



**ENHANCING PRODUCT CREATIVE AND INNOVATION THROUGH  
ADAPTIVE CAPABILITY: A LEARNING ORGANIZATION THEORY  
PERSPECTIVE**

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**ABSTRACT**

*Adaptability and innovation are crucial for company success in today's competitive global era. This research indicates that creativity and adaptive capability are essential components for driving product innovation. The methodology employed is quantitative research with a survey and non-probability sampling, involving 150 participants through purposive sampling. Data analysis was conducted using Smart-PLS 3.0. The study results show that creativity enhances organizational flexibility and responsiveness, enabling effective responses to market changes and challenges. Explicit knowledge, team dynamics, and a supportive work environment are proven to contribute to more adaptive and innovative products. Therefore, to achieve optimal innovation outcomes, organizations should focus on creating an environment that supports creativity and adaptive capability. This study underscores that the combination of creativity and adaptability enables companies to remain relevant and competitive. Managers and leaders must recognize the importance of investing in programs that enhance both aspects for long-term success. However, it should be noted that the findings of this study might be specific to certain industries or regions and may not necessarily be generalized to all types of companies or global markets.*

**Keywords:** *Organizational learning, adaptive capabilities, competitive advantage, adaptive capabilities, product innovation*

**A. INTRODUCTION**

Indonesia has experienced a significant increase in product innovation in recent years, driven by technological advances, increased investment in research and development, and government support for innovation (Nugroho & Santiago, 2023; Primanthi & Kalirajan, 2023). These factors have encouraged private and public sector players to create new products that not only serve the local market but also compete global (Triansyah et al., 2023). Various fields, including information technology, healthcare, and renewable energy, have seen a variety of innovative products that have been successful both domestically and internationally (Savitri et al., 2023). The growth of high-tech industries, especially in sectors such as chemicals, pharmaceuticals, electronics, and machinery, has contributed significantly to the economy, creating jobs and generating added value (Noerlina & Mursitama, 2023).

Yogyakarta in particular, known as a student city and cultural center, has experienced a surge in product innovation. The strong academic environment and collaboration between universities, industry, and government have created an ideal ecosystem for innovation to flourish (Susilowati & Yoga, n.d.). This has led to the emergence of many startups and innovators in Yogyakarta, producing creative and unique products that combine local cultural values with modern technology (Rosidanti Susilatun et al., 2023). These innovations not only contribute to the local economy but also strengthen Yogyakarta's position as one of the leading innovation centers in Indonesia (Catur Wulandari et al., 2023). The phenomenon of product innovation is supported by the event at the Sembada 2023 MSME Festival showcasing a variety of products from 130 MSMEs, divided into five main categories namely Fashion, Culinary, Craft, Beauty, and Flora. Details include 38 MSMEs in the fashion sector, 29 in craft, 3 in flora, and 59 in culinary and beauty, including from producer cooperatives, all reflecting the creativity and authenticity of local entrepreneurs.

However, in previous research there is a contradiction that creative cannot affect product innovation (Castillo-Vergara & García-Pérez-de-Lema, 2021). With previous research by (Sohn & Jung, 2010), who studied Korean companies and concluded that creativity has no direct influence on innovation. There are two basic explanations first, despite public innovation support programs, empirical studies in Chilean SMEs face challenges such as low human capital and lack of innovative culture (Ur Rehman, 2016), inhibiting SMEs from turning creativity into innovation. Second, Chilean SMEs work in a context of individualism, which is detrimental to innovation ((Rosenbusch et al., 2011). Innovating products, services, and operational models appropriate to their scale and resources, adaptive SMEs are able to overcome resource limitations and effectively compete in the market. Establishing close relationships with customers and society, which further contributes to its survival and success (cai et al., 2023; Hadi, 2023; Trieu et al., 2023).

The author suspects to increase product innovation by mediating adaptive capabilities, this is supported by previous research that adaptive capabilities can increase innovativeness (Cai et al., 2019; Lu et al., 2010). This concept uses the concept of the Organizational Learning Theory perspective, which is relevant to understanding innovation can be applied and improved in a business context (Hermelingmeier & von Wirth, 2021). Adaptive capabilities and organizational learning theory are essential for MSMEs to thrive in a dynamic and competitive business environment. These capabilities enable MSMEs to learn from experience and quickly adapt their strategies to changing market and consumer preferences.

