

SUSTAINABLE ENTREPRENEURSHIP AND PERFORMANCE IN DISABILITY MSMEs: ROLES OF LEADERSHIP, DIGITAL TRANSFORMATION, SOCIAL INNOVATION

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Abstract

This study examines the role of Sustainable Leadership, Digital Transformation, and Social Innovation in promoting Sustainable Entrepreneurship and Sustainable Business Performance among disability-owned MSMEs in East Java, Indonesia. Drawing on Dynamic Capabilities Theory (DCT) and the Natural-Resource-Based View (NRBV), the study conceptualizes Sustainable Entrepreneurship as a strategic capability that enables MSMEs to transform leadership orientations, digital resources, and social innovation into sustainable business outcomes. The study employed a quantitative research design using a survey of 266 respondents from disability-owned MSMEs. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS. The results demonstrate that Sustainable Leadership has a positive and significant effect on Sustainable Entrepreneurship, while Digital Transformation does not significantly influence Sustainable Entrepreneurship. Social Innovation has a very strong and significant effect on Sustainable Entrepreneurship. Furthermore, Sustainable Entrepreneurship strongly and positively influences Sustainable Business Performance. Regarding direct effects on performance, Digital Transformation has a significant positive effect, whereas Sustainable Leadership and Social Innovation do not have significant direct effects. The mediation analysis indicates that Sustainable Entrepreneurship significantly mediates the relationship between Sustainable Leadership and Sustainable Business Performance and between Social Innovation and Sustainable Business Performance. However, the indirect effect of Digital Transformation through Sustainable Entrepreneurship is not significant. The model explains 78.0% of the variance in Sustainable Entrepreneurship and 82.3% of Sustainable Business Performance, with strong predictive relevance. These findings highlight that sustainable performance among disability-owned MSMEs depends not solely on adopting digital technologies or implementing social initiatives, but on the ability to transform these resources into sustainable entrepreneurial capabilities. The study contributes to DCT and NRBV by positioning Sustainable Entrepreneurship as a critical capability-based mechanism for achieving sustainable business performance.

Keywords: Digital Transformation; Disability MSMEs; Social Innovation; Sustainable Business Performance; Sustainable Entrepreneurship.



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1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are key drivers of the Indonesian economy, contributing significantly to economic growth, job creation, and equitable income distribution (Saptaria & Lestari, 2025). The Ministry of MSMEs currently prioritizes MSME productivity and entrepreneurship as strategic agenda items (Arifin et al., 2025). Within a development framework that increasingly emphasizes inclusivity and sustainability, MSMEs owned and managed by persons with disabilities hold a strategic position in expanding economic opportunities for a group that has historically faced various limitations in accessing resources and business prospects (Cosa, 2025; Widagdo, 2025). MSMEs run by persons with disabilities should not merely be viewed as targets for empowerment or recipients of social welfare benefits; rather, they should be recognized as entrepreneurial actors capable of generating economic and social value through productive and sustainable business activities (Nursetiana et al., 2022). While MSMEs owned by persons with disabilities are already engaged in economic activity, the majority still struggle to transform these activities into more productive and competitive business growth (Krisnandika, 2025; Rinaldi, 2023; Timotius & Sirine, 2026).

Major obstacles hindering the performance of these entrepreneurs include limited access to capital, low levels of digital and financial literacy, and a lack of inclusive infrastructure (Ane et al., 2024; Krisnandika & Zulkarnain, 2025). Against this backdrop, the development of MSMEs owned by persons with disabilities should be directed toward sustainable entrepreneurship practices an approach that goes beyond a mere focus on economic profit to also consider social value creation and long-term sustainability (Alajmi, 2026). Sustainable entrepreneurship positions business actors as value creators capable of identifying opportunities arising from economic, social, and environmental issues, and subsequently transforming them into innovations and business activities that benefit both the enterprise and society (Al-hattami et al., 2026). For MSMEs run by entrepreneurs with disabilities, the sustainable entrepreneurship approach is crucial for achieving inclusive economic independence, enhancing long-term competitiveness, and expanding equal opportunities within society (Genadi et al., 2026; Rispatiningsih et al., 2026). Strengthening sustainable entrepreneurship requires the ability to recognize opportunities, develop innovations, manage resources effectively, respond to changes in the business environment, and create value sustainably (Marcon, 2026).

In this context, previous studies have highlighted the importance of sustainable leadership, digital transformation, and social innovation in establishing sustainability-oriented entrepreneurial practices (Al-hattami et al., 2026; Durst et al., 2021). Sustainable leadership (SL) is a leadership style that embraces inclusivity, empowers the potential of individuals with disabilities, and ensures long-term business continuity (Santos, 2020; Woo & Kang, 2020). SL plays a role in shaping an organization's vision, values, and strategic direction so that it is not solely oriented toward economic profit but also considers social and environmental impacts (Lathifah et al., 2026). Leaders with a sustainability orientation tend to encourage long-term decision-making, foster stakeholder engagement, and create an environment that supports innovation and responsible business practices (Paudi, 2024; Saptaria et al., 2026). In the context of MSMEs run by entrepreneurs with disabilities, the role of SL is increasingly vital, as leaders or business owners must optimize limited resources, respond to changing market needs, and build adaptability to technological shifts and changes in the business environment (Liao, 2022).

The relationship between sustainable leadership and sustainable entrepreneurship can be explained through Dynamic Capabilities Theory (DCT) (Teece, 2022). This theory posits that

an organization's sustained business performance is determined not merely by resource ownership, but also by its ability to identify environmental changes, seize opportunities, and adapt or reconfigure its existing resources (Nugroho et al., 2025). These capabilities are manifested through three key processes: sensing, seizing, and transforming or reconfiguring (Shen et al., 2025).. Sensing refers to the organization's ability to recognize opportunities and threats arising from shifts in consumer needs, technology, competition, and the business environment. Seizing entails the ability to make decisions and allocate resources to capture the identified opportunities. Meanwhile, transforming or reconfiguring signifies the organization's capacity to reorganize resources, processes, and business models to remain aligned with a changing environment.

