



FAMILY BUSINESS CAPABILITIES AND SUSTAINABLE GROWTH OF MSMEs: AN EMPIRICAL SEM STUDY

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Abstract

In the current study, the impact of family business capabilities on Micro, Small, and Medium Enterprises (MSMEs) sustainable growth was investigated, and innovation capability was explored as a mediating variable. MSMEs are substantial part of the emerging economies and have a significant contribution in employment, regional development and economic sustainability and these are family owned. Although family businesses are becoming more and more relevant, there are only few empirical investigations that have studied how capabilities of the family business are linked to entrepreneurial innovation processes and sustainable growth of the business. The study was of a quantitative research design with a structured questionnaire that was administered to the owners and managers of the family owned MSMEs. The resulting responses were 235 valid responses which were then analyzed by Partial Least Squares Structural Equation Modeling (PLS-SEM) with ADANCO software. The measurement and structural models were evaluated using techniques such as reliability, convergent validity, discriminant validity, and bootstrapping procedures. The results showed that the capability of family business has significant and positive effects on innovation capability and sustainable growth of MSMEs. Family Business Capabilities also had a significant positive impact on sustainable growth, and were partially intermediating between family business capabilities and sustainable growth. The results support the assumptions of the Resource-Based View and Dynamic Capability Theory. The study adds to research on family business and MSME literature by emphasising the strategic function of the innovation ability as a tool that can turn strengths of a family business into competitive advantage and business development in the long term.

Keywords: Family Business Capabilities, Innovation Capability, Sustainable Growth, MSMEs, Structural Equation Modeling, ADANCO, PLS-SEM

1. Introduction

The contribution of MSMEs is vital in economic development, job creation, encouraging innovation and regional industrial development in emerging economies (M C, 2021). MSMEs play a significant role in the Gross Domestic Product (GDP) of the countries, exports, and livelihood creation, especially in the semi-urban and rural areas where most businesses are held by families (Wardi et al., 2024). Family business capability plays an important role in determining the continuity, competitiveness and sustainable growth of a significant proportion of MSMEs, which are operated and controlled by the family (Ahmad & Alsuhaibany, 2025). Family businesses are unique from non-family businesses due to their emotional aspects, intergenerational involvement, long-term orientation, informal governance, and governance structures. The former can pose strategic benefits and management challenges. Family involvement provides trust, commitment, resilience and flexibility in operations in many MSMEs (Adriansah & Mubarak, 2023). Meanwhile, problems like succession issues, lack of professionalization, resource constraints, and innovation resistance could impact sustainability over time (Krasniqi et al., 2024). Thus, the capacity of family businesses to transform family-based resources into organizational capabilities has emerged as an academic topic of interest.

Family business capabilities are the combined managerial, relational, adaptive and strategic skills that are acquired from the involvement of family members in the business operations (Duarte Alonso et al., 2018). These could encompass innovation capability, networks and connections, entrepreneurial orientation, knowledge sharing, strategic flexibility and strategic vision of the long-term (Bohorquez-Lopez et al., 2024). These features help MSMEs manage market fluctuations, technological shifts, and competitive challenges. Sustainable growth, however, describes the potential of enterprises to sustain long-term economic performance in the process of operating in a stable fashion, remaining adaptable to the market and ensuring continuity within the organization.

A range of literature has focused on family firms from various viewpoints, including the socioemotional wealth, the stewardship theory, resource-based view and dynamic capability theory (Calabrò et al., 2025). The link between family ownership and firm performance has been examined in several studies and family business innovation, succession planning or entrepreneurial orientation have been studied separately (Schweiger et al., 2023). However, little empirical research has been conducted to examine the structural relationship between integrated family business capabilities and MSMEs' sustainable growth (Hernández-Perlines et al., 2026). The gap is more pronounced in developing economies where family businesses are the backbone of industrial and service sectors, including MSMEs (Hernández-Perlines et al., 2026). Yet another constraint from the previous research is method approaches. The majority of previous studies used descriptive analysis or regression analysis, which might not be adequate to capture complex relationships between multi-constructs (Cho et al., 2021). However, Structural Equation Modeling (SEM) provides a better analytical power as it simultaneously analyzes the reliability of the measurements as well as the relationships between the variables. The application of ADANCO software creates extra rigor in variance-based SEM analysis, especially in the context of exploratory research model and predictive research model applied to MSMEs.

