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DOES INNOVATION BRIDGE ENTREPRENEURIAL COMPETENCIES AND BUSINESS SUSTAINABILITY? EVIDENCE FROM SMES IN TANAH DATAR, INDONESIA

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Abstract: *This Study aims to examine the influence of entrepreneurial competencies on business sustainability and to investigate whether innovation mediates this relationship among SMEs in Tanah Datar, West Sumatera, Indonesia. The Study was conducted using a quantitative approach involving 40 SMEs owners or managers as respondents. Data were collected through questionnaires and analysed using SPSS, including validity testing, regression analysis, and mediation testing. The result show that entrepreneurial competencies have a positive and significant effect on business sustainability. This finding indicates that SMEs owners or managers with stronger competencies are more capable maintaining business continuity, managing resources, responding to business challenges, and developing their enterprises in a sustainable way. However, entrepreneurial competencies were found to have a positive but insignificant effect on innovation. Innovation also showed a positive but insignificant effect on business sustainability. The mediation test further reveals that innovation does not mediate the relationship between entrepreneurial competencies and business sustainability. This indicates that, in the context of SMEs in Tanah Datar, business sustainability is more directly shaped by the competencies of business owners or managers rather than through innovation as a mediating variable. These findings highlight the importance of strengthening entrepreneurial competencies , particularly in business planning, decision making, opportunity recognition, and resource management, to support the long tem sustainability of SMEs.*

Keywords: *Entrepreneurial Competencies; Innovation; Business Sustainability; Mediation; SMEs; Tanah Datar*

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Introduction

Small and medium-sized enterprises (SMEs) are an important component of local economic development. They generate employment, support income to household, and contribute to stimulate economic activities at regional level, especially in developing countries. But, maintaining business sustainability is not always easy for SMEs. Many small businesses continue to be hampered by contraints on capital, management, technology adoption, market access, and innovation. Hence, business sustainability is not to be defined only as the ability of a business to survive but also its ability to grow, adapt to market changes, improve competitiveness, and create long-term value

The role of the owner/manager is very important in the context of SMEs. The success and sustainability of small businesses is often determined by the competencies of the entrepreneurs themselves. From the resource-based view perspective, internal resources and capabilities can be important sources of competitive advantage for companies (Barney, 1991). Entrepreneurial competencies are one of these important capabilities. These include the ability to spot opportunities, make strategic decisions, develop relationships, manage resources, solve problems, and stay committed to business goals. Earlier research has suggested that entrepreneurial competencies allow entrepreneurs to solve business problems and improve firm performance (Man et al., 2002; Mitchelmore & Rowley, 2010).

Nevertheless, entrepreneurial competencies may not directly influence to business sustainability unless they are translated into practical business actions. Innovation is one of the key ways to translate these competencies into better business results. Innovations help SMEs to improve their products, production processes, methods of marketing, services, and customer value. Innovation does not necessarily have to be fancy technology or big money in SMEs settings. It can be as simple as improving packaging, creating new product variations, digital marketing, improving service quality, or finding more efficient ways of production. In prior studies, it has been confirmed that innovation may help to attain sustainable performance by allowing SMEs to adapt to changing markets and remain competitive (Borah et al., 2022; Zhang et al., 2022).

This study, therefore, aims to examine the relationship between entrepreneurial competencies, innovation, and business sustainability. While entrepreneurs with strong competencies may be able to identify opportunities and make strategic decisions, these competencies become more meaningful when they encourage innovative practices in the business. In this regard, innovation may be a mediating mechanism to explains how entrepreneurial competencies contribute to business sustainability. According Al Koliby et al. (2024) there is a close association between entrepreneurial competencies and innovation and sustainable performance of manufacturing SMEs. This suggests that innovation may be a connector between entrepreneurs capabilities and the long-term survival of their firms.

This problem is very relevant for SMEs in Tanah Datar, West Sumatra. SMEs in Tanah Datar also involved in several economic activities such as food processing, crafts, trade, and small-scale manufacturing. But, these businesses still face several challenges that may affect their sustainability. Based on Local development documents SMEs in Tanah Datar have problems such as low competitiveness of products, limited mastery of technology, weak standardization of products, low innovation of products, limited access to finance, and limited access to market

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(Litbang, 2025). Futhermore, (Rahim, 2023) research found that the utilization of information technology by SMEs in Tanah Datar is still limited, It reflects the challenges of human resources, digital skills, and technology adoption.

