

The Influence of Entrepreneurial Leadership, Entrepreneurship Competence on Sustainable Organizational Performance: The Mediation Role of Innovation Capability in MSME

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Abstract. *This research analyzes the influence of entrepreneurial leadership and entrepreneurial competence on sustainable organizational performance in Micro, Small, and Medium Enterprises (MSMEs) in Indonesia, with innovation capability as a mediating variable. This study is based on the important role of MSMEs in the Indonesian economy growth, but many MSMEs have difficulty maintaining business sustainability, especially green MSMEs. This study aims to understand the factors that can improve sustainability performance that not only prioritize economic performance but must consider social performance and environmental performance, especially in the context of tight competition and increasing environmental awareness. The methodology used is a quantitative approach with a sample of 119 respondents from green MSME managers in Indonesia. This study uses Structural Equation Model (SEM) analysis, with the results of the research showing that entrepreneurial leadership and entrepreneurship competence have a positive effect on innovation capability, which ultimately has an impact on sustainable organizational performance. Innovation capability is proven to play a significant mediating role in the relationship between entrepreneurial leadership, entrepreneurship competence, and sustainable organizational performance. These findings are expected to help stakeholders in MSMEs to adopt innovative and green entrepreneurial leadership styles in order to achieve better desires of the green MSME sector in Indonesia.*

Keywords: *entrepreneurial leadership, entrepreneurship competence, green MSMEs, innovation capability, sustainable organizational performance.*

Abstrak. *Penelitian ini menganalisis dampak kepemimpinan kewirausahaan (entrepreneurial leadership) dan kompetensi kewirausahaan terhadap kinerja organisasi berkelanjutan pada Usaha Mikro, Kecil, dan Menengah (UMKM) di Indonesia, dengan kapabilitas inovasi sebagai variabel mediasi. Penelitian ini didasari oleh peran penting UMKM dalam perekonomian Indonesia, namun banyak UMKM yang mengalami kesulitan untuk mempertahankan keberlangsungan usaha terutama UMKM yang berbasis ramah lingkungan. Penelitian ini bertujuan untuk memahami faktor-faktor yang dapat meningkatkan kinerja berkelanjutan yang bukan hanya mengutamakan kinerja ekonomi namun harus mempertimbangkan kinerja sosial dan kinerja lingkungan, khususnya dalam konteks persaingan yang ketat dan peningkatan kesadaran lingkungan. Metodologi yang digunakan adalah pendekatan kuantitatif dengan sampel 119 responden dari para manajer UMKM ramah lingkungan di Indonesia. Penelitian ini menggunakan analisis Structural Equation Model (SEM), dengan hasil penelitian menunjukkan bahwa kepemimpinan dan kompetensi kewirausahaan berpengaruh positif terhadap kapabilitas inovasi, yang pada akhirnya berdampak pada kinerja organisasi berkelanjutan. Kapabilitas inovasi terbukti memainkan peran mediasi signifikan dalam hubungan antara kepemimpinan entrepreneurial, kompetensi kewirausahaan, dan kinerja organisasi berkelanjutan. Temuan ini diharapkan dapat membantu para pemangku*

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kepentingan dalam UMKM untuk mengadopsi gaya kepemimpinan yang inovatif dan berwawasan lingkungan guna mencapai keberlanjutan yang lebih baik pada sector UMKM ramah lingkungan di Indonesia.

Kata Kunci: *kapabilitas inovasi, kepemimpinan kewirausahaan, kinerja organisasi berkelanjutan, kompetensi kewirausahaan, umkm berbasis ramah lingkungan.*

Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in the Indonesian economy. MSMEs are able to absorb a large number of workers and make a significant contribution to Gross Domestic Product (GDP). One of its important roles in driving economic growth is its ability to stimulate economic development. The flexible character allows MSMEs to quickly adapt to changes in the ever-changing business environment. The crucial role of MSMEs in Indonesia's significant economic growth can be seen from the number of MSME business actors increasing from year to year. This shows that MSMEs are still the pillar of the Indonesian economy along with growth every year.

However, on the other hand, there are still many MSMEs that are unable to maintain their businesses worldwide, with losses of almost half in the first five years and two-thirds in the first ten years. Lack of entrepreneurial competence is considered a significant obstacle to the development of MSMEs (Tehseen & Ramayah, 2015; Yoshino, 2016). MSMEs are also always lagging behind in terms of understanding the nature of innovation and diffusion (Hameed & Irfan, 2019) . Whereas innovation is the core of entrepreneurship.

Seeing these conditions, entrepreneurial leadership is needed to be able to manage a business to survive and develop its business amidst increasingly tight competition. Entrepreneurial leadership has proactive, innovative, and courageous characteristics in taking business risks, which are expected to provide optimal performance for MSME actors in Indonesia. Success for MSMEs cannot be separated from the role of entrepreneurial leadership, especially towards sustainable organizational performance (SOP). Sustainable organizational performance is assessed as a combination of economic, social and environmental objectives of company activities with the aim of creating

company value (Azis Ibrahim & Alenizi, 2024). MSME actors strive to produce superior products to achieve competitive advantage in the midst of dynamic environmental conditions, especially in carrying out activities that focus on a sustainability basis as a company strategy, especially by developing a green economy. In the Qur'an, it is also explained in QS Al-A'raf verse 56 "And cause not corruption upon the earth after its reformation. And invoke Him in fear and inspiration. Indeed, the mercy of Allah is near to the doers of good". The verse explains that do not do damage on earth after it has been created in good condition, so that the initiation in creating this green business is in line with the presence of solutions in preserving the environment and preventing damage to the earth.

Currently, Indonesian citizens have begun to realize the importance of green products. This has become a driving force for MSMEs to be able to promote green products that can excel in the market so that they can attract consumers, especially in the Asian region. On the other hand, the Nielsen report (2021) states that 58% of Indonesian consumers are starting to consider social and environmental aspects when purchasing products. So that business actors see this opportunity and take part in the Implementation of PP No. 24 Tahun 2017 tentang Instrumen Ekonomi untuk Perlindungan dan Pengelolaan Lingkungan Hidup.

There are three important dimensions in a company's sustainability strategy that focuses on green aspects, known as *the triple bottom line*, namely economic, social, and environmental, or also known as 3P - Profit, People, Planet. The triple bottom line concept introduced by John Elkington emphasizes that companies must pay attention to three basic aspects: social concern (people), environmental preservation (planet), and profit.

