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THE EFFECT OF COMPETENCY AND INNOVATION ON THE PERFORMANCE OF MSME ACTORS WITH CREATIVITY AS AN INTERVENING VARIABLE IN MICRO-ENTERPRISES IN KELAMBIR VILLAGE, LIMA KEBUN

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Abstract

This study aims to analyze the influence of competence and innovation on the performance of Micro, Small, and Medium Enterprises (MSMEs) with creativity as an intervening variable in micro-enterprises in Kelambir Lima Kebun Village, Hamparan Perak District, Deli Serdang Regency. The research approach used is quantitative with a causal associative research type. The study population was all active MSMEs in Kelambir Lima Kebun Village, totaling 83 people, and was also sampled using a saturated sampling technique , so that the entire population was studied. Primary data were collected through a questionnaire with a five-point Likert scale, while secondary data were obtained from official village documents, reports from the Cooperative and MSME Office, and supporting literature. Data analysis was carried out using the Structural Equation Modeling–Partial Least Squares (SEM-PLS) method to test direct and indirect relationships between variables. The results of the study indicate that (1) competence has a positive and significant effect on the performance of MSMEs, (2) innovation has a positive and significant effect on performance, (3) competence has a positive and significant effect on creativity, (4) innovation has a positive and significant effect on creativity, and (5) creativity has a positive and significant effect on performance. In addition, creativity is proven to partially mediate the influence of competence and innovation on the performance of MSMEs. These findings emphasize the importance of improving competence and innovation as primary factors in optimizing performance, with creativity as an additional driver that strengthens the success of micro-enterprises.

Keywords: competence, innovation, creativity, performance, MSMEs

Introduction

Micro, Small, and Medium Enterprises (MSMEs) are a strategic economic sector that contributes significantly to national economic growth. Data from the Ministry of Cooperatives and SMEs shows that MSMEs contribute more than 60% to Indonesia's Gross Domestic Product (GDP) and absorb more than 90% of the workforce. The existence of MSMEs is a pillar of the economy, especially during times of global uncertainty and economic slowdown. However, the dynamics of business competition and changes in consumer consumption patterns require MSMEs to not only rely on basic skills but also to continuously improve their competencies, innovate, and foster creativity to maintain good performance. Competence is one of the fundamental factors influencing the success of MSMEs. Competence encompasses not only technical skills in production or service, but also managerial skills, business planning, financial management, marketing, and understanding consumer needs. MSMEs with high competence will be able to manage resources efficiently, formulate business strategies, and effectively face market challenges. Without adequate competence, entrepreneurs will struggle to develop their businesses even if they have potential products. Besides competence, innovation is also a key factor in increasing the competitiveness of MSMEs. Innovation encompasses the creation of new products or services, improvements to production processes, technological development, and the use of digital media for marketing. With continuous innovation, MSMEs can adapt their products to changing consumer tastes and penetrate broader markets. Innovation is not just about new ideas, but also the ability to implement them, thus generating added value for the business. However, the success of competence and innovation will not be optimal without creativity. Creativity acts as a connecting variable that bridges capabilities (competence) and new ideas (innovation) with business performance. Creativity enables MSMEs to find

unique ways to solve problems, exploit market opportunities, create attractive product designs, and develop marketing strategies that differentiate them from competitors. With creativity, innovation can be implemented effectively and competence can be maximized, contributing to improving MSME performance. An interesting phenomenon can be found in Kelambir Lima Kebun Village, Hamparan Perak District, Deli Serdang Regency, which has significant local economic potential. The majority of residents rely on micro-enterprises such as home-cooked culinary delights, handicrafts, agriculture, and trade services. Despite the large number of MSMEs, various challenges remain, preventing the performance of most of them in this village from being optimal. Based on initial observations and data from village officials, some businesses face limited competency, such as inadequate managerial skills, inadequate financial record keeping, and the lack of a long-term business plan. In terms of innovation, many MSMEs continue to sell the same products year after year without updating the shape, flavor, or packaging, making them less attractive to consumers. Marketing creativity is also low, as evidenced by the minimal use of social media and e-commerce platforms to expand the market, with most businesses relying solely on word-of-mouth promotion. Competition with more innovative businesses from other regions and changing consumer preferences increasingly require MSMEs to adapt, but not all are able to respond quickly. This situation indicates a gap between the village's potential and the actual performance of MSMEs. However, with improved competencies, continuous innovation, and high creativity, micro-enterprises in Kelambir Lima Kebun Village have a significant opportunity to grow and contribute significantly to the local economy. Therefore, the study, "The Effect of Competence and Innovation on the Performance of MSMEs with Creativity as an Intervening Variable in Micro-Enterprises in Kelambir Lima Kebun Village," is highly relevant. This research is expected to provide a deeper understanding of the extent to which competence and innovation influence the performance of MSMEs and reveal the important role of creativity as an intervening variable that can strengthen this influence. The research results are expected to not only provide theoretical contributions to the development of management and entrepreneurship science, but also serve as a practical reference for village governments, MSME support institutions, and business actors in formulating strategies for sustainable local economic development. Thus, MSMEs in Kelambir Lima Kebun Village can increase their competitiveness, expand their market, and create wider employment opportunities, thereby contributing to the overall improvement of the village community's welfare.

