

## Delineating The Relationship Between Innovation Strategy And Strategic Planning on Small Firm

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### ABSTRACTS

The aim of this paper is to establish and delineate a relationship between innovation strategy and strategic planning toward firm performance based on both theories resource-based view and diffusion innovation theory. Successful firms are always aware to effectively implement these strategies as a powerful resource, in order to ensure its survival among current and potential rivals. Therefore, this paper review previous studies and find a critical gap in the literature, since very few studies that investigate the two variables as a strategic resource in single research hence, this paper will fill the emerged gap and provide several implications for policymakers and related stakeholders.

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### INTRODUCTION

This new era of industrial revolution 4.0, businessmen have given more attention to innovation and creativity as the major critical success drivers for the sustainability of competitive advantages and thereby superior business growth (Chuang & Lin, 2017). Since long time ago, considerable scholars along with professionals across the globe have examined the notion of innovation as a crucial aspect and strategic input that must be care by top-management to achieve their planned goals which eventually offers for firms to be more flexible and powerful to survive at all circumstances regardless of their market conditions or the complicated environment that operated in (Love & Roper, 2015). The reasons behind this great attention that applied by those successful managers because they believed that only innovation that can allow them for growing and surviving for long-term especially within these faster business changes that never happened ever. Hence, the authors define innovation as the new path that will make an organization business operation systems and top-management strategies unique and different from rivals and hence, business advantages will be created and sustained (Jenssen & Nybakk, 2009; Janssen & Randy, 2002). A number of previous empirical studies have been focused much on innovation strategies and addressed this valuable resource as one of the key success factors for firm's survival and growth (Akman & Yilmaz, 2008; Nylén & Holmström, 2015), and drive adopting green technology to achieve sustainability (Abu Al-Rejal, Udin, Hassan, Sharif, Al- Rahmi, Al-kumaim, 2020). In contracts, innovation can be one of barriers to the implementation of supply chain (Abualrejal, Doleh, Salhieh, Udin, & Mohtar, 2017)

These studies investigated the critical links that created between corporate innovation strategy and its innovativeness as an outcome of these planned strategies and on another side, these researches questioned how/why these links appeared between innovation and business performance (Gunday, Ulusoy, Kilic, & Alpan, 2011; Hult, Hurley, & Knight, 2004). Even

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though some scholars stated that innovation strategy positively contributes to corporate performance, but still there are some studies found mixed results (Jenssen & Aasheim, 2010). Therefore, doing this research will support prior evidence concerning the role of innovation as a dynamic resource for business successfulness.

Unlike, across the globe and within all industry aspects, strategic planning and practice concepts have been embraced over time due to its huge contribution to the corporate flexibility and enabling its business process at all levels operationally and managerially to be more effective and responsive. Currently, both public and private corporations have applied strategic planning and its related practices as dynamic input resource to explore and exploit its surrounding opportunities for ensuring their business performance. Strategically, the planned strategies that applied by top-management is intended to present clear understanding about missions, visions of the firm and assess its competitive landscape along with exploring what kind of resources, how we can acquire it and when we can apply it.

Then, through applying such successful innovation strategies in the appropriate time and by deploying valuable resources, firms are able to avoid any unanticipated risks that might emerge within its business scope (O'Regan & Ghobadian, 2002). To conclude, strategic planning is as a process that usually made by leaders of the organization concerning what kind of strategy that must be planned and applied as well along with the direction of these strategies and hence taking suitable decision-making in order to mobilize available resources to suit customer and market's needs (Steiner, 2010).

Within small and medium organizations, literature provides significant studies that investigate the influence of such effective strategic planning among United States small businesses on business performance. These studies showed that the growth and the survival power is high and within long-term due to the plentiful of tangible- intangible resources and as we can see this from the statistics of SMEs fast growth and diffusion across USA states (Andersen, 2000; Dincer, Tatoglu, & Glaister, 2006). While other studies claimed that strategic planning is one of the main concern of top- management in developing countries that affects business growth and firm performance due to several reasons such as inappropriate planned strategies, poor management visions due to of poor knowledge of leaders, lack of resources and unable to control business changes and customer needs because in need to mobilize considerable resources and acquiring more critical capabilities.

