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Innovation and economic sustainability in small and medium-sized Latin American companies

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Abstract: Innovation management and economic sustainability have become one of the business challenges to consolidate. given the above, the objective of the study is to determine the relationship between innovation and economic sustainability in small and medium-sized enterprises (SMEs) in Latin America. through an empirical study, 2660 SMEs were examined, 1729 small and 931 medium-sized, located in 13 Latin American countries. the data obtained by applying a survey were processed using a non-linear canonical correlation analysis (NLCCA). The findings identify functional and operational risks in SMEs that weaken innovative potential, in addition to technical-operational barriers—lack of knowledge and low investment that limit economic sustainability, whose importance transcends towards transformations of business models and effectiveness of resources that promote business sustainability. contributions are suggested for the management of public policies aimed at strengthening innovation and economic sustainability to project the emerging economies of Latin America.

Keywords: innovation; economic sustainability; business transformation; competitiveness; business sustainability

1. Introduction

The transcendence of innovation management in the global business environment requires renewed approaches to invigorate management, especially in small and medium-sized enterprises (SMEs) contextualized in Latin America. Bibliometric studies emphasize how innovation is perceived as part of the capabilities that foster stability in these companies (Baker et al., 2021). Nevertheless, critical aspects linked to commercial functions affecting economic stability are highlighted, accelerating significant digital transformations and the reconfiguration of static business models (Obermayer et al., 2022; Sewpersadh, 2023).

In the hierarchy of priorities regarding management in SMEs, organizational transformation and directing actions to strengthen their capabilities take precedence. These are considered to generate value and minimize gaps that weaken their development. Similar emphasis is placed on resources that bolster dynamic capabilities associated with detection, capture, and the necessary transformations for designing and implementing a business model (Kaur and Mehta, 2016; Rajapathirana and Hui, 2018; Teece, 2018, 2007).

The aforementioned is compromised when considering that over the last decade, there has been a prevalent weak development of strategies in these companies that contribute to the projection of their management; consequently, effects are generated

that diminish the promotion of survival plans for the short and medium term (Lee and Trimi, 2021). In this context, anticipating the development of dynamic capabilities becomes relevant for studying the behavior of small businesses in the face of economic crises arising from the global market slowdown. This situation has a negative impact on the business environment, causing damage to infrastructure, increasing unemployment rates, reducing customer demand and supply availability, as well as escalating costs (Weaven et al., 2021).

As well, strengthening capabilities that prioritize intersectoral developments is proposed as an action. In this way, the intention is to mitigate uncertainties through innovation. This initiative is aimed at transcending beyond the scope of innovation focused on marketing, products, services, and organizational aspects, by introducing dynamics that contribute to renewing procedural management and paving the way for transformative and technological innovation. The latter are distinguished by an effect that promotes export behavior in certain business sectors (Polo et al., 2018). In this regard, innovation enables the transformation of different dimensions of the business model, which can be internal, external, and inter-company, contributing necessary changes for sustainability (Costa and Haftor, 2020). In light of this, it is important to develop capabilities in companies, as well as integrate, build, and reconfigure their internal and external competencies to analyze and intervene in changing environments (Teece, 1997).

Contributions that allow mitigating the constant fluctuations that determine market behavior. This is especially true when considering that traditionally economic growth has been measured through the evolution of GDP, taking into account other variables such as the unemployment rate and inflation (García-Monleón et al., 2024). This approach overlooks the contributions of SMEs to the economy of regions despite being asserted by indicators of economic growth, estimating a consistent 90% in regions on a global scale (Widyanti and Mahfudz, 2020). This perspective establishes SMEs as a determining factor for the development of regions, particularly in the Latin American context.

As such, it is anticipated that 99% of formal Latin American companies are classified as micro, small, and medium-sized enterprises (MSMEs) (Economic Commission for Latin America and the Caribbean (OECD), 2020). However, these tend to exacerbate the bias of avoiding advanced processes, such as digitization, despite their efforts to understand the drivers that overcome barriers related to technology and Industry 4.0 and how they operate (Ingaldi and Ulewicz, 2020). In this context, innovation mediated by information technologies deserves to be considered as support for business effectiveness. In this regard, it is necessary to consider factors: 1) business and the economy as part of competition in the market; 2) the social change of the workforce, government policies, and 3) information technologies as a mediator of the life cycle of innovations to boost them with objectives regarding their management and their relationship with the sustainability of these companies in the Latin American context (Pich and Sardjono, 2020).

