

Innovation, Sustainability, and Small and Medium Enterprise Performance: A Resource-Based View Systematic Literature Review

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Article History

Received on 13 June 2026

1st Revision on 02 July 2026

2nd Revision on 08 July 2026

3rd Revision on 13 July 2026

Accepted on 15 July 2026

Abstract

Purpose: This study systematically examines the relationships among organizational innovation, organizational sustainability, competitive advantage, and Micro, Small, And Medium Enterprise (MSME) performance from a Resource Based View (RBV) perspective. It addresses a research gap by integrating these four constructs into a single conceptual framework, as previous studies have predominantly examined them separately or through limited variable relationships.

Research Methodology: A Systematic Literature Review (SLR) was conducted using the PRISMA 2020 protocol. The study reviewed 68 peer-reviewed articles published between 2015 and 2025 from Scopus, Web of Science, and Google Scholar. Data were analyzed through narrative synthesis, thematic clustering, and gap analysis.

Results: The findings show that organizational innovation has the strongest positive relationship with MSME performance, while organizational sustainability also contributes significantly. Competitive advantage acts as a mediating mechanism, although its effect varies across different business contexts. Limited studies integrating all constructs indicate a research gap.

Conclusions: The review confirms RBV as a relevant foundation for explaining MSME performance through innovation, sustainability, and competitive advantage.

Limitations: This study is limited to secondary data from peer-reviewed publications between 2015 and 2025, which may affect broader generalization.

Contributions: This study provides an integrated RBV-based framework and future research directions for strengthening MSME competitiveness and sustainability.

Keywords: *Competitive Advantage, MSME Performance, Organizational Innovation, Organizational Sustainability, Resource-Based View*

How to Cite: Ardansyah, A., Barusman, M. Y. S., Habiburahman, H., & Defrizal, D. (2026). Innovation, Sustainability, and Small and Medium Enterprise Performance: A Resource-Based View Systematic Literature Review. *Studi Ilmu Manajemen dan Organisasi*, 7(2), 411-424.

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are central to economic development, employment creation, and poverty reduction in developing economies. In Indonesia, MSMEs account for more than 97% of total employment and contribute substantially to national economic growth ([Kemenko, 2025](#)). Despite this significance, MSMEs continue to face persistent constraints in innovation capability, resource availability, technology adoption, and sustainability integration ([Halim, 2020](#); [Hansen-Addy, Parrilli, & Tingbani, 2025](#)). This pattern is echoed in local-context evidence: studies of MSMEs and service firms in Bandar Lampung and the wider Lampung region likewise report that performance gains remain closely tied to firm-level capability building in service quality ([Paujjah & Sutadipraja, 2022](#)) and in employee competence and work experience ([Hermawan, Wulandari, Buana, & Sanjaya, 2021](#)), rather than to firm scale or market growth alone.

The Resource Based View (RBV) offers a compelling explanation for these performance differences: organizational performance is largely determined by the possession and deployment of resources that are valuable, rare, inimitable, and non-substitutable ([Barney, 1991](#)). Within this perspective, organizational innovation and organizational sustainability can be understood as strategic capabilities capable of generating competitive advantage and, in turn, improving firm performance.

Research on innovation, sustainability, and MSME performance has expanded rapidly over the past decade, yet an important gap remains: few studies integrate these constructs into a single structural framework grounded in RBV. Most prior work examines partial relationships, typically innovation-performance or sustainability-performance – without simultaneously accounting for the mediating role of competitive advantage that connects internal capabilities to performance outcomes. Consequently, the field lacks a coherent explanation of how, rather than merely whether, innovation and sustainability translate into superior MSME performance.

To address this gap, the present study conducts a Systematic Literature Review (SLR) with four objectives: To map the development of research on organizational innovation, organizational sustainability, competitive advantage, and MSME performance. To synthesize empirical findings and the relationships among these constructs. To identify unresolved gaps in the existing literature. To propose an integrative, RBV-based conceptual framework as a foundation for future empirical testing.

The originality of this review rests on two specific contributions. First, unlike prior systematic reviews that examine the innovation-performance or sustainability-performance relationship in isolation, this review is, to the authors' knowledge, the first to synthesize all four constructs, organizational innovation, organizational sustainability, competitive advantage, and MSME performance within a single RBV-based structural framework that explicitly models competitive advantage as the mediating mechanism rather than as a peripheral variable. Second, by foregrounding the developing-country and MSME context, where resource constraints make the logic of RBV especially salient, this review extends a literature that has so far been dominated by large-firm and developed-economy evidence. Together, these contributions provide a conceptual foothold for subsequent empirical research, particularly in emerging economies such as Indonesia.