In the triple bottom line, social concern (*people*) is placed as the main priority. This shows that companies must pay attention to the positive and negative impacts of policies taken on stakeholders, such as employees, families, customers, suppliers, communities, and other parties that influence or are influenced by the company. Furthermore, in terms of environmental

preservation (*planet*), companies must consider the impact of policies on the environment, such as reducing carbon emissions, using natural resources wisely, avoiding the use of toxic materials, and managing waste responsibly, including reforestation and repairing natural damage. Finally, profit requires companies to pay attention to the impact of policies on the local, national, and global economy, including job creation, innovation, tax payments, and other economic contributions.

To create value for all stakeholders, companies need to improve performance in various aspects, such as economic performance, which is assessed through financial performance, as well as social and environmental performance. Companies that excel in these three aspects are expected to be more stable and sustainable in the future (Slaper & Hall, 2011). This is in line with previous research on Sustainable Organizational Performance conducted by Somwethee (2023) on MSMEs based in Phuket, Thailand where the results of this study show the fact that entrepreneurial ability plays an important role in driving innovation capabilities and sustainable organizational performance (Somwethee et al., 2023). Also, innovation capabilities have a positive influence on sustainable organizational performance. Therefore, this study is in accordance with Porter's theory which states that environmental initiatives can reduce production costs and increase economic efficiency to produce competitive advantages that aim to build a strong and sustainable company position in order to remain competitive and superior, especially in the MSME industry in Indonesia.

Literature Review

Entrepreneurial Leadership

Entrepreneurial Leadership creates a vision scenario that is used to construct and mobilize helpers from committed participants for the search and exploitation of strategic value creation. Surah Al Anbya verse 73 is "And We made them leaders guiding by Our command. And We inspired to them the doing of good deeds, establishment of prayer, and giving of zakah; and they

were worshippers of Us.” And also other verse regarding the leadership style in Surah Shad verse 26 is (We said), ““O David, indeed We have made you a successor upon the earth, so judge between the people in truth and do not follow [your own] desire, as it will lead you astray from the way of Allah.” Indeed, those who go astray from the way of Allah will have a severe punishment for having forgotten the Day of Account”.

This verse highlights the leadership model exemplified by the prophets. Leadership, in this context, is not about authority or dominance but about guiding others through righteous actions and obedience to divine commands. The prophets as an entrepreneur are portrayed as leaders who inspire through example – performing good deeds, establishing prayer, and ensuring the well-being of the community through zakah (charity).

Gupta et al (2004) suggested that entrepreneurial leadership style as a leadership style to face unpredictable and demanding environments to stimulate and enhance innovation and identify opportunities for all types of organizations, especially SMEs. Entrepreneurial literature suggests at least four conditions that encourage entrepreneurial action in companies (Gupta et al., 2004). The first condition, the existence of effective communication of entrepreneurial vision. The second condition, the process that maintains and supports innovation. The third condition, the existence of adequate processes to generate or maintain resources and expertise to carry out entrepreneurial actions in the organization. The challenge for entrepreneurial leaders is to mobilize the capacity of the organization and its stakeholders to do the above (Gupta et al., 2004).

In the context of MSMEs, there are generally less complex organizational structures and simpler behavioral norms than in large business organizations, thus, leaders of micro, small, and medium enterprises can be more flexible and have a more significant influence on the company's strategy and performance (Nguyen et al., 2021). In general, the leadership literature focuses on the ability of leaders to influence a group of followers and emphasizes the relationship

between three main factors, namely: leaders, followers, and their environment (Gupta et al., 2004).

Entrepreneurship is a context-dependent social process in which individuals and teams create wealth by bringing together unique resource packages to exploit market opportunities (Ireland et al., 2003). Entrepreneurial leadership emerged as a cross between entrepreneurship and leadership (Vecchio, 2003). Entrepreneurial leadership is the process of influencing organizations through aspects of leadership and direct involvement in creating added value for *stakeholders* by combining innovation and a set of owned resources to respond to opportunities (Darling et al., 2007).

According to Gupta et al. (2004), the concept of *scenario enactment* and *cast enactment* is part of an entrepreneurial leadership approach that focuses on how leaders create future scenarios and form teams to make them happen (Gupta et al., 2004). Leaders who have an entrepreneurial spirit can be more innovative (Ibrahim & Rashid, 2019). Competitive managers must have entrepreneurial and leadership traits to innovate, take risks, seize opportunities, and, therefore, to excel and succeed (Pauceanu et al., 2021). Thus, entrepreneurial leadership is an effective leadership style in building teams to achieve organizational innovation (Renko et al., 2015).

H1: Entrepreneurial Leadership has a positive effect on Innovation Capability

Entrepreneurship Competence

Entrepreneurship competence is a general term that refers to the sum of the expertise, skills, and attitudes needed to create, coordinate, and manage a business venture and all the risks that come with it (Novojen & Birnaz, 2019). Entrepreneurship competence is also known as the competence of successful entrepreneurs. This competence is a collection of knowledge, skills, and attitudes needed to develop, organize, and manage a business venture and its risks. According to Torres-Coronas & Vidal-Blasco (2021), people with entrepreneurial competence are considered to have social, managerial, and networking competence (Torres-Coronas & Vidal-Blasco, 2021). In other words,

a competent entrepreneur who can demonstrate hard and soft skills in running his business.

These competencies help entrepreneurs to build profitable and sustainable businesses because they combine to give the company a competitive advantage (Okolie et al., 2021; Tehseen & Ramayah, 2015; Vu & Nwachukwu, n.d.). Regarding the entrepreneurship aspect in Qur'an Surah Hud verse 61 "And to Thamud [We sent] their brother Salih. He said, "O my people, worship Allah; you have no deity other than Him. He has produced you from the earth and settled you in it, so ask forgiveness of Him and then repent to Him. Indeed, my Lord is near and responsive." And also in Surah Al Mulk verse 15 "He is the One Who smoothed out the earth for you, so move about in its regions and eat from His provisions. And to Him is the resurrection 'of all'.

Entrepreneurship, in its essence, is the pursuit of opportunities and the creation of value through innovative ideas, products, or services. However, as in all aspects of life, Islam offers guidance to ensure that such pursuits align with ethical principles, social responsibility, and spiritual accountability. Through the Qur'an, Allah provides both spiritual and practical guidance that can be directly applied to the field of entrepreneurship. Two key verses, Surah Hud (11:61) and Surah Al-Mulk (67:15), offer profound insights into entrepreneurship, highlighting responsibility, resource management, and accountability.

Individual characteristics such as relationship orientation, conceptuality, commitment, opportunity recognition, strategic ability, and organization are relevant competencies associated with effective work performance (Suhaimi et al., 2018; Tehseen et al., 2019). Entrepreneurial competencies identify business opportunities, formulate an entrepreneurial vision, develop a business model, create a business strategy, and drive the company (Amini Sedeh et al., 2022). These entrepreneurial competencies and attributes are crucial in stimulating innovation (Kazemi et al., 2016) as they reduce and even eliminate the negative impact of innovation barriers (Amini

Sedeh et al., 2022). Indeed, entrepreneurial competencies are seen as the most important predictors of sustainable SME performance and growth (Al Mamun et al., 2016; Mitchelmore & Rowley, 2013).

