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Business Management Praxis, Innovation, and Entrepreneurship as a Predictor of Labor Productivity in MSEs

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Abstract

The connection between effective business management, innovation, and entrepreneurial spirit is presented as a key predictor of labor productivity in Micro and Small Enterprises (MSEs). Efficiency in business management, combined with innovative practices and the promotion of entrepreneurship, directly influences the labor productivity of MSEs. Efficient management involves the practical application of strategies that optimize resources, while an innovative culture allows agile adaptability to market dynamics. Entrepreneurship, as a driver, encourages the constant search for opportunities and creative solutions. The research analyzes how these three dimensions are predictors of labor productivity in MSEs, using a bibliographic review to establish inferences that support these relationships and provide clear and concise evidence to identify the concepts and definitions relevant to the research. A descriptive, explanatory, and quantitative study with a sample of 913 business people reveals a strong positive relationship between these variables (r = 0.80, r = 0.82, r = 0.80 and R2 = 0.831). Thus, labor productivity is positioned as a direct result of the synergy between skillful management, the promotion of innovation, and the infusion of an entrepreneurial spirit into companies' organizational culture.

Keywords: *Business management praxis, innovation, entrepreneurship, and labor productivity*

1. Introduction

In a dynamic and competitive business world, Micro and Small Enterprises (MSEs) play a fundamental role in the economic structure of many countries. These companies are engines of innovation and creativity, providing agility and flexibility to the business fabric, generating jobs, and contributing to economic growth. (De jesus Molina & Palomino, 2023) affirm that the management capacity of a country determines the level of innovation and entrepreneurship that its population develops, which can lead to economic recovery. However, in a scenario where resources are usually limited, and challenges abound, effective management, innovation, and entrepreneurship are essential to enhance labor productivity and ensure the sustainability of these MSEs.

Business management praxis refers to the actions, strategies, and decisions business leaders and managers take to guide organizations toward achieving desired objectives and results. MSEs often have limited financial capabilities and resources, and as innovation emerges as a key catalyst for the success of these companies, efficient and effective management becomes even more important. (Montes Gan & Gómez, 2021) mention that the states must develop macroeconomic policies to promote innovation and turn it into a mechanism for labor productivity growth. The ability to adapt to changing market trends and develop new products, services, or methods gives these companies a unique competitive advantage in labor productivity. (Castillo, 2019) claims that economic growth, labor productivity, and innovation are the basis of economic and social well-being. Innovations are not limited to products but also internal processes and business models. Those MSEs that cultivate a culture of innovation are more likely to identify opportunities, solve problems creatively, and create value propositions that resonate with their customers (Duarte & Tibana, 2009). A society that needs to improve the quality of life of its citizens and develop comprehensive proposals to participate in the competition must promote a culture of entrepreneurship that creates synergy in creativity and innovation; in parallel, the entrepreneurial spirit plays a crucial role in the fabric of MSEs. Entrepreneurs can open new horizons and explore unserved market niches by accepting risk and uncertainty. Their ability to make bold decisions and willingness to accept challenges are the factors driving the expansion and diversification of these organizations. (Parada et al., 2023) mentioned that entrepreneurs, with their innovative ideas, contribute to satisfying and fulfilling people's needs by creating quality jobs in developing economies with more significant competitive advantages and greater wealth creation. In addition, the entrepreneur promotes a culture of autonomy, creativity, and initiative among employees, which can positively influence labor productivity.

This exploration will explore the relationship between business management praxis, innovation, and entrepreneurship as predictors of labor productivity in MSEs. Through an in-depth analysis of how these three dimensions interact and influence each other, we can understand how these companies can use these tools to support growth, overcome challenges, and position themselves as key players in the contemporary economy. These companies play a key role in economic development and diversification worldwide in the contemporary business environment. However, they face serious challenges, such as limited resource capacity and competition in an increasingly dynamic market. In this context, business management praxis, innovation, and entrepreneurship appear as decisive strategic approaches that can significantly impact labor productivity. Therefore, it is the objective of this research work to analyze how business management practices, innovation, and entrepreneurship are predictors of labor productivity in MSEs.

The importance of this study lies in its potential to reveal effective strategies that MSEs can implement to increase labor productivity in a competitive environment by understanding how business management, innovation, and entrepreneurship relate to productivity and make more informed decisions adapted to their specific contexts.

