EFFECT OF INNOVATION MANAGEMENT AND PRODUCT QUALITY TO EFFICIENCY PERFORMANCE IN SEAFOOD INDUSTRY IN THAILAND

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ABSTRACT

The study was carried out to examine the impact of the innovation management and product quality to efficiency performance seafood industry in Thailand. For estimating both measurement and the structural models, Smart PLS-SEM or PLS-path modeling is employed in this research. To remain competitive and sustain competitive advantage, an enterprise needs to integrate innovative and unique actions and strategies to improve its business performance which help the firm to surpass competitors under market competition. Process innovation, product innovation, and marketing/management innovation are the corporate innovation strategies which involve creating new production methods, services or products, new supply sources, markets, and organization approaches. Innovation quality shows how organization strives to achieve innovation by creating innovative processes, products, or new modes of management, and whether such innovations enable organizations to meet the requirements of employees, suppliers, and customers. If organization becomes able to achieve such objectives, then it confirms the quality of innovation.

Keywords: seafood industry, innovation, product, Thailand

I. BACKGROUND

Innovation has been gaining popularity among scholars as a key corporate strategy. Scholars define it as a new behavior or concept. Innovation can be referred as the adoption of new service, product, management approach, or a technology. Several empirical studies (Akgül & Tunca, 2019; Mao, Lin, & Yadi, 2017) have confirmed that innovation positively influence the performance. In a volatile and highly competitive market, an organization requires to create and implement innovative ideas and concepts to remain competitive as well as to grow in the marketplace (Phan, 2019; Kerai & Sharma, 2015). The seafood industry of Thailand is on decline as it is evident from the figure 1 that the total export of seafood from Thailand is decline over the course of recent decades. One of the reasons why the seafood industry is on decline, is the poor innovation management.

Figure 1: Export volume of seafood from Thailand (2011 to 2020)
Several authors have attempted to define innovation. According to Zeb and Ihsan (2020), the term innovation refers to applying new idea for modifying or developing a process, product, or service. Chen, Yin, and Mei (2018) puts it differently and states that developing anything that is different from the already existing content or method is innovation. To gain competitive advantage, an organization must keep on innovating to ensure uniqueness. According to Fonseca, Faria, and Lima (2019) and Manafi and Subramaniam (2015), corporate innovation leads to marketing, production, and R&D approaches, which consequently result in the commercialization of a newly developed idea. Wiechmann and Bontje (2015) defines innovation as the materialization of a new or innovative idea which is unique from the previous ideas in terms of manufacturing or realizing that idea into tangible form.

In view of Shipton, West, and Patterson (2015), the innovation process involves the generation, evaluation, and the implementation of new concept by using different and unique technologies to reduce costs or improve quality to reach to the corporate goals or targets. To remain competitive and maintain sustainable management, innovation is a key solution that can be adopted by the corporations. According to Seman, Govindan, and Mardani (2019), innovation refers to an enterprise effort to develop and offer new market products in the industry with the help of information and technology, such as, commercialization, invention, etc. Furthermore, a few researchers Healy, Cleary, and Walsh (2018) argued that innovation is a new process, product or service that is created by a business. Another researcher defined innovation as the invention or modification of ideas for meeting the demands of customer by adopting a continuous process of development and improvement. In another definition, innovation refers to the process of proposing new methods, concepts, products, and equipment (Fubara, 2020). The above definitions and discussion present various enterprise dimensions, including production, operating process, services, R&D, and marketing.

Several authors have attempted to define innovation. According to Zeb and Ihsan (2020), the term innovation means creating new process or product, while in the view of Bobera, Lekovíc, and Strugar (2017), innovation is a way to provide better value or quality. Some other scholars (Ginting, Rahman, & Devianto, 2019; Ho, Nguyen, & Adhikari, 2017) also regarded innovation as developing new idea or a certain type of knowledge. In another study, OIN is defined as the process of adopting a new behavior or idea at each organizational dimension, i.e., new program or plan, administrative system or structure, a new service or product, and a new process or production technology. There are three dimensions of innovation which are relevant to this research, i.e., the administrative innovation, service or product innovation, and process innovation. In product or service innovation, new services or products are introduced or modified (Zeb & Ihsan, 2020). In view of Elfahmi and Jatmika (2019), product or service innovation is about implementing and using new technology. Moreover, the process of service or product delivery can be affected through process innovation. Briest, Lukas, and Mölls (2020)argued that administrative innovation is about the administrative elements and how these elements are related to the organization’s social system. Organizations are needed to integrate innovative thinking and innovation while making organizational decisions which could add to the customer value (Zeb & Ihsan, 2020). Thus, innovation in this study is defined as the inclusion and adoption of process, administrative, and product or service innovations (Wang & Juan, 2016).
Combining all the outcomes of innovation is known as the OIN (Mardani, Nikoosokhan, & Moradi, 2018). OIN encompasses the products and services’ quality, management quality at the highest corporate level, and the process quality of corporate operations. OIN shows how organization strives to achieve innovation by creating innovative processes, products, or new modes of management, and whether such innovations enable organizations to meet the requirements of employees, suppliers, and customers. If organization becomes able to achieve such objectives, then it confirms the quality of innovation. It is possible to assess the OIN of organizations based on their organizational activities, their outcomes, and corporate goals. Such as, an innovative enterprise must value certain areas like, Value chain renewal, R&D of new product, and modernized approaches of operations.

