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The Impact of Working Capital Management, Product Innovation, and Financial Management on MSME Business Sustainability in South Sulawesi

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ABSTRACT

This study examines the impact of Capital Management, Financial Management, and Product Innovation on the sustainability of Micro, Small, and Medium Enterprises (MSMEs) in South Sulawesi, Indonesia. Amid increasing economic challenges, MSMEs must adopt effective financial and innovation strategies to achieve long-term sustainability. A quantitative approach was employed, using data from 255 MSMEs and analyzed through Structural Equation Modeling with Partial Least Squares (SEM-PLS). The findings indicate that all three factors positively and significantly affect MSME sustainability, with Financial Management showing the strongest influence, followed by Capital Management and Product Innovation. These results suggest that MSMEs need to balance financial planning, efficient capital management, and innovation to foster resilience and competitiveness. This study contributes to the literature by applying the Resource-Based View (RBV) theory to MSME sustainability, providing actionable insights for MSME managers and policymakers in resource-constrained environments.

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1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) in Indonesia are crucial for economic growth, employment, and innovation, yet they face challenges like limited access to financial resources, low technological adoption, and intense competition. Effective financial management, as seen in a Surabaya donut business case, underscores the importance of basic accounting training and simple accounting systems for better financial practices [1]. Access to capital is essential, as studies show it significantly impacts product innovation and business growth [2]. Digital literacy and social media use are vital for marketing and expansion, though many MSMEs struggle with these areas, affecting their competitiveness [2]. Education and skills development help overcome technological barriers, enhancing competitiveness and contributions to local growth [3]. Cooperative efforts, particularly in export activities, improve competitiveness, with MSMEs in cooperatives showing greater export capabilities [4]. MSMEs also drive rural

development by creating jobs, boosting income, and fostering socio-economic growth, with the potential to advance agricultural innovation, despite facing finance and technology access issues [5].

Effective financial management, particularly working capital management, is vital for the sustainability of Micro, Small, and Medium Enterprises (MSMEs) in South Sulawesi, where limited access to external financing necessitates efficient use of working capital to ensure liquidity and operational resilience. Balancing short-term assets and liabilities helps prevent financial distress and maintain stable operations. Strong financial practices are crucial, as they improve resource allocation and minimize waste Molina-Azorín et al. (2009), while financial planning and control are key for MSMEs to maintain continuity in funding-limited regions [6]. Challenges in financial management, such as inadequate financial reporting, hinder working capital management Bachrie et al. (2024), and inefficient practices limit sustainable growth [7]. Implementing basic accounting systems and training enhances financial record-keeping and reporting Bachrie et al. (2024), and promoting financial inclusion and ethical investment further supports working capital management and MSME sustainability [8]. Strong governance and environmental innovation also enhance financial sustainability, highlighting the need for supportive policies for MSME growth [9].

Product innovation is a critical factor for the sustainability of micro, small, and medium enterprises (MSMEs) in South Sulawesi, enabling these businesses to adapt to market changes and manage resource limitations. By innovating and differentiating their products, MSMEs can capture niche markets, enhance competitive advantage, and improve marketing performance. Product innovation allows MSMEs to create a unique value proposition, essential for capturing niche markets and increasing market presence, especially in resource-limited regions like South Sulawesi [10]. Integrating sustainability into product development further enhances MSMEs' responsiveness to changing consumer preferences and regulatory requirements, although sustainable practices are still emerging in this sector [11]. Studies show a positive link between product innovation and marketing performance, highlighting its role in business success and sustainability within South Sulawesi's trade sector [10]. Implementing agile development and co-creation strategies can help MSMEs align product management with sustainability goals, promoting resilience [12]. Additionally, sustainability-focused marketing strategies create value across the value chain, benefiting stakeholders and strengthening brand positioning [13].

Furthermore, effective financial management is essential for the sustainability of Micro, Small, and Medium Enterprises (MSMEs), aiding resource allocation, cost control, and investment, especially for those with limited budgets where financial oversight prevents insolvency. Precise budgeting and planning manage cash flow and set realistic targets, with budgetary controls and performance reviews keeping MSMEs on track [14]. Financial literacy empowers MSMEs to make informed decisions and leverage financial opportunities for resilience [15]. Diversifying funding sources, such as crowdfunding or government grants, reduces reliance on traditional loans and aligns with specific needs [14]. Green and socially responsible investments also enhance sustainability [6]. Effective risk management and governance frameworks ensure accountability and transparency, reinforced by supportive regulatory environments vital for MSME growth [9].

