

# Strategic Financial Capability and Innovation for Sustainable Competitiveness: A Conceptual Framework for Agribusiness SMEs in West Nusa Tenggara, Indonesia

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**Abstract.** Agribusiness SMEs in developing regions face persistent challenges related to financial limitations, market volatility, and low managerial capability. Although innovation is essential for competitiveness, it often fails to generate long-term benefits without strong financial support systems. This conceptual paper proposes a framework that positions Strategic Financial Capability (SFC) as a finance-based dynamic capability that converts innovation into Sustainable Competitive Advantage (SCA). The model integrates the Resource-Based View, Dynamic Capabilities Theory, and Strategic Financial Management. A systematic review of recent Scopus-indexed studies (2020–2025) was conducted to synthesize the roles of innovation, Entrepreneurial Orientation (EO), and Digital Transformation Capability (DTC). The findings indicate that SFC enables SMEs to align financial planning, investment, and risk management with innovation needs. EO and DTC further strengthen the innovation–SFC linkage by enhancing opportunity-seeking, digital efficiency, and informed decision-making. The study contributes by introducing SFC as a new theoretical construct and offering implications for SME development and regional policy.

**Keywords:** Strategic Financial Capability, Innovation, Entrepreneurial Orientation, Digital Transformation, Sustainable Competitive Advantage.

## 1. Introduction

The agribusiness MSME sector is a key contributor to the economic development of West Nusa Tenggara (NTB), driving employment and income in local communities. Innovation in agribusiness often necessitates restructuring financial strategies, including investment planning, capital allocation, and risk management to ensure long-term sustainability. Despite its substantial potential, the competitiveness of agribusiness MSMEs remains unstable due to structural challenges such as seasonal dependency, commodity price volatility, limited capital access, and low managerial capacity[1]. Within this context, innovation capability has become a critical determinant of business continuity. Previous studies consistently highlight the strong relationship between innovation, productivity, and competitiveness in agribusiness-based MSMEs[2][3].

Innovation in agribusiness often necessitates restructuring financial strategies, including investment planning, capital allocation, and risk management to ensure long-term sustainability. Many MSMEs struggle to convert innovation into sustainable gains because their financial management practices are not aligned with their innovation goals. Research on strategic financial capability remains limited, even though several studies indicate that financial functions play a pivotal role in supporting organizational adaptation and readiness for change[4][3]. This gap underscores the need to examine Strategic Financial Capability (SFC) as a component that has been largely overlooked within the MSME innovation literature.

The increasing adoption of digital technologies has further transformed how MSMEs manage operations, creating opportunities for data-driven financial planning, marketing, and enhanced risk management capabilities. Recent studies show that digital transformation capability can strengthen the impact of innovation on firm performance and competitiveness[5] [6]. In addition, human factors—such as risk-taking, proactiveness, and opportunity orientation, which collectively represent entrepreneurial orientation—play an essential role in developing strategic capabilities within MSMEs[7] [8]. From a theoretical standpoint, the Resource-Based View (RBV) and Dynamic Capabilities Theory provide justification for positioning SFC as a linking mechanism between innovation and sustainable competitive advantage. While innovation introduces creative change, SFC ensures that such change is supported through targeted financial allocation, comprehensive risk planning, and adaptive responses to environmental dynamics.

This paper contributes to the literature by introducing Strategic Financial Capability (SFC) as a new theoretical construct that connects innovation with sustainable competitive advantage. It also extends the Resource-Based View (RBV), Dynamic Capabilities Theory, and Strategic Financial Management by integrating financial decision-making processes into organizational capability-building mechanisms.

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Based on this foundation, the primary objective of this study is to formulate a conceptual framework that explains how innovation, entrepreneurial orientation, and digital transformation capability interact to shape SFC, and how SFC ultimately contributes to the sustainable competitive advantage of agribusiness MSMEs in NTB.

