Strategic marketing, capabilities, and organizational networking:

effects on innovation in entrepreneurship of SMEs in Puerto Rico

An organization's future is subject to the construction and implementation of connected, adaptable, and innovative business models. Due to the growing uncertainty within the business environment, these relationships between organizations have become much more essential and necessary (Mokhtarzadeh et al., 2020) to apply innovation and seek a collaborative advantage (Ardito et al., 2019). Related companies, strategic alliances, and business partners within the supply chain have increasingly adopted tactics that allow them to build support networks to achieve marketing objectives as the primary source of their competitive advantages (Mitrega et al., 2012). Business relationships that form support networks allow companies to identify opportunities, access valuable information, carry out knowledge transfer and mobilize resources (Thornton et al., 2014) more efficiently and effectively—from an organizational perspective, achieving an advantageous position within a support network allows companies to explore vitally essential business opportunities with the strategic goal of positive business outcomes.

Although the literature presents the importance of studying how companies interact within their networks, the reality is that the research that explains these phenomena is scarce (Thornton et al., 2014), and the interactive behavior between two actors does not necessarily contribute to the company's performance (Thornton, Henneberg, and Naudé, 2013). This raises the following questions: What relationship skills are used by senior management? How are these relationships developed from the company? How does it affect these organizational networks? How is the knowledge acquired from networking activities transferred throughout the company to achieve strategic objectives?

Keywords: Networking, Innovation, Marketing

1. INTRODUCTION

Collaborative networking and marketing are perceived as alternatives that allow small and medium-sized enterprises to concretize their innovation processes. Using and correctly combining the opportunities to develop connections, agreements, and strategies between individuals can increase the quantity and quality of said relationships (Belso-Martinez et al., 2018), allowing the construction of relationships between companies within the same business networks. A mechanism to promote business innovation is participating in associative processes such as business networks or networking (Hinestroza, Cardona & Quintero, 2011). Collaborative activities generally allow participating organizations to significantly reduce their costs and obtain alternatives to solve their main problems, allowing companies to combine and integrate the generated knowledge and skills to their benefit (Ahuja, 2000). Innovation is key to maintaining a competitive advantage and requires new combinations of expertise to create new products. This means that most small enterprises need to expand their resources, knowledge, and contacts through collaborations, external interactions, and support networks (Hinestroza, Cardona & Quintero, 2011) to achieve innovation. Companies need to understand the processes and capabilities to develop business relationships that achieve specific objectives (Mitrega, Forkmann, Ramos, and Henneberg, 2012).

The creation of support networks is a strategic organizational behavior that enables the company to understand, adapt and mobilize its environment (Mouzas and Naudé, 2007). It is recognized that behaviors within support networks are initiated by actors (for example,

managers, directors, or senior executives), and the benefit from this type of coordination that these resources can do between partner organizations allows the improvement in their strategic performance and ensure the long-term survival (Majid et al., 2019) of the organization to which they belong. However, information exchanges, identification of opportunities, and resource mobilizations occur at the organizational level (Thornton, Henneberg, and Naudé, 2013). This causes networking skills to be considered essential to coordinate, organize, control, exchange, and direct staff skills in developing and managing support networks (Mokhtarzadeh et al., 2020). Therefore, the first hypothesis (H1) is: The ability to network positively influences the creation of organizational networking.

This organizational networking will only generate positive results if the company manages to have a higher knowledge absorption capacity. This means that the organization must be willing to adopt and implement a set of strategic organizational routines and processes that allow it to acquire, assimilate, transform and exploit (Zahra and George, 2002) the knowledge gained through networking processes. This knowledge can generate dynamic capabilities translated into innovations that allow the company to have a competitive advantage. The learning, knowledge transfer, and innovation methods are decisive in developing capabilities that enable small and medium-sized enterprises (SMEs) to translate knowledge into marketable goods and services in specific niches of value chains (Dalkir, 2011).

Most SMEs expect that adopting collaborative activities will significantly improve their performance, which is critical for them. It allows them to generate relevant knowledge and convert it into new products or services (Zeng, Xie, and Tam, 2010). Without overlooking the fact that these types of organizations have limitations and do not have all the resources accessible due to their type of structure. Therefore, it is intended that by participating in these interaction dynamics, companies have access to an adequate network of partners that possess complementary resources to share, achieving mutual advantages (Yang et al., 2018) and allowing them as companies to understand what has not yet been explored (Thornton, 2013). Therefore, the second hypothesis (H2) is: Organizational networking positively influences absorptive capacity.