Formulation of the problem

1. Does competence have a positive and significant influence on the performance of MSME actors in micro-enterprises in Kelambir Lima Kebun Village?
2. Does innovation have a positive and significant impact on the performance of MSME actors in micro-enterprises in Kelambir Lima Kebun Village?
3. Does competence have a positive and significant influence on the creativity of MSME actors in micro-enterprises in Kelambir Lima Kebun Village?
4. Does innovation have a positive and significant influence on the creativity of MSME actors in micro-enterprises in Kelambir Lima Kebun Village?
5. Does creativity have a positive and significant influence on the performance of MSME actors in micro-enterprises in Kelambir Lima Kebun Village?
6. Does creativity mediate (become an intervening variable) the influence of competence on the performance of MSME actors in micro-enterprises in Kelambir Lima Kebun Village?
7. Does creativity mediate (become an intervening variable) the influence of innovation on the performance of MSME actors in micro-enterprises in Kelambir Lima Kebun Village?

Research purposes

1. To test and analyze the influence of competence on the performance of MSME actors in micro-enterprises in Kelambir Lima Kebun Village.
2. To test and analyze the influence of innovation on the performance of MSME actors in micro-enterprises in Kelambir Lima Kebun Village.
3. To test and analyze the influence of competence on the creativity of MSME actors in micro-enterprises in Kelambir Lima Kebun Village.
4. To test and analyze the influence of innovation on the creativity of MSME actors in micro-enterprises in Kelambir Lima Kebun Village.
5. To test and analyze the influence of creativity on the performance of MSME actors in micro-enterprises in Kelambir Lima Kebun Village.

6. To test and analyze creativity as an intervening variable in the relationship between competence and performance of MSME actors in micro-enterprises in Kelambir Lima Kebun Village.
7. To test and analyze creativity as an intervening variable in the relationship between innovation and the performance of MSME actors in micro-enterprises in Kelambir Lima Kebun Village.

Literature review

MSME Performance

According to Robbins & Judge (2017) : Performance is the results achieved by an individual or group in carrying out their duties in accordance with the responsibilities given. Mangkunegara (2020) : Performance is the work results in terms of quality and quantity achieved by an employee or business actor in accordance with their responsibilities to achieve organizational goals.

MSME Performance Indicators

The indicators according to Mangkunegara, 2020 are as follows:

1. Quality of Results , namely the quality of the product or service produced.
2. Quantity of Results , namely the amount of production or sales volume achieved.
3. Punctuality , namely the ability to meet production schedules and targets.
4. Work Effectiveness , namely the efficient use of resources.
5. Responsibility , namely the level of compliance and reliability in carrying out tasks.

Competence

According to Wibowo (2016) : Competence is an individual's ability that includes knowledge, skills, and attitudes that can be observed and are needed to carry out work effectively. According to Sedarmayanti (2017) : Competence is a person's basic characteristics in the form of knowledge, skills, and behavior that are directly related to performance and can be developed through education and training.

Competency Indicators

Indicators According to Wibowo, 2016 are as follows:

1. Knowledge , namely understanding of jobs, products and market needs.
2. Skills , namely technical and managerial abilities in carrying out tasks.
3. Attitude/Behavior , namely work ethics, responsibility, and discipline.
4. Motivation , namely internal drive to achieve work performance.
5. Self-Concept , namely beliefs and values that influence the way you work.

