

Networking Capability and Learning Capability as Determinants of Firm Performance Mediated by Business Model Innovation

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Abstract: - Business model innovation (BMI) is receiving increased attention in the firm's practice and research. Business models have become essential for a firm to commercialize new ideas and technologies. However, the practice of business model innovation in SMEs still needs to be improved, whereas BMI can be beneficial for SMEs. The studies investigating dynamic capabilities as an exogenous variable for business model innovation still need to be completed. This study aims to see the influence of networking capability and learning capability as part of dynamics capability on business model innovation which further leads to firm performance. A quantitative study was conducted to see the relationship. A total of 234 respondents participated in this study, and the data were eligible for further analysis. SMART PLS version 3.3.3 was used to analyze the data. The result showed that networking and learning capability positively influenced business model innovation, and business model innovation positively influenced firm performance. This research validated the concept of dynamic capabilities relationship with business model innovation. This research reinforced the statement that the business model innovation construct is mediative. This research strengthens various studies on the positive influence of business model innovation on firm performance.

Key-Words: Business Model Innovation; Dynamics Capability; Learning Capability; Networking Capability; Firm Performance

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1 Introduction

Business model innovation (BMI) is receiving increased attention in the firm's practice and research. Business models have become essential for a firm to commercialize new ideas and technologies, [1]. The firm provides an organization's configurational enactment of a specific opportunity, [2], such as the consistent and integrated description of the firm and the way to get revenues and profit, [3]. Business model innovation can be defined as discovering a fundamentally different business model in an existing business, [4]. Another expert stated that business model innovation was also a new business logic for the firm and new ways to create and measure the value for its stakeholders, [5].

The emergence of new models and business innovation becomes the background of this study. It is also reflected by recent issues and an exponential increase of related articles in peer-reviewed academic journals, [6]. Business model innovation is a central theme in entrepreneurial research, [6], [7] considering the need for relevance of

entrepreneurs' business organizations in their business development, [1]. The Small and Medium Enterprises (SMEs), the research topic of business model innovation needs to be developed to improve its progress at the firm level, [8]. Only 35% of European SMEs understand this concept, [9]. In general, many business actors only understand innovations at the product and service level, [10].

SMEs in Indonesia contribute up to 97% of employment and 57.24% of the GDP, [11]. The most significant business sector in SMEs in Indonesia is culinary, which will be the focus of this study. Indonesia's culinary industry SMEs have an immense GDP contribution among the 16 creative economy subsectors, with the number of actors reaching 1,249,106 with a labor absorption rate of 7,983,259, [12]. According to data from the Global Entrepreneurship Monitor-GEM, the culinary sector is the primary preference for a person to do business in Indonesia, [13]. At the global level, the number of SMEs reaches 90% of business actors with a labor absorption rate of 63%, [14]. Through the development of business model

innovation, it is hoped that this condition will become the direction of a strategic posture for SMEs because of the harmony of business, market, and industry, [15], [16].

Dynamic capability is widely oriented to synthesizing business model innovation, [17], [18], [19]. Dynamic capabilities and business model innovations aim to create value through business organizations, [20]. Business model innovation is a mediative variable influencing performance, [8], [21], [22]. At the same time, the dynamic capability requires various mediating variables to affect performance, [23], [24]. The direction of dynamic capability synthesis toward business model innovation comes in two forms. First, the concept of dynamic capabilities directly toward business model innovation, [19]. Second, the dynamic capabilities partially toward business model innovation, [25]. This study used the first approach, which seen dynamic capability can directly influence business model innovation.

The studies investigating dynamic capabilities as an exogenous variable for business model innovation are still very limited. So far, the developments have only been on the theme of marketing capabilities, [26], firm capabilities, [27], [28], and integration capabilities, [22], as exogenous variables for business model innovation constructs. Three of the above studies are in the firm context, [22], [26], [27], and only one is in the context of SMEs, [28]. This study aimed to develop novelty through networking and learning capabilities as exogenous variables for SMEs' business model innovation.