In Roffeii, Yusop, and Kamarulzaman (2018) study they proposed that the OIN assessment must involve the following: 1) quality of product or service i.e., new design stability, reduced target cost, increase in perceived value of customers, product performance, and increase in the return on investment; 2) quality of operation process i.e., product development, personnel management, flexibility, upgrading productivity, and correct release time; and 3) management quality i.e., understanding the needs of customers, innovation’s success rate, acceptance among employees, patents, and sales of innovative products.

Literature presents several approaches to measure business performance, such as, market effectiveness, strategic objectives, and financial performance. Financial performance is the most commonly used dimension and includes ROI, ROA, probability, and gross margin (Ahmad & Mohamed, 2018). Khantimirov (2017) pointed out that market effectiveness is the performance dimension that most marketing researchers suggest. Market effectiveness can be estimated using the measures of sales volume, market share, new product innovation, and sales growth. Strategic objective is least common of all the performance dimensions. It is measured based on the organization’s overall performance, achieving strategic objectives, and customer satisfaction. Environmental performance and overall performance quality are the emerging dimensions that have been recently adopted by the researchers as the indicators of strategic objectives. With the emergence of new concept i.e., greening of the firm, there has been increasingly research in this area particularly concerning the firm’s environmental performance (Afonso, Gavilan, & Gonçalves, 2018). Although, the use of quality performance dimension is quite rare and has not been examined or applied by the researchers and the practitioners, mainly because it does not pay-off immediately. The present study aims to analyze organizational performance through using the quality performance measure, where the term quality performance explains the reputation of firm in terms of quality. The firm’s quality reputation significantly contributes to the organization by enabling it to achieve product differentiation, gaining positioning advantages, and customer loyalty (Adhikari, Miles, & Bonney, 2019; Fuentes, Velázquez, & Servera, 2017).

Domi, Keco, and Capelleras (2019) argued that it is the innovation and its implementation capacity that determines whether superior performance will be achieved by the organization. Greater innovative capacity enables the firms to use their resources for developing new capabilities and respond to the changes arising from their environment, thereby leading to improved innovative capacity and CA, which ultimately help firms to achieve superior performance (Domi et al., 2019). New demand emerges as a result of developing innovative products, which also improves organizational growth. Chen et al. (2018) suggests that setting high barriers through innovation enables the seafood companies to prevent the entry of competitors into the market, which strengthens the position of organization in the industry and provides above-average returns. Furthermore, technological advancement also facilitates in the selling of differentiated goods in all markets, be it local, regional, or global markets. In this regard, market intelligence is an effective tool which assists in the distribution. For small firms, competitors and supplier related intelligence is valuable to help firms innovate (Rizan, Balfas, & Purwohedi, 2019).

While entering in the global market, the organization recognizes that technological innovations are central for shaping the market environment. Several scholars (Chen et al., 2018; Wang, Pei, & Wang, 2017) argued that sustainable CA building is possible by effectively distributing the organization’s technological resources, which leads to the enhanced financial performance. An observation that in a hostile environment, innovation serves as a mean to achieve growth as well as long-term survival of the firm, it clearly indicates the significance of innovation in global market. Enough literature is available concerning SME’s non-financial and financial performance as well as drivers of SMEs performance (Zeb & Ihsan, 2020). However, not enough attention has been paid to the quality performance. Therefore, the present study will measure quality of performance by using quality reputation measure. In innovation, quality reputation significantly contributes to developing customer
loyalty, providing advantages of strategic positioning, and allowing product differentiation (Adhikari et al., 2019; Fuentes et al., 2017). Therefore, this study suggests that small and medium enterprises (SMEs) can successfully achieve superior quality performance by integrating product/service, administration, or process innovation.

