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RESPONSIBLE AI AND HUMAN-CENTERED DESIGN: BRIDGING ETHICS AND INNOVATION

# FACTORS INFLUENCING SUSTAINABLE GROWTH: THE ROLE OF MEDIATING FACTORS FROM CAPABILITY INNOVATION

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**Abstract:** Sustainable growth becomes focus main for organization in face increasing global competition dynamic. Growth sustainable No only determined by factors economy, but also by the ability organization integrate aspect social and environmental in its business strategy. Research This aim For analyze The influence of entrepreneurial leadership, strategic auditing, financial agility, and digital business on sustainable growth with innovation capability as variables mediation in Micro and Small Enterprises (MSEs) in Southwest Papua. The number sample in research This as many as 241 owners / managers MSEs businesses in the Southwest Papua region (Sorong City and Sorong Regency). The research method used is approach quantitative with Structural Equation Modeling (SEM) analysis. Research results show that entrepreneurial leadership, financial agility, and digital business have influence positive and significant towards innovation capability and sustainable growth. On the contrary, strategic auditing is proven No influential significant to both of them, indicate that strategic audit practices in MSEs are still focus on aspects compliance administrative and not yet optimized as instrument innovation and growth sustainable. In addition, innovation capability is proven play a role as variables mediation significant bridging the influence of entrepreneurial leadership, financial agility, and digital business on sustainable growth, but not on strategic auditing. Findings This confirm importance innovation as bridge strategic in strengthen growth sustainable. For MSEs in Southwest Papua, success achieving sustainability requires synergy between leadership entrepreneurship, agility financial, as well as directed digital transformation for strengthen capability innovation organization.

**Keywords:** Sustainable Growth, Entrepreneurial Leadership, Strategic Auditing, Financial Agility, Digital Business, Innovation Capability

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## 1. Introduction

Micro and Small Enterprises (MSEs) have vital role in Indonesian economy, MSESs are not only as provider employment, but also as driving force economy local people who take advantage of potential source Power area. In terms of in general, many MSESs in Indonesia face problem in ensure continuity life and expansion their business. There are also MSESs in Indonesia that are successful in his business. Apart from that, there are several MSESs with international market share. The dynamics of MSES growth are a consequence from dynamic and competitive environment (Runtuk et al., 2023). This situation requires stakeholders interest in considering business growth sustainable and factors the determinant in a way Serious
BPS data 2024 shows that the number of MSEs in Indonesia is spread throughout provinces with sufficient numbers significant. West Java Province occupies position highest with 640,316 MSES units, followed by East Java with 925,985 units, and Central Java with 887,559 units. Meanwhile, in the eastern Indonesia the number of MSEs is relative more small, such as in Maluku (4,357 units), North Maluku (1,787 units), Papua (7,499 units), Central Papua (3,828 units), South Papua (1,499 units), and Southwest Papua with only 1,851 MSEs units (BPS, 2025)

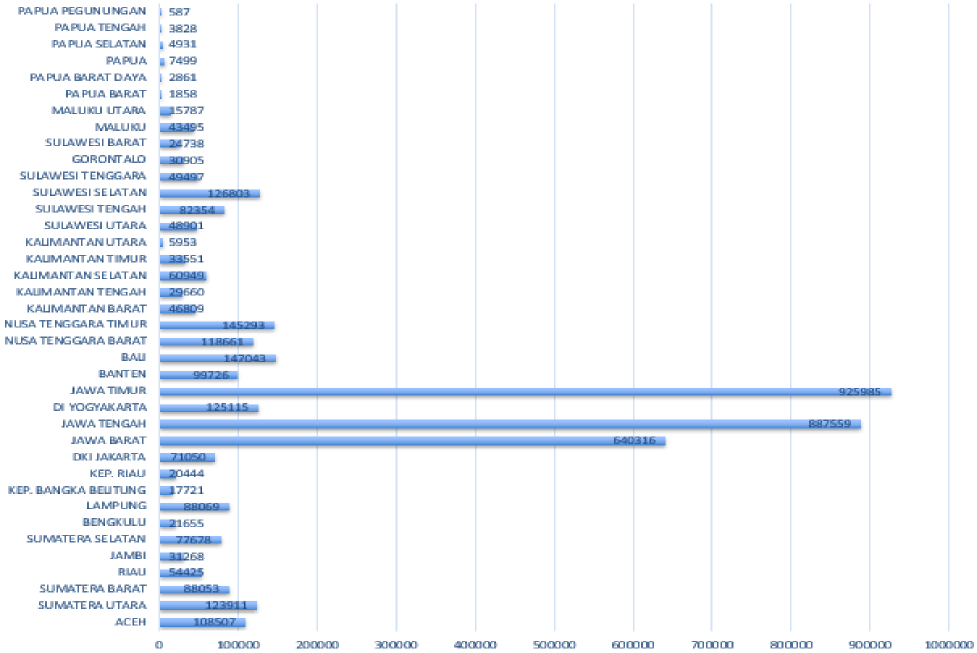


**Figure 1: Number of Micro and Small Scale Industrial Companies According to Province (Unit), 2024**
**Source : BPS, 2024**

This figure shows existence inequality number of MSEs between regions in Indonesia. Java as center economy national own the number of MSEs is far more tall compared to Papua and Maluku. In fact, MSEs in eastern Indonesia, including Southwest Papua, have potential big based on wealth nature and wisdom local. However, the limitations infrastructure, market access, skills managerial, and utilization technology become obstacle main in achieve sustainable growth. Sustainable growth means that MSEs must capable guard stability effort, adapt to change, and create mark plus economic, social, and environment in a way simultaneous (Kamran et al., 2025)

