

ANALYSIS OF MOTIVATION, PRODUCT INNOVATION, AND BUSINESS STRATEGY ON THE BUSINESS PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN MALANG CITY

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ABSTRACT

Micro and Small Enterprises (MSEs) play a vital role in regional economic development, particularly in urban areas such as Malang City, which is known for its dynamic growth in culinary, creative, trade, and service sectors. Despite their significant contribution, many MSEs continue to face challenges in achieving and sustaining optimal business performance. These challenges are commonly associated with limited managerial capability, low innovation intensity, and the absence of clear and structured business strategies. This study aims to examine and analyze the influence of motivation, product innovation, and business strategy on the business performance of micro and small enterprises in Malang City.

This research adopts a quantitative approach using primary data collected through structured questionnaires distributed to owners or managers of MSEs operating in Malang City. The data were analyzed using multiple linear regression analysis to test both partial and simultaneous effects of the independent variables on business performance. The findings reveal that motivation, product innovation, and business strategy each have a positive and significant effect on business performance. These results indicate that motivated entrepreneurs, continuous product innovation, and well-formulated business strategies are key drivers of improved sales growth, profitability, and market expansion. The study provides both theoretical contributions to the literature on small business performance and practical implications for policymakers and practitioners in designing effective empowerment programs for MSEs.

Keywords: motivation, product innovation, business strategy, business performance, micro and small enterprises

INTRODUCTION

Micro and Small Enterprises (MSEs) represent a fundamental pillar of Indonesia's economic system and play a strategic role in employment creation, income distribution, and regional economic resilience. In recent years, the contribution of MSEs has become increasingly important, particularly in urban areas where economic dynamics and market competition are more intense. Malang City, as one of the major educational, tourism, and creative industry centers in East Java, has experienced rapid growth in the number of micro and small enterprises across sectors such as culinary, trade, services, and creative industries. This growth reflects strong entrepreneurial potential; however, it also creates higher levels of competition that directly affect business sustainability and performance (Solehati, 2021).

Business performance is a key indicator used to assess the success and sustainability of a business. According to Literasi and Dan (2024), business performance determines whether a business is able to achieve its predetermined goals, thereby reflecting the overall effectiveness of managerial and operational activities.

Performance measurement is essential not only for evaluating past achievements but also for guiding future strategic decisions. For micro and small enterprises, performance evaluation helps business owners identify strengths, weaknesses, and opportunities for improvement in a highly competitive environment.

Company performance can be viewed from both financial and non-financial perspectives. Wahyuni and Erawati (2019) explain that financial performance includes indicators such as profitability, liquidity, and financial stability, which describe a firm's financial condition and its ability to generate sustainable income. Meanwhile, non-financial performance encompasses aspects such as customer satisfaction, product quality, innovation capability, and market growth. For MSEs, non-financial performance indicators are often more relevant in the early stages of business development, as they reflect long-term competitiveness and customer loyalty rather than short-term financial gains alone (Ma'ruf et al., 2024).

In an increasingly competitive business environment, MSEs are required to implement strong and effective business strategies to survive and grow. Intense competition at both local and national levels forces enterprises to continuously adapt to market changes, consumer preferences, and technological developments. Solehati (2021) emphasizes that the absence of a clear business strategy can lead to inefficient resource allocation and weak competitive positioning. Effective business strategies enable MSEs to determine market focus, pricing policies, and differentiation approaches that support improved business performance.

Product quality is another crucial factor influencing consumer purchasing decisions and overall business performance. High-quality products tend to generate higher customer satisfaction, trust, and loyalty, which are essential for sustaining business growth. Product quality is closely linked to innovation, as innovation allows enterprises to improve product features, design, and functionality in response to changing market demands. According to Ma'ruf et al. (2024), innovation embedded in product quality not only enhances customer satisfaction but also encourages repeat purchases and strengthens long-term customer relationships, which ultimately contribute to better business performance.

