ENTREPRENEURSHIP AND INNOVATION REVIEW

E- ISSN: XXXX-XXXX

Volume 1, Issue 1, June 2023 | pp. 13-23

Innovation, Entrepreneurial Orientation, and Institutional Environment on Organizational Performance

Adelia Wahyu Ratri[1] and Novianti[2]

Universitas Islam Negeri Sunan Kalijaga, Yogyakarta, Indonesia[1]; Institut Bisnis dan Informatika Kesatuan, Bogor, Indonesia[2]

ABSTRACT

This study aims to analyze the relationships among innovation, entrepreneurial orientation, institutional environment, and organizational performance in the context of the modern economy. The study employs a qualitative approach using a literature review method by examining scientific publications from last five years. The findings indicate that innovation plays a significant role in improving productivity, competitiveness, and organizational sustainability. Entrepreneurial orientation, reflected through innovativeness, proactiveness, and risk-taking behavior, also contributes positively to organizational performance. However, the effectiveness of these strategies is strongly influenced by institutional conditions, both formal and informal. A supportive institutional environment strengthens the implementation of innovation and entrepreneurial activities, thereby enhancing organizational performance, whereas institutional limitations may hinder strategic effectiveness. The study highlights the importance of integrating innovation, entrepreneurial orientation, and institutional environment in responding to digital transformation and global economic dynamics to achieve sustainable organizational performance.

Keywords: *Entrepreneurial Orientation, Innovation, Institutional Environment, Organizational Performance, Sustainability.*

CORRESPONDING AUTHOR:
Adelia Wahyu Ratri
Universitas Islam Negeri Sunan Kalijaga, Yogyakarta, Indonesia
contact: *adeliawahyu9604@pgmail.com*

ARTICLE HISTORY

Received	: February 07, 2023
Final Revised	: May 28, 2023
Accepted	: June 13, 2023
Published	: June 30, 2023

1. | INTRODUCTION

The increasingly dynamic global economic environment has encouraged organizations to continuously adapt to changing market conditions, technological advancements, and competitive pressures. Economic globalization and digital transformation have accelerated the emergence of new business models and intensified competition across industries. In such circumstances, organizations are required not only to maintain operational efficiency but also to develop strategic capabilities that enable sustainable growth and competitiveness. The ability of organizations to respond to economic changes through innovation and entrepreneurial behavior has therefore become a critical determinant of long-term performance. Recent economic developments indicate that organizations capable of integrating innovation into their strategic processes tend to exhibit greater resilience and adaptability in uncertain business environments (OECD, 2021; IMF, 2021).

Innovation has long been recognized as one of the primary drivers of economic growth and organizational performance. Through innovation, firms can improve productivity, create value-added products and services, and strengthen their competitive advantage. In the context of the modern economy, innovation is not limited to technological development but also encompasses organizational and managerial improvements that support business sustainability. Studies have demonstrated that innovative organizations are more likely to achieve superior performance due to their ability to exploit emerging opportunities and respond effectively to market changes (Xie et al., 2019; Nambisan et al., 2019). Consequently, innovation has become an essential component in enhancing organizational competitiveness and ensuring long-term economic sustainability.

In addition to innovation, entrepreneurial orientation plays a significant role in determining organizational success. Entrepreneurial orientation reflects an organization's tendency to engage in innovative, proactive, and risk-taking behaviors in pursuing business opportunities. Organizations with strong entrepreneurial orientation tend to identify opportunities more effectively, adapt rapidly to environmental changes, and develop strategies that support sustainable performance. Empirical evidence suggests that entrepreneurial orientation contributes positively to organizational outcomes, particularly in dynamic market environments (Karami & Tang, 2019; Wales et al., 2019). Nevertheless, the relationship between entrepreneurial orientation and performance remains inconsistent across different contexts.

The institutional environment also constitutes an important factor influencing organizational behavior and economic performance. Institutional conditions, including formal regulations and informal norms, shape organizational decision-making processes and determine the effectiveness of strategic actions. A supportive institutional environment can encourage innovation and entrepreneurial activities, while weak institutional settings may constrain organizational performance. Previous research has shown that institutional frameworks can significantly mediate the relationship between entrepreneurial orientation and performance (Kurtulmuş et al., 2020). Specifically, organizations operating in different institutional environments may experience varying performance outcomes despite exhibiting similar entrepreneurial characteristics.