Sustainability become increasingly important in evaluate gauge measuring performance company, which emphasizes the need adopt solution innovative to ensure continuity life term long life and well-being environment (Szutowski et al., 2017) Change environment business characterized by market uncertainty, disruption technology, and demands increasing number of consumers demand organization to search for solution innovative in order to be able to survive and thrive. Some researchers try understand factors drivers that drive the growth of MSESs. However thus, many study previously more emphasize on factors external, such as market dynamics and regulation (Miranda et al., 2024; Onyeje et al., 2022; Tiange et al., 2024; Utami et al., 2018) , internal factors such as profitability and financial performance (Erawati et al., 2025) . While specific internal processes like internal company mechanisms that become driving force key to sustainable growth Still relatively not enough get attention (Wahyudiono et al., 2024)

In practice, sustainable growth not just determined by chance from outside, but also how organization manage himself from in. The ability to build vision clear leadership, creating accountable governance, managing source power financial in a way adaptive, as well as utilise digital technology in effective is the foundation important for sustainability business (Wahyudiono et al., 2024) A number of studies previously also highlighted importance visionary and goal-oriented leadership entrepreneurship. Research Pauceanu et al. (2021) find

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that leadership entrepreneurship play a role in push behavior innovative, improving superiority compete, and ensure sustainability business in term long.

In addition to leadership, internal governance through strategic auditing also contributes to sustainability. Research conducted by Afeef (2022) show *strategic auditing* necessary to ensure accountability and transparency in management business. More from just function supervision finance, strategic auditing help evaluate internal and external factors that influence sustainability business, including aspect economic, social, and environmental. The study by Hakki et al. (2024) also concerns *strategic management accounting* show that practice accountancy strategic based management information and internal controls are capable increase performance MMSES finance, as well as support achievement sustainability effort. This shows that strengthening mechanism internal evaluation and audit functions not only as tool control, but also as instrument strategic for sustainability.

Ability manage finance in a way adaptive or *financial agility* also becomes factor important. Study of Mangifera et al. (2022) emphasize that digital orientation and innovation contribute to the improvement performance MMSES finances during pandemic, and agility in management financial help MSEs more fast respond market changes. Research by effective Kamran et al., (2025) also showed *financial agility* needed so that MSEs are able to allocate source Power in a way fast and flexible in face market changes and uncertainty economy. Companies with a high level of agility can survive and take advantage of opportunity new in a way more. This confirms that flexibility in use source Power Finance is the main capital for MSEs to be able to endure at a time grow in a way sustainable.

Along with the development of the digital era, transformation technology also plays a role role important. *Digital Business* become factor key in the era of digital transformation, because use digital technology can increase efficiency operational, expanding market reach, as well as strengthen interaction with consumers (Hoang et al., 2025; Wahyudiono et al., 2024) . Research Riawan et al. (2023) show that utilization digital technology improves *strategic agility* which ultimately repair MMSES performance. Similarly, Yuniarti and Mutiarachim (2024) find that *digital agility* has a positive impact on MMSES performance with innovation as mediation important. This finding indicates that digital transformation is not just a trend, but also a vital mechanism to strengthen capability innovation and power MMSES competitiveness.

Capability innovation is the core of growth strategy sustainable Because functioning as connector between internal organizational practices with creation superiority compete term long. Capabilities innovation born from combination influence visionary leadership, governance mechanisms through strategic audits, as well as responsiveness adaptive finance, which then translated to in practice real so that contribute to growth sustainable. Through relationships mediated by innovation, organizations can build culture that is not only tolerate creativity and experimentation, but also support it with system structured management and planning clear finances (Kamran et al., 2025) . However, research the Not yet test in a way explicit the role of digital business as factor determinant sustainability. In fact, digital transformation has proven expand market access, increasing efficiency operational, as well as strengthen Power competitiveness of MSEs in the digital economy era (Wahyudiono et al., 2024). With Thus, there are need for integrating digital business together leadership entrepreneurship, strategic audit, and agility financial to in framework research, so that role mediation capability innovation in push growth sustainable can tested in a way more comprehensive.

Although a number of study has discuss connection between *entrepreneurial leadership, strategic auditing, financial agility, digital business,* and *innovation capability* are present a number of gap necessary research filled. Most of the studies previously conducted in other countries such as Vietnam (Hoang et al., 2025) , Jordan (Afeef, 2022) , Pakistan (Kamran et al., 2025) , or Thailand (Somwethee et al., 2023) . In Indonesia, Wahyudiono et al. (2024) emphasize role orientation digital management and business towards growth of MSEs in East Java, meanwhile Yuniarti and Mutiarachim (2024) as well as Riawan et al. (2023) find that digital agility and culture share knowledge influential to MMSES performance through innovation. However, research the Still focused on MSEs in Java, with variables studied partial and not yet integrate four determinant main in one comprehensive model. Therefore, research This offer novelty with test in a way simultaneous influence leadership entrepreneurship, strategic auditing, agility financial and digital business towards growth sustainable MSEs in Southwest Papua through role mediation capability innovation.

## 2. Literature Review

Study This based on use *Resource-Based View* (RBV) as runway theoretical to explain determinants of sustainable growth Mailani *et al.* (2024) , RBV emphasizes that organization get superiority competitive through ownership source valuable, rare, difficult power imitated, and not can replaced, so that attributes managerial and systemic like leadership entrepreneurship, strategic audit, and strategic agility can categorized as asset not in a supportive form achievement performance term long (Kero & Bogale, 2023) . In the context of this, leadership entrepreneurship, strategic audit, and strategic agility can viewed as source Power not in the form of which, when managed in a way synergistic, capable strengthen growth sustainable (Hensellek *et al.*, 2023). Leadership entrepreneurship play a role as mechanism sensing and utilization opportunity (Malibari and Bajaba, 2022), strategic audit provide governance as well as discipline in management source power, while strategic agility allows flexibility in arrangement return operational organization (Teece, 2015). This entire process Then mediated by ability innovation, which functions as mechanism modifier capability level tall become results in the form of growth sustainable (Jundulloh and Nasution, 2024). With Thus, organizations, especially MSESs, do not only capable endure but also growing in increasing competition competitive.