In the light of the above, this study aims to examine the effect of family business capabilities on sustainable development of MSMEs using an empirical SEM approach. The study also explores the mediating role played by innovation capability between family business capabilities and sustainable growth of MSMEs. The number of the respondents in MSME (micro, small, and medium enterprises) is 235 and the hypothesis was tested by using ADANCO software. Empirical results showed that there are positive and significant correlations between the constructs, in the sense that when the family business capability is better, the potential for the sustainable growth of MSMEs is better. The study has several merits which can be appreciated in the following ways: This study has several merits of which can be appreciated in the following ways: First, it brings a family business capability and sustainable growth together in one framework – SEM – that brings them together. Second, it offers empirical evidence from MSMEs in a developing economy context which is not yet explored in existing literature. Third, the study provides practical implications for MSME owners, policy makers, and business development institutions to enhance family-managed enterprises through innovation, succession planning, and capacity building programs. The rest of the paper is organized as follows. A literature review is conducted to lay the groundwork for the research hypotheses, as described in the next section. The method of the research, data analysis, findings, discussion, implications, limitations, and future research direction are discussed in the following sections.

2. Literature Review and Hypotheses Development

2.1 Family business and MSME Sustainability

Micro, Small and Medium Enterprises (MSMEs) make up a significant share of the business sector in developing and emerging economies, and are mainly family owned (Adams, 2017). These businesses are important players in employment creation, productivity, regional development and economic sustainability (Tambunan, 2022). Family businesses differ from nonfamily businesses in that they have overlapping control, intergenerational involvement, emotional connection, and long-term orientation. These features affect organizational behavior, strategy and growth dynamics. The importance of family businesses for sustaining economic activity and for maintaining organizational continuity has been consistently emphasized in the existing literature (Adriansah & Mubarak, 2023). Some scholars have suggested that family businesses tend to focus on the preservation of the business, reputation, and relationships with stakeholders, rather than on short-term financial goals (Purba & Tan, 2018). This long-term orientation promotes stability, resilience, and continuity in business. In MSMEs, family members often serve as a significant source of strength as a result of limited resources and uncertainty regarding markets.

The study of family business management has followed a few theoretical streams such as the Resource-Based View (RBV), Dynamic Capability Theory, Stewardship Theory and socioemotional wealth perspectives. Of the above, the RBV offers a solid theoretical basis to understand the role of family-centered resources in sustainable organizational performance (Christian et al., 2024). Sustained competitive advantage occurs when a firm has resources that are valuable, rare, inimitable and non-substitutable, says Jay Barney (Sahoo et al., 2025). For family businesses, these resources can be trust, tacit knowledge, relational networks, commitment, and intergenerational experience.

Dynamic Capability Theory also suggests that people can maintain competitiveness by being able to integrate, reconfigure and reimagine the capabilities they possess within the organization, based on change within the environment (Öztürk, 2024). MSMEs face numerous and rapid changes in their business such as technological change, competition, customer expectations, and financial uncertainty. In this context, the competences of the family business are relevant strategic tools of adaption, innovation and sustainable growth. Although the research field of family business has gained increasing momentum, past works have studied family involvement, succession, innovation and/or the performance of the family business separately (Yilmaz et al., 2024). There is a limited empirical study on how the integrated family business capabilities affect sustainable growth outcomes via innovation capability, especially in the context of MSME, which is a key sector of developing economies (Bohorquez-Lopez et al., 2024). Empowerment of family business capability, innovation capability and sustainable growth of MSMEs are not only direct but also indirect in nature which is the gap addressed by the present study and analyzed through Structural Equation Modeling framework.