Despite extensive research on innovation, entrepreneurial orientation, and organizational performance, several research gaps remain. First, empirical findings regarding the impact of entrepreneurial orientation on performance have produced inconsistent results. Second, the mediating role of institutional environments has received limited attention in the literature. Third, most studies have focused on specific countries or industries, limiting the generalizability of findings across broader economic contexts. Furthermore, rapid digital transformation and economic uncertainty have altered business environments, necessitating updated empirical evidence regarding factors that influence organizational performance (UNCTAD, 2022; World Bank, 2022).

Based on these gaps, this study aims to examine the relationships among innovation, entrepreneurial orientation, institutional environment, and organizational performance from a broader economic perspective. By synthesizing existing literature, this study contributes to a deeper understanding of how strategic capabilities and institutional factors jointly shape economic performance in contemporary business environments.

2. | LITERATURE REVIEW

Innovation and Entrepreneurial Orientation

Innovation has become a fundamental driver of economic growth and organizational sustainability in the contemporary business environment. The rapid development of technology and increasing market competition have encouraged organizations to continuously innovate in products, processes, and business models. Innovation enables firms to create value, improve efficiency, and maintain competitive advantage in increasingly dynamic markets. Organizations that effectively integrate innovation into their strategic activities are more likely to achieve superior performance and long-term sustainability (OECD, 2021; Xie et al., 2019). Moreover, digital transformation has accelerated innovation processes by providing organizations with new opportunities to access resources, knowledge, and markets (Nambisan et al., 2019).

Alongside innovation, entrepreneurial orientation has been recognized as an important strategic capability that enhances organizational adaptability. Entrepreneurial orientation refers to an organization's tendency to engage in innovative, proactive, and risk-taking behaviors when identifying and exploiting opportunities. Firms with strong entrepreneurial orientation are generally more responsive to environmental changes and better positioned to capitalize on emerging market opportunities. Previous studies indicate that entrepreneurial orientation positively influences organizational performance through improved strategic flexibility and learning capabilities (Karami &

Tang, 2019). However, the strength and direction of this relationship may vary across different economic contexts and institutional environments. Therefore, innovation and entrepreneurial orientation are often considered complementary strategic resources that jointly contribute to enhancing organizational competitiveness and economic performance.

Institutional Environment and Organizational Performance

The institutional environment plays a crucial role in shaping organizational behavior and determining economic outcomes. Institutional theory suggests that formal regulations, social norms, and cultural values create frameworks that influence organizational decisions and strategic actions. A supportive institutional environment encourages innovation and entrepreneurship by reducing uncertainty and providing access to resources and opportunities. Conversely, weak institutional conditions may limit organizational growth and reduce performance effectiveness. As economic systems become increasingly interconnected, the influence of institutional environments on business activities has become more prominent (World Bank, 2022).

Research has shown that institutional environments not only directly affect organizational performance but also moderate or mediate the relationship between strategic capabilities and performance outcomes. Organizations operating within favorable institutional settings are more likely to successfully implement entrepreneurial strategies and innovation activities. Kurtulmuş et al. (2020) found that informal institutional frameworks significantly mediate the relationship between entrepreneurial orientation and financial performance, indicating that institutional conditions influence the effectiveness of strategic behavior. Similarly, Wales et al. (2019) emphasized the importance of considering institutional and cross-cultural contexts in entrepreneurial research. Furthermore, global economic changes and increasing digitalization have highlighted the need to understand how institutional factors interact with organizational capabilities to shape economic performance (UNCTAD, 2022). Therefore, institutional environments remain a critical factor in explaining variations in organizational performance across different economic contexts.

3. | RESEARCH METHOD

This study uses a qualitative approach with the library research method to analyze the relationship between innovation, entrepreneurial orientation, institutional environment, and organizational performance in the context of modern economy. Literature studies were chosen because they allow researchers to comprehensively examine various theories, concepts, and results of previous research relevant to the research topic. This method focuses on collecting, evaluating, and synthesizing published scientific literature so that it can produce a deeper understanding of the economic phenomena being studied. The literature study approach is also considered appropriate to identify research gaps and build a strong conceptual framework based on existing empirical findings.

