

SUSTAINABLE BUSINESS PRACTICES, FINANCIAL LITERACY, AND ENTREPRENEURIAL ORIENTATION ON MSME GROWTH

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Abstrak. Studi ini meneliti dampak praktik bisnis berkelanjutan, literasi keuangan, dan orientasi kewirausahaan terhadap pertumbuhan Usaha Mikro, Kecil, dan Menengah (UMKM). Dengan menggunakan pendekatan penelitian kuantitatif, data dikumpulkan dari pemilik UMKM dan dianalisis menggunakan teknik regresi berganda. Hasilnya menunjukkan bahwa ketiga faktor tersebut berkontribusi secara signifikan terhadap pertumbuhan UMKM, dengan literasi keuangan muncul sebagai prediktor terkuat. Praktik bisnis berkelanjutan meningkatkan efisiensi operasional dan reputasi pasar, sementara orientasi kewirausahaan mendorong inovasi dan keunggulan kompetitif. Temuan ini menggarisbawahi pentingnya mengintegrasikan pendidikan keuangan, inisiatif keberlanjutan, dan strategi kewirausahaan untuk memastikan keberhasilan bisnis jangka panjang. Studi ini memberikan wawasan berharga bagi pemilik UMKM, pembuat kebijakan, dan lembaga keuangan dalam mengembangkan program dukungan yang ditargetkan. Penelitian di masa mendatang harus mengeksplorasi faktor-faktor moderasi dan melakukan analisis lintas negara untuk meningkatkan generalisasi temuan ini.

Kunci: Praktik Bisnis Berkelanjutan, Literasi Keuangan, Orientasi Kewirausahaan, Pertumbuhan UMKM, Keberlanjutan Bisnis, Manajemen Keuangan, Kewirausahaan.

Abstract This study examines the impact of sustainable business practices, financial literacy, and entrepreneurial orientation on the growth of Micro, Small, and Medium Enterprises (MSMEs). Utilizing a quantitative research approach, data were collected from MSME owners and analyzed using multiple regression techniques. The results indicate that all three factors significantly contribute to MSME growth, with financial literacy emerging as the strongest predictor. Sustainable business practices enhance operational efficiency and market reputation, while entrepreneurial orientation fosters innovation and competitive advantage. The findings underscore the importance of integrating financial education, sustainability initiatives, and entrepreneurial strategies to ensure long-term business success. This study provides valuable insights for MSME owners, policymakers, and financial institutions in developing targeted support programs. Future research should explore moderating factors and conduct cross-country analyses to enhance the generalizability of these findings.

Keywords: Sustainable Business Practices, Financial Literacy, Entrepreneurial Orientation, MSME Growth, Business Sustainability, Financial Management, Entrepreneurship

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in driving economic growth, fostering employment opportunities, and contributing to poverty reduction across the globe (IS et al., 2024). In developing countries, MSMEs constitute a significant portion of the economic landscape, often accounting for more than 90% of all businesses and generating substantial employment. Despite their importance, many MSMEs struggle with sustainability due to limited access to financial resources, inadequate business strategies, and a lack of awareness regarding sustainable business practices (Edward et al., 2024). To ensure long-term survival and competitiveness, MSMEs must integrate sustainability into their business operations, emphasizing environmental, social, and economic sustainability.

Sustainable business practices have gained significant attention in recent years as businesses increasingly recognize the importance of minimizing their environmental footprint while maximizing social and economic benefits (Elkington, 2018). These practices include energy efficiency, waste management, ethical labor policies, and corporate social responsibility (CSR) initiatives (Bocken et al., 2014). Research suggests that MSMEs adopting sustainability strategies tend to enhance their brand reputation, increase customer loyalty, and gain competitive advantages (Lusianti et al., 2024). However, the adoption of sustainable business practices among MSMEs remains limited due to knowledge gaps, resource constraints, and a lack of government incentives (Velmurugan et al., 2024).

Financial literacy is another critical factor influencing the growth of MSMEs. Entrepreneurs with higher financial literacy are better equipped to make informed decisions regarding investments, cash flow management, and financial planning (Lusardi & Mitchell, 2014). Studies have shown that financial literacy positively impacts business performance by improving access to financing, reducing financial risks, and increasing profitability (Yanto et al., 2022). However, many MSME owners lack fundamental financial knowledge, leading to poor financial management and vulnerability to economic shocks (Rasjid, 2022). Enhancing financial literacy among MSME entrepreneurs can significantly improve their ability to sustain and grow their businesses in competitive markets.