Family business capabilities are the sum of managerial, strategic, relational, and adaptive skills gained as a result of active involvement in family business (Bohorquez-Lopez et al., 2024). They encompass strategic flexibility, long term orientation, relationship management, knowledge continuity, entrepreneurial commitment and collaborative decision making (Bohorquez-Lopez et al., 2024). These skills tend to develop through intensive family relationships, a common sense of values, and through being in business for many years. Theories in the past indicate that family businesses have organizational strengths which set them apart from non-family businesses (Hernández-Perlines et al., 2026). It has been found that family businesses establish more robust relationships with stakeholders, owing to the trust-based governance and long-term relationships with employees, suppliers and customers (Barros et al., 2022). These relational benefits often help in ensuring business continuity and operational stability.

2.2 Family Business Capabilities and Sustainable Growth of MSMEs

There are several empirical studies that have shown that family businesses are more resilient in times of uncertainty and stress in the economy and the markets. Extraordinary family businesses may be willing to engage in strategic approaches that do not maximize short-term profits in order to maintain their family reputation and family legacy (Ulrich, 2025). Previous research also suggested that family firms make more efforts for organizational continuity and long-term competitiveness.

In terms of the RBV, family generated social capital, tacit knowledge and relational competencies become strategic organizational resources that improve firm performance and sustainability (Bals & Rosca, 2022). In contrast, Dynamic Capability Theory also focuses on the importance of the ability to adapt – flexibility, strategic responsiveness, and knowledge integration – which help companies to thrive and withstand

environmental changes (Rettig & Schreyögg, 2020). Sustainable growth in MSMEs is more than just about the financial numbers; it's about ensuring their continuity, adaptability, customer satisfaction, competitive stability and survival in the long run. Therefore, the capabilities of the family business are expected to contribute toward sustainable growth through better strategic decision-making, organizational adaptability, and managerial effectiveness. Previous empirical results have revealed positive relationship between the family involvement and firm performance particularly firms with high level of organizational commitment and long term orientation. Family-based governance mechanisms can help MSMEs make timely decisions and coordinate internal activities better, which can help them adapt to competition. The above theory and empirical arguments will support the formulation of the hypothesis as follows:

H1: Family business capabilities positive impact on the sustainable growth of the MSMEs.

2.3 The skills and innovations of a family business

Innovation capability is the capacity of an organisation to develop, absorb and apply new ideas, products, services, technologies and processes (Aas & Breunig, 2017). The need for innovation is becoming more significant in today's business contexts where companies need to be quick to adapt to technological shifts, customer demands, and rivals (Almrshed, 2020). The greater the innovation capability of the MSME, the more flexible and adaptable it will be in the market in uncertain conditions. Innovation is a way for companies to become more efficient in their operations, introduce new products, boost customer satisfaction, and maintain competitive edge in the market (Ziedan & Darmawan, 2026). In family businesses, organizational culture, family business orientation, knowledge sharing and family leaders' participation are factors influencing innovation capability (De Massis et al., 2022). Family businesses have some traits that could positively affect the innovation capability. The informal knowledge developed over time, family dynamics, long-term commitment, and shared vision of the organization can provide a positive context for the introduction of innovations (De Massis et al., 2022). Family businesses may have more efficient communications and more trust-based coordination, which in turn facilitates the transfer of knowledge and creativity.