2. Literature Review

2.1 Business management

Business management is the most relevant quality that every business person should have. It is the main integrating instrument of the company's economic activity in the business system because it represents the dynamics of the market economy, which ensures that supply is covered while demand is competitive. In fact, according to (Solis et al. 2022), business management is the process of planning, organizing, directing, and controlling an organization's resources; the resources can be intellectual, human, material, and financial to achieve maximum benefit, achieve its objectives, and be competitive. Additionally (Velázquez et al., 2018), mention that they impact the company's interaction with its environment, customers, suppliers, and competition.

Epistemologically, business management has established new concepts, theories, and knowledge that can stimulate the economic vitality of the company (Contreras, 2010) looking for great ways to play a leading role in the competitive, global, and technological world (Obasan & Soyebo, 2012). Furthermore, this is about the interaction of the company with its environment that exposes it to factors that require a change that generates the integration of administrative processes with the fulfillment of objectives based on critical thinking that allows making decisions in a way more systematic that allows efficient and effective performance within a competitive environment, based on different factors, such as financial incentives (Barreto et al., 2021; Cristofaro et al., 2020; Torfing & Bentzen, 2020). According to (Arias Hancco, 2022), capabilities are expressed in tangible and intangible assets, which seek to contribute and are determinants of business competitiveness. For its part,(Garcia et al., 2021) conceptualize it as a process responsible for a series of business activities. Coordinates activities and interactions related to administration, financing, production, marketing, distribution, and accountability to the various actors interested in the impact that the process can generate.

In this sense, it identifies planning as part of a business process that is going through based on specific contextual information (for example, decisions that enable both the achievement of goals and the paths to the goals) carried out by identifying the necessary activities and resources. It also defines economic and financial management as directing your actions toward good business.

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2.2 Innovation

Innovation is a broad term used primarily in economics, the environment, and business. Innovative activity implies the need to develop different strategies to achieve specific objectives. Innovation is based on developing new products or services and helps drive other aspects, such as new business models and process improvements. To this end, innovations through corporate research and development (R+D) must be appropriately evaluated and recognized in the competitive market. According to (Wang, 2018) given the current dynamics, the development of the concept of innovation led to the analysis of the various variables that coexist in organizations and are related to each other, among which business activity is differentiated because the variables are related to each other. Performance refers to financial results indicators such as sales, profits, cash flow, return on investment (ROE), market share, and profits. That is, according to (Castañon et al., 2023), the impact of innovation on business performance is the result of a company's activities of leveraging its competencies in new products and services as a consequence of promoting the company's competitiveness and customer satisfaction with the product and thereby achieving conversion innovation into an essential tool for business performance that ensures the success of the organization.

In this logic, it is relevant to differentiate the concept of innovation and then generalize its definition in the light of various researchers. Thinking that innovation must be something new, different, and radical is a mistake. Although, in reality, it means change. In this sense, innovation is a complicated problem due to the resources we must dedicate to it (Kahn, 2018). Another mistake is to think of innovation as innovative as an adjective when, in reality, it is a noun that describes the ability and capacity to innovate. Therefore, we can define innovation in two ways: on the one hand, as the introduction of something new and, on the other hand, as a new idea, method, or device (Aleman & Almeida, 2023). If we think about introducing something new to understand innovation, we see it as a result, while if we consider it as a new idea or method, we will see it as a process, and this is the fundamental difference between these two ways of seeing innovation. It is important as long as we see it from two points of view: as a result and as a process (Kahn, 2018). To understand its definition, we turn to the first term created in the academic context, Schumpeter's term (1947), which is the combination of different productive forces that make innovation possible. According to this author, this can be done in five different ways: when a new product appears, a new production method, opening a new market to capture a new source of product, or developing a new industrial organization (Aleman & Almeida, 2023). Therefore, when we talk about innovation, we see it as more than just new products and services, the result of activities that take more time and involve more risk than other activities. For (Pellé, 2017), economists were the professionals who most studied innovation and its economic impact. They consider innovation at the business level essential because it contributes to the survival of organizations in the globalized market of the 21st century, which is constantly changing; therefore, those companies that best adapt to these changes will survive. With this innovation, they can lower production costs, improve the quality of their services or products, and enter new markets.

2.3 Entrepreneurship

Entrepreneurship is a recurring theme in various territorial development strategies. However, this phenomenon is susceptible to its context because the territory's resources, the types of organizations and people found there, and the culture of a society are some factors that determine the type of company that is born and its probability of success.