Unlike the manufacturing sector, the effects that innovation may have on the organization performance are generally different and complex in nature. Only limited studies attempted to examine the impact of OIN on the organization performance. For instance, Akgül and Tunca (2019) conducted a study to investigate how implementing technological innovation and administrative innovation in organization is important to enhance the performance level of their organization. According to Cheng, Chung, and Chen (2018), marketing innovation plays a decisive role to enhance organizational sales and profitability. Prior research also revealed that innovation and firm performance are positively associated. Although, a few studies Cheng et al. (2018) also reported that firm performance and innovation are negatively related. Innovation activities affect different aspects of firm performance. Past research suggests that performance is of four types, i) production performance, ii) innovative performance, iii) financial performance, and iv) market performance.

Moreover, there has been increasing interest among researchers about how innovation contributes to the national economies. One of the assumptions of the endogenous growth models is that firms are likely to invest in an innovative technology if they find it profitable. Thus, innovation may bring about several benefits, such as, greater production efficiency, increased revenue, market share, and higher productivity growth. Ribau, Moreira, and Raposo (2017) asserted that through innovation, a firm can provide differentiated products which enables it to achieve better financial performance. Innovation plays a key role in achieving economic growth. It is a key driver for the SMEs to achieve competitive advantage. A few scholars argued that competitive advantage can be achieved by firms by creating intangible resources which are not possessed by their market competitors. In Cheng et al. (2018) study, they emphasized the significance of learning process and innovation within the organization. According to the firm’s resource-based view, it is important for a firm to develop innovative capability if they are striving to achieve strategic competitiveness. Ribau et al. (2017) asserted that higher financial performance can be achieved through innovation i.e., by offering differentiated, valuable, inimitable, and rare products.

Although, literature suggests that growth and innovation are strongly, and positively related but inconclusive findings were obtained in this study. Meanwhile, two views are presented, concerning the innovation-growth relationship, these are: i) the competitive position of a firm is strengthened by producing new processes or products, and that can possibly be achieved when innovative firm can defend its market position from its rivals; ii) the innovation process improves internal capabilities of the firm by becoming adaptable and flexible against market pressures.

H1: INNM has significant impact on the EFFPR.

H2: INNM has significant impact on the PRDQ.

H3: PRDQ has significant impact on the EFFPR.

H4: PRDQ mediates the relationship between the INNM and EFFPR.

III. METHODOLOGY

To analyze the hypotheses proposed in this study, total 472 questionnaires were obtained as a result of conducting a survey. Oversampling was purposely chosen to prevent non-response bias and to minimize sampling errors (Hair, Matthews, Matthews, & Sarstedt, 2017). According to Ong and Puteh (2017), sample size affects the accuracy of results, and result accuracy improves with greater sample size, while chances of error increase when small sample size is used. Oversampling also covers up the potential loss that may occur due to damages or non-cooperative subjects. Therefore, researchers use oversampling to prevent the effects of non-response bias on the survey results. However, the minimum threshold level is 50% for the social science research survey to become acceptable (Naala, Nordin, & Omar, 2017).

Descriptive and inferential analyses were used to analyze the data collected for this research. For statistical analysis of the data, Structural Equation Modeling approach is used which is an inferential technique for data analysis. SEM is a second-generation technique which is suitable to perform statistical analysis (Hair et al., 2017; Richter, Cepeda, & Roldán, 2016). SEM fits well to the models like Structural Equation Models, in which
there are multiple variables and relationships (cause and effect). Ringle, Sarstedt, and Mitchell (2018) argued that for developing statistical models and making predictions, SEM is a flexible and a robust tool. Therefore, for estimating both measurement and the structural models, Smart PLS-SEM or PLS-path modeling is employed in this research. For estimating the measurement model, the reliability and validity of the constructs are determined, while in the structural model, the bivariate correlation analysis and regression analysis are performed to examine the relationship effects on the model’s latent constructs.

IV. RESULTS

Following Henseler, Hubona, and Ray (2016), a two-step process is adopted to analyze the PLS-SEM path. The two steps are i) measurement or outer-model estimation, and ii) structural or inner model estimation.

In measurement model estimation, the key criteria that need to be determined are internal consistency reliability, individual item reliability, and content, discriminant, and convergent validity (Hair et al., 2017; Henseler et al., 2016; Ong & Puteh, 2017).