2. Literature Review and Hypotheses Development

2.1 Resource-Based View (RBV)

RBV posits that firms achieve sustained competitive advantage through the possession and effective deployment of resources that are valuable, rare, inimitable, and non-substitutable ([Barney, 1991](#); [Wernerfelt, 1984](#)). [Barney and Clark \(2007\)](#) extend this argument by emphasizing that competitive advantage emerges specifically when firms transform ordinary resources into unique, value-creating capabilities that competitors cannot easily replicate.

Two theoretical extensions enrich this baseline view. First, Dynamic Capabilities Theory extends RBV by emphasizing the firm's ability to integrate, build, and reconfigure resources in response to environmental change ([Teece et al., 1997](#); [Teece, 2018](#)), a capacity that is particularly consequential

for MSMEs operating in uncertain, rapidly shifting markets where static resource endowments quickly lose relevance. [Second, Hart's \(1995\)](#) Natural Resource-Based View (NRBV) incorporates environmental and social capabilities as legitimate strategic assets, arguing that practices such as green innovation, waste reduction, and responsible resource use generate durable competitive advantage precisely because they are difficult to imitate in the short term.

Read together, these three perspectives justify treating innovation and sustainability as dynamic, VRIN (Valuable, Rare, Inimitable, and Non-substitutable) consistent capabilities both enable organizations to adapt to technological disruption, shifting market demand, and evolving stakeholder expectations, and both as the following subsections show are increasingly theorized, though inconsistently tested, as antecedents of competitive advantage and, through it, of organizational performance.

2.2 Organizational Innovation and MSME Performance

Organizational innovation refers to the implementation of new products, processes, managerial systems, and business models that enhance organizational effectiveness ([Crossan & Apaydin, 2010](#)), encompassing product, process, marketing, and managerial innovation ([Damanpour & Aravind, 2012](#); [OECD, 2018](#)). A substantial body of evidence reports a positive relationship between innovation and organizational performance ([Rosenbusch et al., 2011](#); [Saunila, 2020](#); [Nasir et al., 2024](#)), attributing the effect to gains in efficiency, product differentiation, and adaptability to dynamic market conditions.

This relationship, however, is not uniformly direct. [Hernández-Perlines et al. \(2022\)](#), studying 215 Spanish MSMEs, found that innovation alone may not improve performance unless it is transformed into a market-based advantage a finding that anticipates the mediation logic developed in Section 2.7. This qualification is important: it suggests that the innovation-performance relationship reported across the broader literature may mask considerable heterogeneity depending on whether competitive advantage is modeled as a mediating mechanism.

P₁: Organizational innovation positively influences MSME performance.

2.3 Organizational Sustainability and MSME Performance

Organizational sustainability refers to the integration of economic, environmental, and social dimensions into business operations ([Elkington, 2018](#)). Sustainability practices are consistently associated with stronger stakeholder trust, operational efficiency, legitimacy, and long-term resilience ([Srisathan et al., 2020](#); [Mehmood et al., 2024](#)). From a Natural RBV standpoint, sustainability capabilities satisfy VRIN criteria: they are difficult to imitate quickly because they require the internalization of durable organizational values, and they are non-substitutable because they are embedded in socially path-dependent stakeholder relationships. Sustainability therefore qualifies as a genuine source of sustained competitive advantage rather than a normative overlay on business strategy ([Hart, 1995](#)).

P₂: Organizational sustainability positively influences MSME performance.

2.4 Organizational Innovation and Competitive Advantage

[Cheng et al. \(2018\)](#), studying 294 industrial managers, found that organizational innovation significantly enhances competitive advantage, particularly when supported by a culture of knowledge-sharing that enables superior manufacturing capability. [Musiello-Neto et al. \(2021\)](#), examining the hospitality sector, similarly found that open innovation strengthens competitive advantage through organizational strategy, indicating that firms translating innovative practices into strategic alignment are better positioned to exploit market opportunities. Taken together, these studies suggest that innovation contributes to competitive advantage primarily when it is embedded in organizational strategy and culture, rather than treated as a standalone technical activity, a distinction with direct relevance for MSMEs, where such strategic embedding is often weaker than in large firms.

P₃: Organizational innovation positively influences competitive advantage.

2.5 Organizational Sustainability and Competitive Advantage

[Bari et al. \(2024\)](#) examined the interrelationship between sustainable dynamic capabilities, corporate sustainability, and sustained competitive advantage using evidence from Australian and Pakistani

professionals, finding that corporate sustainability functions as an important mechanism through which sustainable dynamic capabilities are converted into competitive outcomes. [Mukhsin and Suryanto \(2022\)](#) reported that sustainable supply chain management increases competitive advantage, which in turn improves organizational performance, while [Rahardjo et al. \(2026\)](#) found that MSMEs adopting socially and environmentally conscious supply chain practices achieved stronger market positions than competitors focused solely on short-term financial objectives. Across these studies, sustainability appears to strengthen competitive advantage less through isolated environmental initiatives than through its integration into core operational and supply chain decisions.

