

Risk Management as a Dynamic Capability for Business Sustainability: Evidence from Tourism SMEs in West Java

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ABSTRACT

This study investigates how financial planning strategy, business digitalization, and entrepreneurial mentality enhance business sustainability through risk management among tourism-related SMEs in West Java. Grounded in Dynamic Capabilities Theory, the study conceptualizes financial planning, digitalization, and entrepreneurial mentality as antecedent capabilities that enable firms to sense uncertainty, seize opportunities, and reconfigure resources. Risk management is positioned as the adaptive mechanism that translates these capabilities into sustainable business outcomes. A quantitative survey was conducted with 300 SME owners and managers, and the data were analyzed using partial least squares structural equation modeling. The measurement model demonstrated satisfactory reliability and convergent validity, while the discriminant-validity assessment was generally supportive but identified elevated overlap between closely related capability constructs; common method variance was not a serious concern. The findings show that financial planning strategy, business digitalization, and entrepreneurial mentality each have a positive effect on risk management. Risk management also has a positive effect on business sustainability. Among the antecedents, business digitalization provides the strongest support for risk management, indicating the importance of digital records, online transactions, and data-based decision-making in improving risk visibility. The results confirm that sustainability is not produced by isolated managerial practices, but by the coordinated transformation of financial discipline, digital capability, and entrepreneurial proactiveness into systematic risk identification, assessment, mitigation, and monitoring. This study contributes by developing a dynamic risk-mediated sustainability framework for SMEs and offers practical guidance for owners, policymakers, and support institutions seeking to strengthen SME resilience, continuity, and long-term value creation within an emerging regional tourism context where volatility, digital competition, and resource constraints shape managerial decisions.

JEL Classifications: G32; Q56; L83

Keywords: business sustainability, risk management, financial planning strategy,
business digitalization, entrepreneurial mentality, dynamic
capabilities

I. INTRODUCTION

Business sustainability has become a central concern for SMEs because survival increasingly depends on the ability to balance economic continuity with social responsibility and environmental awareness. Sustainability is no longer treated merely as a reporting or compliance issue; it is embedded in strategy, resource allocation, and organizational routines (Bansal, 2005). Firms that institutionalize sustainability tend to develop stronger governance processes and longer-term performance orientations (Eccles et al., 2014). This issue is particularly relevant for tourism-related SMEs, whose operations are exposed to demand volatility, changing customer behavior, digital competition, and reputational risks (Sigala, 2020). In this context, West Java tourism-related SMEs provide an appropriate empirical setting for examining how managerial capabilities support sustainable business continuity.

West Java is a particularly relevant research setting because it combines a very large domestic tourism market with substantial diversity in tourism environments. Official statistics show that West Java recorded 167.40 million domestic tourist trips in 2024 (Pemerintah Daerah Provinsi Jawa Barat, 2025), compared with 134.59 million trips to Central Java (Badan Pusat Statistik Provinsi Jawa Tengah, 2025) and 38.03 million trips to the Special Region of Yogyakarta (Badan Pusat Statistik Provinsi Daerah Istimewa Yogyakarta, 2025). Provincial planning documents also show that natural attractions account for 53.71% of West Java's tourism objects and span plantation, river and lake, special-landscape, coastal, and mountain/forest categories (Pemerintah Daerah Provinsi Jawa Barat, 2024). The combination of high visitor mobility and heterogeneous destination conditions creates variation in demand intensity, seasonality, digital competition, resource availability, and operational risk across tourism-related SMEs. This makes West Java a distinctive and theoretically relevant setting for examining the capability relationships proposed in this study.

Despite the growing relevance of SME sustainability, many firms still manage financial planning, digitalization, entrepreneurial action, and risk management as disconnected practices. Financial planning may exist as budgeting, but not as a strategic tool for anticipating liquidity and funding risks; digitalization may be adopted for promotion, but not fully used for data-based decision-making; and entrepreneurial mentality may drive innovation, but can become speculative without risk discipline. Prior studies have examined financial flexibility during crisis (Fahlenbrach et al., 2021), digital transformation as organizational change (Hanelt et al., 2021), and entrepreneurial resourcefulness under constraint (Williams et al., 2021). However, limited research integrates these three capability domains into a single risk-mediated sustainability framework for tourism-related SMEs. More specifically, prior studies provide limited theoretical clarity on how Risk Management should be positioned relative to Financial Planning Strategy, Business Digitalization, and Entrepreneurial Mentality when explaining Business Sustainability. This leaves a role-specification gap in the application of Dynamic Capabilities Theory to the capability relationships examined in this study.

This study aims to investigate how financial planning strategy, business digitalization, and entrepreneurial mentality enhance business sustainability through risk management. The motivation is grounded in Dynamic Capabilities Theory, which explains how firms sustain performance by sensing environmental changes, seizing opportunities, and reconfiguring resources (Teece, 2007). Within this logic, financial

planning strategy provides resource discipline, business digitalization improves information visibility, and entrepreneurial mentality shapes proactive opportunity recognition. Risk management is therefore conceptualized as the adaptive capability that converts these antecedent capabilities into structured responses to uncertainty. This positioning is consistent with recent sustainability-oriented dynamic capability research, which emphasizes organizational renewal as a basis for sustainable business model innovation (Bocken and Geradts, 2020).

The study is guided by the following central question: how do financial planning strategy, business digitalization, and entrepreneurial mentality strengthen risk management, and how does risk management contribute to business sustainability? This question enables the study to make three contributions. First, it clarifies the theoretical positioning of the focal capabilities within Dynamic Capabilities Theory by distinguishing Financial Planning Strategy, Business Digitalization, and Entrepreneurial Mentality as complementary antecedents of Risk Management from the adaptive role of Risk Management in relation to Business Sustainability. Second, it advances SME sustainability research by combining financial, digital, and entrepreneurial perspectives in one model. Third, it contributes to risk-management literature by showing that risk management is not merely a defensive control system, but a strategic capability that supports resilience and long-term value creation (Bromiley et al., 2015; Araz et al., 2020; Boh et al., 2023).

The novelty of this study lies not in newly defining Risk Management as a dynamic capability, because prior research has already linked risk-oriented routines with organizational adaptation and resilience. Rather, the Dynamic Risk-Mediated Sustainability framework clarifies the distinct theoretical roles of Financial Planning Strategy, Business Digitalization, and Entrepreneurial Mentality as antecedent capability domains and Risk Management as the focal adaptive capability associated with Business Sustainability. This approach responds to recent calls to rethink sustainability through dynamic capabilities and resilience-based organizing (Ciasullo et al., 2024; Correggi et al., 2024). Accordingly, the study offers a theoretically integrated and context-sensitive explanation of SME sustainability in West Java.