According to (Ortí, 2022), until now, entrepreneurship has been studied from an economic and psychological perspective. The first pioneer was economics, and the term was associated with purely monetary aspects. Since then, other fields with a more social vision have made new contributions that focus on research from a more humanistic perspective. During the last decade, research on entrepreneurship has increased significantly, with interest in examining the keys that determine entrepreneurship and conducting an in-depth literature review.

According to (Rocha, 2013), in the last thirty or forty years, the study of entrepreneurship has gained importance and regained a space within economic discourse. This assertion is supported by extensive academic literature examining the causes and effects of entrepreneurship. The chronological review given by (Querejazu, 2020) shows three traits of the modern entrepreneur: that of a Schumpeterian innovator, the subject, due to his innovative character, unbalances the market and takes it to a higher level. Knight's and Kirzner's versions assume market disequilibrium and the entrepreneur activates equilibrium tendencies by assuming imperfect information. A common Kirzner trait, excluding Schumpeter, is that entrepreneurs assume and take risks in their decisions. For Knight, entrepreneurship is taking advantage of opportunities not foreseen by others.

Conceptually, according to (López-Gómez, 2023), entrepreneurship is a job opportunity that benefits those who decide to start a business. (Peña et al., 2023) mentioned that this opportunity implies a process of discovering, evaluating, and exploiting them, as well as the people who participate in this process. Although the concept of entrepreneurship has broad implications, it can be assumed that the essence of entrepreneurship is "doing things differently" (Bianchi & Henrekson, 2005). Entrepreneurship is a dynamic process of vision, change, and creation. Entrepreneurs and new companies are relevant for innovation, job creation, and economic development. Therefore, we must promote entrepreneurship and encourage entrepreneurial initiatives for job creation (Almagro-Gavira & Manzano-Soto, 2016). People need to be guided by projects from a practical and functional perspective to improve their personal and professional lives (Gonzales-Lorente & Martinez-Clares, 2016). Finally (Bejarano et al., 2022) argue that the identification of the entrepreneur stands out for its high level of commitment and low economic sustainability, but with significant participation in the GNP, leveraging productivity indices, well-being, and access to social development opportunities for a community that wants to create a business with sustainable development.

2.4 Labor productivity

The concept of productivity was developed by Adam Smith in 1776 in his book The Wealth of Nations. The term has proliferated since World War II, peaking in Japan in 1995. Excellence in global productivity in the manufacturing sector by improving the production of competitive and high-quality products (Buenhombre & Mariño, 2022). According to (Luna Vicharra, Ingrid, and Armada Pacheco, 2022), productivity in an organization is of great concern; it is related to the ability to manage resources effectively. The validity of the human rights of those who work in a company must always be taken into account. It must always be seen about the practice of organizations according to the globalized market. (Villas Boas et al., 2022) the new globalized world, with interconnected markets, forces organizations to invest in productivity and continuous improvement. (Camison & Villar-Lopez, 2014) Interorganizational cooperation helps acquire competitiveness factors, such as consumer market, generation of innovation, access to resources, and organizational and infrastructure improvement. Thus, (Porter, 2007) mentions that the competitiveness of a country depends on its competitiveness, based on the productivity with which it produces goods and services, taking into account the use of production factors: land, capital, and labor, adding to them two new factors of production: knowledge of the productivity and competitiveness of organizations that make productivity incorporate new productive values (Cruz et al., 2013; Buenhombre & Mariño, 2022).

Moreover, (Hinojosa, 2022) maintains that productivity is an indicator that measures efficiency in an economy based on the relationship between the production factors used and the quantity of a product or service produced that most companies commonly have difficulty calculating.

It should also be mentioned that productivity is defined from the point of view of the process as the correspondence between the quantity produced and the quantity of inputs used in the production process. Therefore, labor productivity is measured by the relationship between the amount of production achieved during a period and the amount of work invested in the production process. It can also be calculated as the relationship between the production volume and the number of workers involved. It should be noted that labor productivity must be evaluated, and this allows us to know the performance and efficiency of the workers (México. Instituto Nacional de Estadística y Geografía, 2012; (Abramova & Grishchenko, 2020).

As pointed out (Bjuggren, 2018), looking at the broader context, several causes can affect labor productivity, and in the particular case of Sweden, labor productivity is affected by employment protection methods. Taking into account that occupational health and safety standards affect staff performance. Sweden has a rule called last in, first out (LIFO), where the last person hired must be the first to be fired. This rule limits employers' flexibility in choosing whom to keep or fire.