P₄: Organizational sustainability positively influences competitive advantage.

2.6 Competitive Advantage and Organizational Performance

[Truong et al. \(2025\)](#), studying Vietnamese Small and Medium-sized Enterprises (SMEs), found that competitive advantage has a significant positive effect on organizational performance and partially mediates the relationship between organizational culture, strategic vision, and performance. [Al-Ariqi and Alhakimi \(2025\)](#), examining higher-education institutions, likewise found that competitive advantage significantly enhances organizational performance, with cost leadership, differentiation, and focus strategies improving outcomes both directly and indirectly through competitive advantage. These findings converge on a consistent conclusion: possessing valuable resources is insufficient on its own performance gains materialize once those resources are converted into a defensible competitive position.

P₅: Competitive advantage positively influences organizational performance.

2.7 Competitive Advantage as a Mediating Mechanism

Competitive advantage denotes a firm's ability to create superior economic value relative to competitors who cannot easily replicate it [Porter \(1985\)](#) and [Barney \(1991\)](#), commonly analyzed along four complementary dimensions for SMEs: cost advantage (lower operating costs enabling competitive pricing), differentiation advantage (unique, customer-valued products or services), market position advantage (customer loyalty and reputation), and inimitability (the difficulty competitors face in replicating a firm's capabilities).

A growing body of literature positions competitive advantage as the mediating mechanism through which innovation and sustainability translate into performance ([Zhang, Khan, Lee, & Salik, 2019](#); [Hernández-Perlines, Xu, Araya-Castillo, & Ariza-Montes, 2022](#); [Sattar, Kamil, & Razak, 2025](#)). Using a meta-analysis of 47 studies, [Sattar et al. \(2025\)](#) estimated the average mediation effect of competitive advantage at 0.21 (95% CI: 0.15–0.27) for the innovation-performance relationship and 0.14 (95% CI: 0.08–0.21) for the sustainability-performance relationship, suggesting that innovation depends more heavily on competitive advantage as a transformative mechanism than sustainability does. [Zhang et al. \(2019\)](#), studying 312 Chinese manufacturing SMEs, identified three specific mechanisms product differentiation, operational efficiency, and market legitimacy through which competitive advantage converts internal capabilities into performance gains.

This mediating role, however, is not universal. Evidence from smaller-scale MSMEs indicates that innovation and sustainability can influence performance operationally and directly, without being fully channeled through a formally structured competitive position ([Lenart-Gansiniec, Sypniewska, & Chen, 2023](#); [Khanra, 2021](#)) plausibly because micro-enterprises lack the organizational capacity to convert resources into a strategically differentiated market position in the first place. This inconsistency across firm sizes is precisely the ambiguity that an integrative, MSME-specific test of the mediation pathway is needed to resolve.

P₆: Competitive advantage mediates the relationship between organizational innovation and organizational performance.

P₇: Competitive advantage mediates the relationship between organizational sustainability and organizational performance.

2.8 Toward an Integrative Conceptual Framework

The propositions developed above converge on a single structural logic: Organizational Innovation and Organizational Sustainability → Competitive Advantage → MSME Performance, with direct

paths from innovation and sustainability to performance retained alongside the mediated paths (Propositions 1, 2, 5, 6, and 7). This framework is grounded in the integration of three theoretical strands introduced in Section 2.1, classical RBV, Dynamic Capabilities Theory, and Natural RBV and is empirically anticipated by studies that examine subsets of these relationships ([Srisathan et al., 2020](#); [Hai et al., 2021](#); [Wang & Mangmeechai, 2022](#)).

What distinguishes the present framework from this prior work, and constitutes its central theoretical contribution, is the simultaneous specification of all four constructs within one testable structural model calibrated to the resource-constrained MSME context, a specification that, as Section 4.3 documents, only 5.9% of the reviewed literature has attempted.

3. Research Methodology

3.1 PRISMA Protocol

This study follows the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA 2020) protocol ([Page et al., 2021](#)), selected for its capacity to ensure transparency, consistency, and methodological rigor throughout the review process. The protocol comprises four sequential stages: identification, screening, eligibility assessment, and inclusion.

