

Impact of Business Model Innovation and Dynamic Capabilities on MSME Sustainability Mediated by Creativity in West Jakarta

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) serve as a crucial role in driving the national economy. However, they continue to face significant challenges in maintaining business sustainability amid increasingly competitive markets and rapid digital transformation. To survive and grow, MSME owners must innovate and develop strong adaptive capabilities to respond to changing market conditions. This study aims to analyze the influence of business model innovation and dynamic capabilities on business sustainability, as well as examine creativity as a mediating variable among MSMEs in West Jakarta. The population of this research consists of MSME owners operating in the West Jakarta area. A purposive sampling technique was employed with criteria requiring MSMEs to have operated for at least one year and to employ a minimum of two workers. Data were collected through an online questionnaire distributed via Google Forms, resulting in 110 valid responses used as the research sample. Data analysis was conducted using PLS-SEM with the SmartPLS version 4. The findings reveal that all proposed hypotheses were accepted. Business model innovation and dynamic capabilities were found to have a positive and significant effect on both creativity and business sustainability. Creativity also demonstrated a positive and significant influence on business sustainability and was shown to serve as a significant mediating variable in the relationship between business model innovation, dynamic capabilities, and sustainability. These results highlight that innovation, adaptability, and creativity are essential factors in enhancing the sustainability of MSMEs in a competitive environment.

Keywords: *Business Model Innovation; Dynamic Capabilities; Creativity; Business Sustainability; MSMEs*

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) constitute one of the fundamental pillars of Indonesia's economy, as they absorb a large portion of the workforce and contribute significantly to the Gross Domestic Product (Antara News, 2025). Given their substantial role, business sustainability has become a critical issue, particularly amid an increasingly dynamic and competitive business environment. Shifting consumer behavior, rapid digital advancements, and growing market complexity require MSMEs to continuously adapt in order to remain competitive. To understand how MSMEs survive and grow, this study adopts the Resource Based Theory (RBT) as its primary theoretical foundation. According to Wernerfelt

(1984), firms should be viewed as collections of resources that must be strategically managed to create value and achieve competitive advantage. These resources extend beyond physical assets and include intangible assets such as business model innovation, dynamic capabilities, and creativity elements that play an essential role in ensuring long-term business sustainability. RBT further emphasizes that a firm's success is not solely shaped by external factors, but more importantly by its internal ability to create, manage, and configure resources effectively. Teece et al. (1997) highlight that firms capable of developing resource-based capabilities are more adaptive in responding to environmental changes.

One key form of leveraging internal resources is business model innovation. This type of innovation enables MSME owners to explore new ways of creating and delivering value to customers. In the era of rapid digital development, business model innovation has become increasingly important, as MSMEs are expected to go beyond product innovation and integrate improvements in marketing strategies, service processes, and customer engagement mechanisms. When a business model is adapted to become more relevant, MSMEs gain a stronger opportunity to enhance competitiveness. Beyond innovation, dynamic capabilities also play a vital role. These capabilities refer to a firm's ability to sense opportunities, respond effectively, and reconfigure existing resources in a timely manner. MSMEs with strong dynamic capabilities tend to be more adaptive and capable of sustaining operations when facing unexpected market changes. Throughout the processes of innovation and adaptation, creativity functions as a connecting element. Creativity enables MSME owners to generate new ideas, refine strategies, and formulate solutions that better fit customer needs. With strong creativity, both business model innovation and dynamic capabilities can be implemented more effectively, ultimately strengthening business sustainability.

Previous studies have shown that business model innovation helps business owners align their strategies with market changes. At the same time, dynamic capabilities allow MSMEs to respond more quickly to both opportunities and challenges. Creativity serves as a reinforcing element that strengthens the relationship between these variables and business sustainability. However, research specifically examining the interaction among these three variables within MSMEs in West Jakarta remains limited. Based on this research gap, the present study aims to analyze how business model innovation and dynamic capabilities influence business sustainability, as well as investigate the mediating role of creativity among MSMEs in West Jakarta.

2. Literature Review

Business Model Innovation

Business model innovation refers to how a company creates, delivers, and sustains value through new approaches that are better aligned with market needs. Several studies explain that business model innovation is not limited to developing new products, but also involves strategic changes in how a company operates to become more efficient and competitive (Rodhiah et al., 2023; Notosudjono & Hammad, 2024). Other research further emphasizes that continuous business model innovation can drive substantial shifts in strategic direction and strengthen a firm's readiness to navigate fast-changing industry dynamics (Rantererung et al., 2025). In essence, business model innovation not only fosters the development of new ideas and encourages entrepreneurial creativity, but also represents a critical factor in ensuring long-term business sustainability.