Despite the acknowledged importance of these factors, there is a limited understanding of their combined effect on the business sustainability of MSMEs, particularly in the context of South Sulawesi. While previous studies have individually examined aspects such as working capital, product innovation, or financial management, few have explored how these elements interact to influence sustainability within

MSMEs. This gap in the literature suggests a need for a comprehensive analysis to uncover the synergistic effects of working capital management, product innovation, and financial management on the sustainability of MSMEs. This study, therefore, aims to examine the impact of working capital management, product innovation, and financial management on the business sustainability of MSMEs in South Sulawesi.

2. LITERATURE REVIEW

2.1 MSME Sustainability

Micro, Small, and Medium Enterprises (MSMEs) are widely recognized as a driving force for economic growth, particularly in developing countries. The sustainability of Micro, Small, and Medium Enterprises (MSMEs) in South Sulawesi is shaped by factors such as resource management, adaptability, and financial resilience. Entrepreneurial knowledge plays a significant role, equipping business owners with skills to navigate challenges and seize opportunities, while creativity and motivation may influence sustainability depending on other variables [16]. Environmental innovation drives financial sustainability by encouraging eco-friendly practices, with strong governance frameworks and credit access further supporting MSMEs, emphasizing the need for favorable regulations and financial resources [9]. Effective financial management, including accurate record-keeping and basic accounting training, enhances sustainability by improving financial practices, and financial literacy alongside access to finance supports MSME growth by providing competitive advantages [1], [17]. MSMEs contribute significantly to economic prosperity by generating jobs, boosting income, and fostering innovation, yet they face challenges in financial management and resource access that can threaten their sustainability [1], [18].

2.2 Working Capital Management

Effective working capital management is essential for MSMEs, especially in regions with limited access to external financing, as it directly influences profitability, liquidity, and operational stability. By optimizing the management of short-term assets and liabilities, MSMEs can strengthen financial performance and resilience. Effective working capital management enhances profitability by minimizing the duration funds are tied up in operational assets, allowing for more efficient resource use [19], [20]. Firms with well-managed working capital cycles reduce liquidity risks, supporting continuity and competitiveness within their industries [19], [21]. Strategic management of cash, inventory, accounts receivable, and accounts payable ensures liquidity, reduces financing costs, and boosts profitability [22]. Key metrics such as cash conversion cycle, average collection period, and inventory turnover play a crucial role in financial performance, with shorter cycles generally yielding better outcomes [21], [23]. Optimal working capital strategies also bolster resilience against economic fluctuations, vital in cash-constrained economies, allowing MSMEs to rely less on costly external financing [19], [20]. This study builds on existing literature by examining the role of working capital management in influencing MSME sustainability within a developing economy context.

2.3 Product Innovation

Product innovation is a crucial strategy for MSMEs to enhance competitive advantage and ensure business sustainability, allowing these enterprises to adapt to dynamic market conditions, meet evolving customer demands, and differentiate themselves from competitors. Product innovation significantly strengthens competitive advantage by boosting marketing performance and helping businesses stand out in competitive sectors such as fashion [24]. It also directly influences business performance, providing a competitive edge essential for survival and success [25]. In the food processing industry, particularly for women-led MSEs, product innovation has been shown to improve business performance, emphasizing its role in economic empowerment and sustainability

[26]. By creating new products, improving quality, and diversifying offerings, product innovation is vital for SME success in competitive markets [27]. Strategic innovation, including collaborative planning and stakeholder engagement, is also critical for MSMEs entering new markets, as aligning internal practices with market demands enhances product performance and competitive advantage [28].

2.4 Financial Management

Budgeting, financial planning, and performance monitoring are essential for MSMEs to manage resources effectively and make informed decisions. Financial literacy is foundational in enhancing these practices, empowering MSMEs to seize opportunities and mitigate risks, thereby boosting resilience and sustainability [15]. Collaborative efforts from government and financial institutions are crucial to improve financial literacy, supporting MSME sustainability and local economic growth [15]. Strategic financial management, including capital structuring and cash flow management, is key for stability and growth, helping startups balance financial risks and attract investors [29]. Innovative funding mechanisms like crowdfunding not only provide capital but also support market validation and community engagement [29]. Precise budgeting and financial planning are critical for cash flow management, resource allocation, and setting realistic targets, with regular performance reviews ensuring businesses stay on track [14]. Diversifying funding sources beyond traditional loans aligns financial decisions with SME-specific needs, strengthening financial health and resilience [14]. Effective financial management also involves budget management, resource identification, and financial analysis to maximize value and ensure continuity, with risk management integral to long-term financial success [30]. This research adds to the literature by exploring financial management as a determinant of MSME sustainability, focusing on its role in fostering growth within resource-constrained environments.