This perspective is relevant for explaining the performance of MSMEs run by entrepreneurs with disabilities, as these businesses face not only business environment dynamics but also various constraints regarding access to capital, technology, information, markets, and business networks. In the context of MSMEs run by entrepreneurs with disabilities, sustainable leadership can foster these capabilities through long-term vision, learning, adaptation, and sustainability-oriented resource management (Achmad, 2024; Rosário & Boechat, 2025). These dynamic capabilities subsequently enable entrepreneurs to recognize sustainability opportunities, leverage available technology and networks, and develop innovations that create both economic and social value (Iqbal et al., 2020). Thus, sustainable entrepreneurship can be understood as the actualization of dynamic capabilities within sustainability-oriented entrepreneurial activities (Rosário & Boechat, 2025). Based on this reasoning, the research hypothesis is formulated as follows:

H1: Sustainable leadership has a positive and significant effect on sustainable entrepreneurship.

Digital transformation is viewed as a crucial enabler in the development of sustainable entrepreneurship. The utilization of digital technology enables MSMEs to enhance business process efficiency, expand market access, build customer relationships, optimize resource usage, and acquire and leverage information for decision-making (Lina Saptaria & Sopiah, 2022). Digital transformation also opens opportunities for MSMEs to develop new business models, increase operational flexibility, and extend market reach without a proportional increase in resource consumption (Anwar et al., 2023). From a sustainability perspective, digital capabilities relate not only to technology adoption but also to the ability to leverage technology as an instrument for more effectively creating economic, social, and environmental value (Khairani et al., 2025). MSME entrepreneurs with disabilities are required to utilize digital technology to help mitigate geographical and market access barriers while expanding opportunities to conduct business activities with greater flexibility. Based on these arguments, the research hypothesis is formulated as follows:

H2: Digital transformation has a positive and significant effect on sustainable entrepreneurship.

Social innovation is a strategic approach enabling MSMEs to create economic value while simultaneously delivering social benefits. It refers to the development of new ideas, products, services, processes, or business models aimed at addressing social needs and issues more effectively (Idris et al., 2023). By developing these new elements, social innovation allows business owners to respond to unmet social needs while discovering new business opportunities. Thus, social innovation is not solely focused on resolving social problems; it can also serve as a source of value creation and business advantage (Srikalimah et al., 2025). In the context of MSMEs run by entrepreneurs with disabilities, social innovation can be a means to

address issues regarding economic inclusion, limited access, and the empowerment of underserved groups. Based on this reasoning, the research hypothesis is formulated as follows:
H3: Social innovation has a positive and significant effect on sustainable entrepreneurship.

Previous studies have demonstrated the importance of sustainable entrepreneurship, sustainable leadership, digital transformation, and social innovation in supporting business sustainability performance (Arroyabe & Arranz, 2026; Cosa, 2025; Emon & Khan, 2023; Hashim et al., 2026). Existing literature indicates that the application of sustainability principles encourages business owners to utilize resources more efficiently, develop product and process innovations, and respond more adaptively to changing market needs. Such efficiency can reduce operational costs, while innovation and adaptability can enhance competitiveness, customer satisfaction, and market opportunities. Sustainable entrepreneurship has a positive and significant impact on business performance (Wijaya et al., 2025). Empirical evidence from 369 SMEs across ASEAN countries indicates that sustainable leadership contributes to improved sustainability performance through mechanisms of organizational learning and psychological empowerment (Iqbal et al., 2020). Digital transformation significantly influences sustainability performance, encompassing economic, social, and environmental dimensions (Trueba-castañeda et al., 2024). Social innovation is closely linked to the creation of social value, inclusion, and the resolution of socio-environmental issues, resulting in enhanced sustainable business performance (Arroyabe & Arranz, 2026; Pinzón-castro & Maldonado-guzmán, 2021). Based on this reasoning, the research hypotheses are formulated as follows:

H4: Sustainable entrepreneurship has a positive and significant effect on sustainable business performance.

H5: Sustainable leadership has a positive and significant effect on sustainable business performance.

H6: Digital transformation has a positive and significant effect on sustainable business performance.

H7: Social innovation has a positive and significant effect on sustainable business performance.

Sustainable entrepreneurship translates a sustainable leadership orientation into business practices that enhance efficiency, competitiveness, and business sustainability. Consequently, sustainable entrepreneurship is posited as the mechanism through which sustainable leadership influences sustainable business performance. Based on this argument, the research hypothesis is formulated as follows:

H8: Sustainable entrepreneurship mediates the positive and significant influence of sustainable leadership on sustainable business performance.

Digital transformation enables MSMEs to improve efficiency, information access, and innovation, as well as the ability to identify and respond to market opportunities. These capabilities can foster sustainable entrepreneurship by facilitating the creation of business models, products, and processes that are more innovative and sustainability-oriented. Sustainable entrepreneurship subsequently converts the benefits of digital transformation into economic, social, and environmental value creation that supports enhanced sustainable business performance. Based on this argument, the research hypothesis is formulated as follows:

H9: Sustainable entrepreneurship mediates the positive and significant influence of digital transformation on sustainable business performance.

