

Antecedents Effect of Green Business Strategy on Business Performance in Creative SME (Fashion) in Bantul Regency

Setyawan Budhidarma

Universitas Pembangunan Nasional "Veteran" Yogyakarta, Indonesia. redjosoedarmo@gmail.com

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Abstract

This study aims to assess the performance of creative SME (fashion) firms geared toward *the environment*. This study focuses on creative SME (fashion) that are implementing *green business strategies*. To test the hypothesis, the researcher use SEM (Structural Equation Modeling) based on the PLS (Partial Least Squares) technique. The researchers gathered information by delivering questionnaires to 94 creative SME (fashion) in Bantul Regency. Researchers delivered questionnaires to creative SME (fashion) spread throughout many sub-districts and hubs of natural batik artisans as well as organic leather craftsmen in Bantul Regency. The results of this research show that the green business strategy can positively and significantly mediate the association between environmental orientation and business performance. Despite the fact that the results of assessing the association between environmental orientation and business performance of creative SME (fashion) in Bantul Regency are *unfavorable and insignificant*. Nonetheless, creative SME (fashion) in Bantul Regency must remain optimistic about developing their environmentally *friendly* because SME can employ inventions and knowledge to enhance and create products, environmentally friendly processes to meet potential markets, and environmentally friendly customer needs. They will be advantageous in a more environmentally friendly industrial period in the future

Keywords: Stakeholder, Business Performance, Environmental Orientation, Green Business Strategy, SME-Fashion



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INTRODUCTION

The framework for ecologically sustainable fashion consumerism is made up of economic, sociocultural and local government restrictions. Fashion Creative SME must be environmentally conscious, target new markets, implement environmentally friendly business strategies, and enhance their organization's environmental innovation capabilities due to the rise in consumer demand for environmentally friendly fashion products and the implementation of government regulations.

Today's business fashion industries confront tremendous environmental difficulties. The public movement toward eco-friendly consumerism is characterized by the growth of sorts of customers who are eager to support environmental protection, be environmentally responsible, look for information and learn about environmentally friendly products.

According to the Ministry of Industry of Republic Indonesia (<https://kemenperin.go.id/>) , the batik industry's export successes increased by 21,540,000 US dollars from January to July 2020, compared to the early trimester period of 2019, which was only around 17,990,000 US dollars. Despite the fact that Indonesia is being struck by the Covid-19 pandemic, the batik business, which has an environmentally friendly concept, is able to increase its export market successes. In selecting their business strategy, fashion industry must now consider not only economic issues but also ecological aspects and pro-environmental customer expectations. This is because environmentally conscious fashion consumers expect the industry to produce greater environmentally responsible items (Pavan, 2010).

Since of effective waste management, Creative SME can significantly save costs by implementing a green company plan. Creative SME may adapt to the needs of environmentally friendly supply chains, increasing the number of environmentally friendly suppliers and distributors; and, finally, the potential for business performance will be great. Environmentally friendly products can be produced by Creative SME with the help of initiatives to boost the capacity of environmentally friendly inventions. Naturally, this raises the appeal of new clients who are concerned about environmental issues. Thus, by offering products that are both more affordable and of greater quality, Creative SME are able to provide value. SME with a creative edge can build positive relationships with regulators, investors, financial institutions, insurance providers, and other stakeholder groups. The company's business activities will be supported and made easier by it as well.

According to Yasir et al., (2020) environmental orientation serves as an important prerequisite for developing strategic policies and providing security as well as protection to the environment. Chan et al., (2016) give the statement that; Internal Environmental Orientation forces organizations to involve internal stakeholders in formulating environmentally friendly strategies. Furthermore, External Environmental Orientation provides important information about external stakeholders such as customers, suppliers and regulatory authorities which is considered a critical factor that forces the organization to engage in strategy; such as eco-friendly products, eco-friendly services or eco-friendly marketing.

