

# Business Linearity and Creativity to Improve MSMEs Entrepreneurial Performance

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Micro, small, and medium-sized enterprises (MSMEs) have an essential role, especially in developing the national economy. Small and medium-sized enterprises (SMEs) have proven capable of surviving when economic crises hit developing countries, including Indonesia. This study examines whether diversification in similar businesses will result in better entrepreneurial performance. Besides, this study also tested whether MSMEs in creative industries were better than others. The research sample was 120 MSMEs owners in the Special Region of Yogyakarta. The results of the study prove that MSMEs that diversify in linear businesses, and MSMEs based on creativity have better entrepreneurial performance. The results of this study are expected to be an excellent suggestion to MSMEs owners to expand their businesses by diversifying into linear companies. Besides, the owners' of MSMEs can develop creative industries to increase their profitability.

**Keywords:** *Linearity, Creativity, Entrepreneurial performance, Micro small and medium enterprises.*

**JEL Classifications:** M20, M21, O35

## Introduction

The economic world crisis caused financial difficulties for both large companies, and micro, small, and medium-sized enterprises (MSMEs) (Hanedar, 2016). Only MSMEs were able to survive when the economic crisis hit developing countries, including Indonesia (Dharmanegara et al., 2016). In Indonesia, MSMEs play an essential role in the development of the national economy, especially in increasing exports (Mariyudi, 2019). The vast market

share owned by MSMEs is significant, especially in the development of the national economy, and both for developed, and developing markets (Forsman & Temel, 2011). The large market share of MSMEs plays an essential role in creating entrepreneurship, innovation, productivity, competition, employment, diversification, earnings, and growth (Gilmore et al., 2013; Massa & Testa, 2008; Wonglimpiyarat, 2011). Innovation is a critical success factor that is often highlighted in providing competitive advantages and has a positive impact on sustainable economic development, and business growth (Mariyudi, 2019).

Companies will expand new business areas when companies have more resources that can be allocated in new industrial environments (Chatterjee & Wernerfelt, 1991; Palich et al., 2000; Wan et al., 2011). The diversification of business is one of the strategies of managers to expand the market, so that they can obtain a higher reward. Diversification will result in a greater level of corporate complexity that has the potential to increase profits. Business owners and managers often face difficult choices when focussing on existing product lines or offering several new product lines in the same industry to increase financial returns. Focussing on an identical product line can improve skills and expertise in today's market, but often lose the opportunity to gain economic benefits, and market opportunities presented by market imperfections. To increase the market share in developing countries, MSMEs usually diversify their businesses. This strategy enables MSMEs to take advantage of capabilities to expand industrial product lines, which produce economic benefits because they can fill market gaps (Pangboonyanon & Kalasin, 2018).

The creative industry is one of the fast-growing industrial sectors in Indonesia (Zuhdi, 2012). Creative and cultural business is a unique business, and different from other economic areas where entrepreneurs in the creative industry practice economic, and artistic logic (Eikhof & Haunschild, 2007). Artistic philosophy is manifested in an artistic orientation, where artistic orientation is an individual's tendency to produce or do original work. Artistic orientation is a valuable resource for creative companies (Purnomo, 2019). Creativity is essential to obtain and maintain the effectiveness and competitive advantage of organisations (Indriartiningtias et al., 2019). Organisational creativity is needed for the company's continuous improvement, and to measure the changes that may occur, one of which is the company's performance (Sawhney & Prandelli, 2000).

Many studies have tried to link MSME performance with other variables, such as information technology (Budiarto et al., 2017), organisational creativity (Indriartiningtias et al., 2019), and family business (Sari et al., 2019). Although there are many studies on MSME performance, this research is still interesting because the relationship between linearity and MSMEs performance is rarely examined, and previous studies examining the relationship between linearity and performance were only conducted at large companies (Amyulianthy & Sari, 2013; Junaidi, 2017).