Similarly, it is important to consider mechanisms for comprehensive economic development that allow achieving both financial goals and those related to the market and its demands (Crissien, 2016; Georgellis et al., 2000). From this perspective, it is necessary to promote sustainable growth and the competitive projection of these

companies. Likewise, for effective innovation management, it is crucial to strengthen not only capabilities but also business growth. Additionally, facing global market competition requires commercial enterprises capable of driving technological development. To achieve this, there is a need for the ongoing update of technological components within a company to compete in product marketing and reach potential markets (Surya et al., 2021). Additionally, it is worth considering that middle-income and transitioning economies have experienced higher economic growth through trade liberalization and financial integration. These economies have also received a significant amount of remittances, technological progress, and increased access to external markets.

Another functional aspect for SMEs regarding organizational management (OM) as a theory and its impact on the organizational, technological, and environmental contexts of a company is determining the adoption and implementation of innovations. Undoubtedly, OM is a strategic resource that supports effective management in companies (Masood and Egger, 2019). However, it is often overlooked in business practices, leading to: a) weaknesses in identifying opportunities; b) a high prevalence of immediacy as a means of business survival, and c) a lack of awareness to promote competitive strategies in a market compelled to migrate to digital processes as an alternative for preserving the organization and its sustainability socially, economically, and environmentally.

Given the above, the research objective aims to determine the relationship between innovation and sustainability in small and medium-sized enterprises in Latin America. For its development, the need to understand how the infrastructure in human, economic, and technological resources have contributed to the innovative development of SMEs in the Latin American context is emphasized. Subsequently, the research progresses with a literature review, as well as a method to substantiate the correlation between variables, followed by the analysis of results and conclusive aspects.

2. Review of literature

2.1. Innovation from the business context

Innovation management in the environment of small and medium-sized companies has hardly been part of the strategy that distinguishes this profile of companies. Aspects associated with the weak strategic direction to promote its viability become the basis of the present study. Among the main factors that limit it, is overcoming barriers associated with the scarce or weak practice on the development of dynamic capabilities, which underpin the conceptual framework of the study: absorption capacity, learning capacity and innovation capacity (Teece, 2007), the latter considered as a study variable and to test the hypothesis:

- H1: Is the innovation capacity of small and medium-sized enterprises (SMEs) in Latin America promoted to mitigate the risks that affect business economic development.

According to Teece (2007), promoting innovation is one of the ways to achieve competitiveness and overcome static environments that weaken changes in the

markets. Likewise, to make innovation viable, it requires a greater conceptual understanding defined as a strategic process to develop new products-services or improve existing ones, to generate value and achieve competitiveness according to market requirements (OECD and Eurostat, 2005). Its scope must be associated with the sustainability of the business model, resulting in positive performance that projects competitive advantages (Bocken and Geradts, 2020).

In this sense, innovation is proposed as one of the ways to overcome borders to generate sustainable solutions abroad, which help mitigate the vulnerability of natural capital (Economic Commission for Latin America and the Caribbean (ECLAC), 2012). In the same order, innovation models seek to represent innovation processes for a specific territory, sector, company or group of companies, including their relationships and behavior (García et al., 2016). Likewise, innovation from the business context deserves to be considered based on its scope and context of application, so being able to identify the weaknesses or needs that deserve to be covered becomes part of the effects that seek to be covered from of the innovation potential and management that companies project (Mulgan, 2006).

Regarding the typification, it has been widely studied, achieving from the interactions within the companies, and according to the behavior of the market, generating a diverse portfolio of innovations, which for the present study becomes a strategic potential to promote a sustainable economic development. Based on this, the main innovations that contribute favorably to the business context are highlighted, but not without first mentioning the value given to innovation by Schumpeter (1939) who valued innovation and its implications towards sustained social development. His emphasis was centered on the vision of radical innovation and his projection was based on the development of the validity of scientific-technological innovation impacting productive, organizational and market processes to generate social well-being and economic growth.

However, from SMEs the projection and capacity for innovation prevails in weak development, and what is related to innovation in products, services, organizational and marketing promoted is disregarded (Drucker, 1986; OECD, 1997), whose scope is defined as strategic options for business development apart from increased productivity, cost reduction and competitiveness in the markets. Added to what has been described is the trend in technological innovation promoted by Freedman (1997), which has contributed to the transformation and continuous improvement of products and services through processes such as business digitalization.