In another side, a majority of studies that conducted in the middle east, for example, was done among large factories and failed to address the issue of small businesses strategic planning (Aldehayyat & Twaissi, 2011; Elbanna, 2008), and poor strategic planning to develop health system still exist (Al-Fadhli, Othman, Al-Rejal, Al- Jamrh, 2018) remains underdeveloped. However, other study stated that strategic planning can motivate diversity in vision (Abualrejal, Doleh, & Mohtar, 2017) and spanning capability toward performance (Al-Rejal, Udin, & Yusoff, 2018). Additionally, attention to study strategic planning among small businesses in South East Asian factories was overlooked among strategic management scholars (DeSarbo, Anthony Di Benedetto, & Sinha, 2005) or specifically, in Malaysia (Othman, Zakaria, & Fernando, 2009), then the need to investigate this deeply and complicated issue is very crucial to overcoming this issue to be well-known for all stakeholders either executives or researchers. More importantly, within the Malaysian context, very few studies if any (Othman et al., 2009) have been conducted to examine the issue of strategic planning on corporate performance. Yet so far no published study has covered small businesses. Thus, this study will cover this significant practical and contextual gaps that emerged in the literature and intending to offer great evidence concerning the scary issue that recognized across the globe among top-management leaders.

Specifically, prior studies have overlooked to focus on the effect of individual steps (leader) that usually undertaken in the process of deploying effective strategic planning within firms that applied centralized decision-making. These individual effects might

influence corporate goals in long-term operations. Consequently, this work will complete the overall image of decision making concerning strategic planning among small business and within the whole top-management leaders. To achieve the objective of this research, the author questions whether or not strategic planning and innovation strategy will impact the corporate performance and to what extent these factors will support the business growth of small businesses.

## **LITERATURE REVIEW**

### **The Relationship between Strategic Planning and Firm Performance**

Strategic planning and business performance relationship received little attention among strategic management scholars which a study by (Morgan, Whitler, Feng, & Chari, 2019) showed that there is a positive relationship between the two constructs. However, debating this issue among strategic scholars is still up to date a concerning topic following by the mixed results found in such empirical studies. Scholar such as (UL-Ain, Giovanni, & DeLone, 2019) proposed twelve items for measuring strategic planning and its effect on corporate performance. The study found that strategic planning is quite important for business performance and enabling top-management to detect any unexpected threats and sense for any emerging opportunities. However, authors (Tallon, Queiroz, Coltman, & Sharma, 2018) didn't find any relation between firm performance and strategic planning. Another study by Ali, (2016) provides a critical argument which stated that prior investigations concerning the value of strategic planning are quite poor especially for small businesses due to the fact that such planning is almost absent in the majority of these small factories. Thus, this research intends to examine these both critical factors such as strategic planning and innovation strategies on business performance among small firms.

Bailey, Madden, Alfes, and Fletcher, (2017) conducted a meta-analysis which they reviewed twenty-six published papers and they found there is a positive relationship between strategic planning and small businesses performance. Also, a study by Cardinal, Miller, Kreutzer, and Ten Brink (2015) provides significant evidence supporting the relationship between strategic planning and corporate performance.

In addition, researchers Kraus, Harms, and Schwarz (2006) confirmed that strategic planning implementation among small firms in Australia has a positive relationship with its performance. In another side, the author Falshaw, Glaister, and Tatoglu (2006) examined the effect of a formal strategic planning process among UK firms performance, then the study didn't find any relationship between the two constructs. In contrast, scholars such as (Dincer et al., 2006) and Glaister, Dincer, Tatoglu, Demirbag, and Zaim (2008) however, found a significant positive relationship between Turkish manufacturing firms performance and formal planning process that implemented by top-management. Whereas Elbanna (2008) pointed out that there is a positive relationship between strategic planning practices among Egyptian private firms on strategic planning effectiveness.