2 Literature Review

2.1 Business Model Innovation (BMI)

Generally, a business model will be present naturally in all businesses, whether planned or unplanned, [29], [30]. The business model will transform dynamically based on various determinations to become more innovative, named condition of business model innovation, [29]. Innovation in business models will occur in the journey of a business organization considering that a business model is hypothetical, [31], progressive, [32], and prefigurative, [33]. Business model innovation can be defined as the discovery of a fundamentally different business model in an existing business, [4] or a kind of new business logic for the firm and new ways to create and measure the value for its stakeholders, [5].

At the SMEs level, the business model innovation needs to be carried out because it has been proven in various empirical studies to improve firm performance. Business model innovation for SMEs will be a strategic process because it will be an adoption force for (1) firms' value offerings, (2) economic models, (3) customer relationships, (4) internal infrastructure connected, and (5) target markets, [7]. The development process will go through various strategic phases, namely (1) fundamental levels that include value creation, (2) proprietary levels that include the development of unique combinations, and (3) rules levels that include stabilization.

The determination of the business model innovation can occur due to internal and external factors, [25], [34]. [35], stated that business model innovation could be developed through (1) activity system perspective, (2) perspective dynamic capabilities, and (3) adaptive perspective. Other studies researched the direction of developing business model innovation research, including developing antecedents, consequents, mediation, and moderation, [25].

The development of a business model innovation has a robust synthesis with the concept of strategic entrepreneurship, resources-based view, and dynamic capabilities, [20]. The body of research on business model innovation has evolved from 1981 - 2012. Research in business model innovation and its relation with dynamic capabilities became popular from 1972 - 2015, [25]. The studies on those two concepts were conducted by such as, [17], [18], [19], [25]. Dynamic capability is a concept that encourages the presence of various capabilities, [36], [37]. This study elaborates on dynamic capabilities, including networked capabilities, [37], and learning capabilities, [38], as influencing factors for business model innovation.

2.2 Networking Capability (NC) and Business Model Innovation (BMI)

Networking capabilities are the ability of business organizations to utilize, develop, and make relationships with business stakeholders for performance, [39], [40], [41]. The statement of networking theory is about the presence of resources and legitimacy, [42], [43]. This orientation is aligned with the development of resource-based dynamic capabilities, [20], [37], [44].

Developing networking capabilities is essential for SMEs that often have limited resources, [45]. SMEs must deliberately develop networking

capabilities because business relationships cannot be carried out in an ordinary social behavior approach, [46]. Essentially, relational relationships are often more effective in business development than quality transactional relationships, [32]. Networking will form the ecosystem needed by business organizations, [47].

Networking will always be needed by business organizations both at the stage of (1) business opportunity development, (2) organizational development, and (3) business establishment orientation, [48]. Network development can be done at the individual and organizational levels, [49]. Through networking, business organizations can develop (1) innovation, [50], (2) resources, [40], (3) growth, [51], and performance, [52]. Networking will generally encourage SMEs business organizations to be strategic, [49].

Empirically, networking capabilities have been studied in various contexts that include (1) business internationalization, [53], (2) business organization relationships with suppliers, [54], (3) new product development, [55], (4) innovation [41], and (5) SMEs performance, [39], [41]. This finding illustrates that networking capabilities are a strategic construct entrepreneurial business organizations need, [49].

The Influence of networking capabilities on the innovation of business models is still very limited in research. Research on the relationship between the two constructs is still qualitative in the real estate sector, [56]. Self-networking capabilities have been shown to affect performance, [39], [41]. Meanwhile, business model innovation is a mediative construct, [21], [22]. Based on these conditions, this study wants to see the influence of network capabilities on business model innovation. H1: Networking Capability significantly positively influences Business Model Innovation.

2.3 Learning Capability (LC) and Business Model Innovation (BMI)

Learning capability is the firm's ability to learn through various sources systematically for the presence of a business performance-oriented mindset and behavior, [57], [58], [59]. Through learning capabilities, a business organization can transform information and knowledge into strategic strengths in business, [60]. Learning capabilities are elaborative and essential for developing dynamic capability studies, [38], [59], [61]. Learning capabilities are critical for SMEs because they will change knowledge into a business mission, [62]. This condition will make SMEs carry out a strategic orientation in the entrepreneurial

phase they are currently undergoing, [57], [63]. Through learning capabilities, various core competencies can be developed in a business organization due to the acquisition and utilization of knowledge, [43], [64].