The dynamic character of absorptive capabilities is embedded in productive and organizational processes, moreover, they are aimed at making fruitful changes and transforming activities within the firm (Flatten, Adams, & Brettel, 2015). Firms develop absorptive capabilities from the coexistence among their members. Innovation-focused organizations develop collaborative relationships with business partners and frequently meet to define and evaluate innovation objectives in the short and long term (Hoegl and Wagner, 2005). The acquisition of new machinery or adopting new work practices is achieved through learning activities with allied companies, which eventually allows innovation development (Porter and Siggelkow, 2008). Companies must establish internal and external knowledge flows to take advantage of their innovative potential, requiring the result of a capacity to recognize that valuable knowledge and subsequently manage to transfer and exploit it (Flatten, Greve and Brettel, 2011). Therefore, the third hypothesis (H3) is: The absorptive capacity fosters the organization's innovation processes.

2. LITERATURE REVIEW

To understand the networking processes between companies and their relationship with innovation development, it is essential to identify and define the theoretical frameworks that can influence these processes.

For the company, the meaning of the dynamic concept is the management of perceiving, seizing, and, consequently, reacting to changes through the transformation of commercial relationships and support networks to obtain the necessary resources (Mitrega, 2017). Teece (1997) defined the concept of dynamic capabilities as the organization's ability to integrate, build, and reconfigure competencies and align them to market changes. On the other hand, Eisenhardt and Martin (2000) define them as the organizational processes to integrate and reconfigure resources and even create shifts in the market. To identify this type of reconfiguration, the company must relate internally and externally with other links in its business ecosystem. These relationships or networking allow the construction of a communication channel that enables the company to gather pertinent information for its decision-making and organizational changes. In general terms, the literature has focused on understanding what kind of dynamic capabilities are essential to manage in the different interaction scenarios and how to recognize and implement them to their benefit. That is why it is necessary to differentiate the support or networking networks used internally, externally for clients, and commercial networks. Practices and routines are required to successfully initiate, develop, and terminate business relationships within the supply chain (suppliers, customers, and competitors) (Forkmann, Mitrega, & Henneberg, 2017).

The dynamic capabilities approach is generally classified into three categories. The first category includes establishing networks and relationships (Möller and Svahn, 2003). The second category is knowledge management, creation, absorption, integration, and learning and adaptation mechanisms (Zollo and Winter, 2002). And the third category is related to creativity and innovation (Verona and Ravasi, 2003). According to Makadok (2001), the dynamic capabilities in organizations need to renew their skills, requiring the exploitation of internal and external business capabilities and the development of new stuff. This means that organizations are committed to constantly continuing themselves since this renewal will be the piece that maintains innovation within the company. To the extent that these dynamic capabilities create a competitive advantage, it will be in part a function of the quality, speed, and cost of their execution (Barreto, 2010). Likely, the competitive advantage related to a specific resource template is not always sustainable since to the extent that the resource template would create value depending on the function of adapting to a changing business environment (Eisenhardt and Martin, 2000).

Consequently, the focus shifts towards continuous innovation of resource and capability templates to create a series of competitive advantages in alignment with the demands made by the dynamic context (Eisenhardt and Martin, 2000). Being an active scenario, it is essential to promote relationships or networking processes within the resources involved constantly. This could shift the focus of the analysis to the technical aptitude of dynamic capabilities relative to competition as an antecedent to frequent resourcing and related competitive advantage (Helfat et al., 2007).

Social exchange theory within social psychology helps us understand the behaviors between individuals belonging to a group and how these individuals relate to each other to obtain benefits. One of the main constructions of social exchange is reciprocity (direct or indirect), in the support exchanged between two or more people within a whole group (Flynn, 2005). In other words, the focus of this theory is how individuals can interact or perform networking processes to obtain beneficial results for those involved in the interaction. Furthermore, social exchange theory holds that people's affective attachment is governed by the entity they are exchanging support (Flynn, 2005). This theory helps us justify the importance of interaction or networking between people and how these connections help each other obtain benefits. Social exchange theory is based on the premise that behavior is an exchange of rewards between actors. The process of social business begins when an organizational actor or perpetrator, usually a supervisor or coworker, treats a targeted individual positively or negatively (Eisenberger, Lynch, Aselage, & Rohdieck, 2004). In addition, this theory establishes that people participate in those activities that they believe are rewarding and do not represent an excessive cost (Omotoso, 2012). Therefore, before people participate in the activities of social groups, the merits and disadvantages of the interaction are considered to participate or not in the activities carried out (Posey, Lowry, Roberts and Ellis 2010). Despite its name, social exchange theory is not a single theory but is best understood as a family of conceptual models (Cropanzano & Mitchell, 2005). Accordingly, all social exchange theories share several standard features. All social aspects change social life by involving sequential transactions between two or more parties (Mitchell, 2012).