## **2.Literature Review**

### **2.1. Innovation in Agribusiness MSMEs**

Innovation represents a critical mechanism for agribusiness MSMEs to maintain sustainability and competitiveness amid biological risks, market fluctuations, and efficiency pressures. It extends beyond product development to include process improvements, technological adoption, and adaptation to consumer needs [2]. Innovation is essential not only for improving technological adoption and operational efficiency but also for enhancing productivity and strengthening market positioning, ultimately supporting the long-term sustainability and competitiveness of SMEs in a dynamic market environment

However, innovation does not automatically translate into competitive advantage without internal mechanisms that convert ideas into strategic value. Dynamic capabilities function as mediators that enable firms to reallocate resources in response to environmental changes[9]. The effectiveness of innovation performance depends heavily on the quality of business strategy and the ability to manage resources appropriately[7]. In agribusiness settings, innovation also encompasses non-technological dimensions such as supply chain coordination, environmentally responsible practices, and digital integration[10]. Digital technology adoption enhances efficiency, improves access to market information, and accelerates financial decision-making processes[4]. In the NTB context, agribusiness innovation typically includes product development based on local commodities, process innovations (e.g., digital sorting, mechanical dryers), and digital marketing through online platforms.

### **2.2. Strategic Financial Capability (SFC)**

Strategic Financial Capability (SFC) refers to the firm's ability to orchestrate financial resources adaptively, align financial decisions with innovation opportunities, and manage strategic risk. In highly uncertain environments such as agribusiness, strategic financial approaches are crucial for sustaining operations[3]. SFC operates as a dynamic capability that supports forward-looking analysis, risk assessment, and financial agility[4], while serving as the bridge between innovative ideas and MSMEs' capacity for realization[11].

From a Resource-Based View (RBV) perspective, SFC can be positioned as a VRIN-based capability that ensures innovation is translated into financial transformation and long-term sustainability. The literature emphasizes that dynamic capabilities, including financial capability, enable firms to recombine and reconfigure resources in response to environmental shifts. As [3] highlights, dynamic capabilities, such as SFC, allow firms to manage resources more effectively in response to market shifts, ensuring financial sustainability and competitive advantage. Additionally, [5] notes that digital transformation improves financial capacity, enabling firms to optimize resource allocation and enhance decision-making speed, which are crucial for financing innovation effectively. Therefore, SFC constitutes a novel conceptual contribution that enables MSMEs to convert innovation into sustainable competitive gains.

### **2.3. Entrepreneurial Orientation (EO)**

Entrepreneurial Orientation (EO) captures the strategic posture of an organization, reflected through risk-taking, proactiveness, and innovativeness. EO functions as an internal cultural driver that motivates opportunity seeking and adaptation to market change[7]. In the Indonesian MSME context, EO has been shown to positively influence performance and innovation capability[8]. Within this model, EO is proposed as a moderator that strengthens the relationship between innovation and SFC. MSMEs with higher EO tend to be more willing and able to adjust their financial strategies to support innovation, thereby improving the conversion of innovation into economic value.

### **2.4. Digital Transformation Capability (DTC)**

Digital Transformation Capability (DTC) refers to the firm's ability to adopt and leverage digital technologies for operations, marketing, and decision-making. In agribusiness, digital tools improve supply chain coordination, reduce waste, and enhance price transparency[12]. DTC amplifies the influence of innovation on performance, particularly when digital data are utilized for informed decision-making[6]. Digital integration also enhances financial processes, including cost tracking, budgeting, and investment planning [13]. Accordingly, DTC functions as a moderator in the innovation-SFC relationship: higher digital capability accelerates financial information processing and enhances the efficiency of risk and resource management.

### **2.5. Sustainable Competitive Advantage (SCA)**

Sustainable Competitive Advantage (SCA) represents a firm's ability to maintain long-term competitive superiority through capabilities that are difficult for competitors to imitate. In agribusiness MSMEs, SCA emerges

from a combination of innovation capability, operational effectiveness, and strategic resource management [8]. Product quality, differentiation, and technological capability are among the determinants of sustained competitiveness [7].

Within the present model, SCA is conceptualized as the ultimate outcome of the integration of innovation, EO, DTC, and SFC. SFC provides the financial grounding required to support innovation continuously and strengthen the effectiveness of competitive strategies. In essence, SCA materializes when strategic financial capability enables innovation to be sustained and scaled over time.

