

How Do Creativity and Innovation Affect on MSMEs Performance? Evidence from South Sulawesi, Indonesia

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Abstract— this study looks at SMEs in Pangkep City to see how creativity and innovation affect their performance. This study belongs to the quantitative descriptive category and covers 287 different MSMEs in the city of Pangkep. Thirty MSMEs with innovative products or services engaged in the food business in Pangkep City were used as research samples. Information collected as a consequence of distributing the survey using a Likert scale. The analytical techniques used include descriptive statistical analysis and inferential statistical analysis. The results of the study show that (1) creative factors have a beneficial and substantial impact on the performance of MSMEs. (2) The innovation variable has no effect on the performance of MSMEs. (3) Aspects of creativity and innovation go hand in hand so that it has a positive and significant impact on the culinary industry SMEs in Pangkep City.

Index Terms— Creativity; Innovation; Performance UMKM.

I. INTRODUCTION:

Micro, Small and Medium Enterprises (MSMEs) are a significant economic force in many cities in Indonesia. As a result, almost 1% of medium and large businesses and almost all small businesses in Indonesia dominate the entire economy (Zainal et al., 2018). It is important to focus more on supporting MSMEs, as they are a source of labor and the foundation of the local economy. In this era of globalization, when changes occur rapidly, competition is fierce, and uncertainty is always high, the economy, especially Indonesia's diverse cities, will face challenges from foreign rivals. In general, MSMEs are better prepared than large businesses to deal with market fluctuations. In addition, a series of crises that hit Indonesia has tested the resilience of MSMEs. The ability of SMEs to absorb labor faster than other business sectors makes SMEs an important part of efforts to build a competitive Indonesian economy in the future (Musa & Hasan, 2018).

Entrepreneurship is a risk-taking venture that takes advantage of opportunities to create new initiatives so that the business as a whole grows bigger and stronger without the need for assistance from the government or other institutions in overcoming possible risks to the integrity of the company. MSME development is largely supported by the availability of human resources. The provision of intelligent resources can contribute to the development of MSMEs (Hasan et al., 2019).

In particular, MSMEs, which are the main drivers of the economy of the lower middle class, can provide benefits to the community's economy through entrepreneurship development. The formation of growth and employment in the local economy depends on MSMEs which are an important sector. MSMEs have been proven to be able to develop and move the economy, especially after the crisis, so there is no need to doubt their existence. MSMEs generally do not know how to manage product quality or use the latest production technology. Their inability to read market demand makes them unable to see market demand (Hasan et al, 2019). The performance of MSMEs in Indonesia is still below standard because business actors do not have the necessary skills to develop their companies (Hasan et al., 2020).

MSMEs have a smart and efficient strategy to strengthen the national economy. MSMEs are the only significant contributor to the nation's growth. MSMEs are very important for the country's economy, and hard work is needed to implement MSMEs effectively. Performance is a record of the results produced during a particular job task or activity for a certain period of time. Business performance is the result of work that can be done by individuals or groups of individuals in the business, in accordance with their respective authorities and duties, to achieve organizational goals. Performance is considered positive and successful if the set goals are achieved. Performance can be seen from the extent to which an activity or policy has been implemented to achieve the goals, objectives, vision, and goals of the organization as outlined in its strategic planning. The success of the organization is largely due to its ability to manage its human resources effectively (Musa et al., 2019).

Hasan (2019) claims that producing innovative and useful products places a greater priority on creativity. Better, newer, better, correct, adapted, effective, and efficient are all terms that can be used to define surplus value. Webster (1990) emphasizes that creativity is an intellectual process that involves the creation of new ideas and concepts or the result of new combinations of existing ideas and conceptions. Innovation is the process of producing something new and different from what has been done. Through innovative thinking and creative activity, something new can be created in the form of a product or service, procedure or concept, or methodology or approach. MSME actors are educated to be innovative, increase company productivity, develop distinctive goods and services, and be able to reduce costs in business operations that use technology to generate profits.

Innovation can be classified as radical or gradual (Hoonsopon & Ruenrom, 2012). A radical invention is an invention that creates an item with a new use value that has never been known to humans and has never existed before. While incremental innovation is

a type of innovation that makes slight adjustments to existing products from time to time, taking into account the value that customers may need in the future. After the product adapts to the demands of the buyer's style and desires, creativity and innovation are needed. Desire is intangible and produces items that can adapt to new lines, new products, and new products.

Entrepreneurial activity is growing rapidly in Pangkep. However, MSME actors there continue to face the same difficulties when running a business, especially in terms of knowledge gaps, underdeveloped abilities, lack of creativity and innovation, as well as independence and lack of work preparation in terms of credentials, as well as lack of creativity and innovation that is honed. Various difficulties faced by business actors, among others, are related to operational organization, financial management, institutional strengthening, to forming alliances with other business actors.