Innovation

According to Tidd & Bessant (2018) : Innovation is the process of transforming opportunities into new ideas that can be exploited and implemented to create economic and social value. According to Huda et al. (2019) : Innovation is the ability of a company or business actor to introduce new products, processes, or methods that are better than those previously available in order to increase competitive advantage.

Innovation Indicators

Indicators According to Tidd & Bessant, 2018 are as follows:

1. Product Innovation , namely the creation or development of new products/variants.
2. Process Innovation , namely improvements to production or service methods.
3. Marketing Innovation , namely the implementation of new promotional/sales methods.
4. Organizational Innovation , namely changes in management patterns, structure, or collaboration.
5. Utilization of Technology , namely the use of information technology or business digitalization.

Creativity

According to Amabile & Pratt (2016) : Creativity is the ability to generate new and useful ideas that can be applied to solve problems or create new opportunities. Runco & Jaeger (2019) : Creativity is a cognitive process that produces original and contextually appropriate ideas, and can be implemented in various fields, including business.

Creativity Indicators

The indicators according to Amabile & Pratt, 2016 are as follows:
1. Originality of Ideas , namely the ability to produce new and unique ideas.
2. Flexibility of Thinking , namely the ability to adapt and combine various concepts.
3. Problem Solving Skills , namely creating innovative solutions to existing challenges.
4. Experimentation , namely the willingness to try new approaches or methods.
5. Idea Implementation , namely the ability to turn ideas into real products or services.

Conceptual Framework

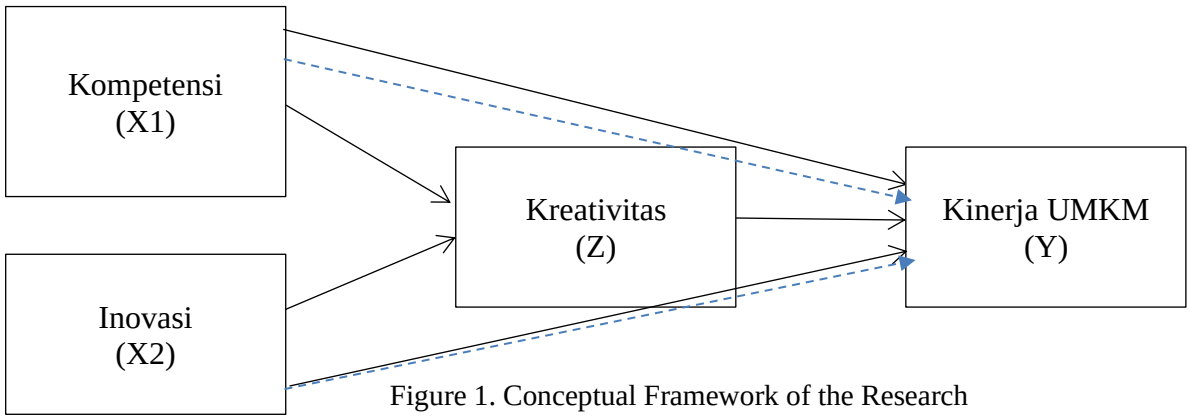

Figure 1. Conceptual Framework of the Research

Hypothesis

H1 Competence has a positive and significant influence on the performance of MSME actors in micro-enterprises in Kelambir Lima Kebun Village.
H2 Innovation has a positive and significant impact on the performance of MSME actors in micro-enterprises in Kelambir Lima Kebun Village.
H3 Competence has a positive and significant influence on the creativity of MSME actors in micro-enterprises in Kelambir Lima Kebun Village.
H4 Innovation has a positive and significant influence on the creativity of MSME actors in micro-enterprises in Kelambir Lima Kebun Village.
H5 Creativity has a positive and significant influence on the performance of MSME actors in micro-enterprises in Kelambir Lima Kebun Village.
H6 Creativity mediates the influence of competence on the performance of MSME actors in micro-enterprises in Kelambir Lima Kebun Village.
H7 Creativity mediates the influence of innovation on the performance of MSME actors in micro-enterprises in Kelambir Lima Kebun Village.