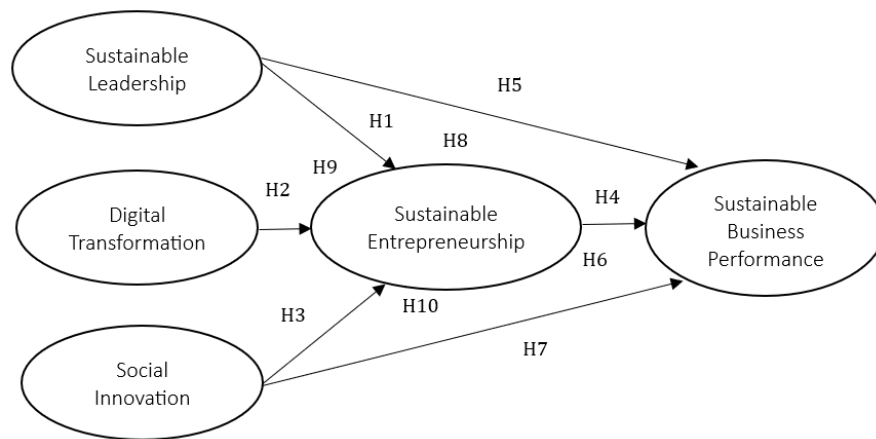
The ability to generate innovations aimed at solving social issues can strengthen sustainable entrepreneurship. From the perspective of the Natural-Resource-Based View (NRBV), sustainable entrepreneurship serves as a mechanism that transforms strategic resources and capabilities into business activities generating economic, social, and environmental value. Ultimately, these capabilities can enhance sustainable business performance through resource efficiency, innovation, competitiveness, reputation, adaptability, and business continuity. Based on this argument, the research hypothesis is formulated as follows:

H10: Sustainable entrepreneurship mediates the positive and significant influence of social innovation on sustainable business performance.

Research integrating sustainable leadership, digital transformation, social innovation, and sustainable entrepreneurship within a single conceptual framework remains relatively limited. This limitation highlights a gap in explaining the mechanisms that transform leadership orientations and organizational capabilities into sustainability-oriented entrepreneurial practices. This gap is particularly evident in the context of MSMEs run by entrepreneurs with disabilities. Most studies on sustainable entrepreneurship have focused on large enterprises or MSMEs in general; consequently, they have not fully elucidated how the characteristics of persons with disabilities, limited access to technology, low digital literacy, and a lack of ecosystem support influence the process of establishing sustainable entrepreneurship.

To address this gap, this study develops a conceptual framework integrating Sustainable Leadership, Digital Transformation, Social Innovation, and Sustainable Entrepreneurship within the context of MSMEs owned by persons with disabilities, utilizing Dynamic Capabilities Theory (DCT) and the Natural-Resource-Based View (NRBV) as theoretical foundations. Sustainable Leadership is viewed as a driver of MSMEs' ability to recognize, seize, and reconfigure opportunities and resources; Digital Transformation supports adaptability and technology utilization; and Social Innovation strengthens social value creation and sustainability orientation, which are subsequently realized through Sustainable Entrepreneurship. The study's novelty lies in integrating these four constructs to explain the mechanisms forming Sustainable Entrepreneurship and its implications for Sustainable Business Performance in MSMEs owned by persons with disabilities—a segment that has received relatively little research attention compared to MSMEs in general. Theoretically, this study extends the application of DCT and NRBV by explaining how sustainable leadership, technology utilization, and social innovation can shape sustainable entrepreneurial capabilities; empirically, it provides evidence regarding factors that strengthen the ability of MSMEs owned by persons with disabilities to create economic and social value and enhance business performance sustainably.

This study aims to examine the influence of Sustainable Leadership, Digital Transformation, and Social Innovation on Sustainable Entrepreneurship, as well as the direct impact of these four factors on Sustainable Business Performance. It also investigates the mediating role of Sustainable Entrepreneurship in the relationships between Sustainable Leadership, Digital Transformation, Social Innovation, and Sustainable Business Performance within MSMEs owned by persons with disabilities.



Source: Author's own work (2026)

Figure 1. Research framework

2. Method

2.1. Research Design

This study employs a quantitative design with a survey method to examine the relationships among sustainable leadership, digital transformation, social innovation, sustainable entrepreneurship, and sustainable business performance within MSMEs owned by persons with disabilities in East Java.

2.2. Participants / Data Source

The study population comprises all individuals with disabilities in East Java, Indonesia, who operate businesses through MSMEs. Sample size determination was conducted using power analysis via G*Power, employing an F-test approach specifically, linear multiple regression (fixed model, R^2 deviation from zero). The calculation was based on the "Sustainable Business Performance" construct as the endogenous variable with the highest number of direct predictors namely Sustainable Leadership, Digital Transformation, Social Innovation, and Sustainable Entrepreneurship (totaling four predictors). Assuming a medium effect size ($f^2 = 0.15$), a significance level of 5% ($\alpha = 0.05$), and a statistical power of 80%, the minimum required sample size was approximately 85 respondents. However, this study utilized a sample of 266 respondents to achieve greater statistical power and generate more stable model estimates. All respondents were selected using purposive sampling.

The inclusion criteria for respondents were as follows: (1) being an owner or manager of an MSME run by a person with a disability; (2) operating the business within the East Java region; (3) having a business in operation for at least two years; (4) being directly involved in business decision-making and management; (5) having actively conducted business operations within the last 12 months; and (6) being willing and able to complete the research questionnaire. Respondent screening was carried out using specific questions at the beginning of the questionnaire; respondents who failed to meet any of the inclusion criteria did not proceed to the main research questions. This procedure ensured that the data obtained originated from MSMEs run by individuals with disabilities who possessed sufficient experience and informational capacity to evaluate the research constructs.