II. LITERATURE REVIEW

A. Existing Studies

Existing studies on business sustainability increasingly view sustainability as a strategic capability rather than a narrow economic outcome. Bansal (2005) conceptualizes corporate sustainability as the integration of economic, social, and environmental responsibilities into organizational development. Eccles et al. (2014) show that sustainability-oriented firms develop stronger governance and organizational processes. Recent studies extend this logic by linking sustainability to resilience and dynamic capabilities, particularly when firms face uncertainty and disruption (Bocken and Geradts, 2020; Negri et al., 2021). In this study, that stream is extended to tourism-related SMEs by examining how sustainability is shaped through financial, digital, entrepreneurial, and risk-management capabilities.

Prior research also provides separate evidence on the roles of financial planning and digitalization in strengthening business adaptability. Cassar (2009) shows that

financial projections support structured decision-making in new ventures, while Davila and Foster (2005) demonstrate that management accounting systems improve planning and control. Digitalization studies argue that digital transformation changes organizational routines, information flows, and value creation processes (Hanelt et al., 2021; Kraus et al., 2022). Araz et al. (2020) further show that analytics strengthens operational risk management by improving risk detection and decision support. However, these studies are often examined separately, leaving limited integration between financial planning, digital capability, and risk management.

Entrepreneurship research further suggests that entrepreneurial mentality influences how firms interpret opportunity, uncertainty, and strategic action. Lumpkin and Dess (1996) position entrepreneurial orientation through innovativeness, proactiveness, and risk-taking, while Williams et al. (2021) explain how resourcefulness enables entrepreneurs to create value under constraint. Recent venture research also shows that entrepreneurs recalibrate strategic commitments when uncertainty emerges (Berends et al., 2021). Nevertheless, existing studies rarely combine entrepreneurial mentality with financial planning and business digitalization in a single risk-mediated sustainability model. This study addresses that gap by positioning Risk Management as the dynamic mechanism that converts these antecedent capabilities into Business Sustainability among tourism-related SMEs.

B. Dynamic Capabilities

Dynamic Capabilities Theory is appropriate for this study because the framework examines how firms build, integrate, and reconfigure capabilities under uncertainty. Teece et al. (1997) define dynamic capabilities as the firm's ability to renew competences in response to changing environments. Teece (2007) further explains that such renewal occurs through sensing, seizing, and reconfiguring activities. In this study, Risk Management is positioned as the focal adaptive capability, while Financial Planning Strategy, Business Digitalization, and Entrepreneurial Mentality are treated as complementary antecedent capabilities that can strengthen its risk-identification, assessment, mitigation, and monitoring routines. This positioning builds on prior risk-management research rather than presenting Risk Management as a newly identified dynamic capability (Bromiley et al., 2015; Boh et al., 2023). Winter (2003) distinguishes ordinary capabilities that sustain current operations from dynamic capabilities that modify or renew organizational routines. Applied here, routine execution of established risk controls represents an operational ability, whereas the continuing monitoring of changing conditions and updating of mitigation responses reflects an adaptive use of risk-management routines. Wenzel et al. (2021) support this logic by showing that firms respond to crises through strategic actions such as retrenchment, perseverance, innovation, and exit.

The Resource-Based View complements this argument by explaining why firm-specific resources improve outcomes when they are valuable, rare, imperfectly imitable, and organizationally embedded. Barney (1991) provides the basis for treating financial planning strategy, business digitalization, and entrepreneurial mentality as internal strategic resources. Digital transformation also reshapes routines and enables organizational renewal, making digitalization a capability relevant to risk management (Hanelt et al., 2021). For sustainability, Bocken and Geradts (2020) show that sustainable

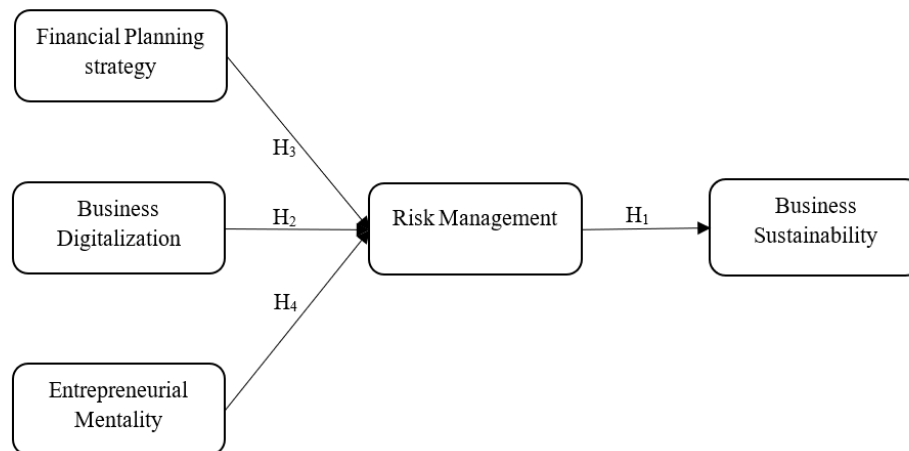
business model innovation depends on organization design and dynamic capabilities. Thus, the proposed framework explains business sustainability as an outcome of risk management supported by strategic internal capabilities.

C. The Study's Conceptual Framework

The conceptual framework is developed from Dynamic Capabilities Theory, which explains firm sustainability through sensing environmental shifts, seizing opportunities, and reconfiguring resources (Teece, 2007). Within this logic, financial planning strategy, business digitalization, and entrepreneurial mentality are conceptualized as antecedent capabilities because each strengthens the firm's capacity to anticipate, interpret, and respond to uncertainty. Strategic crisis research shows that firms manage disruption through renewal-oriented responses, including perseverance and innovation (Wenzel et al., 2021). Digital transformation research also shows that digitalization reshapes routines, structures, and decision processes, thereby extending the capability base through which organizational risks can be identified and managed (Hanelt et al., 2021).

Within the proposed framework, Risk Management is positioned as the focal adaptive capability rather than as a purely operational control function. The distinction rests on the way its routines are used: firms identify and assess risks, prepare mitigation responses, monitor changing conditions, and update those responses as conditions evolve. Sustainable business model research shows that dynamic capabilities and organizational design enable firms to address sustainability challenges through business model innovation (Coffay et al., 2024). Similarly, digital transformation scholarship links capability renewal to adaptation and long-term value creation in changing business environments (Kraus et al., 2022).