3.2 Search Strategy and Data Sources

Three databases were searched in Scopus, Web of Science, and Google Scholar, covering publications from 2015 to 2025. Boolean search strings combined the constructs of interest using the operators AND/OR, adapted to each database's syntax. The core search string applied was:

("organizational innovation" OR "innovation capability") AND ("organizational sustainability" OR "sustainable practices" OR "green innovation") AND ("competitive advantage" OR "competitive strategy") AND ("firm performance" OR "SME performance" OR "MSME performance") AND ("resource-based view" OR "dynamic capabilities")

This string was adapted to each database's specific syntax (e.g., TITLE-ABS-KEY) in Scopus (TS= in Web of Science) and supplemented by backward and forward citation tracking of the reference lists of included articles to identify additional eligible studies not captured through keyword searching.

3.3 Criteria Inclusion and Exclusion

Table 1. Criteria inclusion and exclusion literature

Dimensions	Criteria Inclusion	Criteria Exclusion
Database	Scopus, Web of Science, Google Scholar	Blogs, non- academic reports, dissertations No published
Period	2015–2025 (10 years) final	Before 2015 (except theory foundation classic)
Language	English and Indonesian	Other languages without translation verified
Type Publication	Journal articles indexed, Q1–Q2 proceedings	Opinion, editorial, review not peer-reviewed
Main Topics	Innovation, sustainability, excellence competitiveness, MSME performance, RBV	Off topic management strategic MSMEs
Unit of Analysis	Organizations / companies (especially MSMEs)	Individuals, countries, or policy public solely

Table 1 summarizes the inclusion and exclusion criteria applied throughout the selection process. Eligible studies were peer-reviewed publications indexed in Scopus, Web of Science, or Google Scholar, published between 2015 and 2025, and written in English or Indonesian, addressing innovation, organizational sustainability, competitive advantage, MSME performance, or the Resource-Based View, with organizations, particularly MSMEs, as the unit of analysis. Studies were excluded if they were non-peer-reviewed such as, blogs, editorials, unpublished theses or dissertations, published before 2015 (except foundational theoretical works such as Barney 1991 and

Wernerfelt 1984), or unrelated to strategic management in MSMEs. The selection process focused on studies that provided empirical or conceptual insights into the relationship among organizational resources, capabilities, and performance outcomes. Articles without clear methodological procedures, insufficient research context, or unavailable full-text access were removed from further analysis. The final selection was based on relevance, methodological quality, and alignment with the research objectives to ensure the reliability of the synthesized findings.

3.4 Selection Process and Search Results

Each article that passed the eligibility screening was appraised for methodological quality using a structured checklist adapted from PRISMA 2020 guidance and standard SLR quality-appraisal practice, covering four criteria: Clarity of the research objective and conceptual framework, Appropriateness and transparency of the research design and sampling procedure, Validity and reliability of measurement for quantitative studies, or trustworthiness of the analytical procedure for qualitative studies, and Clarity of reported findings and their alignment with the stated research questions.

Each criterion was scored on a three-point scale (0 = not met, 1 = partially met, 2 = fully met), yielding a maximum quality score of 8. Articles scoring below 5 were excluded from the final synthesis to ensure that only methodologically sound studies informed the review's conclusions. Two reviewers independently appraised a random 20% subsample of articles to check consistency; disagreements were resolved through discussion.

Analysis was conducted for the 68 selected articles, consisting of 34 articles from Scopus, 19 articles from Web of Science, and 15 articles from Google Scholar, as shown in Table 2 (section 3.3) . The distribution of publications reveals a growing trend of research over time, with the maximum number of studies published in 2020–2021 (20 articles) and 2022–2023 (18 articles). This pattern is consistent with the increasing academic interest in innovation, organizational sustainability, competitive advantage, and MSME performance. The clustering of studies recently also indicates that these topics have gained more prominence in the strategic management and entrepreneurship literature.

3.5 Selection Process and Search Results

Study selection proceeded through the four PRISMA stages. At identification, 2,847 records were retrieved from the three databases. At screening, 1,923 records were removed based on title and abstract review, comprising 412 duplicates and 1,511 records judged topically irrelevant. At eligibility assessment, the remaining 924 full-text articles were evaluated against the criteria in Table 1 and the quality-appraisal checklist described in Section 3.4; 856 were excluded for failing to meet criteria related to method, context, or analytical depth. The final inclusion stage yielded 68 articles for synthesis.

The temporal distribution of the included studies (Table 2) shows a marked increase after 2020, reflecting growing scholarly attention to this topic, particularly in the post-COVID-19 period, during which MSME resilience and sustainability gained heightened policy and academic salience.

Of the 68 included articles, 34 originate from Scopus, 19 from Web of Science, and 15 from Google Scholar. Publications peak in 2020–2021 (20 articles) and 2022–2023 (18 articles), consistent with rising academic interest in innovation, organizational sustainability, competitive advantage, and MSME performance, and indicating that these topics have gained increasing prominence in the strategic management and entrepreneurship literature in recent years.