In short, the research makes a valuable theoretical contribution by identifying, integrating, and validating business management, innovation, and entrepreneurship as key predictors of labor productivity in MSEs. Linking these aspects provides a solid framework for understanding performance factors in this context, thus helping to improve the efficiency and competitiveness of MSEs. Furthermore, the theoretical importance of this study lies in its ability to contribute to understanding the determining factors of the labor productivity of MSEs. By identifying and examining business management, innovation, and entrepreneurship as key predictors, the study provides a compelling theoretical framework to help inform policies and practices to improve the efficiency and competitiveness of businesses and promote economic and business development in general. Furthermore, this research is theoretically important because it can further develop and reorient existing business theories by integrating and validating business management, innovation, and entrepreneurship as fundamental predictors of labor productivity in MSEs. By providing empirical evidence supporting these relationships, the study challenges and enriches previous theoretical perspectives and provides a complete understanding of the factors influencing firm performance in specific contexts, the MSEs. This not only encourages the development of entrepreneurial skills but also provides a solid foundation for developing policies and practices that promote the growth and sustainability of MSEs, thus contributing to economic development at the local and global levels.

3. Methodology

Economic units, regardless of their size, age, or sector of activity, increasingly face the challenge of continuously adapting their management practices to meet the evolving needs of their economic and social environment. Micro, Small, and Medium Enterprises (MSEs) strive to direct innovation in their production factors (Morais-Storz et al., 2018) and develop various competitive strategies based on entrepreneurship (Hoyte, 2018) to enhance labor productivity.

Due to the specificity of the study, it begins with a literature review to design a theoretical framework and cutting-edge techniques based on the study variables. The decision was made to investigate and understand the phenomenon through the nature of the study: descriptive, explanatory, and quantitative, using instruments to measure the selected variables in the questionnaire. It is descriptive because the results aim to portray the realities of events and their characteristics, where both variables are described. It is explanatory as it provides a general and approximate view of the behavior of the variables under study, useful for understanding business management practices (the essence of which is not merely to do things better, but to do them correctly), innovation, and entrepreneurship as predictors of labor productivity in MSEs. It is quantitative because it allows for the objective measurement of key variables through numerical data, facilitating the analysis of relationships using statistical techniques such as regression or Structural Equation Modeling (SEM). Furthermore, this approach offers the possibility of generalizing the results to a broader population and ensures greater validity and reliability in the findings, providing precise and relevant conclusions. The population consists of MSEs, with a sample size of 913 selected, representing all owner-managers who produce goods and services such as textiles, food, footwear, tourism, hotels, retail, and services. Non-probabilistic intentional sampling was used, where the researcher selects participants based on their knowledge and criteria regarding who can provide the most relevant information. Employees working in the company's offices were excluded from the study.

3.1 Data collection

A survey plan was designed for owners of MSEs, who were interviewed with prior consent obtained between July and August. The measurement instrument was administered using Google Forms, and the link was distributed as part of a training program on business management practices specifically arranged for this purpose. The links to the studied samples were shared virtually via email and social media. Researchers provided direct support to address any questions regarding the completion of the instrument. Additionally, information was gathered from articles indexed in scientific databases such as Scopus, published in the highest quartiles (Q1, Q2, Q3, and Q4), which contributed valuable scientific insights for the research.

3.2 Instrument

A videoconference was conducted through two focus group sessions using the Zoom platform to verify the content and semantics of the items in the instrument for each variable. The focus group consisted of four individuals with three years of experience in business management and entrepreneurship. Subsequently, the experts assessed the quality and sufficiency of the questions based on the content, relevance, and clarity of each variable. After reviewing the questionnaire and the scales, it was determined that the accuracy of the information in the instrument had been confirmed.

The measurement instrument was administered in May and June using Google Forms, with links distributed as part of a training program designed to understand the attitudes of MSE employees regarding the increasing challenges of organizational control in management. Links were shared with owners virtually via email and social media. The researcher directly addressed any questions about completing the instrument. Additionally, information was collected from articles indexed in scientific repositories such as Scopus and published in the highest quartiles (Q1, Q2, Q3, and Q4), which contributed valuable scientific insights for the research.

