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The Influence of Entrepreneurial Leadership and Financial Capability on Business Performance with Innovation Ability as a Mediating Variable on Entrepreneurial Students of Universities in Jambi City

Nandita Juliana[1], Rike Setiawati[2], Logi Mulawarman[3]

[1,2,3]Entrepreneurship Study Program, University of Jambi

Corresponding author: nanditajulianaa29@gmail.com

Abstract

This study examines the influence of entrepreneurial leadership and financial capability on the business performance of students in Jambi City, with innovation capability as a mediating variable in the context of Resource-Based View. The study used a quantitative approach with a causal-explanatory design, involving 100 student entrepreneurs from various universities in Jambi City who had been running their businesses for at least six months. Data were collected through a closed-ended questionnaire and analyzed using Partial Least Squares-based Structural Equation Modeling (SEM).-PLS) to test the measurement model and structural model. The results show that entrepreneurial leadership (t = 2.821; p = 0.005) and financial capability (t = 2.135; p = 0.033) have a positive and significant effect on business performance, and each-each significantly influenced innovation capability (t = 2.976; p = 0.003 and t = 7.852; p = 0.000). Innovation then had a positive and significant influence on performance (t = 3.349; p = 0.001) and acted as a partial mediator between entrepreneurial leadership and performance (t = 1.970; p = 0.049), as well as a strong mediator between financial capability and performance (t = 3.275; p = 0.001). These findings confirm that innovation serves as a crucial enabler linking leadership and financial capacity to higher business performance, while emphasizing the need to strengthen leadership competencies and financial literacy through university-based mentoring programs to increase the competitiveness and sustainability of student businesses in the local entrepreneurial ecosystem.

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Keywords: Business Performance, Entrepreneurial Leadership, Financial Capability, Innovation Capability, Mediating Role

INTRODUCTION

Entrepreneurship plays a key role in accelerating global economic growth through job creation, disruptive innovation, and increased cross-sector competitiveness. In today's dynamic economic era, the success of a venture no longer solely depends on the superiority of a business idea, but is largely determined by the synergy between strategic leadership, effective resource management, and adaptive innovation capacity. Despite its crucial contribution, the phenomenon of startup failure remains a persistent global challenge, with the majority of businesses facing difficulties in surviving the initial critical phase due to limited financial literacy, weak leadership, and misalignment with market needs.

Nationally, Indonesia is showing a rapidly increasing trend in young entrepreneurial participation, driven by various government policy interventions such as incubation programs and student entrepreneurship competitions. However, there is a significant discrepancy between the high level of entrepreneurial interest and the low sustainability of student businesses, which often stall after the initial support phase ends. This phenomenon is particularly evident in higher education centers like Jambi City, where student entrepreneurs often find themselves trapped in a cycle of fluctuating sales due to a lack of product innovation and weak internal financial governance, the foundation of business resilience.

Previous studies have widely confirmed that entrepreneurial leadership is a key determinant facilitating strategic flexibility and an organization's ability to seize opportunities. Furthermore, financial capability has been identified as a key predictor of economic decision-making, long-term planning, and financing accessibility for start-up entrepreneurs. Research also shows that innovation capability serves as a driving force for business performance, enabling small businesses to adapt to market changes and achieve sustainable competitive advantage.

However, there are inconsistencies in the literature regarding how the interactions between these factors are mediated in the specific context of college students. While many previous studies have focused on established MSMEs or large-scale companies, research exploring student entrepreneurs—who have unique characteristics such as limited managerial experience and limited resources—remains very limited. Some studies have shown that innovation does not always have a direct impact on performance without

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leadership capable of managing risk and disciplined financial governance, indicating the complexity of the relationships between variables that have not been fully mapped in the student entrepreneurship ecosystem.

Therefore, this study aims to fill this empirical research gap by investigating the influence of entrepreneurial leadership and financial capability on student business performance in Jambi City, with innovation capability as a mediating variable. The research problem formulation focuses on the extent to which entrepreneurial leadership and financial capability can significantly boost student innovation capability and business performance simultaneously. This analysis is crucial to addressing the challenge of low student business sustainability, which remains a major concern in developing the entrepreneurial ecosystem at both the local and national levels.