According to Man et al. (2008), there are six main competencies needed by entrepreneurs to achieve business success it is opportunity competency, relationship competency, conceptual competency, organizing competency, strategic competency, commitment competency (Man et al., 2008).

H2: Entrepreneurial Competence has a positive effect on Innovation Capability

Innovation Capability

Organizational innovation capability refers to the capabilities that organizations need to gain a competitive advantage in the marketplace. Innovation capability serves as a tool that entrepreneurs can leverage to lead their organizations to success. Innovation capability is considered an optimal strategy for firms to generate competitive advantage and overcome major competitors. It enables firms to better meet consumer needs, stay ahead of the competition, and align their strengths with market opportunities (Lee & Farzipoor Saen, 2012). Therefore, innovation capability involves the process and organization of new ideas for products and services, leading to unprecedented growth dynamics in the economic sector, increasing employment, and generating profits for innovative firms (Taleb et al., 2023).

Innovation can also be associated with the ability of a company to seek new and better ways to identify, acquire, and implement future ideas and work in various forms (i.e. management and administration systems, internal culture, processes, products, services, distribution channels, and marketing methods-segments) within the organization (Brem & Voigt, 2009).

Ngo and O'Cass (2009) explain that innovation capability is an integrated process in applying collected knowledge, skills, and resources from the company to achieve innovation activities to technical innovation (such as products or services; and production technology and processes) and non-

technical innovation (such as managerial, market, and marketing) (Ngo & O’Cass, 2009).

It is essential that SMEs are able to adapt quickly to environmental conditions and changes through innovations that can meet current market needs, while simultaneously exploring opportunities for larger innovations that have the potential to change the market landscape more significantly". This is why corporate innovation efforts should be focused on maintaining and enhancing innovation capabilities and competencies with the ultimate outcome being improved business performance (Al-Ansari et al., 2013).

Innovation capability enables MSMEs to develop new ideas and make changes to products, processes, and management systems, increasing their chances of survival in the market environment (Serna et al., 2016). In the context of the innovation ecosystem, technological innovation capability depends not only on the innovative elements possessed by MSMEs but also on the co-creation of value with the industrial chain and ecosystem (Yue, 2023). In this context, innovation capability not only serves as a driver of economic growth, but also as a foundation for achieving balanced and beneficial sustainable performance in the long term.

According to Wang and Ahmed (2004) emphasized that innovation does not only occur in one dimension, but is a combination of various interrelated dimensions (Wang & Ahmed, 2004). Companies that are able to integrate and develop innovation in these various dimensions synergistically tend to have stronger competitive advantages and better business performance in the market. The dimensions of innovation capability include product innovation, process innovation, market innovation, behavioral innovation and strategic innovation.

H3: Innovation Capability has a positive effect on Sustainable Organizational Performance.

Sustainable Organizational Performance

Organizational performance refers to the measurement of its efforts to operate operations and adjust strategies for organizational success. A

successful organization must have good organizational performance, as measured by key performance indicators derived from the organization's strategic objectives. According to stakeholder theory (Freeman & McVea, 2005), the concept of performance operates based on measures that can be compared with the performance of other companies. Company operations differ based on organizational structure and organizational effectiveness (Venkatraman & Ramanujam, 1986). Sustainability is a synthesis of economic, social and environmental performance that can provide benefits to the natural environment and society while offering economic sustainability benefits and competitive advantages for companies (Hameed & Irfan, 2019). Sustainable performance describes the positive impact of a company on the natural environment, both internally and externally, as a result of its sustainability activities (Rao & Holt, 2005). This requires reducing air pollution, energy use, material use, and compliance with environmental standards (Laosirihongthong et al., 2013).

Sustainability emphasizes key indicators that enable measurement of organizational performance that focuses on sustainable aspects (Tang et al., 2015). Sustainable performance theory states that sustainability describes a form of long-lasting economy and society that can be maintained on a global scale (Garske and Ekardt, This theory calls for benchmarking competitors and competing strategies and performance and taking proactive actions to gain higher market share. Many organizations have recognized that sustainability can support the achievement of competitive advantage and innovation in services, products, and processes (Frempong et al., 2021). When organizations remain true to ethical and work environment, values, environmental protection goals can be achieved. Sustainability is meeting the needs of the present without compromising future generations to meet their needs. Organizational operations often focus on financial aspects such as return on investment and earnings per share. It encompasses both operational and financial performance outcomes and is best viewed as a performance-based outcome that serves as a means to address the impacts of resource utilization. Customer satisfaction can

precede business and financial operating results. In addition, sustainable business operations can be considered as an outcome in the financial performance and sustainability of the company based on economic, environmental, and social performance (Lee & Farzipoor Saen, 2012).

Performance is a significant indicator for organizations in achieving their goals in economic development, both in SMEs and in large organizations (Rehman et al., 2019). According to Sawean and Ali (2020), performance is the essence of all processes and activities in an organization and it is determined by the sustainability of the organization (Sawaeen & Ali, 2020). Almatrooshi et al. (2016) argue that organizational performance is the achievement of an organization as seen from its goals (Almatrooshi et al., 2016). The role of entrepreneurial leadership in driving innovation can affect organizational performance in the long term. Entrepreneurial leadership provides inspiration and motivation to members of the organization to be involved in the innovation process, either in the form of new product development, process improvement, or strategic changes. On the other hand, innovation capability is an important driver in ensuring that entrepreneurial competencies actually result in better performance achievements.

H4 : Innovation Capability mediates the relationship between Entrepreneurial Leadership and Sustainable Organizational Performance.

H5: Innovation Capability mediates the relationship between Entrepreneurial Competence and Sustainable Organizational Performance.