These conditions imply that SMEs in Tanah Datar have great potential, but also need to have stronger entrepreneurial competencies and better innovation practices to support long-term sustainability. Many research on entrepreneurial competencies, innovation, and SMEs performance, but empirical research on local SMEs in Tanah Datar still limited. This creates a research gap, especially on the understanding of the mediating effect of innovation between entrepreneurial competencies and business sustainability in this local context.

This study aims to analyze the influence of entrepreneurial competencies on business sustainability with innovation as a mediating variable among SMEs in Tanah Datar, West Sumatra. This study is expected to contribute to the literature on entrepreneurship and SME sustainability and provide empirical evidence from a local Indonesian context. Practical implications the findings may also offer relevant insights for SMEs owners, managers, and policymakers in designing strategies for enhancing entrepreneurial competencies, fostering innovation, and supporting sustainable business development.

Literature Review

The resource-based view (RBV), which describes how internal resources and capabilities impact firm performance and competitive advantage, serves as the foundation for this study. Barney (1991) contends that resources that resources that are valued, scarce, inimitable, and non-substitutable can become sources of enduring competitive advantage. In the context of SMEs, this approach is very relevant because small enterprises frequently with limited financial, technological, and human resources. As a result, the skill that SMEs owners and managers possess can develop into strategic internal resources that promote the survival and longevity of business. Futhermore, enterprise must integrate and rearrange their resources in order to adapt to changing sorroundings, according to the synamic capabilities approach (Teece et al., 1997). Thus, entrepreneurial competencies and innovation can be considered as crucial characteristics that enable SMEs adjust to market changes and achieve sustainable business outcomes.

The knowledge, skills, talents, and personal traits that entrepreneurs need to successfully run and grow their firms are referred to as entrepreneurial competencies. According to Man et al. (2002) entrepreneurial competencies are crucial important for SME competitiveness because they support entrepreneurs in identifying opportunities, forming connections, developing strategies, allocating resources, and upholding dedication to corporate objectives. m. Similarly, Mitchelmore & Rowley (2010) underline that entrepreneurial competencies are diverse, comprising opportunity, relational, conceptual, organizational, strategic, and commitment competencies.The owner or manager of SMEs is crucial to decision-making and company growth.Therefore, higher entrepreneurial competencies can assist SMEs owners adapt to competition, comprehend customer demands, handle risks, and build long-term business strategy. Previous research also suggest that entrepreneurial competencies contribute to SMEs performance, growth, and sustainability (Ahmad et al., 2010; Mokbel Al Koliby et al., 2024; Teece, 2018).

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Another crucial element that promotes SMEs sustainability is Innovation. Innovation refers to the ability of organizations to develop or improve products, processes, services, marketing tactics, or business practices. In SMEs, innovation does not always require advanced technology or huge expenditure. It could manifest as straightforward but significant enchancements like product diversity, better packaging, digital marketing, improved customer service and more effective production techniques.SMEs may adapt to customer demands, differentiate their offerings, increase productivity and bolster their competitiveness through innovation. According to Rosenbusch et al. (2011) innovation can add value for SMEs, albeit its impact may depending on the firm's features and business environment. Additionally, innovation capability is seen as crucial since it shows how SMEs create and apply concepts in real world company operations (Saunila, 2020).

Business sustainability refers to the ability of a business to endure, thrive and create long-term value. Sustainability in the context of SMEs is linked to competitiveness, resource efficiency, adaptation, customer connections, and social and environmental responsibility in addition to financial performance. Sustainable SMEs may respond to market difficulties, sustain operations, enhance product quality, and provide value for stakeholders. Previous research can indicates that internal capabilities, innovation, managerial skills, networking, and technological preparedness all have an impact on SMEs sustainability (Bashir et al., 2020; Klewitz & Hansen, 2014; Prasanna et al., 2019). As a result, business sustainability necessitates both the capacity to innovate and adjust to shifting market conditions in addition to the ability to sustain current operations..