Types and Approaches of Research

This study uses a quantitative approach with a causal associative research type . The quantitative approach was chosen because this study emphasizes measuring numerical data and statistical hypothesis testing. Meanwhile, causal associative research is intended to determine the causal relationship between the independent variables (competence and innovation) and the dependent variable (the performance of MSME actors) through an intervening variable (creativity). According to Sugiyono (2018), quantitative research with a causal associative design is appropriate for analyzing the influence between variables in a measurable manner.

Location and Time of Research

The research was conducted on micro-enterprises operating in Kelambir Lima Kebun Village, Hamparan Perak District, Deli Serdang Regency, North Sumatra . This location was chosen because the village has a large and varied number of MSMEs, making it suitable for examining the influence of competence and innovation on performance. The research is planned to last for three months , starting from the preparation stage and data collection, to analysis and preparation of the research report.

Population and Sample

The population in this study were all Micro, Small, and Medium Enterprises (MSMEs) who actively run their businesses in Kelambir Lima Kebun Village, Hamparan Perak District, Deli Serdang Regency . Based on data obtained from village officials, the number of MSMEs who met the research criteria was recorded at 83 people . The sampling technique used saturated sampling . According to Sugiyono (2018) , *saturated sampling* is a sampling technique when all members of the population are used as samples because the population is relatively small or less than 100 respondents, so that all populations are sampled. Thus, all 83 MSMEs in Kelambir Lima Kebun Village were used as research respondents . This method was chosen so that the data obtained could represent the entire population accurately, so that the research results have a good level of generalization for all MSMEs in the village.

Data source

According to Sugiyono (2018) , data sources are subjects from which data can be obtained to answer the research problem formulation. In this study, data sources consist of:

1. **Primary Data**
   Primary data is data obtained directly from respondents or research objects. Primary data was collected by distributing questionnaires to all 83 MSMEs in Kelambir Lima Kebun Village . This data includes information on competency, innovation, creativity, and business performance.
2. **Secondary Data**
   Secondary data is data obtained from readily available supporting sources. This data includes official village documents, reports from the Deli Serdang Regency Cooperatives and MSMEs Office, as well as literature, books, and scientific journals relevant to the research topic. Secondary data is used to complement and strengthen the results obtained from the primary data.

Data collection technique

According to Sugiyono (2018) , data collection techniques are the most important step in research, as the goal is to obtain data. Without understanding data collection techniques, researchers will not obtain data that meets established data standards. This study used a questionnaire as the data collection technique with a five-point Likert scale . This scale was used to measure respondents' level of agreement with each statement related to the variables of competence, innovation, creativity, and performance of MSMEs.

Table 1. Likert Scale

Score	Assessment Categories
5	Strongly Agree (SS)
4	Agree (S)
3	Neutral (N)
2	Disagree (TS)
1	Strongly Disagree (STS)

Definition of Operational Variables

An operational definition is a guideline on how to measure a variable so that it can be observed and researched in real-world contexts. This definition specifically describes the characteristics, dimensions, and indicators of a variable so that it can be measured using research instruments. *(Sugiyono, 2018, Quantitative, Qualitative, and R&D Research Methods)* In essence, according to Sugiyono (2018):

Table 2. Definition of Operational Variables

Variables	Definition According to Experts	Indicator
MSME Performance (Y)	According to Mangkunegara (2020), performance is the quality and quantity of work results achieved by a person in accordance with the responsibilities given.	1. Quality of business results 2. Quantity of production/sales 3. Timeliness of target achievement 4. Ability to retain customers 5. Increase in business income Mangkunegara (2020),
Competence (X1)	According to Wibowo (2016), competence is an individual's ability which includes knowledge, skills and attitudes which can be observed and are needed to carry out work effectively.	1. Job knowledge 2. Technical skills 3. Professional attitude 4. Problem solving skills 5. Communication skills Wibowo (2016)
Innovation (X2)	According to Tidd & Bessant (2018), innovation is the process of turning opportunities into new ideas that can be utilized and applied to create economic and social value.	1. Creation of new products/services 2. Improvement of production/service processes 3. Utilization of new technology 4. Application of creative ideas in business Tidd & Bessant (2018)
Creativity (Z)	According to Amabile & Pratt (2016), creativity is the ability to produce new and useful ideas that can be applied to solve problems or create new opportunities.	1. Ability to generate original ideas 2. Ability to combine ideas into new concepts 3. Courage to take risks on ideas 4. Flexibility in thinking Amabile & Pratt (2016)