The tool used for business management was that of Prajogo and Sohal (2003), which includes 14 items. The items employed a 5-point Likert scale, where 1 represents "strongly disagree" and 5 represents "strongly agree." The Cronbach's alpha for this instrument was 0.946. For innovation, we utilized the instruments of Murat and Baki (2011) and Pizarro, Real, and De la Rosa (2011), which comprise 9 items and also use a 5-point Likert scale. The Cronbach's alpha for this instrument was 0.913. Regarding entrepreneurship, we employed Miller's (1983) tool to examine 9 items on a 5-point Likert scale, where 1 represents "little emphasis" and 5 indicates "greater emphasis." Its Cronbach's alpha was 0.930. Finally, concerning productivity, we considered 22 items (13 items related to productivity and 9 items related to satisfaction) (Moreira, 2018), using a 5-point Likert scale where 1 represents "strongly disagree" and 5 represents "strongly agree." The reliability of the instrument was $\alpha = 0.912$ for productivity and $\alpha = 0.879$ for satisfaction.

Statistically, a weighted least squares mean and variance adjusted (WLSMV) estimator was used to identify the predictive model through structural equation modeling (SEM). To validate the SEM, we employed the chi-square test, the Comparative Fit Index (CFI), the Tucker-Lewis Index (TLI), the Root Mean Square Error of Approximation (RMSEA), and the Standardized Root Mean Square Residual (SRMR), in addition to the coefficient of determination (R^2).

4. Results

Table 1 presents a detailed descriptive analysis of the study variables and dimensions. A descriptive analysis of the variables observes different patterns of business practices within the work environments studied. The business management praxis variable shows a concentration on specific leadership styles and a relatively normal distribution of planning strategies, indicating variation in the application of these practices (leadership: g_1: -1.39, g_2: 1.11; strategic plan: g_1: -1.27, g_2: 0.9). Regarding innovation, there is a greater concentration on innovative practices related to business processes and services, while technological innovations show a more dispersed distribution (process innovation: g_1: -0.97, g_2: 0.26; services innovation in g_1: -0.98, g_2: 0.23; technological innovation g_1: -0.94, g_2: 0.06). On the other hand, the entrepreneurial entrepreneurship variable indicates diversity in the application of entrepreneurship, with lighter tails indicating a variety in entrepreneurial practices (entrepreneurship: g_1: -1.15, g_2: 0.5).

By breaking down these variables into their dimensions, we delve into the details of each research area. The leadership dimension focuses on a specific leadership style, while strategic planning has a relatively normal distribution with slightly lighter tails. In the field of innovation, the process innovation dimension focuses on specific practices, as does service innovation. However, technological innovation is characterized by a more dispersed distribution of innovative technological practices. Finally, the entrepreneurial entrepreneurship dimension indicates diversity in the application of entrepreneurship, with lighter tails indicating diversity in the practice of entrepreneurship within organizations.

Table 1: Descriptive analysis of the study variables

	Mean	SD	g^1	g^2
Business management praxis	42.27	12.02	-1.38	1.15
Leadership	23.24	6.69	-1.39	1.11
Strategic planning	19.02	5.51	-1.27	0.9
Innovation	29.44	8.5	-1.03	0.38
Process Innovation	10.97	3.22	-0.97	0.26
Service Innovation	11.06	3.29	-0.98	0.23
Technology Innovation	7.4	2.31	-0.94	0.06
Business entrepreneurship	33.56	9.92	-1.15	0.5
Labor productivity	82.81	24.17	-1.27	0.7
Productivity	49.06	14.38	-1.29	0.72
Satisfaction Level	33.75	10.1	-1.16	0.45

Table 2 shows the multivariate normality analysis using the Mardia Skewness and the Mardia kurtosis tests. These tests are important to evaluate whether the study variables follow a normal multivariate distribution. The Mardia skewness test produces a statistic of 1184.28 with a p-value of 0.000, indicating significant evidence to reject the null hypothesis that the variables follow a symmetric multivariate distribution. This result suggests that the variables do not have a symmetric distribution and may be skewed in a specific direction in the multivariate space. On the other hand, the Mardia kurtosis test shows a statistical value of 101.31 with a p-value of 0.000, indicating that there is also significant evidence to reject the null hypothesis that the variables follow a multivariate distribution with kurtosis of zero. In other words, the variables do not follow a multivariate normal distribution regarding their shape and data concentration.