Business sustainability is anticipated to benefit from entrepreneurial competencies.Strong competencies better at spotting opportunities, resolving business issues, allocating resources, and creating plans that ensure business continuity. In Dynamic circumtances, these competencies help SMEs become more competitive and adaptable. While while Ahmad et al.(2010) discovered these competencies contribute to commercial performance among SMEs. Man et al. (2002)Man et al. contend that entrepreneurial competencies are intimately linked to SME competitiveness. Futhermore, Al Koliby et al. (2024) demonstrate the significance of entrepreneurial skills in promoting sustainable performance in manufacturing SMEs. Thus, the following hypothesis is put forth:

H1: Entrepreneurial competencies have a positive effect on business sustainability.

Innovation is also anticipated by entrepreneurial skills. Strong competencies increase an entrepreneur's ability to spot new opportunities, comprehend shifts in the market and come up with original solutions. While strategic and conceptual competencies aid in the conversion of concepts into workable innovation, opportunity competencies can assist entrepreneurs in discovering new product ideas. Additionally. Relationship skills facilitate entrepreneurs access to data, expertise and outside resources that could spur innovation. Since innovation in SMEs often rely on the initiative and competence of the owner or manager, higher entrepreneurial competencies may encourage product, process, service, and marketing innovation. According to Al Koliby et al., (2024), entrepreneurial competencies are crucial for encouraging innovation manufacturing SMEs. Thus, the second hypothesis is proposed:

H2: Entrepreneurial competencies have a positive effect on innovation.

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Its anticipated that Innovation will be improve the sustainability of business. SMEs may enhance product quality, boost customer satisfaction, reduce inefficiencies, and better adapt to changes in the market. Additionally,Innovation aids SMEs in maintaining their competitiveness and differentiating themselves. While (Zhang et al., 2022) demonstrate that innovation supports sustainable performance across economic, social, and environmental aspects. Borah et al. (2022) discovered that innovation capabilities contribute to sustainable SME performance. Consequently, SMEs that consistently innovate have a higher chance of long term relevance, competitiveness and sustainability. Based on this argument, the third hypothesis is proposed:

H3: Innovation has a positive effect on business sustainability.

The connection between entrepreneurial skills and company sustainability may also mediated by innovation. Entrepreneurs can identify possibilities, handle uncertainty, and create strategies to enter entrepreneurial abilities. However, these skills are applied in creative ways, they might produce more robust sustainability results. Strong competencies may make it easier for entrepreneurs to develop new goods, implement innovative marketing strategies. Improve corporate procedures, and increase consumer value. That capacity of SMEs to compete, adapt, and maintain their company operations can then be enhanced by these innovative techniques their business operations. Al Koliby et al. (2024) found that innovation mediates the relationship between entrepreneurial competencies and sustainable performance in manufacturing SMEs. Therefore, the fourth hypothesis is proposed:

H4: Innovation mediates the relationship between entrepreneurial competencies and business sustainability.

This study investigates the relationship between entrepreneurial competencies, innovation, and business sustainability based on literature review. Innovation is positioned as mediating variable, buiness sustainability as dependent variable and Entrepreneurial competencies as the independent variable. According to the conceptual framework, entrepreneurial competencies can both directly and indirectly impact business sustainability through innovation.

Research Methodology

This study uses a quantitative approach to analyze the effect of entrepreneurial competencies on business sustainability with innovation as a mediating variable among SMEs in Tanah Datar, West Sumatra. The population of this study consists of SME owners or managers, as they are directly involved in decision making, resource management, innovation implementation, and efforts to maintain business sustainability. The sample consisted of 40 respondents selected based on their relevance to the research objectives. The sample size was considered acceptable for this exploratory quantitative study because it was aligned with the research objectives, the analytical technique, and the scope of the model. Roscoe, as cited in Sugiyono (2016), stated that an appropriate sample size for research ranges from 30 to 500 respondents. In line with this view, Memon et al. (2020) explained that sample size in survey research should not be determined only by a fixed numerical rule, but should also consider the research objective, statistical technique, model complexity, and data characteristics. Therefore, the use of 40 respondents in this study was considered adequate for regression analysis and mediation testing using SPSS, as the number exceeded the minimum threshold of 30