The data sources in this study come from various scientific articles, international reports, and academic publications that are indexed by Google Scholar and published in the last five years period. The selection of the year range was carried out so that the results of the study remain relevant to global economic developments and the latest business dynamics that will be the basis for publication in 2023. In addition, this study also utilizes an article from Kurtulmuş et al. (2020) as one of the main references because it discusses the relationship between international entrepreneurial orientation, institutional environment, and organizational performance relevant to the focus of this research. The article shows that the institutional environment has an important role in influencing the effectiveness of organizational strategies towards performance achievement (Kurtulmuş et al., 2020).

The data collection technique was carried out through a systematic search of literature that was in accordance with the research topic using keywords such as innovation, entrepreneurial orientation, institutional environment, and organizational performance. Furthermore, the data was analyzed using content analysis techniques by identifying, classifying, and interpreting various findings of previous research. Through this process, this study seeks to integrate various theoretical and empirical perspectives to explain the relationship between variables conceptually. The literature study approach allows researchers to compile a comprehensive synthesis of knowledge and make theoretical contributions to the development of economic studies and organizational management in the era of digital transformation (Wales et al., 2019).

4. | RESULTS

The results of the literature review show that innovation, entrepreneurial orientation, institutional environment, and organizational performance are interrelated variables in shaping the economic success of organizations in the modern era. Various studies indicate that organizations that are able to develop innovation in a sustainable manner tend to have a higher level of adaptability and a greater chance of achieving long-term economic growth. Innovation not only plays a role in creating new products and services, but also contributes to increasing operational efficiency and organizational competitiveness. In the context of an increasingly dynamic global economy, innovation is seen as a key factor that enables organizations to maintain sustainability and improve performance in a sustainable manner (OECD, 2021; Xie et al., 2019).

The rapid digital transformation since the late 2010s has accelerated the innovation process in various sectors of the economy. Digitalization enables organizations to access a wider range of markets, optimize resource management, and improve the quality of data-driven decision-making. According to Nambisan et al. (2019), digital transformation has changed traditional innovation patterns to be more open and collaborative. In addition, the development of the digital entrepreneurship ecosystem also creates new opportunities for organizations to develop more adaptive and innovative business models (Autio et al., 2018). This condition shows that innovation is no longer optional, but rather a strategic necessity in the face of modern economic competition.

Literature review also shows that entrepreneurial orientation is one of the important factors that affect organizational performance. Organizations that have a high entrepreneurial orientation tend to show innovative, proactive, and risk-taking behaviors in taking advantage of market opportunities. Karami and Tang (2019) found that entrepreneurial orientation contributes to improving organizational performance through strengthening organizational networking and learning capabilities. In line with that, Wales et al. (2019) affirm that entrepreneurial orientation is one of the main determinants of organizational success in a competitive and dynamic business environment.

Nonetheless, the relationship between entrepreneurial orientation and organizational performance does not always show consistent results. Some studies have found positive influences, while others have shown results that vary depending on the economic and institutional context. An article by Kurtulmuş et al. (2020) reveals that an international entrepreneurial orientation does not always result in improved financial performance, especially when organizations operate in an unstable business environment. The findings show that the success of entrepreneurial strategies is greatly influenced by the institutional environmental conditions that surround the organization. Thus, entrepreneurial orientation needs to be understood as a strategy whose effectiveness depends on certain contextual factors.

The institutional environment is an important factor that determines how an organization designs and implements its business strategy. Formal institutions, such as government regulations and policies, as well as informal institutions, such as social norms and organizational culture, shape economic behavior and influence organizational strategic decisions. Research by Kurtulmuş et al. (2020) shows that the informal institutional environment plays a mediator in the relationship between entrepreneurial orientation and organizational performance. These results indicate that organizations operating in a supportive institutional environment tend to benefit more from entrepreneurial activities than organizations that are in a less supportive environment.

Changes in the global economic environment during the 2018–2022 period also reinforce the importance of the role of institutions in supporting economic activities. The IMF report (2021) shows that global economic uncertainty increases organizations' need for an institutional system that is able to create stability and reduce business risks. Similarly, the World Bank (2022) affirms that institutional quality contributes to increasing organizational productivity and competitiveness through the provision of effective regulations and support for innovation. Therefore, the institutional environment can be seen as an external factor that strengthens or hinders the effectiveness of organizational strategies.

In addition to institutions, global economic developments also encourage organizations to increase their capacity to adapt to market changes. UNCTAD (2022) highlights that changing investment patterns and economic globalization require organizations to be more flexible in dealing with international market dynamics. In this context, innovation and entrepreneurial orientation are important instruments that allow organizations to adapt to changing business environments. Organizations that are able to combine these two factors tend to have higher competitiveness and greater growth opportunities.