Method

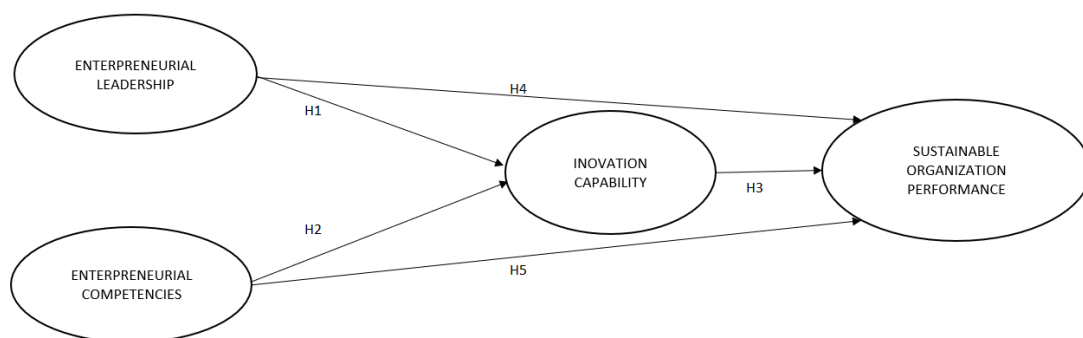


Figure 1. Research Model

Figure 1 represents a research model illustrating the relationships between Entrepreneurial Leadership, Entrepreneurial Competencies, Innovation Capability, and Sustainable Organizational Performance. The model highlights how entrepreneurial factors and innovation work together to achieve sustainability, making it highly relevant for organizations in today's dynamic and environmentally-conscious business environment.

Sample Data

The population and unit of analysis of this study are MSMEs (Micro, Small, and Medium Enterprises) in Indonesia. This study will focus on businesses that run their businesses by implementing environmentally friendly practices, both in their products, processes, or services, which is in line with the opinion put forward by Frempong et al (2021) where organizations have realized that sustainability can support the achievement of competitive advantage and innovation in their products, processes, and services (Frempong et al., 2021). The sample of this study was 119 managers in sustainability businesses or MSMEs in Indonesia. The data collection method for this study used a survey method. The type of questionnaire that researchers used in this study was a closed and structured questionnaire. The questionnaire on the entrepreneurial leadership variable was developed from research conducted by Gupta et al (2004), the innovation capability variable was developed from Wang & Ahmed (2004) and the sustainable organizational performance variable was developed from Kamble et al (2020) and Khan, Mehmood & Kwan (2024) (Gupta et al., 2004; Kamble et al., 2020; Khan et al., 2024; Lee & Farzipoor Saen, 2012; Wang & Ahmed, 2004). Data collection was conducted by distributing questionnaires to managers of each business that became respondents. The questionnaires were distributed through links to various business forums that focus on being green business.

Operational Definition of Variables

Independent Variable

Gupta et al (2004) suggested that entrepreneurial leadership style as a leadership style to face unpredictable and demanding environments to stimulate and enhance innovation and identify opportunities for all types of organizations, especially SMEs (Gupta et al., 2004).

Entrepreneurial competency is a general term that refers to the sum of the expertise, skills, and attitudes required to create, coordinate, and manage a business venture and all the risks that come with it (Novojen & Birnaz, 2019).

Mediating Variable

Organizational innovation capability refers to the capabilities that organizations need to gain competitive advantage in the marketplace. Innovation capability serves as a tool that entrepreneurs can use to lead their organizations to success.

Dependent Variable

Sustainable organizational performance refers to the measurement of its efforts to operate operations and adjust strategies for organizational success considering economics, social and environment.

Research Instruments

The research instrument will use the Likert measurement scale. Nominal, ordinal, and interval measurement scales will be used in this study. In using Likert, the ranking of questions will be used using 6 answers, namely strongly disagree, disagree, somewhat disagree, somewhat agree, and strongly agree. The Likert scale is widely used in research to measure attitudes, provide various responses to questions or statements given in the study. Data processing carried out includes descriptive statistical processing using the SEM (*Structural Equation Model*) analysis method like research by Rochmad, et al (2023) (Rochmad et al., 2023), but in this research used software the Linear Structural Relation (Lisrel) approach.

Results and Discussion

This study uses primary data obtained from the results of filling out a survey distributed online via a questionnaire link. In the initial distribution, the

researcher distributed the questionnaire link through business associations/associations that claim or label themselves as environmentally friendly and green activist associations by searching for data via the internet, social media, and networks that focus on green MSMEs. Several green businesses are spread across Jakarta and outside Jakarta such as Garut Regency. From the distribution of the questionnaire link, 119 green MSME respondents were collected who will be tested further.

The respondents of this study are MSMEs, seen from the scale of the number of employees owned and also the annual turnover obtained. The majority of respondents are micro businesses that have a sales results of less than 300 million rupiah per year, which is 46.22% with the number of respondents being 55 respondents. Furthermore, from the total respondents, 34.45% or 41 respondents are small businesses and 19.33% or 23 respondents are medium businesses.

Respondent profile when viewed based on the number of employees owned. Respondents who have 1 to 30 employees are 67.23% or 80 respondents. As many as 23.53% or 28 respondents have 31 to 300 employees. While for the number of employees exceeding 300 people as many as 9.24% or 11 respondents.

Furthermore, the profile of respondents when viewed from the period of business that has been running is a business that is still in the first 3 years of running its business as much as 33.61% or 40 respondents have a business age of 0-3 years. Meanwhile, 35.29% or 42 respondents had been running their business for more than 3 to 10 years. Also, 31.09% or 37 respondents had been running their business for more than 10 years

MSME owners are gender-dominated by women, which is 58.82% or 70 respondents. Meanwhile, respondents with male gender are 41.18% or 49 respondents. The dominance of female gender in running green MSMEs is in line with a study conducted by the Morgan Stanley Institute, in its 2020 report *Swipe to invest: the story behind millennials and ESG investing*, which revealed that in the last 7 (seven) years, women have a greater tendency than

men to consider sustainability in investment decisions and see the benefits of implementing and implementing sustainability principles (MSCI, 2020).

In implementing these sustainability practices, the majority of respondents implement green practices in their entire business (products, services, and processes). As many as 56.30% or 67 respondents implement them as a whole. Then, as many as 11.76% or 14 respondents implement sustainability practices only in their services. As many as 10.92% or 13 respondents implement sustainability practices only in the product aspect. As many as 9.24% or 11 respondents implement sustainability business practices in the product and service aspects. And 8.40% or 10 respondents implement sustainability business practices in the product and process aspects. And, the last one is green practices only in the process aspect of 3.36% or 4 respondents.

Table 1. Respondent Profile Based on Sustainability Practices

Scope of Implementation of Green Business	Amount	%
Only in service	14	11.76
Only on products	13	10.92
Just in process	4	3.36
The whole business: products, processes & services	67	56.30
Products & services	11	9.24
Products & processes	10	8.40
Grand Total	119	

In Table 1, we can see that, the MSMEs that were respondents in this study have various types of sustainability. Regarding the business type for sustainability practices, researcher categorizing as following:

Table 2. Respondent Profile Based on Business Type

Type of business	Amount	%
Agribusiness	11	9.24
Fashion	16	13.45
Services	5	4.20
Beauty	15	12.61
Culinary (Food/Drinks)	44	36.97
Creative products/household tools/crafts	11	9.24
Technology	11	9.24
Other Businesses	6	5.04
Grand Total	119	

Based on the Table 2, the majority business sector ran by respondents is in the culinary sector at 36.97% or 44 respondents in table 2. Then the second largest is in the business sector, namely businesses engaged in the fashion sector at 13.45% or 16 respondents. Furthermore, 12.61% or 15 respondents are in the beauty business type. In addition, there are three types of businesses that have the same percentage of 9.24% or 11 responses, namely agribusiness, creative products/household appliances/crafts and technology. Then other businesses at 5.04% or 6 responses and the last is the type of service business at 4.20% or 5 respondents.