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respondents and was consistent with the scope of the study involving three main variables: entrepreneurial competencies, innovation, and business sustainability. However, this study acknowledges that the sample size remains limited; therefore, future studies are encouraged to use a larger sample to improve the generalizability of the findings. Data were collected through a structured questionnaire measuring three main variables, namely entrepreneurial competencies, innovation, and business sustainability. Entrepreneurial competencies include the ability to identify opportunities, build relationships, think strategically, manage resources, and maintain business commitment. Innovation was measured through the ability of SMEs to make improvements or changes in products, processes, services, and business practices. Meanwhile, business sustainability was measured based on the ability of SMEs to survive, grow, adapt to market changes, and create long-term business value.

The collected data were analyzed using SPSS. The initial stage of analysis was conducted through validity testing to ensure that each questionnaire item was able to measure the variables being studied. Furthermore, regression analysis was used to examine the relationships among variables. The first regression was conducted to test the effect of entrepreneurial competencies on business sustainability, the second regression was used to test the effect of entrepreneurial competencies on innovation, and the third regression was conducted to test the effect of entrepreneurial competencies and innovation simultaneously on business sustainability. The mediating role of innovation was analyzed by comparing the direct and indirect effects between entrepreneurial competencies and business sustainability. Thus, this study examines whether entrepreneurial competencies affect business sustainability directly or indirectly through innovation.

The research model positions entrepreneurial competencies as the independent variable, innovation as the mediating variable, and business sustainability as the dependent variable. Conceptually, the research model can be described as follows:

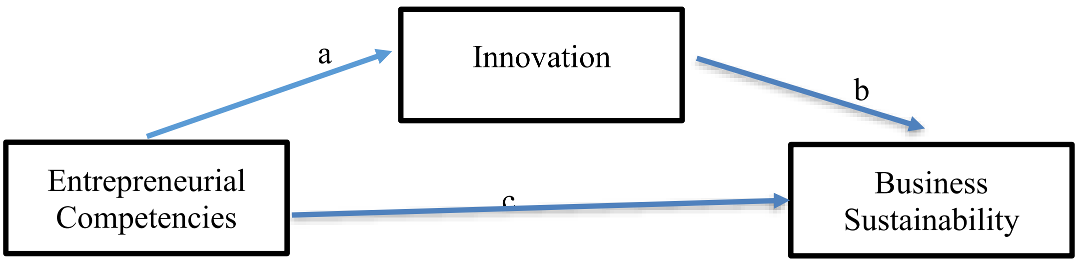

Figure 1. Mediation Relationship Model

Result

Result Of Data Analysis

This study examined the effect of entrepreneurial competencies on business sustainability with innovation as a mediating variable among SMEs in Tanah Datar, West Sumatra. The data were analyzed using SPSS through regression analysis and mediation testing. Entrepreneurial competencies were positioned as the independent variable, innovation as the mediating variable, and business sustainability as the dependent variable.

The mediation model was tested in three regression steps. First, entrepreneurial competencies were tested as a predictor of business sustainability. Second, entrepreneurial competencies

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were tested as a predictor of innovation. Third, entrepreneurial competencies and innovation were tested simultaneously as predictors of business sustainability. This procedure follows the logic of mediation testing, as also applied in the reference article, where the independent variable was first tested on the dependent variable, then on the mediating variable, and finally both independent and mediating variables were tested on the dependent variable.

Regression Analysis

Table 1. Regression Analysis of Entrepreneurial Competencies on Business Sustainability

Independent Variable	R^2	F	B	Beta	t	p
Entrepreneurial Competencies	0.675	78.996	0.632	0.822	8.888	0.000

Dependent variable: Business Sustainability
Significant at $p < 0.05$

Table 1 shows that entrepreneurial competencies have a positive and significant effect on business sustainability. The R^2 value of 0.675 indicates that entrepreneurial competencies explain 67.5% of the variance in business sustainability. The regression coefficient is 0.632, with a t-value of 8.888 and a significance value of 0.000. Since the p-value is lower than 0.05, the effect is statistically significant. This means that higher entrepreneurial competencies are associated with higher business sustainability among SMEs in Tanah Datar. Therefore, H1 is supported.