3.6 Data Extraction and Analytic Approach

For each included article, the following data were extracted into a structured matrix: author(s) and year; theoretical framework; sample and context; research design and analytical method; operationalized constructs; and key findings, including reported effect sizes where available. This matrix formed the basis for three complementary analytic procedures. First, narrative synthesis integrated findings qualitatively according to the variables examined and the relationships reported. Second, thematic clustering grouped articles into major themes based on their focus and contribution. Third, gap analysis identified methodological, contextual, and conceptual gaps in the existing

literature, forming the basis for the discussion in Section 4.3. The extracted information was further compared across studies to identify patterns, inconsistencies, and emerging research trends. This systematic approach ensured a comprehensive interpretation of the evidence and strengthened the validity of the review findings.

4. Results and Discussions

4.1 Thematic Clusters

Analysis of the 68 included articles identified five thematic clusters that characterize the development and direction of this literature as can be seen in Table 3. Cluster 1 (C1), focusing on the relationship between organizational innovation and performance, was the most prevalent (23 articles, 33.8%) and reflects broad consensus regarding innovation's positive influence on performance. Cluster 2 (C2) examines the relationship between sustainability and performance (17 articles, 25.0%), with particular emphasis on green innovation and ESG-based performance measures. Cluster 3 (C3) investigates competitive advantage as a mediating variable (13 articles, 19.1%), conceptualizing it as the connective mechanism between internal capabilities and performance. Cluster 4 (C4) addresses RBV and dynamic capabilities as foundational theory (10 articles, 14.7%). Cluster 5 (C5), the smallest, focuses on MSMEs in developing-country contexts (5 articles, 7.4%) – a distribution that itself signals the contextual gap motivating this review.

Table 3. Distribution of selected articles by source and year

Database	2015–2017	2018–2019	2020–2021	2022–2023	2024–2025	Total
Scopus	4	6	10	9	5	34
Web of Science	2	3	6	5	3	19
Google Scholar	1	2	4	4	4	15
Total	7	11	20	18	12	68

4.2 Methodological Characteristics

Methodologically, the reviewed literature is dominated by quantitative approaches: 51 articles (75.0%) employed Structural Equation Modeling (SEM) as the primary analytical technique, 8 articles (11.8%) used qualitative approaches such as case studies and ethnography, and 9 articles (13.2%) adopted mixed methods combining quantitative and qualitative data. Geographically, research concentrates in East and Southeast Asia (34 articles), followed by Europe (19 articles) and the Middle East and Africa (9 articles); only six articles focus specifically on the Indonesian context, and none examines MSMEs in Bandar Lampung specifically, underscoring the limited local-context evidence base that Cluster 5 also indicates.

4.3 Discussion

4.3.1 Organizational Innovation and MSME Performance

The reviewed literature broadly agrees that organizational innovation exerts a positive and significant influence on MSME performance ([Rosenbusch, Brinckmann, & Bausch, 2011](#); [Saunila, 2020](#); [Nasir, Hamsal, Sundjaja, & Gunadi, 2024](#)), with [Rosenbusch et al. \(2011\)](#) meta-analytic estimate of $r = 0.26$ indicating a moderate but consistent effect, strongest in dynamic business environments. From an RBV standpoint, this consistency is explained by innovation capability functioning as a valuable and comparatively rare organizational resource by [Barney \(1991\)](#) and [Newbert \(2007\)](#) though “rare” here is relative to the broader MSME population rather than to industry incumbents generally, since not all MSMEs possess the capacity to develop and commercialize innovation effectively.

Within the MSME context, innovation manifests across four dimensions: product innovation (new products or services addressing unmet market needs), process innovation (improved production or operational methods that increase efficiency), marketing innovation (changes in marketing strategy, distribution, or pricing), and organizational/managerial innovation (changes in business practices, work structures, and external relationships) ([Damanpour, & Aravind, 2012](#); [OECD, 2018](#)). Marketing innovation in particular has shown measurable short-term returns for small food and beverage MSMEs in Indonesia. [Nurhidayati, Arifiya, Setiawan, Larasakti, and Heriansyah \(2022\)](#) applying

game-theoretic marketing strategy to two competing beverage MSMEs, found that deliberate marketing repositioning directly improved competitive standing, illustrating how even resource-light marketing innovation can shift an MSME's market position. More broadly, evidence suggests that product and process innovations exert the strongest short-term performance effects, whereas managerial and organizational innovations contribute more substantially to performance over the long term ([Damapour, 2020](#); [Bessant, & Tidd, 2015](#)) a temporal distinction that helps explain why cross-sectional studies, which dominate this literature (see Section 4.3), may systematically under-detect the performance contribution of organizational innovation relative to product innovation.

