies and skills then directing them towards building an advanced business model or providing creative and competitive products and services, and it is an essential part of entrepreneurship [23]. Two major dimensions are used to measure innovation capability: (a) product innovation capability, and (b) process innovation capability [24–26]. Product innovation capability refers to the extent to which organizations can develop their tangible and intangible resources [27]. Product innovation capability allows organizations to provide new offers that include a set of creative products and services or that have been developed to meet customer desires [5,28]. The second dimension, process innovation capability, refers to the ability to change the methods and techniques used by organizations to present these offers [28]. This dimension reflects organizations’ ability to develop new inputs or processes within their production or organizational activities, including information flow, resources, specifications, and tasks, which are employed together to provide the best offers in terms of quality or cost [26].

**Strategic Agility and Innovation Capability.** Organizations’ activities directed to developing innovation capability can be supported by adopting working methods based on strategic agility. Farhana and Swietlicki (2020) emphasized that strategic agility by following up and evaluating changes in work environment conditions enables organizations to add value for customers through prospecting on the untapped market opportunities that contribute to satisfying the desires of customers [29,6]. Kohtamäki et al. (2020) conceptualized strategic agility in innovation through three major practices related to the generation of proactive ideas, value-based product development, as well as product commercialization based on a market-oriented strategy [7]. For Olaleye et al. (2021), innovation capability as evaluated by product and process innovation is positively related to strategic agility, where the latter significantly mediates the relationship between innovation capability and organizational resilience [8]. Cai et al. (2019) argued that innovation capability requires a sufficient flexibility in organization’s resources that can be allocated or reallocated to support initiatives directed to develop new offers [9]. On the other hand, Brand et al. (2021) indicated that strategic agility supports organizations’ ability to create innovative business models through organizational restructuring, improving teamwork styles and reducing the impact of the organization’s internal policy problems and organizational conflicts [10]. Hence, it was hypothesized that strategic agility has a positive influence on innovation capability.

### **3. Research Methodology**

Senior managers working in corporations listed on the ASE represent the current research population. The sample encompassed 370 senior managers. Data were collected using an electronic self-reported questionnaire designed through Google Forms. It was sent by e-mail to a purposive sample. The number of questionnaires answered reached 249 questionnaires and 224 questionnaires were valid for statistical analysis with a response rate of 60.54%. The results showed that most of the senior managers were males (63.39%) compared to females (36.61%) and most of them (43.75%) had job experience from 15 to 20 years. Regarding education level, most of the senior managers were holders of a postgraduate degree (48.21%), and most of them belonged to the age group from 30 to 40 years (41.07%) compared to the lowest age group of less than 30 years (15.62%).

Using a five-point Likert scale (1 = strongly disagree; 5 = strongly agree), strategic agility was measured by 15 items in accordance with [14,12,2] distributed equally on three dimensions: strategic sensitivity, resource fluidity, and leadership unity. Innovation capability was measured through 11 items in accordance with [22,26]. It was divided into two dimensions: product innovation and process innovation. Data were analyzed using IBM SPSS 24.0 and covariance-based structural equation modeling (CB-SEM) by IBM AMOS 24.0 software.

### **4. Research Findings and Discussion**

Meeting thresholds of factor loadings, the average variance extracted, and McDonald’s omega coefficients, the results assured reliability, validity, and goodness-of-fit of both measurement and structural models [30,31,32,33,34,35,37]. Moreover, the problem of common method bias was also mitigated [19]. Descriptively, it was found that the grand level of strategic agility was moderate while the grand level of innovation capability was high. Both strategic agility and innovation capability were significantly associated. In fact, the level of innovation capability was high due corporations’ awareness of

the critical importance of providing unique products and services to their customers and the adoption of contemporary management approaches that assist in research and development processes to keep pace with customers' desires. These corporations seek to adapt to change in the work environment through the acquisition of organizational resources that are flexible enough and by sensing opportunities and threats in the work environment in a proactive way in order to develop appropriate scenarios for these changes. Inferentially, the research hypothesis was supported. That is, there was a significant influence of strategic agility on innovation capability. This result suggests that the ultimate aim of innovation capability can be achieved through strategic agility, which allows organizations to be aware of their market changes and customer needs. Hence, strategic agility is viewed as a prerequisite of innovation capability [37]. The specific contribution of strategic agility to innovation capability can be explained through the exceptional capabilities of strategic agility, which include recognizing the external environment (strategic sensitivity), acquiring new resources or reshaping current resources (resource fluidity), and total commitment to face external challenges (leadership unity) [12,1–3].

## 6. Contributions to the Literature

The study signifies that strategic agility is a main prerequisite of innovation capability. The most important implicit feature of strategic agility is the ability to integrate resources, which is crucial to encourage innovation. Innovation here refers to transforming ideas into new processes or products. The ability to innovate is itself a dynamic ability that means harnessing new knowledge to respond to change in the organizational environment by focusing on existing resources and processes. The role of strategic agility is to determine the nature of the environmental change and the form of the optimal response. The problem that firms face in this regard is that they are able to respond to the change in the environment, but the response they offer is inappropriate. Here, the importance of strategic agility appears as it determines market needs that have not yet been met. Both strategic agility and innovation capability are complementary features of ambidextrous firms. Second, it is well established that strategic agility suits various environmental changes. One type of change requires enhancing the capabilities of an organization by providing other dynamic capabilities such as the ability to innovate, while other types mean making minor adjustments to the products in order to meet the demands of the moment in the market. In both cases, strategic agility plays an important role.

## 7. Managerial Implications

The piece of information that managers miss is how innovation capability can be developed. The current study shows that innovation is continuous because the environment in which organizations operate is constantly changing. The most important characteristic of innovation capability is the flexibility to adapt to change. On the other hand, the response to environmental changes depends on the nature of the change itself. Some changes require an organization to make improvements to existing products and some require the introduction of new products with completely different characteristics. The organization in the second case must be more capable of innovating. Accordingly, managers must take the nature of changes and market opportunities into consideration. The nature of these changes and opportunities determines the nature of the response. Continuous improvement of the product itself is a form of response, and changing the whole characteristics of the product is another form of response. Sometimes, an organization has strategic agility and the ability to innovate, but it fails to improve its organizational performance due to its inability to determine the appropriate response.

## 8. Limitations and Future Directions

Two limitations should be considered in future studies. First, there is a need to expand the study of strategic agility in order to define theoretical frameworks and discover the practical implications of organizations adopting this strategy in the volatile business market. Second, this research was implemented in Jordan, which is a developing country; hence, future studies should go towards conducting such research in emerging and developed countries in order to discover the perspective of strategic agility. Last but not least, future studies should try to identify the impact of strategic agility on managerial and economic variables such as entrepreneurial orientation, and sustainable competitive advantage, in order to present a set of proposals that lead to organizational development.

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