Table 2 Regression Analysis of Entrepreneurial Competencies on Innovation

Independent Variable	B	Std. Error	Beta	T	P
Entrepreneurial Competencies	0.110	0.059	0.288	1.856	0.071

Dependent variable: Innovation
Significant at $p < 0.05$

Table 2 shows that entrepreneurial competencies have a positive but insignificant effect on innovation. The coefficient value is 0.110, with a t-value of 1.856 and a significance value of 0.071. Although the direction of the relationship is positive, the p-value is greater than 0.05, meaning that the effect is not statistically significant. Therefore, H2 is not supported. This result indicates that entrepreneurial competencies in this sample do not strongly predict innovation practices among SMEs.

Table 3. Regression Analysis of Entrepreneurial Competencies and Innovation on Business Sustainability

Independent Variable	R^2	F	B	Beta	t	p
Entrepreneurial Competencies	0.696	42.403	0.598	0.778	8.222	0.000
Innovation	0.696	42.403	0.305	0.151	1.601	0.118

Dependent variable: Business Sustainability
Significant at $p < 0.05$

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Table 3 shows that entrepreneurial competencies and innovation together explain 69.6% of the variance in business sustainability. The overall regression model is significant, as indicated by the F-value of 42.403 and a significance value of 0.000. However, when examined individually, only entrepreneurial competencies have a significant effect on business sustainability. The coefficient of entrepreneurial competencies is 0.598, with a t-value of 8.222 and a significance value of 0.000. Meanwhile, innovation has a coefficient value of 0.305, with a t-value of 1.601 and a significance value of 0.118. Since the p-value of innovation is greater than 0.05, innovation does not significantly affect business sustainability. Therefore, H3 is not supported.

Mediation Effect Testing

The mediating effect of innovation was tested by calculating the indirect effect of entrepreneurial competencies on business sustainability through innovation. The indirect effect was obtained by multiplying path a and path b.

Path a represents the effect of entrepreneurial competencies on innovation. Path b represents the effect of innovation on business sustainability while controlling entrepreneurial competencies.

Table 4. Mediation Path Coefficients

Path	Relationship	Coefficient	Std. Error	p
a	Entrepreneurial Competencies → Innovation	0.110	0.059	0.071
b	Innovation → Business Sustainability	0.305	0.191	0.118
c	Entrepreneurial Competencies → Business Sustainability	0.632	0.071	0.000
c’	Entrepreneurial Competencies → Business Sustainability, controlling Innovation	0.598	0.073	0.000

Based on Table 4, the indirect effect can be calculated as follows:

Indirect effect = a × b

Indirect effect = 0.110 × 0.305 = 0.034

The result shows that the indirect effect of entrepreneurial competencies on business sustainability through innovation is 0.034. This value is relatively small compared to the total effect of entrepreneurial competencies on business sustainability, which is 0.632.

Table 5. Direct, Indirect, and Total Effects

Effect	Value
Total Effect	0.632
Direct Effect	0.598
Indirect Effect	0.034
Proportion of Mediation	5.4%

Table 5 shows that the indirect effect accounts for approximately 5.4% of the total effect. This indicates that the contribution of innovation as a mediating variable is very small. In other words, the relationship between entrepreneurial competencies and business sustainability is mainly explained by the direct effect rather than the indirect effect through innovation.

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To further test the significance of the indirect effect, the Sobel test was conducted.

Table 6. Sobel Test Result

Description	Value
A	0.110
Sa	0.059
B	0.305
Sb	0.191
Sobel Z	1.21
Critical Z at 5%	1.96
p-value	0.22
Decision	Not significant

Table 6 shows that the Sobel Z value is 1.21. At the 5% significance level, the critical value is 1.96. Since the Sobel Z value is lower than 1.96 and the p-value is greater than 0.05, the indirect effect is not statistically significant. Therefore, innovation does not mediate the relationship between entrepreneurial competencies and business sustainability. Thus, H4 is not supporte

Discussion

The result show that entrepreneurial competencies have a positive and significant effect on business sustainability. The model explains a substantial proportion of business sustainability, as reflected by the R^2 value of 0.675 and a significance level of $p = 0.000$ This means that the higher the entrepreneurial competencies owned by SMEs owners or managers, the higher their ability to maintain business continuity. Entrepreneurial Competencies are important for SMEs in Tanah Datar, West Sumatra because the owners are mostly involved directly in various business activities such as decision making, resource management, marketing and strategies for sustaining the business amid competition.