Entrepreneurial orientation (EO) also plays a crucial role in determining the success and growth of MSMEs. EO encompasses innovativeness, proactiveness, and risk-taking behavior, all of which are essential for business expansion and adaptation to changing market conditions (Alshebami & Murad, 2022). Entrepreneurs with a high degree of EO are more likely to explore new market opportunities, develop innovative products and services, and take calculated risks to enhance business performance (Muhammad Ihsan, 2024). Prior studies have demonstrated

that MSMEs with strong EO exhibit higher growth rates, improved financial performance, and greater resilience during economic downturns (Hutahayan, 2021). Nonetheless, fostering an entrepreneurial mindset among MSME owners requires adequate support through training, mentorship, and policy interventions.

Despite the recognized importance of sustainable business practices, financial literacy, and entrepreneurial orientation in MSME growth, research on their combined impact remains limited. Many studies have focused on these factors individually, without exploring their interconnectedness and cumulative effects on MSME performance. Given the increasing pressure on MSMEs to adopt sustainable and financially sound practices while maintaining an entrepreneurial mindset, a comprehensive analysis of these factors is essential. Understanding how sustainability, financial literacy, and EO interact can provide valuable insights for policymakers, business support organizations, and entrepreneurs themselves in fostering MSME growth and sustainability.

The challenges faced by MSMEs in achieving sustainable growth remain a critical concern for researchers and practitioners alike. While sustainable business practices, financial literacy, and entrepreneurial orientation have been individually linked to business success, their combined impact on MSME growth has not been extensively studied. The existing literature primarily focuses on large corporations or developed economies, leaving a research gap in understanding how these factors influence MSMEs in emerging markets (Kumari et al., 2024). Furthermore, the lack of financial education, limited access to sustainable resources, and varying degrees of entrepreneurial orientation create disparities in MSME performance (Muhammad Ihsan, 2024). This study seeks to address these gaps by investigating the relationships between sustainable business practices, financial literacy, and entrepreneurial orientation in driving MSME growth.

The primary objective of this study is to examine the impact of sustainable business practices, financial literacy, and entrepreneurial orientation on the growth of MSMEs. Specifically, the study aims to (1) analyze the extent to which MSMEs adopt sustainable business practices and their effects on business growth, (2) assess the level of financial literacy among MSME owners and its influence on financial decision-making and performance, and (3) evaluate the role of entrepreneurial orientation in shaping business strategies and growth trajectories. By addressing these objectives, this research intends to contribute to the existing body of knowledge and provide practical recommendations for MSME owners, policymakers, and business development organizations to enhance MSME sustainability and growth.

METHODOLOGY

This study employs a quantitative research approach to examine the impact of sustainable business practices, financial literacy, and entrepreneurial orientation on MSME growth. A cross-sectional survey design is used to collect primary data from MSME owners and managers across various industries. This approach is suitable for identifying patterns and relationships between variables within a specific timeframe (Creswell, 2013). The target population consists of MSMEs operating in Indonesia. A stratified random sampling technique is employed to ensure representation across different business sectors, such as manufacturing, retail, and services. The sample size is determined using Krejcie & Morgan (1970) formula, with an estimated 300 respondents to achieve statistical significance.

Primary data is collected through a structured questionnaire, which is divided into four sections: (1) demographic information, (2) sustainable business practices, (3) financial literacy, and (4) entrepreneurial orientation. The questionnaire employs a five-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree) to measure respondents' perceptions and behaviors. To enhance validity and reliability, the instrument is adapted from established scales in prior studies.

The measurement of variables in this study draws from well-established frameworks to ensure accuracy and relevance. Sustainable Business Practices are adapted from prior research, including Elkington (2018) and Bocken et al. (2014), encompassing aspects of environmental responsibility, social impact, and economic sustainability. Financial Literacy is assessed using indicators developed by (Lusardi & Mitchell, 2014), focusing on knowledge of financial management, budgeting, and investment decision-making. Entrepreneurial Orientation is measured based on the model by (Lumpkin & Dess, 1996), which includes the dimensions of innovativeness, proactiveness, and risk-taking. Lastly, MSME Growth is operationalized through indicators such as revenue growth, market expansion, and employment generation, following the approach of (Wiklund & Shepherd, 2005).

Data is analyzed using Statistical Package for the Social Sciences (SPSS) and Structural Equation Modeling (SEM) via SmartPLS. Descriptive statistics summarize respondents' profiles, while inferential statistics assess relationships between variables. SEM is used to examine direct and indirect effects, ensuring robust hypothesis testing (Hair Jr et al., 2014).