This research is expected to provide a significant theoretical contribution to enriching the entrepreneurship literature by developing a conceptual model that integrates leadership, financial, and innovation aspects specifically for the student segment. Practically, these findings will serve as a strategic reference for universities and local governments in designing mentoring programs based on empirical data, thereby creating a more resilient, innovative, and highly competitive generation of young entrepreneurs. With this approach, this research not only examines the phenomenon of entrepreneurship from an academic perspective but also provides applicable solutions for the sustainability of student businesses in the future.

METHOD

This study uses a quantitative approach with a causal-comparative or explanatory design to uncover the causal relationships between the variables studied. This approach was chosen because it allows researchers to objectively measure variables and analyze the direct and indirect effects of entrepreneurial leadership and financial capability on business performance, with innovation capability as a mediating variable. In line with the principles of quantitative research, this design does not involve experimental manipulation, but rather observes phenomena as they exist to draw strong generalizations based on empirical data.

The population in this study includes all entrepreneurial students at various universities in Jambi City who are actively running businesses, either individually or in groups. The sampling technique used was non-probability sampling with a purposive sampling method to ensure that respondents met specific inclusion criteria, namely having run a business for at least six months. Referring to the Lemeshow formula (1997),

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the minimum sample size was set at 96 respondents, which was then rounded up to 100 to anticipate invalid data, thus providing adequate statistical test power for the structural model analysis.

The research instrument was developed based on entrepreneurship literature to measure latent variables through relevant manifest variables (indicators). Entrepreneurial leadership, financial capability, innovation capability, and business performance were measured using an ordinal scale using a digitally distributed structured questionnaire. Prior to widespread use, the instrument underwent convergent validity, discriminant validity, and composite reliability testing to ensure the accuracy and consistency of the collected data, in accordance with current quantitative research methodology standards.

The research procedure was conducted chronologically, starting with a preliminary study to identify literature gaps and field issues, followed by instrument design, data collection via Google Forms, and data analysis. Throughout this process, the researcher ensured systematic data collection by providing clear guidelines for respondents. The collected data was then processed using SmartPLS software to simultaneously evaluate the measurement model (outer model) and structural model (inner model) to accurately test the research hypotheses.

The data analysis technique used Structural Equation Modeling-Partial Least Squares (SEM-PLS), which is very suitable for causal research models with mediating variables, especially because this method does not require a normal data distribution and is flexible for medium-sized samples. The analysis begins with descriptive statistics to provide an overview of the respondent profile, followed by an evaluation of the inner model to test the significance of the relationship between variables through a bootstrapping procedure with a 95% confidence level.

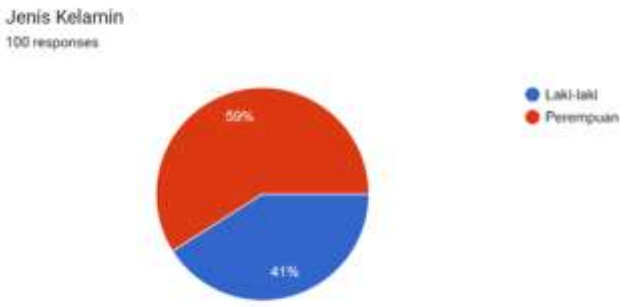
The ethical aspects of the research were managed by upholding the principles of confidentiality and privacy of respondents, where participation in this study was voluntary and based on the informant's consent. The researcher ensured that all data was used solely for academic purposes and would not be misused, thus maintaining the integrity and objectivity of the research results. This ethics protocol was implemented to provide full protection for student participants, in line with internationally reputable scientific publication norms.