The conception of innovation becomes for organizations one of the trends that cannot be omitted, this is how innovation is also conceptualized within the framework of business models that contributes to the effective process of design, modification and reinvention of the models, already existing to generate value and distinguish themselves from the competition (Foss and Saebi, 2015). Without failing to highlight the impact of open innovation, whose focus is focused on the viability of knowledge flows across organizational boundaries, in which the transfer and effective management of ideation, creativity add to transformations and value creation differentiated (Chesbrough, 2024). Equally relevant, St-Hilaire (2022) considers that disruptive innovation is presented from the appropriation-adaptation approach of technologies, products or services that radically transform an existing market.

Given the above, innovation is considered as part of a strategic process that cannot be postponed in the business environment, consequently the transversality of innovation in its diverse conceptions has generated space for the definition of sustainable innovation, its practice focuses in the optimal use of resources for the development of new products, services, technologies that have been designed to contribute responsibly to the principles that govern environmental, social and economic sustainability (Pujari and Sadovnikova, 2020). The economic aspect is raised within the framework of the scope and development of the study, whose analysis of the relationship between innovation and the economic sustainability of business-companies represents a way to promote productive capacity, as well as expand the access routes to local markets. and external.

Likewise, boost competitiveness through new tools to delve into social and development aspects (United Nations Conference on Trade and Development (UNCTAD), 2020). To this end, among the factors that must make the described viable are the formation of human capital, investment and raw materials, considered essential to promote the creation and renewal of products or services through innovation (Grimsdottir and Edvardsson, 2018).

Based on the above, transformations through innovation respond to complex processes and, in addition, require the participation, cooperation and collaborative responsibility of all members of the company (Alonso and Cervantes, 2020).

2.2. Business economic sustainability

In the last five years, business sustainability has emerged as part of the challenges to drive the sustainability agenda (Razali and Jamil, 2023). Its prominence focuses on contributing to the goals of sustainable development objectives (United Nations Organization, 2015). In addition to promoting transformations that, renew economic, social, and environmental development in the business context. Another fundamental reference is strengthening the intersectoral capacity among university-business-State-society-environment (Carayannis and Campbell, 2017). Not to mention the interests of governmental and non-governmental organizations (NGOs) in supporting SMEs and minimizing environmental risks, especially in times when corporate sustainability is compromised (Adam and Alarifi, 2021).

Economic sustainability is studied from the perspective of the context of SMEs, as part of the approach that aims to determine the potential of these companies. Its conception arises from the relevance of promoting an economic system to generate economic and financial stability during its history in the market. Approach that is conceived, within the framework of development without compromising ecological-environmental and social resources. Based on the above, it is necessary to promote business management aimed at resource efficiency in which a new vision of ways to achieve greater profitability and competitiveness in the face of constantly changing market environments predominates from the drive to innovation. As a result, the direction must focus on actions that contribute to the comprehensive development of companies under a sustainable approach and at the same time, contribute to the goals of Sustainable Development Objectives: 8: Decent Work and Economic Growth, as well as 9: Industry, Innovation, and Infrastructure, which have global implications

(United Nations Organization, 2015).

Regarding the innovative behavior of employees, it is linked to the social commitment of companies in the continuous training of human talent. In addition, the ways to encourage creativity, including subsequent steps in the innovation process, where ideas are not only generated but also implemented (Paruzel et al., 2023). It is also mentioned the relationship between social sustainability performance and financial performance, which represents one of the most controversial areas of business practices focused on sustainability (Robles-Elorza et al., 2023).

Undoubtedly, economic sustainability and its management have been considered in the last decade under the principle of responsibility and the commitment of companies to the environments in which they operate. In this sense, the economic factor is crucial for strengthening the capacity and innovative potential, becoming a contribution to sustainability. This is based on the limited standards of capital investment, which inevitably have a negative impact on the future growth of SMEs (Economic Commission for Latin America and the Caribbean (ECLAC) (2020). Among other factors that undermine economic stability, the lack of accessibility and free movement is mentioned, particularly in the case related to the European single market, whose benefits included stimulating competition and trade, efficiency, quality and product control, and reducing prices (Centre for Britain and Europe, 2020).

Regarding the development of sustainable businesses, the challenge requires a focus on the commitment to drive innovation. At the same time, considering the development of economies on a large scale becomes a driving factor for transformations, which was affected by the effects of a competitive economy. Based on the above, the capacity for resilience is highlighted, as well as the generation of contributions through intersectoral initiatives, where the university-state-business-society-environment interaction is considered as the quintuple helix (Carayannis and Campbell, 2017; Carayannis et al., 2012).