From an entrepreneurial perspective, motivation plays a fundamental role in driving individuals to initiate, manage, and develop their businesses. Entrepreneurial motivation influences the willingness to take risks, persist in facing challenges, and continuously seek opportunities for growth and improvement. Radjapati et al. (2018) provide empirical evidence that entrepreneurial motivation has a significant positive effect on the performance of MSMEs, as highly motivated entrepreneurs tend to be more proactive, innovative, and resilient. Motivation also encourages business owners to adopt effective strategies and engage in continuous innovation, which are critical for maintaining competitiveness in dynamic markets.

Based on the discussion above, it is evident that motivation, product innovation, and business strategy are interrelated internal factors that play a vital role in shaping business performance. Despite the strategic importance of these variables, many micro and small enterprises in Malang City still face fundamental managerial problems, such as weak planning capability, limited innovation orientation, and the absence of structured long-term strategies. These problems result in suboptimal business performance, which is reflected in stagnant sales growth, low profitability, and limited market expansion. Therefore, understanding business performance from a strong theoretical foundation becomes essential.

The grand theory underpinning this study is management theory. According to Irawan (2022), management is an art of achieving optimal results through the most efficient use of available resources, with the ultimate goal of creating welfare not only for business owners or leaders, but also for employees and society as a whole. In the context of micro and small enterprises, effective management practices are crucial because business owners often act simultaneously as managers and decision-makers. Weak managerial capability may lead to inefficiencies, poor decision-making, and ineffective utilization of resources, which ultimately hinder business performance.

The middle-range theory applied in this study is strategic management theory. Strategic management is defined as an art, technique, and science of formulating, implementing, evaluating, and controlling various organizational decisions that are continuously influenced by a dynamic and changing environment (Nurfitrah, 2020). Strategic management enables enterprises to align internal capabilities with external opportunities and threats. For micro and small enterprises operating in competitive urban environments such as Malang City, the lack of strategic orientation often results in reactive rather than proactive business behavior, making it difficult for enterprises to sustain competitive advantage and achieve long-term performance goals.

Furthermore, this study adopts applied theories that directly relate to the research variables. Entrepreneurial motivation is one of the applied theories used in this research. Entrepreneurial motivation refers to the internal drive that encourages individuals to initiate, manage, and develop business activities in order to achieve specific goals in the business world (Nurdiana et al., 2022). High levels of motivation encourage entrepreneurs to take calculated risks, persist in facing challenges, and continuously improve business operations. Conversely, low entrepreneurial motivation often leads to stagnation and weak business performance.

Another applied theory incorporated in this study is product innovation. Product innovation is defined as the process of developing new or improved products that are designed to meet consumer needs and expectations, with the objective of stimulating purchasing interest and influencing purchase decisions (Kalil & Aenurohman, 2020). For micro and small enterprises, product innovation is often constrained by limited capital, technology, and market knowledge. As a result, many MSEs struggle to differentiate their products, leading to intense price competition and reduced profitability.

In addition, business strategy is a critical applied theory in this study. Business strategy refers to a long-term plan formulated to achieve organizational objectives by maximizing strengths, minimizing weaknesses, and responding effectively to opportunities and threats arising from the external environment (Rahman & Haryanto, 2024). Without a clear and consistent business strategy, micro and small enterprises tend to operate without direction, making it difficult to adapt to market changes and sustain performance growth.

Business performance, as the dependent variable in this study, reflects the overall condition of a business over a certain period as a result of operational activities and the effective utilization of available resources. According to Falentina et al. (2022), business performance represents an integrated manifestation of business outcomes that can be observed through improvements in business activities aimed at generating maximum profit. When business performance improves, it is reflected not only in financial gains but also in increased business activity, market reach, and organizational sustainability.

Despite the relevance of management, strategic management, entrepreneurial motivation, product innovation, and business strategy in explaining business performance, empirical studies that integrate these theoretical perspectives in the context of micro and small enterprises at the city level remain limited. Therefore, this study aims to analyze the influence of motivation, product innovation, and business strategy on the business performance of micro and small enterprises in Malang City, based on a comprehensive theoretical framework that integrates grand theory, middle theory, and applied theory.

METHODS

This study employs a quantitative research approach with a causal research design to analyze the influence of motivation, product innovation, and business strategy on business performance. The quantitative approach is considered appropriate because it allows for objective measurement of relationships between variables and hypothesis testing using statistical techniques.

