
INNOVATION STRATEGIES AND ORGANIZATIONAL COMPETITIVENESS

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Abstract

Organizational innovation is a crucial factor for the competitiveness and performance of a company as it enables adaptability, efficiency and long-term market success. The paper examines the role of innovation strategies in shaping the competitive position of firms, focusing on organizational innovation, structural change and strategic flexibility. A qualitative research approach was used, incorporating a systematic literature review and comparative analysis, to examine the impact of leadership, organizational culture, and external market dynamics on innovation-driven competitiveness. The results show that companies that implement well-structured organizational innovation strategies – including process optimization, management restructuring and business model redesign – achieve higher productivity, improved adaptability and a sustainable competitive advantage. However, financial constraints, resistance to change and regulatory barriers remain a major challenge. The study highlights that leadership commitment and strategic innovation are essential to achieving long-term sustainability. The study contributes to a broader discourse on how innovation management can drive organizational innovation and foster continuous improvement, strengthen competitive position and maintain resilience in an increasingly dynamic business environment.

Keywords: competitive advantage, innovation management, organizational innovation

1. INTRODUCTION

Innovation is a fundamental driver of organizational adaptability, efficiency, and long-term competitiveness in an era characterized by rapid technological advancements and evolving market dynamics. Organizations must continuously develop and implement innovation strategies to enhance their strategic positioning, operational flexibility, and responsiveness to market disruptions. Among the various forms of innovation, organizational innovation plays a crucial role in reshaping managerial processes, optimizing work structures, and fostering a culture of continuous improvement. By reconfiguring internal systems, decision-making frameworks, and interdepartmental collaboration, firms can enhance their ability to adapt to external challenges while maintaining sustained competitive advantage.

Organizational innovation extends beyond technological advancements to include new business models, leadership structures, and knowledge-sharing mechanisms that drive efficiency and productivity. According to the Oslo Manual (OECD, 2005), organizational innovation refers to the implementation of novel managerial methods, operational structures, or work processes that

significantly enhance business performance. Firms that prioritize structured organizational innovation demonstrate increased resilience, improved problem-solving capabilities, and enhanced decision-making efficiency. Furthermore, the integration of digital transformation, leadership adaptability, and organizational learning has become critical in fostering innovation-driven enterprises. Despite its significance, the implementation of organizational innovation is often hindered by financial constraints, resistance to change, and regulatory challenges. Many firms struggle to align their existing organizational structures with dynamic market demands, leading to inefficiencies and a lack of agility. Leadership commitment and a well-defined innovation strategy are essential in overcoming these barriers and fostering an innovation-oriented culture. This paper aims to examine the role of organizational innovation in shaping firms' strategic frameworks, focusing on the adoption of innovation strategies, process optimization, and business model transformation. By analyzing existing literature, industry best practices, and theoretical frameworks, this study seeks to provide insights into how organizations can effectively embed innovation and especially the organisational innovation within their operational structures.

Additionally, the research explores key determinants of organizational innovation, including leadership, digitalization, external market forces, and knowledge management, and evaluates their impact on enhancing competitive positioning. Through a systematic literature review and comparative analysis, this study contributes to the broader discourse on innovation management. By identifying key drivers and challenges associated with organizational innovation, the paper offers practical recommendations for firms seeking to enhance their adaptability, strategic flexibility, and long-term sustainability in an increasingly complex business environment.

2. METHODOLOGY

This study adopts a qualitative research approach to examine the relationship between innovation strategies and organizational competitiveness. The methodology is designed to provide a comprehensive analysis of theoretical frameworks, empirical studies, and industry case studies that illustrate the role of innovation in enhancing business performance. By integrating a systematic literature review and comparative analysis, the study ensures a structured examination of key innovation drivers and their impact on competitive positioning.

A systematic literature review serves as the primary research method, drawing from peer-reviewed academic journals, industry reports, and authoritative sources such as the Oslo Manual (OECD, 2005). This approach facilitates an in-depth exploration of innovation strategies, including original innovation, product differentiation, and market-driven innovations (Porter, 2000). The study further incorporates research on competitive advantage, organizational adaptability, and the influence of emerging technologies on innovation frameworks.

To enhance the depth of analysis, a comparative evaluation is conducted across various industries, assessing how different innovation strategies contribute to organizational resilience and sustainable market performance. The study applies theoretical models such as Porter's Competitive Strategies (2000) and the Dynamic Capabilities Framework (Teece, Pisano, & Shuen, 1997) to analyze how firms develop sustainable competitive advantages through innovation-led strategic initiatives. Given the qualitative nature of the study, the findings provide conceptual insights into the role of innovation in driving organizational success. However, future research should consider incorporating quantitative methodologies, such as statistical modeling, survey-based empirical assessments, and econometric analysis, to measure the direct impact of innovation strategies on financial and operational performance. By employing a structured approach to analyzing innovation-driven competitiveness, this methodology offers a robust framework for understanding how firms can leverage innovation to sustain market leadership and long-term strategic growth.