The learning process in a business organization can be carried out through the stages of (1) acquisition, (2) dissemination, (3) inter-achievement, and (4) institutionalization, [57]. Learning development can be developed at an individual and organizational level, [62]. Learning orientation can be carried out due to the need for adaptive or generative learning, [65]. Learning resources can be through (1) initial organizational knowledge, (2) experience, (3) other organizational conditions, (4) performance conditions, and (5) the business environment, [57]. Learning development is carried out to develop devices, behaviors, capabilities, and performance, [62], [66], [67].

Management strategic learning capabilities are oriented toward resource development, [60]. In entrepreneurship studies, learning capabilities are essential in developing opportunities, [57]. This statement aligns with SMEs' need for performance opportunities and advantages in harmony, [43], [68]. The opportunities for development and resources in a business organization are also in line with the development of a business model innovation, [17], [18], [21], [35].

Empirically, learning capabilities affect SMEs in the context of (1) performance, [69], [70], [71], (2) innovation, [63], [67], and (3) business processes, [72]. The capability of self-research has also become a mediation for the relationship of business models to technological performance at the firm level, [73]. At the SMEs level, it also found some business model innovation is influenced by learning orientation, [74], and mediated by learning capability, [75]. This study was intended to test the construct of learning capabilities as antecedents for an innovative business model.

H2: Learning Capability significantly positively influences Business Model Innovation

2.4 Business Model Innovation (BMI) and Firm Performance (FP)

Naturally, the business model will be present in a business organization, and in the way of business, the potential for innovating a business model can be present, [20]. The business model can be understood as the role of business organizations to create and convey value for customers for the presence of performance, [30]. The development of business model innovation research is a concern for

many researchers, [10], [25], [35], [76], [77]. The researchers developed various measuring instruments for the empirical research direction of business model innovation. [76], stated business model innovation can be estimated through (1) reflective measurement, (2) formative measurement, and (3) meta-measurement.

At the SMEs level, innovating business models are challenging considering their complexity, [78]. Only 35% of SMEs in Europe practice business model innovation, [9]. Empirically, business model innovations have been shown to have influenced the performance of SMEs in various studies, [8], [21], [22], [79], [80]. Performance development for SMEs requires exploring and exploiting opportunities, [81].

Business model innovation is also a strategic option in responding to business environmental conditions. In a dynamic business environment, business model adaptation will indeed be needed for performance improvement [85]. Business model innovation itself has been shown to affect the performance of entrepreneurial organizations in various models of business environment dynamics, [82]. In the development of studies among researchers, business models are indeed an important antecedent for organizational performance because of the contributions they make [25].

Business Model Innovation enables SMEs to explore external opportunities and internal improvement, [30], leading to performance improvement. Based on this condition, the following is the hypothesis developed in this study: H3: Business Model Innovation significantly positively influences Firm Performance

Based on the hypotheses developed, the research framework is depicted in Figure 1.

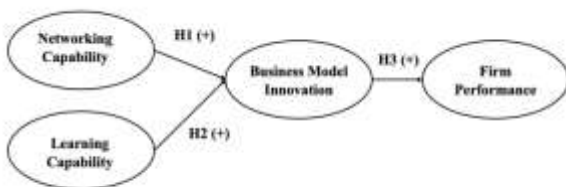


Fig. 1: Research Framework

3 Methodology

3.1 Procedure

This research was designed as a descriptive quantitative study. Structured questionnaires were used as the instruments for an online survey conducted in July 2020. Statements related to the variables and other information such as business scale, business period, owner education, training for management, training for employee, community participant, number of places, and number of menus (gender, age, location, university, and type of university) were the content of the questionnaires. Only questionnaires with informed consent from respondents were included in the analysis. For questions related to the variables that were measured, the researcher used a Likert scale (from 1 - strongly disagree to 5 - strongly agree). It was used for respondents to rate their opinions. The survey was conducted online using Google Forms. The questionnaire was set so that each respondent could only send one response.

3.2 Participant and Unit Analysis

The population of this research is the small and medium-scale (SMEs) culinary businesses. According to the government creative economy agency, [12], the population is 1.249.106. This research used SMEs as a unit analysis. The number of samples was calculated using 5-10 times the number of indicators, [83], therefore, the researcher used a minimum of 230 samples for this study.