According to Dynamic Capability Theory, innovation capability is a strategic mechanism that enables organisations to adjust their resources and capabilities to their environment (Strønen et al., 2017). Analyzing the family business capabilities namely strategic flexibility, family relational strength and knowledge continuity can then be expected to enhance the innovation-oriented behavior in MSMEs. Previous empirical evidence has yielded mixed results on the innovation in family firms. The conservative decision-making and the socioemotional preservation motives were seen as inhibiting risky innovation activities by some scholars (Kosmidou, 2018). Some other research found that the transmission of knowledge between generations and long term orientation are positively related to innovation development and technological adaptability (Fitz-Koch & Nordqvist, 2017). Recent literature increasingly shows that a synergy of traditional values and adaptive business practices can have a positive impact on the innovation capability of family business (Nasution et al., 2024; Skrbková et al., 2023). Collaborative learning, knowledge sharing, and strategic flexibility put the MSMEs at a higher probability of developing innovative products, services, and operational processes (Wu et al., 2025). From these arguments, the following hypothesis is made:

H2: Family business capabilities significant positive impact on the innovation capability.

2.4 Innovation capability and sustainable growth of MSMEs

It is well known that the innovation ability of an organisation is one of the most important factors determining the competitiveness of that organisation and the sustainable growth of the business. Companies that can develop new products, services, technologies and management practices have a better chance of surviving in turbulent markets (Enrique Beltrán Virgüez et al., 2025). Dynamic Capability Theory states that companies maintain their competitiveness in the long-term by frequently reconfiguring their resources in response to the changing environment (Öztürk, 2024). Innovation capability is a critical dynamic capability as it is essential to convert knowledge and strategic resources into market responsive outcomes. In the context of MSMEs, innovation capability is a factor that contributes to operational efficiency, product differentiation, customer satisfaction and competitive advantage (Kalathingal & Ambrammal, 2025). Innovation-oriented enterprises tend to be more successful in recognizing new opportunities, adjusting to new technologies, and meeting customer needs and wants. This flexibility is crucial for long-term sustainability and growth.

The link between innovation capability and firm performance has always been found to be positive in previous empirical research. It has been found that innovation capability leads to productivity improvement, market expansion, profitability and organizational resilience (S. Ahmad & Alsuhaibany, 2025). Small and family-owned firms research also found that innovation capability boosts strategic sustainability and long-term competitiveness (Aas & Breunig, 2017). In the context of family business, innovation capability could serve as an important mechanism that connects the family business capabilities with sustainable growth outcomes. Strong relational coordination, knowledge continuity, and strategic adaptability ability are shown to be more effective in translating the strengths of family firms into innovative business practices (Craig et al., 2019). These innovative practices then lead to the overall growth and sustainability. The inclusion of innovation capability as a mediating variable was also confirmed by the existing research about organizational capabilities and the relationship between the two and firm performance (Barros-Contreras et al., 2021). There has been debate regarding the direct link between strategic resources and sustainable results, except when they are translated into organizational adaptive and innovative actions. Theoretical and empirical observations lead to the following hypotheses:

H3: The innovation capability has a positive and significant impact on the sustainable growth of MSMEs.

H4: Innovation capability of the family business positively moderates the relationship between family business capability and sustainable growth of MSMEs.

3. Research Methodology

This research used quantitative research design, with the purpose of analyzing the direct and indirect relations between family business capabilities, innovation capability and sustainable growth of MSMEs. Primary data was collected from owners/managers of family owned MSMEs using structured questionnaire. The method used in this study was cross-sectional survey method which was appropriate for collecting standardized answers that were suitable for the analysis of Structural Equation Modeling (SEM). The total respondents obtained were 235, through purposive and convenience sampling. The respondents were the business owners, successors and managerial personnel, who are directly associated with the management and operation of family business MSMEs. The number of samples was found to be suitable for the analysis of variance-based SEM by using the ADANCO software. The questionnaire contained 3 major constructs namely Family Business Capabilities (FBC), Innovation Capability (IC), and Sustainable Growth of MSMEs (SGM). The Family Business Capabilities construct comprised 6 items covering aspects like strategic flexibility, long-term orientation, knowledge sharing, and relationship management. The innovation capability measure consisted of 6 items related to product innovation, technological adaptability, process improvement and creative responsiveness. Six items related to the concepts of operational continuity, market development, financial stability and long-term competitiveness were taken into account for measuring Sustainable Growth of MSMEs. The measurement scales were taken from existing literature based on the Resource Based View and Dynamic Capability Theory. A five-point Likert scale was used for all items ranging from 1 = Strongly Disagree to 5 = Strongly Agree. All the collected data were analysed with the software ADANCO. Cronbach's Alpha, Composite Reliability (CR), Average Variance Extracted (AVE) and discriminant validity were used to test the reliability and validity of the instrument. The structural model was then evaluated to examine the hypothesized model (i.e. mediation hypothesis) including the mediating effect of innovation capability.