3. INNOVATION and COMPETITIVENESS

Innovation activities within business operations will be examined in this paper according to the definition provided by the Oslo Manual for innovation research. The Oslo Manual, published by the OECD and Eurostat under the guidance of the European Commission, is one of the most relevant frameworks for studying innovation and innovation activities. This manual provides global guidelines for innovation research and has gone through three editions to date, with this paper primarily focusing on the third edition.

Innovation, as defined in the Oslo Manual, refers to the implementation of a new or significantly improved product or process, new marketing methods, or new organizational methods in business operations, organizations, or external relationships (OECD, 2005, p. 46). The concept of innovation in the manual is defined broadly, encompassing not only product innovations but also service-related innovations and the processes involved in innovation. This definition of innovation moves beyond the traditional technological understanding of innovation, embracing any new or improved product or service.

Innovation activities, as outlined in the Oslo Manual, encompass a range of scientific, technological, organizational, financial, and commercial actions necessary to implement innovation. These activities are essential for transforming an idea into a tangible innovation and involve various processes across different domains. Some of these activities are inherently innovative in nature, while others may not be novel in themselves but are necessary for enabling innovation to take place. Research and development (R&D) activities play a fundamental role in innovation processes, although they do not always lead directly to the development of specific innovations (OECD, 2005, p. 47). Innovation activities include various initiatives that create new knowledge and improve existing products, processes or services. An important aspect of innovation is research and development (R&D), which includes scientific and technological efforts aimed at creating advances, especially in the early stages of innovation. In addition, by investing in new technologies, companies can integrate advanced solutions that optimize products, streamline processes and increase efficiency. Organizational changes, including changes to structure and business processes, help to foster an innovation-oriented culture and improve adaptability. In addition, marketing innovation focuses on developing and implementing novel strategies to effectively position products and services in the marketplace. Commercialization plays a critical role in introducing innovations to consumers and includes sales planning and customer adoption strategies. Together, these activities strengthen a company's ability to continuously innovate and secure a competitive advantage.

These activities often overlap and interact with each other, forming a dynamic system that supports the development and implementation of innovations. They also include actions that may not involve direct technical innovation but are necessary for creating the environment in which innovation can occur. The Oslo Manual identifies four primary types of innovation: product innovation, process innovation, marketing innovation, and organizational innovation. The Oslo Manual consolidates research and provides directions for studying innovation and innovation activities in various contexts, both for countries and businesses. It is widely accepted as the reference framework for the collection and analysis of innovation data, as published by the OECD. In this study, following editions of the Oslo Manual will not be included.

Competitiveness is a crucial aspect of business strategy, determining a firm's ability to achieve long-term success in the market. In an increasingly globalized and dynamic market, competitiveness plays a fundamental role in the success and sustainability of businesses. Competitive advantage refers to the ability of a firm to outperform its rivals by offering unique value to customers. As Bahtijević-Šiber and Sikavica (2005) state, a firm's competitive position is determined by its ability to create and sustain added value. In the following work it is examined the theoretical foundations of competitiveness, its key determinants, and strategies for achieving sustainable competitive advantage.

Competitive advantage refers to the specific capabilities of a company that enable it to differentiate itself from its competitors. According to Kolaković (2006), three main sources contribute to competitive advantage. The first is superior knowledge, as companies that have unique expertise and intellectual capital can use these assets to develop innovative products and services. The second source is superior resources, as the efficient allocation and utilization of financial, technological and human resources strengthens a company's ability to maintain its market position. The third factor is superior control, where strong management and a well-structured organizational framework enable companies to maintain their competitive position over time. For a competitive advantage to be effective, it must be sustainable. If an advantage can be easily imitated or neutralized by competitors, it no longer provides long-term strategic advantages and instead becomes a temporary market position (Bahtijević-Šiber & Sikavica, 2005). Competitiveness is determined by both internal and external factors. One of the most important determinants is market share, which reflects the relative position of a company in its industry and indicates its overall strength and influence (Tipurić, 2005). Financial performance also plays a crucial role, which is often assessed using ratios such as return on sales (ROS) and return on capital employed (ROCE). In addition, operational efficiency contributes to competitive advantage, especially through cost leadership strategies in which companies optimize resource management to reduce production costs and increase profitability (Buble et al., 2005). Another key determinant is innovation, as the continuous introduction of new products, services and business processes ensures an organization's ability to remain competitive in a dynamic business environment (Teece, Pisano, & Shuen, 1997).