Dynamic Capabilities

Dynamic capabilities represent an equally important aspect in enabling businesses to survive and grow. This concept refers to a firm's ability to sense opportunities, seize them, and reconfigure its resources in response to changes in the business environment. Numerous studies highlight that dynamic capabilities serve as a fundamental foundation for firms to remain adaptive, particularly when facing intense competition and rapid technological advancements (Augier & Teece, 2009; Handrimurtjahjo &

Kuncoro, 2012). These capabilities are also considered difficult to imitate because they are built upon a firm's internal experiences and processes, making them a potential source of long-term competitive advantage (Soeparto, 2021). Moreover, the abilities to sense and reconfigure opportunities can also stimulate creativity, as firms must generate new ideas and develop alternative strategies to respond effectively to market changes.

Creativity

Creativity is an essential capability that enables MSME owners to generate ideas, develop products, and improve business processes to better meet consumer needs. In the literature, creativity is understood as the ability to produce original ideas that hold value for business development (Kaufman & Sternberg, 2006; Willison & Rodhiah, 2021). Other studies further emphasize that creativity not only supports innovation but also strengthens business resilience, as creative ideas often form the foundation for adaptation strategies and market differentiation (Srikalimah et al., 2020). Thus, creativity is viewed as a variable capable of bridging the relationship between business model innovation and dynamic capabilities in enhancing business sustainability.

Business Sustainability

Business sustainability refers to a company's ability to maintain its operations consistently and securely over the long term. Previous studies indicate that business sustainability is influenced by the quality of resource management, financial conditions, and a firm's ability to manage risks (Brockett & Rezaee, 2012; Simamora, 2020; Aulia et al., 2021). In the context of MSMEs, business sustainability has become increasingly important due to intense competition and rapidly changing market conditions. Research also highlights that innovation, adaptive capability, and creativity are key factors that support the sustainability of MSMEs as they navigate shifts in consumer needs and technological developments.

Overall, previous research consistently demonstrates that business model innovation and dynamic capabilities exert a positive influence on creativity and business sustainability (Molina-Castillo et al., 2021; Brenner & Drdla, 2023; Hadi, 2023; Bhadra, 2024). Furthermore, creativity has been shown to function as a mediating mechanism that bridges the effects of innovation and adaptive capabilities on sustainability, as it enables MSME owners to transform ideas and emerging opportunities into concrete business strategies (Kanzola, 2021; AlQershi et al., 2022; Rachmawati et al., 2025).

Based on the theoretical foundations and prior empirical findings, the hypotheses of this study are formulated as follows:

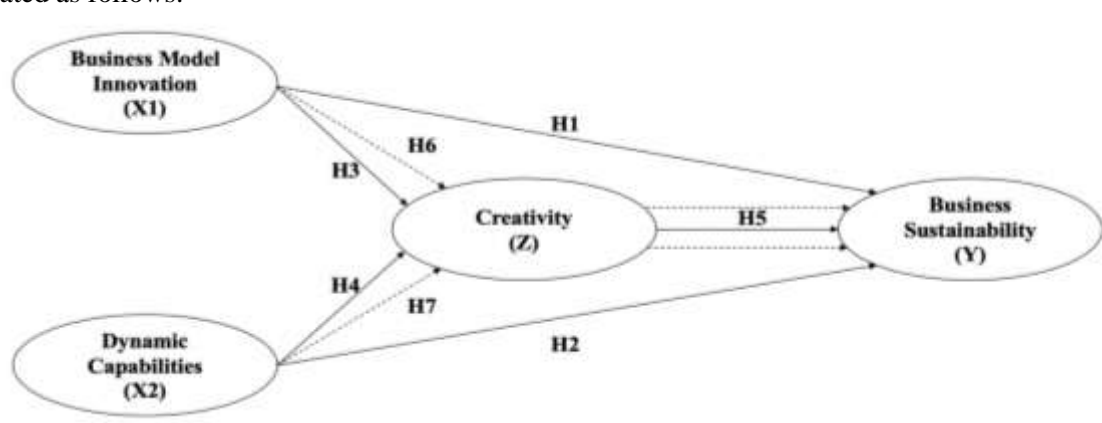


Figure 1. Research Model

H1: Business model innovation has a positive effect on business sustainability.