Figure 1
The Study's Conceptual Framework



III. HYPOTHESIS DEVELOPMENT

A. Business Sustainability

Business sustainability refers to a firm's strategic capacity to create durable economic, social, and environmental value while managing trade-offs among stakeholders. Adolph and Beckmann (2024) note that corporate sustainability strategy requires conceptual clarity between sustainability goals and the organizational means used to achieve them. From a dynamic capabilities perspective, Buzzao and Rizzi (2021) conceptualize sustainability as a capability-based process through which firms renew resources and routines. Correggi et al. (2024) further show that dynamic capabilities are increasingly used to explain how sustainability becomes embedded within business strategy.

In this study, business sustainability is conceptualized as the firm's ability to maintain long-term viability, stakeholder value, and responsible operations under uncertainty. Consistent with Nascimento et al. (2024), the construct is operationalized through economic, social, and environmental dimensions. Economic sustainability reflects continuity, profitability, and growth; social sustainability reflects stakeholder welfare and ethical responsibility; environmental sustainability reflects resource efficiency and ecological responsibility. Because sustainability requires firms to manage interdependent outcomes rather than isolated goals, this study also considers the firm's capacity to balance positive and negative sustainability effects (van Zanten and van Tulder, 2021). Thus, effective risk management is expected to strengthen business sustainability by improving resilience and continuity (Negri et al., 2021).

B. Risk Management

Risk management refers to an integrated strategic process through which firms identify, assess, prioritize, respond to, and monitor uncertainties that may affect organizational objectives. Bromiley et al. (2015) conceptualize enterprise risk management as the comprehensive and coherent management of organizational risks aligned with governance and strategy. From Dynamic Capabilities Theory, risk management functions as a sensing and reconfiguring capability because it enables firms to interpret threats and mobilize resources under turbulence. Teece (2007) argues that dynamic capabilities sustain performance by renewing assets and routines. Wenzel et al. (2021) similarly show that crisis responses require strategic adaptation rather than passive control.

Risk management can nevertheless operate at different capability levels. When firms simply apply established controls to recurring exposures, it primarily functions as an ordinary operational capability that supports current activities (Winter, 2003). The present study adopts an adaptive interpretation because the measured construct extends beyond routine control to include identifying major risks, assessing their likelihood and impact before important decisions, preparing mitigation actions, monitoring changing conditions, and updating mitigation plans. The emphasis on ongoing monitoring and response adjustment is consistent with sensing, seizing, and reconfiguring under changing conditions (Teece, 2007). Accordingly, Risk Management is treated as adaptive because of how these routines are used to revise responses to uncertainty, not merely because risk-management procedures exist.

Risk management is expected to strengthen business sustainability because sustainable performance requires firms to reduce exposure to financial, operational, [https://doi.org/10.55802/IJB.031\(1\).005](https://doi.org/10.55802/IJB.031(1).005)

social, and environmental disruptions. Gomez-Valencia et al. (2021) show that managing environmental, social, and governance concerns mitigates business risks linked to sustainable development. Negri et al. (2021) argue that sustainability and resilience should be integrated because unmanaged risks weaken continuity and sustainability outcomes. Ciasullo et al. (2024) further explain that organizational resilience provides a pathway through which firms maintain value in turbulent environments. Thus, this study conceptualizes risk management as an adaptive capability that supports continuity, stakeholder value, and long-term economic, social, and environmental sustainability. Thus:

H₁: Risk management has a positive effect on business sustainability.

C. Business Digitalization

Business digitalization refers to the strategic integration of digital technologies into organizational processes, communication, data processing, and value creation. Hanelt et al. (2021) conceptualize digital transformation as an organizational change phenomenon that reshapes structures, routines, and strategy. Kraus et al. (2022) show that digital transformation research increasingly connects technology use with business-model renewal and managerial change. Bharadwaj et al. (2013) argue that digital business strategy fuses information technology strategy with business strategy. From Dynamic Capabilities Theory, digitalization operates as a renewal mechanism through sensing, seizing, and reconfiguring routines, consistent with Teece's (2007) microfoundations.

Business digitalization advances risk management because digital tools broaden the information base on which risk decisions are made. Real-time records, dashboards, analytics, and automated workflows connect operational, financial, customer, and supply-chain signals, allowing managers to detect anomalies, estimate exposure, and coordinate mitigation before risks escalate. Araz et al. (2020) show that analytics has become central to operational risk management in the big-data era. Nielsen et al. (2023) show that digital resources shape resilience processes during exogenous shocks. Boh et al. (2023) conceptualize digital resilience as the capability to absorb shocks, adapt, and transform through digital technologies. Hence, business digitalization should improve risk management. Thus:

H₂: Business digitalization has a positive effect on risk management.

D. Financial Planning Strategy

Financial planning strategy refers to the managerial capability through which firms forecast cash requirements, design budgets, preserve liquidity, and align financing choices with strategic priorities. In Dynamic Capabilities Theory, these routines are not merely administrative accounting practices; they operate as reconfiguration mechanisms that help managers redeploy resources when uncertainty changes (Teece, 2007). Corporate finance research similarly treats financial flexibility as the capacity to access and restructure financing at relatively low cost, thereby preserving strategic choice (Gamba and Triantis, 2008). Recent evidence from the COVID-19 crisis shows that

financially flexible firms were better positioned to absorb abrupt revenue interruptions (Fahlenbrach et al., 2021).

Financial planning strategy advances risk management because it turns uncertainty into tractable financial decisions. Cash-flow forecasting, scenario budgeting, liquidity reserves, debt-capacity assessment, and contingency financing allow managers to map exposure, funding gaps, and response options before disruption escalates. Froot et al. (1993) show that risk management gains value when financing and investment policies are coordinated under costly external finance. Rampini et al. (2014) demonstrate that hedging decisions depend on internal funds and debt capacity, while Huang and Ritter (2021) show that cash shortfalls shape financing decisions. Thus, stronger financial planning should enhance risk identification, prioritization, and response. Thus:

H₃: Financial planning strategy has a positive effect on risk management.