Intersectoriality that contributed to promoting corporate sustainability by prioritizing environmental awareness, conceived from the relationship between environmental knowledge and ecologically developed products from production capacity (Polas et al., 2023). Process through which the focus was on contributing to minimizing the degree of pollution generated by production processes, as well as promoting the effective management of natural resources. At the same time, the design of green products is acknowledged, from the purchase of raw materials to the end of the product's life cycle (Carro-Suárez et al., 2017; Gavito et al., 2017). Processes that require the intervention and renewal capacity of business management through human resource management, which must be effectively projected to achieve collective benefits for its employees.

The perspective of innovation within the framework of sustainability requires companies to adopt renewed ways of conceiving their products and services. In general, the contributions associated with sustainable innovation constitute a determining factor in providing companies with aspects related to their development and stability. These are considered a viable solution for companies that aim to have a positive impact on society and the environment (Allal-Chérif et al., 2023).

The approach outlined regarding corporate sustainability is a commitment that has rarely been a priority for SMEs in Latin America. According to the exposition,

aspects associated with frameworks for economic stability and innovation are fundamental for SMEs' stability. Therefore, the development of emerging actions should be linked within the framework of corporate governance, leading to the formulation of the following hypothesis:

- H2: There is a positive relationship between innovation and economic sustainability in SMEs in Latin America.

In this regard, the main aspects that deserve consideration for measuring the relationship between the variables are linked to the economic risks and uncertainties of the markets, as well as their impact on various productive and business sectors, whether small or medium-sized. It is worth noting that, in the case of large companies, they also need to direct actions to maintain their operations and cover higher operating costs, which represents lower financial flexibility (Kottika et al., 2020). Additionally, there is the impact on macroeconomic growth described. As well as the effects generated on initiatives and the feasibility of the economic support frequently required by SMEs is considered a determinant aspect to contribute to competitiveness and business productivity in global markets. In this regard, greater knowledge, effective management, and the strengthening of human resource competencies are required as differentiating factors for the generation of products or services (Surya et al., 2021).

In light of the above, it is necessary to minimize the risks of losing market share for SMEs, as this becomes a limitation affecting local economic and socio-productive development with a global impact. This situation diminishes economic sustainability and, as such, becomes a factor slowing down socio-productive growth and affecting regional competitiveness standards. Such a situation limits the projection of emerging processes linked to ideation and co-creation capacities as the basis for innovation under the principle of sustainability. This is crucial for understanding innovation processes that enable the achievement of superior performance and sustainable competitive advantages over time for companies (Zapata, 2020).

3. Materials and methods

The study on the behavior of the variable innovation and economic sustainability in small and medium-sized enterprises in Latin America, was conducted through descriptive correlational research. The presented approach allows validating the contribution of companies' innovative capacity to strengthen economic sustainability. Promoting this relationship is based on the disruptive transformations it drives, the adoption of an innovative culture to foster, according to the nature of the innovation, the effectiveness of organizational management, new business units centered on intrapreneurship and mediated by the capacity for knowledge transfer, in addition to the dynamization of processes and systems mediated by information and communication technologies (Foss and Saebi, 2018; Liu et al., 2024; Paredes et al., 2024; Ringvold et al., 2022). This approach becomes a reference to guide actions by entrepreneurs, while also strengthening the guidelines for public policies in the regions.

From the perspective of what has been outlined, the conceptual model is presented, see **Figure 1**. This allows for a theoretical foundation of the stated hypotheses: H1, the innovative potential of small and medium-sized enterprises (SMEs) in Latin America is conceived to mitigate economic risks; and H2, to

determine if there is a positive relationship between the economic sustainability of SMEs in Latin America.