Open innovation is a term coined by Professor Henry Chesbrough. An innovation strategy is proposed through which companies go beyond their limits and develop cooperation with external organizations or professionals. Under the open innovation model, projects can originate both inside and outside the company, be incorporated at the beginning and intermediate phases of the innovation process and reach the market through the same company or other companies (Chesbrough, 2003). This model allows many professionals from different disciplines and lines of command to collaborate, interact and carry out networking processes to contribute experience and knowledge in solving problems or creating new projects. Among the benefits of adopting this business model to small and medium-sized companies are saving time and money in solving a problem or developing a project, using excellent resources found outside the organization, expanding its growth potential through strategic alliances, and creating a collaborative internal environment benefit. Achieving greater cost efficiency in the processes translates into more significant innovation development using networking as the center of these actions.

3. METHOD

The sampling frame used in this research consisted of a convenience sample of 350 small and medium-sized enterprises in Puerto Rico. The Puerto Rico Trade and Export Company defines the SME sector as any company that employs one to 50 employees and has sales of less than 10 million dollars per year. Since the sample consisted of small and medium-sized companies, the owner was contacted by telephone, e-mail, and/or in person. The questionnaire consisted of 54 questions. Forty-six used a five-point Likert-type scale, and eight were demographic questions.

Within the research, a suggested conceptual model was constructed that proposed to investigate how networking offers to be a strategy for small and medium-sized enterprises in Puerto Rico to have a more significant opportunity in the development of innovation. The model variables were organized linearly to suggest a multi-stage process within the interactions/relationships of each variable. It started with the variable networking capacity (Wang, Zhao, & Voss, 2016), defined as the aptitude, willingness, and openness to establishing relationships for the company's benefit. This independent variable influences the second-degree variable organizational networking (Thornton, Henneberg, & Naude, 2014). Corporate networking was defined as the business culture characterized by mastery in discerning and identifying which relationship is beneficial for the company and which is not, activating the interaction processes between companies within its ecosystem. This variable is composed of 4 dimensions: acquisition of information, enabling opportunities, mobilization of solid resources, and mobilization of weak resources. These four dimensions make up the totality of the variable, becoming an independent variable and influencing the following second-degree variable called absorptive capacity (Zahra and George, 2002). This is defined as the process used by the company to learn all the knowledge generated by interacting with other companies within the ecosystem. The variable has four dimensions or stages: acquire, assimilate, transform, and exploit. By correctly

completing each size or location of the process, it is expected to influence the development of innovation in the company positively. The innovation variable is measured by new products, new techniques, or new markets (Chesbrough, 2013).

4. DATA ANALYSIS AND RESULTS

The partial least squares structural equation modeling technique (PLS-SEM) was used to test the proposed model. PLS-SEM has been increasingly popular in business research (Hair, Sarstedt, Ringle, & Mena, 2012; Hair, Sarstedt, Pieper, & Ringle, 2012). PLS-SEM is advantageous for relatively small sample sizes and complex research models (Fornell and Cha, 1994; Reinartz et al., 2009; Hair, Sarstedt, Ringle, & Mena, 2012; Hair, Sarstedt, Pieper, & Ringle, 2012; Hair, Sarstedt, Ringle, 2012; Hair, Sarstedt, Ringle, 2012; Hair, Sarstedt, Ringle, 2012; Hair, Sarstedt, Pieper, & Ringle, 2012; Henseler et al., 2014).

The first step in evaluating a PLS-SEM model was to examine the external model (Hair et al., 2017). Relationships between the four constructs and their indicators, as well as reliability estimates, were evaluated. Composite reliability ranged from 0.84 to 0.90 for all four constructs, exceeding the minimum requirement of 0.70 (Hair et al., 2017). Cronbach's Alpha ranged from .683 to .902, mostly below or close to the recommended requirement of 0.90, as excessively high values point to strong redundancies between items, which can have adverse consequences for model estimates (Diamantopoulos, Sarstedt, Fuchs, Wilczynski, and Kaiser, 2012). All indicator loads were above 0.71, although the average was above 0.70.