E. Entrepreneur Mentality

Entrepreneurial mentality refers to a managerial orientation that combines opportunity seeking, innovativeness, proactiveness, calculated risk-taking, and resourcefulness. In Dynamic Capabilities Theory, this mentality operates as a microfoundation that shapes how decision makers sense opportunities, seize them, and reconfigure resources (Teece, 2007). Lumpkin and Dess (1996) conceptualize entrepreneurial orientation through dimensions such as innovativeness, proactiveness, autonomy, competitive aggressiveness, and risk-taking. Covin and Wales (2019) further position entrepreneurial orientation as a firm-level strategy-making posture. Recent entrepreneurship research also frames resourcefulness as boundary-breaking behavior that enables value creation under constraint (Williams et al., 2021).

Entrepreneurial mentality advances risk management by shaping how managers interpret uncertainty before it becomes organizational loss. Proactive managers scan weak signals, innovative managers create alternative responses, and calculated risk-takers evaluate exposure against opportunity value. McMullen and Shepherd (2006) argue that entrepreneurial action depends on opportunity beliefs and willingness to bear uncertainty. Pidduck et al. (2024) show that entrepreneurs use decision heuristics to navigate uncertainty when information is incomplete. Berends et al. (2021) show that ventures recalibrate commitments through pivoting or persevering when unexpected events emerge. Hence, entrepreneurial mentality should improve risk identification, assessment, prioritization, and response.

H₄: Entrepreneurial mentality has a positive effect on risk management.

IV. METHODS

A. Operationalization and Measures

This study operationalizes all variables as first-order reflective latent constructs measured through a structured questionnaire administered to owners or principal managers of tourism-related SMEs in West Java. Respondents evaluate the condition of their business during the previous 12 months using a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. The measurement model follows the proposed Dynamic

Capabilities logic, in which Financial Planning Strategy, Business Digitalization, and Entrepreneurial Mentality represent antecedent organizational capabilities, Risk Management functions as the mediating adaptive capability, and Business Sustainability serves as the final outcome. This respondent focus reflects the study's emphasis on decision makers with direct knowledge of financial planning, business digitalization, entrepreneurial practices, and risk management.

Financial Planning Strategy is measured using four indicators adapted from Cassar (2009) and Davila and Foster (2005): setting financial targets and written budgets, preparing cash-flow projections, comparing actual financial results with plans, and planning funding sources before major expenditures. Business Digitalization is measured through four indicators adapted from Bharadwaj et al. (2013) and Zhu and Kraemer (2005): digital promotion and customer communication, online ordering or booking, digital payment and transaction recording, and the use of digital tools for business decision-making. Entrepreneurial Mentality is measured using four indicators adapted from Covin and Slevin (1989) and Lumpkin and Dess (1996): innovation orientation, proactive competitive action, calculated risk-taking, and proactive search for new market opportunities. These indicators reflect the capability inputs through which SMEs sense market shifts, seize opportunities, and reconfigure resources.

Risk Management is operationalized through four indicators adapted from Miller (1992) and March and Shapira (1987): identifying major risks, assessing the likelihood and impact of risks before important decisions, preparing mitigation actions, and monitoring changing conditions while updating mitigation plans. Business Sustainability is measured using four indicators adapted from Bansal (2005) and Eccles et al. (2014): long-term economic viability, socially responsible practices toward employees, customers, and communities, efforts to reduce environmental impact, and the integration of economic, social, and environmental considerations into key business decisions. In total, the instrument consists of 20 measurement items coded as SPK1–SPK4, DB1–DB4, MK1–MK4, MR1–MR4, and KB1–KB4. These indicators are entered into the SEM model to evaluate the measurement quality and estimate the structural relationship from antecedent capabilities to Risk Management and from Risk Management to Business Sustainability.

B. Sampling and Data Collection Procedures

The population of this study comprises tourism-related small and medium enterprises operating in West Java, with the owner or principal manager serving as the unit of analysis. This respondent category is appropriate because strategic decisions on financial planning, business digitalization, entrepreneurial action, and risk management are commonly concentrated at the owner-manager level in SMEs. The sampling frame therefore focused on SMEs linked to the tourism value chain, including accommodation, food and beverage, travel services, tourist activities, souvenirs, crafts, and other supporting businesses. Respondent eligibility was verified through screening questions covering decision-making role, West Java business location, tourism-sector relevance, business scale, and operating experience.

West Java was selected deliberately rather than solely for sampling convenience. Its high domestic tourism volume and the coexistence of diverse tourism environments create substantial variation in the demand and operating conditions faced by tourism-

related SMEs (Pemerintah Daerah Provinsi Jawa Barat, 2024, 2025). This contextual heterogeneity is relevant to the present model because financial planning, business digitalization, entrepreneurial action, and risk-management routines become particularly consequential when firms must respond to different forms and intensities of uncertainty.

This study employed purposive sampling because the research required respondents with direct knowledge of strategic and operational decisions within their businesses. The questionnaire was distributed using a mixed-mode procedure, combining online distribution through Google Forms via WhatsApp and email with offline distribution through direct visits to SME locations. This approach was used to improve access to respondents with different levels of digital readiness. The instrument included an informed consent statement, confidentiality assurance, and screening section before the substantive measurement items. Respondents assessed business conditions during the previous 12 months using a five-point Likert scale ranging from strongly disagree to strongly agree.

The minimum sample size was determined using the 10-times rule for SEM-based analysis. Because the measurement instrument contains 20 substantive indicators, the minimum required sample was 200 respondents. Prior to analysis, responses were screened for eligibility, completeness, and consistency. Eligibility screening was completed before model estimation, and only responses satisfying the predefined criteria for decision-making role, West Java business location, tourism-sector relevance, business scale, and operating experience were retained in the final dataset of 300 respondents. The use of confidentiality assurance, standardized wording, and structured response options was intended to reduce response error and common method bias, consistent with survey-design and behavioral-research recommendations (Dillman et al., 2014; Podsakoff et al., 2003).

C. Analysis Technique

The data were analyzed using partial least squares structural equation modeling because the model contains multiple reflective latent constructs and tests direct and mediating relationships among Financial Planning Strategy, Business Digitalization, Entrepreneurial Mentality, Risk Management, and Business Sustainability. The analysis proceeded in two stages. First, the measurement model was evaluated through outer loadings, Cronbach's alpha, composite reliability, ρ_A , average variance extracted, Fornell-Larcker criterion, and HTMT to establish reliability, convergent validity, and discriminant validity (Henseler et al., 2015; Hair et al., 2019). Second, the structural model was assessed using collinearity diagnostics, path coefficients, R-square, model fit, and bootstrapping to test the significance of direct and indirect effects (Benitez et al., 2020).

