**Development of SME Entrepreneurship in the Creative Economic Sector: The Influence of Innovation Management, Technology, and Motivation on Performance Improvement Factors in Indonesia**

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**Abstract**

The aim of this research is to determine the influence of innovation management, technology and motivation on SME business growth in the creative economy sector in Gresik, Indonesia. Quantitative methods were used to distribute questionnaires using purposive sampling techniques to 110 SMEs that produce and sell goods directly to customers. Data was processed using WarpPLS 8.0. The results of this research, innovation management, technology and motivation have a significant effect on improving SME performance. Many indicators describing information technology were used to measure technology problems in this research. Practical implications to improve future performance, both governments and employers must increase technology training. Especially in Indonesia, entrepreneurship, for example, can be an inspiration for creative industries to use technology, innovate and encourage motivation to improve their business results.

**Keywords**: Innovation, Technology, Motivation, SMEs, Creative Economy.

**Introduction**

The economic paradigm that was once centered on resources has developed into a paradigm called "creative economy". Human economic life has now entered a new era, namely the knowledge economy or creative economy orbit (Howkins, 2002). Small and medium enterprises (SMEs) play an important role in the economy because they absorb labor, generate foreign exchange, and contribute to local revenues through taxes.

Small and Medium-sized Enterprises (SMEs) denote enterprises managed by individuals, households, or small business entities (Idris, 2021). Typically, these enterprises are distinguished from larger businesses, constituting productive economic activities conducted by entities with annual sales or net assets surpassing those of medium-sized businesses. This broader classification encompasses national or private enterprises, joint ventures, and foreign businesses operating within the Indonesian economic landscape. SME categorization commonly hinges on various criteria, including annual turnover, accumulated wealth or assets, and the size of the employed workforce. Owing to their noteworthy impact on the national economy, the creative economy assumes a pivotal role in the prospective development of the nation. The creative economy sector, contributing a substantial 7% to the overall Gross Domestic Product (GDP), stands as a vital component in charting the trajectory of the country's economic evolution.

Product innovation stands as an indispensable driver of business performance, with entrepreneurs uniquely positioned to instigate transformative changes that enhance the value of their products and services. This innovation extends beyond the mere augmentation of tangible goods and services, encompassing inventive approaches to business concepts and strategic locations. Additionally, entrepreneurs can effectuate innovation in crucial management domains, particularly in refining work processes, which wield profound significance for overall corporate efficacy. The advent of technological breakthroughs further contributes to the creation of novel products, emphasizing the entrepreneur's imperative to continually evolve and innovate for sustained competitiveness. Information technology, in particular, emerges as a prominent catalyst in this paradigmatic shift.

However, the landscape for small and medium-sized businesses remains challenging, as they grapple with persistent economic crises prevalent in developed countries. The inability of business owners or employees to adeptly harness technology for operational support represents a significant weakness. Innovation, defined herein as the introduction of new goods or services, emerges as a decisive factor influencing the competitive strength of SMEs. Empirical evidence, such as the findings by (Prima Lita et al., 2020), underscores the measurable nature of innovation through various indicators delineating organizational innovation.

In accordance with the conceptualization put forth by (West & Farr, 1989), innovation embodies the application and introduction of new ideas, goods, procedures, or processes within an organization. The overarching goal is to generate benefits for individuals, groups, organizations, and society at large. Pertinently, external support introduces a nuanced dimension, yielding disparate predictions concerning the optimal distinctiveness necessary for sustained innovation. A study by (Mochkabadi et al., 2024) posits that, in the context of return-seeking users versus novelty-seeking users, new ventures are deemed less legitimate if they are either non-innovative or radically innovative. Incrementally innovative new ventures are thus deemed most attractive, particularly when accompanied by external support.

Digital marketing capacity has a major impact on SME business performance; digital literacy has a major impact on SME business performance; and digital literacy has a major impact on digital marketing capabilities (Umboh & Aryanto, 2023). Information technology can improve innovation and business performance (Lailah & Soehari, 2020). Small scale industries will boost the economy and provide some of the best suggestions for the global economy with the help of digital and innovative entrepreneurs. This will enable entrepreneurs to open up new dimensions in marketing, supply chains and exports, and will ultimately increase the globalization of SME products (Yadav *et al*., 2023).

Another study found that motivation for entrepreneurship is very important because it influences business success (Srimulyani & Hermanto, 2021). Reward systems and job satisfaction influence a middle level manager's motivation to excel. However, to become an intrapreneur in a retail business, you must need management support. This has a major impact directly on job satisfaction and indirectly on the desire to achieve. To increase the achievement motivation of middle-level managers, companies must concentrate on management support (Timotius, 2023). Gresik's creative industry is also of particular concern to the government because it highlights the uniqueness of Gresik food. It is hoped that the government's role in this sector can encourage SME owners and leaders to improve their business performance. The government has increased attention to SMEs by opening shops, offering management training that teaches owners how to run a business, promoting products through information technology, and product development training to increase innovation.