The average variance extracted (AVE) for the research model ranged from .629 to .839, while the cut-off point is 0.50 (Hair, Sarstedt, Ringle, and Mena 2012b), indicating convergent validity for all constructs. The Fornell-Larcker criterion (Fornell and Larcker 1981) showed that all AVEs were higher than squared inter-construct correlations, indicating discriminant validity for all stakeholder constructs.

The HeteroTrait-MonoTrait (HTMT) relationship was used to further explore discriminant validity as an alternative assessment approach (Hair et al., 2014). Analysis of bootstrapbased accelerated bias-corrected confidence intervals (5000 subsamples, no sign change option) shows that all HTMT Ratio values in the sample are significantly different from one (HTMTInference), supporting the discriminant validity (Henseler, Ringle, & Sarstedt, 2015).

An examination of the cross loads shows that all the indicator loads were higher than their respective cross loads. This provides evidence and proof of the general discriminant validity (Hair et al., 2017). The positive relationship between R2=.308, β =0.548 (H1), R2=0.353, β =0.594 (H2), and R2=0.372, β =0.610 (H3) were all accepted at p = .00. All sizes of the structural coefficients for the accepted hypotheses were considered significant for the interpretation (Hair et al., 2017). These relationships have not been tested in previous studies.

The results of this research are based on a study carried out with a validated sample of 231 SMEs. The participating SMEs were selected throughout Puerto Rico, belong to various industries, and are divided into micro, small, and medium enterprises. They were the microenterprise segment, the highest in participation with 65%. According to Liefner et al. (2006), recent studies applied to the SME sector in various countries worldwide, especially in developing countries, have shown that companies' collaboration and interaction activities with other organizations can increase their innovation activities by improving their innovation promoting and increasing innovation skills.

The first hypothesis established for this research was to determine if the networking capacity of the owners and senior management influences organizational networking. The findings revealed in this research show that the first phase of this contact or networking is generated at the individual level (Forret and Dougherty, 2004) by management but involves a transformation in organizational philosophy. Sowon (2013) conceptualizes networking as a process involving proactive behavior, which is needed to build beneficial relationships. This investigation showed that this process has a significant division into two related types. The first is reactive networking capabilities which means that the organization's leader responds, reacts, and participates in activities coordinated by third parties. The second is the capacity for proactive networking, which means that the leader takes the initiative to coordinate the event or activity to foster a relationship between one or more peers. The level of action that an entrepreneur adopts in his relationships can classify his behavior from "reactive" to "proactive," depending on his initiative, reaction, and intervention in the relationship processes (O'Donnell, 2004). It was revealed that the owners and managers of SMEs in Puerto Rico support and participate in this networking when third parties coordinate it. Still, they do not take the initiative to coordinate this type of strategy to relate to others. What could be perceived within the leadership of the SME sector is a lack of ambition or interest in attempts to establish, develop and maintain relationships with the business ecosystem to which they belong.

The second hypothesis was to assess whether organizational networking impacts the absorption capacity of the company. The research confirms that corporate networking comprises four dimensions that are distinct from each other and align differently to the purpose set by the company to form strategic relationships. It is taken into consideration that the most vital dimension where the entrepreneur perceives the most outstanding value to carry out the networking processes is in the opportunity skill dimension. As Kaufmann and Schwartz (2008) confirm, a company's interest in creating support networks stems from the primary need to identify opportunities within the same company networks to which they belong. In addition, the importance of determining the capacity of the business network has been recognized by showing the manager the information necessary for them to act strategically when investing time and resources, avoiding the neglect of other essential tasks (Semrau and Werner, 2012). for your organization. Organizational networking allows this type of company to establish alliances of vertical integration and horizontal integration where they build collaborative spaces and search for strategic interactions that have results aligned to generate the value of various types: (1) monetary value, (2) value of knowledge, (3) value in business opportunities, (4) value in collaborative relationships and (5) value in strategic alliances. Understand monetary value, knowledge value, value in business opportunities, value in collaborative relationships, and strategic alliances.

In the same way, it is essential to clarify that the simple fact of adopting organizational networking within the company is not enough to generate some value for the organization. It is necessary to include internal actions and processes to transmit knowledge to the human resources that work in the organization. Flatten et al. (2011) recognize that within the companies' operations, an information flow protocol must be established (internally and externally) that promotes exchange, transfer, and exploitation of that knowledge for the benefit of the innovation development processes.

