Journal of Ecohumanism
2025
Volume: 4, No: 1, pp. 2352– 2365
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v4i1.6055

From Structure to Strategy: How Organization Design Influences Innovation and Performance in Micro, Small, and Medium Enterprises (MSMEs)

Maya Sari Dewi[1], Saladin Ghalib[2], Laila Refiana Said[3], Yunita Sopiana[4]

Abstract

The objective of this study is to investigate relationship between organizational structure, innovation and performance in Micro, Small, and Medium Enterprises (MSMEs), with a particular focus on the mediating role of innovation. The research provides a novel lens by examining how distinct dimensions of organizational structure—formalization, flexibility, centralization, complexity, and specialization—interact with stages of innovation to influence multidimensional performance outcomes. This research explores how structural design aligns with environmental contingencies and drives innovation as a dynamic capability in MSMEs. The integration of these theories enables a nuanced understanding of organizational adaptability and performance within resource-constrained settings.The methodology adopted for this research comprises employing a quantitative cross-sectional design, data from 400 MSMEs was analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings reveal that innovation significantly mediates the relationship between organizational structure and performance. Key structural dimensions such as flexibility and complexity demonstrate a pronounced impact on adaptive capacity and strategic agility in MSMEs. By integrating structural and innovation paradigms, this study provides actionable insights for policymakers and MSMEs leaders who aim to enhance competitiveness and sustainability in a rapidly evolving business landscape. This research adopts a holistic approach by considering the interactive effects of structural dimensions and staged innovation processes on MSMEs performance. This comprehensive perspective addresses critical gaps in understanding how structural design facilitates continuous innovation and sustainable performance.

Keywords: *Organizational Structure, Innovation, MSMEs Performance, Contingency Theory, Dynamic Capabilities Theory, Balanced Scorecard Framework.*

Introduction

Micro, Small, and Medium Enterprises (MSMEs) represent the backbone of many economies worldwide, contributing significantly to GDP, employment, and innovation (Larios-Francia & Ferasso, 2023). These enterprises play an essential role in driving economic development, particularly in developing countries where they often dominate the business landscape. Globally, MSMEs account for approximately 90% of all businesses, creating 60% to 70% of total employment opportunities and contributing up to 50% of GDP in many nations (Cicea et al., 2019; Okta, 2016; Rekkas, 2022). Their extensive reach and critical contributions make them indispensable in fostering inclusive growth and reducing economic disparities.

Despite their importance, MSMEs face persistent challenges, including limited access to financial resources, insufficient infrastructure, and restricted market penetration. Many enterprises struggle to achieve scalability and sustainability due to a lack of strategic alignment in their organizational structures (Alexiou et al., 2019). Resource constraints, coupled with dynamic market conditions, necessitate a robust framework to enhance their adaptability and competitiveness (Larios-Francia & Ferasso, 2023).

One significant issue is the alignment of organizational design with strategic goals. Effective organizational design ensures that operational processes and human resources are optimally structured to meet market demands. Alexiou et al. (2019) emphasize that organizational structures not only dictate internal

[1] Lambung Mangkurat University, Banjarmasin, Kalimantan Selatan, Indonesia, Email: mayadewi@ulm.ac.id, (Corresponding Author)
[2] Lambung Mangkurat University, Banjarmasin, Kalimantan Selatan, Indonesia.
[3] Lambung Mangkurat University, Banjarmasin, Kalimantan Selatan, Indonesia.
[4] Lambung Mangkurat University, Banjarmasin, Kalimantan Selatan, Indonesia

Journal of Ecohumanism
2025
Volume: 4, No: 1, pp. 2352– 2365
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v4i1.6055

coordination but also influence the enterprises' ability to innovate and respond to external pressures. When structured effectively, MSMEs can mitigate operational inefficiencies and exploit market opportunities.

In addition to strategic alignment, it is cricial to consider the role of work and learning in MSMEs. MSMEs do not merely thrive through structural optimization, they also develop a culture of continuous learning. An organizational structure prioritizing learning and skill development significantly contributes to innovation (Ahmad et al., 2025). This adaptability is crucial in a rapidly changing market. Considering these structures, it is essential to recognize that MSMEs operate in highly dynamic markets. Therefore, the ability to acquire, share, and apply knowledge effectively is a critical success factor. This capability is particulary important for MSMEs in competitive markets (Khattak & Abukhait., 2024). This analysis highlights that organizational structure enhances flexibility, formalization, and centralization. It enables rapid adaptation to market changes. This reinforcement enables MSMEs to formulate and implement adaptive strategies and respond effectively to changing market demands.

The importance of innovation in MSMEs cannot be overstated. Innovation enables these enterprises to improve product offerings, streamline processes, and establish a competitive edge in saturated markets. However, the extent to which MSMEs can innovate is often directly tied to their organizational structure. Complex structures can either facilitate or hinder innovation, depending on how roles and responsibilities are distributed (Gammahendra et al., 2018). For instance, excessive centralization may suppress creativity by concentrating decision-making power at the top levels, while decentralized structures often encourage employee participation and innovative-thinking (Eva et al., 2021).

In this study, we focus on how specific structural dimensions—complexity, formalization, centralization, specialization, and flexibility—shape innovation processes and, consequently, performance outcomes. Complexity, as described by Pangarso et al. (2016), involves differentiating tasks and roles to foster specialization but it may also lead to coordination challenges. Formalization ensures consistency through standard operating procedures but can reduce creativity if overly rigid (Dekoulou & Trivellas, 2017). Centralization and specialization balance control and expertise, while flexibility allows adaptation to dynamic market environments (Nowotny et al., 2022).

Given the critical role of MSMEs in economic ecosystems, this study aims to provide insights into how their organizational structures can be optimized to foster innovation and enhance performance. By integrating contingency theory and dynamic capabilities theory, this research seeks to fill existing gaps in understanding the synergies between organizational design and strategic outcomes in the MSME context.

Literature Review

Organizational Structure

The concept of organizational structure is fundamental in determining how roles, responsibilities, and authority are allocated within organizations. According to Contingency Theory, the effectiveness of an organizational structure depends on its alignment with external environmental (Donaldson, 2015). This alignment is particularly crucial for MSMEs, with typically operate with limited resources in highly dynamic environments. An Effective organizational structure for MSMEs must achieve a balance between operational efficiency and adaptability to ensure their survival and competitiveness.