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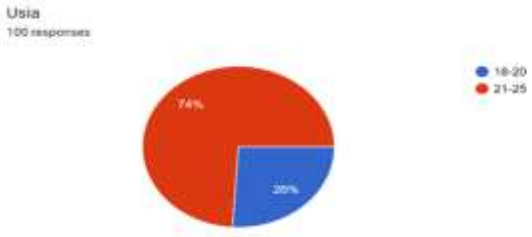
DISCUSSION

Respondent Characteristics



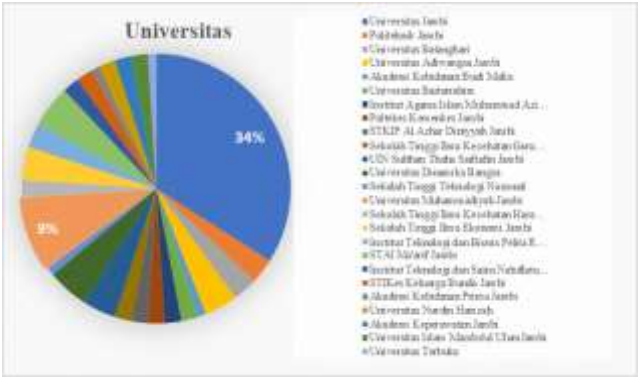
Picture 1 Gender

The respondents in this study were male and female.



Picture 2 Age

Based on age characteristics, respondents in this study were dominated by entrepreneurial students who were in the productive age range, namely 18-25 years.

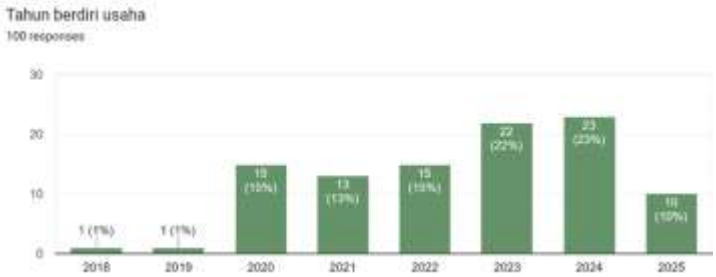


Picture 3 University

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Based on the origin of the university, respondents in this study came from various universities in Jambi City, with the majority coming from Jambi University (34%).



Picture 4 Year of Business Establishment

Based on the year of business establishment, the majority of student entrepreneurs in this study started their businesses between 2023 (22%) and 2024 (23%). Meanwhile, some respondents started their businesses in 2020 (15%), 2021 (13%), and 2022 (15%). Only a small proportion started their businesses in 2018 and 2019 (1% each), and 2025 (10%).

Descriptive Statistical Analysis

1. Entrepreneurial Leadership

   Based on the results of the respondents' answers, it can be seen that the average response of 3.11 from all indicators of entrepreneurial ability is high. Therefore, the Entrepreneurial Leadership variable is categorized into a score level with a range of 2.51 - 3.25 or "high". The highest score from the respondents' responses is the Proactiveness indicator (PRO 1) with the question "I take action before problems arise", with a score of 3.24 or high. These results indicate that overall, respondents have good Entrepreneurial Leadership, characterized by having a clear business vision, daring to take risks, actively seeking new opportunities, and being able to motivate the team.

2. *Financial Capability*

   Based on the results of the respondents' answers, it can be seen that the average response of 3.08 for all Financial Capability indicators is high. Therefore, the Financial Capability variable is categorized into a score level with a range of 2.51 - 3.25 or "high". The highest score from the respondents' responses was the Financial Knowledge indicator (FK 2) with the question "I understand the difference between savings, investments, and business capital," with a score of 3.22 or high. These results

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indicate that overall, respondents have a good understanding and practice of financial management, including the ability to separate personal and business finances, record transactions, prepare budgets, and recognize the importance of long-term financial planning to support the sustainability of their businesses.