4. Results Analysis

The collected data was analyzed with ADANCO software which uses the technique of Partial Least Squares Structural Equation Modeling (PLS-SEM). The analysis was conducted in two aspects, such as measurement model and structural model. To test the proposed hypotheses, reliability, convergent validity, discriminant validity, model fit and bootstrapping procedures were used.

4.1 Measurement Model Assessment

4.1.1 Indicator Reliability

All measurement items had factor loadings above the recommended value of 0.70, which meant that the indicators had satisfactory reliability. All constructs had high factor loadings (range 0.834–0.949) signifying high item reliability and high construct representation.

4.1.2 Construct Reliability

The reliability of the constructs was determined by Cronbach's Alpha, Jöreskog's rho (ρ_c), and Dijkstra-Henseler's rho (ρ_A). For all constructs the obtained values were above the recommended level of 0.70, which means the constructs have good internal consistency reliability.

Table 1. Construct Reliability

Construct	Dijkstra-Henseler's rho (ρ_A)	Jöreskog's rho (ρ_c)	Cronbach's Alpha (α)
Family Business Capabilities (FBC)	0.9625	0.9620	0.9620
Sustainable Growth of MSMEs (SGM)	0.9488	0.9483	0.9482
Innovation Capability (IC)	0.9527	0.9520	0.9520

The reliability statistics confirm that all constructs demonstrate excellent internal consistency reliability.

4.1.3 Convergent Validity

Average Variance Extracted (AVE) was used as a measure for convergent validity. Convergent validity was confirmed for all constructs as the AVE values were above 0.50.

Table 2. Convergent Validity

Construct	Average Variance Extracted (AVE)
Family Business Capabilities (FBC)	0.8085
Sustainable Growth of MSMEs (SGM)	0.7535
Innovation Capability (IC)	0.7679

The AVE values indicate that the constructs capture adequate variance from their respective indicators, thereby confirming convergent validity.

4.1.4 Discriminant Validity

Heterotrait-Monotrait Ratio (HTMT) and Fornell-Larcker Criterion were used to assess the discriminant validity. The values of HTMT were below the threshold value of (0.90), which means that there is satisfactory discriminant validity among the constructs.

Table 3. HTMT Ratio

Construct	FBC	SGM	IC
FBC	—	—	—
SGM	0.8013	—	—
IC	0.7511	0.8439	—

The Fornell-Larcker Criterion further confirmed discriminant validity, as the square root of AVE for each construct was greater than its correlations with other constructs.

4.2 Model Fit Assessment

Standardized Root Mean Square Residual (SRMR), d_{ULS} , and d_G were used for the model fit evaluation. The SRMR was 0.0197 (of the recommended value 0.08), showing a good model fit.

Table 4. Fornell-Larcker Criterion

Construct	FBC	SGM	IC
FBC	0.8085		
SGM	0.6423	0.7535	
IC	0.5668	0.7137	0.7679

These findings confirm satisfactory discriminant validity of the measurement model.

Table 5. Model Fit Indices

Model Fit Index	Value	HI95	HI99
SRMR	0.0197	0.0241	0.0266
d ULS	0.0666	0.0990	0.1209
d G	0.1579	0.2079	0.2387

The obtained model fit indices indicate that the proposed structural model demonstrates satisfactory fit with the observed data.