The findings for the third hypothesis analyze whether the absorption capacity of the company has an impact on innovation. As a result of this research, it is essential to recognize that absorptive capacity processes are necessary to generate positive organizational networking and company innovation development results. As Lane, Koka, and Pathatk (2006) have pointed out; it constitutes one of the fundamental learning processes in a company insofar as it reflects its ability to identify, assimilate and exploit knowledge from the environment. As this variable is a process, all the components must be approved correctly and respect the respective phases to achieve absorption capacity successfully. This investigation evidenced that most SMEs in Puerto Rico practice absorptive capacity within business operations but have remained in the step of acquiring information. Continuing with the second phase of the process, which is to assimilate the information, could represent a difficult stage to manage. This means that SMEs have the knowledge but have not yet incorporated, transformed, and exploited it. This represents a significant challenge for this sector when creating innovation strategies because they do not have the necessary resources and tools to implement them successfully. According to Muller (2014), SMEs have an organizational structure with a higher dynamism, ease, and speed in decision making. These peculiarities help you develop innovation and, in turn, in the adjustments that must be implemented to face market changes. Murphy and Ledwith (2007) have confirmed SMEs' closeness with customers through employees, allowing them to observe and interact. This makes it possible to identify business opportunities and validate the importance of absorption capacities for developing innovation in the SME sector. In this research, Puerto Rican SMEs cannot complete their innovation development processes because they cannot create or implement information absorption capabilities within their organization. Most of the SMEs participating in this study have continued to acquire information, but the absorption process identifies the difficulty. The SME sector in Puerto Rico has not fostered communication scenarios between employees (departments) that encourage knowledge sharing. As this exchange action is not carried out, the information assimilation phase cannot be completed. This causes innovation development in organizations to be not achieved correctly because they do not have the tools to achieve it.

Finally, the main objective of this research is to establish a predictive model that presents the use of networking capabilities at the individual level, organizational networking as a strategic philosophy of the company, and the absorption capacity as a way to develop innovation in the organization. This study has concluded that SMEs should consider the alternative of networking as an option to align innovative architectures. This injection of value helps SMEs have more significant opportunities to survive in the market, allowing them to direct their business to better performance. However, despite the importance of networking as a strategy for evolving organizations (Wolff and Kim, 2012), 85% of managers still do not use this activity for strategic purposes (Cheuk, 2007).

5. IMPLICATIONS AND CONCLUSIONS

Among the conclusions expected with the results of this research is to determine that the networking capacity of management influences organizational networking. Also, to show that corporate networking impacts the absorption capacity of the company and that the absorption capacity of the company impacts innovation. Additionally, we confirm that networking and collaborative marketing between companies are essential elements to add value to the supply chain and essential for developing innovation (Henke and Zhang, 2010).

5.1 Theoretical Implications:

The implications in this research have found the power to establish a predictive model focused on helping the growth and implementation of innovation in the sector of small and mediumsized businesses in Puerto Rico. They present the relationship between networking capacities at an individual level by management, organizational networking as business philosophy, the ability to absorb knowledge as a practice used in organizations, and the development of innovation of the business. This validates that the networking processes for small and medium-sized companies in Puerto Rico are not processes carried out exclusively from within the organization, much less isolated from the business ecosystem they belong to. It is necessary to create an awareness of openness and collaborative thinking that influences establishing organizational goals. Being oriented towards innovation, being proactive, and taking risks impacts taking advantage of opportunities (Kollmann and Stöckmann, 2014) and genuinely achieving monetizable results for the organization.

5.2 Managerial Implications:

From a practical perspective, the study presents essential data related to creating support networks and organizational strategies necessary for progress in the operations of the SME's sector in Puerto Rico. Also, because they are small companies, it is more challenging to achieve their innovation processes effectively, and the vast majority need to expand their resources, knowledge, and contacts through collaborations (Hinestroza, Cardona, and Quintero, 2011). Therefore, provoking interaction and collaboration scenarios aimed at establishing processes for improvement and evaluating opportunities for the organization allows owners and senior management to address the weaknesses or shortcomings of their businesses. Additionally, promoting an active mentality from the individual, but supported by the group, contributes to the development of a sense of belonging and responsibility for all the actors involved in the relationship. They are allowing not only to produce positive results at the individual level and towards the organization, it represents but also to feel responsible for contributing and contributing to the well-being and development of collective innovation within the ecosystem.

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