

Innovation on Firm Performance: A Systematic Literature Review

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Abstract - This study aims to explore how innovation contributes to firm performance and corporate social responsibility (CSR) across various contexts by employing a Systematic Literature Review (SLR) approach. Using a structured review process, three primary articles were selected from the Scopus database based on strict inclusion and exclusion criteria, focusing on empirical research published between 2015 and 2023. The analysis includes a synthesis of findings related to technological, process, and strategic innovation and their respective impacts on performance outcomes and CSR integration. Results reveal that innovation plays a critical dual role: as a driver of operational efficiency and as a mechanism for achieving sustainable and socially responsible business practices. This review offers a focused contribution by integrating diverse innovation dimensions and highlighting the synergy between innovation and CSR, particularly within firms operating in developing economies.

Keywords: *CSR-linked innovation; digital transformation; firm performance; systematic literature review; developing countries.*



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INTRODUCTION

Innovation has become a cornerstone of competitive advantage and sustainable development in the modern business landscape. Firms are increasingly required not only to improve operational efficiency but also to address social and environmental challenges through responsible innovation practices. In response to these demands, this study conducts a Systematic Literature Review (SLR) to examine how different types of innovation contribute to firm performance and corporate social responsibility (CSR), particularly in developing country contexts.

Existing studies have investigated innovation from various angles ranging from digital transformation and process efficiency to CSR alignment but few have synthesized these perspectives systematically. This review narrows its focus to empirical studies published between 2015 and 2023, specifically in the context of developing economies such as Vietnam, Kenya, and South Korea. These regions offer unique insights into how innovation operates under limited resources and institutional constraints, yet with growing demands for responsible growth.

By analyzing selected peer-reviewed articles from the Scopus database, this review seeks to highlight the synergy between innovation and CSR, demonstrating that innovation is not merely a tool for efficiency but also a vehicle for social impact. Unlike previous reviews that focus solely on technological or financial outcomes, this study emphasizes the dual strategic role of innovation as a driver of firm performance and a contributor to sustainable business practices.

This review contributes to the literature by offering a cross-contextual synthesis of how innovation practices are operationalized and linked to performance outcomes in developing countries. It also identifies gaps in research and provides direction for future empirical investigations on innovation strategy and CSR integration.

Literature Review

Innovation is widely recognized as a multidimensional concept encompassing product, process, organizational, and strategic elements. According to Tidd and Bessant (2020), innovation involves the successful application of new ideas that generate value in products, services, or processes. This notion is expanded by Chesbrough (2020) through the concept of “open innovation,” where firms leverage external knowledge to complement internal capabilities. In developing country contexts, innovation is not only a technical endeavor but also a strategic necessity to remain competitive and meet societal expectations.

The synergy between different types of innovation is critical in maximizing firm performance. Lee et al. (2019) argue that the combination of product, process, and market innovations produces a compounding effect, where the whole is greater than the sum of its parts. This synergistic effect requires internal alignment and cross-functional collaboration, as emphasized by Hitt et al. (2020), who note that strategic synergy enables better resource integration and adaptability.

Understanding the firm as both an economic and social actor is essential in this discourse. Hodgson (2021) conceptualizes the firm as a governance structure balancing authority and cooperation. This aligns with Robé's (2020) view of the firm as a mechanism for coordinating resource allocation under entrepreneurial leadership. In the context of innovation, firms must balance their profit-driven goals with external social expectations, especially in markets where CSR compliance is increasingly demanded.

Performance, therefore, should be viewed beyond financial outcomes. As Kaplan and Norton (2021) suggest through the Balanced Scorecard framework, organizational performance includes customer satisfaction, internal processes, and learning and growth dimensions. Innovation can influence all these aspects. For example, IT-driven innovation may enhance internal efficiency, while sustainable product innovation may strengthen CSR efforts and improve stakeholder relations.