Table 2: Multivariate normality analysis

Test	Statistical	p
Mardia Asymmetry	1184.28	0.000
Mardian Kurtosis	101.31	0.000

Table 3 shows the correlations between the study variables and provides essential insight into the relationships between the variables in the evaluated business practice areas. These correlations reveal the degree and direction of the relationships between the analyzed dimensions. The main relationships are the following:

1. **Business Management Praxis (BMP):** There is a particularly positive correlation between leadership, strategic planning (SP), and business management practices (BMP), and there is a close relationship between these areas in the business activities of Micro and Small Enterprises (MSEs) ($r = 0.94$ and $r = 0.99$ respectively).
2. **Innovation (I):** includes process innovation (PI), service innovation (SI), and technology innovation (TI), with strong correlations between the subcomponents and the internal consistency of the innovative practices of MSEs ($r > 0.90$ total combinations).
3. **Business Entrepreneurship (BE):** It shows significant correlations with all the other

variables and highlights its close relationship with Innovation (I) and productivity (P) (both relationships r > 0.80).

4. **Labor productivity (LP):** It consists of productivity (P) and level of satisfaction (LS) and has a very strong positive correlation with all variables, indicating its impact on various areas of business management (r > 0.95 for all variables).

These significant correlations (p < 0.01) reveal the complex relationship between the different business practices of the evaluated MSEs. The internal coherence between the dimensions of each main variable reinforces the uniformity in applying these business management practices in micro and small business units. Furthermore, the strong relationship between business entrepreneurship, innovation, and labor productivity highlights the common importance of these areas in the general performance of MSEs.

These significant correlations (p < 0.01) reveal the complex relationship between the different business practices of the evaluated MSEs. The internal coherence between the dimensions of each main variable reinforces the uniformity in applying these business management practices in micro and small business units. Furthermore, the strong relationships with business management praxis, innovation, and entrepreneurship indicate the predictive power of these relationships with the labor productivity of MSEs in the following order:

1. The relationship between business management praxis and innovation is 0.80, making it a reliable and solid predictor between business management practices and a company's ability to introduce new ideas and approaches that improve labor productivity.
2. Business management praxis shows an even stronger relationship with entrepreneurship, with 0.82. This shows that to implement new initiatives and projects with a more significant competitive advantage, how companies manage has a substantial predictor of labor productivity.
3. **The** business management praxis also correlates 0.80 with labor productivity. This result suggests that how the predictors are presented in the company's management positively affects efficiency and work performance within MSEs.

The values of Cronbach's Alpha (α) and McDonald's Omega (Ω) close to 1.00 indicate high internal consistency and reliability of the scales used for each variable, supporting the study's validity. These results highlight the complexity and interdependence of business practices within organizations.

Table 3: Correlations between study variables

Variable	L	SP	BMP	PI	SI	TI	I	BE	LP	LS	LP	α	Ω
L	1											0.97	0.97
SP	.94**	1										0.95	0.96
BMP	.99**	.98**	1									0.98	0.98
PI	.76**	.77**	.78**	1								0.95	0.96
SI	.78**	.77**	.79**	.92**	1							0.93	0.93
TI	.73**	.74**	.75**	.86**	.88**	1						0.92	0.92
I	.79**	.79**	.80**	.97**	.98**	.94**	1					0.97	0.97
BE	.81**	.81**	.82**	.81**	.82**	.79**	.84**	1				0.98	0.98
P	.79**	.78**	.80**	.79**	.80**	.76**	.81**	.87**	1			0.98	0.98
SL	.77**	.77**	.78**	.78**	.79**	.75**	.81**	.86**	.95**	1		0.98	0.98
LP	.80**	.78**	.80**	.80**	.81**	.76**	.82**	.88**	.99**	.98**	1	0.99	0.99

Note: L: Leadership; SP: Strategic planning; BMP: Business Management Praxis; PI: Process Innovation; SI: Service Innovation; TI: Technology Innovation; I: Innovation; BE: Business Entrepreneurship; P: Productivity; SL: Satisfaction Level; LP: Labor Productivity; **p<0.01; α: Cronbach's alpha; Ω: McDonald's Omega

Table 4 shows the fit indices of the structural equation model used in the study, estimated using the weighted least squares mean and adjusted variance (WLSMV) methods, considering the scaled indicators. Although the chi-square was significant, it is important to note that this statistic is sensitive to sample size and often tends to be significant in complex models. However, other indices, such as the Comparative Fit Index (CFI) and the Tucker-Lewis Index (TLI), with values of 0.972 and 0.970, indicate a good fit for the model. These values are close to 1.00, suggesting that the model adequately fits the observed data, considering the relationships between the variables. Furthermore, the RMSEA (root mean square error of approximation) of 0.017 with a 90% confidence interval between 0.013 and 0.019 indicates an adequate model, especially when it is below the critical threshold of 0.05. This indicator suggests that the model fits the underlying population well, supporting the validity of the relationships observed in the study. Finally, the robustness of the model is also confirmed by the standardized root mean square (SRMR), which has a value of 0.014. Since the SRMR is close to the cut-off value of 0.05, it indicates minimal deviation between what is observed in the data and the values predicted by the model.