(Hair et al., 2017; Henseler et al., 2016; Ramayah, Cheah, & Memon, 2018) argued that observing the outer loadings of each indicator can be helpful in assessing the item reliability of individual items. According to the suggested rule of thumb, the items with loadings lying between 0.70-0.99 should be kept in the model for further study.

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<tr>
<th></th>
<th>EFFPR 6</th>
<th>EFFPR1</th>
<th>EFFPR10</th>
<th>EFFPR11</th>
<th>EFFPR13</th>
<th>EFFPR14</th>
<th>EFFPR15</th>
<th>EFFPR2</th>
<th>EFFPR3</th>
<th>EFFPR4</th>
<th>EFFPR5</th>
<th>EFFPR7</th>
<th>EFFPR9</th>
<th>INNM1</th>
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<tr>
<td>EFFPR 6</td>
<td>0.861</td>
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<td>0.888</td>
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<td>EFFPR1</td>
<td>0.890</td>
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<td>EFFPR10</td>
<td>0.897</td>
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<td>EFFPR11</td>
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<td>EFFPR13</td>
<td>0.856</td>
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<td>EFFPR14</td>
<td>0.831</td>
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<td>EFFPR15</td>
<td>0.801</td>
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<td>EFFPR2</td>
<td>0.883</td>
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<td>EFFPR3</td>
<td>0.863</td>
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<td>EFFPR4</td>
<td>0.867</td>
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<td>EFFPR5</td>
<td>0.804</td>
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<td>EFFPR7</td>
<td>0.835</td>
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<td>EFFPR9</td>
<td>0.905</td>
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<td>INNM1</td>
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<td>0.888</td>
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For convergent validity to be sufficient, all the values for the coefficients and Average variance extracted (AVE) values must range above 0.50, and since all values in this study fall between the range of 0.50-0.86, therefore, adequate convergent validity is said to be achieved. To check if all items represent their latent constructs, satisfactory results are required to be obtained for the item loadings and composite reliability.

Table 2: Reliability

<table>
<thead>
<tr>
<th></th>
<th>Cronbach's Alpha</th>
<th>rho_A</th>
<th>CR</th>
<th>(AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EFFPR</td>
<td>0.971</td>
<td>0.973</td>
<td>0.974</td>
<td>0.744</td>
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<tr>
<td>INNM</td>
<td>0.950</td>
<td>0.950</td>
<td>0.960</td>
<td>0.799</td>
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<tr>
<td>PRDQ</td>
<td>0.961</td>
<td>0.962</td>
<td>0.967</td>
<td>0.786</td>
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</table>

The discriminant validity is the next step after checking the convergent validity. The comparison is made among the indicator loadings and cross-loadings as suggested by Hair et al. (2017) to ascertain the construct’s discriminant validity. According to this criterion, the indicator loadings should be higher as compared to the value of cross-loadings. Discriminant validity determines that concepts that do not expect to be related are unrelated even after the analysis. Besides this criterion, a Hatamifar, Darban, and Rezvani (2018) criterion can also be used in which the AVE square roots are computed to compare the values with the squared correlations of AVE, and the value for AVE square roots are required to be greater in value than the AVE squared correlations, to achieve adequate discriminant validity. To be specific, the value of diagonal elements must be higher than the non-diagonal elements.

Table 3: Validity

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<tr>
<th></th>
<th>EFFPR</th>
<th>INNM</th>
<th>PRDQ</th>
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<tbody>
<tr>
<td>EFFPR</td>
<td>0.863</td>
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<tr>
<td>INNM</td>
<td>0.703</td>
<td>0.894</td>
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<tr>
<td>PRDQ</td>
<td>0.727</td>
<td>0.813</td>
<td>0.887</td>
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The second step i.e., structural, or inner model estimation in PLS path analysis starts after confirming the validity and reliability of the constructs. Structural model estimation involves few steps which include calculating t and p values for checking the significance of path-coefficients, calculating standard errors, and R², measuring predictive relevance, and effects size. At this stage, the primary step is to calculate standard errors and t-statistics to check the acceptance of proposed hypotheses. Therefore, we employed a bootstrapping method, taking 5000 samples(Hair, Hult, & Ringle, 2016; Hair et al., 2017; Ramayah et al., 2018). As shown in Table4, and 5 and Figure 3 all the estimates that are required for structural model are obtained through this procedure.
### Table 4: Direct Results