This finding is in line with the Resource-Based View (RBV), that internal resources and capabilities can be the basis of competitive advantage and business sustainability. In this study, entrepreneurial competencies are understood as an internal capability that helps SMEs to manage limited resources, identify opportunities, build relationships and adapt to market changes. Therefore, SME owners with higher competence are more able to sustain the business in the long run.

This result is also consistent with previous studies stating that entrepreneurial competencies are important in improving the performance, competitiveness and success of small and medium enterprises. Entrepreneurial competencies have a positive relationship with business success among SMEs in Malaysia (Umar et al., 2018). Moreover, Al Koliby et al. discovered that entrepreneurial competencies contributed to the sustainable performance of manufacturing SMEs. These findings reinforce the argument for the competencies of business owners as an important foundation for developing SME sustainability.

But in this study, entrepreneurial competencies have a positive but insignificant effect on innovation . In other words, entrepreneurial competencies could promote innovation but the effect is not statistically strong enough. This suggests that business owners' capacity to manage their businesses, to identify opportunities or to build networks, does not necessarily lead to

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innovation. Other forms of support are often necessary for innovation in SME practices, including capital, technology, market knowledge, digital skills, adequate human resources and a conducive business environment.

This finding is inconsistent with some prior studies. Umar et al. found that entrepreneurial competencies have a significant impact on innovation among SMEs in Malaysia. Ismail also found that the competencies of entrepreneurs had a positive impact on the entrepreneurial innovations of SMEs in Tanzania. The variation in findings may be due to differences in the research context, the characteristics of the respondents, the sample size and the innovation readiness of SMEs. The sample in this study was 40 SMEs in Tanah Datar which may limit the statistical ability to detect small effects. Moreover, the innovation practices of local SMEs may still be simple, informal and not yet systematically implemented.

Moreover, the study revealed that innovation has a positive but insignificant impact on business sustainability . This suggests a positive orientation of innovation, but the effect on the sustainability of SMEs has not been demonstrated by this study. The condition will probably occur because the innovation carried out by the SMEs is still limited to small changes such as variation of product, packaging improvement, simple promotion or limited use of social media. Such innovation can help to make business more attractive, but may not be sufficient to improve business sustainability if not supported by marketing strategy, production capacity, access to capital and proper business management.

This finding is not in full agreement with previous studies which generally state that innovation plays an important role in improving business sustainability and performance. (Prakasa et al., 2022) found innovation as a contributor to sustainable performance in manufacturing SMEs. Furthermore, Ismail found that entrepreneurial innovation was positively related to the sustainability of SMEs. The different findings indicate that the impact of innovation on business sustainability is dependent on the business context, the quality of innovation, and the ability of business owners to convert innovation into real economic value.

The mediation test indicates that innovation does not mediate the relationship between entrepreneurial competencies and business sustainability. The indirect effect has a value of 0.034. The proportion of mediation is approximately 5.4%. This suggests that the role of innovation as a mediating variable is very small. The Sobel test also gave a Z-value of 1.21 with a p-value of 0.22, indicating that the indirect effect is not significant. Therefore, the relationship between entrepreneurial competencies and business sustainability is explained more by the direct effect than by the indirect effect through innovation.

This result is different from the result of Ismail's research which found that entrepreneurial innovations mediate the relationship between entrepreneurs' competencies and sustainability of SMEs partially. The present finding also differs from Al Koliby et al., who found that innovation mediates the relationship between entrepreneurial competencies and sustainable performance in manufacturing SMEs. In this study, mediation was not supported because two important paths in the mediation model, namely the effect of entrepreneurial competencies on innovation and the effect of innovation on business sustainability, were both insignificant.
The results still support RBV theoretically as entrepreneurial competencies are shown as an internal capability that directly affects business sustainability. However, the results do not fully

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support the mediatory mechanism of innovation. This means that SME owners in Tanah Datar may be able to sustain their businesses through experience, commitment, opportunity recognition, customer relationships, and resource management, but not yet through structured innovation that has a major impact on business sustainability.