3.3 Measurement

All measurement scales used in this study were measured using a framework from a previous study. NC was measured using five items from [39]. The items used were such as "Ability to have good relations with suppliers," "Ability to have good relations with customers," "Orientation of relationships with potential business partners," and "Orientation of relationships with potential buyers." LC was measured using six modified items from [59]. The items used included "Openness to new ideas," "Respect for information," "Organizational knowledge for business," "Work team development," and "Renewal orientation."

BMI was measured using eight items modified from [19], [21], [80]. The items used included "The presence of sustainable product innovation," "The presence of exploratory ways of selling," "The presence of competitive service," "The presence of special relationships with customers," "The presence of strategic relationships with suppliers,

"The presence of business partnerships," "The presence of continuous business process innovation," and "The presence of integrated business processes."

OP was measured using five items modified from [84]. The items used included "Annual revenue growth," "Annual profit growth," "Growth of new buyers every month," "Customer satisfaction to buy Back," and "Growth of brand recognition."

3.4 Analysis

Collected data were analyzed using structural equation modeling (SEM) using partial least squares (PLS) estimation with SMART PLS version 3.3.3.

4 Result

4.1 Demographic Respondents

The majority of respondents to this research were business owners (85%). The level of educational involvement was also good, reflected through the level of education of owners, who were generally undergraduates (86%). Moreover, managers (69%) and employees (66%) attended business training. Respondents were from small (68%) and medium-sized (32%) businesses. They were pretty experienced. Most businesses have reached three years and above (66%). Most of them had more than one place of business (57%), had a menu variant of more than ten (80%), and had communities (74%). Business actors were from all over Indonesia, both in the city center (55%) and the region (45%).

4.2 Analysis

Table 1 showed that all indicators used for each variable were valid and reliable. In this study, the composite reliability (CR) of all variables is above 0.708 which is the reference value. CR of business model innovation of 0.922, learning capability of 0.922, networking capability of 0.921, and organizational performance of 0.925. Furthermore, in the average variance extracted (AVE) all variables are above the value of 0.5 which is the reference. AVE of business model innovation of 0.597, learning capability of 0.702, networking capability of 0.745, and organizational performance of 0.713. In all indicators themselves, outer loading is above 0.7 which is the reference value.

This research also resulted in an R Square for business model innovation of 0.662 and organizational performance of 0.498. This value is above the expected R square reference above 0.25. Furthermore, the normal fit index (NFI) reaches 0.752, where the fit model is expected to be closer to 1. The study's standardized root mean square residual (SRMR) was also within a value of 0.074 with the SRMR reference orientation to be below 0.08. Therefore, the data could be used for further analysis.

The entire relationship between variables was significant in the research because it had a T-statistic result above 1.65. The whole relationship between variables also had a positive relationship (Figure 2).

Table 1. Measurement Model Analysis

Variable	Indicators	Composite Reliability	T-statistic	AVE	Outer Loading
Business Model Innovation	BMI1	0,922	32,784	0,597	0,818
	BMI2		18,532		0,718
	BMI3		29,033		0,816
	BMI4		13,928		0,721
	BMI5		18,985		0,753
	BMI6		17,816		0,722
	BMI7		32,554		0,803
	BMI8		36,202		0,818
Learning Capability	LC1	0,922	26,243	0,702	0,847
	LC2		28,416		0,852
	LC3		35,831		0,877
	LC5		23,188		0,797
	LC6		27,293		0,814
	LC4		27,293		0,814
Networking Capability	NC1	0,921	19,302	0,745	0,813
	NC2		31,704		0,876
	NC3		49,520		0,885
	NC4		39,649		0,876
Firm Performances	FP1	0,925	59,127	0,713	0,887
	FP2		39,636		0,871
	FP3		23,227		0,787
	FP4		35,128		0,815
	FP5		39,208		0,858

The hypothesis in this study was carried out based on a significant and positive relationship, so all hypotheses were accepted in this study. Table 2 shows the conclusion of all the hypotheses in this study.