Through the explanation above, the respondents of MSMEs in this study can be identified that the majority are micro-enterprises with up to 30 employees with a business period of 3 to 10 years, with the majority gender being women, and in their green implementation, it is widely applied in their entire business including products, processes, and services where the most businesses in implementing green practices are culinary businesses.

Data Analysis Using LISREL

Evaluation of measurement model or Confirmatory Factor Analysis (CFA) is used to see how well each measurement item can reflect the measurement of the variable. The research model is a second order factor for the variables Entrepreneurial Leadership (EL), Entrepreneurial Competence (KK) and Innovation Capability (KI) and Sustainable Organizational Performance (KOB). Evaluation of the second order model factors is carried out in stages by creating a latent variable score, Wijanto (2008) which will be used as a dimension score. Evaluation of the goodness of a CFA variable measurement is seen from the Loading value. Factor ($LF \geq 0.70$), Construct Reliability ($CR \geq 0.70$) and Average Variance Extracted ($AVE \geq 0.50$) as well as goodness of fit model. The following are the results of Lisrel 8.8 processing.

Table 3. CFA Evaluation of *Entrepreneurial Leadership* (EL) Variables

Dimensions	Coding	Measurement Items	Loading factor	Construct Reliability	AVE
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Scenario Enactment	EL1	My leader has the ability to formulate a clear and focused vision for the future.	0.90	0.942	0.896
	EL2	My leadership creates flexible strategies to respond to market opportunities.	0.91		
	EL3	My leader is able to motivate others to achieve the company's vision.	0.94		
	EL5	My leader encourages employees to participate in developing company strategy.	0.83		
	EL6	My leader is able to form a team of people with the appropriate skills to achieve the organization.	0.92		
Cast Enactment	EL7	My leader places employees in roles that best suit their skills and talents.	0.89	0.949	0.908
	EL8	My leader ensures that every team member clearly understands their duties and responsibilities.	0.90		
	EL10	My leader is able to manage conflicts between team members well.	0.92		

Table 4. CFA Evaluation of Entrepreneurial Competence (KK) Variables

Dimension	Coding	Measurement Items	Loading factor	Construct Reliability	AVE
Opportunity Competence	KK3	My UMKM/Business is able to find business opportunities.	0.83	0.816	0.830
	KK5	My UMKM/Business is able to identify opportunities that customers want.	0.83		
Conceptual Competence	KK11	In my UMKM/Business, everyone can explore new ideas.	0.84	0.799	0.815
	KK12	My UMKM/Business has the ability to take risks related to work.	0.79		
	KK16	My UMKM/Business has the ability to manage resources.	0.84		
Organizing Competence	KK17	My SME/Business has the ability to plan business operations.	0.87	0.924	0.841
	KK18	My SME/Business has the ability to keep the organization running smoothly.	0.76		
Dimension	Coding	Measurement Items	Loading factor	Construct Reliability	AVE
	KK19	In my SME/Business, tasks are delegated effectively.	0.83		

Strategic Competence	KK20	My UMKM/Business has the ability to organize all employees.	0.90	0.902	0.802
	KK21	My UMKM/Business has the ability to monitor success towards strategic goals.	0.82		
	KK22	My SME/Business has the ability to prioritize work that is aligned with business goals.	0.85		
	KK23	My UMKM/Business has the ability to identify existing problems.	0.81		
	KK24	My SME/Business has the ability to redesign the business to better meet long-term goals.	0.73		
	KK25	My UMKM/Business has the ability to determine strategic actions by considering costs and benefits.	0.81		
	KK26	My UMKM/Business has the ability to dedicate to keep the business running.	0.93		
Commitment Competence	KK27	My UMKM/Business has the ability to avoid business failure.	0.88	0.959	0.908
	KK28	My SME/Business has the ability to commit to long-term business goals.	0.91		
	KK29	My UMKM/Business has the ability to commit to producing quality products.	0.90		
	KK30	My SME/Business has a very strong drive to achieve success.	0.92		

Table 5. CFA Evaluation of Innovation Capability (KI) Variables

Dimension	Coding	Measurement Items	Loading factor	Construct Reliability	AVE
Product Innovation	KI1	My UMKM/Business is often at the forefront in introducing products.	0.74	0.860	0.819
	KI3	Compared to our competitors, my SME/Business has introduced more product innovations over the past few years.	0.83		
	KI5	My UMKM/Business innovates products that are always in demand by customers.	0.88		
Dimension	Coding	Measurement Items	Loading factor	Construct Reliability	AVE
	KI6	My UMKM/Business continues to improve its business processes.	0.89		

	Process Innovation	<p>When my SME/business cannot solve a problem with the usual methods, my SME/business improvises with new methods.</p> <p>My SME/Business changes production methods at a high speed compared to competitors.</p> <p>My UMKM/Business has developed various business managerial techniques.</p> <p>The business processes carried out by my UMKM/business are always effective and efficient.</p>	0.79	0.930	0.859
		<p>My SME/Business is willing to take risks to explore opportunities.</p> <p>My UMKM/Business is always looking for new solutions to business problems.</p> <p>My UMKM/Business is always at the forefront of adopting new ways of doing business.</p> <p>My UMKM/Business always innovates for long-term benefits.</p> <p>My UMKM/Business tries new ways by looking for innovative solutions.</p> <p>My SME/Business encourages employees to think and behave in innovative ways.</p>	0.89		
	Strategy Innovation	<p>My UMKM/Business supports its employees to do something new.</p> <p>My UMKM/Business encourages employees to always collaborate in their work.</p> <p>My business marketing program is always at the forefront of the market.</p> <p>The products in my business can often compete with new competitors.</p> <p>My UMKM/Business is always at the forefront in introducing its products.</p> <p>My UMKM/Business always makes major innovations compared to previous products.</p> <p>My UMKM/Business always uses advanced marketing techniques compared to other competitors.</p>	0.81	0.910	0.848
			0.86		
			0.83		
			0.89		
	Behavioral Innovation		0.88	0.940	0.890
			0.89		
			0.90		
			0.92		
			0.80		
	Marketing Innovation		0.89	0.940	0.877
			0.86		
			0.91		

