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The Relationship Between Creativity, Innovation, and Business Performance in The Creative Economy

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ABSTRACT

The creative economy is a rapidly growing sector in Indonesia, contributing 6.54% to GDP in 2022 and reaching a value of Rp 1.28 quadrillion. This research aims to analyze the relationship between creativity, innovation, and business performance in the creative economy. A quantitative approach using a survey method was employed, involving 200 creative economy business actors in Semarang City, with purposive sampling as the sampling technique. A structured Likert-scale questionnaire was used as the research instrument. Data were analyzed using Structural Equation Modeling (SEM) with SmartPLS 3.0. The results show that creativity significantly and positively affects product innovation ($\beta = 0.672$, $p < 0.001$), innovation significantly and positively affects business performance ($\beta = 0.548$, $p < 0.001$), and creativity directly affects business performance ($\beta = 0.384$, $p < 0.001$). These findings demonstrate that creativity and innovation are key factors in improving business performance in the creative economy. In conclusion, creativity serves as both a direct driver of business performance and an indirect driver through innovation, with the indirect effect accounting for 48.9% of the total effect. This confirms that fostering both creativity and systematic innovation management is essential for optimizing performance in the creative economy. This research contributes to the development of innovation management theory and provides practical recommendations for creative economy entrepreneurs.

INTRODUCTION

The creative economy has become a key sector in the global and national economy. In Indonesia, its contribution to the national GDP continues to increase, reaching IDR 1,280 trillion (IDR 1.28 quadrillion) in 2022, according to the Ministry of Tourism and Creative Economy (Kemenparekraf) (Solehudin et al., 2025). Despite this growth, it accounted for 6.54% of the total national GDP. The sector's development is driven by creativity and innovation (Klein et al., 2021; Sigala & Kyriakidou, 2015). In 2022, the number of creative economy workers reached 23.98 million, a 9.49% increase from the previous year, demonstrating the sector's impact on employment and on reducing unemployment (Gouvea et al., 2021; Klein & Spychalska-Wojtkiewicz, 2020).

In an era of increasingly fierce global competition, the ability to innovate is crucial for business sustainability and growth. Creativity, as the ability to generate new ideas, and innovation, as their implementation, are vital for adapting to market dynamics (Ali et al., 2020). The relationship between creativity, innovation, and business performance has attracted considerable attention. Several studies have shown that creativity underpins innovation, which in turn influences business outcomes. However, there remains a gap in the literature regarding

the dynamic relationship among these variables within Indonesia's creative economy (Fahmi & Koster, 2017; Ismail, 2016; Setiawan, 2018; Syafri et al., 2023).

Several studies have examined the relationships between creativity, innovation, and business performance. Zhou and George (2001) demonstrated that individual creativity is influenced by job dissatisfaction and feedback and plays an important role in driving innovative behavior in the workplace. Amabile et al. (1996) emphasized that a supportive work environment is a key factor in generating organizational creativity. In the context of innovation, Hurley and Hult (1998) found that innovation capability mediates the relationship between market orientation and organizational performance. Damanpour and Evan (1984) also proved that organizational innovations, both technical and administrative, contribute significantly to performance improvement. In Indonesia, Hadiyati (2011) examined the effect of creativity and innovation on small business entrepreneurship and concluded that both variables positively influence business success. Anjaningrum and Sidi (2018) investigated the determinants of competitive advantage and creative industry performance, finding that market orientation, innovation, and product originality together increase competitive advantage. Kruger et al. (2005) also showed that management experience and business size act as moderators in the relationship between creativity, innovation, and implementation.

Previous studies report mixed findings on the links among creativity, innovation, and business performance. Research suggests that product innovation is positively impacted by market focus and product originality. In a similar vein, competitive advantage is increased by market orientation, innovation, and product originality (Fang et al., 2023; Ruth Eikhof, 2017). More study is needed on these mechanisms within the creative economy. Indonesia's creative economy spans 16 subsectors; culinary alone makes up 56.86% of the 21.90 million creative economy workers in 2021. This subsector diversity offers significant potential for development through creativity and innovation (Cumming & Leung, 2021; Karlsson et al., 2021; Ruth Eikhof, 2017).

Indonesia's creative industry export performance also achieves impressive results. In the third quarter of 2023, creative industry exports reached USD 17.4 billion, of which USD 6.26 billion came from the crafts subsector and USD 9.88 billion from the apparel subsector. This accomplishment shows that Indonesian innovative products are competitive on the international market. The gap in the literature about the connection between innovation, creativity, and corporate performance in the creative economy is filled by this study, particularly in Indonesia. By understanding this relationship, creative economy entrepreneurs can optimize business performance by developing creativity and innovation.