3. Innovation Ability

Based on the results of the respondents' answers, it can be seen that the average response of 3.10 from all Innovation Capability indicators is high. Therefore, the Innovation Capability variable is categorized into a score level with a range of 2.51 - 3.25 or "high". The highest score from the respondents' responses is the Product/Process Development Capability (PPD 2) indicator with the question "I am able to develop more efficient work processes", with a score of 3.24 or high. These results indicate that overall, respondents have good abilities in developing and managing products, adapting to consumer trends and needs, developing more efficient work processes and implementing effective and creative production and marketing strategies to support the success of their businesses.

4. Business Performance

Based on the respondents' responses, an average of 3.12 responses across all Business Performance indicators were in the high category. Therefore, the Business Performance variable is categorized into a score range of 2.51–3.25, or "high."

The highest score from respondents' responses was found in the Efficiency and Internal Processes indicator (EPI 2), with the statement "Resources (time, energy, materials) are used optimally," with a score of 3.27, or very high. This indicates that student entrepreneurs are not only focused on increasing customers and profits but also demonstrate optimal resource utilization.

Overall, these descriptive results indicate that student entrepreneurs have had excellent sustainability performance, both in terms of increasing customers, revenue, and profits, optimal use of resources, maintaining product/service quality, business continuity, expanding market share, maintaining customer loyalty by providing excellence and satisfaction with products/services, and being active in innovation.

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Measurement model (Outer Model)

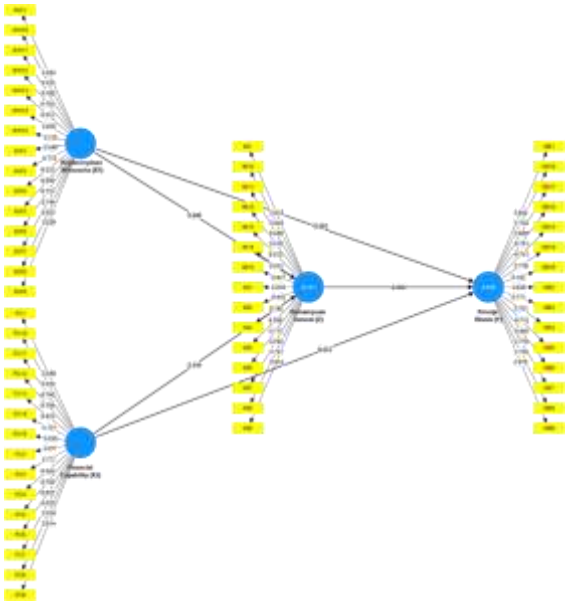


Figure 5 Outer Loading or Outer Model Results

Evaluation of the measurement model or outer model was conducted to assess the validity and reliability of the construct model. The outer model with reflective indicators was evaluated using convergent validity, discriminant validity, composite reliability, and Cronbach's alpha for the indicator blocks.(Ghozali & Latan, 2020).

1. Convergent Validity Test

   Related to the principle that variable indicators must be highly correlated, testing convergent validity can be calculated using the outer loading value. According toHair. et al. (2021)an item is declared valid if the outer loading value is 0.70.

2. Discriminant Validity Test

   Discriminant validity is used to measure how far the discriminant validity of a construct is empirically different from other constructs in the research model structure. In this study, discriminant validity testing was evaluated using cross-loading. Discriminant validity was assessed using the cross-loading value on reflective indicators. A measurement model has good discriminant validity if the relationship between the construct and its indicators is more than 0.50. This means that each indicator in one construct must show a higher cross-loading value than indicators from other constructs (I., Ghozali & Latan, 2015).

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3. Model Collinearity Test

A good regression model should have no correlation between independent variables. Multicollinearity testing can be performed by examining the collinearity statistics in the inner VIF values. If the VIF value is ≤ 5, then the multicollinearity assumption is not violated. However, if the VIF value is > 5, then the multicollinearity assumption is violated, or the independent variables influence each other.(Hair et al., 2021).

4. Reliability Test

Next is reliability testing. The most commonly used measure of reliability is internal consistency. To test reliability or internal consistency, researchers can utilize indicators such as Cronbach's Alpha and Composite Reliability. In this reliability test, researchers used Cronbach's Alpha and Composite Reliability. Data is considered reliable if the Cronbach's Alpha value is > 0.70 and the Composite Reliability value is > 0.70.(Hair., 2022).