In sum, the literature underscores the dual role of innovation: as a catalyst for superior firm performance and as a driver of socially responsible behavior. However, existing studies often treat these dimensions separately. This review aims to bridge that gap by systematically examining how innovation simultaneously advances firm competitiveness and CSR fulfillment, particularly in developing economies where resource limitations make synergy essential.

METHOD

The research method used in this article is Systematic Literature Review (SLR). This approach is carried out by following systematic steps in collecting, evaluating, and synthesizing primary articles. The literature search was conducted on the Scopus database with the keywords: “innovation,” “firm performance,” and “CSR.” The publication year coverage was limited to 2015 to 2023. Inclusion criteria included: (1) peer-reviewed articles, (2) quantitative research-based, (3) relevant to the topic of innovation and firm performance. Exclusion criteria: review articles, single case studies, and articles outside the manufacturing and technology sectors.

The selection and screening process of the articles was conducted systematically following the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guidelines. Although only three primary studies were included, the selection process followed the principles of a Systematic Literature Review (SLR), with clear inclusion criteria and screening steps, as illustrated in the PRISMA diagram.

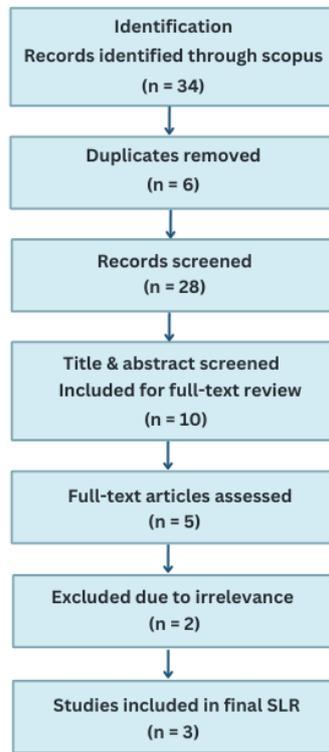


Figure 1. PRISMA diagram
Source: Author (2025)

Table 1. Journal articles reviewed

No.	Author	Innovation Focus	Country Context	Methodology	Key Findings
1.	Canh et al. (2019)	Process Innovation & CSR	Vietnam (Manufacturing)	Panel data regression (FE/RE)	Innovation enhances both operational efficiency and CSR performance.
2.	Chege et al. (2019)	Information Technology Innovation	Kenya (Various sectors)	Structural Equation Modeling (SEM)	IT innovation significantly improves productivity and customer engagement.
3.	Lee et al. (2019)	Product, Process & Market Synergy	South Korea	Path analysis + PCA	Synergistic innovation leads to superior firm performance across dimensions.

Source: Author (2025)

The research method used by Canh et al. (2019) is a quantitative research method, using statistical analysis to examine the relationships between innovation activities, firm performance, and corporate social responsibility (CSR). Data could be collected through surveys or questionnaires distributed to manufacturing firms in Vietnam, focusing on aspects such as innovation practices, financial performance, and CSR initiatives. Data from the Vietnam Technology and Competitiveness Survey was used, with a combined dataset covering economic performance indicators and company

characteristics. Panel data estimation was conducted using fixed effects and random effects methods, while lagged explanatory variables were employed to address endogeneity between CSR and innovation. The sample size included 8,386 manufacturing firms, with the sampling method involving mandatory survey completion by the companies.

The research method used by Chege et al. (2019) is a quantitative research method, employing regression analysis to examine the relationship between information technology (IT) innovation and firm performance in Kenya. Data is typically collected through structured surveys distributed to firms, focusing on various aspects of IT innovation, including the adoption of new technologies, integration of digital processes, and their impacts on performance indicators such as productivity, efficiency, and profitability. Structural equation modeling was used as the analysis method, with a random sample of 297 companies, and variable constructs modified from previous studies for measurement purposes.