To note, a majority of previous studies and its contradiction findings have measured strategic planning as a single dimension which is (formalization) (Bisbe & Malagueño, 2012; Hoang & Rothaermel, 2010; Kraus et al., 2006;). Additionally, the reasons behind the need for implementing effective strategic planning because of lead to enhance business performance and growth of the corporation such as increase sales growth, a return on sales, and improving market share as stated by several empirical previous investigations (Bisbe & Malagueño, 2012; Droge, Jayaram, & Vickery, 2004; Koufteros, Vonderembse, & Jayaram, 2005). This present research will assess strategic planning as a multidimensional approach in order to cover the whole aspect of strategic planning made by any organization for achieving its main planned goal which is the survival and growth within small firms.

## The Relationship between Innovation Strategy and Firm Performance

Strategic management authors have argued and asserted that evaluating the performance of any organization is quite complicated since it is characterized by the multi-dimensional concept (Glaveli, Greece, & Geormas, 2017). Bessler and Bittelmeyer (2008) conducted an empirical investigation which assessing one single dimension of the performance of the targeted firms through innovation impact.

While considerable investigations (Hassan, Shaukat, Nawaz, & Naz, 2013); Goedhuys and Veugelers (2012) (Li & Atuahene-Gima, 2001); and Camisón and Villar-López (2014) were measured innovation strategy as three main building blocks for business innovativeness such as (marketing innovation, product innovation, process) and found that it plays a critical role in increasing market share, improving return on investment along with some non-financial performance like brand reputation.

In addition, several studies stressed that there is a positive relationship between firms innovation strategy and its performance but in some cases, some studies produced different results due to several parameters that measuring corporation performance (Klomp & Van Leeuwen, 2001). The reasons behind these contradictory findings between the two constructs because scholars were applied different parameters of evaluation along with the major fact that is innovation impact usually comes after a considerable period of time regardless the size of the firms or its scope of the industry. Furthermore, Cefis and Ciccarelli (2005) pointed out that the influence of innovation not always useful since many organizations are able to duplicate the innovation processes. Hence, the performance that achieved today might be unable to be survived tomorrow due to the pressures made by other firms in the same industry and thereby innovation becomes disadvantageous rather than advantageous.

So, under this kind of circumstances, when firm's innovation strategy generates competitive advantages for a temporary time where rivals unable to understand the creation process to imitate or duplicate it, hence firms should enable its temporary advantages to become sustainable through the ambiguity of innovation process before any action taken by competitors to imitate it. More importantly, firms are required to renovate its processes and make necessary development before losses their competitive advantages (Syahchari & Sahban, 2019). To conclude, innovation is a serious input for the successfulness of firms' performance and growth and thereby exploring this issue is utmost important and useful. Some of the empirical studies such as have taken a look into the important role of innovation strategies at firm's business growth and sustainability (Fruhling & Siau, 2007; Janssen & Randy, 2006; Majchrzak, Cooper, & Neece, 2004). To achieve better performance, firms must deploy long-term innovation strategies that cover the scope of firms operation and customer needs along with respecting business changes accordingly (Majchrzak et al., 2004), and adopt innovative systems to support strategic planning (Al-Rahmi, Ramin, Alamri, Al-Rahmi, Yahaya, Abualrejal, & Al-Maatouk, 2019).

Christensen, McDonald, Altman, and Palmer (2018) said that innovation strategies that implemented must offer significant effect at several aspects such as reducing business cost, developing new products along with the power to enter any market regardless its potential pressures. In addition, the study differentiates between innovation leadership dimensions its types and sources along with innovation investment level in the corporation. Another study by Akman and Yilmaz (2008) proposed six characteristics of innovation namely: "analysis, aggressive, proactive, risk, defensive, and futurity". Whatever the variety of studies exist and with several measurement techniques and methodologies along with different scales, top- management is responsible to provide a better environment for achieving successful innovation (Crespell & Hansen, 2008). In this research, the author

defines innovation strategy as three dimensions that describe the degree to which innovation will succeed namely: a) products, b) processes, and c) marketing innovation.