4.3 Structural Model Assessment

The structural model was evaluated through bootstrapping procedures to examine the significance of direct, indirect, and total effects among the constructs.

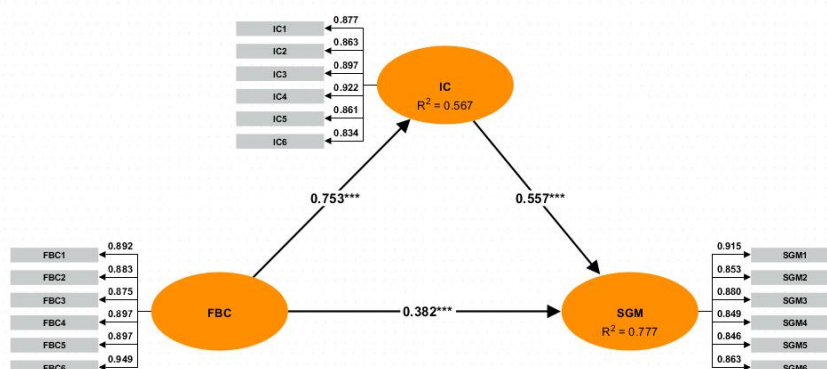


Figure 1. Structural Model Showing Relationships among FBC, IC, and SGM

4.3.1 Direct Effects

The direct effect analysis showed that the Family Business Capabilities had significant effects on the Sustainable Growth of MSMEs ($\beta = 0.3818$, $p < 0.001$). The Family Business Capabilities also had a positive and significant impact on Innovation Capability ($\beta = 0.7529$, $p < 0.001$). Sustainable Growth of MSMEs was found to be significantly influenced by Innovation Capability with $\beta = 0.5573$ and $p < 0.001$. The huge indirect effect supports the mediation role of Innovation Capability between Family Business Capabilities and Sustainable Growth of MSMEs. Both direct and indirect effects were significant, suggesting part mediation between the family business capabilities and sustainable growth of MSMEs.

Table 6. Direct Effects Inference

Relationship	Path Coefficient (β)	Standard Error	t-value	p-value
FBC \rightarrow SGM	0.3818	0.0548	6.9685	0.0000
FBC \rightarrow IC	0.7529	0.0334	22.5592	0.0000
IC \rightarrow SGM	0.5573	0.0554	10.0639	0.0000

The findings indicate that all direct relationships are positive and statistically significant.

4.3.2 Indirect Effect Analysis

The mediation analysis revealed that Innovation Capability significantly mediates the relationship between Family Business Capabilities and Sustainable Growth of MSMEs.

Table 7. Indirect Effects Inference

Indirect Relationship	Path Coefficient (β)	Standard Error	t-value	p-value
FBC \rightarrow IC \rightarrow SGM	0.4196	0.0443	9.4630	0.0000

4.3.3 Total Effects Analysis

Through the total effects analysis, it was found that Family Business Capabilities have a high overall influence on Sustainable Growth of MSMEs.

Table 8. Total Effects Inference

Relationship	Total Effect (β)	Standard Error	t-value	p-value
FBC \rightarrow SGM	0.8014	0.0266	30.1116	0.0000
FBC \rightarrow IC	0.7529	0.0334	22.5592	0.0000
IC \rightarrow SGM	0.5573	0.0554	10.0639	0.0000

The results indicate that Family Business Capabilities substantially contribute to sustainable growth both directly and indirectly through Innovation Capability.

4.4 Coefficient of Determination (R^2)

The coefficient of determination (R^2) was examined to test the predictive power of the structural model. The R^2 value for Innovation Capability is 0.567, that means that the Family Business Capabilities account for 56.7% of the variance in Innovation Capability. Sustainable Growth of MSMEs demonstrated R^2 value of 0.777 which represents the combined contribution of Family Business Capabilities and Innovation Capability in explaining 77.7% of the variance in Sustainable Growth of MSMEs. The values of these indicate a significant predictive power for the proposed structural model.