In practical terms, the findings suggest that enhancing entrepreneurial competencies remains a significant priority for SMEs in Tanah Datar. More help is needed with business planning, financial management, marketing, decision-making, and networking among business owners. However, to play a greater role in innovation, SMEs need more practical support such as product development training, digital marketing, packaging design, product standardization, technology adoption, access to finance and market expansion.

This research finds that entrepreneurial competence has a more direct impact on business sustainability of SMEs in Tanah Datar compared to innovation as the mediating variable. This finding provides an insight that the capabilities and competencies of business owners are still the key factors to sustain the business in the context of local SMEs, especially if the innovation practices are still limited, not yet systematic, or not well supported by the available resources.

Conclusion

This research concludes that the entrepreneurial competencies are essential to support the business sustainability of manufacturing SMEs in Tanah Datar, West Sumatra. The results show that entrepreneurial competencies are positively and significantly related to business sustainability. This means the ability of business owners or managers in identifying opportunities, developing relationships, thinking strategically, managing resources and maintaining business commitment is very relevant in sustaining business operations. Business sustainability in local manufacturing SMEs is not just the result of formal business systems or advanced technology but also the practical capacity of business owners to make decisions, solve problems, maintain customer trust, and manage limited resources in the daily business activities.

The main contribution of this study is the finding that innovation is not a mediator between entrepreneurial competencies and business sustainability. This result provides an understanding that entrepreneurial competencies can directly strengthen business sustainability, but not automatically lead to innovation-based sustainability. Local SMEs may be able to ensure business continuity, adjust to market conditions and maintain relations with customers and suppliers in the case of competent business owners. But these competencies do not necessarily make for organized, market-oriented and resource-supported innovation.

This finding gives a more contextual understanding of SME sustainability in Tanah Datar. Innovation is important, however on this study, it has not become the main pathway that links entrepreneurial competencies to improved business sustainability. This situation may be due to the nature of innovation in local manufacturing SMEs which is generally incremental, informal and limited to small improvements such as product variation, packaging changes, simple promotions or minor changes in production processes. Such innovation can help businesses stay afloat, but is not yet robust enough to make a significant impact on long-term sustainability. From the theoretical perspective, the findings support the Resource-Based View, and suggest that entrepreneurial competencies are valuable internal capabilities, directly

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affecting business sustainability. Moreover, innovation requires the support of resources, technology, market information, financing, and institutional support as an effective mediating mechanism.

Practically, the results imply that the SME development programs in Tanah Datar should not only focus on increasing entrepreneurial motivation, but also to strengthen practical entrepreneurial competencies. Local policy makers such as local government, SME related agencies, industry related institutions should provide more specific programs in business planning, financial management, market analysis, customer relationship management, resource allocation and business sustainability strategies. These programs ought to be practical, ongoing and tailored to the actual conditions of manufacturing SMEs and not just general entrepreneurship seminars.

In the meantime, local policymakers need to develop a stronger innovation support system to transform the business owners' competencies into tangible innovation. This could be achieved through assistance in product development, packaging improvement, digital marketing training, production technology support, product standardization, halal certification, business licensing assistance, access to finance and market expansion programs. There should also be greater collaboration among local governments, universities, financial institutions, business associations and larger firms so that SMEs can access mentoring, financing, simple technology, exhibitions, digital marketplaces and wider market connections.

This research shows that the total of entrepreneurial competence has a more dominant direct impact on business sustainability than innovation as a mediating variable in manufacturing SMEs in Tanah Datar. While this finding confirms the importance of competent entrepreneurs for SME survival, innovation needs further support before it can become a strong pathway toward business sustainability. Hence, the future development of SMEs in Tanah Datar should incorporate two approaches, i.e. strengthening the competencies of business owners and building an innovation ecosystem that is practical, accessible, and relevant to the needs of local manufacturing SMEs. Future studies are recommended to increase the sample size and expand the research area. Other factors such as digital capability, market orientation, government support, access to capital and competitive advantage should also be investigated in order to provide more comprehensive explanation of SME business sustainability.

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