V. RESULTS

A. Sample Profile

Table 1 presents the profile of 300 respondents and their businesses across seven core categories relevant to the research model. The composition of respondents involved in strategic decision-making is almost balanced, with 151 respondents, or 50.3%, reporting direct involvement and 149 respondents, or 49.7%, reporting otherwise. This distribution

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is important because the study examines managerial constructs, including financial planning strategy, business digitalization, entrepreneurial mentality, and risk management. The main business sectors are also relatively diverse, with culinary and other sectors each representing 21.0%, fashion and hybrid online–offline fashion each representing 19.7%, and hybrid online–offline culinary representing 18.7%. This variation indicates that the sample is not concentrated in one business category, allowing the study to capture different operational patterns, risk exposures, and digitalization practices.

Table 1
Sample Profile

Profile Aspect	Category	n	%
Owner/main manager involved in strategic decision-making	Yes	151	50.3
	No	149	49.7
Main business sector	Culinary	63	21.0
	Fashion	59	19.7
	Hybrid online–offline, culinary-dominant	56	18.7
	Hybrid online–offline, fashion-dominant	59	19.7
	Others	63	21.0
Length of business operation	< 1 year	55	18.3
	< 2 years	40	13.3
	2–3 years	54	18.0
	4–6 years	63	21.0
	7–10 years	38	12.7
	> 10 years	50	16.7
Latest annual turnover/sales revenue	≤ IDR 2 billion	58	19.3
	> IDR 2–15 billion	57	19.0
	> IDR 15–50 billion	67	22.3
	> IDR 50 billion	56	18.7
	Do not know/prefer not to answer	62	20.7
Respondent's role in the business	Owner	75	25.0
	Manager	76	25.3
	Owner-manager	76	25.3
	Others	73	24.3
Level of involvement in financial, digitalization, and risk decisions	Very low	67	22.3
	Low	55	18.3
	Moderate	70	23.3
	High	60	20.0
	Very high	48	16.0

The business profile also shows variation in maturity, scale, and managerial involvement. The largest group of firms has operated for 4–6 years, representing 21.0% of the sample, followed by businesses operating for less than one year at 18.3% and those operating for 2–3 years at 18.0%. In terms of annual turnover, the largest category is > IDR 15–50 billion, accounting for 22.3%, while 20.7% of respondents did not know or preferred not to report their annual sales. Respondent roles are evenly distributed among owners, managers, owner-managers, and others, suggesting that the data reflect multiple

managerial perspectives. Taken together, these characteristics show that the final sample captures substantial heterogeneity in business maturity, scale, managerial roles, and decision involvement among eligible tourism-related SMEs operating in West Java.

B. Common Method Variance

Common method variance was assessed using Harman's single-factor test and variance inflation factor diagnostics. The Harman's single-factor result showed that the first factor accounted for 19.23% of the total variance, which is substantially below the recommended 50% threshold, indicating that no single factor dominated the data structure (Podsakoff et al., 2003). In addition, the VIF values ranged from 2.06 to 2.635, remaining below the conservative threshold of 3.3, which further suggests that common method bias and multicollinearity were not serious concerns in the dataset (Kock, 2015). Therefore, the measurement results are considered sufficiently robust for subsequent structural model analysis. Given the relatively strong and uniform psychometric and structural results, these diagnostics were also interpreted together with the procedural safeguards applied during data collection. Confidentiality assurance, standardized wording, and structured response options were used to reduce response error and patterned responding. Nevertheless, because the focal constructs were measured through self-reports from the same respondent at a single point in time, residual social-desirability and acquiescence effects cannot be entirely ruled out.

C. Assessment of Validity and Reliability

Convergent validity and internal consistency were evaluated using outer loadings, Cronbach's alpha, composite reliability, and average variance extracted. As shown in Table 2, all outer loadings ranged from 0.837 to 0.887, exceeding the recommended minimum value of 0.70. Cronbach's alpha values ranged from 0.871 to 0.893, while composite reliability values also exceeded 0.70, with rho_a ranging from 0.871 to 0.895 and rho_c ranging from 0.912 to 0.926. These values indicate strong internal consistency across all constructs. In addition, AVE values ranged from 0.721 to 0.757, exceeding the 0.50 threshold and confirming convergent validity (Fornell and Larcker, 1981; Hair et al., 2019).

Discriminant validity was assessed using the Fornell–Larcker criterion. The results in Table 3 show that the square roots of AVE for Business Digitalization, Business Sustainability, Entrepreneurial Mentality, Financial Planning Strategy, and Risk Management were 0.849, 0.870, 0.862, 0.853, and 0.863, respectively. Each diagonal value was higher than its corresponding inter-construct correlations, indicating that each construct shared more variance with its own indicators than with other constructs. Although several correlations were relatively high, such as Business Sustainability with Entrepreneurial Mentality and Financial Planning Strategy with Risk Management, they remained below the diagonal values. Therefore, the Fornell–Larcker criterion supports adequate discriminant validity (Fornell and Larcker, 1981; Henseler et al., 2015).

Table 2
Convergent Validity and Reliability

Constructs	Items	OL	CA	CR (rho _a)	CR (rho _c)	AVE
Business Digitalization	DB.1	0.85	0.871	0.871	0.912	0.721
	DB.2	0.846				
	DB.3	0.854				
	DB.4	0.846				
Business Sustainability	KB.1	0.873	0.893	0.895	0.926	0.757
	KB.2	0.847				
	KB.3	0.872				
	KB.4	0.887				
Entrepreneur Mentality	MK.1	0.869	0.885	0.886	0.921	0.744
	MK.2	0.871				
	MK.3	0.852				
	MK.4	0.857				
Financial Planning Strategy	MR.1	0.844	0.876	0.877	0.915	0.728
	MR.2	0.882				
	MR.3	0.857				
	MR.4	0.867				
Risk Management	SPK.1	0.861	0.885	0.886	0.921	0.744
	SPK.2	0.859				
	SPK.3	0.837				
	SPK.4	0.856				

Table 3
Discriminant Validity (Fornell–Larcker Criterion)

Constructs	(1)	(2)	(3)	(4)	(5)
Business Digitalization (1)	0.849				
Business Sustainability (2)	0.776	0.870			
Entrepreneur Mentality (3)	0.685	0.790	0.862		
Financial Planning Strategy (4)	0.576	0.667	0.700	0.853	
Risk Management (5)	0.683	0.781	0.687	0.786	0.863

Discriminant validity was further examined using the heterotrait–monotrait ratio (HTMT). As reported in Table 4, most pairwise HTMT values were below the conservative threshold of 0.85. The HTMT value between Business Digitalization and Entrepreneurial Mentality was 0.896, while the value between Entrepreneurial Mentality and Risk Management was 0.941. The latter also exceeds the more permissive 0.90 guideline, indicating that Entrepreneurial Mentality and Risk Management show substantial empirical overlap in the present sample. Accordingly, the HTMT evidence is interpreted as generally supportive of discriminant validity across most construct pairs, with a specific measurement concern for the distinction between Entrepreneurial Mentality and Risk Management (Henseler et al., 2015).