2.3. Instrument and Data Collection

The study employed a questionnaire to measure five constructs: Sustainable Leadership (SL), Digital Transformation (DT), Social Innovation (SI), Sustainable Entrepreneurship (SE), and Sustainable Business Performance (SBP). The indicators were adapted from prior research and tailored to the characteristics of MSMEs run by entrepreneurs with disabilities in East Java. All items were measured using a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

Table 1. Operational Definitions of Variables

Variable	Indicator	Code	Statement Item
Sustainable Leadership	Sustainability vision	SL1	I have a business vision that considers long-term business sustainability.
		SL2	I steer the business toward achieving economic success while delivering social and environmental benefits.
	Long-term orientation	SL3	When making business decisions, I consider their impact on future business sustainability.
		SL4	I prioritize decisions that yield long-term benefits over short-term gains.
	Social and environmental responsibility	SL5	I encourage business activities that benefit the community.
		SL6	I pay attention to the environmental impact of business activities.
	Empowerment and engagement	SL7	I encourage business members to participate in efforts to enhance business sustainability.
		SL8	I provide opportunities for business members to share ideas regarding business improvements.
	Leadership by example	SL9	I set an example by implementing responsible business practices.
Digital Transformation	Utilization of digital technology	DT1	I use digital technology in conducting business activities.
		DT2	Digital technology has become an integral part of my business operations.
	Digitalization of business processes	DT3	I use digital technology to make business processes more efficient.
		DT4	I utilize digital technology to manage business information and operations.
	Digital marketing	DT5	I use digital media to market products or services.
		DT6	I leverage digital platforms to reach a wider customer base.
	Data-driven decision-making	DT7	I utilize digital information when making business decisions.
		DT8	I use data or information from digital platforms to understand customer needs.
	Digital adaptation	DT9	I am able to adapt my business operations in response to changes in digital technology.

Variable	Indicator	Code	Statement Item
		DT10	I continuously seek out digital technologies that can improve business performance.
Social Innovation	Social product/service innovation	SI1	I develop products or services that benefit the community.
		SI2	I tailor products or services to meet the needs of underserved segments of the community.
	Process innovation	SI3	I develop new ways of operating the business to generate greater social impact.
		SI4	I modify business processes to enhance benefits for customers and the community.
	Business model innovation	SI5	I develop new business methods that simultaneously create social value.
		SI6	I integrate social objectives into the business model.
	Social problem-solving	SI7	My business strives to provide solutions to local social issues.
		SI8	I use innovation to help address community needs or problems.
	Social value creation	SI9	The innovations implemented by my business deliver social benefits to the community.
		SI10	My business aims to create both economic and social value through innovation.
Sustainable Entrepreneurship	Identification of sustainability opportunities	SE1	I am able to identify business opportunities that offer economic benefits alongside social or environmental ones.
		SE2	I actively seek business opportunities that support business sustainability.
	Exploitation of opportunities	SE3	I am able to transform sustainability-related opportunities into business activities.
		SE4	I am willing to develop new business opportunities that yield social or environmental benefits.
	Economic orientation	SE5	I strive to generate profit through sustainable business activities.
		SE6	I consider the sustainability of profits when developing a business.
	Social orientation	SE7	When developing a business, I consider the benefits it can provide to the community.
		SE8	I aim to create social value through business activities.
	Environmental orientation	SE9	I take environmental impact into account when developing business activities.
		SE10	I seek business opportunities that can reduce negative environmental impacts.

Variable	Indicator	Code	Statement Item
Sustainable Business Performance	Creation of sustainable value	SE11	I develop businesses to simultaneously create economic, social, and environmental value.
		SE12	Sustainability is an integral part of how I develop my business.
	Economic performance	SBP1	My business's sales performance has improved over the last few years.
		SBP2	My business's productivity has increased over the last few years.
	Business sustainability	SBP3	My business has the ability to withstand changes in the business environment.
		SBP4	My business is able to retain customers in the long term.
	Social performance	SBP5	My business provides benefits to the surrounding community.
		SBP6	My business contributes to improving the well-being of those involved in the enterprise.
	Environmental performance	SBP7	My business strives to reduce waste or negative environmental impacts.
		SBP8	My business uses resources more efficiently in its operations.

Source: Author's own work (2026)

2.4. Data Analysis

Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM), a variance-based multivariate analysis technique used to examine complex relationships among latent constructs within measurement and structural models (Hair et al., 2021). PLS-SEM was selected because it aligns with the study's predictive objectives and involves multiple latent constructs and mediation relationships via Sustainable Entrepreneurship. Data analysis encompassed the evaluation of measurement and structural models, as well as hypothesis testing for direct and indirect effects. Measurement model evaluation involved assessing indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. Indicator reliability was assessed based on outer loading values ≥ 0.70 , while internal consistency reliability was evaluated using Cronbach's alpha (α) ≥ 0.70 and composite reliability (CR) ≥ 0.70 . Convergent validity was established when the average variance extracted (AVE) was ≥ 0.50 . Furthermore, discriminant validity was evaluated using the Heterotrait–Monotrait (HTMT) ratio (< 0.90) and the Fornell–Larcker criterion ($\sqrt{\text{AVE}} > \text{inter-construct correlation}$). Structural model evaluation involved testing for collinearity and examining path coefficients, R^2 , f^2 , and Q^2 . Collinearity was assessed based on $\text{VIF} < 5$, while path coefficients were used to evaluate the direction and strength of relationships between constructs, with significance determined via bootstrapping at the 5% level. R^2 values of 0.75, 0.50, and 0.25 indicate substantial, moderate, and weak explanatory power, respectively. Effect size (f^2) values of 0.02, 0.15, and 0.35 indicate small, medium, and large effects. Finally, a Q^2 value > 0 indicates that the model possesses predictive relevance.

3. Results and Discussion

3.1 Respondent Characteristics

The demographic profile indicates that the 266 respondents are owners or managers of MSMEs run by individuals with disabilities in East Java, exhibiting diverse characteristics in terms of gender, age, education level, business tenure, business role, and business sub-sector. The respondents are predominantly within the productive age group, with the majority possessing over five years of business experience. Regarding sub-sectors, the respondents operate across culinary, handicrafts, trade, services, fashion/textiles, and agriculture/agribusiness fields. This diversity of characteristics demonstrates that the study involves MSME operators with disabilities who possess varied backgrounds and business experiences.