To gain a deeper understanding of the impact of organizational structure, it is essential to examine its core dimensions, including complexity, formality, centralization, specialization, and flexibility. Complexity, which pertains to the degree of differentiation within an organization, presents both opportunities and challenges. While increased complexity facilities greater specialization and operational efficiency, it can also impede communication and collaboration if not managed adeptly. Research by Cosh, Fu, and Hughes (2012) on SMEs in the UK highlights how excessive complexity can engender silos that obstruct knowledge sharing and innovation, a concern particularly pertinent for MSMEs that depend on agility and cross-functional collaboration.

Journal of Ecohumanism
2025
Volume: 4, No: 1, pp. 2352– 2365
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v4i1.6055

Formality, defined as the extent to which policies and procedures are standardized, plays a dual role in organizational dynamics. While formalized structures ensure consistency, reliability, and predictability, excessive rigidity in formality can strifle creativity and innovation. An expanding body of literature, including studies by Ali et al. (2018) and Camisón and López (2010), suggest that achieving a moderate level of formality is optimal. Such a balance enables firms to maintain structured processes while fostering experimentation and adaptability. Recent findings have furhter illuminated this perspective by emphasizing the potential of digital tools to mediate the relationship between formality and flexibility. For instance, digital platforms can standardize repetitive processes while facilitating real-time collaboration, thereby nurturing an innovative yet stable organizational environment.

Centralization, another key dimension, has significant implications for decision-making and organizational responsiveness. Centralized structures, which concentrate authority at higher levels, are often associated with swift decision-making but may lack the responsiveness needed to address local market nuances. Conversely, decentralized structures, distribute authority more broadly, encouraging input from various organizational levels and fostering an environment conducive to innovation and collaboration (Pfeffer, 1991; Walheiser et al., 2021). MSMEs, in particular, derive substantial benefits from a decentralized approach, as it empowers employees to respond promptly to customer needs and market fluctuations. However, achieving the appropriate degree of decentralization necessitates careful consideration of the firm's size, industry, and strategic objectives.

Specialization, which pertains to the division of labor based on specific expertise, presents both advantages and challenges for MSMEs. While specialization can enhance productivity and operational efficiency, it also requires effective coordination mechanisms to align specialized functions with overarching organizational objectives. Arzubiaga et al. (2018) observed that family-owned SMEs often encounter difficulties in integrating innovations across specialized units, underscoring the importance of balancing specialization with collaborative efforts. Digital tools, such as project management software, have emerged as vital enablers in this context, facilitating seamless coordination and alignment across specialized teams.

Finally, flexibility emerges as an indispensable attribute for MSMEs navigating unpredictable markets. Firms that prioritize flexibility are better equipped to adapt to evolving conditions, seize emerging opportunities, and mitigate risks. Research by Hadjimanolis (2000) and Camisón and Villar-López (2014) highlights that flexibility not only enhances a firm's capacity for innovation but also fortifies its resilience in dynamic business environments. Recent studies further underscore the role of digital technologies in augmenting organizational flexibility, enabling real-time decision-making and resource allocation.

In summary, the dimensions of organizational structure—complexity, formality, centralization, specialization, and flexibility—are intricately interconnected and collectively shape the innovative capacities and performance outcomes of MSMEs. By strategically managing these structural elements and leveraging digital tools, MSMEs can adeptly navigate the complexities of dynamic business environments while maintaining a competitive edge. Future research should investigate the interplay between these dimensions in greater depth, particularly in the context of emerging technologies and their implications for organizational design.

Innovation and MSME Performance

Innovation serves as the driving force behind growth, competitiveness, and long-term success for MSMEs. Within these enterprises, innovation encompasses a broad spectrum of activities, including the development of new products and services, the refinement of internal processes, and the adoption of novel business models and organizational practices. Grounded in Dynamic Capabilities Theory (Teece et al., 1997), innovation equips firms with the capacity to reconfigure resources, adapt to rapidly changing environments, and sustain their competitive advantage over time. For MSMEs, which frequently operate in resource-constrained settings, innovation represents a crucial pathway to overcoming limitations and achieving superior performance.

Empirical research highlights the multifaceted impact of innovation on MSMEs performance. Soto-Acosta

Journal of Ecohumanism
2025
Volume: 4, No: 1, pp. 2352– 2365
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v4i1.6055

et al. (2016), for example, demonstrated that adopting digital technologies significantly enhances organizational efficiency and market reach. Similarly, Jiménez-Jiménez and Sanz-Valle (2011) emphasized the reciprocal relationship between organizational learning and innovation, revealing that firms committed to continuous improvement are better positioned to achieve sustainable growth. Recent studies expand upon these findings by exploring the synergies between innovation and organizational structure. Notably, moderate levels of formality combined with flexibility have been shown to foster environments that are both structured and conducive to creativity. This delicate balance enables firms to institutionalize innovative practices while remaining agile and responsive to market demands.

Moreover, the ability of innovative firms to differentiate themselves in competitive markets is paramount. Camisón and Villar-López (2014) found that firms leveraging innovation to enhance both internal processes and customer-facing practices consistently outperform their peers. This success translates into heightened customer satisfaction, increased revenue, and stronger market positions. Importantly, recent advancements in digital tools and platforms provide MSMEs unprecedented opportunities to scale their innovations. Technologies such as artificial intelligence, big data analytics, and cloud computing empower firms to streamline operations, gain insights into customer preferences, and enhance their value propositions.

MSMEs performance is inherently multidimensional, encompassing financial, operational, and strategic aspects. The Balanced Scorecard framework by Kaplan and Norton (2001) offers a comprehensive lens through which to evaluate performance across financial outcomes, customer satisfaction, internal processes, and learning and growth. This holistic approach is particularly relevant in the MSMEs context, as it captures the diverse ways in which innovation and organizational structure contribute to sustained success.

In conclusion, innovation serves as a critical mediator between organizational structure and MSMEs performance, shaping the trajectory of growth and competitiveness. By fostering an environment that supports experimentation, adaptability, and technological integration, MSMEs can unlock their full potential and thrive in competitive landscapes. Future research should delve deeper into the mechanisms through which emerging digital tools influence the relationship between innovation and performance, as well as explore industry-specific dynamics to uncover best practices for leveraging innovation in diverse MSME contexts.

