

ENHANCING FINANCIAL PERFORMANCE OF MSMEs THROUGH GREEN ENTREPRENEURIAL ORIENTATION, FINANCIAL CAPABILITY, AND GREEN TECHNOLOGY DYNAMISM

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ABSTRACT

Introduction/Main Objectives: This study aims to examine and analyze the impact of green entrepreneurial orientation and financial capability on the financial performance of Micro Small and Medium Enterprises (MSMEs), while also assessing the moderating role of green technology dynamism on the relationship between green entrepreneurial orientation and financial performance. **Background Problems:** MSMEs play a significant role in the Indonesian economy, contributing 60.5% to GDP, which amounts to approximately IDR 8,573 trillion annually, and accounting for 97% of total national employment, or around 116 million jobs. Given their crucial role, MSMEs must continuously sustain and improve their financial performance. However, due to environmental changes, MSMEs are increasingly required to not only consider economic aspects but also address social and environmental concerns.

Novelty: This study uniquely examines the influence of green entrepreneurial orientation, financial capability, and the moderating effect of green technology dynamism on MSMEs' financial performance. **Research Methods:** This quantitative study employs a questionnaire-based data collection method, with questionnaires distributed directly to respondents. The sample consists of 217 MSME actors located in Siak District, Siak Regency. **Finding/Results:** The results demonstrate that green entrepreneurial orientation and financial capability significantly influence the financial performance of MSMEs. MSMEs with green entrepreneurial orientation and financial capability are better equipped to innovate, take proactive measures, and embrace risk to improve financial performance, all while considering economic, social, and environmental aspects within their operational context.

Conclusion: This research offers valuable insights for MSME actors, highlighting the importance of green entrepreneurial orientation and financial capability in enhancing financial performance.

Keywords: Green Entrepreneurial Orientation, Financial Capability, Green Technology Dynamism, Financial Performance

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have been widely recognized as one of the primary drivers of economic growth in many countries (Supriatna et al., 2023). In Indonesia, MSMEs contribute significantly to the nation's economy (Anantadjaya et al., 2023). MSMEs also play a crucial role in alleviating poverty by absorbing millions of workers each year (Murwanti, 2023).

According to data from the Indonesian Chamber of Commerce and Industry, MSMEs contribute 60.5% to the Gross Domestic Product (GDP), amounting to approximately IDR 8,573 trillion annually. Additionally, they account for 97% of national labor absorption, which equates to around 116 million workers (Indonesia, 2022). However, the performance of local MSMEs declined during the first two years of the Covid-19 pandemic in 2020 and 2021. A survey conducted by UNDP and LPEM UI involving 1,180 MSME respondents revealed that during this period, more than 48% of MSMEs faced raw material shortages, 77% experienced a decline in revenue, 88% suffered from decreased product demand, and 97% reported a decline in asset value (Limanseto, 2022).

The impact of the Covid-19 pandemic was also felt by MSMEs in the Siak Regency. According to data from the Siak Cooperative and MSME Office, at least 800 out of the 1,400 MSMEs in the region were affected by the pandemic. A large portion of these businesses even opted to close (Hadi, 2020). Consequently, the financial performance of MSMEs deteriorated due to the pandemic, significantly affecting their overall financial outcomes.

Financial performance refers to the results achieved through a series of actions and decisions aimed at attaining financial objectives (Mukarromah et al., 2020). It is essential to evaluate financial performance to assess the success of a business based on its financial activities (Rosyadah et al., 2022). In their efforts to maintain and improve financial performance, MSMEs face numerous challenges, including environmental and financial constraints.

The business world views health and living conditions as critical components of their core activities, as environmental challenges increasingly threaten economic growth (Asad, Majali, et al., 2023). All business aspects are now expected to engage in environmentally friendly practices. Such practices refer to conducting business activities that yield commercial profits without harming the environment (Asad, Majali, et al., 2023). Recent studies, in particular, highlight the significance of Green Entrepreneurial Orientation (GEO) in enhancing both environmental and financial performance ((Makhloufi et al., 2022); (Majali et al., 2022); (Fatoki, 2019); (Asad, Majali, et al., 2023); (Asad, Aledeinat, et al., 2023); (Gazali & Zainurrafiqi, 2023); (Muangmee et al., 2021); (Habib et al., 2020)).