Furthermore, research by Amankwah-Amoah et al. (2019) shows that entrepreneurial orientation not only impacts economic performance, but also contributes to organizational sustainability. The integration between innovation, entrepreneurship, and sustainability allows organizations to create economic value while paying attention to social and environmental aspects. This is in line with global economic trends that increasingly emphasize the importance of sustainable development as part of long-term business strategies.

A study by Ruzzier et al. (2020) also revealed that international entrepreneurial orientation increases the readiness of organizations to expand and internationalize. Organizations with high levels of innovation and proactivity tend to find it easier to identify new market opportunities and leverage resources across countries. These findings reinforce the view that entrepreneurial capabilities have a strategic role in improving organizational competitiveness at the global level.

On the other hand, Paul and Rosado-Serrano (2019) emphasized that the internationalization process of organizations is increasingly influenced by innovation capabilities and entrepreneurial orientation. Organizations that have globally born characteristics tend to enter the international market faster than conventional organizations. This condition shows that the ability to innovate and act proactively is an important factor in determining the success of a business expansion strategy.

In the perspective of the digital economy, technological transformation has changed the way organizations create and capture economic value. Nambisan et al. (2019) explained that digitalization expands innovation opportunities and accelerates the process of forming an entrepreneurial ecosystem. Autio et al. (2018) also affirm that digital technology creates new opportunities for organizations to develop business models that are more flexible and responsive to market changes. Thus, the integration of digital technology into organizational strategy is an important factor in improving economic performance.

Overall, the results of the literature review show that innovation and entrepreneurial orientation have a significant influence on organizational performance, both directly and through the institutional environment. However, these influences are contextual and are influenced by various external factors, such as institutional quality, market dynamics, and digital transformation. These findings also explain why previous research on the relationship between entrepreneurial orientation and organizational performance often showed inconsistencies. Therefore, the integration between innovation, entrepreneurial orientation, and the institutional environment is a relevant approach in understanding the dynamics of organizational performance in the modern economic era.

5. | DISCUSSION

The results of the literature review show that innovation, entrepreneurial orientation, and institutional environment are interrelated factors in influencing organizational performance in the modern economic era. These findings are in line with the view that organizations that are able to develop innovation in a sustainable manner tend to have a higher level of competitiveness and better adaptability to changes in the business environment. In the context of the global economy marked by digital transformation and increased uncertainty, innovation is a strategic instrument to create added value and maintain organizational sustainability (OECD, 2021). Therefore, organizations are not only required to produce new products or services, but also to update business processes and managerial strategies on an ongoing basis.

In addition to innovation, entrepreneurial orientation has proven to have an important role in improving organizational performance. Innovative, proactive, and risk-taking characteristics allow organizations to be more responsive to market opportunities and changes in the external environment. These findings support the research of Karami and Tang (2019) who affirm that entrepreneurial orientation contributes to improved performance through strengthening organizational ability to build networks and learning. Nevertheless, the relationship between entrepreneurial orientation and organizational performance is not always linear. Wales et al. (2019) show that the influence of entrepreneurial orientation can differ in each economic and cultural context, so a more comprehensive understanding of the factors that influence these relationships is needed.

One of the factors that explains the inconsistency of previous research findings is the institutional environment. An article by Kurtulmuş et al. (2020) shows that the institutional environment, especially informal institutions, can mediate the relationship between entrepreneurial orientation and organizational performance. These findings indicate that the effectiveness of entrepreneurial strategies is not only determined by the organization's internal capabilities, but also influenced by the quality of the institutions that surround it. Organizations that operate in a supportive institutional environment tend to be better able to optimize the benefits of innovation and entrepreneurial activities than organizations that face institutional barriers. The findings strengthen the argument that institutions play a role as a mechanism that shapes economic behavior and determines the success of organizational strategies.

Furthermore, the development of the digital economy has expanded opportunities for organizations to improve performance through the use of technology. Nambisan et al. (2019) explain that digital transformation creates new business models and accelerates the innovation process. In line with that, Autio et al. (2018) emphasized that digital technology encourages the formation of a more dynamic and collaborative entrepreneurial ecosystem. In addition, the World Bank report (2022) emphasizes the importance of institutional quality in supporting economic productivity and competitiveness. Thus, the integration between innovation, entrepreneurial orientation, and institutional environment becomes a relevant approach to explain the variation in organizational performance in the face of increasingly complex global economic dynamics.