## B. RESEARCH METHODS

This research discusses Creativity with Innovative Products with Adaptive ability. This research uses SEM-PLS using Smart PLS 3.0 software to test the mediation effect simultaneously. SEM-PLS techniques on small sample sizes with complex models can work effectively (Tabachnick & Fidell, 2019). Data were collected from 180 MSMEs surveyed through questionnaires. However, 150 questionnaires were returned. The questionnaires were distributed to MSMEs located in Sleman, Yogyakarta from November 2023 to January 2024. Linear SEM-PLS analysis was used to investigate the mediating contribution of perceived value to level, determine the validity and reliability of the model, and test hypotheses. The conceptual model can be seen below. Variable measurements were adapted from previous studies with modifications according to the research objectives. All variables are measured using a Likert scale. The research variables and adjusted indicators can be seen in Table 1.

Table 1. Definition of Operational Variables

Construct	Statement	Indicator	Reference
Creative	6 items	<ul style="list-style-type: none"> <li>• In our MSMEs there is a positive climate and new ideas are encouraged.</li> <li>• MSMEs allow for different solutions to different problems</li> <li>• The atmosphere at MSMEs combines seriousness and humor</li> <li>• Ideas, knowledge and experience are important in projects</li> <li>• The atmosphere in the MSME is dynamic</li> <li>• Project meetings are important for the creation of new ideas 3</li> </ul>	Theoretical definition: Creativity is defined as the production of new and useful ideas (Amabile et al., 1996). Climate refers to the patterns of behavior that emerge daily in an organizational environment (Sundgren et al., 2005), Comparable measures: (Ekvall, 1997)
Adaptability	3 Items	<ul style="list-style-type: none"> <li>• Meet changes in customer demand in terms of product and service specifications</li> </ul>	(Lu et al., 2010)

		<ul style="list-style-type: none"> <li>• Customize products and services according to customer requests</li> <li>• Respond quickly to customer requests for product price changes</li> </ul>	
Product Innovation	5 items	<ul style="list-style-type: none"> <li>• The degree of novelty and uniqueness of our products</li> <li>• Customer orientation of our new products</li> <li>• Frequency of introduction of our new products</li> <li>• Contribution of our products in expanding market size</li> <li>• Value to customers in our products</li> </ul>	(Jajja et al., 2017)

Data processed by researchers (2024)

### C. RESEARCH RESULTS AND DISCUSSION

The results are based on frequency statistics to show the demographic structure. Table 2 describes the sample characteristics. This study involved 150 samples and was considered sufficient for PLS-SEM analysis (Kock & Hadaya, 2018; Sarstedt et al., 2017). Gender distribution was balanced with 52.67% male and 47.33% female. In terms of education, the majority have a bachelor's degree (38.67%), and some have high school, master's, or alternative qualifications. In terms of business experience, 42.67% were new entrepreneurs who had been in business for less than two years, 34.67% had been operating between two and three years, and 22.66% had more than three years of experience. This demographic picture highlights a diverse group with different levels of education and business expertise.

Table 2 Respondents' demographic information

Description	Characteristics	Frequency	Percent
Gender	Male	79	52.67%
	Female	71	47.33%
Education	Senior High School	36	24.00%
	Bachelor's degree	58	38.67%
	Master's degree	32	21.33%
	Others	24	16.00%
Length of business	<1- 2 years	64	42.67 %
	> 2-3 years	52	34,67%
	> 3 years	34	22.66 %

Source: Data processed, (2024)

Results of Outer Loadings, Composite Reliability, Average Variance Extracted The measurement model results are presented in Table 3 which consists of item report reliability, internal consistency reliability, convergent validity. Estimated factor loadings, composite reliability, and average variance extracted. Out-loading was performed twice. In the first test, the indicator item was less than 0.7. The researcher removed the indicator item and then retested it by fulfilling the outer loadings. This indicates good reliability and validation of the model (Fornell & Larcker, 1981; Hair et al., 2017).