Research Methodology

This research adopts a quantitative cross-sectional design to investigate the complex interrelationships among organizational structure, innovation, and performance in MSMEs. The cross-sectional approach provides a snapshot of these dynamics at a specific point in time, offering valuable insights into the structural and innovative practices within these enterprises. Partial Least Squares Structural Equation Modeling (PLS-SEM) is employed as the primary analytical tool, a method well-regarded for its capacity to handle intricate models involving latent variables (Ghozali, 2021). PLS-SEM is particularly suitable for this research as it enables the simultaneous analysis of structural relationships while accounting for the mediating role of innovation in the linkage between organizational structure and performance. The method's ability to address non-normal data distributions and smaller sample sizes further underscores its relevance for this study.

The research sample consists of 400 MSMEs operating in Banjarmasin, Banjarbaru, and the surrounding regions of South Kalimantan, selected for their economic significance and sectoral diversity. These regions encompass a wide array of MSMEs, including those in the culinary, handicrafts, retail, and creative industries, providing a robust representation of the sector. Judgmental sampling was employed to ensure the inclusion of diverse MSME subsectors, with stratification based on industry type to capture sector-specific characteristics. This approach not only enhances the generalizability of the findings but also allows for more nuanced insights into the interplay between organizational structure and innovation across different business contexts. By including MSMEs of differing sizes and operational scales, the study accommodates the heterogeneity characterizing these enterprises, offering a comprehensive understanding

Journal of Ecohumanism
2025
Volume: 4, No: 1, pp. 2352– 2365
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v4i1.6055

of the factors influencing their performance.

Data collection was conducted through structured questionnaires meticulously designed to measure perceptions of organizational structure, innovation processes, and overall performance. The questionnaire was developed based on validated instruments from previous research, ensuring both content validity and reliability. Constructs such as complexity, formalization, decentralization, and flexibility were operationalized using established scales tailored to the context of MSMEs. Innovation, as a key construct, encompassed activities ranging from product and service development to the refinement of internal processes and adoption of new business models. The questionnaire underwent pre-testing and pilot testing to enhance its clarity and reliability, with adjustments made based on feedback from MSME owners and managers to ensure its cultural and contextual relevance. Data collection was conducted through a combination of face-to-face interviews and online survey distribution, facilitating a high response rate despite logistical challenges.

The analytical process commenced with the validation of the measurement model, including assessments of convergent validity, discriminant validity, and internal consistency to ensure the accuracy and reliability of the constructs (Ghozali, 2021). Average Variance Extracted (AVE) and Composite Reliability (CR) were calculated to confirm the reliability of the measurement scales, and items that did not meet the necessary thresholds were revised or eliminated. Subsequently, the structural model was tested to examine the hypothesized relationships among organizational structure, innovation, and performance. A central focus of the analysis was mediation, aiming to uncover the mechanisms through which innovation acts as a bridge between organizational structure and performance outcomes. The bootstrapping method was employed to assess the significance of direct and indirect effects, providing robust statistical evidence for the mediating role of innovation.

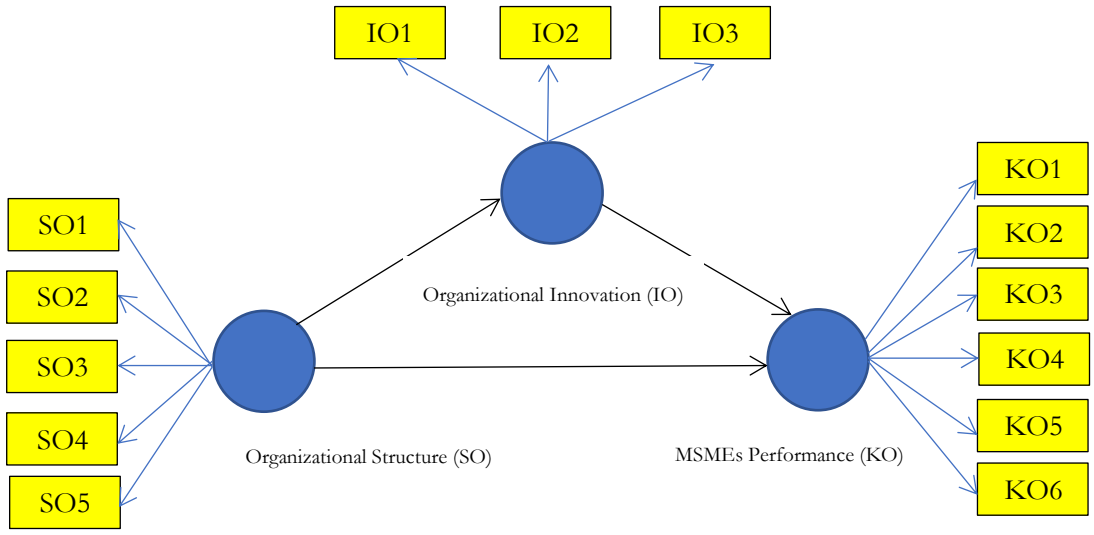
The selection of PLS-SEM as the analytical tool is justified by its unique advantages in managing complex relationships among latent variables. Unlike covariance-based SEM, PLS-SEM accommodates non-normal data and smaller sample sizes, making it particularly suitable for MSMEs research, which often involves diverse and heterogeneous populations. Furthermore, its capacity for predictive modeling and hypothesis testing aligns well with the objectives of this study, enabling a comprehensive exploration of the interconnections among organizational structure, innovation, and performance.

Innovation within the context of MSMEs plays a transformative role in enhancing operational efficiency, market responsiveness, and long-term competitiveness. It encompasses activities such as the introduction of new products and services, the refinement of internal processes, and the adoption of digital technologies. For instance, firms prioritizing digital innovation are better equipped to streamline operations, expand market reach, and respond to evolving consumer demands (Soto-Acosta et al., 2016). The study emphasizes that innovation serves not only as a performance driver but also as a critical mediator that translates organizational structural elements into tangible outcomes.