Table 2. Descriptive Statistics of Research Variables

Characteristic	Category	Frequency (N=266)	Percentage (%)
Gender	Male	145	54,5
	Female	121	45,5
	Total	266	100,0
Age	20–29 years	42	15,8
	30–39 years	67	25,2
	40–49 years	82	30,8
	≥ 50 years	75	28,2
	Total	266	100,0
Highest Level of Education	Elementary School/Equivalent	28	10,5
	Junior High School/Equivalent	43	16,2
	Senior/Vocational High School/Equivalent	109	41,0
	Diploma/Bachelor's Degree	86	32,3
	Total	266	100,0
Duration of Business Operation	2–5 years	71	26,7
	6–10 years	83	31,2
	11–15 years	57	21,4
	> 15 years	55	20,7
	Total	266	100,0
Position in the Business	Owner	187	70,3
	Owner-manager	79	29,7
	Total	266	100,0
Business Sub-sector	Culinary/Food and Beverage	62	23,3
	Crafts	48	18,0
	Trade	51	19,2
	Services	43	16,2
	Fashion/Textiles	32	12,0
	Agriculture/Agribusiness	30	11,3
	Total	266	100,0

Source: Author's own work (2026)

3.2 Evaluation of measurement models

The results of the construct validity and reliability tests presented in Table 3 indicate that all indicators exhibit factor loadings ranging from 0.702 to 0.898; thus, all indicators meet the

convergent validity criterion (>0.70). The Average Variance Extracted (AVE) values for all constructs also exceed 0.50: Sustainable Leadership (0.780), Digital Transformation (0.666), Social Innovation (0.663), Sustainable Entrepreneurship (0.667), and Sustainable Business Performance (0.744). Furthermore, Composite Reliability (CR) values range from 0.930 to 0.967, and Cronbach's Alpha values range from 0.928 to 0.965, all of which surpass the 0.70 threshold. Consequently, all constructs in the study are deemed valid and reliable, indicating that the employed indicators consistently represent the research constructs, allowing the analysis to proceed to structural model testing.

Table 3. Validity and reliability construct

Variables	Indicator	Loadings Factor	AVE	CR	Cronbach's Alpha
Sustainable Leadership	SL1	0,883	0,780	0,967	0,965
	SL2	0,826			
	SL3	0,882			
	SL4	0,891			
	SL5	0,894			
	SL6	0,893			
	SL7	0,898			
	SL8	0,893			
	SL9	0,885			
Digital Transformation	DT1	0,783	0,666	0,930	0,928
	DT2	0,792			
	DT3	0,776			
	DT4	0,846			
	DT5	0,872			
	DT6	0,845			
	DT7	0,853			
	DT8	0,755			
Social Innovation	SI1	0,747	0,663	0,945	0,943
	SI2	0,806			
	SI3	0,852			
	SI4	0,837			
	SI5	0,853			
	SI6	0,848			
	SI7	0,838			
	SI8	0,836			
	SI9	0,807			
	SI10	0,702			
Sustainable Entrepreneurship	SE1	0,785	0,667	0,955	0,954
	SE2	0,815			
	SE3	0,810			
	SE4	0,846			
	SE5	0,824			
	SE6	0,841			
	SE7	0,809			

Variables	Indicator	Loadings Factor	AVE	CR	Cronbach's Alpha
	SE8	0,818			
	SE9	0,839			
	SE10	0,852			
	SE11	0,846			
Sustainable Business Performance	SBP1	0,860	0,744	0,952	0,951
	SBP2	0,862			
	SBP3	0,871			
	SBP4	0,863			
	SBP5	0,869			
	SBP6	0,831			
	SBP7	0,875			
	SBP8	0,868			

Source: Author's own work (2026)

Table 4. Discriminant Validity HTMT

	DT	SI	SBP	SE	SL
Digital Transformation (DT)					
Social Innovation (SI)	0.795				
Sustainable Bussiness Performance (SBP)	0.727	0.743			
Sustainable Entrepreneurship (SE)	0.677	0.620	0.704		
Sustainable Leadership (SL)	0,732	0,735	0,607	0,673	

Source: Author's own work (2026)

The discriminant validity test results indicate that the correlation values between constructs range from 0.607 to 0.795. The highest correlation (0.795) is observed between Digital Transformation (DT) and Social Innovation (SI), while the lowest (0.607) is found between Sustainable Leadership (SL) and Sustainable Business Performance (SBP). Overall, the inter-construct correlations demonstrate empirical distinctiveness among the constructs tested; thus, the requirement for discriminant validity is met.

Table 5. Discriminant Validity Fornell–Larcker Criterion

	DT	SI	SBP	SE	SL
Digital Transformation (DT)	0,516				
Social Innovation (SI)	0,440	0.543			
Sustainable Bussiness Performance (SBP)	0,391	0.443	0.543		
Sustainable Entrepreneurship (SE)	0,537	0.620	0.404	0.643	
Sustainable Leadership (SL)	0,547	0,635	0,607	0,473	0.643

Source: Author's own work (2026)

Based on the table, the HTMT (Heterotrait–Monotrait ratio) values between constructs range from 0.391 to 0.643, with the highest value being 0.643. All HTMT values fall below the 0.85 threshold; therefore, it can be concluded that discriminant validity has been established.