Tabel 3. *Outer Loadings, Composite Reliability, Average Variance Extracted*

Construct	Item	Outer Loadings 1	Outer Loadings 2	Composite Reliability (CR)	Average Variance Extracted (AVE)
Creative	CR.1	0,776	0,776	0,876	0,619
	CR.2	0,832	0,832		
	CR.3	0,705	0,704		
	CR.4	0,835	0,835		
	CR.5	0,767	0,768		
	CR.6	0,797	0,797		
Adaptive Ability	AC.1	0,881	0,881	0,831	0,749
	AC.2	0,909	0,909		
	AC.3	0,803	0,803		
Product Innovation	PI.1	0,937	0,939	0,924	0,868
	PI.2	0,906	0,905		
	PI.3	0,947	0,950		
	PI.4	0,056*			
	PI.5	0,150*			

Source: Data processed, 2024

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#### Convergent Validity Results

Factor loading represents the correlation between indicators and their respective variables. According to (Ghozali & Latan, 2015), an indicator is considered valid if its factor loading exceeds 0.50 and the p-value is less than or equal to 0.05, which indicates statistical significance. Data processed with SmartPLS for variables such as brand association, brand awareness, product quality, purchase intention, and social brand involvement show all indicators have factor loadings greater than 0.5. This confirms that the indicators measure their respective variables validly, indicating convergent validity.

#### Discriminant Validity Results

Discriminant validity tests how far the latent construct differs from the construct. Creativity (X), Adaptive Ability (Z), and Product Innovation (Y). The following details how to interpret the discriminant validity results of the matrix. Creativity (X): 0.786 Adaptive Ability (Z): 0.865 Product Innovation (Y): 0.724 These diagonal values usually represent the combined reliability (CR) of each construct, which indicates how consistent the items that make up the construct are in their measurement. For good discriminant validity, the square root of the AVE (Average Variance Extracted) of each construct should be higher than the correlation between that construct and other constructs. This means that each construct is more strongly associated with its own measurements than with measurements of other constructs, thus supporting discriminant validity.

Table 4. Hypothesis testing results

Variable relation	Original Sample	Sample Mean	Standard Deviation	t-value	p - values	Hypothesis
H1: CR (X)→AC (Z)	0,812	0,815	0,034	23,647	0.000	Supported
H2: CR (X)→PI (Y)	0,490	0,502	0,101	4,855	0.000	Supported
H3: AC (Z)→PI (Y)	0,365	0,354	0,098	3,740	0.000	Supported

Source: Data processed, 2024

H4: CR (X)→AC (Z)→PI (Y)	0,296	0,288	0.080	3,717	0.000	Supported
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Source: Data processed, (2024).

Me = Mediation effect; Creative (X); DC = Dynamic Capability; Adaptive Capability (Z), Product Innovation (Y)

The results of the hypothesis testing table provide a comprehensive analysis of the interrelationships between creativity (CR), adaptive capability (AC), and product innovation (PI) in an organizational context. This study tested four hypotheses, each assessing the direct and indirect impact of these variables on innovation outcomes.

Hypothesis 1 (H1) states that creativity (CR) directly affects adaptive capability (AC). The data shows a strong relationship, with an original sample effect size of 0.812, and a strong t-value of 23.647, which strongly supports the hypothesis. This suggests that higher levels of creativity significantly increase the adaptive capability of an organization, highlighting the critical role of creative processes in fostering flexibility and responsiveness.

Hypothesis 2 (H2) explores the direct impact of creativity (CR) on product innovation (PI). The effect magnitude of 0.490 and t-value of 4.855 confirmed a significant positive effect. This finding underscores the importance of creativity as an important driver of innovation outcomes, and suggests that creative input is critical for generating new and innovative products.

Hypothesis 3 (H3) tested the effect of adaptive capability (AC) on product innovation (PI). The analysis showed an effect size of 0.365 and a t-value of 3.740, supporting the hypothesis that adaptive capability has a positive effect on product innovation. This suggests that an organization's ability to adapt to changes and challenges plays an important role in its capacity to innovate effectively.