The Effect of Creativity on MSME Performance:

Creativity is any process, concept, or thing that changes an existing field into a new field (Kenworthy & Mullan, 2018). Ballor and Claar (2019) stated that creativity is the ability to come up with fresh concepts, identify innovative approaches to challenges, and seize opportunities. Their management creativity is what determines their capacity to tackle problems and seize opportunities (Barnard & Herbst, 2018). There are two key elements that can influence entrepreneurial creativity, namely psychological aspects, such as motivation and intelligence, and environmental aspects, such as environmental conditions.

Keshishyan and Boghosian (2020) found in their study that creativity contributes to a successful corporate environment. In addition, the results of the study by Qin et al., (2022) show that creativity has a positive and significant effect on increasing the competitiveness of SMEs. Creativity has a major impact on the innovations created by company owners for the success of their organizations (Barroso-Tanoira, 2017).

H1: Creativity has a positive and significant effect on the performance of SMEs.

The Effect of Innovation on MSME Performance:

The development of creative ideas can be hampered if company organizations, especially MSMEs, do not consider the implementation of innovations, especially in terms of efficiency, effectiveness, and costs (Abbas et al., 2020). One of the most important traits of entrepreneurs is their capacity to innovate (Afriyie et al., 2019). This is because innovation is one of the main drivers of the company's success. The ability to create new products and increase the value of existing products is a hallmark of the entrepreneurial spirit (Akram et al., 2019).

The research findings of Anwar (2018), and Anwar and Ali Shah (2022) find that creativity and innovation have a significant and beneficial impact on the success of MSMEs. This conclusion is also supported by Bagheri's research (2017) related to the determinants of product and process innovation on the operational performance of MSMEs finding that process innovation has a major influence on the performance of MSMEs.

H2: Innovation has a positive and significant impact on the performance of SMEs.

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II. METHODS:

This research is a quantitative research. Based on the criteria used, the study population consisted of 287 MSMEs engaged in the culinary sector in South Sulawesi Province, Indonesia. With a purposive sampling approach, 30 SMEs in the culinary sector were selected with the criteria (1) having run their business for at least 2 generations; (2) utilize social media in running their business; and (3) engaged in the traditional and modern culinary MSME sector.. Questionnaires were used as a data collection tool in this study. Questionnaires were used to collect data sourced from respondents' answers using a Likert scale. The variables, indicators, and measurement scales of each variable used in this study can be seen in the following table.

Table 1. Variables, Indicators, and Measurement Scales

Variables	Indicators	Scale
Creativity (X1)	1. Creating ideas	Likert
	2. Developing ideas	
	3. Flexible	
	4. Able to find solutions	

Innovation (X2)	1. New menu innovation 2. Taste innovation 3. Process innovation 4. Packaging innovation	Likert
MSME Performance (Y)	1. Increased production quantity 2. Sales growth 3. Increased revenue 4. Market share growth	Likert

The data analysis technique used in this research is multiple linear regression analysis. Through this analytical tool will be studied, explored and analyzed the relationship between the measured independent and dependent variables, which will examine the performance of MSMEs (Y) in the culinary sector in South Sulawesi Province, Indonesia, in terms of creativity (X1) and innovation (X2). The relationship between variables in this study can be seen in the following conceptual framework.

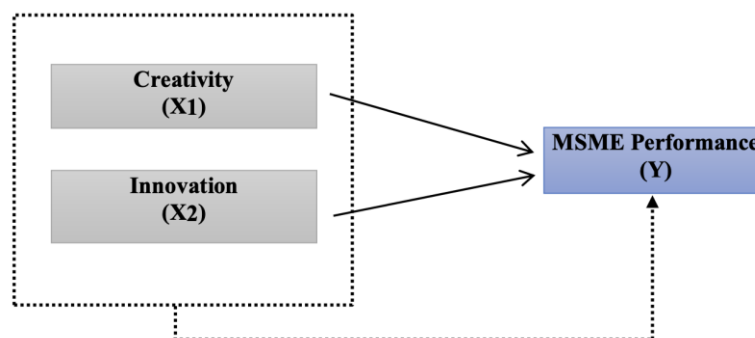


Figure 1. Conceptual Framework

III. RESULTS AND DISCUSSION:

Respondent characteristics must be defined to characterize the research sample used in this study. 30 MSMEs who work in the Pangkep City food industry, both those who have created their goods and those who are new, are the respondents to this study. The following is described as follows if you want to see an overview of the characteristics of survey respondents.