Table 1 Results of Croncbach's Alpha and Composite Reliability Tests

Variables	*Cronbach's alpha*	*Composite reliability*	Information
Entrepreneurial Leadership (X1)	0.960	0.964	Reliable
Financial Capability (X2)	0.964	0.968	Reliable
Innovation Ability (Z)	0.961	0.965	Reliable
Business Performance (Y)	0.953	0.958	Reliable

Based on Table 1, all variables have Cronbach's Alpha and Composite Reliability values above 0.70, indicating that all variables meet the reliability criteria. Furthermore, all research variables have Composite Reliability values higher than Cronbach's Alpha. This indicates that the construct has excellent internal consistency, as Composite Reliability is considered a more accurate measure of reliability in the SEM-PLS model than Cronbach's Alpha.(I. Ghozali, 2021). Thus, it can be concluded that all variables in this study have met the reliability criteria and are declared reliable.

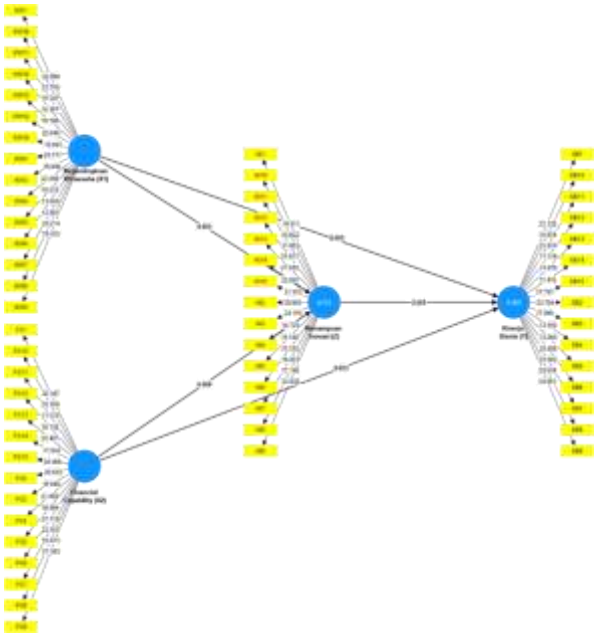
Structural Model (Inner Model)

After the measurement model (outer model) is declared to meet the validity and reliability criteria, the next stage is to evaluate the structural model or inner model. This

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test aims to assess the strength of the relationship between the latent variables in the study and test the formulated hypotheses. Evaluation of the inner model is conducted by examining the path coefficient, R-square, Q-square, and the significance of the relationship through bootstrapping. The following presents the results of the inner model testing using bootstrapping.



R Square

Table 2 R-square Test Results

Variables	*R Square*	*R Square Adjusted*	Prediction Model
Innovation Ability (Z)	0.739	0.733	Strong
Business Performance (Y)	0.718	0.709	Strong

The Adjusted R-square value of 1.00 indicates that the independent variables in the model are able to explain 73.3% of the variation that occurs in the Innovation Capability (Z) variable. This means that the model has good explanatory power, although there is still 26.7% of other variations influenced by factors outside this research model. Furthermore, the independent variables are able to explain 70.9% of the Business Performance (Y) variable. This means that the model has very good explanatory power, although there is still 29.1% of other variations influenced by factors outside this research

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model. Thus, the variables used have contributed strongly to the innovation capability and business performance variables, but there is still an opportunity to improve the model's accuracy by adding other relevant variables.