Table 6. CFA Evaluation of Sustainable Organizational Performance (OCP) Variables

Dimensions	Coding	Measurement Items	Loading factor	Construct Reliability	AVE
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Financial Performance	KOB1	In the last 5 years, my UMKM/Business has increased sales.	0.820	0.929	0.850
	KOB2	In the last 5 years, my UMKM/Business has seen an increase in its business profits.	0.860		
	KOB3	In the last 5 years, my UMKM/Business has been able to implement cost efficiency.	0.860		
	KOB4	In the last 5 years, my UMKM/Business has been able to outperform competitors by adhering to the company's values.	0.860		
	KOB5	In the last 5 years, my UMKM/Business has given bonuses to employees.	0.850		
	KOB6	In the last 5 years, my UMKM/Business has been trying to reduce production costs.	0.910		
Social Performance	KOB7	In the last 5 years, my UMKM/Business has always strived to be a good company in society.	0.910	0.963	0.930
	KOB9	In the last 5 years, my UMKM/Business has collaborated with other parties.	0.940		
	KOB10	In the last 5 years, my UMKM/Business has provided training to employees to improve their skills.	0.960		
	KOB11	In the last 5 years, my UMKM/Business has collaborated with local communities.	0.790		
Environmental Performance	KOB12	In the last 5 years, my UMKM/Business has initiated reduce, reuse & recycle.	0.770	0.904	0.809
	KOB13	In the last 5 years, my UMKM/Business has implemented energy efficiency.	0.900		
	KOB15	In the last 5 years, my UMKM/Business has made efforts to use green resources.	0.700		
	KOB16	In the last 5 years, my UMKM/Business has been trying to reduce production waste.	0.870		

Overall in the table 3, the entrepreneurial leadership variable is measured through 2 valid dimensions with a very high LF above 0.80 where the most important dimension is scenario enactment. This dimension is the strongest/highest in reflecting the measurement of entrepreneurial leadership.

While the cast enactment dimension, although valid with $LF > 0.8$, needs to be given attention by MSMEs in developing their entrepreneurial leadership style.

Table 4 show that the entrepreneurial competency variable, the five dimensions are strongly correlated with LF above 0.6, which reflects that the five dimensions are a unity in measuring interrelated entrepreneurial competencies. However, LF for commitment competency is the most important because it has the highest loading factor value compared to other dimensions.

In table 5 we can see that the innovation capability variable, the five dimensions also have very high LF which reflects that product innovation, process innovation, strategy innovation, behavior and marketing innovation are very important in innovation capability. Process innovation has LF 0.980, in the scope of marketing innovation it is indicated by LF 0.920, behavioral innovation is indicated by LF value 0.90, strategy innovation is indicated by LF value 0.870 and finally product innovation shows LF 0.830. The three dimensions are interrelated in creating better innovation capability.

Table 6 show that the sustainable organizational performance variable has 3 dimensions where all three dimensions have $LF < 0.70$ so that sustainable organizational performance is reflected by financial performance, social performance and environmental performance. Social performance is the dimension with the highest LF value, this means that performance in increasing customer trust, prioritizing business values and business ethics are the main things in increasing sustainable organizational performance.

Table 7. Goodness of Fit CFA Research Model

GOF Size	Criteria	Estimate	Information
Minimum Fit Function Chi-Square = 119.5678 (P = 0.001)	$P > 0.05$	0.001	Poor Fit
Root Mean Square Error of Approximation (RMSEA) = 0.088	≤ 0.08	0.088	Poor Fit
Root Mean Square Residual (RMR) = 0.062	≤ 0.10	0.062	Good Fit
GOF Size	Criteria	Estimate	Information
Standardized RMR = 0.043	≤ 0.10	0.043	Good Fit
Goodness of Fit Index (GFI) = 0.884	≥ 0.90	0.884	Poor Fit
Normed Fit Index (NFI) = 0.971	≥ 0.90	0.971	Good Fit
Non-Normed Fit Index (NNFI) = 0.986	≥ 0.90	0.986	Good Fit
Comparative Fit Index (CFI) = 0.989	≥ 0.90	0.989	Good Fit

Incremental Fit Index (IFI) = 0.989	≥ 0.90	0.989	Good Fit
Relative Fit Index (RFI) = 0.965	≥ 0.90	0.965	Good Fit
Expected Cross-Validation Index (ECVI) = 1.4389	ECVI Model is close to	ECVI Model (1.4389) is close to	Good Fit
ECVI for Saturated Model = 1.7500	Saturated Model	Saturated Model (1.7500)	
ECVI for Independence Model = 34.8516		AIC Model (172.6682) is close to	Good Fit
Independence AIC = 4182.1920	AIC Model is close to	Saturated Model (210.000)	
AIC Model = 172.6682	Saturated Model	CAIC Model (290.3378) is close to	Good Fit
Saturated AIC = 210,000	CAIC Model is close to	Saturated Model (608.5580)	
Independence CAIC = 4235.3331	CAIC Model is close to		
CAIC Model = 290.3378	Saturated Model		
Saturated CAIC = 608.5580			

Based on the table 7, the Goodness of Fit CFA results are acceptable where most GoF measures indicate a good fit model. Absolute GoF measures such as SRMR and RMR indicate a good fit model where the residual value is very small below 10%. This means that the difference in the covariance matrix of the estimated model with the original data covariance matrix is relatively small below 10%. However, some absolute GoF measures such as RMSEA and GFI are relatively poor fit. Incremental measures such as NFI, NNFI, IFI, RFI and CFI above 0.90 indicate a good fit model. And GoF Parsimony measures such as ECVI, AIC and CAIC indicate a good fit model. Overall, the CFA model of the research model is acceptable. The research variables can be explained by their diversity by the dimensions and measurement items.