6. | CONCLUSION

This research shows that innovation, entrepreneurial orientation, and institutional environment are important factors that influence organizational performance in the context of the modern economy. Innovation plays a key driver in creating added value, increasing efficiency, and strengthening organizational competitiveness. Meanwhile, entrepreneurial orientation encourages organizations to be more innovative, proactive, and risk-taking in the face of increasingly complex market dynamics. Both factors have proven to have a significant contribution to improving organizational performance, especially when supported by a conducive institutional environment.

The results of the study also confirm that the institutional environment not only directly affects economic activities, but also determines the effectiveness of organizational strategies in achieving business goals. Good institutional quality is able to create stability, reduce uncertainty, and encourage the creation of a business climate that supports innovation and entrepreneurship. On the other hand, institutional limitations can hinder the utilization of resources and reduce the effectiveness of the strategies implemented by the organization.

Overall, the integration between innovation, entrepreneurial orientation, and institutional environment is a relevant approach in explaining the variation in organizational performance in the era of digital transformation and economic globalization. The findings of this study make a theoretical contribution to the development of the economics and management literature and form the basis for further research to empirically examine the relationship between variables in various organizational contexts and economic sectors.

Acknowledgment
We gratefully acknowledge the contributions of individuals who supported the completion of this article.

Funding Information
This research did not receive any funding.

Conflict of Interest Statement
The authors declare that there is no conflict of interest.

Ethical Approval and Originality Statement
Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

Data Disclosure Statement
The data that support the findings of this study are available from the corresponding author upon reasonable request.

REFERENCES

Amankwah-Amoah, J., Danso, A., & Adomako, S. (2019). Entrepreneurial orientation, environmental sustainability and new venture performance: does stakeholder integration matter?. *Business Strategy and the Environment*, *28*(1), 79-87.

Autio, E., Nambisan, S., Thomas, L. D., & Wright, M. (2018). Digital affordances, spatial affordances, and the genesis of entrepreneurial ecosystems. *Strategic entrepreneurship journal*, *12*(1), 72-95.

IMF. (2021). *World economic outlook 2021: Recovery during a pandemic*. International Monetary Fund. Retrieved December 15, 2022 from https://www.imf.org

Karami, M., & Tang, J. (2019). Entrepreneurial orientation and SME international performance: The mediating role of networking capability and experiential learning. *International Small Business Journal*, *37*(2), 105-124.

Kurtulmuş, B. E., Katrinli, A., & Warner, B. (2020). International entrepreneurial orientation and performance of SMEs: the mediating role of informal institutional framework. *Sage Open*, *10*(4), 2158244020983294.

Nambisan, S., Wright, M., & Feldman, M. (2019). The digital transformation of innovation and entrepreneurship: Progress, challenges and key themes. *Research policy*, *48*(8), 103773.

OECD. (2021). *The digital transformation of SMEs*. Organisation for Economic Co-operation and Development. Retrieved December 17, 2022 from https://www.oecd.org

Paul, J., & Rosado-Serrano, A. (2019). Gradual internationalization vs born-global/international new venture models: A review and research agenda. *International marketing review*, *36*(6), 830-858.

Ruzzier, M., Douglas, E. J., Ruzzier, M. K., & Hojnik, J. (2020). International entrepreneurial orientation and the intention to internationalize. *Sustainability*, *12*(14), 5647.

UNCTAD. (2022). *World investment report 2022: International tax reforms and sustainable investment*. United Nations Conference on Trade and Development. Retrieved December 19, 2022 https://unctad.org

Wales, W., Gupta, V. K., Marino, L., & Shirokova, G. (2019). Entrepreneurial orientation: International, global and cross-cultural research. *International Small Business Journal*, *37*(2), 95-104.

World Bank. (2022). *World development report 2022: Finance for an equitable recovery*. World Bank. Retrieved December 14, 2022 https://www.worldbank.org

Xie, X., Huo, J., Qi, G., & Zhu, K. X. (2015). Green process innovation and financial performance in emerging economies: Moderating effects of absorptive capacity and green subsidies. *IEEE Transactions on Engineering Management*, *63*(1), 101-112.