H2: Dynamic capabilities have a positive effect on business sustainability.

H3: Business model innovation has a positive effect on creativity.

H4: Dynamic capabilities have a positive effect on creativity.

H5: Creativity has a positive effect on business sustainability.

H6: Creativity mediates the relationship between business model innovation and business sustainability.

H7: Creativity mediates the relationship between dynamic capabilities and business sustainability.

3. Research Methods

This study employed a survey method using purposive sampling targeting MSME owners in West Jakarta. Data were collected through an online questionnaire distributed via Google Forms. The research instrument consisted of six indicators for Business Model Innovation, six indicators for Dynamic Capabilities, six indicators for Creativity, and four indicators for Business Sustainability. The data were analyzed using the SEM-PLS approach with the SmartPLS software.

4. Results

This study employed a quantitative approach using a survey method involving MSME owners in West Jakarta. Respondents were selected through purposive sampling based on the criteria that their businesses were located in West Jakarta, had been operating for at least one year, and employed a minimum of two workers. The questionnaire was distributed through Google Forms and resulted in 110 valid responses. Most respondents had been operating their businesses for 1–5 years (67.27%), while the remaining 32.73% had operated for more than five years. In addition, the majority employed 2–5 workers (68.19%), whereas 31.81% reported having more than five employees.

Outer Model

Based on the results of the outer model analysis, all indicators used in this study were found to be valid and reliable. This indicates that each indicator effectively represents the variable it is intended to measure and can be trusted as a consistent measurement tool.

a. Convergent Validity

Table 1. Result of Ave Value

	<i>Average Variance Extracted (AVE)</i>
Business Model Innovation	0.689
Dynamic Capabilities	0.649
Creativity	0.755
Business sustainability	0.738

Based on the results of the analysis above, the AVE values for each variable were greater than 0.50. This indicates that all variables have met the criteria for convergent validity, as demonstrated by their AVE values.

b. Discriminant Validity

Table 2. Discriminant Validity

	Business Model Innovation	Dynamic Capabilities	Creativity	Business sustainability
Business Model Innovation	0.830			
Dynamic Capabilities	0.216	0.805		
Creativity	0.575	0.648	0.869	
Business Sustainability	0.575	0.679	0.787	0.859

Discriminant validity was assessed using the Fornell–Larcker criterion. The analysis results show that the square root of the AVE values, positioned along the diagonal of the matrix, is higher than the

correlations among the constructs in the corresponding rows and columns. This condition indicates that each construct is distinct from the others, thereby confirming that the discriminant validity requirements based on the Fornell Larcker approach have been met.

c. Composite Reliability Test

According to Hair et al. (2022), in PLS-SEM, Cronbach's alpha (α) and composite reliability (ρ_C) range from 0 to 1, with higher values indicating stronger reliability. In general, reliability values of ≥ 0.70 are considered adequate, as they demonstrate good internal consistency.

Table 3. Composite Reliability and Cronbach's Alpha

	Composite Reliability (ρ_a)	Cronbach's Alpha
Business Model Innovation	0.913	0.910
Dynamic Capabilities	0.895	0.891
Creativity	0.936	0.935
Business sustainability	0.882	0.882

In this study, the Cronbach's alpha values exceeded 0.700, and the composite reliability values were also greater than 0.700. These results indicate that all variables in the study are reliable.

Inner Model

a. Coefficient of Determination Test (R^2)

The coefficient of determination (R^2) test is used to determine the extent to which the independent variables can explain the dependent variable, as indicated by the R-squared value. According to Hair et al.

(2014), R^2 values are categorized into three levels: $R^2 \leq 0.25$ indicates a low level of influence, $R^2 \geq 0.50$ indicates a moderate level of influence, and $R^2 \geq 0.75$ indicates a strong level of influence.