## **LITERATURE REVIEW**

### ***The Concept of MSMEs***

In general, the term MSMEs refers to all independent businesses with fewer than 250 employees, a capital investment of less than USD \$190 million, and an annual turnover of less than USD \$70 million (Howard et al., 2009). However, the definition of MSMEs varies from country to country, market to market, and industry to industry, therefore no single description is commonly used (Gunasekaran et al., 2000). Micro, small, and medium-sized enterprises in Indonesia have different meanings. According to Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises, MSMEs are productive economic activities that are independent, and carried out by individuals or business entities that are not subsidiaries or branches of a company. This business is owned, controlled or becomes a part, either directly or indirectly, of a business, and in both small, and large businesses. The requirements for MSMEs are to have a net asset of less than 50 million, a turnover of less than 300 million for micro businesses, and less than 500 million for small businesses. The role of MSMEs is critical in increasing national competitiveness, economic development, and contributing to financial flexibility and resilience (Harrigan et al., 2011; Zhu et al., 2012).

### ***Entrepreneurial Performance***

Company performance can be divided into financial performance, and non-financial performance (Venkatraman & Ramanujam, 1986). Financial performance includes the economic performance of the company, while non-financial performance includes operational performance or effectiveness of the company. General measures of financial performance are business growth, and profitability (Zahra, 1996). The size of the company's growth includes sales growth, profits, employment, and market share. In contrast, profitability includes accounting-based indicators, such as return on assets (ROA), return on equity (ROE), and return on sales (ROS). Non-financial performance includes technical excellence, competitive ability, productivity, and export performance (Stam et al., 2014). The non-financial performance also provides satisfaction and the level of global success enjoyed by business owners (Rauch et al., 2009).

### ***Diversification***

The business groups in emerging markets like diversification, which theoretically can be explained as follows. First, the transaction cost (TC) perspective assumes that diversification is a strategic response to the imperfections of external markets in developing countries. The diversification allows companies to overcome shortcomings through affiliation in business groups by sharing resources through intra-group exchange relationships (Chang & Hong, 2000). Second, the resource-based view (RBV) shows that resources are the primary

determinant of diversification. Business groups will continue to enter new markets because they have excessive specific abilities (Guillen, 2000; Yiu et al., 2005). Third, the political-economic perspective argues that business groups can be used as an organisational tool by the Government to achieve political, social, and economic goals. This perspective will create more jobs and create strategic industries, as a pillar of a country. This business group can enjoy government support by accepting favourable conditions, such as funds, capital, and technology, at a lower cost (Nolan, 2001).

### ***Creativity***

Creativity is a significant factor for continuous organisational improvement to survive in competition. Organisational creativity is the key to understanding the phenomenon of change, increasing organisational effectiveness, and ensuring survival (Woodman et al., 1993). Artistic orientation will accelerate the development of creativity in a company. The uniqueness of the products resulting from the creative process produces a competitive position for the company. Innovative companies must optimise the value of their products by utilising the symbolic and cultural values embedded in production goods to strengthen their position. Therefore, the ability of artists to exploit symbols and work using abstract approaches will help creative companies to maintain a competitive position, and business sustainability (Fore, 2007).

### **Hypotheses Development**

#### ***The Relationship Between Linearity and Performance***

Micro, small, and medium-sized enterprises can continue to survive in environmental uncertainty by diversifying and increasing knowledge (Delbufalo et al., 2016). Companies that focus on the same product line can improve their skills and expertise in the current market (Pangboonyanon & Kalasin, 2018). Diversification in the industry is a strategy where companies offer more than one product line in one sector (Zahavi & Dovev, 2013). Diversification in the industry allows MSMEs in developing countries to fill the void in the market (Meyer & Peng, 2016). Diversification can be done by exploring the business (linear to core business) or expanding into a company that is entirely different from the original activity (Servaes, 1996). Based on some of the findings mentioned before, it can be concluded that the company must be careful when diversifying a business because non-linear diversification will affect the company's profitability. Based on the explanation, the following hypothesis is proposed:

**H<sub>1</sub>:** there are differences in entrepreneurial performance based on business linearity.

### ***The Relationship Between Creativity and Performance***

Organisational creativity plays an essential role in increasing the management knowledge of an organisation (Amar & Juneja, 2008). Organisational creativity allows companies to create new products and services that are more attractive to customers, and provide better solutions. It will cause the company to increase sales and generate profits (Sultani, 2016). Craft, design, fashion, filmmaking, video, and photography are types of businesses that are classified in the creative industry (Purnomo, 2019). One crucial factor that plays a role in organisational performance is creativity, influenced by group creativity, organisational characteristics, and knowledge creation (Indriartiningtias et al., 2019). Companies engaged in the creative industry will find it easier to innovate on the products or services sold. Companies in this industry will develop faster, so that they have a better performance. Based on the explanation, the following hypothesis is proposed:

**H<sub>2</sub>:** there are differences in entrepreneurial performance based on business creativity.

### **Method**

The population of this study is all MSMEs owners in the Special Region of Yogyakarta in 2019. According to Sekaran and Bougie (2016), the sample must be as large as possible, and in general, the larger the sample, the tendency is more representative and research results can be more generalised. The acceptable sample size for causal research is 30 subjects per group. Therefore, the sample of this study was 120 respondents. The sampling technique used is a purposive sampling that has been selected by predetermined criteria. The criteria used is: MSMEs in the Special Region of Yogyakarta; respondents (samples) are the owners and/or managers of MSMEs; and MSMEs already have a business branch.

We measure entrepreneurial performance by using suggested indicators (Rauch et al., 2009; Runyan et al., 2012; Stam et al., 2014), and a scale (Purnomo, 2019). We measure linearity using a nominal scale of 'one' for MSMEs that have linear branches, and 'two' for MSMEs that have non-linear branches. Creativity is measured based on the type of the MSME business by using a nominal scale, namely 'one' for creative industries, and 'two' for non-creative. Mapping the creative industries occurs under the Ministry of Trade of the Republic of Indonesia, namely advertising, architecture, art markets, crafts, design, fashion, video, film and photography, interactive games, music, performing arts, publishing and printing, book publishing, journals, newspapers, computer services, and software and information technology, in addition to these fields are those classified as non-creative (Junaidi, 2017).

## Results and Discussion

The researchers conducted data collection for two months using online, and offline questionnaire methods. In the first month, the researchers managed to collect 63 data sources in Bantul, Sleman, and Yogyakarta. In the second month, researchers managed to collect 57 data sources in Bantul, Sleman, Yogyakarta City, Gunung Kidul, and Kulon Progo. Based on the survey questionnaire, the obtained data is as follows:

**Table 1:** Respondent Characteristics

		Yogyakarta	Bantul	Sleman	Gunung Kidul	Kulon Progo	Total
Owner's Age (years old)	<25	8	17	7	2	5	39
	26–35	8	7	3	9	3	30
	36–45	12	4		6	1	23
	>46	5	12	2	6	3	28
Gender	Male	14	20	9	20	6	69
	Female	19	20	3	3	6	51
Education	Non-bachelor	24	21	10	21	10	86
	Bachelor	9	19	2	2	2	34
Branch	Linear	14	16	7	1	3	41
	Non-linear	7	15	4	8	6	40
	No branch	12	9	1	14	3	39
Type of MSME	Creative	18	19	5	18	10	70
	Non-creative	15	21	7	5	2	50

After analysing the characteristics of the respondents, the next step is testing the data quality by testing the validity, and reliability. The validity testing uses the Pearson correlation, while the reliability testing uses the Cronbach alpha value. The results of the validity test for the entrepreneurial performance variable are shown in Table 2.