Green entrepreneurial orientation reflects the willingness of entrepreneurs to engage in innovation, take proactive and risky actions, while considering the economic, social, and environmental aspects of the areas in which their businesses operate (Golsefid-Alavi et al., 2021). MSMEs that adopt green entrepreneurial orientation can enhance their financial performance, first by reducing energy or resource costs through eco-friendly product and process advancements, and second, by proactively seeking environmentally sustainable business opportunities (Asad, Majali, et al., 2023). Hence, green entrepreneurial orientation can improve financial performance. However, despite extensive research on green entrepreneurial orientation, it remains underexplored in developing countries like Indonesia, where financial priorities often take precedence over environmental concerns (Asad et al., 2021).

Although the benefits of green entrepreneurial orientation have been studied and researched in the past, the findings remain inconsistent. Some studies demonstrate a significant impact of green entrepreneurial orientation on financial performance ((Fatoki, 2019); (Asad, Majali, et al., 2023); (Gazali & Zainurrafiqi, 2023)), while others show no direct influence on

financial performance ((Asad, Aledeinat, et al., 2023); (Habib et al., 2020)). Given these inconsistencies in the literature, this study introduces green technology dynamism as a moderator in the relationship between green entrepreneurial orientation and financial performance.

In this study, green technology dynamism represents a rapidly evolving technological environment (Asad, Majali, et al., 2023). It is defined as the degree and uncertainty of paradigm shifts in green technology within the external environment (Schilke, 2014). When businesses experience rapid technological changes, their motivation to gather information about new technologies increases (Zhao et al., 2018). The uncertainty associated with technological advancements underscores the importance of information absorption capabilities in coping with green technology dynamism. Information absorption can help businesses acquire specialized knowledge to support environmentally friendly practices, such as research and development, technological leadership, and innovation (Pavlou & El Sawy, 2011). This strengthens the relationship between green entrepreneurial orientation and financial performance.

In addition to environmental challenges, MSMEs face issues related to financial capability. Financial capability extends the concept of financial literacy by encompassing both abilities and opportunities. When an individual acquires skills and knowledge but does not apply them to practical decision-making, they are considered incapable. Financially capable individuals possess both the skills and opportunities to enhance their financial well-being by making informed financial decisions and taking appropriate financial actions (Çera et al., 2021).

Financial capability not only optimizes MSMEs' credit loan choices and reduces liquidity constraints but also encourages decision-making and entrepreneurial management levels, which play a vital role in MSME business activities (Yi et al., 2023). Therefore, financial capability can contribute to improved financial performance ((Yi et al., 2023); (Anantadjaya et al., 2023)). Although studies on financial capability are extensive, there remains limited research on its impact on financial performance, particularly in MSMEs ((Babajide et al., 2023); (Çera et al., 2021); (Guo & Huang, 2023); (Amalina & Damayanti, 2021)).

This research focuses on MSMEs in the Siak Regency, as similar studies have not been conducted in this region. Moreover, the potential of MSMEs in Siak is substantial, especially as drivers of economic growth in Riau Province (Dewi, 2022). Additionally, Siak Regency is striving to set an example in MSME development by promoting sustainable business practices that prioritize not only profitability but also environmental impact (Redaksi, 2023).

The purpose of this study is to examine and analyze the influence of green entrepreneurial orientation and financial capability on MSME financial performance, as well as to test and analyze green technology dynamism as a moderator in the relationship between green entrepreneurial orientation and MSME financial performance.

METHOD, DATA, AND ANALYSIS

Population, Sample, and Variable Measurement

The study was conducted in the Siak District, Siak Regency, Riau Province. The research took place in 2024, spanning a duration of 8 months, from February to September 2024. The population of this study comprises all MSMEs in the Siak District, Siak Regency, Riau Province. According to data from the Cooperative, Micro, Small, and Medium Enterprises Office of Siak Regency, there are 1,609 MSMEs in the Siak District. The sampling technique used in this study is based on the Yamane formula (Sugiyono, 2018). Using this formula, a sample size of 320 MSMEs was determined. This research employs a quantitative approach,

with data collection conducted through direct distribution of questionnaires to MSME operators.

The study variables are categorized into three groups: independent variables, which include green entrepreneurial orientation (X_1) and financial capability (X_2); a moderating variable, which is green technology dynamism (M); and the dependent variable, which is MSME financial performance (Y). All variables are measured using instruments from previous research, with responses recorded on a Likert scale from 1 to 5. Financial performance is measured using the instrument from Asad, Majali, et al. (2023). Green entrepreneurial orientation is measured with the instrument from Asad, Majali, et al. (2023). Financial capability is measured using the instrument from Babafemi (2022). Green technology dynamism is measured with the instrument from Asad, Majali, et al. (2023).