Table 2. Characteristics of Respondents

Characteristics	Frek	(%)
Gender		
Man	11	36,67
Woman	19	63,33
Age		
21-25	9	30
26-30	11	36,67
≥ 30	10	33,33
Level of education		
SMA/MA/SMK	11	36,67
D3	4	13,33
S1	15	50
Length of Business		
1-5	17	56,67
6-10	8	26,67
>10	5	16,67

Source: Data Processed Results (2022)

With a total of 63.33 or 19, women represent the majority of survey respondents, according to the chart, compared to 11 men, who make up 36.67% of the sample. In addition, 11 respondents between the ages of 26 and 30 have a percentage of 36.67%, while 9 respondents between the ages of 21 and 25 have a percentage of 30%. It is further proven that the level of education and length of business have an impact on the quality of the respondents in this study. Strata 1 graduates (15 respondents with a percentage of 50%) are dominant in terms of characteristics, while Diploma 3 (D3) graduates (4 respondents with a percentage of 13.33%) are at the bottom. In addition, depending on the length of business, 17 respondents or 56.67% of the total said that their company had been operating for between one and five years, while only five respondents, or 16.67%, stated that their company had been operating for more than ten years. The classification of each variable is described below based on the results of descriptive data processing.

Table 3. Descriptive Analysis

Variable	Intervals	Frek	(%)	Category
Creativity (X1)	40-43	11	36,67	Very high
	37-39	8	26,67	Tall
	34-36	6	20	Low
	31-33	5	16,67	Very low
Innovation (X2)	34-37	3	10	Very high
	29-33	8	26,67	Tall
	24-28	11	36,67	Low
	19-23	8	26,67	Very low
MSME performance (Y)	42-48	3	10	Very high
	36-41	9	30	Tall
	30-35	11	36,67	Low
	24-29	7	23,33	Very low

Source: Data Processed Results (2022)

The elements in this study include, as listed in the table above, creativity (X1), innovation (X2), and SME performance (Y) which are included in the medium category.

Table 4. Multiple Linear Regression Analysis Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	32.191	5.911		5.446	.000
X1_ Creativity	.801	.239	.535	3.349	.002
X2_ Innovation	.064	.211	.058	.305	.763

Source: Data Processed Results (2022)

$$Y = a + B1 (X1) + B2 (X2)$$

$$Y = 32.191 + 0.801 X1 + 0.064 X2$$

This can be understood by looking at the regression equation: 1) If the MSME performance is 0, the constant 32,191 indicates that creativity and innovation are worth 32,191; 2) The relationship between creativity and UKM performance is quite good, indicated by a positive beta value of creativity of 0.801. Showing a favorable relationship between innovation and MSME performance, innovation has a positive beta coefficient with a value of 0.064.

Table 5. Results of Partial Significance Test (T Test)

No.	Variabel	t-count	t-table	sig. value
1.	Creativity	3.349	2,052	.002
2.	Innovation	0,305	2,052	.763

Source: Data Processed Results (2022)

Regression analysis on creative variables produces significant results at the level of 0.002 0.05, and the calculated t value is greater than t table, namely $3.349 > 2.052$. Therefore, it can be said that creative variables affect the performance of MSMEs in Pangkep City. It can be concluded that the innovation variable has no effect or contributes to the performance of MSMEs in Pangkep City in the study based on the findings of the regression analysis on the innovation variable which shows the results have a significance level of $0.763 > 0.05$ and the t count value is smaller than t table, namely $0.30 < 2.052$.

Table 6. Simultaneous Significance Test Results (Test F)

		ANOVA ^a			
Model		Sum of Squares	df	Mean Square	F
1	Regression	178.740	2	89.370	19.450
	Residual	124.060	27	4.595	
	Total	302.800	29		

a. Dependent Variable: Kinerja UMKM

b. Predictors: (Constant), kretatifitas, inovasi

Source: Data Processed Results (2022)

The predicted F value is 19.450 which has a significance level of 0.000 0.05 and is greater than the F value in the table which is 3.35 shown in the table above. Therefore, it can be said that the independent variables of creativity and innovation affect the performance of SMEs in Pangkep City both independently and together. In this study it means that the capacity of respondents to

develop and implement their ideas to develop their business, as well as their ability to adapt and solve problems, has a positive impact, especially by increasing the number of products produced, sales, income. and profits, and market share over the last year.

Table 7. Determination Coefficient Test Results
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.544 ^a	.296	.243	4.756
a. Predictors: (Constant), KREATIVITAS, INOVASI				

Source: Data Processed Results (2022)

The results of data processing in the table show that there is a strong relationship between MSME performance (Y) with originality (X1) and innovation (R) of 0.544 or 54.4%. MSME performance is influenced by creativity (X1) and innovation (X2) proportionally by 0.296 (or 29.6%), according to the determinant coefficient R² (R Square), with factors outside the scope of this study 70.4%.