In order to attain the best environmental performance, Green Business Strategy combine environmental concerns into company strategies (Bıçakcıoğlu et al., 2020). This implies that compared to other businesses, environmentally conscious corporations will invest more in green initiatives. If a company bases its strategic business model on environmentally friendly policies and has the necessary resources to combine environmentally friendly skills, then it is imperative to complete the model (Gupta & Zhang, 2020).

LITERATURE REVIEW

Stakeholder

Stakeholder, as defined by Freeman (1984), are groups or persons who are interested in an organization's operations and outcomes and on whom the organization depends in order to fulfill its own objectives. Stakeholders are typically regarded as significant by organization administrators if they possess authority and legitimacy. If a stakeholder has the resources the company requires or the ability to influence results through politics, coercion, or other means, they also have power.

The general public, customers, government organizations, environmental activists, and other stakeholders continue to put pressure on businesses to adopt environmentally friendly business strategies and expand the capability of environmentally friendly technologies. The development of environmental orientation and eco-friendly market orientation helps to satisfy stakeholder needs. The ability of a manager to understand the significance of environmental requirements through satisfying the demands of many stakeholders is referred to as environmental orientation (Finisterra Do Paço et al., 2009). Based on the company's attitude toward environmental responsibility in response to pressure from suppliers, customers, and regulatory bodies that compel the organization to protect the environment through the alignment of its business strategy with the environment, environmental orientation refers to the company's approach to environmental responsibility (Leonidou et al., 2015). According to (Wang, 2020), a focus on the green market facilitates access for businesses to fresh ideas from the market and boosts their motivation to address stakeholder requests from customers.

Environmental Orientation and Business Performance

Meeting stakeholder requests appears to be facilitated by the company's environmental approach. Environmental Orientation is regarded as an effective source that provides a considerable grasp of the perceptions of numerous stakeholders who play a part and impact an organization's decision-making operations (Peng & Wei, 2015). Environmental Orientation has two components: internal and external. Both of these orientations are regarded as significant input sources for establishing an organization's strategic decisions (Gabler et al., 2015).

According to Yu et al., (2019), everyone and every employee will have environmental protection as part of their daily routines at a company with an ecologically conscious culture. This actively takes on environmental responsibility, cultivates a climate of full engagement in environmental protection and will notably encourage ecologically responsible conduct. This type of environmental protection activity will assist create the reputation of an environmentally conscious business, boost sales and gain market share. All of which will ultimately lead to higher

profitability. Performance is a company's level of quality or achievement over a specific time period (Sabihaini & Prasetyo, 2020). According to Kaplan & Norton (2004), companies can utilize the Balanced Score Card to monitor performance. Kaplan and Norton emphasized in the Balanced Scorecard that both financial and non-financial variables must be used as measuring benchmarks. Yu et al., (2019) also found that environmental orientation has a favorable and considerable impact on financial performance.

H1: Environmental Orientation has a positive effect on Business Performance in creative SME (fashion).

Green Business Strategy and Business Performance

Bıçakcıoğlu et al., (2020) stated that: a) a green business strategy is an action that integrates environmental issues into a business strategy in order to achieve optimal environmental performance; and b) success in a green business strategy is dependent on employee competence and knowledge or management. It is critical to complete the business strategy model by making environmentally friendly practices a strategic business model for the company. Furthermore, if the company have the required capacity to synergize the company's environmentally friendly skills. The financial returns on eco-friendly programming to businesses are depending on the profit maximization motive of the corporation (Gupta & Zhang, 2020).

H2: Green Business Strategy has a positive effect on Business Performance in creative SME (fashion).

Environmental Orientation and Green Business Strategy

According to Yasir et al., (2020), environmental orientation is a crucial prerequisite for formulating strategic policies as well as ensuring security and environmental protection. Chan et al., (2016) also provide a statement that; Internal Environmental Orientation forces organizations to incorporate internal stakeholders in developing environmentally friendly initiatives. Furthermore, External Environmental Orientation provides critical information about external stakeholders such as customers, suppliers and regulatory authorities, which are regarded as critical factors compelling organizations to engage in strategies such as eco-friendly products, eco-friendly services, and eco-friendly marketing.