Table 4: Structural equation model fit indices

Model	χ^2	gl	p	CFI	TLI	RMSEA	SRMR
Influence model	1423.82	1162	0.000	0.972	0.970	0.017 [0.013 – 0.019]	0.014

The predictor model for this study is shown. A detailed analysis of the latent variables of the model identified important relationships between the various dimensions evaluated. The latent variable BMP reflects the business management praxis and consists of leadership (L) and strategic planning (SP). The relationship between L and SP is perfectly positive (r = 0.99), indicating that leadership is a direct and complete predictor of business management Praxis. Furthermore, SP also significantly impacts BMP (r = 0.980), confirming the positive prediction of strategic planning on business practices.

The latent variable I, which represents innovation, is divided into three subdimensions: process innovation (PI), service innovation (SI), and technology innovation (TI). Each dimension has a significant impact on global innovation. PI and SI have a perfect relationship with I (r = 1.000), demonstrating that these dimensions are direct and complete predictors of innovation. Likewise, TI contributes significantly to I (r = 0.95), emphasizing the importance of technological innovation in the context of global innovation. On the other hand, the latent variable LP, which represents labor productivity, consists of two subdimensions: productivity (P) and level of satisfaction (LS). Both dimensions have a perfect relationship with LP (r = 0.99), showing that both productivity and satisfaction directly impact labor productivity.

The regression shows that LP is a predictor for the latent variables BMP, I, and business entrepreneurship (BE). The predictor variable between BMP and LP is significant (r = 0.157), indicating that business practices have a positive, although small, impact on labor productivity. Furthermore, I has a more significant impact on LP (r = 0.242), indicating that innovation is essential for job performance. Finally, the latent variable BE (business entrepreneurship) is also a significant predictor in LP (r = 0.575), which underlines the vital role of entrepreneurship in improving labor productivity. Likewise, an R^2 = 0.831 is observed, which indicates that the latent variables of business management praxis, innovation, and business entrepreneurship can explain 83.1% of the variability in labor productivity.

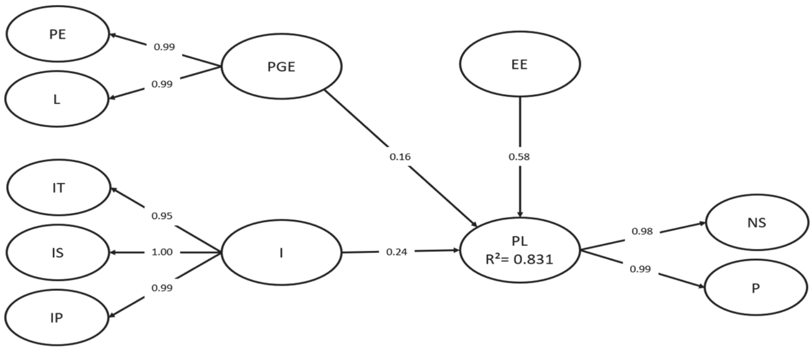

Figure 1: Business management praxis model, innovation, and entrepreneurship as a predictor of labor productivity in MSEs

5. Discussion

The business management praxis in micro and small enterprises (MSEs) enhances labor productivity. Innovation and entrepreneurship are fundamental predictors driving performance and competitiveness in this context. Leadership and strategic planning are considered important factors in measuring business management practices (Lamine & Lakhal, 2018), which can be used to measure innovation, entrepreneurship, and labor productivity. The ability to implement innovative practices and support entrepreneurship not only redefines the internal dynamics of MSEs but also shapes their ability to adapt to a constantly changing business environment. Innovation is another factor to consider in entrepreneurship since this factor is important in the development process of a product or service. (Murat & Baki, 2011) as in technology (EFQM, 2016). These factors play a fundamental role in reducing production and management costs since they favor the development of new products or services that satisfy new needs (Vargas-Hernández et al., 2014). With this, we seek continuous improvement in quality and customer satisfaction and to convert labor productivity into a competitive advantage. Introducing new technologies, efficient processes, and revolutionary business models optimizes operational efficiency and creates an environment conducive to skill development and creativity in the workplace (Pedroza-Zapata & Silva-Flores, 2020).