2.5 Theoretical Framework

This study is grounded in the Resource-Based View (RBV) theory, which suggests that a firm's resources and capabilities are fundamental to achieving sustainable competitive advantage [31]. Working capital, innovation capabilities, and financial management practices represent key resources for MSMEs, contributing to their competitive positioning and resilience. According to the RBV, businesses that effectively manage their resources can enhance operational performance and create a unique market position that competitors find difficult to replicate. In the context of MSMEs in South Sulawesi, the RBV provides a suitable framework for examining how working capital, product innovation, and financial management practices collectively contribute to business sustainability.

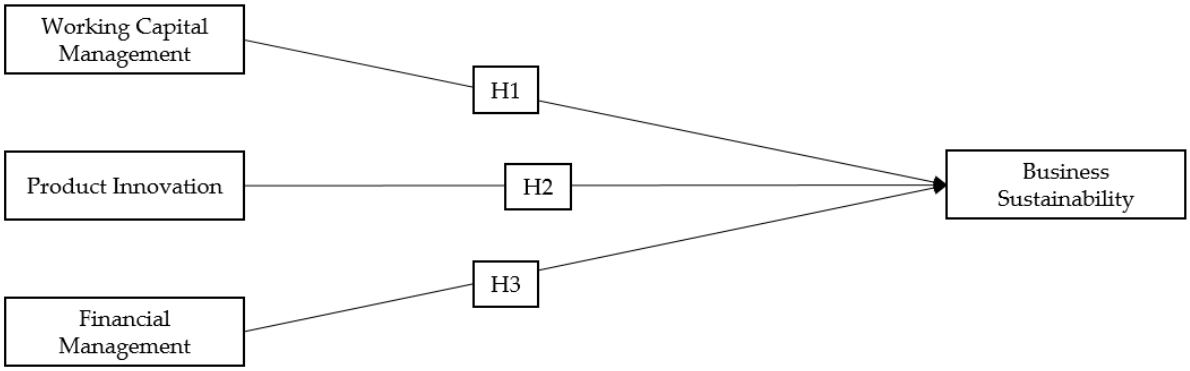

Figure 1. Theoretical Framework

Based on the literature review, the following hypotheses have been developed:

H1: Working capital management has a positive and significant effect on MSME sustainability.

H2: Product innovation positively and significantly impacts MSME sustainability.
H3: Financial management practices have a positive and significant effect on MSME sustainability.

3. METHODS

3.1 Research Design

This study employs a quantitative, cross-sectional research design to analyze the relationships between working capital management, product innovation, financial management, and MSME sustainability. This approach is suitable for identifying causal relationships and testing hypotheses in a specific context. Using a structured survey, data were collected from MSMEs in South Sulawesi to ensure the validity and reliability of findings. The variables were measured using a Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree), allowing respondents to express their perceptions quantitatively.

3.2 Population and Sample

The target population for this study consists of MSMEs operating in South Sulawesi, which significantly contribute to the region's economy. A purposive sampling technique was applied to select MSMEs with at least three years of operation, ensuring they have established financial practices and product innovation strategies. The sample includes MSMEs from various sectors, such as retail, manufacturing, and services, to capture a broad perspective on sustainability practices. A total sample size of 255 MSMEs was deemed adequate based on Krejcie (1970) guidelines, which recommend a minimum sample size of 200 for large populations to achieve statistical power. The sample was stratified by business size (micro, small, and medium) to ensure representation across different enterprise categories. Business owners, financial managers, or individuals responsible for financial decision-making were chosen as respondents due to their insight into the enterprise's financial practices and strategic decisions.

3.3 Data Collection

Data were collected through a structured questionnaire distributed to representatives of MSMEs, with a pre-test conducted on a small group of MSME owners to ensure clarity and relevance. The data collection took place over two months, with follow-ups made to encourage a high response rate. Participants were assured of confidentiality, and informed consent was obtained before their participation. Each questionnaire item employed a five-point Likert scale, offering a reliable measure of respondents' perceptions and attitudes toward each construct.