H3: Environmental Orientation has a positive effect on Green Business Strategy in creative SME (fashion).

The Mediating Green Business Strategy

Environmentally responsible businesses will invest more in environmentally friendly programs than other businesses. If their strategic business model is based on green policies, and if organizations have the requisite capacity to synergize green capabilities, then this is absolutely necessary to complement the green business strategy model (Gupta & Zhang, 2020).

According to Bıçakcıoğlu et al., (2018), an organization can boost its financial benefits by engaging in environmentally beneficial activities. The rationale for this is that by improving cost efficiency in the manufacturing area, such actions can lower the quantity of waste produced and minimize the costs incurred by the company. Companies must respond to stakeholder demands and

enhance their competitive position by implementing environmentally friendly initiatives that protect the environment. As a result, public awareness and regulatory pressure are growing. The company will build a reputation, gain an edge over rivals and expand the number of markets it can access by satisfying the environmental demands of stakeholders. Consequently, it is anticipated that the organization will perform financially better. Yasir et al. (2020) discovered that an emphasis on the environment has a favorable and significant impact on the development of green business strategies. Additionally, Olayeni et al., (2021) discovered that a green strategy has a favorable and significant impact on financial performance.

H4: Environmental Orientation has a positive effect on Business Performance through Green Business Strategy as a mediating variable in creative SME (fashion).

METHOD

The Creative SME in Bantul Regency that use eco-friendly tactics and green innovations are the samples used in this study. Batik Creative SME and Leather Craftsmen Creative SME that are dedicated to implementing green business strategies and green innovations in their business activities are the sample selection criteria required to complete the questionnaire in this study. The following are the requirements for Creative SME: 1) Using dyes and environmentally friendly raw materials; possessing facilities for managing liquid, solid, or gas waste; and using environmentally friendly packaging, 2) Tanning leather using environmentally friendly procedures; and possessing facilities for managing liquid, solid, or gas waste.

Partial Least Square (PLS) analysis is the method for data analysis used in this study. According to Ghazali & Latan (2019), PLS is a soft modeling analytical technique since it does not presuppose that the data must have a specific scale measurement which allows for a minimal number of samples (under 100 samples).

ANALYSIS AND DISCUSSION

Hypothesis testing is performed using SmartPLS Version 3.2.8. The path coefficient full model can be seen in Figure 1. Hypothesis test results can be seen in Table 1-2.

Table 1. Direct Influence Bootstrapping Results

	Original Sample (O)	T Statistics (O/STDEV)	P Values	Hypothesis
Environmental Orientation → Business Performance	-0.049	0.601	0.548	Unaccepted
Green Business Strategy → Business Performance	0.449	4.963	0.000	Accepted
Environmental Orientation → Green Business Strategy	0.238	2.269	0.024	Accepted

Source: Primary data processed, 2022

Table 2. Indirect Effect Bootstrapping Results

	Original Sample (O)	T Statistics (O/STDEV)	P Values	Hypothesis
Environmental Orientation → Green Business Strategy → Business Performance	0.107	2.118	0.035	Accepted

Source: Primary data processed, 2022

Measurement Model Test Results (Outer Model)

This study used a loading factor limit of 0.7. With an outer loading value of > 0.7, so it can be concluded that the indicators of this study have met the requirements. The cross loading factor value of each indicator in this study in the variable is greater than the cross loading factor value with other variables. The AVE value of each variable has a value of > 0.5. This indicates that each variable can be declared valid. The value of the composite reliability of each variable has a value of > 0.7. This indicates that each variable is declared reliable. The value of cronbach's alpha each variable has a value of > 0.7. this indicates that each variable can be declared reliable.

Results of Structural Model Testing (Inner Model)

Testing and evaluating *the inner model* in this study using a *goodness-of-fit* test, and a *path coefficient* test that can be explained through the table below.