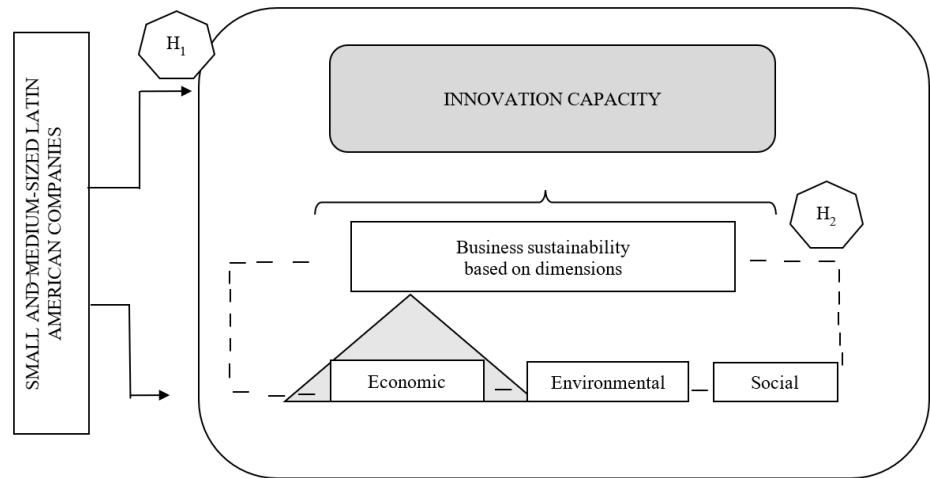


Figure 1. Flow chart of the study hypotheses.

Regarding the conceptual model, the relationships between the theoretical study of variables associated with innovative potential were measured by indicators of organizational environment, capabilities, and business resources, based on the perspectives of authors (Adam and Alarifi, 2021; Bocken and Geradts, 2020; Carayannis and Campbell, 2017; Kottika et al., 2020; Teece, 2018, 2007). On the other hand, the interactions between these components are posed as challenges to project innovation in the business environment, conceived from the viewpoint of (Allal et al., 2023; Grimsdottir and Edvardsson, 2018; Pich and Sardjono, 2020). In the same order, the emphasis focused on the approach of economic sustainability of companies, in which the intersectoral capacity of companies is determinant (Carayannis et al., 2012).

Sample and data collection

The criteria for selecting the sample was determined by the academic cooperation of universities to proceed with the application of the instrument, the projection of the countries in promoting the growth and sustainability of small and medium-sized enterprises, as well as the interaction capacity and availability of the entrepreneurs or administrators in completing the instrument. In this way, the sample units were represented by 2660 small and medium-sized companies see **Table 1**, representing the geographical location and size. Likewise, the number of small and medium-sized businesses is recorded according to the type of activity, see **Table 2**.

The fieldwork was carried out jointly and under the direction of the Foundation for Strategic Analysis and Development of SMEs (FAEDPYME) during the months of February to May in the year 2021. It involved the collaboration of researchers from different Ibero-American universities and official institutions supporting SMEs (García et al., 2021). Data collection was conducted through simple random sampling (Otzen and Manterola, 2017), and the obtained data resulted from the application of a digitally available instrument. The instrument's structure allowed for the declaration of 27 ordinal and 15 nominal type items, with a response rating scale from 1 to 5. The survey was directed to the managerial personnel of small and medium-sized

enterprises. Additionally, phone follow-up strategies were employed to obtain responses that support the empirical study.

Table 1. Companies by geographic location and size.

		Size		Total
		Small company	Medium company	
Country	Argentina	168	72	240
	Brazil	205	102	307
	Chile	63	7	70
	Colombia	316	138	454
	Costa Rica	106	39	145
	Ecuador	203	216	419
	El Salvador	20	6	26
	Guatemala	3	1	4
	Honduras	35	9	44
	México	362	248	610
	Panamá	121	44	165
	Paraguay	91	38	129
	Uruguay	36	11	47
Total	1729	931	2660	

Table 2. Distribution of the sample according to type of activity and size.

		Size		Total
		Small company	Medium company	
Sector	Primary sector	113	59	172
	Extractive Companies	7	13	20
	Manufacturing Companies	400	208	608
	Energy, Water, Recycling	16	14	30
	Construction	115	70	185
	Retail Trade	276	141	417
	Services	621	344	965
	Other activities not contemplated	172	80	252
Total	1720	929	2649	

For data processing, the Nonlinear Canonical Correlation Analysis (NLCCA) was applied. NLCCA is an advanced statistical technique used to explore and analyze complex and nonlinear relationships between two sets of categorical or numerical variables (Pérez, 2004). Unlike linear Canonical Correlation Analysis (CCA), which assumes a linear relationship between variables, NLCCA allows for capturing more complex and nonlinear relationships, making it useful in situations where the relationships between variables do not follow a linear form.

4. Results and discussion

The results that allow contrasting H1 determine two latent dimensions: innovation and economic sustainability, whereby it is explained that these group the variables that have a greater relationship or association between them. It is thus, that by using non-linear ACC, it was found that both in latent dimension one (1) and in the second (2), variables with mild contributions associated with sustainability and innovation are evident, see **Table 3** for the summary of the analysis.

Table 3. The summary of analysis.