**Entrepreneurial Leadership**

Leadership entrepreneurship as defined by Pauceanu et al., (2021) , emphasizing change - oriented leadership organization rather than maintaining status, with the need will system capable supporters form source Power man quality as well as a creative, brave and capable leader carry out transformation strategic. Another study conducted (Phangestu et al., 2020; Purwati et al., 2020) also describes leadership entrepreneurship as something construct that drives innovation, engagement full, and the ability to typical recognize and utilize opportunity. Entrepreneurial leadership plays a role important in driving sustainable growth Because emphasize vision, courage take risks, and proactivity that makes organization more adaptive. Research Kamran et al., (2025) who identified Entrepreneurial leadership as driver *Sustainable Growth,* reinforced by findings Somwethee et al., (2023) who linked *Entrepreneurial Capability* with improvement *Sustainable Organization Performance,* as well Al-Abbadi and Abu Rumman, (2023) Al-Abbadi & Abu Rumman (2023) who emphasized role central *Entrepreneurship* as a performance basis sustainable, especially in context company *e-*business. Therefore that, we submit hypothesis that

H1 : Entrepreneurial Leadership Has an Influence Positive Towards Sustainable Growth.
H2 : Entrepreneurial Leadership Has an Influence Positive Towards Innovation Capability.

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**Strategic Auditing**

Strategic audit in a way wide recognized as step a very important beginning in get understanding comprehensive about performance company (Mohsin *et al.*, 2024). This is increasingly relevant remember existence change in audit practices, where many company start switch from traditional internal audit going to a more approach strategic. Significance of strategic audit No can ignored Because play a role important in optimize utilization of internal audit, strengthening capacity company in take decision the right strategy, as well as increase efficiency organization (He & Li, 2023). Thus, the implementation of strategic audit functioning ensure harmony between goals, strategies and policies organization through evaluation deep as well as election internal procedures and appropriate external audit. Therefore, strategic audit occupy position central in the audit process, namely by assessing direction strategic company at a time ensure implementation procedure effective operations (Kibrit et al., 2023) .

This relationship makes strategic auditing can understood as a systematic process in collect information the next relevant used to formulate objective business and more strategies appropriate target (Karim *et al.*, 2020). Based on the analysis of various approach in defining strategic audit, there are two perspectives main. First, strategic audit viewed as subsystem from the functional managerial audit evaluate company growth potential and effectiveness use source Power investment. Second, strategic audit positioned as something discipline in audit and investment practices, which aim give evaluation comprehensive to condition internal and external operations external (Rudnicki, 2019).

Strategic auditing now viewed as instrument important that is not only ensure compliance, but also strengthen governance and support taking decision strategic. Maclean et al., (2023) emphasize that strategic audit push accountability and transparency that strengthens style leadership entrepreneurship, while Abdulameer et al., (2023) show his role in give outlook comprehensive For push leader more innovative and visionary. In line with The, Leeuw and Draaijer (2025) confirm that internal audit is transformed become partners strategic capable increase trust and equip leadership with more directions accurate. With Thus, strategic auditing has an impact positive to sustainable growth. Kamran et al. (2025) find that the strategic audit process is integrated with leadership entrepreneurship can strengthen orientation innovation and renewal strategic, so that increasing organizational innovation capability. Thus, strategic auditing has a positive effect on innovation capability. Therefore that, we submit hypothesis that:

H3: Strategic Auditing Has an Influence Positive To Sustainable Growth
H4: Strategic Auditing Has a Positive Influence on Innovation Capability.

**Financial Agility**

Financial agility is ability organizations to adapt fast to change and create new growth through visibility comprehensive finance as well as taking decision data -based in environment dynamic and difficult business predicted (Chan *et al.*, 2019). Sampath and Krishnamoorthy (2017) emphasize that financial agility as a meta- capability related to allocation source the right power to increase competence source Power finance organization at a time guard the balance from time to time. Doz (2020) highlight role agility push flexibility operational (MA (Ph.D) et al., 2020; Reed, 2020), so organization capable overcome market uncertainty and fluctuations through process and structure adjustments (Pereira et al., 2019). This also confirms that financial agility is a vital capability to formulate and modify business models to be more adaptive and interactive (Clauss *et al.*, 2021) .

Study Kamran et al. (2025) identify *Financial Agility* as support that is significant increase *Sustainable Growth* in MSESs, enabling them to adapt to market volatility and take advantage of opportunities. In terms of contextually, this finding is in line with the implications from studies (Mutambik & Almuqrin, 2024; Saragih et al., 2024) regarding MSES, where sustainable growth need management orientation and adaptation source effective power in the middle environment dynamic business, which functions This adaptive approach, particularly in the capital sector, is realized through *Financial Agility.* Sun and Zhang (2025) show that effective audit practices capable strengthen transparency finance, improve efficiency management source power, as well as push organization for more adaptive in develop innovation. Therefore that, we submit hypothesis that:

H5: Financial Agility Has a Positive Influence on Sustainable Growth
H6: Financial Agility Has a Positive Influence on Innovation Capability.

**Digital Business**

Digital business is known as practice business individual and corporation in utilize digital platforms to carry out innovation in management, business processes, and services customers, so that activity business can walk more effective and efficient (da Silva et al., 2025). This practice is closely in relation to mastery technology information, applications, web, and other virtual media. Although Thus, digital business has not develop optimally in business micro and small (Romero & Mammadov, 2025). Change environment business push awareness perpetrator business that digital platforms are assets conceptual that can become solution on various problem business (Hassan & Raziq, 2019) .

Digital business offers room open, transparent, fast, flexible communication, and allows interaction directly with partners and customers through virtual media (Wahyudiono *et al.*, 2024). Its presence capable overcome obstacle communication without limits space, place and time (Panduwinata *et al.*, 2025). Therefore, communication digital platform based is necessary built in a way comprehensive so that implementation digital business can walk fluent and in accordance with the expectations and needs of stakeholders interest (Rosyidiana & Narsa, 2024; Wahyudiono *et al.,* 2024) .