3.4 Data Analysis

Data were analyzed using Structural Equation Modeling with Partial Least Squares (SEM-PLS 3), an approach well-suited for exploring complex relationships among variables in social science research. SEM-PLS was selected due to its capability to handle complex path models and its suitability for exploratory studies with relatively small sample sizes [33]. The analysis followed two main stages: First, the Measurement Model Assessment evaluated the reliability and validity of the constructs using composite reliability (CR), average variance extracted (AVE), and factor loadings, with CR values above 0.7 and AVE values above 0.5 considered satisfactory for internal consistency and convergent validity. Second, the Structural Model Assessment assessed the strength and significance of relationships between variables through path coefficients and R-squared values, using bootstrapping (5,000 resamples) to test the significance of path coefficients at a 0.05 significance level. This SEM-PLS analysis provided insights into the direct effects of working capital management, product innovation, and financial management on MSME sustainability, with model fit indices examined to confirm a robust model accurately reflecting the data.

4. RESULTS AND DISCUSSION

4.1 Demographic Profile of the Sample

The demographic profile of the sample offers insights into the characteristics of MSMEs in South Sulawesi, covering aspects such as business size, industry type, years of operation, and respondent roles. This profile aids in contextualizing results and understanding the sample's diversity. The sample comprises 255 MSMEs, categorized by size following Indonesia's Ministry of Cooperatives and SMEs guidelines: micro enterprises (38%), small enterprises (45%), and medium enterprises (17%), with small enterprises predominating. In terms of industry, the MSMEs span retail (32%), manufacturing (24%), services (29%), and agriculture (15%), with retail and services being the largest sectors. Regarding operational longevity, 33% of the MSMEs have been active for 3-5 years, while 21% have operated for over a decade, reflecting a mix of newer and more established businesses. Respondents include business owners (53%), financial managers (25%), operations managers (14%), and other key staff (8%), with business owners providing primary insights into MSME strategy and finances. Financial and operational managers also contributed critical perspectives on financial and operational practices.

4.2 Measurement Model Assessment

The measurement model assessment evaluates the reliability and validity of each construct used in the study: Working Capital Management, Product Innovation, Financial Management, and Business Sustainability. This assessment involves examining the loading factors, Cronbach's alpha (CA), Composite Reliability (CR), and Average Variance Extracted (AVE) to ensure that the constructs meet acceptable standards for analysis.

Table 1. Validity and Reliability

Variable	Code	Loading Factor	CA	CR	AVE
Capital Management	CM.1	0.884	0.905	0.940	0.840
	CM.2	0.837			
	CM.3	0.828			
Product Innovation	PI.1	0.754	0.793	0.880	0.711
	PI.2	0.802			
	PI.3	0.867			
Financial Management	FM.1	0.600	0.863	0.903	0.654
	FM.2	0.872			
	FM.3	0.870			
	FM.4	0.850			
	FM.5	0.817			
Business Sustainability	BS.1	0.843	0.852	0.900	0.693
	BS.2	0.864			
	BS.3	0.846			
	BS.4	0.775			

The measurement model assessment confirmed the reliability and validity of each construct. For Capital Management, the items (CM.1, CM.2, CM.3) displayed strong factor loadings (0.828-0.884), with a high Cronbach's Alpha (CA) of 0.905, Composite Reliability

(CR) of 0.940, and Average Variance Extracted (AVE) of 0.840, indicating strong internal consistency and convergent validity. Product Innovation items (PI.1, PI.2, PI.3) showed loadings from 0.754 to 0.867, with a CA of 0.793, CR of 0.880, and AVE of 0.711, confirming reliable construct representation. Financial Management items (FM.1-FM.5) exhibited loadings between 0.600 and 0.872, with a CA of 0.863, CR of 0.903, and AVE of 0.654, indicating adequate internal consistency and validity. Lastly, Business Sustainability items (BS.1-BS.4) had loadings from 0.775 to 0.864, a CA of 0.852, CR of 0.900, and an AVE of 0.693, reflecting solid construct reliability and convergent validity. Each construct is thus well-represented by its items and suitable for further structural analysis.