To conclude, previous studies are focusing on the critical role of innovation strategy on organization performance and much more on large manufacturing and within high-tech firms, while low-tech from small firms context are receiving less attention from scholars particularly in the context of developing countries such as Malaysia, hence the need for further investigation is more crucial due to the lack of evidences that shows the extent of validity of theories that explaining the performance issue among all sectors and within different context and aspects. Therefore, this study will provide critical evidence and bridge the emerged gap in the literature and hence significantly support or debate both perspectives diffusion innovation and strategic management theories.

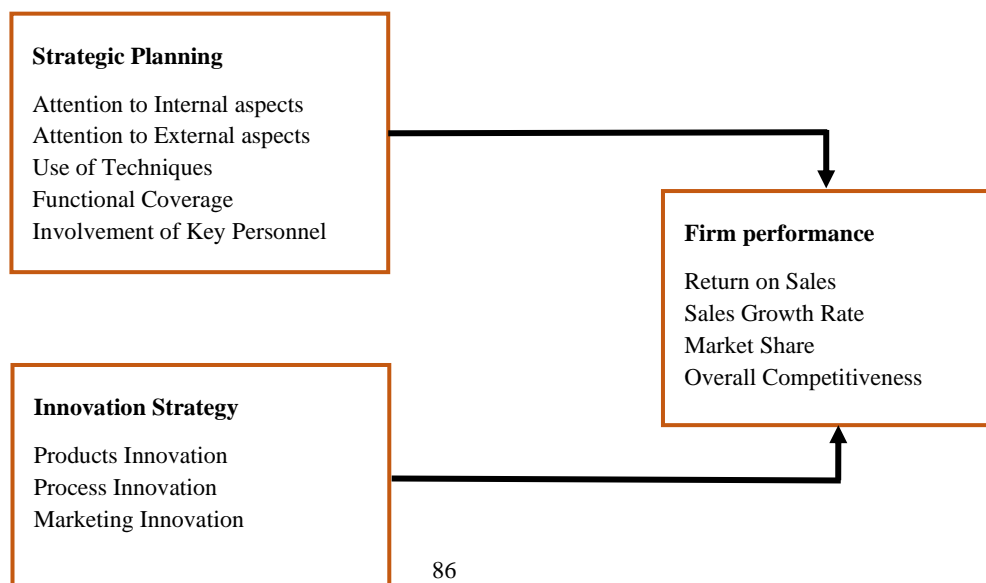
## METHODOLOGY

The This study proposes a quantitative approach and will extend to collect primary data from the respondents. The survey contains four parts namely the demographic information, strategic planning, innovation strategy, and firm performance. This research targeted those firms that under SMEs sector in the furniture industry. The analysis of the accepted surveys will allow the researcher to accurately evaluate the reliability and internal consistency of items. Whereas self-administered the surveys will support and increase the response rate of the study, along with giving more attention to the respondent will be helpfulness for better assessing the constructs.

### Research model

The proposed model of this study is based on the review of previous empirical studies mentioned above and based on the recommendations by authors Fugate, Mentzer, and Stank (2010) and Thomé, Scavarda, Fernandez, and Scavarda (2012) this paper intend to address the relationship between both construct (i.e. innovation strategy and strategic planning) on corporation performance by measuring this last not least in terms of financial and non-financial criterion within Malaysia SMEs. Therefore, in order to uncover the issue of the underperformance of such firms along with failure to survive in the market, the need to empirically test this model is very important. Figure 1 illustrated the research model.