Table 4
Heterotrait–Monotrait Ratio (HTMT)

Constructs	BD	BS	EM	FPS	RM
Business Digitalization (BD)	—				
Business Sustainability (BS)	0.476	—			
Entrepreneurial Mentality (EM)	0.896	0.341	—		
Financial Planning Strategy (FPS)	0.428	0.536	0.099	—	
Risk Management (RM)	0.812	0.553	0.941	0.165	—

Note: Values above 0.85 indicate potential discriminant-validity concerns under the conservative HTMT criterion; values above 0.90 indicate a more pronounced concern (Henseler et al., 2015).

Further evidence of discriminant validity was obtained from the cross-loading matrix in Table 5. Each indicator loaded most strongly on its intended construct compared with its loadings on other constructs. The indicators for Business Digitalization, Business Sustainability, Entrepreneurial Mentality, Financial Planning Strategy, and Risk Management all showed their highest loadings on their respective latent variables. Taken together, the reliability and convergent-validity results were satisfactory, while the discriminant-validity evidence was mixed: the Fornell–Larcker criterion and cross-loadings were supportive, whereas HTMT identified elevated overlap between Business Digitalization and Entrepreneurial Mentality and, more notably, between Entrepreneurial Mentality and Risk Management. The structural results are therefore interpreted with appropriate caution regarding these closely related capability constructs (Hair et al., 2019; Benitez et al., 2020; Sarstedt et al., 2021).

Table 5
Cross-Loading Matrix

Items	Business Digitalization	Business Sustainability	Entrepreneur Mentality	Financial Planning Strategy	Risk Management
DB.1	0.850	0.740	0.756	0.748	0.754
DB.2	0.846	0.736	0.734	0.752	0.738
DB.3	0.854	0.744	0.753	0.731	0.758
DB.4	0.846	0.755	0.763	0.745	0.749
KB.1	0.779	0.873	0.802	0.760	0.769
KB.2	0.739	0.847	0.715	0.703	0.717
KB.3	0.753	0.872	0.786	0.781	0.770
KB.4	0.776	0.887	0.792	0.773	0.806
MK.1	0.780	0.764	0.869	0.804	0.792
MK.2	0.759	0.752	0.871	0.777	0.753
MK.3	0.756	0.760	0.852	0.749	0.742
MK.4	0.758	0.795	0.857	0.773	0.770
MR.1	0.775	0.741	0.749	0.744	0.844
MR.2	0.749	0.780	0.782	0.781	0.882
MR.3	0.737	0.743	0.769	0.772	0.857
MR.4	0.786	0.775	0.759	0.761	0.867
SPK.1	0.770	0.765	0.788	0.861	0.783
SPK.2	0.750	0.744	0.791	0.859	0.769
SPK.3	0.736	0.716	0.734	0.837	0.705
SPK.4	0.734	0.736	0.757	0.856	0.764

D. Model Robustness Testing

Model robustness was assessed using explanatory power and model fit indices. The R-square value for Risk Management was 0.848, indicating that Financial Planning Strategy, Business Digitalization, and Entrepreneurial Mentality explained 84.8% of the variance in Risk Management. Meanwhile, the R-square value for Business Sustainability was 0.776, showing that the model explained 77.6% of its variance. Following commonly used PLS-SEM guidelines, R-square values of approximately 0.75, 0.50, and 0.25 may be interpreted as substantial, moderate, and weak, respectively (Hair et al., 2019). Accordingly, the R-square values of 0.848 and 0.776 indicate substantial (high) explanatory power for Risk Management and Business Sustainability. The saturated model also demonstrated acceptable fit, with an SRMR of 0.039, which is below the recommended threshold of 0.08. In addition, the model produced $d_ULS = 0.325$, $d_G = 0.353$, Chi-square = 554.745, and NFI = 0.898, with the NFI approaching the commonly accepted 0.90 benchmark. Overall, these results indicate substantial explanatory power for the endogenous constructs and acceptable structural fit for hypothesis testing.

E. Hypothesis Testing

Table 6 presents the direct hypothesis testing results based on the standardized path coefficients, t-values, and p-values. All hypothesized relationships show positive and statistically significant effects, as each t-value exceeds the minimum critical value of 1.96 and each p-value is below 0.001. The strongest relationship is found in H1, where Risk Management has a substantial positive effect on Business Sustainability ($\beta = 0.881$, $t = 59.996$, $p = 0.000$). This result confirms that stronger risk identification, assessment, mitigation, and monitoring practices significantly enhance the ability of businesses to maintain continuity and achieve sustainability.

The antecedents of Risk Management also demonstrate significant positive effects. Financial Planning Strategy positively affects Risk Management (H3: $\beta = 0.325$, $t = 5.320$, $p = 0.000$), indicating that structured budgeting, cash-flow projection, and funding preparation strengthen firms' ability to anticipate and manage uncertainty. Business Digitalization has the strongest effect among the antecedent variables (H2: $\beta = 0.335$, $t = 5.711$, $p = 0.000$), suggesting that digital tools, transaction records, and data-based processes improve risk visibility and response capacity. Entrepreneurial Mentality also positively affects Risk Management (H4: $\beta = 0.298$, $t = 5.084$, $p = 0.000$), showing that proactive, innovative, and calculated risk-taking orientations support more adaptive risk practices.