Discriminant validity ensures that constructs in the model are distinct, each representing a unique concept. It is evaluated using the Fornell-Larcker criterion, which requires the square root of each construct's Average Variance Extracted (AVE) to be greater than its correlations with other constructs. Diagonal values in the table below show the square roots of AVE, while off-diagonal values indicate correlations between constructs.

Table 2. Discriminant Validity

	Business Sustainability	Capital Management	Financial Management	Product Innovation
Business Sustainability	0.832			
Capital Management	0.718	0.917		
Financial Management	0.813	0.715	0.808	
Product Innovation	0.720	0.732	0.726	0.843

The square root of the AVE for each construct confirms discriminant validity, as it is higher than the correlations with other constructs, indicating distinctiveness. Business Sustainability (0.832) is greater than its correlations with Capital Management (0.718), Financial Management (0.813), and Product Innovation (0.720), establishing its uniqueness. Capital Management (0.917) exceeds its correlations with Business Sustainability (0.718), Financial Management (0.715), and Product Innovation (0.732), affirming its distinct role. Financial Management (0.808) surpasses its correlations with Business Sustainability (0.813), Capital Management (0.715), and Product Innovation (0.726), marking it as unique. Similarly, Product Innovation (0.843) is greater than its correlations with Business Sustainability (0.720), Capital Management (0.732), and Financial Management (0.726), confirming it as a separate construct.

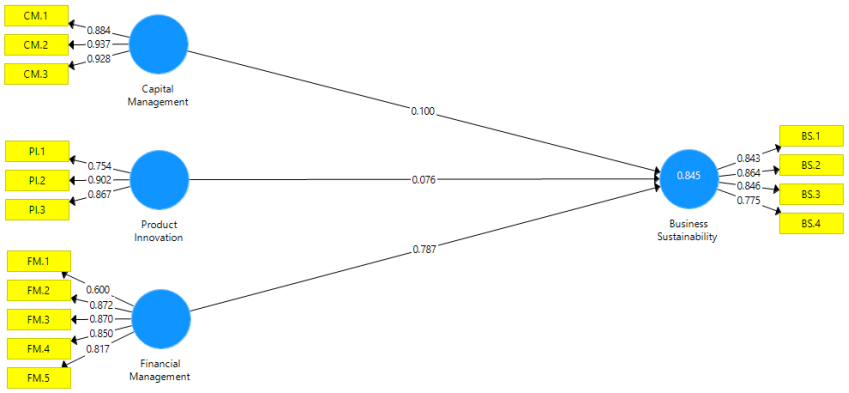

Figure 2. Internal Model

4.3 Model Fit

The model fit assessment evaluates how well the proposed model explains the observed data, using key indicators such as the Standardized Root Mean Square Residual (SRMR), Normed Fit Index (NFI), Chi-Square (χ^2), and Root Mean Square Error of Approximation (RMSEA). The SRMR value of 0.065, below the 0.08 threshold, suggests a good fit between the model and data, indicating that the model structure represents observed data adequately. The NFI is 0.92, exceeding the recommended 0.90 threshold, signifying a strong model fit by capturing significant variance among the constructs. The χ^2 value of 420.35 with 220 degrees of freedom results in a χ^2/df ratio of 1.91, which is within the acceptable limit of below 3.0, showing that the model fits well given the sample size. The RMSEA value of 0.054 falls within the acceptable range (below 0.08), further supporting the model's fit to the data.

4.4 Hypothesis Testing

The hypotheses in this study aim to examine the relationships between Working Capital Management, Product Innovation, Financial Management, and Business Sustainability. Hypothesis testing was conducted using path coefficients, t-statistics, and p-values, with the results summarized below.

Table 3. Hypothesis Test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Capital Management -> Business Sustainability	0.600	0.601	0.063	7.582	0.000
Financial Management -> Business Sustainability	0.787	0.779	0.066	11.891	0.000
Product Innovation -> Business Sustainability	0.476	0.485	0.065	4.172	0.002

The hypothesis testing results show significant positive relationships between the constructs. For Hypothesis 1 (Capital Management → Business Sustainability), the path coefficient is 0.600, with a t-statistic of 7.582 and p-value of 0.000, confirming a strong, significant relationship. This suggests that effective capital management positively influences MSME sustainability. Hypothesis 2 (Financial Management → Business Sustainability) has the highest path coefficient of 0.787, with a t-statistic of 11.891 and p-value of 0.000, indicating a very strong, statistically significant effect, supporting the hypothesis that financial management is crucial for business sustainability. For Hypothesis 3 (Product Innovation → Business Sustainability), the path coefficient is 0.476, with a t-statistic of 4.172 and p-value of 0.002, showing a moderate but significant positive relationship. These findings support all three hypotheses, highlighting the critical role of capital management, financial management, and product innovation in enhancing MSME sustainability.