		Dimension		Sum
		1	2	
Loss	Establish 1	0.098	0.159	0.257
	Establish 2	0.098	0.159	0.257
	Mean	0.098	0.159	0.257
Self-worth		0.902	0.841	-
Adjustment		-	-	1.743

The analysis data show in general, that there is an excellent fit with a value of 1.743, which is very close to the value 2, equivalent to the number of dimensions. In this regard, the model’s dimension corresponds to a space in which variables interact and collectively show the correlation between them. The result allows representing variables that have a stronger relationship within a dimension. Thus, the model presents itself with its two dimensions and explains 87.15% of the variability in the data. In terms of individual dimensions, it is found that Dimension 1 explains 90.2% of the variability, while Dimension 2 explains 84.1%. Together, they contribute 87.2%.

In the same order, the record of variable weights by latent dimension is evident, indicating contributions according to the dimension. Thus, positive values indicate that the contribution goes in the same direction; while negative values indicate that the contribution is in the opposite direction, see **Table 4**.

The weights allow highlighting the individual contribution of each variable to the dimensions. Concerning the column: Dimension 1, the contribution of customer satisfaction and the rapid growth of sales is evident, which adds value to SMEs despite marked financial limitations. Regarding customer satisfaction, it has become a central concept in business discourse (Jasin et al., 2023). Additionally, the strategic capacity associated with employee satisfaction, represented in the results, is favorable. As for economic sustainability, it is shown in the column: Dimension 2, the highlighted negative indicators, which represent an unfavorable impact and affect cash flow.

Regarding the innovation variable, it is emphasized that the capacity to generate and encourage innovation is relatively low.

This situation may be associated with cash flow limitations; consequently, the logic implies that decreasing productivity directly affects economic sustainability. In the same order, the transformation of products and services is highlighted, preceded by the weak economic solvency of SMEs. However, as part of efforts to overcome uncertainties in market environments, investments and initiatives promoting digitization are encouraged to drive business transformation and minimize risks

related to cash flows. In this way, achieving satisfactory results that contribute to market competitiveness and, consequently, customer satisfaction.

Table 4. Record of variable weights by latent dimension.

Weightings^a			
Variables description of reagents		Dimension	
		1	2
	Total sales	0.029	-0.046
	Cancellation of unforeseen investments	0.036	-0.224
	Provision of a specific risk management plan	0.031	-0.112
	Adoption of measures to manage the company's liquidity	0.092	-0.355
	Need to lower prices	0.017	-0.152
	Long-term customer payment terms	0.041	-0.127
	Significant increase in order cancellations	0.026	-0.127
	Increase in losses due to customer non-payment	-0.016	0.107
	Customer satisfaction	0.627	0.073
	Sales growth rate	0.213	-0.041
Sustainability economic	Cost effectiveness (Profitability)	0.088	0.065
	Employee satisfaction	0.105	0.089
	Volume of financing offered	0.000	0.082
	Expenses and commissions required	-0.017	0.055
	Collateral and guarantees required to access funding	0.021	-0.114
	Cost of funding	-0.007	0.073
	Time between financing request and response from the financial entity	0.045	-0.025
	Time required for repayment	0.018	0.052
	Average number of workers (full time)	0.015	-0.042
	Level of absenteeism	0.069	0.053
	Subcontracting for business operations.	-0.032	-0.105
Innovation	Productivity	0.042	-0.521
	Transformation of products and services	0.055	-0.501
	Products quality	0.338	0.075
	Efficiency of production processes	0.314	0.040
	Quick adaptation to market changes	0.401	0.120
	Changes or improvements in products/services	-0.056	0.177
	Market launch of new products/services	0.029	-0.071
	Changes or improvements in production processes	0.013	-0.127
	Acquisition of new capital equipment	0.029	0.194
	New changes or improvements in the organization or management	-0.066	-0.042
	New changes or improvements to computers or provisioning	-0.017	-0.106
	New changes or improvements in commercial and sales	0.084	-0.102

With respect to the results of H2, there is a positive relationship between innovation and the economic sustainability of SMEs in Latin America, which is

confirmed based on the fit or relationship of the variables. In this sense, those variables that have a higher relationship with the dimension will have equality between them. Likewise, once the non-linear ACC technique is applied, the relationship, allowing the results to be presented collectively on the dimensions of each variable. In **Tables 3** and **4**, contributions to latent Dimensions 1 and 2 are recorded. For validation, those of greater importance in the analysis are represented.