### 3. Theoretical Foundation and Conceptual Model Development

This study develops a conceptual model based on the integration of three major theoretical lenses: the Resource-Based View (RBV), Dynamic Capabilities Theory (DCT), and Strategic Financial Management (SFM). RBV positions innovation as a VRIN strategic resource that creates value. DCT explains how MSMEs dynamically reconfigure resources—including financial resources—to capture innovation opportunities. Meanwhile, SFM emphasizes proactive, future-oriented financial decision-making that aligns financial management with long-term business strategy.

In this model, Strategic Financial Capability (SFC) is positioned as the central mechanism that links innovation to Sustainable Competitive Advantage (SCA). SFC enables MSMEs to manage risks, allocate capital effectively, and finance innovation in a strategic manner.

The strength of these relationships is enhanced by two moderating variables:

1. Entrepreneurial Orientation (EO): amplifies the effect of innovation on SFC by fostering calculated risk-taking, opportunity pursuit, and proactive resource alignment.
2. Digital Transformation Capability (DTC): strengthens the innovation–SFC link by providing data-driven insights, automation, and analytics that improve accuracy and speed in financial decision-making.

Thus, SCA is not generated by innovation alone, but by the synergy between innovation, strategic financial capability, entrepreneurial orientation, and digital transformation.

### 4. Conceptual Framework and Proposition

The literature indicates that the impact of innovation is significantly amplified when firms possess the capability to manage risks, reconfigure resources, and integrate new technologies effectively [14]. This aligns with the Resource-Based View (RBV), which posits that sustainable advantage is achieved through the deployment of strategic and inimitable resources. In this sense, innovation serves as a valuable input, but its transformation into sustained competitive outcomes requires complementary capabilities.

In the agribusiness context, prior studies demonstrate that innovation alone is insufficient to produce competitive advantage without adequate organizational capabilities. [7] shows, for example, that eco-innovation contributes to business growth only when firms are able to manage production processes, costs, and strategic decisions in a sustainable manner. These findings reinforce the argument that Strategic Financial Capability (SFC) acts as a critical mechanism linking innovation to sustainable competitive advantage.

SFC enables firms to assess risks, allocate financial resources strategically, and support innovation initiatives in a manner consistent with long-term sustainability. Accordingly, the proposed model positions SFC as the central capability through which innovation, strengthened by entrepreneurial orientation and digital transformation capability, leads to sustainable competitive advantage.

#### 4.1. Conceptual Framework

Innovation creates pressure for financial restructuring and necessitates strategic financial adjustments.

1. SFC → Sustainable Competitive Advantage (SCA)  
SFC enables sustained investment, financial resilience, and long-term innovation, thereby generating durable competitive advantage.
2. Entrepreneurial Orientation (EO) moderates Innovation → SFC  
Higher EO strengthens the conversion of innovation initiatives into strategic financial capability by fostering risk-taking and opportunity-driven decision-making.
3. Digital Transformation Capability (DTC) moderates Innovation → SFC  
Higher DTC accelerates the translation of innovation into SFC by improving data availability, automation, and financial decision accuracy.