Digital technology is driver main long-term growth length, which is supported by the findings Wahyudiono *et al.*, (2024) on MSES which shows existence positive and significant influence from *Digital Business* to *Sustainable Growth.* However, the determination this hypothesis needs to be carefully considered Because existence contradiction empirical from studies others, as found by (Miranda et al., 2024), which actually disclose No There is connection direct and significant between digitalization business and repair *Sustainable Growth* in the MSES segment. Meanwhile study (Rosyidiana & Narsa, 2024) who researched MSESs in the period recovery post-pandemic, where the results the research shows that digitalization business own influence direct and significant to innovation. Therefore that, we submit hypothesis that:

H7: Digital Business Has a Positive Influence on Sustainable Growth
H8: Digital Business Has a Positive Influence on Innovation Capability

**Sustainable Growth**

Sustainable growth own various definition according to a number of study (Yoo et al., 2020). In perspective finance, this concept is understood as ability companies to grow according to capacity finances without adding debt burden (Yusoff et al., 2018). Additionally, sustainable growth is also looked at as ability company in reach goals and improve mark for holder share through integration aspect economic (Shafi, 2020)., environmental, and social into its business strategy (Al-Abbadi & Abu Rumman, 2023). This concept emphasizes ability organization to achieve objective business at a time create mark plus for holder share (Sustainable & Studies, 2006) , while maintaining consider not quite enough answer term long to sustainability economic, social and environmental (Hu et al., 2022). Research Al-Abbadi and Abu Rumman (2023) prove innovation as foundation for performance sustainable in the company *e-Business,* study Kurniawan et al., (2024) who make the connection capability innovation with *sustainable performance* during times of crisis, as well as findings Jundulloh & Nasution (2024) as well as Al-Nimer (2024) who equally confirms this role *Innovation Capability* as mechanism important things that have a positive impact on *Sustainable Organizational Performance* and *ESG Performance* in various sector such as MSEs and banking. Therefore that, we submit hypothesis that:

H9: Innovation Capability has a Positive Influence on Sustainable Growth

**Innovation Capability**

Capability innovation understood as capacity organization to design as well as develop new products, services, processes, or strategies that are capable of strengthen position Power competitiveness in the market (Kareem et al., 2024). This concept represents ability collective organization in integrate knowledge and resources the power possessed to produce adaptive innovation to dynamics market needs, development technology, as well as preference consumer (Khan et al., 2023). Characteristic sectors dynamic like industry food and drink, capabilities innovation functioning as determinant main in guard relevance, increase Power pull customers, as well as accommodate trend industry that continues changed (Budiarti & Firmansyah, 2024). More far, capability innovation also becomes catalyst for growth and resilience organization in the middle intensity global competition and uncertainty environment increasingly complex business (Isfianadewi et al., 2020).

Study by Kamran et al., (2025) find that both *Entrepreneurial Leadership, Strategic Auditing,* and *Financial Agility* play a role as drivers that positively influence *Sustainable Growth* through mediation Capability Innovation in MSESs. This support is strengthened in a way partial by findings Jundulloh and Nasution, (2024) confirm this that *Entrepreneurial Leadership* must increase *Innovation Capability* moreover first before influencing performance sustainable, as well as reinforced by Maclean et al., (2023) who underlined importance *Organizational Innovation Capability* in translate orientation strategic become performance company. Digital Business is a catalyst that can only be translated to Sustainable Growth If supported by internal capabilities to create and adopt things new. This argument is direct supported by studies Prakasa, (2022) on creative MSESs, which proves that *Digital Capability* ( as proxy from *Digital Business* ) has an impact significant to *Business Sustainability,* however impact the biggest achieved when These digital capabilities are mediated by *Digital Innovation.* In other words, the adoption of digital technology by companies must produce innovation in both business models, processes and products, so that they can become source superiority competitive environment that triggers stable and sustainable growth in the midst of market dynamics. Therefore that, we submit hypothesis that:

H10: Entrepreneurial Leadership Has a Positive Influence on Sustainable Growth Through Innovation Capability

H11: Strategic Auditing Has a Positive Influence on Sustainable Growth Through Innovation Capability

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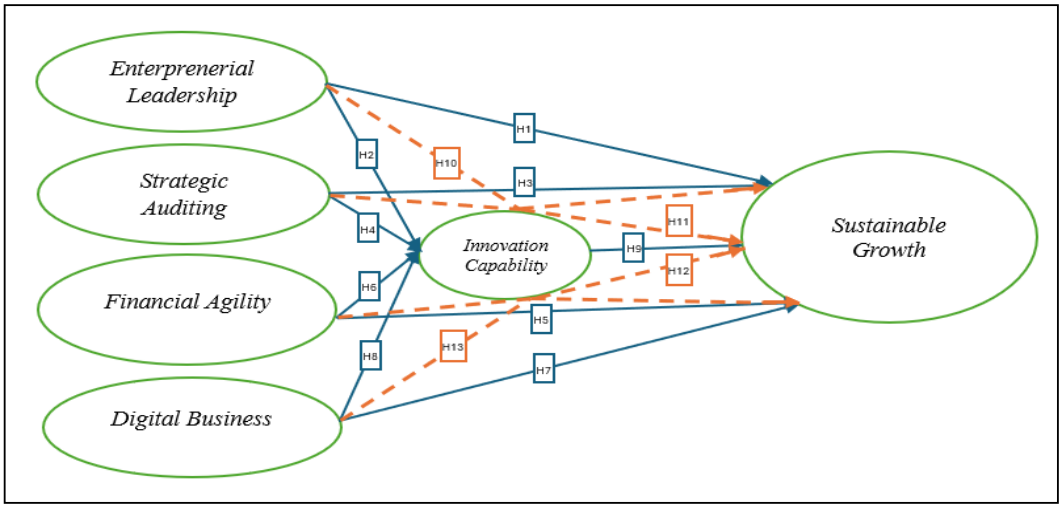
H12: Financial Agility Has a Positive Influence on Sustainable Growth Through Innovation Capability
H13: Digital Business Has a Positive Influence on Sustainable Growth Through Innovation Capability