4.1. Discussion

Based on the results obtained, innovative potential was determined by environmental conditions and their impact on SME management. However, the organization's capabilities and resources allowed highlighting initiatives undertaken to achieve customer satisfaction, as well as recognizing and strengthening capacities that enabled timely coverage of customer needs in terms of products and services. The renewal of processes is added to be stream lined and in turn, generate distinctive features in the market.

As for the quality of products and services, they were differentiated by practices based on the availability of capabilities and resources of SMEs. Among the most determining factors are those associated with service: anticipating features, reliability, and conformity. In addition, durability, ease of service, perceived quality, and aesthetics, and regarding service, tangibility, reliability, responsiveness, safety, and empathy (Naini et al., 2022). These criteria were subject to the strategy to mitigate business risks. Regarding employee satisfaction, the relevance of projecting internally within organizations is highlighted, mediated by a comprehensive culture oriented towards the development of factors that impact the performance of employees. Currently, initiatives from SMEs are directed towards motivating employees, especially through monetary incentives and economic benefits. However, what has been presented may not be effective enough for employees, which is why considering aspects associated with creativity and innovation becomes part of the options (Vlacsekova and Mura, 2017).

In the same vein, SMEs often experience a reduction in workforce, supply disruptions, and economic constraints, leading to significant decreases in capacity utilization and interruptions in supply chains (Pedauga et al., 2021), a reality that does not differ between European and Latin American countries. Nevertheless, from the perspective of corporate sustainability, the results focus on the economic framework. As a result, the data show vulnerability regarding the economic stability of the SMEs under study, a product of environmental behavior that influences business management. This position can be overcome by conditions that guarantee optimal performance of human talent based on the competencies required to develop according to the functional role played by employees (Paredes et al., 2023).

On the other hand, value generation promoted by SMEs must respond to strategies that contribute to the goals of sustainable development objectives. In this way, distinctive contributions are generated in economic, social, and environmental aspects. This situation is scarcely strengthened due to the low interaction with the four subsystems that govern the environmental, social, institutional-governance approach (Carayannis and Campbell, 2017).

In light of the above, the capacity for survival, evolution, and development is crucial in the context of SMEs. As such, they need to focus on strengthening the interrelationships of subsystems and allowing for continuous coevolution and evaluation (Spangenberg, 2005). In this regard, the implications of the data represent factors whose analysis leads to defining actions that overcome barriers weakening the economic projection of companies. Consequently, it is undeniable that anticipating the design of a risk plan is conceived to mitigate risks and achieve timely responses associated with the economy of SMEs.

Undoubtedly, the study of the relationship between the variables of innovation and economic sustainability leads to proposing alternatives that represent new challenges to support SME management. Among these, promoting the strengthening of human capital and infrastructure for effective projection in Latin American markets is crucial. In addition, it involves addressing the effects that weaken controlling the low standard in results associated with innovation, which should be considered as an alternative to drive economic sustainability. From this perspective, there is a commitment to the effectiveness of policies that promote innovation, and thus minimize the impact on the limited support for innovation from companies despite alternatives for cooperation relationships (Grabowski and Staszewska-Bystrova, 2020).

Meanwhile, demonstrating initiatives from SMEs to innovate in products-services is projected to overcome the effects that impact economic stability due to weak management focused on business transformation and dynamism. It also prioritizes capacities mediated by intersectoriality to reduce organizational barriers. In general, the effectiveness of products and services translates into the projection towards servitization, proposed from the transformation of companies' offerings to gradually align with a service-oriented economy (Tauqeer and Bang, 2018). In light of the above, the focus is on service-oriented direction, whereby the quality and efficiency of products become crucial to face market changes and drive greater customer acquisition under service efficiency standards (Naini et al., 2022). The described approach represents the logic of two interrelated stages: the first involves actions based on investment principles, and the second represents the consequence of effective service management in SMEs that should positively affect economic sustainability. As such, prioritizing resources for investments in improvements and the adoption of technological resources strengthens marketing and sales. The measurement of these factors is proposed as a necessary action for the effectiveness of processes supporting the capacity for transformation and operational optimization.

Regarding the results of H2, there is a prevailing positive relationship between innovation and economic sustainability. Therefore, adopting internal transformations within SMEs associated with the offering of products/services allows for the renewal of business management, attracting new customers, and optimizing resources that contribute favorably to the productive capacity of SMEs. The latter is considered a determining factor for economic sustainability. Additionally, it is regarded as a strategic factor for strengthening the dynamic capabilities of the organization (Teece, 2018), as well as maintaining competitiveness in the market.