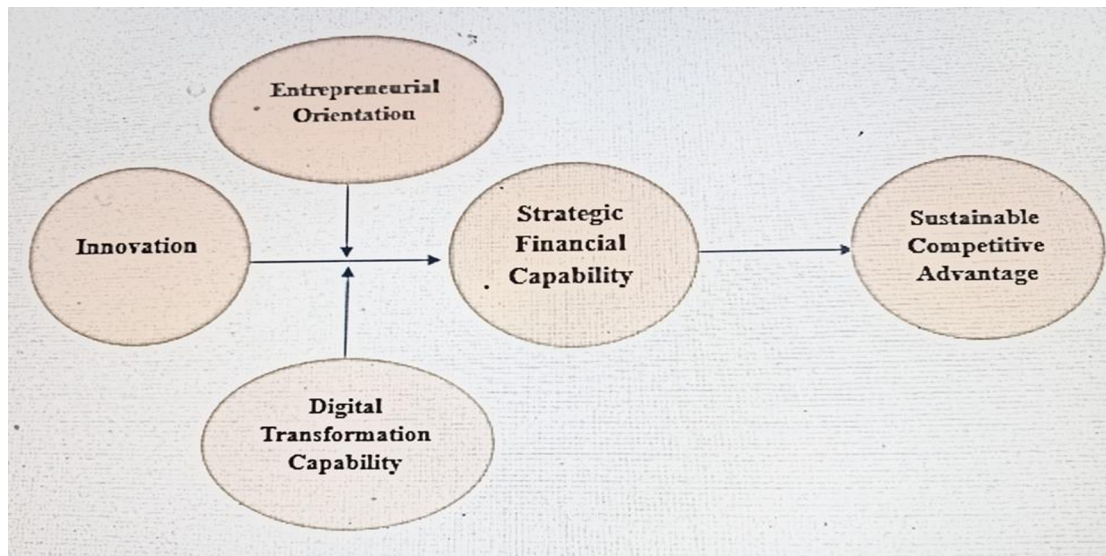


Figure 1. Conceptual Framework of Strategic Financial Capability in Agribusiness SMEs

#### 4.2. Development of Academic Propositions

Unlike direct models of innovation-performance that suggest a linear relationship between innovation and firm performance, our conceptual framework incorporates SFC as a mediating capability that strengthens the sustainability of competitive advantage. By doing so, it addresses the dynamic nature of financial resource management in innovation, highlighting the role of Strategic Financial Capability (SFC) in transforming innovation into long-term business value. Based on the synthesis of prior literature, the following theoretical propositions are developed:

P1. Innovation positively influences Strategic Financial Capability (SFC)

Innovation compels SMEs to adjust their financial strategies to effectively support experimentation, manage uncertainty, and allocate capital efficiently. These adjustments strengthen SMEs' adaptive financial capabilities, ensuring that innovation initiatives are adequately financed and supported for long-term success [2] [15].

P2. SFC positively contributes to Sustainable Competitive Advantage (SCA)

Strategic Financial Capability (SFC) enables SMEs to strategically align financial planning with innovation objectives, making selective investments and enhancing financial resilience. By effectively linking innovation with financial strategies, SFC ensures long-term performance and strengthens SCA, creating a competitive advantage that is difficult for competitors to replicate [3][13].

P3. Entrepreneurial Orientation (EO) strengthens the relationship between innovation and SFC

SMEs with high Entrepreneurial Orientation (EO) are more likely to take financial risks and allocate resources towards innovation. Their proactiveness, risk-taking, and opportunity-seeking behaviors enhance the translation of innovative ideas into actionable financial strategies, thereby strengthening the relationship between innovation and SFC[7].

P4. Digital Transformation Capability (DTC) strengthens the effect of innovation on SFC

The adoption of Digital Transformation Capability (DTC) equips SMEs with real-time data, analytics, and process automation, which significantly improve the accuracy and speed of financial planning, budgeting, and risk management. These enhancements enable SMEs to more effectively finance innovation initiatives, thereby amplifying the impact of innovation on SFC [5].

P5. SFC mediates the relationship between innovation and SCA

Innovation alone does not guarantee long-term business success unless there is an internal mechanism that transforms it into strategic value. Strategic Financial Capability (SFC) plays a pivotal role in mediating this transformation by ensuring that innovation is managed effectively from a financial standpoint. SFC ensures that innovation is not only implemented but is also financially sustainable, strategically aligned, and supported over time, ultimately contributing to the creation of Sustainable Competitive Advantage (SCA) [11]. As a mediator, SFC aligns innovation with strategic financial management, integrating strategic budgeting, investment planning, and risk management to allocate financial resources effectively. This enables SMEs to balance innovation pursuits with the need for financial stability. By aligning innovation with sound financial strategies, SFC fosters long-term growth, thus driving SCA by maintaining financial resilience in dynamic market environments.