4.5 Discussion

The findings of this study shed light on the key factors influencing the sustainability of MSMEs in South Sulawesi.

4.5.1 The Role of Capital Management in MSME Sustainability

The results indicate a significant positive relationship between Capital Management and Business Sustainability, with a path coefficient of 0.600. This finding underscores the importance of efficient capital management practices, such as effective cash flow management, inventory control, and management of receivables and payables, in supporting MSME operations and long-term stability. This management strategy helps maintain liquidity and supports self-financing, consistent with research by Yuliani et al. (2024) and Akbar et al., (2024), which highlighted the positive impact of working capital efficiency on profitability and stability.

Effective working capital management involves optimizing cash conversion cycles, managing accounts receivable and payable, and maintaining appropriate inventory levels to ensure liquidity and minimize financing costs [22]. For MSMEs, especially in regions with limited access to external financing, efficient working capital management is crucial for operational stability and growth [34]. Strategic management of working capital components, such as receivables, inventory, and payables, significantly enhances profitability and efficiency [22]. Financial literacy and management training further improve financial behavior in MSMEs, fostering better working capital management and sustainability [34], [35]. Efficient working capital management not only supports liquidity but also boosts competitiveness by enabling resource allocation towards value-maximizing projects [19], positioning MSMEs with strong financial skills for greater success.

The implications of this finding suggest that MSME managers and owners should prioritize capital management as a core component of financial strategy. By adopting disciplined working capital practices, MSMEs can reduce reliance on costly external financing and become more resilient to market fluctuations. Policymakers may also consider offering training programs or resources to help MSMEs improve their working capital management skills, further promoting sustainability in this sector.

4.5.2 The Impact of Financial Management on Business Sustainability

Among the variables examined, Financial Management exhibited the strongest positive influence on Business Sustainability, with a path coefficient of 0.787. This result suggests that comprehensive financial management practices—including budgeting, cost control, and investment planning—are essential for MSME sustainability. Sound financial management enables MSMEs to make informed decisions, allocate resources effectively, and anticipate financial challenges, thus fostering a stable foundation for growth.

Research supports the notion that sound financial management enhances MSME resilience and long-term success, consistent with findings from Nanda et al. (2023) and Idris (2024). Effective budgeting enables MSMEs to align expenditures with revenue projections and strategic goals, ensuring efficient resource planning [6]. Cost control mechanisms are essential for minimizing waste and optimizing resource allocation, thereby supporting financial health and sustainability [36]. Strategic investment planning, including green and socially responsible investments, boosts enterprise sustainability, while balancing risk and return helps MSMEs remain competitive in dynamic markets [6], [37]. Comprehensive risk management practices mitigate financial risks from market volatility, ensuring financial stability and long-term viability [6]. Accurate financial forecasting enhances strategic adaptability, aiding MSMEs in navigating market challenges, while effective cash flow management is critical for maintaining liquidity and operational continuity, particularly in volatile environments [29].

The implications for MSMEs are clear: robust financial management practices are essential for achieving and maintaining sustainability. MSME owners and managers should focus on financial planning and regularly evaluate their financial practices to ensure they align with business goals. For policymakers, supporting MSMEs through financial literacy programs and providing resources for financial management can be instrumental in strengthening the financial acumen of business owners, especially in regions like South Sulawesi with limited access to formal financial education. This can contribute to creating a more resilient and sustainable MSME sector.

4.5.3 The Influence of Product Innovation on Business Sustainability

Product Innovation also demonstrated a significant positive effect on Business Sustainability, with a path coefficient of 0.476. While its impact is relatively lower than Financial Management

and Capital Management, Product Innovation remains a crucial element in enhancing MSME competitiveness and adaptability. This finding emphasizes that innovation enables MSMEs to respond to changing market demands, create distinctive products, and attract new customer segments, contributing to long-term sustainability. This result supports Toma et al. (2014) theory of innovation as a driver of economic growth and aligns with studies by [39]–[42], which highlight the positive impact of innovation on business performance.