Hypothesis 4 (H4) tested whether adaptive capability (AC) mediates the relationship between creativity (CR) and product innovation (PI). With a mediated effect size of 0.296 and a t-value of 3.717, the results supported the hypothesis. This mediation suggests that although creativity initiates the innovative process, adaptive capabilities are critical in translating creative ideas into tangible innovative products. The findings of this study provide a clear picture of the dynamics between creativity, adaptive capabilities and product innovation. Creativity proves to be a fundamental element that not only directly drives innovation but also enhances organizational adaptability, which in turn, further stimulates innovative output. These insights emphasize the importance of nurturing a creative and adaptive organizational environment to sustain and enhance innovation.

#### **Effect of Creativity on adaptive ability**

Based on the results of testing the first hypothesis, statistical tests show that creativity has a positive effect on adaptive abilities. This happens that flexible creativity will affect adaptive abilities in a person. This is in line with previous findings. That creativity plays an important role in improving organizational adaptive capabilities. With high creativity, organizations are able to increase their flexibility and responsiveness to changes and challenges in the market. Previous studies support this finding, showing that tacit and explicit knowledge and strong team dynamics contribute to better adaptive capabilities (Im et al., 2013; Verma & Rao, 2016).

#### **Reative influence with product innovation**

Based on the results of testing the second hypothesis, statistical tests show that Creativity has a

positive effect on product innovation. Creativity is found to be a key driver in product innovation. Creative input from individuals and teams in an organization is essential to produce new and innovative products. Previous research shows that task autonomy, training, and a work environment that supports creativity all contribute to improved product innovation performance (Beugelsdijk, 2008; Sarooghi et al., 2015).

#### **Effect of Adaptive Ability with Product Innovation**

Based on the results of testing the third hypothesis, statistical tests show that Adaptive ability with Product innovation has a positive effect with product innovation. The adaptive ability of the organization was found to play a significant role in increasing its innovative capacity. Organizations with high adaptive capabilities are better able to adjust to changes and challenges, which ultimately improves their product innovation performance. Previous research shows that organizational learning, collaboration, and attention to detail all contribute to increased product innovation (Ali et al., 2022; Ar & Baki, 2011).

#### **Effect of Adaptive Ability by linking Creativity and Product innovation**

Based on the results of testing the fourth hypothesis, statistical tests show that Adaptive Ability Adaptive Ability by linking Creativity and product Innovation Adaptive ability is proven to mediate the relationship between creativity and product innovation. Creativity triggers the innovation process, but adaptive capabilities are needed to turn creative ideas into real innovative products. Previous research supports this mediating role, showing that innovation capabilities and organizational structure contribute to the transformation of creative ideas into successful product innovations (Bharadwaj & Menon, 2000; Ekvall, 1997; Verma & Rao, 2016).

### **D. CONCLUSIONS AND SUGGESTIONS**

This research clearly shows that creativity and adaptability are two key elements that are instrumental in driving product innovation. Not only does creativity have a direct impact on an organization's innovation capabilities, but it also plays an important role in strengthening an organization's adaptive capabilities. By increasing flexibility and responsiveness through the creative process, organizations are able to better navigate changes and challenges that arise in the market. Previous studies support these findings, showing that explicit knowledge, team dynamics, and a work environment that supports creativity all contribute to improved adaptive capabilities and product innovation. Organizations looking to improve their innovation performance should focus on creating an environment that supports creativity as well as developing strong adaptive capabilities. Thus, creativity can trigger the innovation process, and adaptive capabilities ensure that creative ideas can be realized into real innovative products. The combination of these two elements enables organizations to remain relevant and competitive in an ever-changing and dynamic marketplace.

Therefore, organizational managers and leaders need to realize the importance of investing in initiatives that enhance creativity and adaptive capabilities to achieve long-term innovation success. This study has some limitations that need to be noted. First, this study may be limited to the context of a specific industry or region, so the results may not be fully generalizable to all types of organizations or global markets. Second, the data used in this study may have biases related to the data collection methods, such as surveys or interviews, which may affect the validity of the findings. In addition, this study largely focused on the relationships between variables without explaining the underlying mechanisms or processes in depth. Further research could also explore other factors that might influence the relationship between creativity, adaptive capability, and product innovation, such as organizational culture, leadership structure, and technology used. Empirical studies involving experiments or in-depth

case studies on specific organizations can provide more detailed practical insights. In addition, developing models or frameworks that incorporate other relevant variables can help in understanding the broader complexities and interactions in the context of organizational innovation.

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