**Table 2:** The validity test of the entrepreneurial performance variable

No.	Instrument	Pearson correlation
1	Compared to the previous year, your business has sales growth.	0.679**
2	How do you describe the creativity of your business compared to other businesses?	0.735**
3	Your business activities get so many awards or thanks from customers.	0.765**
4	You are very satisfied with the business that you do.	0.835**

\*\* . Sig <1%

The validity test results in Table 2 show that all questions are valid, while the results of the reliability test results show a Cronbach alpha value of 0.800. After the data testing, the next step is testing the hypothesis. The hypothesis testing aims to prove whether there are differences in entrepreneurial performance based on linearity, and the type of business. The hypothesis testing was completed using an independent sample t-test with a significance of five per cent, and testing entrepreneurial performance based on linearity by using 81 MSME owners as samples. Forty-one companies expanded their business with new linear companies, while 40 companies diversified but were not linear. Entrepreneurial performance testing is based on creativity by using 120 respondents: 70 respondents for companies in the creative industry, and 50 companies in the non-creative sectors. The results of the independent sample t-test for linearity, and creativity are shown in Table 3.

**Table 3:** Independent Sample T-test for Creativity and Linearity Dimension

Dimension	N	Mean	Lavene's test	P-value	Result
Linear	41	16.600	0.140	0.031*	H <sub>1</sub> : accepted
Non-linear	40	15.081			
Creative	70	16.400	0.180	0.012*	H <sub>2</sub> : accepted
Non-creative	50	15.080			

\*Sig <5%

**Table 4:** Independent Sample T-test for Linearity Instrument

No.	Instrument	Mean		Lavene's test	p-value
		Linear	Non-Linear		
1	Compared to the previous year, your business has sales growth.	3.925	3.351	0.917	0.015*
2	How do you describe the creativity of your business compared to other businesses?	3.875	3.702	0.459	0.467
3	Your business activities get so many awards or thanks from customers.	4.525	4.270	0.148	0.181
4	You are very satisfied with the business that you do.	4.275	3.756	0.280	0.032*

\*Sig <5%

Based on Table 4, it can be explained that MSMEs that diversify into linear businesses or similar businesses have better entrepreneurial performance. The results of the independent sample t-test show that the mean value in linear companies is higher than non-linear

companies, even though only two instruments are declared significant, they are instrument items two, and four. The results of this study prove that companies that do related business (related diversification) have the potential to increase growth compared to companies that diversify in unrelated diversification. The companies that carry out linear diversification have experience in assessing risks and uncertainties that will be faced. Linear diversification shows that the company is more careful, so the possibility of experiencing loss is small. This finding is supported by other research, which explains that companies that carry out business diversification strategies with multi-segments have less than optimal performance (Papelu, 1985).

**Table 5:** Independent Sample t-test for Creativity Instrument

No.	Instrument	Mean		Lavene's test	p-value
		Creative	Non-Creative		
1	Compared to the previous year, your business has sales growth.	3.771	3.680	0.171	0.643
2	How do you describe the creativity of your business compared to other businesses?	4.185	3.380	0.019	0.000**
3	Your business activities get so many awards or thanks from customers.	4.371	4.160	0.439	0.254
4	You are very satisfied with the business that you do.	4.071	3.860	0.803	0.339

\*\*Sig < 1%

Based on Table 5, it can be explained that there are differences in entrepreneurial performance based on creativity. Micro, small, and medium-sized enterprises in creativity-based industries have better entrepreneurial performance than non-creative ones. The results of this study can explain that the creative sector has better opportunities because it can create products based on consumer needs. With creativity, companies can create competitive advantages that are not owned by other companies. The creation of creative products can fill market gaps that have not been produced by other companies. Therefore, business expansion in the creative industries will result in a better business value (Purnomo, 2019).

### Conclusion, Limitation & Suggestion

Based on the data analysis results, it can be concluded that MSMEs that diversify into linear businesses by the core business have a better entrepreneurial performance. Also, MSMEs that have a type of creative industry business have a better entrepreneurial performance. This study has several limitations, including, firstly, it does not measure performance based on the



type of ownership of family, and non-family companies. Suggestions for further research are to test linearity based on family businesses because family ownership has a higher value compared to non-family companies (Sari et al., 2019). Secondly, this research does not consider the performance of companies that use marketing through social media. Suggestions for further research are to find the use of social media in performance measurement because marketing with social media will be more economical, and can reach consumers directly (Salehi et al., 2012).

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