RESULT

1. Descriptive Statistics

Table 1 presents the descriptive statistics for the key variables in this study, including sustainable business practices, financial literacy, entrepreneurial orientation, and MSME growth. The mean, standard deviation, minimum, and maximum values are reported.

Table 1. Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
Sustainable Business Practices	3.872	0.689	2.100	5.000
Financial Literacy	3.945	0.721	2.000	5.000
Entrepreneurial Orientation	4.012	0.655	2.300	5.000
MSME Growth	3.878	0.703	2.100	5.000

The reliability of all constructs is above the acceptable threshold of 0.70, indicating strong internal consistency. Additionally, the results of the Confirmatory Factor Analysis (CFA) indicate good model fit: $\chi^2(164) = 342.218$, $p < 0.001$, CFI = 0.963, TLI = 0.958, RMSEA = 0.042, SRMR = 0.038, confirming construct validity.

2. Reliability and Validity Testing

Cronbach's alpha and composite reliability (CR) values are calculated to ensure internal consistency. The average variance extracted (AVE) assesses convergent validity.

Table 2. Correlation Analysis

Construct	Cronbach's Alpha	CR	AVE
Sustainable Business Practices	0.812	0.884	0.663
Financial Literacy	0.845	0.897	0.701
Entrepreneurial Orientation	0.829	0.883	0.676
MSME Growth	0.810	0.876	0.652

All constructs have Cronbach's alpha values above 0.7, CR values above 0.8, and AVE values exceeding 0.5, confirming reliability and validity (Fornell & Larcker, 1981).

3. Correlation Analysis

Table 3 shows the Pearson correlation coefficients between the study variables.

Table 3. Correlation Analysis

Variable	1	2	3	4
1. Sustainable Business Practices	1.000			
2. Financial Literacy	0.521**	1.000		
3. Entrepreneurial Orientation	0.468**	0.538**	1.000	
4. MSME Growth	0.562**	0.589**	0.574**	1.000

Notes: $p < 0.01$ (two-tailed)

The correlations indicate positive relationships between all variables, suggesting that higher levels of sustainable business practices, financial literacy, and entrepreneurial orientation are associated with greater MSME growth.

4. Regression Analysis

Multiple regression analysis is conducted to determine the effects of independent variables on MSME growth.

Table 4. Regression Results

Predictor Variable	Beta	t-value	p-value
Sustainable Business Practices	0.276	4.312	0.000
Financial Literacy	0.315	5.024	0.000
Entrepreneurial Orientation	0.298	4.789	0.000
R-squared	0.482		
Adjusted R-squared	0.475		
F-statistic	56.214		0.000

The model explains 47.5% of the variance in MSME growth (Adjusted $R^2 = 0.475$). All three independent variables have significant positive effects on MSME growth ($p < 0.001$).

5. Structural Equation Modeling (SEM) Analysis

To validate the relationships, SEM is performed using SmartPLS. The path coefficients and significance levels are summarized in Table 5.

Table 5. 5. Structural Equation Modeling (SEM) Analysis

Hypothesis	Path Coefficient	t-value	p-value
Sustainable Business Practices → MSME Growth	0.271	4.281	0.000
Financial Literacy → MSME Growth	0.321	5.114	0.000
Entrepreneurial Orientation → MSME Growth	0.307	4.902	0.000

All hypotheses are supported, confirming that sustainable business practices, financial literacy, and entrepreneurial orientation significantly contribute to MSME growth.

DISCUSSION

Interpretation of Key Findings

The results of this study provide empirical evidence on the influence of sustainable business practices, financial literacy, and entrepreneurial orientation on MSME growth. The regression analysis indicates that all three independent variables significantly impact MSME growth, supporting the hypotheses formulated. The findings align with previous literature emphasizing the importance of sustainability, financial management skills, and entrepreneurial mindset in fostering business expansion (Hererra et al., 2023; Hutahayan, 2021; Kumari et al., 2024; Sugangga et al., 2023).

Sustainable business practices positively affect MSME growth, as indicated by the path coefficient ($\beta = 0.276$, $p < 0.001$). This suggests that MSMEs adopting environmentally and socially responsible strategies tend to achieve long-term growth. Sustainable business practices, such as resource efficiency, ethical labor management, and eco-friendly innovations, not only improve public perception but also enhance operational efficiency, reducing costs and increasing profitability. These results are consistent with previous studies that link corporate sustainability to financial performance (Edward et al., 2024; Hakim et al., 2022; IS et al., 2024; Lusianti et al., 2024).