Evidence from the Indonesian public and MSME workforce context is broadly consistent with this pattern. [Hutasoit, Satriawan, Khaddafi, and Friadi \(2025\)](#) studying employees of a public works agency in Indonesia, found that innovation, digital competence, and work environment jointly and significantly predicted performance, reinforcing that innovation's performance contribution is not confined to private-sector manufacturing settings.

The empirical picture, however, is not fully consistent. [Hernández-Perlines, Xu, Araya-Castillo, and Ariza-Montes \(2022\)](#) studying 215 Spanish MSMEs, found the direct path from innovation to performance to be non-significant ($\beta = 0.08$, ns), while the indirect path through competitive advantage was strongly significant ($\beta = 0.42$, $p < .001$) a finding that directly contradicts the assumption, implicit in much of the innovation-performance literature, that innovation confers performance benefits irrespective of whether it is converted into a defensible market position. This contradiction is best explained by resource constraints: limited capital for commercializing innovation ([Halim, 2020](#)), constrained absorptive capacity for adopting new knowledge ([Donbesuur, Ampong, Owusu-Yirenkyi, & Chu, 2020](#)) and weak market orientation that misaligns innovation with consumer needs. [Gonzales-Gemio, Cruz-Cázares, and Parmentier \(2020\)](#) collectively impede MSMEs' ability to convert innovative activity into measurable performance gains without an intervening transformation mechanism. This is precisely why a dynamic-capabilities lens. [Teece \(2018\)](#) emphasizing the integration and reconfiguration of resources, not merely their possession is necessary to fully explain sustained competitive performance in this context.

4.3.2 Organizational Sustainability and MSME Performance

Research on sustainability, organization, and MSME performance has expanded considerably over the past decade, particularly following the 2015 Sustainable Development Goals (SDGs) and mounting pressure from governments and consumers for responsible business practice. [Srisathan, Ketkaew, and Naruetharadhol \(2020\)](#), studying 378 Thai MSMEs, found that sustainability orientation positively affects innovation and organizational performance ($\beta = 0.38$, $p < .001$), while [Mehmood, Nazir, and Fan \(2024\)](#) found that Environmental, Social, and Governance (ESG)-based sustainability practices significantly enhance MSME performance, with the social dimension contributing most strongly.

Three sustainability dimensions recur across this literature: economic sustainability, encompassing operational cost efficiency, income diversification, and prudent financial management by [Pojasek \(2017\)](#) and [Staaf and Pojasek \(2024\)](#), social sustainability, encompassing fair partnerships, community responsibility, and local workforce empowerment, which in turn strengthens reputation and customer loyalty by [Sroufe and Gopalakrishna-Remani \(2018\)](#) and [Elkington \(2018\)](#), environmental sustainability, encompassing carbon-footprint reduction and green innovation, increasingly recognized as a strategy that reduces long-term operating costs while enhancing corporate image ([Feng, Ma, & Wu, 2025](#); [Dangelico, & Vocellelli, 2017](#)).

From a Natural RBV perspective [Hart \(1995\)](#), sustainability qualifies as a genuine VRIN-consistent capability for three reasons: it is difficult to replicate quickly because it requires the internalization of durable organizational values; it is closely tied to reputation and legitimacy through socially path-dependent relationships; and it builds stakeholder trust that competitors cannot readily copy. This perspective supports treating sustainability as a strategic investment in durable competitive advantage rather than merely a normative obligation.

Consistent with the social-dimension emphasis reported by [Mehmood et al. \(2024\)](#) and [Kehista, Faeni, and Fikri \(2024\)](#), studying Indonesian firms, found that green human resource management and organizational commitment significantly improved organizational performance, lending further support to treating the social and environmental dimensions of sustainability as performance-relevant capabilities rather than compliance costs.

Nonetheless, the evidence is more complex than a simple positive relationship suggests. [Lestari and Sunyoto \(2023\)](#) found that the sustainability-performance relationship varies considerably by industry and level of economic development, and that in sectors such as culinary MSMEs, where sustainability's performance impact is cumulative and long-term, its effects are not always detectable through cross-sectional designs. This finding reinforces the methodological gap identified in Section 4.3: longitudinal research designs are needed to adequately capture the delayed and gradual performance effects of sustainability investment.

4.3.3 Competitive Advantage as a Value-Transformation Mechanism

Competitive advantage a firm's ability to generate superior economic value relative to competitors who cannot easily replicate it by [Barney \(1991\)](#) and [Porter \(1985\)](#), is typically analyzed through four complementary dimensions for SMEs: cost advantage (operational efficiency enabling competitive pricing), differentiation advantage (unique, customer-valued offerings), market-position advantage (customer loyalty and reputation), and inimitability (difficulty of replication by competitors).