Table 6
Summary of Hypothesis Testing

Hypothesis	β	t-value	p-values	Decision
H1. Risk Management → Business Sustainability	0.881	59.996	0.000	Supported
H2. Business Digitalization → Risk Management	0.335	5.711	0.000	Supported
H3. Financial Planning Strategy → Risk Management	0.325	5.320	0.000	Supported
H4. Entrepreneur Mentality → Risk Management	0.298	5.084	0.000	Supported

Overall, the hypothesis testing results provide full empirical support for the proposed structural model. The findings show that Financial Planning Strategy, Business Digitalization, and Entrepreneurial Mentality function as important capability-based drivers of Risk Management, while Risk Management serves as the strongest direct predictor of Business Sustainability. From the perspective of Dynamic Capabilities Theory, these results indicate that business sustainability is achieved when firms are able to transform financial discipline, digital capability, and entrepreneurial orientation into systematic risk-management practices. Thus, all hypotheses are supported, and the model demonstrates that sustainability is strongly shaped by the firm's capacity to manage uncertainty in a structured and adaptive manner.

VI. DISCUSSION

Taken together, the findings indicate that business sustainability among tourism-related SMEs is associated not simply with the possession of financial, digital, or entrepreneurial resources, but with the way these resources support a firm's capacity to deal systematically with uncertainty. This pattern is especially meaningful in the West Java setting described earlier, where tourism-related SMEs operate across heterogeneous destination and market conditions. In such an environment, changes in demand, customer behavior, digital competition, and operating conditions can quickly alter the risks faced by small firms. Financial discipline, timely information, and proactive managerial judgment therefore become valuable when they strengthen the firm's ability to recognize emerging problems and adjust its responses. The findings consequently support a capability-based explanation of sustainability in which adaptive use of resources matters more than the mere presence of those resources (Teece, 2007; Bocken and Geradts, 2020).

The positive relationship between Financial Planning Strategy and Risk Management can be explained by the way forward-looking financial routines reduce ambiguity surrounding resource constraints. For tourism-related SMEs, staffing, inventory, supplier commitments, and other expenditures often have to be decided before revenue is fully realized. Budgets, cash-flow projections, and advance funding plans therefore provide more than administrative control: they give managers reference points for recognizing when changing conditions are likely to exceed available financial capacity and when corrective action is needed. This interpretation is consistent with evidence that financial flexibility preserves strategic options during revenue shocks (Fahlenbrach et al., 2021) and with research showing that financing and risk-management decisions are interdependent (Froot et al., 1993; Rampini et al., 2014). The present findings extend this literature to the SME setting by showing that financial planning is also associated with the organizational routines through which broader business risks are identified, assessed, and addressed. Financial Planning Strategy is therefore better understood here as an enabling condition for adaptive risk management rather than as risk management itself.

Business Digitalization appears particularly important because it changes the visibility and timeliness of information available to owner-managers. Digital payments, booking or ordering systems, transaction records, customer feedback, and online interactions can convert dispersed operating activity into observable signals, allowing managers to detect demand shifts, transaction irregularities, and customer or operational problems earlier. This interpretation is consistent with Araz et al. (2020), who emphasize

analytics for risk detection and decision support, and with Hanelt et al. (2021), who show that digital transformation reshapes organizational routines and information flows. The present study extends this perspective by indicating that the value of digitalization for tourism-related SMEs may lie not only in market access or operating efficiency but also in strengthening the informational basis of risk-management decisions. At the same time, this finding does not negate research showing that digitalization can create cybersecurity, platform-dependence, and capability risks (Feliciano-Cestero et al., 2023). Rather, it suggests that digital resources can strengthen risk management when they are incorporated into monitoring and decision routines, even though the same technologies may introduce new exposures that also require governance.

The positive association between Entrepreneurial Mentality and Risk Management is theoretically notable because entrepreneurship is often linked to willingness to act under uncertainty, whereas risk management is commonly associated with control and restraint. The findings suggest that these orientations need not be contradictory. Proactiveness can encourage managers to scan for emerging market changes, innovativeness can broaden the range of possible responses, and calculated risk-taking requires consideration of potential losses relative to expected opportunities. In this sense, entrepreneurial mentality may strengthen risk management by influencing how uncertainty is interpreted before a formal response is selected. This interpretation is consistent with McMullen and Shepherd (2006), who connect entrepreneurial action with judgments under uncertainty, and with Williams et al. (2021), who emphasize resourceful action under constraint. The finding therefore qualifies a simple view of entrepreneurial risk-taking as a source of greater exposure: opportunity seeking can coexist with disciplined risk evaluation when managerial initiative is accompanied by assessment and monitoring. Nevertheless, the elevated HTMT value between Entrepreneurial Mentality and Risk Management indicates substantial empirical overlap in this sample, so the substantive relationship should be interpreted cautiously and future research should further clarify the boundary between proactive entrepreneurial judgment and formalized risk-management routines.

The strong relationship between Risk Management and Business Sustainability can be understood from the multidimensional nature of sustainability examined in this study. Long-term economic viability, stakeholder responsibility, and environmental considerations all require decisions whose consequences extend beyond immediate operating performance. Risk-management routines provide a structured way to identify threats to these objectives, assess their consequences, prepare mitigation responses, and revise those responses when conditions change. For tourism-related SMEs, disruptions in demand, supply, cash flow, customer expectations, or local operating conditions can simultaneously affect continuity and stakeholder relationships. The finding is consistent with Negri et al. (2021), who argue for closer integration between sustainability and resilience, and with Bocken and Geradts (2020), who link sustainable business-model adaptation with dynamic capabilities. The present study extends these arguments by locating risk-management routines within the capability relationships associated with sustainability in resource-constrained tourism SMEs. Importantly, this interpretation does not imply that routine risk control is inherently dynamic; its adaptive relevance arises when monitoring and mitigation routines are used to update organizational responses as conditions evolve (Winter, 2003).

From a Dynamic Capabilities perspective, the combined findings suggest a differentiated rather than interchangeable role for the capabilities in the model. Financial Planning Strategy contributes resource discipline, Business Digitalization contributes information visibility, and Entrepreneurial Mentality contributes proactive managerial cognition. These domains provide distinct conditions that are associated with stronger Risk Management, while Risk Management occupies the focal adaptive role of organizing how uncertainty is identified, assessed, mitigated, and monitored. This pattern refines the application of Dynamic Capabilities Theory to SME sustainability by showing how financial, informational, and cognitive foundations are connected with an adaptive organizational capability and, subsequently, with Business Sustainability. The contribution is therefore not the claim that Risk Management is a newly identified dynamic capability, but the specification of how these capability domains occupy different yet connected roles within an established sensing, seizing, and reconfiguring logic. Because the data are cross-sectional, the results should be read as support for this capability configuration rather than as direct evidence of capability evolution over time.