The government's strategic objective is to foster the expansion of SME entrepreneurship in Gresik through targeted support and training initiatives. As a result of these efforts, SME managers have come to a realization regarding the paramount importance of such support and training in augmenting their business innovation capabilities, thereby ultimately impacting the overall performance of SMEs. In succinct terms, the overarching goal of this research is to delve into the intricate interplay among innovation management, technology utilization, and motivational factors. The investigation seeks to discern how these elements collectively influence various components that contribute to the enhancement of small and medium entrepreneurship (SME) development within the dynamic landscape of the creative economy sector.

**Literature Review**

**Innovation**

SMEs must be able to identify market trends that are implemented through product innovation. Product innovation is not just creating or developing something new and unique; it can also mean changing an existing product and making it much better and more attractive. Innovation is an effort to gain competitive advantage by learning or finding new and better ways to compete in an industry and bringing them to market (Kramer & Porter, 2011). Business-oriented companies always try to produce new and innovative products and dare to face risks (Becherer & Maurer, 1997). Digitalization will impact the service industry and small and medium enterprises (SMEs). The conceptual framework will serve as a tool to evaluate the impact of digitalization on both sectors. The aim is to understand the potential influence of management strategy data offered on increasing business innovation (Troisi et al., 2023). According to (Henderson & Clark, 1990), innovation consists of three main components: process innovation, product innovation, and service innovation. Innovation has a positive impact on marketing performance; however, transformational leadership influences the relationship between innovation and marketing performance moderately. If SMEs in developing countries have high competitiveness, then the influence of innovation on company performance must be increased. Owners should also consider the important role of transformational leadership as a measure of the relationship between types of innovation and marketing performance (Afriyie et al., 2019).

**Technology**

The pervasive impact of technological advancements extends to all facets of life, notably transforming the landscape for small and medium enterprises (SMEs). In the digital era, SMEs have undergone rapid evolution, leveraging online platforms to establish a robust presence. Through the establishment of online shops and the strategic use of applications and social media for marketing, SMEs can efficiently conduct and manage their business operations in the online sphere.

Crucially, the adoption of marketing technology and sales promotions has become imperative for SMEs to stay competitive in the market. The absence of such strategies can pose a significant challenge for SMEs, hindering their ability to contend with larger competitors. Traditional marketing approaches, such as print media, are not only less viable in the digital landscape but also entail higher costs that SMEs may find prohibitive. In this dynamic environment, digital literacy emerges as a pivotal mediating variable, bridging the gap between SME business performance and digital marketing capabilities (Umboh & Aryanto, 2023). This underscores the integral role of digital literacy in empowering SMEs to navigate and thrive in the digital realm, ensuring their continued relevance and competitiveness in the evolving market landscape.

To succeed in the digital era, SMEs must also manage their marketing and sales promotion strategies using digital technology. Proper website design allows marketers to reach a wider target customer with the guarantee of better service and lower costs. There are more opportunities for SMEs in the digital era. AI greatly impacts entrepreneurship in four ways: through opportunities, decision making, performance, and education and research (Giuggioli & Pellegrini, 2023). The relationship between entrepreneurial leadership and innovative work behavior is mediated by leader support for innovation. This is achieved through creative efforts, support for innovation, and the formation of small and medium enterprises based on ICT technology (Akbari et al., 2020).

Internet technology really helps small and medium businesses (SMEs) (Suliswanto & Rofik, 2019). SMEs can develop more quickly with the help of the internet (Manyika & Roxburgh, 2011). According to Bell & Loane (Suliswanto & Rofik, 2019), accessible marketplaces, social media and website builders enable SMEs to increase their competitiveness, especially in terms of product marketing. They assume that the internet will reduce promotional costs and expand market reach, but most SMEs have not yet optimized the enormous potential of digital marketing via the internet (Suliswanto & Rofik, 2019).

**Motivation**

According to Widodo (2015), motivation is an internal force that encourages someone to act. It is very important for middle-level managers and intrapreneurs to get motivation to achieve (Timotius, 2023). SMEs or business owners usually face challenges every day and often feel unable or afraid to solve them. Business people sometimes lose enthusiasm and motivation to develop their business so they lose focus. This should not be allowed to drag on because it could destroy the continuity of their business.