The mediating role of competitive advantage has received growing empirical attention. [Sattar, Kamil, and Razak \(2025\)](#) meta-analysis of 47 studies found the mediation effect of competitive advantage on the innovation-performance relationship averaged 0.21 (95% CI: 0.15–0.27), compared with 0.14 (95% CI: 0.08–0.21) for the sustainability-performance relationship indicating that, on average, innovation depends more heavily on competitive advantage as a transformation mechanism than sustainability does, whose performance effects appear to operate somewhat more directly. [Zhang, Khan, Lee, and Salik \(2019\)](#), studying 312 Chinese manufacturing SMEs, identified three specific mechanisms through which competitive advantage converts internal capabilities into performance: product differentiation (raising price premiums and customer loyalty), operational efficiency (reducing unit costs and increasing margins), and reputation/market legitimacy (expanding market reach). These three mechanisms operate jointly, which helps explain why competitive advantage functions as a robust mediator across multiple studies rather than through any single pathway.

This mediating role is not universal, however. Evidence from smaller-scale MSMEs indicates that innovation and sustainability can influence performance directly and operationally through efficiency, output quality, or customer satisfaction without being fully channeled through a formally structured competitive position ([Lenart-Gansinieć, Sypniewska, & Chen, 2023](#); [Khanra, 2021](#)), because micro-enterprises typically lack the organizational capacity to convert resources into a strategically differentiated market position. Reconciling these two strands of evidence strong mediation in larger SME samples versus direct effects in micro-enterprise samples is itself an unresolved empirical question, and one that the integrative model proposed in Section 2.8 is explicitly designed to test rather than assume.

4.3.4 Toward an Integrative Model: Innovation and Sustainability within the RBV Framework

This review's synthesis reveals an increasingly strong trend toward integrative models that position innovation and sustainability as complementary strategic capabilities within the Resource-Based View. As developed in Section 2.8, this framework rests on three complementary theoretical strands: classical RBV, which identifies VRIN-consistent internal resources as the foundation of competitive advantage, dynamic capabilities theory, which emphasizes the organization's ability to integrate, build, and reconfigure capabilities adaptively, and Natural RBV, which positions environmental and social capabilities as legitimate, sustainable sources of competitive advantage ([Barney, 1991](#); [Wernerfelt, 1984](#); [Teece, Pisano, & Shuen, 1997](#); [Teece, 2018](#); [Hart, 1995](#)). Integrating these three strands yields a causal logic expressed as: Innovation Capability and Sustainability Capability → Competitive Advantage → Organizational Performance, in which innovation and sustainability function

not as independent, standing factors but as mutually reinforcing capabilities that interact simultaneously.

Empirical evidence lends preliminary support to this integrated logic. [Srisathan, Ketkaew, and Naruetharadhol \(2020\)](#) found that the strategic integration of innovation and sustainability enhances competitive advantage synergistically (interaction effect = 0.24, $p < .01$), while [Hai, Van, Nguyen, and Tuyet \(2021\)](#) confirmed that combining innovation and sustainability orientations produces better organizational performance than pursuing either in isolation. [Wang and Mangmeechai \(2022\)](#) further demonstrated, using an integrative model applied to Indonesian MSMEs, that when digital innovation and socio-environmental sustainability advance together, the resulting competitive advantage becomes markedly more difficult for competitors to imitate a finding especially relevant for post-pandemic SME strategy, where firms face simultaneous pressures for sustainability and digitalization.

Table 4. Thematic clusters and distribution of reviewed articles

Clusters	Main Focus	Articles	%	Representative Journals
C1	Organizational Innovation & Performance	23	33.8	J. Business Venturing; Int. J. Innovation Mgmt.
C2	Organizational Sustainability & Performance	17	25.0	J. Cleaner Production; Sustainability; Bus. Strategy & Environment
C3	Competitive Advantage as Mediator	13	19.1	Strategic Management J.; J. Strategic Marketing
C4	RBV & Dynamic Capabilities	10	14.7	Strategic Mgmt. J.; Academy of Management Review
C5	MSMEs in Developing Countries	5	7.4	J. Small Business & Enterprise Dev.; Int. J. Entrepreneurship

Table 4 synthesizes the principal empirical findings reviewed in this section and highlights three recurring patterns. First, organizational innovation is consistently, though not always directly, related to organizational performance. Second, organizational sustainability is increasingly recognized as a core competence that strengthens long-term competitiveness. Third, competitive advantage functions as an important though not universal mediating mechanism converting innovation and sustainability into superior performance. Critically, while individual studies have examined these relationships in isolation, very few have integrated organizational innovation, organizational sustainability, competitive advantage, and organizational performance within a single holistic framework, particularly for MSMEs in developing countries. This pattern constitutes the central empirical rationale for the integrative, RBV-based model proposed in this review.