Table 4. Coefficient of Determination (R^2)

	R-square
Creativity	0.619
Business Sustainability	0.714

Inner Model Test

The result of bootstrapping test:

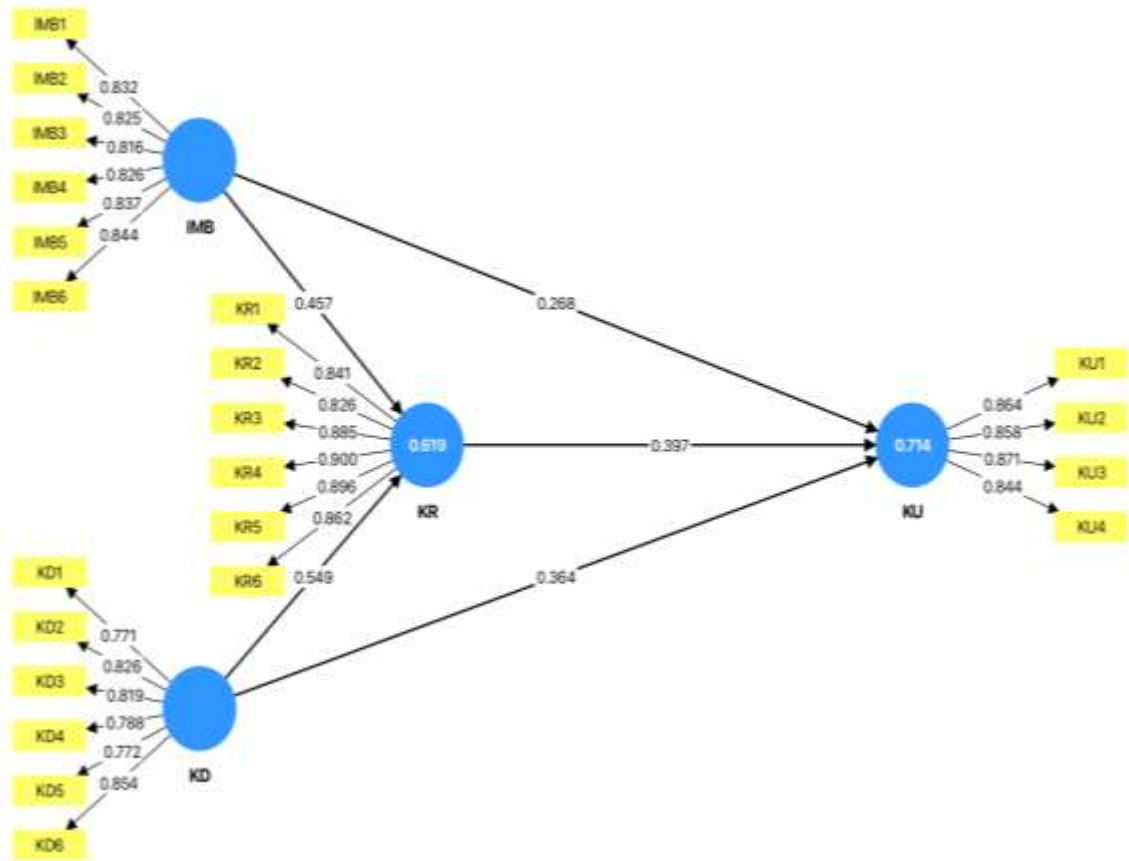


Figure 2. Bootstrapping Test Result

Based on the results of the bootstrapping test above, the following results of the significance test can be seen in table 5 below.

Table 5. *Bootstrapping Test Result*

	Original Sample	Sample Mean	Standard Deviation	T statistis	P value
Business Model Innovation → Business Sustainability	0.268	0.276	0.081	3.319	0.001
Dynamic Capabilities → Business Sustainability	0.364	0.373	0.071	5.140	0.000
Business Model Innovation → Creativity	0.457	0.457	0.068	6.742	0.000
Dynamic Capabilities → Creativity	0.549	0.547	0.058	9.497	0.000
Creativity → Business Sustainability	0.397	0.381	0.092	4.314	0.000
Business Model Innovation → Creativity → Business Sustainability	0.181	0.171	0.041	4.433	0.000
Dynamic Capabilities → Creativity → Business Sustainability	0.218	0.210	0.061	3.572	0.000

Based on the results of the hypothesis testing presented earlier, the summary of the analysis can be explained as follows:

- 1). The path analysis shows a p-value of 0.001, a T-statistic of 3.319, and a positive path coefficient of 0.268. Since the p-value is below 0.05, the T-statistic exceeds 1.96, and the coefficient is positive, it can be concluded that Business Model Innovation has a significant effect on Business Sustainability. This indicates that Hypothesis 1, which states that Business Model Innovation positively influences Business Sustainability is accepted.
- 2). The path analysis yields a p-value of 0.000, a T-statistic of 5.140, and a positive path coefficient of 0.364. Because the p-value < 0.05 and the T-statistic > 1.96, Dynamic Capabilities are concluded to have a significant effect on Business Sustainability. Thus, Hypothesis 2, which states that Dynamic Capabilities positively influence Business Sustainability is accepted.
- 3). The results indicate a p-value of 0.000, a T-statistic of 6.742, and a positive path coefficient of 0.457. With a p-value below 0.05 and a T-statistic above 1.96, it is concluded that Business Model Innovation significantly affects Creativity. Therefore, Hypothesis 3, which states that Business Model Innovation positively influences Creativity is accepted.
- 4). The analysis shows a p-value of 0.000, a T-statistic of 9.497, and a positive path coefficient of 0.549. Given that the p-value < 0.05 and the T-statistic > 1.96, Dynamic Capabilities are found to have a significant effect on Creativity. Thus, Hypothesis 4, stating that Dynamic Capabilities positively influence Creativity is accepted.
- 5). The results show a p-value of 0.000, a T-statistic of 4.314, and a positive path coefficient of 0.397. With a p-value below 0.05 and a T-statistic above 1.96, it is concluded that Creativity significantly affects Business Sustainability. This confirms that Hypothesis 5, which proposes that Creativity positively influences Business Sustainability is accepted.
- 6). The mediation path analysis produces a p-value of 0.000, a T-statistic of 4.433, and a path coefficient of 0.181. These results indicate that Creativity significantly mediates the effect of Business Model Innovation on Business Sustainability. Therefore, Hypothesis 6, which states that Creativity mediates the relationship between Business Model Innovation and Business Sustainability is accepted.
- 7). The mediation test shows a p-value of 0.000, a T-statistic of 3.572, and a path coefficient of 0.218. Since the p-value < 0.05 and the T-statistic > 1.96, it is concluded that Creativity significantly mediates the effect of Dynamic Capabilities on Business Sustainability. Thus, Hypothesis 7, which proposes that Creativity mediates the relationship between Dynamic Capabilities and Business Sustainability is accepted.

5. Discussion

The findings of this study indicate that business model innovation plays a crucial role in enhancing the creativity and business sustainability of MSMEs. Business model innovation enables business owners to adjust their work processes, create new value, and respond more effectively to market changes. These results align with previous studies (Mai et al., 2021; Bashir et al., 2022), which emphasize that business model innovation can strengthen business flexibility and stimulate the emergence of new ideas. Thus, innovation serves not only as a renewal strategy but also as a fundamental foundation for MSMEs to remain competitive in an increasingly dynamic market environment.

In addition to innovation, dynamic capabilities were also found to have a positive influence on creativity and business sustainability. Dynamic capabilities reflect an MSME's ability to sense, seize, and reconfigure opportunities as well as threats in the business environment. This finding is consistent with Karman & Savaneviciene (2020), who argue that businesses with strong adaptive capabilities can respond more quickly to changes and develop innovative strategies. These results highlight that MSMEs' responsiveness to environmental shifts plays an essential role in ensuring business continuity, especially in sectors operating under fluctuating market conditions.

The study further reveals that creativity not only has a significant impact on business sustainability but also acts as a mediating variable in the relationship between business model innovation, dynamic capabilities, and business sustainability. Creativity enables MSME owners to generate new ideas, create valuable solutions, and adapt products and services to meet evolving market needs. This finding supports the work of Vasconcellos et al. (2024), which states that creativity is a key mechanism linking innovation to long-term business success. Overall, the study reinforces that the combination of innovation, adaptive capability, and creativity forms the core foundation for achieving sustainable MSME performance.

Conclusion

The findings of this study demonstrate that business model innovation and dynamic capabilities both play a crucial and significant role in enhancing business sustainability among MSMEs. Business model innovation was found to positively influence not only sustainability but also creativity, indicating its importance in fostering new ideas and adaptive strategies. Similarly, dynamic capabilities were shown to significantly impact both creativity and sustainability, reinforcing the essential role of sensing, seizing, and reconfiguring abilities in responding to market changes. Creativity itself was identified as a key determinant of business sustainability and was proven to significantly mediate the relationships between business model innovation, dynamic capabilities, and sustainability outcomes. Overall, these results highlight that innovation, adaptive capacity, and creativity collectively form the core foundation needed for MSMEs to achieve long-term business sustainability in an increasingly competitive and dynamic environment.

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