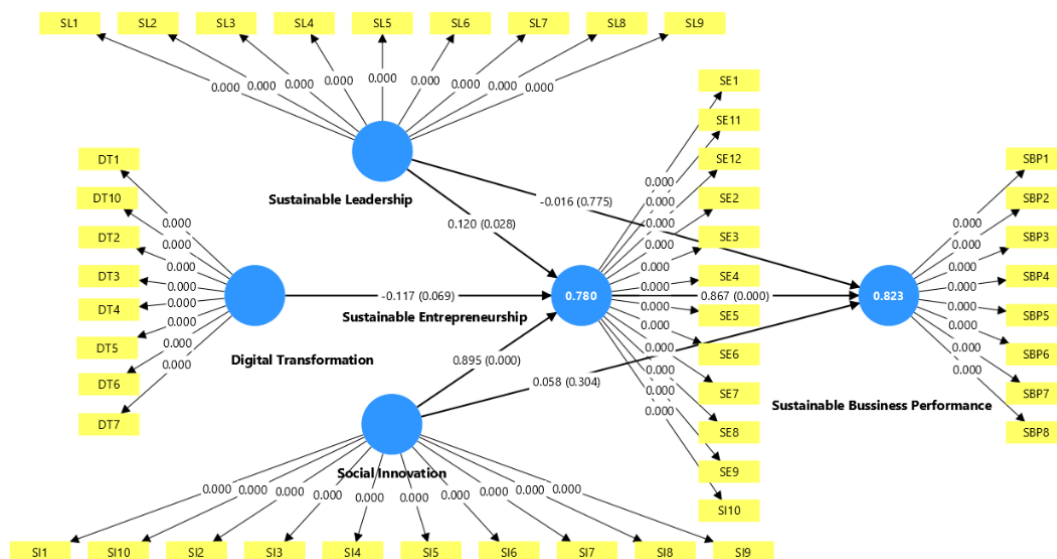
3.3 Evaluation of structural models

Table 6. Multicollinearity Assessment (Inner VIF Values)

Variabel	VIF
Digital Transformation -> Sustainable Entrepreneurship	3,138
Social Innovation -> Sustainable Bussiness Performance	1,128
Social Innovation -> Sustainable Entrepreneurship	2,404
Sustainable Entrepreneurship -> Sustainable Bussiness Performance	2,503
Sustainable Leadership -> Sustainable Bussiness Performance	1,981
Sustainable Leadership -> Sustainable Entrepreneurship	2,547

Source: Author's own work (2026)

Multicollinearity test results based on Variance Inflation Factor (VIF) values indicate that all inter-variable relationships exhibit VIF values ranging from 1.128 to 3.138. The highest VIF value (3.138) is observed in the relationship between Digital Transformation and Sustainable Entrepreneurship, while the lowest (1.128) is found in the relationship between Social Innovation and Sustainable Business Performance. As all VIF values fall below the threshold of 5.00, it can be concluded that there are no multicollinearity issues within the structural model. Consequently, the exogenous constructs do not demonstrate excessive correlation, and the model is suitable for proceeding to the testing of structural relationships.



Source: Author's own work (2026)

Figure 2. Model fit of the PLS analysis results

Table 7. Results of the Path Coefficients Test for Direct and Indirect Effects

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T statistics (O/STDEV)	P values	Hypothesis Decision
Sustainable Leadership -> Sustainable Entrepreneurship	0,120	0,124	0,099	3,357	0,001	Accepted

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T statistics (O/STDEV)	P values	Hypothesis Decision
Digital Transformation -> Sustainable Entrepreneurship	-0,117	-0,116	0,064	1,820	0,069	Rejected
Social Innovation -> Sustainable Entrepreneurship	0,895	0,890	0,048	18,805	0,000	Accepted
Sustainable Entrepreneurship -> Sustainable Bussiness Performance	0,867	0,864	0,050	17,376	0,000	Accepted
Sustainable Leadership -> Sustainable Bussiness Performance	-0,016	-0,015	0,057	0,286	0,775	Rejected
Digital Transformation -> Sustainable Bussiness Performance	0,177	0,176	0,070	2,536	0,011	Accepted
Social Innovation -> Sustainable Bussiness Performance	0,058	0,059	0,056	1,027	0,304	Rejected
Sustainable Leadership -> Sustainable Entrepreneurship -> Sustainable Bussiness Performance	0,104	0,107	0,047	2,218	0,027	Accepted
Digital Transformation -> Sustainable Entrepreneurship -> Sustainable Bussiness Performance	-0,101	-0,100	0,055	1,850	0,064	Rejected
Social Innovation -> Sustainable Entrepreneurship -> Sustainable Bussiness Performance	0,776	0,769	0,056	13,907	0,000	Accepted

Source: Author's own work (2026)

Based on Table 7, the path coefficient results indicate that Sustainable Leadership has a positive and significant effect on Sustainable Entrepreneurship ($\beta = 0.120$; $p = 0.001$), whereas Digital Transformation does not have a significant effect ($\beta = -0.117$; $p = 0.069$). Social Innovation has a positive and highly significant effect on Sustainable Entrepreneurship ($\beta = 0.895$; $p < 0.001$). Furthermore, Sustainable Entrepreneurship has a positive and significant effect on Sustainable Business Performance ($\beta = 0.867$; $p < 0.001$). Regarding the direct effect on Sustainable Business Performance, Sustainable Leadership does not have a significant effect ($\beta = -0.016$; $p = 0.775$), whereas Digital Transformation has a positive and significant effect ($\beta = 0.177$; $p = 0.011$). Social Innovation does not show a significant direct effect ($\beta = 0.058$; $p = 0.304$).

Regarding indirect effects, Sustainable Entrepreneurship is shown to mediate the relationship between Sustainable Leadership and Sustainable Business Performance ($\beta = 0.104$; $p = 0.027$) and the relationship between Social Innovation and Sustainable Business

Performance ($\beta = 0.776$; $p < 0.001$). Conversely, the mediation by Sustainable Entrepreneurship of the relationship between Digital Transformation and Sustainable Business Performance is not significant ($\beta = -0.101$; $p = 0.064$). Thus, Sustainable Entrepreneurship acts as a significant mediator in the relationships of Sustainable Leadership and Social Innovation with Sustainable Business Performance, but not in the relationship of Digital Transformation with Sustainable Business Performance.