The urgency of this research increases as Indonesia's creative economy holds vast potential that has yet to be fully tapped. Indonesia's large population and rich cultural diversity provide a strong foundation for developing the creative economy. However, entrepreneurs and policymakers must create appropriate strategies to foster creativity and innovation and boost the competitiveness of Indonesian creative economy products in the global market. This study aims to analyze the relationship between creativity, innovation, and business performance in the creative economy, with a focus on creative economy actors in Semarang City. The findings are expected to contribute to the development of innovation management theory and provide practical recommendations for creative economy entrepreneurs and policymakers.

METHOD

Research Design

This research used a quantitative, cross-sectional survey design to analyze the relationships among creativity, innovation, and business performance in the creative economy. A quantitative approach was chosen because it allows for objective hypothesis testing and generalization of research results to a broader population.

Population and Sample

The research population comprised all creative economy entrepreneurs registered with the Semarang City Cooperatives and MSMEs Office. Based on 2023 data, there are approximately 2,847 creative economy business units spread across 16 subsectors. Semarang City was selected as the research location because it is one of the centers of the creative economy in Central Java, with a representative diversity of subsectors. A sample of 200 respondents was obtained by applying the Slovin formula with a 5% margin of error. The sampling technique used was purposive sampling with the following criteria: businesses had been operating for at least 2 years, had commercially marketed products or services, and were willing to participate in the study. The sample distribution based on creative economy subsectors refers to the proportion of the population, with the culinary subsector dominating (35%), followed by fashion (20%), crafts (15%), music (10%), app and game developers (8%), and other subsectors (12%).

Research Variables and Measurement

This research involved three main variables: creativity as the independent variable, innovation as the mediator, and business performance as the dependent variable. Each variable was measured using indicators validated in previous research and adapted to the characteristics of Indonesia's creative economy. The creativity variable was measured using a scale developed by Zhou and George (2001) and adapted for creative economy businesses. Creativity indicators include: the ability to generate new ideas, flexibility in problem-solving, originality of products or services, and the ability to combine unconventional ideas. Each indicator was measured using a 5-point Likert scale (1 = strongly disagree to 5 = strongly agree).

The innovation variable was measured using a scale developed by Hurley and Hult (1998), modified for the creative economy. Innovation indicators included product, process, marketing, and organizational innovation. Measurements were conducted using a 5-point Likert scale, focusing on the level of novelty and innovation implementation within the business. Business performance variables were measured using financial and non-financial indicators relevant to the creative economy. Financial indicators included sales growth, profitability, and asset growth. Non-financial indicators included customer satisfaction, market share, and brand reputation. Measurements were conducted using a 5-point Likert scale and available objective data.

Research Instrument

The research instrument was a structured questionnaire comprising four main sections: respondent and business characteristics; a creativity scale; an innovation scale; and a business performance scale. The questionnaire was written in Indonesian, taking into account respondents' educational levels and cultural backgrounds. Prior to data collection, the instrument's validity and reliability were tested through a pilot study of 30 creative economy

entrepreneurs. Validity was tested using confirmatory factor analysis with a minimum factor loading of 0.5. Reliability was tested using Cronbach's Alpha with a minimum threshold of 0.7.

Data Collection Techniques

Data were collected through direct surveys of creative economy business owners or managers. The data collection process was carried out over three months (June-August 2024) involving a team of trained surveyors. Each surveyor was provided with an interview guide and a standardized questionnaire. To ensure data quality, cross-verification was conducted through direct observation of the business and brief interviews with employees or business partners. The data collected included primary data from the questionnaire and secondary data from available business documents.

Data Analysis Techniques

Structural Equation Modeling (SEM) with a Partial Least Squares (PLS) technique utilizing SmartPLS 3.0 software was employed for data analysis. Because of the exploratory character of the study model and the comparatively modest sample size, PLS-SEM was used. In order to test the validity and reliability of the indicators, the measurement model (outer model) was evaluated; the structural model (inner model) was evaluated to test the research hypotheses; and the role of innovation as a mediator between creativity and business performance was examined through mediation testing. Cross-loading and the Fornell-Larcker criterion were used for discriminant validity testing, while composite reliability and average variance extracted (AVE) were used for convergent validity testing. Path coefficients, R-squared, and effect size testing were all part of the inner model evaluation.