## 5. Research Method

This study adopts a conceptual research design aimed at developing a new theoretical model through systematic synthesis of existing literature. The methodological procedures include:

### 1. Literature Collection

The literature for this study was sourced from Scopus, ScienceDirect, and Taylor & Francis databases, using keyword combinations such as 'strategic financial capability', 'innovation', 'SMEs agribusiness', 'entrepreneurial orientation', and 'digital transformation'. The search was limited to articles published between 2020 and 2025 using the search string: ('strategic financial capability' OR 'financial management') AND ('innovation' OR 'digital transformation') AND ('SMEs' OR 'agribusiness').

This search initially yielded 200 articles. After reviewing titles and abstracts for relevance to the research questions, articles unrelated to SFC, innovation, or SMEs in agribusiness were excluded. As a result, 45 articles were included in the final synthesis. The screening process involved 127 articles initially, narrowed down to 65 for full-text review. After applying inclusion/exclusion criteria, 15 articles were selected based on relevance to the research topic and methodological rigor.

Inclusion Criteria: Articles that focused on Strategic Financial Capability (SFC), innovation in SMEs, digital transformation, and those published in peer-reviewed journals.

Exclusion Criteria: Articles that were not in English, or those that did not focus on SMEs, agribusiness, or were theoretically irrelevant to the study.

### 2. Analysis and Synthesis

A theoretical abstraction approach was used to identify core definitions and construct dimensions of SFC and related concepts. A logic-based integration approach was employed to connect key findings deductively, leading to the formulation of propositions and the development of the conceptual framework. This process allowed the identification of gaps in the literature and the development of Strategic Financial Capability as a central concept linking innovation to sustainable competitive advantage (SCA).

### 3. Theoretical Validity

The robustness of the proposed model was assessed through convergence and divergence validation.

– Convergence validation: Aligning the findings with established theoretical frameworks, including the Resource-Based View (RBV) and Dynamic Capabilities Theory (DCT), ensured that the components of the model fit well within the existing body of literature.

– Divergence validation: The introduction of SFC as a novel dynamic capability was validated by demonstrating its unique role in mediating the relationship between innovation and SCA, a concept that has not been widely explored in the existing literature.

### 4. Limitations and Future Research Directions

A major limitation of this study is the absence of empirical testing. Although this paper provides a conceptual framework, future research should aim to empirically validate the model, potentially through quantitative methods such as Structural Equation Modeling (SEM-PLS). Empirical testing would assess the practical applicability of the proposed framework, especially in different regional contexts such as agribusiness SMEs in West Nusa Tenggara (NTB). Future research could also explore the real-world impact of SFC on financial resilience, long-term competitiveness, and innovation outcomes in agribusiness sectors.

## 6. Discussion

### 6.1. Conceptual Findings and Discussion

The synthesis of the reviewed literature produced six key conceptual insights explaining the mechanism through which agribusiness SMEs achieve Sustainable Competitive Advantage (SCA).

#### 6.1.1. Innovation as a Driver of Strategic Financial Transformation

Innovation acts as a catalyst that compels SMEs to develop more adaptive and strategic financial systems. In the high-risk agribusiness sector, product, process, and business innovation generate the need to restructure financial planning, investment allocation, and cash-flow management. Without sufficient financial capability, innovation may even destabilize business operations [2]. The critical role of Strategic Financial Capability (SFC) in driving innovation is paramount. Innovation compels SMEs to restructure their financial systems by adopting flexible financial strategies, enabling them to manage risks, optimize resource allocation, and sustain long-term growth. The findings from [2] and the integration with Dynamic Capabilities Theory show how financial capability enables SMEs to manage innovation risks and optimize the financial resources needed to support

innovation while maintaining stability. Effective financial planning and forecasting tools enable SMEs to adequately fund innovation projects while maintaining financial stability. By using real-time financial tracking, SMEs can monitor cash flow, predict funding needs, and adjust resource allocation, ensuring that innovation is financially sustainable and scalable over time.

#### *6.1.2. Strategic Financial Capability as a Conversion Mechanism*

Strategic Financial Capability (SFC) refers to a firm's ability to integrate financial strategies with innovation goals, encompassing key dimensions such as strategic budgeting, investment planning, risk management, and adaptive financial decision-making. It functions as a conversion engine that transforms innovative initiatives into long-term performance. As a dynamic capability, SFC enables SMEs to assess innovation feasibility, plan financing strategies, allocate cash adaptively, and manage market volatility. These abilities allow innovative ideas to be translated into stable and sustainable outcomes[3].