Based on review theory above, then framework The theory in this research is compiled in the following model:




## 3. Method

### Population, Sample and Measurement

Population this research is perpetrator business micro and small businesses active in Southwest Papua, Indonesia, with an emphasis specifically in the MSES sector which operates in the field of trade, crafts handicrafts, food and beverages, and local services totaling 1,851. These sectors were selected Because own contribution big to economy area and become support eye livelihood public local, but at the same time face complex challenges.
Taking technique until used is purposive sampling. This is a technique sampling using certain criteria, including business micro and small businesses active in 2022-2025, owners / managers MSES businesses in the Southwest Papua region (Sorong City and Sorong Regency) have utilise use of digital platforms for activities business. Based on of these criteria, 241 were met sample criteria and become respondents. Questionnaire sent directly to respondents during One Sunday consecutively. Election purposive done Because respondents involved must own experience direct in practice leadership, management finance, digital utilization, and activity innovation.

**Table 1. Sampling technique and specific criteria**

| No | Description and Specific Criteria | Non-Criteria | Criteria |
|---|---|---|---|
| | **Population** | - | 1,851 |
| **1** | Active from the beginning of 2022 until the end of January 2025 | 596 | 1,255 |
| **2** | The owner is also the business manager | 670 | 585 |

| | | | |
|---|---|---|---|
| **3** | Business activities are in the MSEs center area | 136 | 449 |
| **4** | Has used digital platforms for activities | 208 | 241 |

Data sources in This research uses primary data, with data collection techniques using questionnaires. questionnaire with a Likert scale of 1-5. Questionnaire shared into two components, namely statement general related demographics respondents and questionnaires second containing statement research. Meanwhile, the data analysis techniques used is Partial Least Square-Structural Equation Modeling (PLS-SEM) with the help of device soft SmartPLS 3.0. PLS-SEM is a superior method in problem knowledge social and suitable for large samples and small (Hair et al., 2014).

**Research Instrument**

**Table 2. Research Instruments**

| Variables | Definition | Code | Scale | Source |
|---|---|---|---|---|
| Entrepreneurial Leadership | A leader with soul businessman are those who are proactive, innovative, and willing take risk to achieve superiority competitive (Gupta et al., 2004) | EL1<br>EL2<br>EL3<br>EL4<br>EL5<br>EL6<br>EL7<br>EL8 | Likert 1-5 | (Gupta et al., 2004; TM Kurniawan et al., 2024) |
| Strategic Auditing | Strategic audit is an element important in align activity organization with a purpose term length, identification inefficiencies, and mitigation risk (Grishunin et al., 2022) | SA1<br>SA2<br>SA3<br>SA4<br>SA5<br>SA6 | Likert 1-5 | (Abdulameer et al., 2023; Kamran et al., 2025) |
| Financial Agility | Agility financial focuses on the speed and agility with which companies capable allocate rework and optimize source Power financial (Kamran et al., 2025) | FA1<br>FA2<br>FA3<br>FA4<br>FA5<br>FA6 | Likert 1-5 | (Kamran et al., 2025) |
| Digital Business | Digital business is practice business from business micro and small businesses that utilize digital platforms to carry out various innovation in business management, business processes, and | DB1<br>DB2<br>DB3<br>DB4<br>DB5<br>DB6 | Likert 1-5 | (Wahyudiono et al., 2024) |

| Variables | Definition | Code | Scale | Source |
|---|---|---|---|---|
| | services customers to support activity business to run in a way effective and efficient (Wahyudiono et al., 2024) | | | |
| Innovation Capability | Ability innovation refers to the ability something organization to develop new products, services, processes, or strategies that improve position competitiveness in the market (Rehman, 2019). | IC1<br>IC2<br>IC3<br>IC4<br>IC5<br>IC6<br>IC7<br>IC8 | Likert 1-5 | (Kamran et al., 2025; Suryani & Dwiputra, 2025; Thongsri & Chang, 2019) |
| Sustainable Growth | Business growth is results end of business processes and management that utilize source the power to create mark plus in business for owner business better, planned and structured small and micro enterprises, as well as maintain it in a way sustainable (Al Malki, 2023) | SG1<br>SG2<br>SG3<br>SG4<br>SG5<br>SG6<br>SG7<br>SG8<br>SG8<br>SG9<br>SG10 | Likert 1-5 | (Jundulloh & Nasution, 2024; Kamran et al., 2025; Wahyudiono et al., 2024) |

## 4. Results and Discussion

**Respondent Demographics**

**Table 3. Demographic Profile of Respondents**

| Characteristics Respondents | F | % |
|---|---|---|
| Gender | | |
| Man | 150 | 66.2% |
| Woman | 91 | 33.8% |
| Age | | |
| 17-22 Years | 15 | 6.3% |
| 23-28 Years | 26 | 10.7% |
| 29-34 Years | 120 | 49.8% |
| >34 Years | 80 | 33.2 |
| Origin of MSESs | | |
| Sorong City | 152 | 63% |

| Characteristics Respondents | F | % |
|---|---|---|
| Sorong Regency | 89 | 34% |
| Last education | | |
| High School/Vocational School | 94 | 39% |
| Diploma (D1-D3) | 41 | 17% |
| Bachelor degree) | 86 | 35.7% |
| Postgraduate (S2/S3) | 20 | 8.3% |
| Length of Business | | |
| 3 years | 9 | 3.7% |
| 3-4 Years | 17 | 7.1% |
| 4-6 Years | 52 | 21.6 |
| >6 Years | 163 | 67.6 |

**Source: Primary Data, 2025**

**Evaluation of Measurement Model (Outer Model)**

This study uses a structural equation model (SEM) Partial Least Square (PLS). The non-parametric method approach is based on total variance, using SmartPLS 3.0 software. The first step is to evaluate the measurement model (Outer Model) by looking at its validity and reliability. The Loading factor value shows the validity of the test, for all loading factors each indicator is above the threshold of 0.5. Cronbach's alpha and composite reliability (CR) are calculated to test the reliability of the factors. For Cronbach's alpha and CR, all item values are above the threshold of 0.6 (Hair et al., 2019) as shown in Table 4. The AVE value indicates the extent to which the items explain the variance of the construct, which is suggested to be more than 0.5 (Hair et al., 2019). Thus, table 4 shows that the model is good.