4.4 Research Gaps

This review identifies six substantive gaps that warrant attention in future research. First, an integrative-model gap: of the 68 articles analyzed, only four (5.9%) tested an integrative model incorporating all four constructs, innovation, sustainability, competitive advantage, and performance within a single structural framework. Most studies examine only two or three constructs at a time, leaving the simultaneous causal mechanism largely untested. Second, a contextual gap: among the six Indonesian studies identified, none specifically examines these four constructs within the culinary MSME sector, and the broader literature remains concentrated in developed economies (Europe and East Asia), limiting the generalizability of findings to MSMEs in developing countries with different structural characteristics.

Third, a mediation-consistency gap: the literature is divided on whether competitive advantage functions as a full or partial mediator, and on the boundary conditions, such as firm size, digital maturity, and industry competitive intensity, that moderate the strength of this mediation effect. Fourth, a methodological gap: cross-sectional designs dominate the literature (78% of reviewed studies), limiting researchers' ability to capture the dynamic, longitudinal nature of sustainability-performance relationships; more longitudinal and panel studies are needed to validate causal claims. Fifth, a sectoral gap: few studies examine this integrative model within the creative and culinary

economy sectors, where innovation dynamics are likely to be shaped by local wisdom and creativity in ways not well captured by manufacturing- or service-sector evidence. Sixth, a methodological-combination gap: most studies rely on a single method either quantitative or qualitative and mixed-methods designs combining quantitative SEM analysis with qualitative interviews remain underutilized, despite their potential to reveal the mechanisms underlying observed statistical relationships in greater depth. These six gaps collectively justify the RBV-based integrative model proposed in Section 2.8 and motivate the future research agenda outlined in Section 5.3.

5. Conclusions

5.1 Conclusion

This systematic literature review synthesized 68 articles published between 2015 and 2025 to examine the relationships among organizational innovation, organizational sustainability, competitive advantage, and MSME performance from an RBV perspective. Rather than restating the individual findings detailed in Section 4, this conclusion highlights the review's principal contribution: existing research consistently supports the RBV proposition that innovation and sustainability function as strategic capabilities, but it does so through largely fragmented, partial models. By consolidating this evidence into a single integrative framework Innovation and Sustainability → Competitive Advantage → Performance and by demonstrating, through the boundary-condition evidence in Section 4.2.3, that this mediation pathway is neither uniform nor universally supported across firm sizes and contexts, this review offers both a testable model and a more theoretically precise account of how, not merely whether, strategic capabilities translate into MSME performance.

5.2 Research Limitations

This review is subject to several limitations. It is confined to articles published between 2015 and 2025 and indexed in Scopus, Web of Science, or Google Scholar, which may exclude relevant older foundational studies or emerging non-indexed research. Most reviewed studies employ cross-sectional designs and were conducted outside the Indonesian context, limiting the review's ability to draw firm conclusions about causal dynamics or local applicability. Variation in how constructs are conceptualized and measured across the reviewed studies may also affect the comparability of the synthesized findings, and, as with any SLR, this review reflects the state of published evidence rather than direct primary data collection.

5.3 Suggestions and Directions for Future Research

Building on the gaps identified in Section 4.3, three research priorities are proposed. First, future studies should develop and empirically test integrative models that simultaneously examine organizational innovation, organizational sustainability, competitive advantage, and MSME performance within a single RBV-based structural framework, ideally using longitudinal or panel designs capable of capturing the delayed performance effects of sustainability investment. Second, researchers should investigate moderating and boundary conditions including firm size, digital maturity, and industry competitive intensity that shape whether competitive advantage functions as a full or partial mediator. Third, more empirical research is needed on Indonesian MSMEs, particularly within the culinary and creative economy sectors, ideally employing mixed-methods designs that combine quantitative SEM analysis with qualitative interviews to reveal the mechanisms underlying observed statistical relationships.

Acknowledgement

The authors gratefully acknowledge the constructive comments and suggestions provided by the anonymous reviewers, which substantially improved the quality of this manuscript. The authors also thank their respective institutions for their support during the preparation of this study. This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

Author Contributions

AS was responsible for conceptualization, study design, data collection, and manuscript preparation. YSB contributed to data analysis, manuscript revision, and interpretation of results. HH assisted with

the literature review, data collection, and manuscript revision. DD supervised the study, provided critical revision of the manuscript, and ensured the overall quality of the study.

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