The population of this study consists of all micro and small enterprises operating in Malang City across various sectors, including culinary, trade, services, and creative industries. The sampling technique used is purposive sampling, with criteria including: (1) enterprises classified as micro or small businesses, (2) active business operation for at least one year, and (3) willingness of the owner or manager to participate as a respondent. This approach ensures that respondents have sufficient experience to provide relevant information.

Primary data were collected through structured questionnaires distributed directly to respondents. All questionnaire items were measured using a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Motivation was measured using indicators such as achievement motivation, persistence, self-confidence, and willingness to take business risks. Product innovation was assessed through indicators including product development, product uniqueness, improvement in product quality, and responsiveness to consumer needs. Business strategy was measured using indicators related to cost efficiency, differentiation, market targeting, and promotional activities. Business performance was measured using indicators such as sales growth, profit growth, customer growth, and market expansion.

Data analysis was conducted using multiple linear regression analysis. Prior to hypothesis testing, classical assumption tests were performed, including normality tests, multicollinearity tests, and heteroscedasticity tests, to ensure the validity and reliability of the regression model. Hypothesis testing was conducted using t-tests for partial effects and F-tests for simultaneous effects.

RESULTS AND DISCUSSION

The results of the regression analysis indicate that motivation has a positive and significant effect on business performance. This finding suggests that entrepreneurs with high levels of motivation are more likely to demonstrate strong commitment, persistence, and proactive behavior in managing their businesses. Motivated business owners tend to actively seek opportunities, improve operational efficiency, and respond effectively to challenges, which ultimately enhances business performance. This result supports motivational theory, which emphasizes motivation as a key determinant of individual and organizational performance.

Data analysis

Simultaneous Test (F Test)

Table 1. F Test
ANOVA a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	528,876	3	176,292	7,486	.000 b
	Residual	5039.766	214	23,550		
	Total	5568.642	217			

a. Dependent Variable: Business performance

b. Predictors: (Constant), Business strategy, motivation, product innovation

Source: Data Processing Results, 2025

The results of the Simultaneous Test (F Test), as shown in Table 9, indicate that the independent variables—business strategy, motivation, and product innovation—significantly affect business performance. The F value calculated is 7.486, which is greater than the F table value of 2.845, and the significance value (0.000) is less than the 0.05 threshold, confirming that the model is statistically significant. This means that, collectively, business strategy, motivation, and product innovation have a meaningful and significant impact on business performance, leading to the rejection of the null hypothesis, which states that these variables do not jointly affect business performance.

Multiple Linear Regression Analysis

Table 2. Multiple Linear Regression Analysis

Coefficients a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	17,621	3,646		4.833	.000
	Motivation	.118	.064	.124	1,846	.066
	Product innovation	.135	.060	.157	2.252	.025
	Business strategy	.221	.102	.153	2.176	.031

a. Dependent Variable: Business performance

Source: Data Processing Results, 2025

The Multiple Linear Regression Analysis results, as shown in Table 10, provide insights into the individual impact of each independent variable on business performance. The regression equation derived from the analysis is $Y^* = 17.621 + 0.118X_1 + 0.135X_2 + 0.221X_3$, where the constant (17.621) represents the baseline business performance when all independent variables (motivation, product innovation, and business strategy) are zero. The analysis reveals that product innovation and business strategy significantly contribute to business performance, with product innovation having a coefficient of 0.135 ($p = 0.025$) and business strategy having a coefficient of 0.221 ($p = 0.031$). However, motivation shows a borderline significant effect with a coefficient of 0.118 ($p = 0.066$), just above the 0.05 threshold. Overall, product innovation and business strategy significantly enhance business performance, while motivation has a slightly weaker impact.