Performance, in this study, is conceptualized as a multidimensional construct encompassing financial outcomes, customer satisfaction, operational efficiency, and long-term sustainability. Utilizing the Balanced Scorecard framework proposed by Kaplan and Norton (2001), performance is assessed across financial and non-financial dimensions, providing a holistic view of how MSMEs achieve and sustain success. By integrating various indicators such as employee development, market growth, and innovation-driven competitiveness, the study offers a comprehensive understanding of the interplay between organizational structure and innovation in driving MSMEs' performance.

Journal of Ecohumanism
2025
Volume: 4, No: 1, pp. 2352– 2365
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v4i1.6055

Figure 1. Theoritical Framework



Result

Descriptive Statistics

The demographic analysis of the sample reveals a dynamic and diverse entrepreneurial ecosystem within the MSME sector. A majority of respondents (66.25%) fall within the age range of 21 to 40 years, highlighting a youthful and vibrant group of entrepreneurs. This demographic is frequently associated with higher adaptability, openness to innovation, and a willingness to embrace new technologies—qualities essential for thriving in competitive markets. Additionally, the significant participation of women entrepreneurs, who constitute 70% of the respondents, underscores the growing role of women in driving economic growth through MSMEs. This trend aligns with global patterns, where women's involvement in entrepreneurial activities has increased, particularly in developing economies (Bui & Long, 2021). Such representation not only reflects the inclusivity of the MSME ecosystem in South Kalimantan but also indicates the untapped potential of women-led enterprises in fostering economic development.

From a business perspective, micro-enterprises dominate the sample, accounting for 86.25% of respondents. This finding underscores the foundational role of micro-scale businesses in the region's economy, serving as a backbone for local economic activities. The culinary sector emerges as the most represented industry, comprising 39.25% of surveyed businesses. The prominence of this sector reflects the cultural and economic significance of food-related ventures in South Kalimantan, where culinary traditions strongly influence consumer preferences. Together, these demographic and business characteristics provide a comprehensive picture of a vibrant MSME landscape where diversity serves as a key driver of economic activity.

Hypothesis Testing

The results of hypothesis testing confirm the significant relationships among the studied variables, providing robust evidence for the research model. The first hypothesis, which posits that organizational structure directly impacts MSME performance, was supported with a path coefficient of $\beta = 0{,}814$ ($p < 0.01$). This finding demonstrates that structural elements such as flexibility, centralization, and formalization are critical determinants of business outcomes. The second hypothesis, which explores the relationship between organizational structure and innovation, was also validated, with a path coefficient of $\beta = 0{,}670$

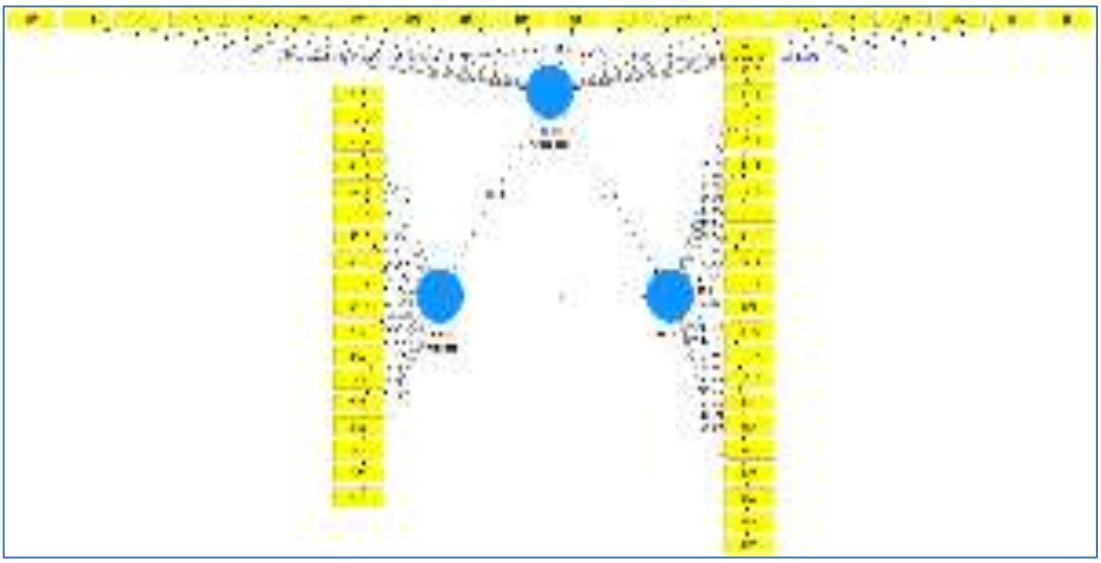
Journal of Ecohumanism
2025
Volume: 4, No: 1, pp. 2352– 2365
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v4i1.6055

($p < 0.01$). This result highlights that well-structured and adaptable organizations are more likely to foster innovative practices, positioning themselves advantageously in competitive markets.

The third hypothesis, which examines the link between innovation and performance, was supported with a path coefficient of $\beta = 0{,}134$ ($p < 0.01$). This finding emphasizes the transformative power of innovation in driving growth, enhancing competitiveness, and enabling organizations to meet changing consumer demands effectively. Crucially, the mediation analysis confirmed the fourth hypothesis, demonstrating that innovation mediates the relationship between organizational structure and performance with an indirect effect of $\beta = 0{,}090$ ($p < 0.05$). This result underscores the critical role of innovation as a bridging mechanism, translating structural strengths into tangible performance outcomes.

The findings closely align with those of Larios-Francia & Ferasso (2023), who emphasize the crucial role of flexibility in empowering MSMEs to navigate uncertainties and stimulate innovation. In both studies, flexibility sufaces as a fundamental structural attribute that enables swift adaptation to market dynamics and nurtures a culture of innovation. However, notable contrasts arise when juxtaposed with the research Camisón & Villar-López (2014), which identified more pronounced dirct effect of formalization on innovation and performance. These differences iluminate the context-specific nature of structural dynamics, indicating that the ideal balance of formalization and flexibility may differ based on cultural, industrial, and geographical factors. For instance, while formalization may enhance efficiency and consistency in certain context, excessive rigidity may stifle creativity and adaptability in resource-constrained MSMEs.