VII. IMPLICATIONS

A. Implication for Theory

The theoretical contribution of this study is not to establish Risk Management as a dynamic capability per se, because prior research has already linked risk-oriented routines with organizational adaptation and resilience (Bromiley et al., 2015; Boh et al., 2023). Instead, the study clarifies the theoretical position of Risk Management relative to three antecedent capability domains in explaining Business Sustainability. Financial Planning Strategy, Business Digitalization, and Entrepreneurial Mentality provide distinct enabling conditions—resource discipline, information visibility, and proactive managerial orientation—whereas Risk Management represents the focal adaptive capability through which firms systematically identify, assess, mitigate, and monitor uncertainty. This differentiation adds theoretical precision to the application of Dynamic Capabilities Theory in SME sustainability research because the focal constructs are assigned complementary rather than interchangeable capability roles. Importantly, this positioning does not imply that all risk-management activity is inherently dynamic; its adaptive character arises when risk routines are used to update assessments and responses as conditions change rather than merely to execute established operational controls (Winter, 2003).

The study also contributes to the Resource-Based View, digital transformation, and entrepreneurship literatures by demonstrating that resources become theoretically meaningful when they are embedded in risk-oriented decision routines. Financial planning is not treated merely as a budgeting practice, but as a financial discipline that supports anticipatory risk control. Business Digitalization is not positioned only as technology adoption, but as an information capability that improves visibility, monitoring, and adaptive decision-making (Hanelt et al., 2021; Boh et al., 2023). Entrepreneurial Mentality extends the microfoundations of dynamic capabilities by explaining how owner-manager cognition, proactiveness, and calculated risk-taking shape strategic responses under uncertainty (Helfat and Peteraf, 2015; Williams et al., 2021). Thus, the study offers a more integrated theoretical explanation of SME sustainability by

specifying the distinct but connected roles of financial, digital, entrepreneurial, and risk-management capabilities in relation to Business Sustainability.

B. Implication for Practice

The findings suggest that SME sustainability should be managed as an integrated capability system rather than as separate financial, digital, entrepreneurial, and risk-related activities. In this study, Financial Planning Strategy, Business Digitalization, and Entrepreneurial Mentality are positioned as antecedent capabilities, Risk Management as the mediating adaptive capability, and Business Sustainability as the final outcome. For owner-managers of tourism-related SMEs, this means that sustainability requires a structured decision routine: identify business signals, evaluate risk exposure, select an appropriate response, and adjust resources when conditions change. This implication is consistent with Dynamic Capabilities Theory, which emphasizes sensing, seizing, and reconfiguring as essential mechanisms for maintaining performance under uncertainty (Teece, 2007).

Practically, SME owner-managers should treat financial planning as a risk-control instrument, not merely as an accounting exercise. Written budgets, cash-flow projections, variance reviews, and funding plans should be updated periodically and used before decisions such as purchasing equipment, expanding outlets, increasing inventory, or taking loans. For example, a culinary tourism SME should estimate cash needs during low visitor seasons before increasing raw-material purchases, while a fashion-related SME should align production volume with expected demand to avoid excess stock. Financial flexibility is especially important when revenue is disrupted, because firms with stronger liquidity planning are better able to absorb shocks and preserve strategic choices (Fahlenbrach et al., 2021). Therefore, financial planning should be embedded into regular risk assessment and contingency planning.

The results also imply that digitalization should be used as a managerial intelligence system, not only as a marketing channel. Digital payments, online bookings, marketplace records, customer reviews, and social media interactions can help SMEs detect changes in demand, customer dissatisfaction, reputational threats, and operational inefficiencies. Analytics-based risk management enables firms to identify anomalies and respond before problems become severe (Araz et al., 2020). However, digitalization also requires governance because weak data security, platform dependence, and poor digital capability may create new vulnerabilities (Feliciano-Cestero et al., 2023). Thus, tourism SMEs should combine digital adoption with simple controls, including transaction reconciliation, account-access protection, data backup, and regular review of digital performance indicators.

Finally, practitioners should cultivate entrepreneurial mentality as disciplined experimentation rather than uncontrolled risk-taking. Owner-managers should encourage innovation, proactive market search, and calculated risk-taking through small-scale trials, customer feedback, pilot campaigns, limited product launches, and clear exit criteria. Resourcefulness enables entrepreneurs to create value under constraint, but it becomes more sustainable when supported by risk evaluation and learning routines (Williams et al., 2021). For policymakers, incubators, SME associations, and financial institutions, the implication is to design integrated support programs that combine financial planning, digital capability, entrepreneurial training, and risk-management practice. Such programs

would move beyond fragmented assistance and help SMEs build adaptive routines that support long-term sustainability (Bocken and Geradts, 2020; Crovini et al., 2021).

VIII. CONCLUSION, LIMITATION AND FUTURE RESEARCH AVENUES

This study concludes that business sustainability among tourism-related SMEs can be strengthened when financial planning strategy, business digitalization, and entrepreneurial mentality are converted into systematic risk-management practices. The research objective was achieved because the proposed framework received empirical support and demonstrated that sustainability is not produced by a single managerial capability, but by the coordinated interaction of financial discipline, digital readiness, entrepreneurial orientation, and adaptive risk routines. Risk management emerged as the central mechanism that translates planning, information, and entrepreneurial action into business continuity, resilience, and long-term value creation. Nevertheless, this study has several limitations. First, the cross-sectional design limits the ability to capture temporal changes in digitalization, risk management, and sustainability practices. Second, the use of self-reported questionnaire data may introduce perceptual and response-style biases, including social-desirability and acquiescence tendencies, because responses depend on the subjective judgment of owners or managers. Although the survey incorporated confidentiality assurance, standardized wording, and structured response options, and the Harman and VIF diagnostics did not indicate a serious common-method problem, residual response tendencies cannot be entirely excluded. Third, the study focuses on tourism-related SMEs in West Java, which may limit generalizability to other sectors or regions. Fourth, the HTMT assessment indicated elevated overlap between Entrepreneurial Mentality and Risk Management, suggesting that these capability constructs may not be fully distinct in the present sample. Future studies should employ longitudinal designs, combine survey data with objective business records, and use qualitative or mixed-method approaches to uncover how SMEs actually implement risk-based decisions in daily operations. Future studies should also refine the measurement of Entrepreneurial Mentality and Risk Management and reassess their discriminant validity across independent samples. Further research may also extend the model by incorporating financial literacy, digital capability maturity, risk culture, government support, innovation capability, and environmental orientation as additional mediators, moderators, or boundary conditions.

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