**Table 4. Measurement Model**

| Variables | Indicators | Factor Loading | Alpha | CR | AVE |
|---|---|---|---|---|---|
| Entrepreneurial Leadership | EL1 | 0.906 | 0.962 | 0.968 | 0.792 |
| | EL2 | 0.876 | | | |
| | EL3 | 0.882 | | | |
| | EL4 | 0.838 | | | |
| | EL5 | 0.929 | | | |
| | EL6 | 0.904 | | | |
| | EL7 | 0.899 | | | |
| | EL8 | 0.884 | | | |
| Strategic Auditing | SA1 | 0.896 | 0.946 | 0.957 | 0.787 |
| | SA2 | 0.864 | | | |
| | SA3 | 0.883 | | | |
| | SA4 | 0.894 | | | |
| | SA5 | 0.887 | | | |
| | SA6 | 0.897 | | | |
| Financial Agility | FA1 | 0.757 | 0.873 | 0.906 | 0.621 |
| | FA2 | 0.562 | | | |
| | FA3 | 0.81 | | | |

| Variables | Indicators | Factor Loading | Alpha | CR | AVE |
|---|---|---|---|---|---|
| | FA4 | 0.832 | | | |
| | FA5 | 0.866 | | | |
| | FA6 | 0.857 | | | |
| Digital Business | DB1 | 0.789 | 0.823 | 0.870 | 0.530 |
| | DB2 | 0.588 | | | |
| | DB3 | 0.76 | | | |
| | DB4 | 0.758 | | | |
| | DB5 | 0.729 | | | |
| | DB6 | 0.726 | | | |
| Innovation Capability | IC1 | 0.74 | 0.891 | 0.914 | 0.604 |
| | IC2 | 0.771 | | | |
| | IC3 | 0.774 | | | |
| | IC4 | 0.79 | | | |
| | IC5 | 0.802 | | | |
| | IC6 | 0.751 | | | |
| | IC7 | 0.811 | | | |
| | IC8 | 0.588 | | | |
| Sustainable Growth | SG1 | 0.726 | 0.900 | 0.917 | 0.503 |
| | SG2 | 0.74 | | | |
| | SG3 | 0.771 | | | |
| | SG4 | 0.774 | | | |
| | SG5 | 0.79 | | | |
| | SG6 | 0.802 | | | |
| | SG7 | 0.751 | | | |
| | SG8 | 0.811 | | | |
| | SG8 | 0.74 | | | |
| | SG9 | 0.771 | | | |
| | SG10 | 0.78 | | | |

**Source: Smart-PLS data processing results, 2025**

The next measurement model involves discriminant validity analysis to ensure the latent variables differ from other constructs in the model (Hair Jr et al., 2017). The discriminant validity of the measurement model can be analyzed using the Fornell-Larcker criterion (Fornell & Larcker, 1981). Each construct must have a larger diagonal AVE square root with (off-diagonal) correlation for all constructs. The AVE root value of each variable is greater than the AVE value in table 5. These values confirm convergent validity, and this shows that all constructs in the research framework are empirically different.

**Table 5. Discriminant Validity**

| | DB | EL | FA | IC | SA | SG |
|---|---|---|---|---|---|---|
| Digital Business | 0.728 | | | | | |
| Entrepreneurial Leadership | 0.511 | 0.89 | | | | |
| Financial Agility | 0.795 | 0.58 | 0.788 | | | |
| Innovation Capability | 0.585 | 0.438 | 0.431 | 0.777 | | |

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| | DB | EL | FA | IC | SA | SG |
|---|---|---|---|---|---|---|
| Strategic Auditing | 0.531 | 0.96 | 0.582 | 0.436 | 0.887 | |
| Sustainable Growth | 0.688 | 0.584 | 0.537 | 0.719 | 0.57 | 0.709 |

**Source: Smart-PLS data processing results, 2025**

**Structural Model Evaluation (Inner Model)**

The R-Squared (R2) model fit test and path coefficients were included in the evaluation of the structural model or inner model in this study. Based on the R-square value and in Table 6, it can be explained that the innovation capability variable is influenced by entrepreneurial leadership, strategic auditing, financial auditing, financial agility, and digital business by 0.383 (38.3%). Customer experience is influenced by confirmation by 0.511 (51.1%). Meanwhile, sustainable growth is influenced by entrepreneurial leadership, strategic auditing, financial auditing, financial agility, digital business, and innovation capability by 0.67 (67%).