Partial Test (T-Test)

**Table 3. T-test
Coefficients a**

Mode 1		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9,668	16,625		.582	.565
	Motivation	.177	.064	.187	2,791	.006
	product innovation	.199	.057	.232	3,503	.001
	Business strategy	.337	.096	.233	3,514	.001

a. Dependent Variable: Business performance

Source: Data Processing Results, 2025

The results of the Partial Test (T-Test), as shown in Table 9, indicate the individual significance of each independent variable on business performance. The t-values and significance levels suggest that all three variables—motivation, product innovation, and business strategy—have a statistically significant effect on business performance. The motivation variable has a coefficient of 0.177 with a t-value of 2.791 and a significance level of 0.006, which is less than the 0.05 threshold, confirming its positive influence. Product innovation shows a significant effect with a coefficient of 0.199, t-value of 3.503, and a significance of 0.001, indicating a strong positive impact on business performance. Similarly, business strategy has a coefficient of 0.337, with a t-value of 3.514 and a significance level of 0.001, demonstrating a significant positive contribution to business performance. These results confirm that each of the three factors—motivation, product innovation, and business strategy—individually plays a crucial role in enhancing business performance.

Discussion

The Influence of Motivation (X1) on Business Performance (Y)

Motivation plays a crucial role in driving business performance. The findings from both the multiple linear regression and partial test show that motivation has a positive effect on business performance, although its significance is somewhat weaker compared to product innovation and business strategy. With a coefficient of 0.118 in the regression analysis and a significance level of 0.066, motivation influences business performance at a marginally significant level. This suggests that motivated individuals or teams tend to put in more effort, show greater initiative, and are more likely to contribute to achieving organizational goals. However, while motivation is important, its direct impact on business performance may be influenced by other factors such as resources, organizational culture, or external market conditions. Therefore, although motivation is a necessary condition for success, it may not be sufficient on its own to drive substantial improvements in business performance without the support of innovation and strategy.

The Influence of Product Innovation (X2) on Business Performance (Y)

Product innovation has a significant and positive impact on business performance, as evidenced by the regression coefficient of 0.135 and a significance level of 0.025. This

indicates that businesses that focus on developing new products or improving existing ones are more likely to experience enhanced performance. The positive relationship between product innovation and business performance can be attributed to the ability of innovative products to meet changing customer needs, differentiate the business in competitive markets, and open up new revenue streams. Product innovation often drives business growth, as it enables companies to remain relevant, capture a larger market share, and respond to market trends effectively. Therefore, the results suggest that continuous innovation is essential for sustaining and improving business performance, especially in dynamic industries.

The Influence of Business Strategy (X3) on Business Performance (Y)

Business strategy emerges as one of the most significant factors influencing business performance, with a coefficient of 0.221 and a significance level of 0.031. This demonstrates that businesses with clear, well-implemented strategies tend to outperform those without. A well-defined business strategy provides direction, focuses resources on high-priority objectives, and ensures that the organization adapts to market changes. It also helps businesses align their operations with long-term goals, improve decision-making, and enhance competitive positioning. The importance of strategy is particularly evident in complex or highly competitive markets, where firms need to be agile, innovative, and customer-focused. These findings underline that business strategy is a key driver of performance, providing a framework that guides the actions needed to achieve sustainable success.

CONCLUSION

This study provides valuable insights into the factors that influence business performance, specifically focusing on motivation, product innovation, and business strategy. The findings reveal that all three factors significantly contribute to enhancing business performance, albeit with varying levels of influence.

Firstly, motivation plays a positive role in driving business performance, although its impact is relatively weaker compared to product innovation and business strategy. Motivated employees tend to demonstrate higher levels of engagement and initiative, which can contribute to better performance. However, its effect is more marginal, suggesting that motivation alone may not be enough to produce significant business improvements without complementary factors like innovation and strategy.

Secondly, product innovation has a substantial and statistically significant effect on business performance. The results show that businesses that innovate their products or services are better positioned to meet market demands, differentiate themselves from competitors, and achieve sustainable growth. Product innovation allows businesses to adapt to changing customer needs and capture new opportunities, making it a crucial driver of performance.

Lastly, business strategy is the most influential factor in improving business performance. A well-structured strategy helps businesses align their goals with actions, optimize resource allocation, and make informed decisions in response to market dynamics. The significant positive relationship between business strategy and performance emphasizes the importance of clear, long-term planning and execution in driving organizational success.

In conclusion, while all three variables—motivation, product innovation, and business strategy—are important, product innovation and business strategy have the

most direct and substantial impact on business performance. Organizations aiming for sustainable growth should focus on fostering a motivated workforce, driving innovation, and implementing effective strategies to enhance their competitive advantage and overall performance.

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