Figure 2. Boostrapping Output



Key Insights

The analysis reveals several key insights into the interplay between organizational structure, innovation, and performance. A central finding underscores the transformative role of flexibility as a proactive strategy for fostering innovation and adaptability. Flexibility enables MSMEs to anticipate consumer trends, integrate technological advancements, and respond swiftly to evolving market conditions. For instance, a technology-focused MSME with a flexible work environment can rapidly prototype and test new products, leveraging real-time feedback to refine its offerings. Such adaptability ensures that the organization remains competitive and resilient amidst uncertainty, aligning with prior research that identifies flexibility as a cornerstone of organizational agility (Camisón & López, 2010).

The dual nature of centralization also emerges as a critical insight. While centralized structures provide consistency, control, and streamlined operations, excessive centralization can lead to bottlenecks in

Journal of Ecohumanism
2025
Volume: 4, No: 1, pp. 2352– 2365
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v4i1.6055

decision-making, stifling creativity and responsiveness. Conversely, decentralized structures empower decision-making across various organizational levels, fostering strategic agility and diverse perspectives (Walheiser et al., 2021). For example, a decentralized MSME in the retail sector may allow local store managers to tailor inventory based on consumer preferences, resulting in more relevant offerings and enhanced customer satisfaction. The findings suggest that MSMEs capable of balancing centralization and decentralization can achieve both operational efficiency and a culture of innovation, enabling them to navigate complex and dynamic environments effectively.

Another significant insight highlights the stages of innovation—initiation, implementation, and evaluation—as a structured framework for turning organizational strengths into measurable performance outcomes. During the initiation phase, market research and creative idea generation lay the groundwork for meaningful innovation. For instance, an MSME exploring eco-friendly product development might conduct extensive market analysis to identify sustainability gaps and engage employees in brainstorming sessions to generate innovative solutions. The implementation phase concentrates on translating these ideas into actionable strategies through effective communication and resource allocation. Finally, the evaluation phase ensures that innovation efforts align with market needs through regular assessments and adjustments, fostering continuous improvement and reinforcing a culture of learning within the organization.

In comparison with existing literature, this study's findings provide nuanced insights into how MSMEs can optimize their organizational structures to foster innovation and performance. The emphasis on flexibility as a strategic enabler of adaptability and creativity is consistent with broader theoretical frameworks but also highlights the unique challenges faced by MSMEs in resource-constrained environments. By integrating structural strengths with innovative practices, MSMEs can not only sustain growth but also position themselves as leaders in their respective industries.

The findings highlight the intricate relationships between organizational structure, innovation, and performance, emphasizing the importance of flexibility, balanced decision-making, and a structured approach to innovation. These insights reinforce the notion that organizational structures are not static frameworks but dynamic systems designed to adapt to changing environments and drive sustained success. By aligning their structures with innovative practices, MSMEs can unlock new avenues for growth and maintain a competitive edge in an ever-evolving marketplace. This study contributes to the growing body of literature by providing practical guidance for MSMEs aiming to navigate the complexities of today's business landscape. Future research could further explore these dynamics by examining longitudinal data or investigating the role of emerging digital tools in shaping structural and innovative practices within diverse MSME contexts.

Statistical Analysis and Discussion

Outer Model

Based on information derived from the research findings, it is evident that the loading factor for organizational structure and innovation within this research model exceeds 0.5 for each indicator, indicating that all indicators of organizational innovation are deemed valid and suitable for use in the subsequent analysis phase.

Furthermore, the research results also allow us to conclude that all indicators within the constructs of Organizational Innovation, Organizational Performance, and Organizational Structure meet the criteria for discriminant validity based on cross-loading analysis. This is evidenced by the fact that each indicator exhibits a higher correlation with its respective construct than with other constructs. These results suggest that each latent construct (Organizational Innovation, Organizational Performance, and Organizational Structure) is capable of predicting its indicators more effectively than other constructs. Thus, the research model employed has satisfied the requirements for discriminant validity based on cross-loading analysis.

Journal of Ecohumanism
2025
Volume: 4, No: 1, pp. 2352– 2365
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v4i1.6055

Table 1. Cronbach's Alpha and Composite Reliability Output Result

	Cronbach's Alpha (α)	Composite Reliability (rho_a)	Composite Reliability (rho_c)	Average Variance Extracted (AVE)	Explanation
Organizational Structure (SO)	0,951	0,952	0,956	0,548	Reliable
Organizational Innovation(IO)	0,974	0,975	0,976	0,672	Reliable
MSMEs Performance (KO)	0,967	0,968	0,970	0,593	Reliable

The reliability analysis for the research constructs reveals robust outcomes, as evidenced by the value of Cronbach's Alpha, Composite Reliability (rho_a and rho_c), and Average Variance Extracted (AVE) values. All constructs— Organizational Structure (SO), Organizational Innovation (IO), and MSME Performance (KO)—exceed the 0,70 threshold for Cronbach's Alpha and Composite Reliability, thereby confirming the internal consistency of the measurement items. Specifically, Organizational Structure recorded Cronbach's Alpha of 0,951; Composite Reliability (rho_c) of 0,956; and an AVE of 0,548. Organizational Innovation exhibited even higher reliability metrics, with Cronbach's Alpha of 0,974; Composite Reliability (rho_c) of 0,976; and an AVE of 0,672. MSME Performance similarly demonstrated strong reliability, with Cronbach's Alpha of 0,967; Composite Reliability (rho_c) of 0,970; and an AVE of 0,593. These findings validate the reliability and consistency of the constructs, establishing a solid foundation for further structural analysis.

The AVE values for all constructs exceed the 0,50 threshold, indicating that the indicators effectively capture the variance of their respective constructs. This signifies strong convergent validity, as the constructs reliably measure the intended dimensions. The reliability and validity results underscore the robustness of the research instrument, supporting its suitability for assessing the relationships among organizational structure, innovation, and MSME performance. These findings are particularly significant given the complex nature of the studied variables, as they instill confidence in the empirical measurements employed in this study.

When compared to previous studies, the reliability results align with existing literature, particularly the findings of Larios-Francia & Ferasso (2023), who emphasized the importance of structural flexibility in fostering innovation and improving MSME performance. This alignment underscores the reliability of the constructs utilized in this research to capture the dynamic interrelationships between organizational elements and performance outcomes. Larios-Francia & Ferasso (2023) also highligthed the significance of robust measurement frameworks in ensuring accurate insights into MSME dynamics, a focus that is mirrored in the methodological rigor of this study.