Data Analysis Techniques

Evaluation of Measurement Model (Outer Model)

Measurement models are used to assess the relationship between **latent variables** (e.g., competence, innovation, creativity, and MSME performance) and their measurement **indicators** . According to Hair et al. (2019), the purpose of evaluating the outer model is to ensure that the constructs have been measured accurately and validly. The steps include:

a. Convergent Validity: Tests the extent to which indicators of a construct have a high correlation with each other. This is checked through the *loading factor value* (>0.7) and Average Variance Extracted (AVE) (>0.5).
b. Discriminant Validity: Ensuring that a construct is empirically different from other constructs. Tested using *cross-loading* and the Fornell-Larcker criterion, where the square root of the AVE must be greater than the correlation between constructs.
c. Construct Reliability: Measuring the internal consistency of indicators using Composite Reliability (>0.7) and Cronbach's Alpha (>0.7). Values that meet the criteria indicate that the indicator is consistent in measuring the intended construct.

Structural Model Evaluation (Inner Model)

Structural modeling assesses the strength and significance of relationships between latent constructs. This stage aims to test research hypotheses and assess the model's predictive power. The main steps are:

a. R-Square (R^2): Shows the extent of variability in the dependent variable that can be explained by the independent variables. An R^2 of 0.67 is considered strong, 0.33 moderate, and 0.19 weak (Hair et al., 2019).
b. Path Coefficient: Assesses the magnitude and direction of influence between latent variables.
c. Significance Test (Bootstrapping): Conducted to test the hypothesis using the *t-statistic* and *p-value* . A relationship is considered significant if the t-statistic is > 1.96 or the p-value is < 0.05.
d. Predictive Relevance (Q^2): Measures how well a model predicts observed data. $Q^2 > 0$ indicates a model with good predictive power.

Outer Model Analysis

Outer Model Analysis is the testing stage of the measurement model in the Partial Least Squares–Structural Equation Modeling (PLS-SEM) method . The goal is to ensure that the indicators (measured/manifest variables) are truly valid and reliable in representing the latent construct.

Convergent Validity

Convergent validity is part of the outer model analysis in PLS-SEM that aims to ensure that all indicators used actually measure the same latent construct . If convergent validity is met, it means that the indicators in one latent variable are highly correlated and consistently represent the concept being measured. While the research is still in the development stage, it is permissible to use indicators with individual correlation values higher than 0.7. Indicator values of 0.5 and 0.6 are still considered appropriate. External loading data indicates that these indications are not substantial with loadings below 0.60. The research structural model is shown in the following figure:

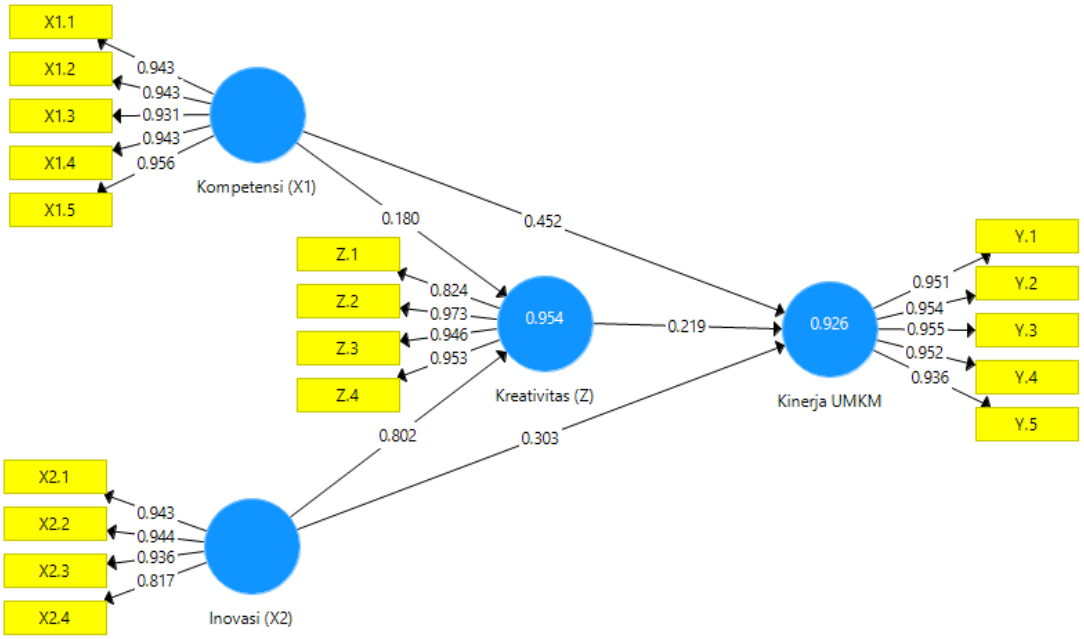

Figure 2. Outer Model

Source: Smart PLS 3.3.3

In the results of the outer model, there are equations in the research. These equations are divided into 2 substructures, including the following:

Substructure 1

Z = b1X1 + b2X2 + e

Z = 0.180 + 0.802 + 0.954

Substructure 2

Y = b3X1 + b4X2 + b5Z + e

Y = 0.452 + 0.303 + 0.219 + 0.926

Table 3. Outer Loadings

	Innovation (X2)	MSME Performance (Y)	Competence (X1)	Creativity (Z)
X1.1			0.943	
X1.2			0.943	
X1.3			0.931	
X1.4			0.943	
X1.5			0.956	
X2.1	0.943			
X2.2	0.944			
X2.3	0.936			
X2.4	0.817			
Y.1		0.951		
Y.2		0.954		
Y.3		0.955		
Y.4		0.952		
Y.5		0.936		
Z.1				0.824
Z.2				0.973
Z.3				0.946
Z.4				0.953

Source: Smart PLS 3.3.3

the outer model analysis show that all indicators in the Competence (X1), Innovation (X2), MSME Performance (Y), and Creativity (Z) variables have *outer loading* values between 0.817 and 0.973 , all above the minimum limit of 0.70. This means that each indicator is valid and able to reflect its construct well. Thus, the four variables have met convergent validity and the measurement model is declared suitable to proceed to the inner model analysis .

Discriminant Validity

Discriminant Validity is part of the outer model analysis in PLS-SEM that is used to ensure that each latent construct is truly distinct from other constructs . If discriminant validity is met, it means that the indicator of a variable only measures that variable and does not overlap with other variables. The results of the cross loading discriminant validity test are presented in the following table.

Table 4. Discriminant Validity

	Innovation (X2)	MSME Performance (Y)	Competence (X1)	Creativity (Z)
X1.1	0.900	0.889	0.943	0.887
X1.2	0.887	0.884	0.943	0.888
X1.3	0.898	0.880	0.931	0.897
X1.4	0.921	0.914	0.943	0.906
X1.5	0.931	0.923	0.956	0.911
X2.1	0.943	0.912	0.939	0.918
X2.2	0.944	0.940	0.926	0.915
X2.3	0.936	0.902	0.906	0.918
X2.4	0.817	0.694	0.720	0.800
Y.1	0.924	0.951	0.934	0.926
Y.2	0.952	0.954	0.927	0.945
Y.3	0.871	0.955	0.880	0.869
Y.4	0.878	0.952	0.890	0.865
Y.5	0.888	0.936	0.886	0.876
Z.1	0.797	0.694	0.729	0.824
Z.2	0.955	0.917	0.928	0.973
Z.3	0.925	0.934	0.913	0.946
Z.4	0.926	0.930	0.936	0.953

Source: Smart PLS 3.3.3

the discriminant validity test using the *cross loading method* show that each indicator has the highest loading value on its respective construct compared to other constructs. Competence (X1) : all indicators (X1.1–X1.5) have the highest loading on X1 (0.931–0.956) compared to other variables. Innovation (X2) : indicators X2.1–X2.4 are also the highest on X2 (0.817–0.944) although the lowest X2.4 (0.817) still meets the criteria. MSME Performance (Y) : indicators Y.1–Y.5 show the highest loading on Y (0.936–0.955). Creativity (Z) : all indicators Z.1–Z.4 have the highest loading on Z (0.824–0.973). Thus, each construct is able to differentiate itself from other constructs , meets the discriminant validity criteria, and the measurement model is declared good.