Hypothesis Testing

Structural model evaluation is conducted to test the hypothesis of the influence between research variables with t statistics where if the t statistic calculation result is more than 1.96 or the p-value is less than alpha 5% then there is a significant influence between the variables we can see in the table 8. The following are the results of Lisrel 8.8 processing:

Table 8. Hypothesis Testing

Hypothesis	Hypothesis Statement	Path Coefficient	Standard Error	T Statistics	Information
H1	Leadership → Innovation Capability	0.281	0.071	3.938	Hypothesis Accepted
H2	Competence → Innovation Capability	0.666	0.087	7,689	Hypothesis Accepted
H3	→ Sustainable Organizational Performance	0.519	0.106	4.901	Hypothesis Accepted

Table 9. Goodness of Fit Model

GOF Size	Criteria	Estimate	Information
Minimum Fit Function Chi-Square = 439.9723 (P = 0.000)	P > 0.05	0.000	Poor Fit
Root Mean Square Error of Approximation (RMSEA) = 0.75	≤ 0.08	0.175	Poor Fit
Root Mean Square Residual (RMR) = 0.066	≤ 0.10	0.066	Good Fit
Standardized RMR = 0.059	≤ 0.10	0.059	Good Fit
Goodness of Fit Index (GFI) = 0.695	≥ 0.90	0.695	Poor Fit
Normed Fit Index (NFI) = 0.920	≥ 0.90	0.920	Good Fit
Non-Normed Fit Index (NNFI) = 0.918	≥ 0.90	0.918	Good Fit
Comparative Fit Index (CFI) = 0.934	≥ 0.90	0.934	Good Fit
Incremental Fit Index (IFI) = 0.934	≥ 0.90	0.934	Good Fit
Relative Fit Index (RFI) = 0.901	≥ 0.90	0.901	Good Fit
Expected Cross-Validation Index (ECVI) = 3.8808			
ECVI for Saturated Model = 2,000	ECVI Model is close to Saturated Model	ECVI Model (3.8808) is close to Saturated Model (2.0000)	Good Fit

ECVI for Independence Model = 45.8544

GOF Size	Criteria	Estimate	Information
Independence AIC = 5502.5276 AIC Model = 465.6992	AIC Model is close to Saturated Model	AIC Model (465.6992) is close to Saturated Model (240.000)	Good Fit
Saturated AIC = 240,000			
Independence CAIC = 5559.4644 CAIC Model = 598.5519	CAIC Model is close to Saturated Model	CAIC Model (598.5519) is close to Saturated Model (695.4949)	Good Fit
Saturated CAIC = 695.4949			

Based on the Goodness of Fit table 9 of the structural model above, overall it states that the results are acceptable where most of the GoF measures indicate a good fit model. Absolute GoF measures such as SRMR and RMR although increased from the CFA model are still acceptable below 10%. However, some absolute GoF measures such as RMSEA and GFI are relatively poor fit. As for Incremental measures such as NFI, NNFI, IFI, RFI and CFI above 0.90 indicate a good fit model. And GoF Parsimony measures such as ECVI, AIC and CAIC indicate a good fit model. Overall the structural model is acceptable. The influence between variables and involving mediation models can be explained by empirical data.

Mediation Testing

Furthermore, in the table 10 the mediation test is used to see whether innovation capability significantly mediates the indirect effect of entrepreneurial leadership and entrepreneurial competence on sustainable organizational performance in MSMEs.

Table 10. Mediation Test

Hypothesis	Hypothesis Statement	Path Coefficient	Standard Error	T Statistics	Information
H4	Leadership → Innovation Capability → Sustainable Organizational Performance	0.146	0.047	3.100	Hypothesis Accepted
H5	Entrepreneurship Competency → Innovation Capability → Sustainable Organizational Performance	0.346	0.079	4.375	Hypothesis Accepted

Based on the calculation by the Zsobel Test, the results obtained show that innovation capability has a significant indirect effect on sustainable organizational performance either through entrepreneurial leadership (mediation coefficient = 0.146 and t statistic 3.100 > 1.96) or through entrepreneurial competence (mediation coefficient 0.346 and t statistic 4.375 > 1.96). These results indicate that innovation capability significantly mediates the indirect effect of entrepreneurial leadership and entrepreneurial competence on sustainable organizational performance.

Discussion

Surah Al Baqarah verse 30 is “And [mention, O Muhammad], when your Lord said to the angels, “Indeed, I will make upon the earth a successive authority.” They said, “Will You place upon it one who causes corruption therein and sheds blood, while we declare Your praise and sanctify You?” Allah said, “Indeed, I know that which you do not know.” In Surah Al-Baqarah verse 30, offers a profound insight into the concept of leadership, responsibility, and authority on earth. In this verse, Allah tells the angels that He will create a being to serve as a "successive authority" on earth, referring to humankind. The angels question this choice, expressing concern that humans may bring corruption and bloodshed to the earth. Allah responds, affirming His knowledge that humans will fulfill this role in ways beyond what the angels can understand.

Based on the results of the analysis conducted by researchers on 119 respondents, entrepreneurial leadership has a significant influence on the innovation capabilities of MSMEs. Entrepreneurial leadership, which is characterized by the leader's ability to adapt, be innovative, and proactive, facilitates the creation of an environment that encourages innovation in the organization. This finding is supported by research by Gupta et al. (2004) and Renko et al. (2015), which revealed that leaders who have an entrepreneurial vision are able to build an atmosphere that allows the team to innovate. In the context of the respondent profile, most of the businesses studied were MSMEs managed by women and engaged in the culinary sector, with a business age of less than 5 years (Gupta et al., 2004; Renko et al., 2015). Strong leadership among female entrepreneurs in the culinary sector shows entrepreneurial characteristics that are able to adapt quickly to market demand and dynamic consumer preferences. This condition is relevant to the findings showing that MSMEs in this sector have good innovation capabilities, especially in developing product and service variations to maintain customer loyalty and face competition

The profile of respondents in this study also shows that most of the business actors are MSME managers who have more than five years of experience. Most of the respondents are also engaged in the culinary and handicraft sectors, which are competitive and dynamic. Entrepreneurial leadership applied in this context strengthens the need for innovation, allowing these small businesses to respond quickly to consumer trends, adapt to market demand, and optimize limited resources.

Entrepreneurial competencies have also been shown to have a positive influence on MSME innovation capabilities. Entrepreneurial competencies include abilities such as opportunity identification, resource management, and strategic decision making. This sub-chapter relates how entrepreneurial competencies can affect innovation capabilities. Based on research by Al Mamun and Fazal (2018) (Al Mamun & Fazal, 2018), entrepreneurial competencies play an important role in driving innovation by reducing internal barriers that often hinder the innovation process.

From the respondent profile, most entrepreneurs have more than 3 years of work experience. This experience plays a role in improving their competence, especially in terms of the ability to identify market opportunities and adapt products according to consumer trends. Respondents who have longer experience tend to have better competence in managing business challenges, which ultimately increases their ability to innovate. This condition supports previous research which states that the experience and competence of entrepreneurs are key to creating relevant and sustainable innovations. This shows that entrepreneurial competencies possessed by business actors serve as a basis for encouraging new ideas, managing risks, and creating creative solutions, especially in facing dynamic market challenges. Research by Kazemi et al. (2016) also supports this finding, stating that entrepreneurial competencies contribute to overcoming innovation barriers often faced by MSMEs (Kazemi et al., 2016).