Moreover, entrepreneurship and innovative technologies are increasingly seen as key drivers of global economic and social development, and business management differentiates labor productivity from the competition. In this sense, a management praxis that embraces innovation and entrepreneurship not only serves as a catalyst for the sustainability and growth of MSEs but also provides a direct link to the continuous improvement of labor productivity and strategically positions it in the business landscape. The manner in which business practices, innovation, and entrepreneurship affect labor productivity in MSEs depends on external factors such as external economic conditions, industry characteristics, and regional differences. A favorable economic environment encourages the adoption of innovative practices to enhance productivity and access to resources and financing. Similarly, highly competitive and technologically advanced industries require greater innovation to maintain competitiveness, while traditional industries may experience fewer advantages. Finally, depending on local conditions, such as access to infrastructure, financing, and institutional support, regional disparities in infrastructure and supportive policies can either accelerate or hinder the ability of MSEs to implement productivity improvements.The research offers valuable information to business leaders, policymakers, and researchers and highlights the need to integrate management strategies that support innovation and entrepreneurship to optimize labor productivity in MSEs.

6. Conclusion

The business management praxis of micro and small enterprises (MSEs) is intrinsically related to innovation and entrepreneurship, which determine factors to predict and improve labor productivity. A company's ability to adapt to environmental changes and take advantage of new opportunities through innovation and fostering entrepreneurship are essential factors that promote growth and affect employees' efficiency and effectiveness.

In this context, MSEs that combine business management practices based on innovation and entrepreneurship not only become more resistant to market challenges but also create an environment that encourages creativity and active participation of employees. The relationship between these dimensions ($r = 0.80$, $r = 0.82$, $r = 0.80$, and $R^2 = 0.831$) promotes a virtuous cycle where continuous improvement and the constant search for innovative solutions significantly increase labor productivity.

It is important to emphasize that successfully implementing innovative and entrepreneurial strategies requires committed leadership and an organizational culture encouraging experimentation and learning. MSEs that can create this type of dynamics experience operational efficiencies and strengthen their position in the market, contributing to their long-term sustainable growth.

Finally, the business management praxis of MSEs has established labor productivity as a determining factor, and an effective combination of innovation and entrepreneurship becomes a key predictor of success in a dynamic and competitive business environment. Adopting these practices benefits the company in terms of efficiency and profitability. It promotes the development and well-being of its human capital, placing MSEs on the path to prosperity and sustainable growth.

7. Recommendations

Strengthen Business Capacities in MSEs: Based on the results showing the significant influence of business practices on labor productivity, it is recommended to develop training and education programs for entrepreneurs and managers of MSEs. These programs should focus on improving management, strategic planning, and decision-making to optimize production processes and enhance the competitiveness of businesses.

Promote a Culture of Innovation: Given that the research results have demonstrated that innovation is the primary indicator of labor productivity in MSEs, it is advisable to actively foster a culture of innovation within these companies. This can be achieved by establishing programs that encourage the use of new technologies and the implementation of innovative methods. MSEs should have access to funding for research and development (R&D), as well as training programs that educate entrepreneurs and their teams on new trends, agile methodologies, and technological tools that enhance efficiency and productivity.

Encourage Entrepreneurship through Institutional Support: Since the research findings indicate a significant relationship between entrepreneurship and labor productivity in MSEs, it is recommended to promote policies and procedures that support a strong entrepreneurial culture backed by solid institutional support. This can be achieved through government programs that simplify administrative procedures for establishing and formalizing new businesses, thereby reducing the bureaucratic barriers often faced by entrepreneurs.

Develop Differentiated Policies by Industry and Region: Considering the findings that show differences in the impact of business practices, innovation, and entrepreneurship among sectors and regions, it is recommended to design differentiated policies that address the specific needs of MSEs based on their industry and geographical location. These policies should be tailored to address the specific realities faced by MSEs in sectors such as technology, manufacturing, or services, as each sector presents unique challenges and opportunities for innovation.

Facilitate Access to Financial Resources Necessary for Innovation and Entrepreneurship: The research results indicate that one of the greatest obstacles faced by MSEs in undertaking innovation and entrepreneurship activities is the lack of access to sufficient funding. Therefore, it is recommended to develop specific financing programs for MSEs with favorable conditions, such as low interest rates, flexible repayment terms, and simplified requirements. These funds should be allocated to technological innovation projects, improvements in production processes, and the development of new initiatives. Furthermore, partnerships between financial institutions, government agencies, and private entities should be strengthened to create investment funds and venture capital dedicated to MSEs.

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