Porter (2000) identifies three primary competitive strategies that organizations can employ to maintain a competitive advantage. Cost leadership focuses on minimizing costs through efficient operations and economies of scale that allow companies to offer lower prices while maintaining profitability. Differentiation is about developing unique products or services that create added value for customers, promoting brand loyalty and competitive differentiation. The strategy of focus involves targeting specific market segments and satisfying niche customer needs, which allows companies to gain supremacy in specialized areas. Each of these strategies offers a way for companies to strengthen their market positioning and maintain their long-term competitiveness.

Sustaining competitive advantage requires strategic adaptation and innovation. Firms must invest in research and development (R&D), continuously analyze market trends, and adapt to changing consumer preferences. The ability to anticipate industry shifts and respond proactively determines long-term success (Teece, Pisano & Shuen, 1997). Competitiveness is a vital aspect of business strategy, influencing market success and profitability. Sustainable competitive advantage is achieved through superior knowledge, resource management, and strategic differentiation. Future research should focus on the impact of digital transformation on competitive positioning and the role of artificial intelligence in enhancing market leadership.

4. ORGANISATIONAL INNOVATION and IT'S ROLE IN ENCHANCING PERFORMANCE

Organizational innovation is a critical factor in ensuring the efficiency, adaptability, and competitiveness of an enterprise. The structure of an organization plays a pivotal role in determining its ability to innovate and respond to environmental challenges. As defined by Bahtijević-Šiber, Sikavica et al. (2001), organization refers to the conscious association of people aiming to accomplish predefined tasks with minimal effort. This paper examines the role of organizational structures in shaping innovation and improving business performance.

Organizational structures provide the framework for task allocation, coordination and monitoring within a company. As Buble et al. (1997) found, the efficiency and adaptability of an

organizational structure are influenced by both internal and external environmental factors. Different structural models influence an organization's ability to manage operations, facilitate communication and respond to market dynamics. A functional structure is a hierarchical model in which employees are organized into groups based on their specific areas of expertise. This arrangement improves operational efficiency by promoting specialization and streamlining decision-making, but it can also limit cross-departmental collaboration and innovation. A divisional structure, on the other hand, focuses operations on different product lines or geographic regions, allowing companies to respond more effectively to market-specific demands (Buble, 2005). The matrix structure integrates elements of both the functional and divisional structure and promotes greater flexibility and innovation by allowing employees to report to multiple managers and work on cross-functional projects. In addition, the network structure represents a decentralized model in which companies form strategic alliances with external entities, promoting adaptability and knowledge sharing across corporate networks (Sikavica et al., 2008). Each of these organizational structures offers unique advantages and challenges and influences a company's ability to innovate, its efficiency and its responsiveness to changes in the industry. When choosing the most appropriate structure, companies must consider their strategic priorities and operational needs.

Organizational innovation refers to the introduction of novel managerial processes, work structures, or relationships that improve business performance. According to the Oslo Manual (2005), organizational innovation must be a strategic decision by management, excluding routine structural adjustments. This form of innovation facilitates productivity improvements, operational efficiency, and enhanced competitiveness. Organizational structure is shaped by multiple factors, including technological advancements, market dynamics, and regulatory frameworks. External factors such as competition and economic conditions necessitate continuous innovation (Buble et al., 2005). Internally, leadership, corporate culture, and employee engagement significantly influence innovation capacity (Sikavica et al., 2008). Portfolio matrices, such as the BCG matrix, GE/McKinsey matrix, and ADL matrix, are widely used to assess the strategic positioning of business units (Buble et al., 1997). These frameworks help organizations identify areas requiring innovation and resource reallocation.

Perilla and Orozco (2023) emphasize that organizational innovation (OI) and business model innovation (BMI) are interlinked, with top management, strategic alignment, and organizational learning being key drivers of innovation-focused management. Bauman-Vitoliņa et al. (2022) demonstrate that structured innovation management enhances competitiveness and adaptability in manufacturing SMEs, especially when supported by leadership and a strong innovation culture. Akter et al. (2023) highlight that transformational leadership and innovation-oriented organizational culture significantly shape OI implementation. Teguh et al. (2022) find that digital capabilities and innovation management processes are critical for improving performance in digitally transforming organizations.