However, divergences arise when juxtaposed with the findings of Camisón & Villar-López (2014), who identified stronger direct impacts of formalization on innovation and performance. While the current study supports the role of formalization as a critical structural element, it also emphasizes the context-specific dynamics of MSMEs in South Kalimantan, where flexibility and adaptability often take precedence due to resource constraints and rapidly changing market conditions. This contrast suggests that the effectiveness of formalization may vary depending on the environmental and organizational context. Specifically, the cultural and economic conditions in South Kalimantan may necessitate more adaptable structures, where the role of formalization is moderated by the need for responsiveness and agility.

Furthermore, the reliability results provide empirical support for the theoretical foundations of this research. High levels of Composite Reliability and AVE across the constructs indicate that the research model captures the nuances of the relationships among organizational structure, innovation, and MSME

Journal of Ecohumanism
2025
Volume: 4, No: 1, pp. 2352– 2365
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v4i1.6055

performance effectively. This aligns with previous studies that have underscored the importance of comprehensive and reliable measurement tools in exploring organizational phenomena. Additionally, the strong reliability metrics reaffirm the relevance of the constructs in understanding the mediating role of innovation and its impact on performance outcomes.

Inner Model

The statistical analysis provides quantitative support for the qualitative insights. The R-squared value for performance (0,827) indicates that 82,7% of the variance in MSMEs performance can be explained by the model, encompassing both organizational structure and innovation. Similarly, the R-squared value for innovation (0,449) highlights that over half of the variance in innovation outcomes is attributable to organizational structure.

Table 2. R-Square Output Result

	R-Square	R-Square Adjusted
Organizational Innovation (IO)	0,449	0,448
MSME performance (KO)	0.827	0,826

The path coefficients further elucidate the strength of these relationships. The direct effect of structure on performance (β = 0,814) underscores the foundational importance of organizational design in achieving business success. The strong influence of structure on innovation (β = 0,670) reaffirms the necessity of adaptable and supportive frameworks for fostering creativity and experimentation. The significant relationship between innovation and performance (β = 0,134 highlights innovation as a key driver of growth, while the mediating effect of innovation (β = 0,090) confirms its role as a transformative link between structure and outcomes.

Table 3. Output Path Coefficient Output Result

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	t-Statistics (|O/STDEV|)	P Values
SO --> KO	0,814	0,810	0,047	17,420	0,000
SO --> IO	0,670	0,667	0,076	8,811	0,000
IO --> KO	0,134	0,137	0,051	2,642	0,009
SO --> IO --> KO	0,090	0,094	0,043	2,092	0,037

Furthermore, the results of the research indicate that organizational structure has a significant impact on organizational innovation and the performance of MSMEs (F-Square > 0,35). This suggests that organizational structure is a key factor influencing both of these endogenous variables. Additionally, organizational innovation has a weak influence on the Performance of MSMEs (F-Square < 0,15). This indicates that although Organizational Innovation may play a role in enhancing the Performance of MSMEs, its impact is minimal.

In Summary, this structural model demonstrates that organizational structure is the dominant variable affecting both organizational innovation and the performance of MSMEs. Meanwhile, organizational innovation contributes relatively little to the performance of MSMEs within the context of this research model.

Table 4. F-Square Output Result

	F-Square	**Explanation**
Organizational Structure (SO) -> Organizational Innovation (IO)	0.816	Large
Organizational Structure (SO) -> MSMEs Performance (KO)	2,113	Large
Organizational Innovation (IO) -> MSMEs Performance (KO)	0,057	Small

Journal of Ecohumanism
2025
Volume: 4, No: 1, pp. 2352– 2365
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v4i1.6055

Goodness of Fit

Based on the results of the Goodness of Fit (GoF) analysis that has been conducted, the values obtained for Organizational Innovation (0.549) and MSMEs Performance (0.700) are both above the established minimum threshold of 0,30. Thus, it can be concluded that the research model demonstrates a strong level of GoF. This indicates that the research model is effective in representing the data obtained from the research sample. The higher the GoF value obtained, the better the model's fit in illustrating the characteristics and patterns present in the collected research data.

These statistical findings are supported by visual representations. The age and gender distributions reveal a dynamic entrepreneurial demographic, while sectoral analyses emphasize the dominance of micro-enterprises and the culinary industry. Such visual insights complement the quantitative data, providing a holistic understanding of the MSME ecosystem in South Kalimantan.

The findings of this study underscore the critical importance of organizational structure as a foundational determinant of both innovation outcomes and the performance of MSMEs. A thoughtfully designed organizational structure transcends transcends simple definitions of roles, responsibilities, and workflows; it fosters an environment that promotes operational efficiency, strategic coherence, and long-term adaptability. Such structures empower MSMEs to respond adeptly to the dynamic business landscape, equipping them with the agility necessary to navigate market uncertainties, technological disruptions, and competitive pressures. By promoting clarity and consistency in processes, a robust organizational structure ensures optimal resource utilization, paving the way for sustained performance.

A particularly salient insight from the findings is the significance of flexibility within organizational structure. Flexibility enables MSMEs to transcend rigid operational norms and adopt adaptive practices that facilitate swift responses to market fluctuations. This adaptability is especially pertinent in the realm of innovation, where success hinges on the capacity to explore new ideas, experiment with creative solutions, and integrate these solutions into existing operations. The ability to balance stability with flexibility thus becomes a hallmark of high-performing MSMEs, allowing them to maintain competitiveness in a volatile market environment.

While the direct impact of organizational innovation on performance may appear modest, the study highlights its substantial mediating role in strengthening the relationship between organizational structure and performance. Innovation acts as the vital mechanism through which the potential of a robust organizational structure is actualized. A strong structure provides the framework for innovation by allocating resources, supporting creative initiatives, and facilitating cross-functional collaboration. When effectively harnessed, innovation transforms structural advantages into tangible performance improvements, such as increased efficiency, enhanced customer satisfaction, and superior market positioning.

This insight carries profound implications for MSME leaders and policymakers. Beyond designing efficient organizational structures, businesses must foster a culture that actively encourages and supports innovation. This necessitates a shift from perceiving innovation as a discrete activity to integrating it as a continuous, organization-wide process. Decentralized decision-making plays a crucial role in this context, empowering employees at various levels to contribute ideas, share insights, and engage in the decision-making process. By nurturing diverse perspectives and collaboration, decentralized structures cultivate a fertile environment for innovative thinking.