4.2. Practical implications

Promoting the development and innovative potential in small and medium-sized companies is proposed based on the results obtained as a necessary practice, which must be considered as part of the strategy to counteract the market effects that weaken the economic sustainability of the companies. The main implications of the relationship between innovation and economic sustainability are based on the ability of SMEs to understand the theory of capabilities and resources (Teece, 2018, 2007). As such, promoting this approach, from the business sectors, allows in a comprehensive way to generate distinctive value to the existing theories on the relationships between innovation and economic sustainability. In this sense, priorities have been aimed at promoting and boosting the viability of innovation (Gërguri-Rashiti et al., 2017; Sulistyo and Ayuni, 2019), as one of the ways to survive in the markets and overcome barriers in the complexity of a global environment.

From the practical approach, economic sustainability in SMEs promotes favorable implications, considering as necessary:

- 1) overcome the decline in the economic activity of these companies through innovative development in distinctive products and services;
- 2) minimize the effects on economic stability due to uncertainties in fluctuating costs in technologies, adoption of raw materials and sustainable inputs that they minimize the environmental and social impact, to support the capacity for innovation;
- 3) strengthen management processes by reinforcing intersectoral relationships to maximize capabilities and resources;
- 4) overcome the effects of lack of knowledge of value chain management in SMEs that allow promoting or renewing ways of innovating;
- 5) prioritizing the leading role of human talent as a contributing actor to innovative development (ideation-creation) based on cognitive, technical-procedural processes for innovation;
- and 6) highlight processes related to business digitalization and the strengthening of technological platforms that minimize the use of resources and investments for the provision of products and services.

Aspects that deserve to be valued within the framework of the guidelines to support public policies associated with SMEs, given the importance of strengthening one of the business sectors, whose economic and competitive development contributes to the emerging regions of Latin America. The above is only a perspective of progress, considering that historically innovation has been studied, not only within the framework of economic theory and management, but also in areas such as sociology, psychology and within behavioral economics (Kochetkov, 2023). Consequently, strengthening innovative development makes it possible to overcome the underutilization of capabilities, as well as the lack of awareness about the potential of human talent, whose role energizes the transformations projected by innovation practices. Regarding the characterization of the usefulness and effects of capabilities and resources in the market that involves SMEs, it is necessary to understand the variances of human capital and its knowledge to generate distinctive features in SMEs (Acs et al., 2018). The viability of what is described becomes a viable and measurable reference that every businessman can adopt within the framework of management transformations that impact the global competitiveness of SMEs.

5. Conclusions

Innovative development and its effects on the consolidation of economic sustainability in small and medium-sized businesses (SMEs) in Latin America require important initiatives that contribute to overcoming the barriers that weaken the capabilities to promote transformations in small and medium-sized businesses. Based on the results of the empirical study and the contributions generated to existing theories, the relationship between innovation and economic sustainability is presented as positive and deserves to be made viable to overcome barriers that limit the capacity for innovation. Consequently, as part of the generation of value for entrepreneurs and those who promote public policies in the regions, the following are defined as distinctive actions of this study: a) strengthen intersectoral relationships to force SMEs to transcend trends of a higher order; b) promote among collaborators the transfer of knowledge and strategic thinking as part of the drive for intra-organizational cooperation -University-Company-State-Society-Environment-, a basis for adopting innovation processes, and c) promote strategies that favor financial capacity and investments in R&D by SMEs.

Investments and strategies, whose effective projection generates competitive scenarios for innovation and development (R&D), are focused on the implementation of renewed productive processes mediated by the use of information technologies, which affects the assertiveness of business digitalization.

From the perspective of economic sustainability, added to the above is the need to strengthen and practice the circular economy, whose contribution affects the environment and sustainable economic development. Without a doubt, the effective management of innovation is considered from the perspective of reorganization of the business architecture that allows for the viability of renewed R&D programs that give way to the generation of patents, products-services with distinctive characteristics that lead to sustainable and disruptive business models that achieve, in the short term, position themselves in competitive markets. Consequently, promoting a new paradigm based on innovation from SMEs contributes to consolidating new markets and a portfolio of products-services that strengthen the participation of these companies, as strategic to contribute to the so-called emerging economies. As such, they become key factor in the framework of the definition of public policies focused on promoting long-term economic growth in Latin American regions

Regarding the limitations of the study, the time factor required to obtain information prior to the process of applying the instrument stands out. This was conditioned by the limited availability of records of information on initiatives undertaken to promote market stability that affect the stability of SMEs.

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