Table 8. Results of the R² Calculation

	R-square	R-square adjusted
Sustainable Bussiness Performance	0,823	0,822
Sustainable Entrepreneurship	0,780	0,778

Source: Author's own work (2026)

Based on the R-square (R²) calculation results in Table 8, the Sustainable Business Performance variable has an R-square value of 0.823 and an adjusted R-square value of 0.822. These results indicate that 82.3% of the variation in Sustainable Business Performance can be explained by the variables included in the research model, while the remaining 17.7% is explained by factors outside the model. The adjusted R-square value of 0.822 which is relatively similar demonstrates that the model's predictive power remains robust after accounting for the number of predictors within the model.

The Sustainable Entrepreneurship variable has an R-square value of 0.780 and an adjusted R-square value of 0.778. This means that 78.0% of the variation in Sustainable Entrepreneurship can be explained by the independent variables in the model, while the remaining 22.0% is influenced by other factors not included in the study. Thus, both R² values indicate that the research model possesses strong explanatory power, as it is capable of explaining a significant portion of the variation in Sustainable Entrepreneurship and Sustainable Business Performance.

Table 9. Results of the f² Calculation

	f-square	Description
Digital Transformation -> Sustainable Entrepreneurship	0,07	Small
Social Innovation -> Sustainable Bussiness Performance	0,080	Small
Social Innovation -> Sustainable Entrepreneurship	1,070	Very large
Sustainable Entrepreneurship -> Sustainable Bussiness Performance	0,944	Very large
Sustainable Leadership -> Sustainable Bussiness Performance	0,36	Large
Sustainable Leadership -> Sustainable Entrepreneurship	0,45	Large

Source: Author's own work (2026)

Based on Table 9, the f-square (f²) results indicate that the path from Digital Transformation to Sustainable Entrepreneurship has a small effect (f² = 0.070), as does the path from Social Innovation to Sustainable Business Performance (f² = 0.080). Meanwhile, the path from Social Innovation to Sustainable Entrepreneurship shows a very large effect (f² = 1.070), and the path from Sustainable Entrepreneurship to Sustainable Business Performance also demonstrates a very large effect (f² = 0.944). Furthermore, the path from Sustainable Leadership to Sustainable Business Performance has a large effect (f² = 0.360), while the path

from Sustainable Leadership to Sustainable Entrepreneurship shows a large effect ($f^2 = 0.450$). Overall, the largest contribution within the model is observed in the relationship between Social Innovation and Sustainable Entrepreneurship, followed by the relationship between Sustainable Entrepreneurship and Sustainable Business Performance.

Table 10. Results of testing predictive relevance (Q^2_{predict})

Relationship	Q^2_{predict}	RMSE	MAE
Sustainable Entrepreneurship	0,776	0,479	0,322
Sustainable Bussiness Performance	0,645	0,602	0,411

Source: Author's own work (2026)

Based on Table 10, the predictive relevance (Q^2_{predict}) test results show that the Q^2_{predict} value for Sustainable Entrepreneurship is 0.776, while for Sustainable Business Performance, it is 0.645. Since both Q^2_{predict} values are greater than zero, the model demonstrates good predictive relevance for both endogenous constructs. The RMSE and MAE values are 0.479 and 0.322, respectively, for Sustainable Entrepreneurship, and 0.602 and 0.411 for Sustainable Business Performance. Overall, these results indicate that the model possesses strong predictive capability regarding Sustainable Entrepreneurship and Sustainable Business Performance.

3.4 Discussion

The research results indicate that Sustainable Entrepreneurship (SE) serves as a crucial mechanism for building Sustainable Business Performance (SBP) within MSMEs run by entrepreneurs with disabilities. These findings suggest that the performance sustainability of these MSMEs is not determined solely by the possession of resources, technology, or leadership practices, but primarily by the entrepreneurs' ability to transform those resources into entrepreneurial activities that create economic, social, and environmental value. In the context of MSMEs run by entrepreneurs with disabilities, SE can be understood as the capacity to integrate economic interests with social and environmental responsibilities. These findings align with studies combining Dynamic Capabilities Theory (DCT) and the Natural Resource-Based View (NRBV), demonstrating that a sustainable entrepreneurial orientation and organizational capabilities can act as mechanisms to generate sustainable performance.

Sustainable Leadership has a positive and significant effect on Sustainable Entrepreneurship ($\beta = 0.120$; $p = 0.001$), with a large effect size ($f^2 = 0.450$). This finding indicates that sustainability-oriented leadership plays a role in shaping the MSMEs' capacity to develop sustainable entrepreneurial practices. It reinforces the NRBV perspective, as sustainable leadership can direct organizational resources not merely toward short-term profit pursuit, but also toward developing products, processes, and business practices that are more environmentally and socially responsible. Thus, sustainable leadership can be viewed as a strategic factor linking an organization's internal orientation with sustainable value creation. While Sustainable Leadership does not have a direct effect on Sustainable Business Performance ($\beta = -0.016$; $p = 0.775$), it exerts a significant indirect effect through Sustainable Entrepreneurship ($\beta = 0.104$; $p = 0.027$). This pattern indicates a state of practical full mediation, as the influence of leadership on sustainable performance is realized only when that leadership is translated into sustainable entrepreneurial activities. These findings reinforce the DCT perspective that leadership is not an end result but rather a driver of the processes involved in building and orchestrating capabilities. Recent empirical evidence also indicates that leadership can generate sustainable performance through mechanisms of capability and innovation (Lazarte-aguirre, 2024).