Strategic Financial Capability (SFC) serves as a critical mediator, linking innovation efforts with sustained competitive advantage in agribusiness SMEs. By adopting SFC, SMEs can effectively manage seasonal cash flows and strategically allocate financial resources to innovation initiatives. This capability enables SMEs to assess the financial feasibility of innovation projects, allocate funds adaptively, and manage financial risks, ensuring that innovation drives long-term growth and financial sustainability. As evidenced in companies like PT Mujnah Kemiri Lombok, SFC allows agribusinesses to implement technological innovations such as shelling, drying, and packaging systems, while maintaining financial stability and competitiveness. [13] further supports this by highlighting the importance of integrating data-driven financial management to optimize financial decision-making processes, which is essential for supporting long-term sustainable growth. By aligning financial strategies with innovation goals, SFC helps SMEs achieve long-term financial success and resilience in an unpredictable market.

#### *6.1.3. Moderating Role of Entrepreneurial Orientation*

Entrepreneurial Orientation (EO) strengthens the innovation-SFC linkage by shaping opportunity-seeking and risk-taking behaviors. SMEs with high EO are more willing to make strategic financial commitments, respond proactively to market dynamics, and allocate resources toward innovation. This accelerates the transformation of innovative opportunities into concrete financial strategies[7], [10]. By fostering an entrepreneurial mindset, SMEs are more likely to take calculated risks that align with their innovation goals. This synergy between EO and SFC enables SMEs to manage innovation financing effectively, enhancing their ability to achieve long-term success and sustainable competitive advantage (SCA). Literature supports this view, showing how EO influences both financial and innovation strategies in SMEs, particularly in the agribusiness sector.

#### *6.1.4. Moderating Role of Digital Transformation Capability*

Digital Transformation Capability (DTC) acts as a technical accelerator that enhances the effect of innovation on SFC. Digitalization improves strategic financial capability through automated recording, data analytics for financial forecasting, and operational efficiency. These abilities increase the accuracy and speed of strategic financial decisions, enabling more effective innovation financing[13] [5]. DTC enhances SFC by automating financial processes, improving data analytics, and allowing SMEs to manage financial risks associated with innovation more effectively. This leads to more strategic and timely financial decisions, ensuring that SMEs can support innovation while maintaining financial stability. The integration of DTC is consistent with Dynamic Capabilities Theory, which emphasizes the importance of adapting resources and improving financial management to remain competitive.[13] and [6] further reinforce the significance of digital transformation in ensuring that innovation is effectively financed and sustainable. DTC and SFC work together to ensure long-term growth and sustainable competitive advantage for SMEs.

#### *6.1.5. Sustainable Competitive Advantage as a Synergistic Outcome*

SCA emerges not from a single factor but from the synergy among innovation, SFC, EO, and DTC. Sustainable competitive advantage is achieved when innovative exploration is supported by adaptive financial capability, reinforced by entrepreneurial mindset, and accelerated through digital capabilities[11]. However, in emerging markets like Indonesia, the limited availability of resources, weaker institutional frameworks, and underdeveloped financial systems can hinder the full potential of these capabilities. In contrast, SMEs in developed markets benefit from better access to capital, more advanced financial management practices, and a stronger regulatory environment, which can accelerate the impact of innovation.

#### *6.1.6. The Central Role of SFC in the Conceptual Model*

The findings highlight SFC as the pivotal mediator in the model. SFC serves as the gravitational center linking the effects of innovation, enhanced by EO and DTC, to the achievement of SCA. Without SFC, innovation

risks remaining unsustainable, EO may produce excessive risk, and DTC may fail to generate meaningful business value.