Hypothesis Testing

Table 3 Hypothesis Test Results

Variables	T statistics (|O/STDEV|)	P Values	Information
Entrepreneurial Leadership (X1) -> Business Performance (Y)	2,821	0.005	Hypothesis Accepted
Financial Capability (X2) -> Business Performance (Y)	2.135	0.033	Hypothesis Accepted
Entrepreneurial Leadership (X1) -> Innovation Ability (Z)	2,976	0.003	Hypothesis Accepted
Financial Capability (X2) -> Innovation Capability (Z)	7,852	0.000	Hypothesis Accepted
Innovation Capability (Z) -> Business Performance (Y)	3,349	0.001	Hypothesis Accepted
Entrepreneurial Leadership (X1) -> Innovation Ability (Z) -> Business Performance (Y)	1,970	0.049	Hypothesis Accepted
Financial Capability (X2) -> Innovation Capability (Z) -> Business Performance (Y)	3,275	0.001	Hypothesis Accepted

1. Hypothesis Testing of the Influence of Entrepreneurial Leadership on Business Performance

   Based on the results of the hypothesis test, the influence of Entrepreneurial Leadership on Business Performance has a p-value of 0.005 < 0.05 and a t-statistic value of 2.821 > 1.96, so it can be concluded that the hypothesis is accepted. This indicates that Entrepreneurial Leadership has a significant influence on Business Performance.
2. Hypothesis Testing of the Influence of Financial Capability on Business Performance

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Based on the results of the hypothesis test, the influence of Financial Capability on Business Performance has a p-value of 0.033 < 0.05 and a t-statistic value of 2.135 > 1.96, so it can be concluded that the hypothesis is accepted. This means that Financial Capability has a significant effect on Business Performance.

3. Hypothesis Testing of the Influence of Entrepreneurial Leadership on Innovation Ability

   Based on the results of the hypothesis test, the influence of Entrepreneurial Leadership on Innovation Ability has a p-value of 0.003 < 0.05 and a t-statistic value of 2.976 > 1.96, so it can be concluded that the hypothesis is accepted. This indicates that Entrepreneurial Leadership has a significant influence on Innovation Ability.
4. Hypothesis Test of the Influence of Financial Capability on Innovation Ability

   Based on the results of the hypothesis test, the influence of Financial Capability on Innovation Ability has a p-value of 0.000 < 0.05 and a t-statistic value of 7.852 > 1.96, so it can be concluded that the hypothesis is accepted. Thus, Financial Capability has a significant effect on Innovation Ability.
5. Hypothesis Testing of the Influence of Innovation Capabilities on Business Performance

   Based on the results of the hypothesis test, the effect of Innovation Capability on Business Performance has a p-value of 0.001 < 0.05 and a t-statistic value of 3.349 > 1.96, so it can be concluded that the hypothesis is accepted. This indicates that Innovation Capability has a significant effect on Business Performance.
6. Hypothesis Testing of the Effect of Innovation Ability Mediating Entrepreneurial Leadership on Business Performance

   Based on the results of the hypothesis test, the indirect effect of Entrepreneurial Leadership on Business Performance through Innovation Ability has a p-value of 0.049 < 0.05 and a t-statistic value of 1.970 > 1.96, so it can be concluded that the hypothesis is accepted. This means that Innovation Ability is able to mediate the relationship between Entrepreneurial Leadership and Business Performance.
7. Hypothesis Testing of the Effect of Innovation Ability on Mediating Financial Capability on Business Performance

   Based on the results of the hypothesis test, the indirect effect of Financial Capability on Business Performance through Innovation Capability has a p-value of 0.001 < 0.05 and a t-statistic value of 3.275 > 1.96, so it can be concluded that the hypothesis is accepted. This indicates that Innovation Capability is able to mediate the relationship between Financial Capability and Business Performance.

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DISCUSSION

1. The Influence of Entrepreneurial Leadership on Business Performance

   The analysis shows that entrepreneurial leadership has a positive and significant effect on student business performance in Jambi City (t-statistic 2.821). In the RBV, leadership as a strategic resource transforms limited resources into competitive advantage through vision and proactivity. This influence is more crucial for student entrepreneurs than for established MSMEs due to the high dependence on individuals, which serves to compensate for limited experience and capital. This study complements the literature with empirical evidence, recommending leadership strengthening through mentoring programs for business sustainability.