Fig 1. The research framework of the Study



## Operationalizing and Measurements of Variables

As stated above, a variety of prior empirical investigation has had measuring firms' financial and non-financial performance. This diversity of studies has provided considerable results and multiple measures and up to date, there is no single definition or measure of firm performance due to its complicated and multidimensionality phenomenon, and which impedes scholars to accurately assess organizational performance. In order to achieve the objective of the study, this present research will care the subjectivity measures related to the rivals in the same industry where firms operated to check whether or not the firm able to perform financially well (Hansen, Dibrell, & Down, 2006).

Then, the author proposed four criteria for evaluating the financial performance of Malaysian SMEs namely: return on sales, sales growth rate, market share, and overall competitiveness. All the items measuring firm performance were adopted from previous studies (Ali, 2016). The targeted respondents will be asked to rank their firm performance position compare to its rivals in the same industry based on the ranking scale from strongly disagree to strongly agree.

For strategic planning process measurement, this research adopted five dimensions namely attention to internal aspects, Attention to external aspects, Use of techniques, Functional coverage, and Involvement of key personnel from the previous study by (Dewatmoko, Hasan, Sucherly, & Hilmiana, 2018). To measure innovation strategy, this research proposed three dimensions that represent the construct namely: product, process, and marketing innovation adopted from (Alegre & Chiva, 2008; Guan & Chen, 2010; Laursen & Salter, 2006). A seven-point Likert scale was applied to assess the items, with 1 (low prioritization) to 7 (high prioritization).

## DISCUSSION

The result of purpose model shows that there is a relationship between strategic planning and the strategy innovation with firms' performance. Previous studies found there is a positive relationship between strategic planning and small businesses performance (Bailey et al., 2017) and provides significant evidence supporting the relationship between strategic planning and corporate performance (Cardinal, et al., 2015). And, Limaj and Bernroider, (2019) stress the importance of innovation strategy that is a necessary fact for correlating the financial performance of organizations and firms. The second fact suggests that with high and advance dimensions of innovation strategy lead to higher level performance and this high performance is also associated with strategic planning. Furthermore, the effects of this result show that generally these innovation strategic measurements are linked with all slopes of small and big firms because the model show small organizations and big are firms are balanced by their recourse and innovation strategy plans help out to utilize in a positive way (Khan, Lew, & Marinova, 2019). The main conceptualization of this framework context of research is to differentiate about firms increasing productivity level using innovation strategy. Consequently, this investigation sense, we mentioned to fact-finding transformation strategy as the

energetic prepare of the small firms to discover innovative potentials to find out advance matters to success (Friedman & Carmeli, 2017). Thus, the important outcomes of this investigation concerns simultaneously efficiency of both parts of sequential model approaches have a necessary relationship between innovation strategy and performance level. Yet, these have a modern power for getting success factors and their dimensions are also associated with each other that show additional positive facts. So, these indications represent the different sequences that lead to a big level innovatively performance of firms' structure.

## CONCLUSION

This study aimed to assess the critical effects relationship between the strategic planning process and innovation strategies towards furniture firm's performance to come out with a comprehensive understanding regarding the issue of underperformance of Malaysian furniture firms based on its weak vision of top-management strategies and the lack of innovation process among its business units. This study also seeks to delineate the first relationship between strategic planning and innovation strategy on Malaysian furniture firm performance in order to generate sustainable competitive advantage and thereby supporting furniture firms to survive for long-term.

Following the existing empirical studies regardless of its different results and applied methodologies, the author hypothesized that both constructs will significantly influence furniture firm's performance. This paper discussing the important role of both constructs on firms' performance and then figuring the relationship between them. Firms can gain superior performance if they applied the suitable innovation strategies that suited to the strategic planning process.

However, this study has several implications for both policymakers and related stakeholders concerning how furniture firms in Malaysia are able to enhance its performance and reduce the competition from outside and inside rivals which in turn ensure their survivals and growth. Also, the study possesses valuable contribution to the body of knowledge in both theories resources-based view and diffusion innovation theories and thereby it addresses significant gap emerged in the literature which in turn scholars could stand on this proposed model for more investigations in both sides such as different context and other sectors which cultures and business environments conditions play important role in the variety of the study's results across the globe.

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