**Table 6. R Square and Adjusted R Square Values**

| | R Square | R Square Adjusted |
|---|---|---|
| Innovation Capability | 0.383 | 0.372 |
| Sustainable Growth | 0.67 | 0.663 |

**Source: Smart-PLS data processing results, 2025**

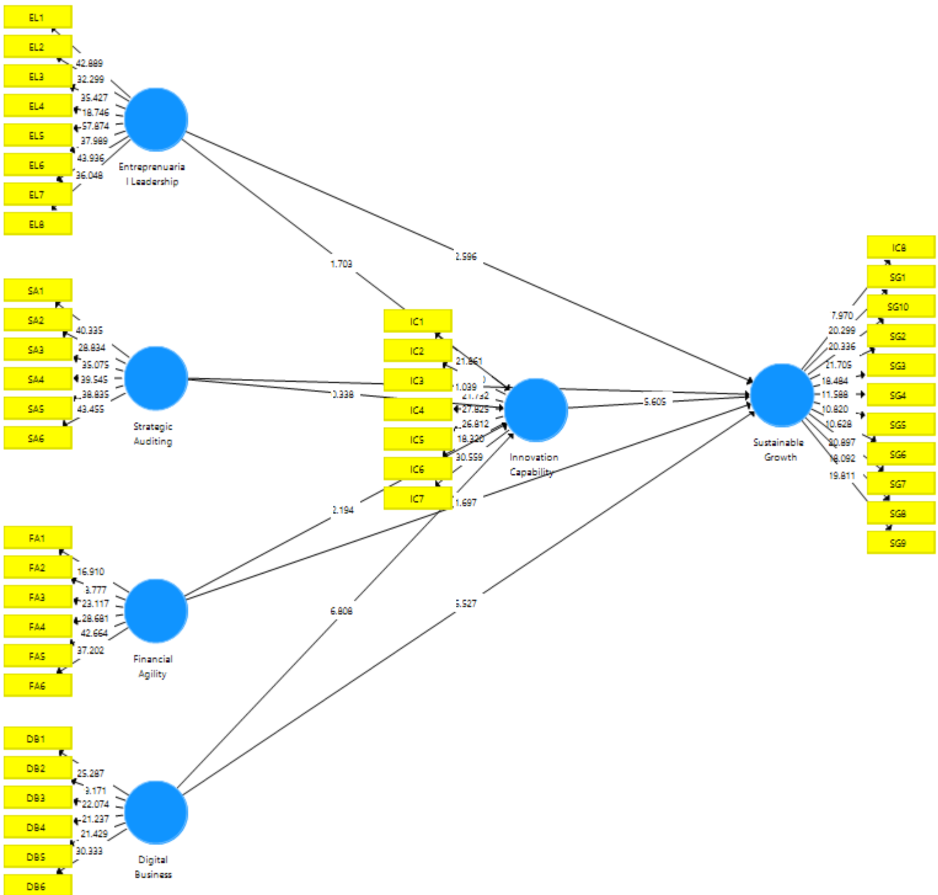


**Figure 2: Path Coefficient**
**Source: Smart-PLS data processing results, 2025**

**Table 6. Path Coefficient (Direct Effect)**

| | Hypothesis | Original Sample | T Statistics | P Values | Information |
|---|---|---|---|---|---|
| H 1 | Entrepreneurial Leadership -> Sustainable Growth | 0.399 | 2,596 | 0.005 | Accepted |
| H 2 | Entrepreneurial Leadership -> Innovation Capability | 0.286 | 1,703 | 0.045 | Accepted |
| H 3 | Strategic Auditing -> Sustainable Growth | -0.146 | 1,039 | 0.150 | Rejected |
| H 4 | Strategic Auditing -> Innovation Capability | -0.054 | 0.338 | 0.368 | Rejected |
| H 5 | Financial Agility -> Sustainable Growth | 0.112 | 1,697 | 0.045 | Accepted |
| H 6 | Financial Agility -> Innovation Capability | 0.206 | 2,194 | 0.014 | Accepted |
| H 7 | Digital Business -> Sustainable Growth | 0.405 | 5,527 | 0.000 | Accepted |
| H 8 | Digital Business -> Innovation Capability | 0.631 | 6,808 | 0.000 | Accepted |
| H 9 | Innovation Capability -> Sustainable Growth | 0.420 | 5,605 | 0.000 | Accepted |

**Source: Smart-PLS data processing results, 2025**

**Table 7. Path Coefficient (Indirect Effects)**

| | Hypothesis | Original Sample | T Statistics | P Values | Information |
|---|---|---|---|---|---|
| H10 | Entrepreneurial Leadership -> Innovation Capability -> Sustainable Growth | 0.120 | 1,624 | 0.042 | Accepted |
| H11 | Strategic Auditing -> Innovation Capability -> Sustainable Growth | -0.023 | 0.332 | 0.370 | Rejected |
| H12 | Financial Agility -> Innovation Capability -> Sustainable Growth | 0.086 | 1,996 | 0.023 | Accepted |
| H13 | Digital Business -> Innovation Capability -> Sustainable Growth | 0.265 | 3,821 | 0.000 | Accepted |

**Source: Smart-PLS data processing results, 2025**

## Discussion

Sustainable growth becomes focus important for organization in face dynamic global competition. Its achievements not only determined by factors economy, but also integration aspect social and environmental. A number of factor strategic like entrepreneurial leadership, strategic auditing, and financial agility are seen play a role in push sustainability. In this study, innovation capability is positioned as variables bridging mediation influence these factors towards sustainable growth, because capability innovation allows organization more adaptive, creative, and resilient in respond change environment business.

Entrepreneurial Leadership emphasize change - oriented leadership organization rather than maintaining status, with the need will system capable supporters form source Power man quality as well as a creative, brave and capable leader carry out transformation strategic

(Pauceanu et al., 2021). The results of this study show that Entrepreneurial Leadership has influence positive significant to *Innovation Capability* and *Sustainable Growth* with value *p-values* are 0.005 < 0.05 and 0.045 < 0.05 respectively so Hypotheses H1 and H2 are accepted. These results are in line with research (Al-Abbadi & Abu Rumman, 2023; Dianawati et al., 2025; Jundulloh & Nasution, 2024; Kamran et al., 2025; Somwethee et al., 2023) prove that entrepreneurial leadership increases innovation and strategy of MSEs at the same time creating sustainable growth. Leadership that is oriented entrepreneurship is characterized by the nature proactive, brave take risk, and visionary in direct facilitate creation of adaptive and market - oriented business strategies, which is a prerequisite main to maintain superiority competitive term long.