**Increasing SME Performance**

SME performance is the hope of achieving achievements both financially and non-financially. SMEs' financial achievements are demonstrated by increasing sales, increasing business capital, and increasing profit trends. Non-financial achievements are demonstrated by additional workforce and expansion of marketing areas (Rokhayati, 2015). The relationship between company performance and organizational innovation must be well understood (Phan, 2019). Digital literacy among SMEs greatly influences their business performance (Umboh & Aryanto, 2023).

**Methodology**

This research employs a quantitative approach to rigorously test its hypotheses. The identification of research respondents involves the distribution of questionnaires directly to small and medium businesses (SMEs) in Gresik. The researcher employed field surveys and purposive sampling techniques to ensure the systematic collection of data. The survey involved 110 participants, and all relevant variables were evaluated on a Likert scale ranging from 1 (indicating strong disagreement) to 5 (indicating strong agreement). This methodological framework allows for a structured and quantitative assessment of the hypotheses under consideration, providing a robust foundation for the analysis and interpretation of the research findings.

**Results**

At this stage, WarpPLS 8.0 is used to process the evaluation of the Structure Model (Inner Model), which includes model fit tests, path coefficient, and R2. Questionnaire data filled in by participants was tabulated and processed.

Figure 1. Model fit and quality indices

The output results of the fit indices model in Figure 1 can be presented in Table1.

Table 1. Model Fit Indices

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Index** | **P-Value** | **Criteria** | **Information** |
| **APC** | 0.233 | 0.003 | P < 0.05 | Accepted |
| **ARS** | 0.233 | 0.003 | P < 0.05 | Accepted |
| **AVIF** | 1.044 Good if < 5 |  | AVIF < 5 | Accepted |

The results of the processed warpPLS 8.0 data are shown in Table 1. In the model fit test, there are three test indices: Average Path Coefficient (APC) has an index of 0.233 with a p-value < 0.003, while Average R-squared (ARS) has an index of 0.233 with p-value < 0.003. APC has met the criteria because it has a p value < 0.003, while ARS has a p value < 0.003, which is the same as the ARS p value. Therefore, the inner model can be accepted because the average variance factor (AVIF) value which must be <5 has been fulfilled, because the AVIF data shows a value of 1.044.

Hypothesis testing is used to prove research allegations or hypotheses. The following hypothesis is the validity of the research conjecture: Hypothesis 1 that innovation influences the improvement of SME performance; Hypothesis 2 that technology influences SME performance improvement; Hypothesis 2 is that motivation influences increased SME performance and Hypothesis 4 is that innovation, technology and motivation contribute to increased SME performance.

The following is an image of the research model and data processing results of the large effect:

Information:

X1 = Innovation

X2 = Technology

X3 = MotivationFigure 2. Relationship between variables

Y = Increase in SME performance

In this figure it can be seen that the innovation variable has a positive and significant influence on improving SME performance with a p-value of 0.02 and a positive beta coefficient value, namely β=0.18. This figure shows that if there is an increase in innovation by one unit, the increase in SME performance will increase by 0.18. Technology has a significant influence on improving SME performance with a p-value <0.001 and a negative beta coefficient value, namely β= -0.36. This figure shows that if there is no increase in technology by one unit, then the increase in SME performance will decrease by -0.36, while motivation has a significant influence on increasing SME performance with a p-value of 0.04 and a positive beta coefficient value, namely β= 0.16. This figure shows that if there is an increase in motivation by one unit, the increase in SME performance will increase by 0.16.

Table 2. Combined Loadings and Cross Loadings



**Discussion**

Studies on the influence of innovation management, technology and motivation on the components of improving the performance of SME entrepreneurial development in the creative economy sector show that innovation management, technology and motivation have a great influence on improving the performance of SMEs. In other words, the more creative a person is to innovate, use technology, and encourage motivation, the better his business performance. With this, it can be proven that the innovation variable has a positive and significant influence on improving SME performance with a p-value of 0.02 and a positive beta coefficient value, namely β=0.18. Technology has a significant influence on improving SME performance with a p-value <0.001 and a negative beta coefficient value, namely β= -0.36. Meanwhile, motivation has a significant influence on improving SME performance with a p-value of 0.04 and a positive beta coefficient value, namely β=0.16.

In terms of advice for SME entrepreneurs, although innovation, technology and motivation are interesting topics for improving SME performance, several obstacles have been discovered that need to be considered for further research. This study was conducted in Gresik, which is one of the provinces in East Java. The author suggests that authors compare research results with other areas or SME locations in developing countries to add information that has not been included. Therefore, further research on these additional variables should be conducted in a broader context. Finally, the issues of innovation, technology and motivation in this research are measured by many indicators that show how to improve SME performance. Further studies might investigate different types of innovation, not just product innovation.

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