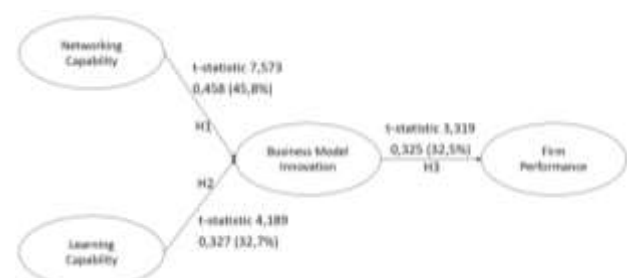


Fig. 2: Structural Model Analysis

Table 2. Hypothesis Testing

Hypotheses	Paths	t- statistic	Value	Conclusions
H1	Networking Capability → Business Model Innovation	7,573	0,458 (45,8%)	Accepted
H2	Learning Capability → Business Model Innovation	4,189	0,327 (32,7%)	Accepted
H3	Business Model Innovation → Firm Performance	3,319	0,325 (32,5%)	Accepted

5 Discussion

Networking capability positively affects business model innovation, and this results in novelty. Networking becomes a statement and an antecedent to business model innovation, [56], and strategy, [49]. But this research specifically used the networking capability construct as an antecedent to the construct of business model innovation. Networking capabilities are essential to be developed by SMEs because the presence of networks will produce resources, [40], [42], [43], [45], and opportunity, [48], that are needed for the development of business model innovations, [7], [30].

This finding can be an orientation for SMEs to develop networks in a designed manner. First, SMEs can deliberately join communities or associations of strategic business actors to develop business networks. Second, SMEs as entrepreneurs can develop themselves to have the ability to relate well with business stakeholders and also fellow business actors to develop resources, markets, and business models. Third, SMEs can be involved as community administrators or business associations to create various strategic relationships.

In this study, learning capability positively influence business model innovation. The relationship becomes the novelty of this study, considering that previous studies were only learning the development of business model innovations, [73], [74], [75]. However, the construct evidence was still limited because the learning capability relationship with business model innovation was not firm yet. SMEs were necessary to have learning capability because it would turn knowledge into a strategic direction, [57], [60], [63] and create opportunities for the development of business model innovations, [17], [18], [21].

This finding is an orientation for SMEs to develop learning in a designed manner. First, SMEs can develop their organizations into learning organizations by developing teams, methods, and regular scheduling. Second, entrepreneurs can develop themselves into learners. Third, SMEs can participate in structured learning programs about business and management through credible institutions.

This Business model innovations research affected performance. It was aligned with various statements, [30], [77] and other SME empirical research, [8], [21], [22], [79], [80]. It was important to ensure a business model innovation for SMEs as a predictive variable for performance, considering that the presence of business model innovation does not necessarily affect performance, [21], [22].

This finding becomes a strategic orientation for SMEs. First, business model innovation is a strategic option for SMEs to run their business entrepreneurial as well as strategically because business model innovation is an operationalization of the concept of strategic entrepreneurship. Second, although strategic, make sure business model innovation is oriented towards performance creation because there are also business model innovations that reduce performance. For example, because the cost of business model innovation is high. Third, this can be a strategic orientation for entrepreneurship development in a country in empowering SMEs.

6 Conclusion

This research produced several findings that could be an interesting discourse. First, this research validated the concept of dynamic capabilities relationship with business model innovation. In this study, dynamic capabilities include networking and learning capabilities. Second, this research reinforced that the business model innovation construct is mediative. Third, this research strengthens various studies on the positive influence of business model innovation on firm performance. Maintaining the relationship between business model innovation and firms' performance was important because it was an orientation for MSMEs to innovate business models.

6.1. Limitations of the Research

This research had some limitations. First, the sample size is relatively small compared to the total population. Second, the study only tests the

relationships in the culinary business. Third, this research only reviews two variables, [82].

6.2 Further Research Recommendations

This study has several directions of recommendations for future research. The first is the development of future constructs using content-based dimensions, structure, and governance. The second, prospective study can specify the dynamic capabilities. For example, using digital capabilities, innovation capabilities, and so on. The third is developing research contexts in various other business sectors with a bigger sample size. The fourth is to develop dynamic capability dimensions based on sensing, seizing, and reconfiguring which can also be derived from various dynamic capability construct explorations such as learning capabilities, networking capabilities, and others. The fifth is to develop performance measurement based on financial performance only. The sixth is to make business model innovation an antecedent of dynamic capabilities.

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