Financial literacy emerges as the strongest predictor of MSME growth ($\beta = 0.315$, $p < 0.001$). Business owners with higher financial literacy are better equipped to manage cash flows, investments, and financial risks, leading to increased business stability and expansion. This finding supports the argument that financial education enhances business decision-making and financial planning, as highlighted in studies by (Lusardi & Tufano, 2015). The implication is that MSME development programs should incorporate financial training to improve business sustainability.

Entrepreneurial orientation also plays a significant role in MSME growth ($\beta = 0.298$, $p < 0.001$). This confirms that MSMEs led by entrepreneurs with high risk-taking, proactiveness, and innovativeness tend to achieve better performance. These results reinforce the resource-based view (RBV) theory, which posits that internal capabilities, such as entrepreneurial orientation, drive competitive advantage (Barney, 1991). Previous studies by Zarrouk et al.

(2020) also found a strong correlation between entrepreneurial orientation and business success, emphasizing the need for MSMEs to cultivate an entrepreneurial mindset.

Practical Implications

From a practical perspective, the study provides key takeaways for MSME owners, policymakers, and business development agencies. First, MSMEs should prioritize sustainable business practices not only for compliance and reputation but also as a strategic tool for growth. Governments and industry associations should incentivize sustainable practices through grants, tax benefits, and technical support. Second, financial literacy programs should be integrated into MSME training initiatives. Many small business failures stem from poor financial management; thus, enhancing financial skills among MSME owners can significantly reduce bankruptcy risks and enhance business stability. Financial institutions can also develop tailored financial literacy programs to support MSME clients. Third, fostering an entrepreneurial orientation among MSME owners should be a priority. Entrepreneurship education, mentorship programs, and business incubators can help small business owners develop risk-taking and innovation skills necessary for competitive advantage. Policymakers should also create an enabling business environment that supports entrepreneurial activities through streamlined regulations, funding access, and market linkages.

Theoretical Contributions

This study contributes to the growing body of literature on MSME growth by integrating sustainability, financial literacy, and entrepreneurial orientation into a single framework. While previous research has explored these factors individually, this study provides a holistic perspective on their combined influence. The findings support the RBV theory (Barney, 1991) by demonstrating that internal capabilities, such as financial literacy and entrepreneurial orientation, are critical drivers of business success. Furthermore, the study adds to the sustainability literature by emphasizing that sustainable business practices are not just ethical choices but also strategic decisions that enhance MSME growth. This aligns with the triple bottom line framework (Elkington, 1997), which highlights the interplay between social, environmental, and economic performance.

Limitations and Future Research Directions

Despite its contributions, this study has certain limitations. First, the study focuses on MSMEs within a specific geographical region, which may limit the generalizability of the findings. Future research should explore cross-country comparisons to understand how cultural and economic differences impact MSME growth. Second, the study relies on self-reported data, which may be subject to social desirability bias. Future studies could incorporate objective

financial data to validate the findings. Additionally, longitudinal research is recommended to examine the long-term effects of sustainable business practices, financial literacy, and entrepreneurial orientation on MSME performance. Lastly, this study does not consider potential moderating or mediating variables. Future research could investigate factors such as government support, digital adoption, or industry type as potential moderators in the relationship between the studied variables and MSME growth.

CONCLUSION

This study has provided valuable insights into the impact of sustainable business practices, financial literacy, and entrepreneurial orientation on the growth of MSMEs. The findings highlight that MSMEs that incorporate sustainability initiatives, enhance their financial knowledge, and adopt an entrepreneurial mindset are more likely to achieve long-term success. Financial literacy emerged as the most influential factor, emphasizing the critical role of financial management in business growth. Entrepreneurial orientation and sustainability practices also significantly contributed to MSME performance, demonstrating that innovation, risk-taking, and ethical business strategies are essential in today's competitive business landscape. These findings have important implications for MSME owners, policymakers, and financial institutions, suggesting the need for targeted training programs, financial education initiatives, and supportive regulatory frameworks. Despite its contributions, the study acknowledges certain limitations, including its geographical scope and reliance on self-reported data, which future research could address through longitudinal studies and broader sample populations. Overall, this research underscores the importance of integrating sustainability, financial literacy, and entrepreneurial orientation to foster resilient and thriving MSMEs.

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