Zhu and Engels (2014) show that institutional culture and leadership directly affect the success of instructional innovations, reinforcing the role of innovation management in educational settings. Aboramadan et al. (2020) reveal that marketing innovation – driven by organizational culture – mediates the impact of OI on bank performance. Kartono et al. (2021) stress that transformational leadership supports OI through goal-focused team dynamics and structured knowledge sharing. Sapiyi et al. (2022) argue that creativity, guided by leadership and a conducive work environment, is central to innovation management. Kumar et al. (2023) find that transformational leadership boosts organizational learning and innovation, both of which mediate performance outcomes.

Tamayo-Torres et al. (2016) show that innovation and learning frameworks support strategic alignment and performance in dynamic environments. Li et al. (2022) illustrate how universities act as drivers of OI through industry collaboration and policy-driven innovation strategies. Finally, Damanpour (2017) frames OI as a multi-dimensional, management-centered

process influenced by organizational structure, leadership, and external conditions, underscoring the need for integrated innovation strategies across disciplines.

The findings highlight that the evolving business environment necessitates continuous organizational innovation as a key driver of firm success. To remain competitive, firms must adopt flexible and responsive structures that enhance their innovative capabilities. Future research should explore the intersection of digital transformation and organizational design to identify new paradigms for innovation-driven growth.

5. INNOVATION STRATEGIES AND ORGANISATIONAL COMPETITIVENESS

Innovation strategies play a crucial role in enhancing organizational competitiveness. This paper explores the innovation strategies employed by firms to gain a competitive edge, including original innovation but emphasising organisational innovation. The analysis is grounded in contemporary literature, highlighting the interplay between innovation, strategic management, and market competitiveness. The study underscores the significance of continuous innovation in maintaining a firm's competitive advantage in dynamic business environments.

Organizational competitiveness depends on its ability to innovate and adapt to changing market conditions. In a rapidly evolving business environment, companies need to develop strategic approaches to innovation in order to maintain their market position (Buble et al., 2005). Innovation strategies play a crucial role in increasing productivity, improving customer satisfaction and ensuring long-term sustainability (Howkins, 2003). These strategies are designed to create value through the development of new products, services and processes. According to Kuvačić (2005), innovation strategies can be divided into several categories. Original innovation strategy involves the creation of completely new products or services that have never been launched on the market before. Although this approach involves a considerable risk, it also offers opportunities for a significant competitive advantage. The strategy of product differentiation enables companies to develop unique features of their products that allow them to stand out in the market and appeal to specific customer segments. Some companies pursue an imitation strategy, adapting and modifying existing innovations to fit their business model and capitalize on proven market successes (Porter, 2000). Another strategic approach is the niche market strategy, where companies focus on specific market segments and tailor their innovations to the particular needs of their target customers. Alharbi et al. (2019) reviewed definitions, types, importance, and management of organizational innovation. They emphasized that innovation is the key to competitiveness and adaptation in dynamic markets. The paper identifies both technological and administrative innovation and outlines five dimensions for managing innovation effectively: strategy, organization, process, linkages, and learning. The study emphasizes that aligning internal culture and leadership with innovation goals is critical to success. Alateeg and Alhammadi (2024) investigated how organizational culture promotes innovation in companies and emphasized the mediating role of strategic leadership. They found that innovation thrives in organizations with an adaptive culture and a clear mission. Strategic leadership significantly strengthens this relationship by aligning vision and operations. Their study highlights that fostering a culture that embraces risk-taking and continuous (organizational) learning, along with strong leadership, is key to driving innovation and gaining competitive advantage. In their paper Garrido-Moreno et al. (2024) found that service innovation and organizational resilience are essential for enhancing business performance, especially in unstable environments. Their mixed-methods study revealed that digital tools like social media and collaboration networks drive innovation, which in turn builds resilience and boosts performance. Innovation and resilience, viewed as dynamic capabilities, enable organizations to adapt and stay competitive. In today's world, AI is becoming more and more important in terms of competitiveness as well. In the Füller et al. (2024) paper is explored how AI is transforming innovation management, requiring organizations to rethink strategies, structures, roles, and collaborations. They emphasize aligning AI with business goals, adapting workflows, and

fostering human–AI synergy. Innovation success now depends on strategic integration of AI capabilities and ethical, agile organizational design. It is a new field which will be surely further explored in the future research papers.

Innovation increases a company's competitiveness by improving operational efficiency and strengthening market positioning. Companies with dynamic capabilities are better prepared to respond to market fluctuations and competitive pressures (Teece, Pisano, & Shuen, 1997). Investment in research and development (R&D) has been shown to increase productivity and strengthen the resilience of companies in competitive markets (Buble et al., 2006). However, despite its importance, innovation also poses some challenges. The high costs associated with R&D can be a financial burden, especially for smaller companies with limited resources. Market uncertainty is another obstacle, as not all innovations are commercially successful, which can lead to financial losses. In addition, corporate culture and resistance to change can hinder the introduction and implementation of innovative strategies (Drucker, 1992). Muchungu and Mutua (2024) found that open innovation strategies significantly improve organizational performance. Using desktop research, they showed that collaboration, inbound innovation, and strategic partnerships help firms compete – even in markets dominated by a single player. Organizational culture and structure influence innovation success.