RESULT AND DISCUSSION

Characteristics of Respondents and Businesses

Of the 200 respondents who participated in the study, the majority were women (58%) aged 25-40 years (67%). Respondents' education levels were dominated by high school/vocational school graduates (45%) and university graduates (38%). Most respondents had 2-5 years of business experience (52%) and 6-10 years (31%). Based on the creative economy subsectors, culinary businesses dominated the sample with 70 businesses (35%), followed by fashion (40 businesses (20%), crafts (30 businesses (15%), music (20 businesses (10%), application and game developers (16 businesses (8%), and other subsectors (24 businesses (12%). This distribution reflects the composition of the creative economy in Semarang City, according to data from the Cooperatives and MSMEs Office. The majority of respondents' businesses were micro-sized (72%) with a monthly turnover of less than IDR 50 million, followed by small businesses (23%) with a monthly turnover of IDR 50-300 million, and medium-sized businesses (5%) with a monthly turnover of more than IDR 300 million. Most businesses (78%) employed 1-5 employees.

Measurement Model Evaluation

All indicators demonstrated sufficient validity and reliability, according to the outer model evaluation. All indicators had factor loading values more than 0.7, indicating strong convergent validity. High internal reliability was indicated by composite reliability for all constructions being above 0.8 and Cronbach's Alpha values being above 0.7. The constructs of creativity, innovation, and business performance had Average Variance Extracted (AVE)

values of 0.589, 0.634, and 0.612, respectively. The constructs explained more than half of the variance in their indicators, as all AVE values were greater than 0.5. The square root of the AVE for each construct was higher than the correlation between constructs, according to discriminant validity testing using the Fornell-Larcker criterion.

Structural Model Evaluation

The inner-model evaluation results indicate that the research model has strong predictive power. The R-square value for the innovation construct is 0.451, indicating that creativity explains 45.1% of the variance in innovation. The R-square value for the business performance construct is 0.563, indicating that creativity and innovation together explain 56.3% of the variance in business performance. The Q-square values for the innovation construct (0.278) and business performance (0.336) indicate that the model has good predictive relevance. The effect size (f^2) for the influence of creativity on innovation is 0.820 (large), creativity on business performance is 0.287 (medium), and innovation on business performance is 0.464 (large).

Hypothesis Testing

The following outcomes were obtained by bootstrapping hypothesis testing with 5,000 subsamples. With a path coefficient of $\beta=0.672$ ($p<0.001$), the first hypothesis—that creativity fosters innovation—was validated. These findings demonstrate that innovation in creative economy enterprises is largely driven by creativity. With a path coefficient of $\beta=0.548$ ($p<0.001$), the second hypothesis—that innovation improves business performance—was also determined to be significant. This result suggests that successful innovation implementation can greatly enhance company performance. With a path coefficient of $\beta=0.384$ ($p<0.001$), the third hypothesis—that creativity improves business performance—was determined to be significant. This suggests that creativity has a direct impact on corporate performance in addition to influencing innovation.

Mediation Analysis

Mediation tests using the Baron and Kenny (1986) method and the Sobel test indicated that innovation partially mediates the relationship between creativity and business performance. The indirect effect of creativity on business performance through innovation was 0.368 ($p<0.001$), while the direct effect was 0.384 ($p<0.001$). The total effect of creativity on business performance is 0.752, with 49% of the effect mediated by innovation and 51% as a direct effect. These results indicate that although innovation plays a mediating role, creativity still has a substantial direct influence on business performance. The Variance Accounted For (VAF) of 48.9% indicates that innovation is a strong partial mediator in the creativity-business performance relationship. This implies that developing innovation is an effective strategy to optimize the impact of creativity on business performance.

DISCUSSION OF RESEARCH RESULTS

The findings of this study confirm the importance of creativity as a foundation for developing creative economy businesses. The positive effect of creativity on innovation ($\beta=0.672$) indicates that the ability to generate original ideas and flexibility in problem-solving are prerequisites for developing product, process, marketing, and organizational innovations.

These results align with previous research conducted by Zhou and George (2001) and Amabile et al. (1996), which showed that individual and organizational creativity are key inputs into the innovation process. In the creative economy, creativity is not only about generating artistic ideas but also about identifying business opportunities and developing commercially viable solutions. The positive effect of innovation on business performance (β=0.548) confirms that effective implementation of innovation can increase the competitiveness and profitability of creative economy businesses. These findings are consistent with research by Hurley and Hult (1998) and Damanpour and Evan (1984), which demonstrated that innovation is a key driver of organizational performance.