Social innovation is the most dominant factor in shaping sustainable entrepreneurship. Research results indicate a very strong and significant influence of social innovation on sustainable entrepreneurship ($\beta = 0.895$; $p < 0.001$), with an effect size of 1.070, falling into the "very large" category. These findings demonstrate that the ability of MSMEs run by persons with disabilities to generate or adopt new ideas, products, services, processes, or business models to address social issues serves as a primary foundation for the development of sustainable entrepreneurship. Existing literature also suggests that sustainable entrepreneurship can be understood through the integration of Dynamic Capabilities Theory (DCT) and the Natural Resource-Based View (NRBV), particularly because a sustainability orientation requires organizational capabilities to respond to environmental changes while simultaneously integrating social responsibility into business practices.

Social innovation does not have a direct effect on sustainable business performance ($\beta = 0.058$; $p = 0.304$) but exerts a very strong indirect influence through sustainable entrepreneurship ($\beta = 0.776$; $p < 0.001$). This pattern is theoretically significant as it demonstrates that social innovation does not automatically yield sustainable business performance; rather, innovation must be translated into entrepreneurial activities, business models, and sustainable value-creation processes. In other words, sustainable entrepreneurship acts as a conversion mechanism between social innovation and sustainable business performance. These findings align with the DCT perspective, which positions organizational capabilities as the mechanism for transforming resources and innovations into valuable outcomes. Research on sustainable innovation also indicates that dynamic capabilities serve as an internal driver for the development and transformation of sustainable business models.

Digital transformation presents a different pattern of results. Digital transformation does not significantly influence sustainable entrepreneurship ($\beta = -0.117$; $p = 0.069$), showing a small effect size ($f^2 = 0.070$). These findings indicate that the mere use of digital technology is insufficient to drive MSMEs run by persons with disabilities toward a greater orientation in sustainable entrepreneurship. Recent studies indicate that digital transformation can enhance sustainable performance through dynamic capabilities (Mustapha, 2026); however, these benefits depend heavily on a company's ability to translate technology into value-generating capabilities and collaborations. This may explain why the impact of digital transformation on sustainable entrepreneurship was not found to be significant in this study.

Digital transformation has a direct, positive, and significant impact on sustainable business performance ($\beta = 0.177$; $p = 0.011$). These results indicate that digital technology continues to benefit sustainability performance, particularly through process efficiency, market access, customer communication, information management, and enhanced operational effectiveness. These findings align with recent research on SMEs showing that digital transformation can boost sustainable performance through process improvements, innovation, and organizational adaptation (Wang & Zhang, 2025). The indirect effect of digital transformation on sustainable business performance through sustainable entrepreneurship is not significant ($\beta = -0.101$; $p = 0.064$). These results indicate that, in the context of MSMEs run by entrepreneurs with disabilities, digital transformation functions primarily as an operational enabler of performance rather than as a direct driver of sustainable entrepreneurship. From a DCT perspective, these results reveal a capability gap: while technology is available and beneficial, it has not yet been fully translated into sustainable entrepreneurial capabilities. These findings reinforce the argument that digital transformation requires the development of organizational capabilities to ensure that technology investments yield long-term sustainability value (Alajmi, 2026).

The research findings demonstrate that sustainable entrepreneurship serves as a core mechanism linking resources and strategic orientation to sustainable business performance. This is reinforced by R^2 values of 0.780 for SE and 0.823 for SBP, along with Q^2_{predict} values of 0.776 and 0.645, respectively, indicating the model's strong predictive capability. Within the DCT framework, sustainable leadership and social innovation play a role in building organizational capabilities to recognize opportunities, take action, and reconfigure resources. Meanwhile, digital transformation provides technological support but is not yet robust enough to automatically drive sustainable entrepreneurship. From an NRBV perspective, the results indicate that the sustainable advantage of MSMEs run by entrepreneurs with disabilities is determined not merely by the ability to acquire resources, but by the capacity to integrate those resources with social and environmental objectives.

The primary theoretical contribution of this study is demonstrating that, for MSMEs run by entrepreneurs with disabilities, performance sustainability is not an automatic consequence of leadership, digital technology, or social innovation in isolation. Instead, sustainable entrepreneurship serves as a capability-based conversion mechanism that transforms sustainable leadership and social innovation into sustainable business performance. Meanwhile, while digital transformation yields direct performance benefits, it has not yet significantly fostered sustainable entrepreneurship. These findings extend the application of DCT and NRBV to the context of MSMEs run by entrepreneurs with disabilities, while underscoring that sustainability must be understood as a process of capability building rather than merely the adoption of technologies or social practices.

4. Conclusion

This study demonstrates that sustainable entrepreneurship serves as a primary mechanism for enhancing sustainable business performance among MSMEs run by entrepreneurs with disabilities. Sustainable leadership and social innovation were found to positively influence sustainable entrepreneurship, while sustainable entrepreneurship exerts a very strong influence on sustainable business performance. Furthermore, sustainable entrepreneurship successfully mediates the relationship between sustainable leadership/social innovation and sustainable business performance. Meanwhile, digital transformation does not significantly affect sustainable entrepreneurship but has a direct positive impact on sustainable business performance. These findings reinforce the Dynamic Capabilities Theory (DCT) perspective that performance sustainability depends on an organization's ability to transform and reconfigure resources into strategic capabilities as well as the Natural-Resource-Based View (NRBV), which positions social and environmental sustainability as sources of value creation and competitive advantage.

This study has several limitations. First, it employs a quantitative approach using cross-sectional data; consequently, it cannot explain longitudinal changes in capabilities, innovation, and sustainability performance among these MSMEs, nor can it definitively establish causal relationships. Second, the study focuses on MSMEs run by entrepreneurs with disabilities in East Java, so generalizing the results to other regions or groups of MSMEs requires caution. Third, the research variables are limited to sustainable leadership, digital transformation, social innovation, and sustainable entrepreneurship, thereby excluding factors such as financial capability, government support, digital inclusion, environmental capability, and business resilience. Future research could employ longitudinal or mixed-methods approaches and expand the geographical scope and variables to gain a more comprehensive understanding of

how sustainable business performance is established in MSMEs run by entrepreneurs with disabilities.

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