The research method used by Lee et al. (2019) is a quantitative research method, employing statistical techniques to analyze the relationships between different types of innovation and firm performance outcomes. Data could be collected through structured surveys or questionnaires designed to gather information on innovation practices, performance metrics, and other relevant variables from participating firms. This study used path analysis to evaluate the data, while principal component analysis was employed to test the reliability of several measures. Process innovation was introduced as a binary variable measured over three years, with a sample size of 856 companies. The sample was drawn from the Korean Innovation Survey (KIS), which is based on the European Union's Community Innovation Survey (CIS).

RESULTS AND DISCUSSION

The three selected studies collectively demonstrate how innovation contributes to both firm performance and social responsibility, albeit through different mechanisms and contexts. Their findings offer complementary perspectives on the strategic role of innovation in developing economies.

In the case of Vietnamese manufacturing firms, Canh et al. (2019) found that process innovation significantly enhances operational performance while also strengthening CSR practices. This shows that innovation can serve a dual function improving internal efficiency while enabling firms to respond to external societal expectations. Importantly, firms that invested in eco innovation not only achieved cost reductions but also built stronger reputational capital, aligning innovation with stakeholder trust.

In Kenya, Chege et al. (2019) emphasize the role of digital transformation, particularly the adoption of IT systems, in driving firm performance. The study reveals that IT innovation improves productivity, customer engagement, and decision making processes. These findings reflect the growing need for firms in developing countries to embrace technological solutions not just for efficiency, but for competitive relevance. The integration of IT into business processes serves as a foundation for organizational agility and customer-centric strategies.

Meanwhile, Lee et al. (2019) offer a broader perspective by examining the synergistic effect of product, process, and market innovation. Their findings suggest that firms that pursue multiple innovation strategies concurrently achieve significantly better performance outcomes compared to those that focus narrowly on a single innovation dimension. This highlights the importance of alignment across innovation domains and the benefits of a holistic innovation culture.

These findings reinforce the notion that innovation is not monolithic its impact depends on how it is integrated into organizational strategy. Whether through sustainability oriented process improvements, digital infrastructure upgrades, or innovation synergy, the underlying principle remains the same: firms that treat innovation as a strategic priority outperform those that treat it as a peripheral activity.

When examined together, the reviewed articles suggest that innovation contributes to both economic value and social value, especially in developing countries where the pressure to achieve sustainable growth is high. The review also reveals a research gap: while innovation's impact on performance is well documented, its integrated relationship with CSR particularly how innovation strategies are designed to simultaneously target both is less frequently explored.

Thus, future studies should move beyond measuring isolated innovation outcomes and instead explore how innovation strategies are structured to deliver shared value. This includes exploring sectoral differences (services vs. manufacturing), organizational scale (startups vs. large firms), and innovation typologies (green innovation, inclusive innovation).

CONCLUSION

This review highlights the multifaceted role of innovation in driving firm performance and advancing corporate social responsibility (CSR), particularly in developing economies. Drawing insights from three selected empirical studies, it becomes evident that innovation whether in the form of process optimization, digital transformation, or integrated innovation strategies serves not only as a lever for competitiveness but also as a mechanism for social value creation.

In Vietnamese firms, process innovation is shown to enhance both productivity and CSR outcomes. In Kenya, digital innovation supports operational efficiency and customer engagement. Meanwhile, in South Korea, synergy across innovation types delivers superior overall performance. These findings collectively support the view that innovation contributes to sustainable business success when embedded as a core strategic orientation.

The novelty of this review lies in its cross contextual synthesis that bridges innovation and CSR, offering a holistic understanding rarely addressed in previous literature. Rather than treating innovation solely as a technical or financial driver, this study positions it as a strategic enabler of shared value, especially in resource constrained markets.

However, gaps remain in how innovation strategies are systematically designed to balance performance with CSR objectives. Future research could benefit from examining a broader range of industries and innovation types, as well as exploring the long term impacts of socially oriented innovation initiatives. By emphasizing the integration of innovation and CSR within a strategic framework, this review advocates for a forward looking approach to business that is both performance driven and socially responsive.

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