Data Analysis Method

Data analysis in this study begins with descriptive statistical analysis (Sugiyono, 2018). Descriptive statistical analysis is used to provide an overview or description of the research variables, displayed through frequency distribution tables that indicate minimum values, maximum values, mean values, and standard deviations. To describe the demographic characteristics of the respondents, including gender, education level, business age, and annual income, frequency distribution and percentage tables are utilized. The data analysis methods employed in this study include multiple linear regression analysis and moderated regression analysis (MRA) (Ghozali, 2021).

RESULTS AND DISCUSSION

This study was conducted by distributing questionnaires directly to the respondents. A total of 320 questionnaires were distributed, corresponding to the sample size. Of these, 217 questionnaires were returned, representing a response rate of 67.8%. All returned questionnaires were complete and could be analyzed.

Table 1. Characteristics of Respondents

	Number (N)	Percentage (%)
Gender		
Male	136	62.6
Female	81	36.4
Age		
< 25 Years	30	13.8
25 – 40 Years	103	47.5
41 – 55 Years	66	30.4
> 55 Years	18	8.3
Education		
Elementary School	12	5.5
Middle School	26	12
High School	95	43.7
Diploma	28	12.9
Bachelor's Degree (S1)	56	25.9
Business Duration		
< 1 Year	12	5.5

	Number (N)	Percentage (%)
1 - 3 Years	96	44.3
4 – 5 Years	32	14.7
> 5 Years	77	35.5

Source: Processed Data, 2024

Descriptive Statistical Results

Descriptive statistical analysis in this study was conducted by presenting the number of data points, minimum (min) value, maximum (max) value, mean value, and standard deviation of the variables used.

Table 2. Descriptive Statistical Results

	N	Minimum	Maximum	Mean	Std. Deviation
Green Entrepreneurial Orientation	217	17	25	22.33	2.179
Financial Capability	217	97	130	117.54	7.299
Green Technology Dynamism	217	14	20	18.08	1.905
Financial Performance	217	18	25	22.65	2.018
Valid N (listwise)	217				

Source: Processed Data, 2024

Based on the descriptive statistical results presented in Table 2, it can be observed that the mean values for each variable are greater than the standard deviation values. This indicates that the level of data deviation is relatively small and suggests a low level of variation, reflecting that the data distribution in this study is normal and unbiased (Ghozali, 2021).

Results of the Coefficient of Determination (R²) Test

Table 3. Coefficient of Determination (R²) Test Results

	Adjusted R Square
R ² Test	0.086

Source: Processed Data, 2024

Based on Table 3, the Adjusted R Square value of 0.086 indicates that the influence of green entrepreneurial orientation, financial capability, and green technology dynamism on MSME financial performance is 8.6%, while the remaining 91.4% is influenced by other variables not included in this study.

Hypothesis Testing and Discussion

Table 4. Multiple Linear Regression Test Results (Model 1)

Variable	B	Sig	t _{value}	t _{table}	Result
Green Entrepreneurial Orientation	-0.137	0.033	-2.147	1.971	Significant
Financial Capability	0.089	0.004	4.669	1.971	Significant

Source: Processed Data, 2024

From Table 4, regarding hypothesis 1 (H1), it can be stated that green entrepreneurial orientation significantly influences MSME financial performance. This is evident as the t-value of 2.147 is greater than the t-table value of 1.971, and the significance value of 0.033 is less

than 0.050. Based on these results, it can be concluded that green entrepreneurial orientation significantly impacts MSME financial performance.

MSMEs that demonstrate green entrepreneurial orientation are willing to innovate, act proactively, and take risks while considering economic, social, and environmental aspects in their business operations (Golsefid-Alavi et al., 2021). Innovativeness indicates a readiness to support experimentation involving creativity in introducing new products and services, research and development, and the application of new technologies. Proactiveness refers to the speed of action in anticipating and meeting future market needs, thereby creating a competitive advantage. Risk-taking reflects the courage to enter previously unknown markets, allocate resources to build new business units, and operate in uncertain environments (Nuringsih et al., 2022). Thus, MSMEs that adopt green entrepreneurial orientation in their business activities will be able to enhance their financial performance.

This study aligns with the dynamic capabilities theory, which suggests that dynamic capabilities help organizations transition toward sustainability, leading to superior financial and environmental performance, including for MSMEs (Asad, Majali, et al., 2023). Dynamic capabilities assist businesses in developing models that focus on the triple bottom line, emphasizing society, business, and consumers, thereby improving financial and environmental performance (Alcalde-Calonge et al., 2022). This study supports previous research findings, such as those Fatoki (2019), Asad, Majali, et al. (2023); Gazali & Zainurrafiqi (2023), which demonstrated that green entrepreneurial orientation positively influences MSME financial performance.