To overcome these challenges and improve innovation capabilities, companies can apply several important strategies. Fostering a culture of innovation is critical because creating an environment that supports experimentation and creativity enables employees to develop and implement new ideas. Collaboration with external partners, including research institutions and industry leaders, facilitates knowledge sharing and access to additional resources. Leveraging digital transformation further strengthens innovation efforts as advanced technologies streamline processes and improve operational efficiency (Brekić, 1994). By integrating these strategies, organizations can build a more robust innovation framework that supports sustainable competitiveness and long-term growth. Hael et al. (2024) conducted a bibliometric analysis on organizational learning and innovation papers from 1982–2023. The study shows growing academic interest in how learning enables innovation through knowledge sharing, leadership, and adaptability. They emphasize the need for cross-disciplinary approaches and deeper exploration of under-researched regions and industries. Innovation, framed as both a process and outcome, is tightly linked to organizational culture, leadership, and dynamic capabilities. Also El Moudden and Balhadj (2024) provide a comprehensive literature review of organizational innovation, distinguishing it from technological change and emphasizing its administrative and process-oriented nature. They underscore innovation as a key driver of competitiveness, shaped by organizational resources, learning, and strategic integration.

Innovation strategies are critical to improving the competitiveness of companies. Companies that effectively implement innovation strategies can achieve long-term market leadership. Future research should focus on the impact of new technologies, such as artificial intelligence and blockchain, on organizational innovation and competitiveness.

6. CONCLUSIONS AND FUTURE REMARKS

Organizational innovation serves as a crucial element in enhancing competitiveness and business performance, functioning as a primary catalyst for adaptability, efficiency, and sustained success. This paper has examined the significant impact of structured innovation strategies on organizations' capacity to maintain market leadership, streamline operations, and address evolving industry dynamics. Research indicates that enterprises incorporating organizational innovation into their strategic framework demonstrate notable improvements in productivity, market responsiveness, and financial outcomes. By cultivating new managerial approaches, optimized work structures, and an innovation-oriented corporate culture, companies can effectively navigate uncertainties and strengthen their competitive position.

The research highlights that organizational innovation directly contributes to competitive advantage by enabling businesses to reconfigure their processes, improve decision-making efficiency, and promote cross-functional collaboration. Organizations implementing innovative business models, digital transformation initiatives, and leadership-driven change are better positioned to foster continuous improvement and maintain long-term success. Additionally, companies utilizing dynamic capabilities, research and development activities, and knowledge-sharing mechanisms outperform competitors by establishing a culture that values innovation and adaptability. The implementation of network-based and flexible organizational structures further enhances a company's innovative capacity and operational agility.

Despite these benefits, organizations face obstacles including financial constraints, market uncertainty, and resistance to change that can impede comprehensive implementation of organizational innovation. To address these challenges, companies must allocate resources toward leadership development, strategic resource management, and employee engagement programs that foster an innovation-focused mindset. Strong executive leadership commitment, paired with a corporate culture that values risk-taking, creativity, and ongoing learning, is crucial for maintaining innovation-driven growth.

Looking ahead, organizational innovation will become increasingly essential for maintaining competitiveness as businesses navigate technological disruptions, evolving consumer demands, and regulatory changes. Future research should investigate how artificial intelligence, machine learning, and automation can further enhance organizational efficiency and innovation management.

Leadership and corporate culture remain fundamental to driving organizational innovation, necessitating examination of how transformational and adaptive leadership approaches influence an organization's capacity to innovate and maintain competitive advantage. Additionally, the effectiveness of open innovation ecosystems, where companies collaborate with academic institutions, industry partners, and technology centers, warrants further study to determine their impact on performance and global competitiveness.

In conclusion, organizational innovation fundamentally enables competitive advantage and superior business outcomes. Organizations that implement structured innovation strategies, transform their organizational processes, and utilize emerging technologies will achieve sustained market leadership and long-term profitability. As companies continue adapting to rapidly changing business conditions, fostering organizational innovation and digital transformation will remain essential for strategic success. Future research should examine the evolving role of organizational structures, leadership approaches, and technology in shaping innovation-driven competitiveness, providing practical insights to help businesses achieve sustainable growth and to maintain competitive advantage.

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