Composite *reliability*

To determine the reliability value in subsequent testing, an indicator block was used that evaluates the dependency of the composite construct. The construct value is considered reliable if the composite reliability value is greater than 0.60. The variable construct value from the indicator block that measures the construct can be used to calculate the reliability value using Cronbach's alpha in addition to testing the composite reliability value. An item is considered credible if its Cronbach's alpha value is greater than 0.7. The following table displays the loading values of the research variable constructs obtained through the use of the Smart PLS program:

Table 6. ***Construct Reliability and Validity***

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Innovation (X2)	**0.931**	**0.952**	**0.831**
MSME Performance	**0.973**	**0.979**	**0.902**
Competence (X1)	**0.969**	**0.976**	**0.890**
Creativity (Z)	**0.943**	**0.960**	**0.857**

Source: Smart PLS 3.3.3

The four research variables, namely Innovation (X2), MSME Performance (Y), Competence (X1), and Creativity (Z) , were proven to have excellent reliability and validity. The Innovation variable recorded a Cronbach's Alpha of 0.931 , Composite Reliability of 0.952 , and AVE of 0.831 . The MSME Performance variable obtained a Cronbach's Alpha of 0.973 , Composite Reliability of 0.979 , and AVE of 0.902 . The Competence variable showed a Cronbach's Alpha of 0.969 , Composite Reliability of 0.976 , and AVE of 0.890 . Meanwhile, the Creativity variable had a Cronbach's Alpha of 0.943 , Composite Reliability of 0.960 , and AVE of 0.857 . All Cronbach's Alpha and Composite Reliability values were well above the minimum standard of 0.70, indicating excellent internal consistency. Furthermore, the Average Variance Extracted (AVE) value , exceeding 0.50, confirmed that the indicators adequately reflected their latent variables. Thus, all constructs were deemed reliable and valid , allowing them to be used in the subsequent *inner model analysis phase* .

Inner Model **Analysis**

Structural models, also known as internal models, are assessed to ensure their accuracy and reliability. Several indicators, such as the following, can be used to visualize the stages of structural model evaluation analysis:

1. Coefficient of Determination (R2)

Based on data processing carried out using the SmartPLS 3.0 program, the R Square value was obtained as follows:

Table 7. R Square Results

	R Square	Adjusted R Square
MSME Performance	0.926	0.923
Creativity (Z)	0.954	0.953

Source: Smart PLS 3.3.3

MSME Performance (Y) has an R Square value of 0.926 and an Adjusted R Square of 0.923. This means that 92.6% of the variation in MSME Performance can be explained by the independent variables in the model, while the remaining 7.4% is influenced by other factors outside the model. The almost identical Adjusted R Square value (0.923) confirms that the model is very good and there is no significant decrease after adjusting the number of predictors. Creativity (Z) shows an R Square of 0.954 and an Adjusted R Square of 0.953, which means that 95.4% of the variation in Creativity is explained by the variables that influence it in the model, with only 4.6% influenced by other factors. The very small difference with the Adjusted R Square indicates a very strong and stable model. Overall, both R Square values are in the very high category, so it can be concluded that the research model has very good explanatory power for the MSME Performance and Creativity variables.

Goodness of Fit **(GoF) Assessment**

The goodness of fit of the model can be seen from the NFI fit figure ≥ 0.697. Based on data cleaning completed using the SmartPLS 3 application, the Model Fit values were found as follows:

Table 8. Model Fit

	Saturated Model	Estimation Model
SRMR	0.046	0.046
d_ULS	0.366	0.366
d_G	1,091	1,091
Chi-Square	409,960	409,960
	0.854	0.854

Source: Smart PLS 3.3.3

The Goodness of Fit test results showed an SRMR value of 0.046 (<0.08), indicating a very good model *fit* . The d_ULS value of 0.366 and d_G of 1.091 are considered low, while the Chi-Square value of 409.960 is still reasonable. The NFI index of 0.854 is also above the minimum standard of 0.80. Overall, the structural model is deemed appropriate and fits the data.