Strategic auditing is seen as instrument important For strengthening governance and supporting taking decision strategic. However, the results study This show that strategic auditing is not influential significant towards sustainable growth and innovation capability in MSEs in Southwest Papua, with p-value is greater big from 0.05 to Hypotheses H3 and H4 are rejected. Findings This indicates that strategic audit practices in MSEs are still focus on aspects compliance and control administrative, so that Not yet capable become catalyst in push innovation and growth sustainable (Arustamyan, 2025). This result different with a number of study previous ones that emphasize the role of strategic auditing in support sustainability and capability innovation, signifying that the context of MSES in Southwest Papua has limitations in utilizing strategic audits as instrument driving force transformation business.

Financial agility understood as ability organization in manage source Power finance in a way fast, flexible, and adaptive to respond dynamics environment business. The results of this study show that financial agility has a significant positive effect towards sustainable growth p-value 0.045 < 0.05 and innovation capability p-value 0.14 < 0.05), so Hypotheses H5 and H6 are accepted. These findings are in line with various study previously confirmed that agility financial allows organization guard sustainability at a time create room for development innovation (Kamran et al., 2025; Mutambik & Almuqrin, 2024; Saragih et al., 2024; Sun & Zhang, 2025). Organizations with a high level of financial agility more capable balance stability finances with needs exploration opportunity new, which in the end strengthen Power competition term long through achieving sustainable growth and improvement capability innovation.

Digital business understood as utilization digital technology to create mark plus through more products, services and business models efficient and responsive to market needs. The results of this study show that digital business has a significant positive impact towards sustainable growth p-value 0.000 < 0.05 and innovation capability p-value 0.000 < 0.05, so Hypotheses H7 and H8 are accepted. These findings are consistent with research previously Wahyudiono et al., (2024) who proved that digital transformation is capable strengthening sustainable growth at a time increase ability innovation organization. The implementation of digital business allows company not only improve efficiency operational, but also more adaptive in face market and technological changes, so contribute straight to the point superiority competitive term long.

Innovation capability represents capacity organization to develop new products, services and strategies that are relevant to market dynamics, technology and need consumers. The results of this study show that innovation capability has a significant positive effect towards sustainable growth p-value 0.000 < 0.05, so Hypothesis H9 is accepted. This finding is consistent with research previously (Al-Abbadi & Abu Rumman, 2023; Al-Nimer, 2024; Jundulloh & Nasution, 2024; Kamran et al., 2025; D. Kurniawan et al., 2024; Maclean et al., 2023; Somwethee et al., 2023) which confirms that ability innovation is a factor key in guard relevance organization at a time creating sustainable growth. Organizations with capabilities high innovation more capable adapt, create mark add, and integrate aspect economic, social and environmental in its business strategy, so that strengthen Power competition term long.

Research result more carry on confirm role important innovation capability as variables mediation. In H10 it is proven that entrepreneurial leadership has a positive influence on sustainable growth through innovation capability with a p-value of 0.042 < 0.05, so that hypothesis H10 is accepted in line with research Kamran et al., (2025) and Somwethee et al., (2023) , who show that entrepreneurial leadership and courage take risk capable create innovation as sustainable growth catalyst. Different results demonstrated by *strategic* auditing No own influence significant to *sustainable growth* through *innovation capability,* so The hypothesis H11 is rejected. This is proven by the higher p-value. big of 0.05. This finding indicates that despite strategic audits play a role important in give evaluation and control organization, but Not yet Enough effective in push capability innovation that can impact on sustainable growth. This condition is in line with research previously highlighted limitations role *strategic auditing* when Still focus on aspects compliance and internal control, so that his contribution to innovation and sustainability organization relatively low (Al Taweel & Al-Hawary, 2021) .
Research result hain show that H12 supports that financial agility increases sustainable growth through innovation capability with a p-value of 0.023 < 0.05, so that Hypothesis H12 is accepted. This is in line with research Kamran et al. (2025) show that MSESs are capable organize repeat source Power finances quickly and pursue flexible financial strategies own opportunity to respond change market conditions in general more effective and permanent competitive. To be agile in a way financial in environment such as not only implies use source available power but also activation creative from source This power to maintain and innovate. By validating fact that agility finance leading to significant improvement in sustainable growth. Furthermore, H13 proves that digital business also has a positive influence on sustainable growth through innovation capability with a p-value of 0.000 < 0.05, so that hypothesis H13 is accepted in line with the research conducted Prakasa, (2022) Where utilization digital technology strengthens innovation that supports achieving sustainable growth. These results confirm that implementation *digital business* push the creation of new ideas and strategies that strengthen Power competition term long. The role of *innovation capability* become key Because allows utilization digital technology translated into valuable products, services and processes plus. Thus, influence *digital business* to *sustainable growth* will be optimal if supported by capabilities strong innovation.

## 5. Conclusions

This study shows that entrepreneurial leadership, financial agility, and digital business have a significant positive influence on innovation capability and sustainable growth in MSEs in Southwest Papua. On the other hand, strategic auditing does not influential significant to both of them, signify that strategic audits in MSEs are still focus on aspects compliance and not yet play a role as driver innovation and sustainable growth. In addition, innovation capability is proven play a role as variables mediation that connects leadership entrepreneurship, agility financial, as well as digital business with sustainable growth. These results confirm that ability innovation become key main for MSEs to achieve sustainability in competition dynamic business.
MSEs in Southwest Papua needs strengthen capacity leadership entrepreneurship, agility financial, and digital transformation to improve ability innovation and power competition term long. Strategic auditing practices should directed not only on compliance administrative, but

also on evaluation strategic that encourages creativity and renewal business. Government regions and institutions supporters expected expanding training and mentoring programs that focus on innovation, digitalization, and governance sustainable to strengthen performance of MSEs in this region.

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