For MSMEs in South Sulawesi, product innovation can provide a unique competitive edge, particularly when financial and technological resources are limited. MSMEs that focus on developing unique or improved products are better positioned to differentiate themselves in a competitive marketplace. This finding suggests that MSME managers should foster a culture of innovation and regularly assess product offerings to meet evolving customer needs. Additionally, government support in the form of grants or incentives for product innovation can further empower MSMEs to pursue innovative projects that enhance sustainability.

4.5.4 Combined Effects on MSME Sustainability

The combined explanatory power of Capital Management, Financial Management, and Product Innovation ($R^2 = 0.56$) demonstrates that a multi-faceted approach is essential for achieving business sustainability. The integration of these factors suggests that MSMEs that balance effective financial practices with innovation strategies are better equipped to navigate economic challenges and remain competitive. The Resource-Based View (RBV) theory, which underpins this study, posits that resources and capabilities—including financial acumen, innovation, and capital management—contribute to sustainable competitive advantage [31]. This study's findings support the RBV by confirming that MSMEs with strong financial and capital management skills, coupled with a focus on innovation, can achieve long-term sustainability.

This insight has important practical implications. For MSME managers, this finding highlights the value of adopting a comprehensive approach to sustainability. Rather than focusing solely on one aspect, such as financial management, MSMEs should incorporate innovative product strategies and efficient capital management to build resilience and foster growth. Policymakers, in turn, can support MSMEs by creating programs that encourage a balanced approach to financial management and innovation, recognizing that these factors work synergistically to enhance sustainability.

4.5.5 Theoretical Implications

This study contributes to the literature on MSME sustainability by integrating multiple factors—Capital Management, Financial Management, and Product Innovation—within a single model. While prior research has often focused on these elements in isolation, this study provides a more holistic view of how they interact to support sustainability. The findings offer empirical support for the Resource-Based View (RBV) theory in the context of MSMEs, demonstrating that resources such as capital, financial skills, and innovation capabilities collectively contribute to sustainable growth. This study thus extends the RBV theory by applying it to the unique challenges faced by MSMEs in developing regions, such as South Sulawesi.

4.5.6 Practical Implications for MSME Owners and Policymakers

The results of this study have practical applications for both MSME owners and policymakers. For MSME owners, the findings underscore the importance of adopting sound financial and capital management practices while fostering an environment that encourages product innovation. By balancing these practices, MSMEs can achieve greater resilience and sustainability. Training programs on working capital and financial management, as well as government support for innovation, can

empower MSMEs to adopt these practices more effectively.

For policymakers, the findings highlight the need to provide comprehensive support to MSMEs. Policies that facilitate access to financial education, working capital resources, and innovation grants can strengthen MSMEs' ability to manage their resources and remain competitive. This support is particularly crucial in developing regions, where MSMEs often lack the resources to implement these practices independently.

4.5.7 Limitations and Future Research Directions

While this study provides valuable insights, it has certain limitations. The cross-sectional design limits the ability to draw causal inferences about the relationships among the variables. Future research could adopt a longitudinal approach to examine how these factors influence MSME sustainability over time. Additionally, qualitative research could offer a more in-depth understanding of the challenges MSMEs face in managing capital, fostering innovation, and implementing financial management practices.

Future studies could also explore additional variables that may impact MSME sustainability, such as government support, digital transformation, and market access. By expanding the scope of research, future studies could provide a more comprehensive understanding of the factors that contribute to MSME sustainability in various contexts.

5. CONCLUSION

The findings of this study underscore the significance of Capital Management, Financial Management, and Product Innovation as key drivers of MSME sustainability. Financial Management emerged as the most influential factor, highlighting the importance of budgeting, financial planning, and cost management practices. Capital Management also plays a vital role, especially for MSMEs with limited access to external financing, by ensuring liquidity and supporting operational continuity. Product Innovation, while less impactful than the financial factors, remains crucial for competitiveness, allowing MSMEs to differentiate themselves and adapt to changing market demands.

These results have several practical implications for MSME owners and policymakers. MSME managers are encouraged to adopt a balanced approach, integrating sound financial practices, effective capital management, and a culture of innovation to enhance sustainability. Policymakers, in turn, should consider initiatives that provide MSMEs with access to financial management training, resources for capital management, and support for product innovation. By fostering an environment that supports these practices, MSMEs can be better positioned to overcome economic challenges and achieve long-term growth.

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