5. Discussion and Implications

5.1 Discussion of Findings

In the present study, the direct and indirect relationship between family business capabilities, innovation capability and sustainable growth of MSMEs was examined by applying the method of Structural Equation Modeling by using the ADANCO software with 235 valid responses. The empirical results showed that all the proposed hypotheses were positively and statistically significant. Results support the assumptions of the Resource Based View and Dynamic Capability Theory greatly. The results of H1 showed that the capabilities of family businesses have a positive effect on the sustainable development of MSMEs. This finding suggests that some organizations are better equipped to be family-based and have the following strengths: long-term orientation, strategic flexibility, trust-based relationships, knowledge continuity, and collaborative decision-making, which are important factors affecting long-term business sustainability. The results corroborate previous research indicating that family businesses tend to be more resilient due to their focus on maintaining continuity, relationships and keeping on their guard against reputation loss (Hernández-Perlines et al., 2026). Moreover, the positive association between family business abilities and sustainable growth reinforces the Resource Based View (RBV) account of Jay Barney that states that special organizational resources will create sustained competitive advantages. Intangible assets like tacit knowledge, relational capital and family commitment in family owned MSMEs are hard to replicate. These abilities can help companies remain flexible and successful, allowing them to navigate shifting market dynamics and stay competitive. The results also showed that the capabilities of family business have high impact on innovation capability that supports H2. The finding implies that the strengths of family business provide a favourable environment for innovation related activities in MSMEs. Family firms that are based on trust, sharing information, strategic flexibility, and long-term orientation can better foster creativity, technological adaptation and process improvement (Barros-Contreras et al., 2021).

The results are in line with Dynamic Capability Theory that focuses on adaptive organisational capabilities to cope with environmental changes (Gremme & Wohlgemuth, 2017). Family business skills seem to enhance the ability of MSMEs to connect and reconfigure resources into innovative products, services, and management approaches. The findings are consistent with previous research on innovation behavior in family businesses, which found that family collaborative working relationships and intergenerational learning had a positive impact on innovation development. The empirical findings also corroborated that innovation capability has a significant impact on the sustainable growth of MSMEs, which support H3. The result highlights the role of innovation capability as an important strategic tool to enhance long-term organizational competitiveness and continuity. MSMEs with higher innovation capacity are more likely to enhance the operational efficiency, effectively meet customer needs, and ensure competitiveness in evolving markets.

Past research investigating innovation and firm performance has also found positive links between innovation capability and organizational sustainability (Krishna, 2017). Businesses that focus on innovation tend to be more flexible, efficient, and market-oriented. The present findings reinforce these arguments by suggesting that innovation capability plays a significant role in the sustainable growth in family-managed MSMEs. The study also confirmed the mediation of innovation capability between the family business capabilities and sustainable growth, thereby supporting H4. The result here suggests that family business skills are not sufficient for the sustainable growth of a family business by themselves, but they must be translated into innovative organizational actions (Satpathy et al., 2024). The ability to innovate is a critical pathway that links family strengths in an organization with long-term business sustainability. The mediating effect in this research study supports the Dynamic Capability Theory which suggests that firms become sustainably competitive because they are able to transform organizational resources into adaptive and innovative capabilities. Family firms with high levels of strategic flexibility, relational coordination and knowledge continuity are more likely to achieve innovation-driven growth outcomes. The results indicate, therefore, that innovation capability can be seen as a strategic link between the strengths of a family business and sustainable organizational performance. The results come together to support a growing body of academic literature that challenges the notion of the family business as a merely traditional form of ownership, and instead sees it as a business with capabilities to create sustainable competitive advantage through innovation and strategic adaptations.