<table>
<thead>
<tr>
<th></th>
<th>(O)</th>
<th>(M)</th>
<th>(STDEV)</th>
<th>(O/STDEV)</th>
<th>P Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>INNM -&gt; EFFPR</td>
<td>0.703</td>
<td>0.705</td>
<td>0.067</td>
<td>10.516</td>
<td>0.000</td>
</tr>
<tr>
<td>INNM -&gt; PRDQ</td>
<td>0.913</td>
<td>0.914</td>
<td>0.016</td>
<td>57.226</td>
<td>0.000</td>
</tr>
<tr>
<td>PRDQ -&gt; EFFPR</td>
<td>0.512</td>
<td>0.519</td>
<td>0.087</td>
<td>5.897</td>
<td>0.000</td>
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### Table 5: Mediation

<table>
<thead>
<tr>
<th></th>
<th>(O)</th>
<th>(M)</th>
<th>(STDEV)</th>
<th>(O/STDEV)</th>
<th>P Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>INNM -&gt; PRDQ -&gt; EFFPR</td>
<td>0.468</td>
<td>0.474</td>
<td>0.082</td>
<td>5.731</td>
<td>0.000</td>
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</table>

The value for R-square is also calculated as it provides that how much amount of variance (in percentage) in the model’s dependent variable is explainable by the model’s independent variables. Coefficient of determination is the other name used for the R-square (Hair et al., 2016; Shiau, Sarstedt, & Hair, 2019; Shuhaiber, 2018). Satisfactory range for coefficient of determination or R² value is determined based on the type and context of the research. According to Henseler et al. (2016), minimum acceptable range for R² is 0.10. According to other researchers Hair et al. (2016), if R² is closer to 1 it shows greater predictive power, thus, 0.67 shows substantial predictive power, 0.33 shows moderate predictive power, and 0.19 shows weak predictive power.

### Table 6: R-Square

<table>
<thead>
<tr>
<th></th>
<th>R Square</th>
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<tr>
<td>EFFPR</td>
<td>0.538</td>
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<tr>
<td>PRDQ</td>
<td>0.834</td>
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In the estimation of structural model, measuring the model’s predictive relevance is the last step. Blindfolding procedure is the relevant method for calculating the Q² value which is a predictive relevance measure. The value for Q² represents the model’s predictive accuracy and the value of Q² is required to be non-zero for the endogenous construct, i.e., Q²>0 which explains the predictive accuracy of structural model for a particular construct. Hence, Hair, Sarstedt, and Ringle (2019) proposed that Q² value is small if it is equal to 0, medium if Q² is equal to 0.25, and large if Q² is equal to 0.50.
Scholars have been attempting to conduct more studies since the last few decades to determine the innovation-performance relationship in context to organization. For this purpose, they have been adopting various kinds of indicators, both non-financial and financial that are either objective or subjective for measuring business performance. In Domi et al. (2019) study, they found positive impact of innovation on the firm performance. The contribution of both incremental and radical innovations in firm performance are found as quite interesting. Regardless of the market disruptions, they greatly determine the performance of an organization (Domi et al., 2019). In view of Zeb and Ihsan (2020), innovation process can effectively drive the organization’s trade and innovation performance. Firms use service/product innovation to maintain exceptionality, quality of newly developed product or service, newness, and reliability against its competitors which in turn improve the overall performance of an organization (Oanh, 2019). In order to analyze the relationship between service innovation, market orientation and innovation performance, a study was conducted by Wang and Hsu in context to Taiwan’s High-tech Industry. Their study revealed the mediating role of innovation on the organization’s innovation performance. Besides, the findings also indicate the important role of technology-based product quality in achieving greater innovation performance. Another study attempted to assess how innovation plays its role in the banking sector. The study findings suggest that profitability is improved through product innovation, while both profitability and efficiency improved through process innovation. In addition, integrating process, institutional, or product innovation increases the firm’s operational flexibility and stimulates the process of acquiring quality people, improved technological competitiveness, and quality products. Several prior studies Tirado (2018) have found that positive relationship exists between innovation performance and organizational performance which facilitates in determining which capability would lead firm to achieve competitive advantage. A few researchers also examined whether organizational performance and OIN are related in tax-affair general administration of Iran. Findings of their study revealed significant and positive impact of product, organizational, or process innovation on the performance of an organization (e.g., growth, internal process, customer, and financial). Furthermore, study also confirmed the effective contribution of process innovation in the performance of organization. According to Akgil and Tunca (2019), process innovation has the potential to provide firm with several benefits which can ultimately lead to competitive advantage. This practice has been adopted by several businesses, but they have not gained any considerable success. For instance, most companies reported no, or very little impact through innovation. Therefore, instead of focusing on marketing or organization innovation, most studies mainly emphasized on process and product innovation.

REFERENCES