Hypothesis Testing

After assessing the inner model, the next step is to examine the proposed relationships between the latent constructs in this study. The hypothesis testing technique for this study uses T-statistics and P-values. The hypothesis is considered accepted if the T-statistic is greater than 1.96 and the P-value is less than 0.05. The following are the results of the direct influence path coefficients:

Table 9. *Path Coefficients* (Direct Effect)

	Original Sample (O)	T Statistics (| O/STDEV |)	P Values	Results
Innovation (X2) -> MSME Performance	0.303	2,026	**0.022**	**Accepted**
Innovation (X2) -> Creativity (Z)	0.802	8,382	**0,000**	**Accepted**
Competence (X1) -> MSME Performance	0.452	3,948	**0,000**	**Accepted**
Competence (X1) -> Creativity (Z)	0.180	1,866	**0.031**	**Accepted**
Creativity (Z) -> MSME Performance	0.219	1,479	**0.070**	**Rejected**

Source: Smart PLS 3.3.3

The explanation in the table above regarding the hypothesis is as follows:

1. A path coefficient of 0.303 with a p-value of 0.022 (<0.05) indicates that innovation has a positive and significant effect on MSME performance. This means that the greater an MSME's ability to create and implement new ideas or products, the better their business performance, both in terms of productivity, service quality, and market competitiveness.
2. A coefficient of 0.802 with p = 0.000 indicates a very strong and significant influence . This demonstrates that increased innovation, such as the development of new products or processes, significantly encourages the growth of creativity among MSMEs in finding solutions, generating fresh ideas, and enriching product or service variations.
3. A coefficient of 0.452 with p = 0.000 indicates a positive and significant influence . This means that competence—including the knowledge, skills, and professional attitudes of owners or employees—plays a significant role in improving MSME performance, for example through managerial skills, resource management, and customer service.
4. A coefficient of 0.180 with p = 0.031 indicates a positive but relatively weak influence . This finding indicates that competence still helps foster creativity, for example through technical understanding and problem-solving skills, but its strength is not as strong as the influence of innovation.

5. A coefficient of 0.219 with p = 0.070 (> 0.05) indicates an insignificant effect . In other words, although creativity is important for generating new ideas, in this research model, creativity is not proven to directly improve MSME performance. Creativity likely plays a more supportive role, requiring other factors, such as innovation implementation, to have a significant impact on performance.

Table 10. *Path Coefficients* (Indirect Effect)

	Original Sample (O)	T Statistics (| O/STDEV |)	P Values
Innovation (X2) -> Creativity (Z) -> MSME Performance	0.176	1,471	**0.071**
Competence (X1) -> Creativity (Z) -> MSME Performance	0.040	1,007	**0.157**

Source: Smart PLS 3.3.3

6. The indirect effect coefficient of 0.176 with p = 0.071 (> 0.05) indicates insignificance . This means that creativity is unable to mediate the relationship between innovation and MSME performance. Innovation improves MSME performance more through direct influence, not through creativity.
7. The coefficient of 0.040 with p = 0.157 (> 0.05) also indicates insignificance . This means that creativity does not mediate the relationship between competence and MSME performance. Performance improvements occur more directly from competence.

Conclusion

1. Innovation on MSME Performance
   Innovation has been proven to have a positive and significant impact on the performance of MSMEs.
2. Innovation towards Creativity
   Innovation has a positive and significant impact on creativity.
3. Competence towards MSME Performance
   Competence has a positive and significant effect on MSME performance.
4. Competence towards Creativity
   Competence has a positive and significant influence on creativity.
5. Creativity on MSME Performance
   Creativity does not have a significant effect on MSME performance.
6. Innovation through Creativity for MSME Performance
   Creativity does not mediate the influence of innovation on MSME performance.
7. Competence through Creativity on MSME Performance
   Creativity does not mediate the influence of competence on MSME performance.

Suggestion

After obtaining the research results and providing conclusions, the suggestions for this research are as follows:

1. The results of this study confirm the role of creativity as an intervening variable. These findings can serve as a basis for developing theories of MSME performance, particularly regarding the relationship between *human capital* (competence) and *innovation capability* .
2. Future researchers could add external variables such as government support, access to digital technology, or social capital to see whether the effect of creativity remains significant.
3. Competency Improvement : Attend training in business management, finance, digital marketing, and product development to strengthen your personal and business skills.
4. Sharpening Creativity : Conducting market trend research, trying new product designs, and utilizing social media for creative promotions.
5. Driving Innovation : Not only creating new products, but also improving production processes, packaging, and customer service.
6. Organize regular training programs that focus on creativity and innovation, such as *business coaching* or business idea competitions.
7. Providing access to micro-financing and marketing facilities, including MSME exhibitions, to encourage entrepreneurs to try new breakthroughs.

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