5.2 Theoretical Implications

The study makes several contributions to the family business and MSME literature. First, it further expands the scope of the Resource Based View and Dynamic Capability Theory in understanding sustainable growth in family-managed MSMEs. The results show that family business capabilities are an important asset for the organization and have a positive impact on innovation capability and sustainable growth results. Second, the study is part of the relatively scarce empirical literature which focuses on the examination of family business capabilities within a Structural Equation Modeling (SEM) framework. Previous studies in this area often used descriptive methods or a direct effect regression model. The present study is used to provide a deeper insight on the relationships between family business capabilities, innovation capability, and sustainable growth by using variance-based SEM analysis of the ADANCO software. Third, the study contributes to the innovation capability literature by establishing innovation capability as a mediating variable between family business capabilities and sustainable growth. The results clarify the relationship between the family centered strengths in the organisation and the sustainable business results that are realised by implementing innovation oriented practices in the family business. Third, the study helps existing research on sustainability of MSMEs by highlighting the strategic significance of capability based management perspectives. Results indicate that besides financial or operational resources, organizational adaptability, knowledge integration and innovation orientation are essential for the sustainable growth of MSMEs.

5.3 Practical Implications

The study has several practical implications for the owners of MSMEs, policy makers, entrepreneurship development institutions and business consultants. Family business owners should be concerned about developing company skills including strategic flexibility, knowledge sharing, innovation orientation and adaptability to decision processes. MSMEs in unpredictable business environments should have improved in-house capacity to sustain and remain competitive in the market. The results also suggest that innovation capability is a key determinant of the sustainable growth outcomes from family business strengths. Thus, it is crucial that family-owned MSMEs foster innovative practices like technological adaptation, product development, process improvement and employee creativity. Companies who manage to integrate traditional values with innovative strategies will stand a higher chance of maintaining the growth in business. It is also necessary to establish an organisation culture which facilitates cooperation for learning and knowledge sharing among MSME managers. Family firms with strong relationships and communication may enhance their ability to perform well on innovation and be more responsive to market shifts. The study calls for targeted support programmes for family owned MSMEs for policy makers and Government bodies. Future innovation development projects and services, digital transformation, entrepreneurship education and technology transfer projects can enhance the long-term sustainability of family businesses. These findings can also be helpful for financial institutions and MSME support organizations in designing advisory services and developmental interventions for family businesses. Promoting innovation capability development can

strengthen enterprise resilience and competitiveness, and enhance regional and national economic contributions.

6. Conclusion

The present research aims to explore the effect of family business capabilities on the sustainable growth of MSMEs, as well as to explore the mediating role of innovation capability, using the software of Structural Equation Modeling (SEM) using the technique of ADANCO. The empirical results were based on 235 valid answers obtained from the family-owned MSMEs, which were found to be able to significantly and positively influence both innovation capability and sustainable growth. The study also confirmed the positive relationship between innovation capability and sustainable growth of MSMEs, and that it is one of the important mediating factors between family business capabilities and sustainable growth. The results revealed that family-based MSMEs can sustain their operations in the long-term provided they are able to leverage organizational strengths like trust-based governance, strategic flexibility, knowledge continuity, collaborative relationships, and long-term orientation. These family-centered capabilities boost innovation-oriented behavior of businesses and allow them to adjust to the evolving market conditions, technological changes, and competition. Hence, the study confirms the assumptions of the Resource Based View (RBV) and Dynamic Capability Theory (DCT) in that the organization's capabilities and practices of adaptive innovation are significantly related to the sustainable growth. The research not only adds to the growing body of literature on family business management but also provides empirical evidence from a developing economy context with the help of a robust SEM framework which helps in the sustainability of MSMEs. The results have also given practical ideas to the owners of MSMEs, policy makers and business support institutions. Building innovation capability, promoting sharing of knowledge and enhancing adaptive organizational capability could have a significant impact on the competitiveness and sustainability of family owned MSMEs in the long term.

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