The Effect of Creativity on MSME Performance:

It can be concluded that the creativity variable affects the performance of MSMEs in Pangkep City based on regression testing on the creativity variable, which shows that the results obtained have a significance level of 0.002 < 0.05 and the t-count value is greater than the t-table value, namely $3.349 > 2.052$. The performance of MSMEs in Pangkep City will thus increase if the creativity variable is increased. According to this study, creativity is defined as the ability to generate new ideas, solve problems, and most importantly, have a positive attitude towards criticism and the ability to adapt to consumer demands, which results in improved business performance over time. the previous year, as measured by the increase in the number of goods produced, the number of goods sold, the amount of income, and the amount of profits.

The results of the study entitled "The Influence of Training and Innovation on Business Growth in Small and Medium Enterprises in Small Industries in Pulogadung City, East Jakarta" by Dedi Purwana et al. (2017) published in a journal. Menurut temuan penelitian, inovasi sangat penting untuk pertumbuhan bisnis. In addition, the findings of research conducted by B Lena Nuryanti S and Jajang Nurjaman (2017) show that creativity has a large impact on the innovations created by business owners for the advancement of their companies. Competitiveness greatly benefits from creativity, and this effect is very significant (Baso, N, 2019). This illustrates that business actors must have the capacity to increase or develop their creativity by embodying existing ideas so that they can compete with other business actors.

There is an increase in creativity that is carried out by continuing to innovate in accordance with market needs that go hand in hand with the times for business actors, especially MSMEs in the culinary field in Pangkep City, to help increase the competitiveness of their businesses and be able to survive in the midst of business competition, the business world, encourage economic growth national level, and increase people's income, especially in Pangkep City.

The Effect of Innovation on MSME Performance:

It can be concluded that the innovation variable does not influence or contribute to the performance of MSMEs in Pangkep City in the study based on the findings of the regression analysis on the innovation variable which shows the results have a significance level of $0.763 > 0.05$ and the t count value is smaller than t table, namely $0.305 < 2.052$.

This result is the result of the inventive constraints of SMEs. In this survey, the majority of respondents' innovation was the addition of a new menu. Although not all respondents did for taste innovation, process innovation or packaging innovation. This shows the limited ability of MSMEs to innovate. Not all responses share the idea of incorporating new flavor options into their products, using new production techniques, or developing distinctive or better packaging. In this study, SMEs succeeded in innovating using their own ideas. The improvements that have been made, however, have not been sufficient to improve or affect their performance. These results support (Albertus Andika Hariyanto, 2016) which found no relationship between innovation variables and MSME performance.

The only innovation resulting from this field study is at the product level. According to Evant Andi Aenurohman's research (2020), the latter has a significant and positive impact on how well SMEs function in Semarang City. What is studied is the relationship between creativity and product development with the performance of SMEs. This is in line with Rika Devi Kurniasari's research in 2018 which found that innovation affected the productivity of the Jambi Branch Rabbani Store. The results of a 2016 study (Puji Mustofa Arifudin) also show that innovation has a big impact on how well companies perform at free wifi coffee shops in Wates Regency.

Using various regulatory supports, incentive programs and tax breaks, the government has improved its relationship with SMEs. These programs include capital assistance, training, and tax breaks. However, an organization will not be able to operate optimally if business actors do not have the ambition to increase their own business understanding in business development. Elwisam and Lestari 2019 In order to be competitive, you must continue to innovate.

The Effect of Creativity and Innovation on MSME Performance:

The estimated F value of 19.450 is higher than the table F value of 3.35 and the significance level for the significance test is 0.000 < 0.05. Therefore, it can be said that the independent variables of creativity and innovation affect the performance of SMEs in Pangkep City both independently and together. In this study it means that the capacity of respondents to develop and implement their ideas to develop their business, as well as their ability to adapt and solve problems, has a positive impact, especially by increasing the number of products produced, sales, revenue and profits, and market share over the past year.

According to research by Anjaningrum & Sidi (2018) and Arifudin, the combination of creativity and innovation has a good and substantial effect on company performance (2016). The Effect of Innovation and Creativity on Consumer Satisfaction in MSMEs in Medan City is the title of Bunga Aditi and Hermansyur's research published in the 2017 journal. Literature about business and industry, according to Kuntowicaksono in (Aulia, 2020), is a way to teach people about business and industry with various positive, innovative and creative characteristics to help them develop their business into a business that benefits themselves, society, them, or their customers.

The development of new ideas and concepts, as well as the results of creatively merging existing ideas and conceptions, is part of the creative process (Hisyam, 2018). Innovation can be in the form of concepts, procedures, or things that are seen as new by individuals. Changes that are seen by those who witness them as new are also often referred to as innovation (Suryani, 2017). The company's internal creative and innovative power, which over time will increase the company's reputation and profits. After the product adjusts to the demands of the style and desires of the buyer, creativity and innovation are needed. Wants are intangible and produce items that are adaptable to new lines, new products, and new products.

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