Overall, the literature synthesis suggests that achieving SCA requires a systematic approach in which innovation triggers transformation, which is then converted into competitive advantage through strategic financial capability, reinforced by entrepreneurial orientation and digital transformation capability. As [3] highlights, SFC plays a critical role in helping SMEs manage financial risks while supporting innovative initiatives. Previous studies have also highlighted the importance of financial agility in sustaining innovation efforts in dynamic sectors such as agribusiness. As [3] highlights, dynamic capabilities, such as SFC, enable firms to reconfigure resources to meet evolving market conditions, ensuring sustained competitiveness. Additionally, [6] emphasizes that digital transformation, when integrated with SFC, enhances financial decision-making and accelerates innovation.

The synergy between innovation, Entrepreneurial Orientation (EO), Digital Transformation Capability (DTC), and SFC ensures that innovation efforts are financially sustainable, ultimately leading to long-term business success. According to Teece, firms with dynamic capabilities like SFC are better positioned to adapt and leverage their financial resources to support innovation in a constantly changing market environment. The integration of Dynamic Capabilities Theory further strengthens the understanding of how SFC enables SMEs to adapt and thrive in dynamic market environments. SFC enables SMEs to achieve SCA by financing innovation effectively while maintaining financial stability.

#### *6.1.7. Contextual Limitations and Sector-Specific Considerations*

This framework applies specifically to the agribusiness sector in regions like West Nusa Tenggara (NTB), where limited resources, seasonal volatility, and economic challenges affect the ability of SMEs to implement financial strategies effectively. These limitations might hinder the full potential of SFC, especially in comparison with more developed markets where access to capital and more stable market conditions exist.

## **7. Conclusion and Research Implications**

### **7.1. Conclusion**

This study concludes that Sustainable Competitive Advantage (SCA) in agribusiness SMEs requires more than innovation alone. Strategic Financial Capability (SFC) emerges as a pivotal mechanism that transforms innovation into long-term value. The proposed conceptual framework demonstrates that SCA is driven by the synergy of innovation, enhanced by Entrepreneurial Orientation (EO) and Digital Transformation Capability (DTC), with SFC serving as the key mediator ensuring financial sustainability and competitive advantage. This paper advances the innovation and finance literature by introducing SFC as a novel theoretical construct that bridges the gap between innovation and financial sustainability in agribusiness SMEs. While this framework provides a comprehensive theoretical foundation, empirical testing is necessary to validate its applicability and measure its impact on the financial performance of SMEs in different contexts, particularly in agribusiness sectors in developing regions.

### **7.2. Theoretical Implications**

This study contributes to the theoretical literature by:

1. **Extending Dynamic Capabilities Theory**  
SFC is introduced as a finance-based dynamic capability, extending the existing dynamic capabilities framework by emphasizing the role of financial strategies in enabling innovation in SMEs.
2. **Integrating Multiple Theories**  
The study integrates Resource-Based View (RBV), Dynamic Capabilities Theory, and Strategic Financial Management into a unified framework, offering a comprehensive understanding of how financial capabilities drive innovation and competitive advantage.
3. **Mediating Role of SFC**  
This paper emphasizes SFC as a mediator between innovation and competitive advantage. It highlights how SFC helps SMEs adapt to market changes and allocate financial resources effectively, contributing to sustainable growth.

### **7.3. Practical Implications**

For SMEs and policymakers, the practical implications include:

1. **Financial Literacy Programs for SMEs**  
Capacity-building programs should focus on developing strategic financial capabilities, including investment planning and innovation-risk management, rather than just basic financial literacy. These skills are crucial for SMEs to manage the financial challenges associated with innovation.
2. **Integrating Innovation with Financial Readiness**

SMEs should integrate innovation strategies with financial readiness. Policymakers and advisory bodies should promote programs that encourage SMEs to develop the financial infrastructure necessary to support innovation, such as real-time financial tracking and forecasting tools.

3. Policy Support for EO and DTC

SME development policies should aim to strengthen Entrepreneurial Orientation (EO) and Digital Transformation Capability (DTC) as central drivers of innovation and competitiveness. By enhancing these capabilities, policymakers can foster a more resilient and innovative SME sector.

#### 7.4. Recommendations for Future Research

Future studies should empirically test the proposed model using quantitative methods (e.g., SEM-PLS) on agribusiness SMEs in West Nusa Tenggara. Additional contextual variables, such as green innovation, may also be explored to enrich and extend the model's explanatory power.

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