Furthermore, based on Table 4, regarding hypothesis 2 (H2), it can be concluded that financial capability significantly influences MSME financial performance. This is supported by a t-value of 4.669, which is greater than the t-table value of 1.971, and a significance value of 0.004, which is less than 0.050. Therefore, financial capability has a significant impact on MSME financial performance.

MSMEs with financial capability possess the knowledge and skills to understand their financial situation and the motivation to take actions leading to financial improvement (Birkenmaier et al., 2013). MSME operators with financial capability are also able to manage their money and control their finances, including making sound financial decisions, managing credit and debt effectively, and identifying appropriate financial products and services (Taylor et al., 2011). Financial capability not only optimizes MSME operators' choices regarding effective credit loans and reduces liquidity constraints but also fosters decision-making and entrepreneurial management, which play critical roles in business activities (Yi et al., 2023). Therefore, financial capability can contribute to improving financial performance.

This finding aligns with the Resource-Based View (RBV) theory, which asserts that competitive advantage and superior performance are grounded in specific firm capabilities (Simatupang, 2013). Resources are inputs that enable firms to carry out their activities, and internal resources and capabilities determine strategic choices when competing in the external business environment (Barney, 1991). Capabilities not only serve as the foundation for competitive advantage and superior performance but also guide strategic decisions (Simatupang, 2013). Capabilities allow firms to add value to the customer value chain, develop new products, or expand into new markets (Suardhika et al., 2018). According to the RBV approach, strengthening MSME assets or resources in the area of financial capability will provide sustainable competitive advantages, thereby enhancing MSME financial performance. This study supports previous findings by Yi et al. (2023) and Anantadjaya et al. (2023), which demonstrated that financial capability plays a role in improving financial performance.

Table 5 Multiple Linear Regression Test Results (Model 2)

Variable	B	Sig	t _{value}
Green Entrepreneurial Orientation	-0.134	0.000	-3.919
Financial Capability	0.033	0.002	3.159
Green Technology Dynamism	0.877	0.000	22.927

Source: Processed Data, 2024

Table 6 Moderated Regression Analysis Test Results (Model 3)

Variable	B	Sig	t _{value}
Green Entrepreneurial Orientation	-0.386	0.220	-1,230
Financial Capability	0.555	0.149	1.448
Green Entrepreneurial Orientation*Green Technology Dynamism	0.016	0.361	0.916

Source: Processed Data, 2024

In comparing three regression models based on Table 4, 5 and 6:

- 1) $Y = 15,268 - (0,137)X_1 + (0,089)X_2 + e$
- 2) $Y = 5,892 - (0,134)X_1 + (0,033)X_2 + (0,877)Z + e$
- 3) $Y = 14,863 - (0,386)X_1 + (0,555)Z + (0,016)X_1.M + e$

It is evident that the type of moderation variable is a predictor moderation, as indicated by the coefficients b2 and b3, where b2 is significant, and b3 is not significant. Predictor moderation means that the moderating variable functions as a predictor or independent variable in the established relationship model. Therefore, this study concludes that green technology dynamism does not moderate the influence of green entrepreneurial orientation on MSME financial performance.

CONCLUSION

This study demonstrates that both green entrepreneurial orientation and financial capability significantly influence the financial performance of MSMEs. Theoretically, the research contributes to the empirical literature on the impact of green entrepreneurial orientation and financial capability on MSME financial performance. Practically, the study is highly beneficial for MSME actors, highlighting the importance of green entrepreneurial orientation and financial capability in enhancing their financial outcomes. MSMEs with a green entrepreneurial orientation will be able to innovate, act proactively, and take calculated risks to improve their financial performance while considering economic, social, and environmental aspects of their operational areas. Furthermore, MSMEs with financial capability will be better equipped to manage their finances, particularly in making sound financial decisions, understanding how to handle credit and debt, and identifying appropriate products and services that can enhance their financial performance.

This study has certain limitations, notably the low coefficient of determination (R^2) of 0.086, indicating that green entrepreneurial orientation, financial capability, and green technology dynamism together explain only 8.6% of the variance in MSME financial performance, while the remaining 91.4% is influenced by other variables not included in this study. For future research, it is recommended to include additional variables such as management accounting services (Gyamera et al., 2023), social capital, human resources, and education level (Winarsih et al., 2021) to improve the coefficient of determination.

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