2. The Influence of Entrepreneurial Leadership on Innovation Ability

   The analysis shows that entrepreneurial leadership has a positive and significant effect on the innovation capabilities of students in Jambi City (t-statistic 2.976). From an entrepreneurial leadership perspective, leadership acts as a catalyst for innovation through strategic vision, proactivity, and risk-taking, transforming creativity into economic value. This finding aligns with the RBV, where innovation as a strategic resource is more dependent on the personal capacity of leaders in early-stage student businesses, unlike established companies with formal systems. Leadership becomes a dominant determinant for adaptation amidst resource constraints.

3. The Influence of Financial Capability on Business Performance

   Analysis shows that financial capability has a positive and significant impact on student business performance in Jambi City (t-statistic 2.135). The ability to manage cash flow, budgeting, and financial records improves operational efficiency and mitigates risks in the early stages of a business. Analytical, this role is moderate but essential as a stability control amidst capital constraints, confirming financial literacy as a crucial supporting factor. For optimal performance, integrate it with adaptive leadership and continuous innovation for competitive advantage.

4. The Influence of Financial Capability on Innovation Ability

   The analysis shows that financial capability has a positive and highly significant effect on the innovation ability of entrepreneurial students (t-statistic 7.852). Financial capability functions as an innovation enabler through planned budgeting, disciplined cash flow management, and efficient fund allocation, transforming creative ideas into economic value. In the RBV, financial literacy, as a fundamental internal capability, facilitates creativity in limited-capital businesses, maintaining stability while supporting product research, digital marketing, and sustainable technology adoption.

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5. The Influence of Innovation Capabilities on Business Performance

   The analysis shows that innovation capability has a positive and significant impact on student business performance in Jambi City (t-statistic 3.349). In the RBV, innovation as a value creation mechanism creates product differentiation, operational efficiency, and market adaptation, directly improving business performance. Empirically, student incremental innovation has a substantial impact on early-stage businesses, where targeted creative ideas meet consumer needs and determine sustainability amidst dynamic competition.

6. The Mediating Role of Innovation Capabilities in the Relationship between Entrepreneurial Leadership and Business Performance

   The analysis shows that innovation capability acts as a partial and significant mediator between entrepreneurial leadership and student business performance in Jambi City (t-statistic 1.970; p-value 0.049). Visionary-proactive leadership has a direct impact through innovation, which creates added value and improves overall performance. The mediation effect is marginal due to the dominance of daily operations in early-stage ventures, but innovation remains a crucial strategic pathway—especially when developed through intensive mentoring to strengthen leadership's impact.

7. The Mediating Role of Innovation Capability in the Relationship between Financial Capability and Business Performance

   The analysis shows that innovation ability acts as a strong and significant mediator between financial capability and student business performance in Jambi City (t-statistic 3.275; p-value 0.001). Effective financial management provides direct stability and indirect support for innovation (product development, technology adoption), broadening the impact on business performance. In capital-constrained businesses, financial capability as a strategic foundation enables the realization of creative ideas, making the innovation pathway a key transformative mechanism for competitive advantage.

CONCLUSION

This study concludes that entrepreneurial leadership and financial capability are the main determinants that positively and significantly improve the business performance of students in Jambi City. Innovation capability is proven to play a crucial role in mediating the influence of these two variables on performance, where its role as an enabler is very dominant in transforming financial capabilities into innovative activities with economic

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value. However, the influence of leadership on performance through the innovation channel is partial, reflecting that in the early stages of a business, leadership has a more direct impact through the owner's operational involvement than through the still-developing innovation channel.

Practically, this study suggests the need to strengthen leadership capacity and financial literacy through integrated mentoring programs in universities to stimulate student competitiveness. A limitation of this study lies in its focus on student entrepreneurs in Jambi City, so generalizing the results to other regional contexts requires caution. Future research is recommended to explore other external variables, such as social environmental support or access to digital technology, to provide a more comprehensive understanding of the future sustainability of student businesses.

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