Table 3. Determination of Coefficient (R²)

	R Square	R Square Adjusted
<i>Green Business Strategy</i>	0.335	0.322
<i>Business Performance</i>	0.668	0.655

Source: Primary data processed, 2022

The study's findings show that the Green Business Strategy's have 0.335 coefficient of determination. Last but not least, the value of the Business Performance coefficient of determination is 0.668.

The total model has a contribution of 85.72%, as shown by the *predictive-relevance* (Q²) score. These findings indicate that the model used in this study has a good goodness-of-fit.

It is evident from the results of testing the first hypothesis that environmental orientation has a negative and negligible impact on business performance. The research hypothesis put out by Yasir et al., (2020) was not supported by this study.

The findings of this study demonstrate that the environmental orientation of SME burdens the commercial performance of creative SME (fashion) in Bantul Regency. This study demonstrates how the demands and encouragement of stakeholders, such as suppliers and regulatory bodies, addressing environmentally friendly concerns actually hinder SME's performance. Since there is

currently a lack of a strong ecosystem and integration between SME, suppliers, and regulatory bodies, achieving high performance is challenging for SME. Some SME must spend more capital searching for and locating environmentally friendly suppliers. The performance of SME is harmed as a result of SME having to invest more capital to establish wastewater disposal facilities and obtain environmental certifications in order to comply with local government laws.

Based on the results of the second hypothesis, green business strategy has a beneficial effect on corporate performance. The findings of this study are consistent with recent studies by Olayeni et al., (2021). The study's positive value demonstrates that green business strategy plays a vital role in boosting SME business performance, therefore the greater the green business strategy implementation of creative SME (fashion) in Bantul Regency, the higher the SME business performance.

The findings of testing the third hypothesis show that environmental orientation has a favorable influence on green business strategy. This study's findings are consistent with prior research by Yasir et al., (2020), which found that environmental orientation has a beneficial and significant effect on green business strategy. Environmental Orientation provides important information about stakeholders such as customers, suppliers and regulators, which are regarded as critical factors that force SME to implement environmentally friendly strategies and encourage SME to develop environmentally friendly products, services and marketing. As a result, in this environmentally conscious era, SME need implement their environmental orientation in order to develop a good environmentally conscious strategy.

The findings of the bootstrapping test demonstrate that green business strategy is able to significantly and positively moderate the relationship between environmental orientation and business performance, according to the results of the following hypothesis testing. The t-statistic and p-value demonstrate it. The findings of this study support earlier research by Yasir et al., (2020) which revealed that an emphasis on the environment has a favorable and significant impact on green business strategy. Additionally, Olayeni et al., (2021) discovered that adopting a green company strategy has a favorable and significant impact on financial performance.

CONCLUSION

It is challenging for SME to perform well because of poor ecosystem integration and relationships between suppliers, regulators and SME. Environmental orientation is based on the company's attitude toward environmental responsibility in reaction to pressure from suppliers, customers and regulatory bodies that compel enterprises to protect the environment (Leonidou et al., 2015). According to this study, SMEs actually perform worse when they are subjected to the demands and incentives of stakeholders, in this case regulatory bodies about environmental issues. Environmentally responsible behavior will improve sales and market share for environmentally conscious SME, which will ultimately lead to higher profits (Yu et al., 2019).

In order to establish effective integration and environmentally friendly ecosystems, the researcher advises that stakeholders like the Bantul Regency Government to do more than only function as regulators. They should also be able to work together to raise awareness of being environmentally friendly. For example, creating ecologically friendly SME hubs and supporting local raw material

industries. The government and SME can construct affordable municipal wastewater treatment facilities with the construction of environmentally friendly SME centers. If the green SME center works in tandem with local tourism initiatives, it will help improve the SME's reputation as a green business. Additionally, the presence of an environmentally friendly raw material sector in the area will make it easier and less expensive for SME to acquire environmentally friendly raw materials.

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