In addition, the results of the analysis show that innovation capability has a positive influence on sustainable organizational performance. The ability

to develop new products, improve processes, and implement innovative strategies has a direct impact on sustainable performance in economic, social, and environmental aspects. This finding is consistent with the study by Wang and Ahmed (2004) (Wang & Ahmed, 2004), which states that innovation capability enables companies to adapt to market changes, create superior products or services, and improve operational efficiency. Innovation capability is a major factor that enables organizations to create adaptive products and services, address market changes, and contribute to organizational sustainability in economic, social, and environmental aspects. In this study, innovation capability is expected to support sustainable performance through long-term competitive advantage. This study is in line with the study by Wang and Ahmed (2004) which states that strong innovation capability enables MSMEs to adapt and survive in the market (Wang & Ahmed, 2004). Serna et al. (2016) also found that innovation is a prerequisite for organizational sustainability, especially to deal with pressures from market competition and demands for environmental sustainability (Serna et al., 2016).

Based on the respondent profile data, many MSMEs in this study have implemented green practices, such as reduce, reuse, and recycle initiatives. This shows that their innovation capabilities are not only focused on products and processes but also include environmental aspects. This implementation is relevant to the triple bottom line concept (Profit, People, Planet) which supports sustainability goals in economic, social, and environmental aspects. In addition, business actors who have a sustainability orientation through innovation tend to be able to survive in a highly competitive business environment, as explained by Freeman's (1984) sustainable performance theory (Freeman & McVea, 2005). In addition, the majority of MSMEs in this study showed a commitment to green business practices, such as the use of local raw materials and reducing production waste. This practice is in accordance with the concept of the "triple bottom line" (profit, people, planet), which drives sustainable performance by paying attention to economic, social, and environmental aspects. This finding is also in line with research by Somwethee

et al. (2023) which found that innovation capabilities drive sustainable performance in MSMEs operating in dynamic industries such as the tourism and manufacturing sectors (Somwethee et al., 2023).

Innovation capability was found to have a significant mediating role between entrepreneurial leadership and sustainable organizational performance. This is in line with Paudel's (2019) research which states that innovation-focused leadership tends to encourage organizations to adjust their strategies to evolving market needs (Paudel, 2019). In the MSMEs studied, the majority of business actors stated that they implemented adaptive and innovative business processes. This characteristic is a manifestation of innovation capability driven by their entrepreneurial leadership. In this context, innovation capability enables MSMEs to implement sustainability strategies that are in line with the leadership's vision. For example, many business actors are actively developing green products or have social added value, such as providing a positive impact on local communities through empowering the surrounding workforce.

Innovation capability also functions as a mediator in the relationship between entrepreneurial competence and sustainable organizational performance. Entrepreneurial competence, which includes the skills of managing opportunities, designing strategies, and building business networks, can produce sustainable performance through innovation capability. Lawson and Samson (2001) identified that the ability of an organization to continuously innovate is the key to maximizing the results of entrepreneurial competence and achieving sustainable organizational performance (Lawson & Samson, 2001).

In addition, this study also shows that small businesses that have good business networks and qualified managerial skills are able to implement innovation in their operations to support sustainability. This study is consistent with previous findings stating that innovation capabilities play an important role in maximizing the positive impact of entrepreneurial competence on organizational sustainability (Man et al., 2008).

Conclusion

Micro, Small, and Medium Enterprises (MSMEs) plays an important role in the economy, especially in developing countries like Indonesia. MSMEs make a significant contribution to Gross Domestic Product (GDP) and MSEM able to create many jobs, thus playing a role in poverty alleviation and reducing unemployment. The advantage of MSMEs lies in their ability to innovate and adapt, especially in facing economic changes, including during a crisis. MSMEs are generally more flexible and can quickly adjust products or services to market needs. Sustainability MSMEs show that sustainable business practices are increasingly important for the micro, small, and medium business sector amid increasing consumer awareness of environmental issues. MSMEs that adopt sustainability practices, such as effective waste management, reducing the use of hazardous chemicals, and using renewable raw materials, tend to get a positive image in the market and are able to attract environmentally conscious consumers. This not only increases the competitiveness of MSMEs in the local market but also opens up opportunities to reach international markets that increasingly prioritize sustainability in their supply chains. Entrepreneurial leadership has specific characteristics, such as the ability to project a clear vision, motivate the team to innovate, and the courage to take calculated risks. This study shows that entrepreneurial leadership encourages the creation of an environment that allows MSMEs to adapt more easily to market changes. Entrepreneurial-oriented leaders have been shown to be able to build innovation capabilities within the organization, which ultimately affects the sustainability of performance. In addition, this leadership style plays an important role in identifying new opportunities that can be exploited by MSMEs to strengthen their competitive position. However, the main challenges for MSMEs in implementing sustainability practices are limited funds and knowledge. Many MSMEs have difficulty in allocating resources to invest in sustainability technology or more sustainable production systems. In addition, the lack of education and socialization about the importance of sustainability business practices means that many MSMEs do not yet understand the long-

term benefits of sustainability businesses. Support from the government and related institutions, through financial incentives, subsidies, and training programs, is very important to help MSMEs switch to sustainability practices. Entrepreneurial competency in this study refers to the skills, attitudes, and abilities of entrepreneurs in managing opportunities and resources effectively. This competency includes aspects such as conceptual competence, strategy, and high commitment to developing a business. This study confirms that good entrepreneurial competence acts as a foundation in driving innovation, especially in facing increasingly dynamic and complex market challenges. This competence allows MSMEs to identify innovation opportunities that can produce new products or processes, which are important for building competitiveness and sustainability in the long term. Innovation capability plays a key role as a mediator between entrepreneurial leadership and entrepreneurial competence with sustainable organizational performance. The ability of MSMEs to continue to innovate provides a significant competitive advantage, especially amidst increasingly fierce global competition. Innovation capability allows MSMEs to design strategies that are adaptive and responsive to market needs, including through product, process, and marketing innovation. This capability also allows organizations to adapt and develop more quickly in a changing market, thereby increasing their chances of maintaining operational continuity and achieving sustainability goals. This study shows that sustainable organizational performance includes not only economic aspects, but also social and environmental aspects – a concept known as the "triple bottom line" of profit, people, and planet. MSMEs that implement entrepreneurial leadership and have strong entrepreneurial competencies are better able to manage their businesses with a sustainability approach and contribute to social welfare. Innovations that focus on efficiency and environmental responsibility help MSMEs to run businesses that are not only profitable, but also provide benefits to society and the environment. Business sustainability achieved through a balance between economic profit, social responsibility, and environmental preservation has proven to be an important

strategy in building MSME resilience in the future. Overall, this study concludes that the integration of entrepreneurial leadership, competent.

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