Moreover, nurturing an innovative culture requires intentional investments in human capital and technology. Equipping employees with training, resources, and opportunities for creative experimentation can significantly enhance their capacity to innovate. Similarly, leveraging technology to streamline processes and gather market intelligence can amplify the impact of innovative initiatives. Policies and incentives that promote risk-taking and experimentation are also essential for sustaining innovation within MSMEs.

Journal of Ecohumanism
2025
Volume: 4, No: 1, pp. 2352– 2365
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v4i1.6055

From a strategic perspective, the findings emphasize the necessity for a balanced approach that aligns structural design with innovation objectives. MSMEs must evaluate their organizational structures not only for operational efficiency but also for their capacity to foster creativity, agility, and responsiveness. Flexibility and collaboration should be embedded as core principles of structural design, ensuring that innovation is seamlessly integrated into the organization's DNA.

In conclusion, this study reaffirms that organizational structure is the cornerstone of MSME success, with its influence extending beyond operational effectiveness to shape innovation and overall performance. Innovation serves as a transformative bridge, enabling MSMEs to leverage structural strengths for sustainable growth. Collectively, these insights provide a comprehensive framework for understanding how organizational design and innovative practices interact to drive competitive advantage in a rapidly evolving business environment. For MSMEs aspiring to thrive in today's markets, the integration of well-designed structures with a robust culture of innovation is not just advantageous—it is imperative.

Conclusion

This research emphasizes the crucial role of organizational structure in fostering innovation and enhancing MSME performance. Through a thorough analysis of essential structural dimensions—including flexibility, formalization, and centralization—the study ilustrates how strategic organizational design serves as a vital facilitator of innovation. Flexibility is identified as an assential attribute, enabling MSMEs to swiftly adapt to changing market conditions and embrace innovative solutions. This adaptability not only empowers firms to remain competitive in an increasingly dynamic and unpredictable business environment but also positions them to anticipate and respond to rapidly evolving customer demands and technological advancements.

The findings affirm that flexibility within organizational structure significantly enhances both innovation and MSME performance. Adaptive practices, such as decentralized decision-making and iterative processes, allow firms to maintain competitive advantages. This research demonstrates that organizations exhibiting higher flexibility are better equipped to navigate complex challenges, capitalize on emerging opportunities, and cultivate environments conducive to innovation. While centralization can be adventageous for consistency and alignment, it must be balanced with decentralized elements to ensure responsiveness and creativity. Conversely, formalization serves a dual purpose, providing stability while necessitating careful calibration to prevent the stifling innovation. These nuanced insights into structural dynamics reinforce the significance of tailoring organizational designs to the unique needs and contexts of MSMEs.

A key contribution of this research is its focus on the mediating role of innovation in translating organizational structure into tangible performance outcomes. Innovation is revealed to function both as a catalyst for growth and as a mechanism for leveraging structural strengths. By incorporating well-structured innovation processes that encompass initiation, implementation, and evaluation stages, MSMEs can transform ideas into practical applications that yield measurable benefits. For instance, the initiation phase enables firms to generation and refinement og innovative ideas, laying the groundwork for successful implementation. The implementation phase subsequently translates these ideas into concrete actions, while the evaluation stage ensures alignment with strategic goals and continuous improvement. This iterative approach fosters resilience and establishes a culture of learning, enabling firms to adapt and thrive amidst uncertainty (Teece et al., 1997).

The study broadens the understanding of MSME performance beyond conventional financial metrics, presenting it as a multidimensional construct that includes customer satisfaction, operational efficiency, and long-term sustainability. By leveraging the Balanced Scorecard framework proposed by Kaplan and Norton (2001), this research ilustrates how innovative practices enhance all performance dimensions. For example, MSMEs that integrate digital technologies into their operations can improve service delivery, expand market reach, and streamline internal processes. These advancements not only bolster competitive positioning but also contribute to sustainable growth by fostering customer loyalty and operational excellence (Soto-Acosta et al., 2016).

Journal of Ecohumanism
2025
Volume: 4, No: 1, pp. 2352– 2365
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v4i1.6055

In addressing its research objectives, this study yields specific findings with broader implications. The evidence underscores that adaptive organizational practices and innovation are essential for MSMEs striving to achieve sustained growth and competitive advantage. The findings also advocate for the cultivation of ecosystems that support these practices. Policymakers are encouraged to develop initiatives that enable MSMEs to access critical resources such as funding, technology, and training to drive innovation. For instance, government programs could focus on subsidizing technology adoption or fostering collaboration between MSMEs and research institutions. These measures can empower MSMEs to navigate challenges and seize opportunities, thereby enhancing their contributions to economic development.

Broader implications extend to the practical realm, where fostering collaboration among stakeholders—including governments, industry associations, and educational institutions—can create supportive networks for MSMEs. Such ecosystems not only enhance resource availability but also provide platforms for knowledge sharing and innovation diffusion. By integrating these adaptive practices into their strategies, MSMEs can embed innovation into their operational DNA, ensuring resilience and relevance in competitive markets.

Ultimately, this research presents a comprehensive framework for understanding and enhancing the relationships among organizational structure, innovation, and MSME performance. By prioritizing flexibility and embedding innovation into their core strategies, MSMEs can achieve sustainable growth and maintain their competitive edge in evolving market landscapes. The findings of this study contribute not only to the academic discourse on organizational design but also provide actionable insights for practitioners and policymakers. These insights serve as a roadmap for empowering MSMEs as catalysts of economic growth, innovation, and resilience in the face of ever-changing global challenges.

References

Alexiou, A., Khanagha, S., & Schippers, M. C. (2019). Productive organizational energy mediates the impact of organizational structure on absorptive capacity. Long Range Planning, 52(2), 155–172. https://doi.org/10.1016/j.lrp.2018.02.001

Ali, M., Ali, I., Al-Maimani, K. A., & Park, K. (2018). The effect of organizational structure on absorptive capacity in single and dual learning modes. Journal of Innovation and Knowledge, 3(3), 108–114. https://doi.org/10.1016/j.jik.2017.03.007

Arzubiaga, U., Kotlar, J., Massis, A. De, Maseda, A., & ... (2018). Entrepreneurial orientation and innovation in family SMEs: Unveiling the (actual) impact of the Board of Directors. Journal of Business …. https://www.sciencedirect.com/science/article/pii/S0883902618301502

Ahmad, I., Jamali, D. R., & Khattak, M. N. (2025). Can organizations get away with greenwashing? CSR attributions and counterproductive sustainability behaviors. Business Ethics, the Environment & Responsibility, 34(1), 103-120.