In the creative economy, innovation is not limited to new product development but also encompasses innovations in business models, marketing strategies, and production processes. Businesses that can integrate various types of innovation tend to perform better because they can respond more effectively to market changes. The direct effect of creativity on business performance (β = 0.384) indicates that creativity has intrinsic value that can be directly translated into competitive advantage. This is consistent with the characteristics of the creative economy, where aesthetic value, originality, and product uniqueness are key differentiating factors. The role of innovation as a partial mediator (VAF=48.9%) indicates that although creativity can directly contribute to business performance, the pathway through innovation has a significant impact. This implies that creative economy businesses need to develop an effective innovation management system to optimize creative potential. The findings of this study provide theoretical contributions to the development of a model of the creativity-innovation-performance relationship in the creative economy. The resulting model can serve as a framework for further research and the development of innovation management theory in the creative industry.

Practical Implications

The results of this study provide several practical implications for creative economy businesses. First, developing creativity must be a top priority through investment in training, creating a conducive work environment, and establishing an organizational culture that encourages experimentation and risk-taking. Second, implementing a systematic innovation management system is necessary to transform creative ideas into commercially viable innovations. This includes developing an idea screening process, evaluating technical and commercial feasibility, and establishing effective implementation mechanisms. Third, businesses need to develop capabilities in various types of innovation, not only product innovation but also process, marketing, and organizational innovation. Diversifying innovation types can increase business resilience to market changes and competition. Fourth, developing collaborative networks with educational institutions, creative communities, and other stakeholders can enrich the source of creative ideas and accelerate the innovation process. Collaboration can also facilitate access to broader resources and markets.

Policy Implications

The research findings also provide implications for policymakers in developing the creative economy. The government needs to develop programs to enhance the creativity and innovation capacity of creative economy entrepreneurs through training, business incubators, and mentoring. The development of supporting infrastructure, such as creative hubs, co-working spaces, and innovation laboratories, can facilitate collaboration and knowledge

sharing among creative economy entrepreneurs. In addition, policies that support access to financing for research and development activities need to be strengthened.

CONCLUSION

This study successfully analyzed the relationships among creativity, innovation, and business performance in the creative economy, using data from 200 business owners in Semarang City. The Structural Equation Modeling results showed that all three research hypotheses were statistically significant. The main findings indicate that creativity has a positive and significant effect on innovation, with a path coefficient of 0.672. This confirms that creativity is the foundation for developing innovation in creative economy businesses. The ability to generate original ideas, flexibility in problem-solving, and product originality are key factors in driving various types of innovation. Innovation was shown to have a positive and significant effect on business performance, with a path coefficient of 0.548. These findings indicate that implementing product, process, marketing, and organizational innovations can significantly improve the financial and non-financial performance of creative economy businesses.

Creativity was also shown to have a direct effect on business performance, with a path coefficient of 0.384. This indicates that creativity has intrinsic value in the creative economy that can be directly translated into competitive advantage and improved business performance. Mediation analysis showed that innovation acts as a partial mediator, accounting for 48.9% of the variance. These results indicate that while creativity can directly contribute to business performance, the pathway through innovation has a substantial impact on optimizing its influence. The research model explained 56.3% of the variance in business performance, indicating that creativity and innovation are strong predictors of business performance in the creative economy. This high R-square value indicates the model's practical relevance in understanding the factors influencing the success of creative economy businesses.

The theoretical contribution of this research lies in developing an integrative model that explains the relationships among creativity, innovation, and business performance in the creative economy. This model enriches the innovation management literature by focusing on the unique characteristics of the creative economy. The practical contribution of this research provides guidance for creative economy entrepreneurs on optimizing business performance by developing creativity and an effective innovation management system. For policymakers, the results provide an evidence-based foundation for developing programs and policies that support the growth of the creative economy. Limitations of this study include: the geographic focus on Semarang City, which may limit the generalizability of the results; the cross-sectional design, which cannot establish temporal causal relationships; and reliance on self-reported data, which is susceptible to subjective bias. Future research is recommended to use a longitudinal design to better establish causal relationships, expand the geographic scope to increase generalizability, and integrate moderating variables such as business size, subsector type, and external environmental characteristics. Furthermore, qualitative research can be conducted to explore the mechanisms of creativity and innovation processes in the creative economy.

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