Bui, M., & Long, T. Q. (2021). Women's Economic Empowerment in Vietnam: Performance and Constraints of Female-Led Manufacturing SMEs. Journal of Risk and Financial Management, 14(6), 255. https://doi.org/10.3390/jrfm14060255

Camisón, C., & López, A. V. (2010). An examination of the relationship between manufacturing flexibility and firm performance: The mediating role of innovation. International Journal of Operations and Production Management, 30(8), 853–878. https://doi.org/10.1108/01443571011068199

Camisón, C., & Villar-López, A. (2014). Organizational innovation as an enabler of technological innovation capabilities and firm performance. Journal of Business Research, 67(1), 2891–2902. https://doi.org/10.1016/j.jbusres.2012.06.004

Cicea, C., Popa, I., Marinescu, C., & Ştefan, S. C. (2019). Determinants of SMEs' performance: evidence from European countries. Economic Research-Ekonomska Istrazivanja , 32(1), 1602–1620. https://doi.org/10.1080/1331677X.2019.1636699

Cosh, A., Fu, X., & Hughes, A. (2012). Organisation structure and innovation performance in different environments. Small Business Economics, 39(2), 301–317. https://doi.org/10.1007/s11187-010-9304-5

Dekoulou, P., & Trivellas, P. (2017). Organizational structure, innovation performance and customer relationship value in the Greek advertising and media industry. Journal of Business and Industrial Marketing, 32(3), 385–397. https://doi.org/10.1108/JBIM-07-2015-0135

Donaldson, L. (2015). Structural Contingency Theory. In International Encyclopedia of the Social & Behavioral Sciences: Second Edition (Second Edi, Vol. 23). Elsevier. https://doi.org/https://doi.org/10.1016/B978-0-08-097086-8.73110-2

Eva, N., Sendjaya, S., Prajogo, D., & Madison, K. (2021). Does organizational structure render leadership unnecessary? Configurations of formalization and centralization as a substitute and neutralizer of servant leadership. Journal of Business Research, 129(March), 43–56. https://doi.org/10.1016/j.jbusres.2021.02.023

Gammahendra, F., Hamid, D., & Riza, M. F. (2018). Pengaruh Struktur Organisasi Terhadap Efektivitas Organisasi Dalam Suatu Perusahaan. Jurnal Administrasi Bisnis, 7(2), 1–10.

Journal of Ecohumanism
2025
Volume: 4, No: 1, pp. 2352– 2365
ISSN: 2752-6798 (Print) | ISSN 2752-6801 (Online)
https://ecohumanism.co.uk/joe/ecohumanism
DOI: https://doi.org/10.62754/joe.v4i1.6055

Ghozali, I. (2021). Aplikasi Analisis Multivariate Dengan Program IBM SPSS 26. Badan Penerbit Universitas Diponegoro.

Hadjimanolis, A. (2000). An investigation of innovation antecedents in small firms in the context of a small developing country. R&D Management, 30, 235–246. https://doi.org/https://doi.org/10.1111/1467-9310.00174

Jiménez-Jiménez, D., & Sanz-Valle, R. (2011). Innovation, organizational learning, and performance. Journal of Business Research, 64(4), 408–417. https://doi.org/10.1016/j.jbusres.2010.09.010

Kaplan, Robert, S., & Norton, David, P. (2001). The strategy focused organization: how balanced scorecard companies thrive in the new business environment. Massachusetts: Harvard Business School Press.

Khattak, M. N., & Abukhait, R. (2024). Impact of perceived organizational injustice on deviant behaviors: moderating impact of self-control. Current Psychology, 43(12), 10862-10870.

Larios-Francia, R. P., & Ferasso, M. (2023). The Relationship Between Innovation and Performance in MSMEs: The Case of the Wearing Apparel Sector in Emerging Countries. Journal of Open Innovation: Technology, Market, and Complexity, 9(1), 100018. https://doi.org/10.1016/j.joitmc.2023.100018

Nowotny, S., Hirsch, B., & Nitzl, C. (2022). The influence of organizational structure on value-based management sophistication. Management Accounting Research, March, 100797. https://doi.org/10.1016/j.mar.2022.100797

Okta. (2016). Jokowi: UMKM Tulang Punggung Ekonomi RI & ASEAN. Kementerian Kominfo. https://www.kominfo.go.id/content/detail/6800/jokowi-umkm-tulang-punggung-ekonomi-ri-asean/0/sorotan_media

Pangarso, A., Nurrahmasari, I. G., Nurida, I., Rengganis, R., & Setiawati, C. I. (2016). Analisis Struktur Organisasi Universitas Telkom. Jurnal Terapan Manajemen Dan Bisnis, 2(1), 1–27. http://www.joyfulacademy.org/ojamp/index.php/jtmb/article/view/31

Pfeffer, J. (1991). Organization theory and structural perspective on management. Journal of Management, 17(4), 789–803.

Rekkas, T. (2022). Measuring the importance of SMEs to the national economy: The case of Greece. Bell D, October. https://www.researchgate.net/publication/364184704%0Ahttp://e-jst.teiath.gr/

Soto-Acosta, P., Popa, S., & Palacios-Marqués, D. (2016). E-business, organizational innovation and firm performance in manufacturing SMEs: an empirical study in Spain. Technological and Economic Development of Economy, 22(6), 885–904. https://doi.org/10.3846/20294913.2015.1074126

Teece, D. J., Pisano, G., & Shuen, A. (1997). Dynamic Capabilites and Strategic Management. Strategic Management Business …, 18(7), 509–533. https://josephmahoney.web.illinois.edu/BA545_Fall 2022/Teece, Pisano and Shuen (1997).pdf

Walheiser, D., Schwens, C., Steinberg, P. J., & Cadogan, J. W. (2021). Greasing the wheels or blocking the path? Organizational structure, product innovativeness, and new product success☆. Journal of Business Research, 126(December 2020), 489–503. https://doi.org/10.1016/j.jbusres.2020.12.021.