

# Enhancing sustainable entrepreneurship behavior in Indonesian SMEs: external drivers role

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## Enhancing sustainable entrepreneurship behavior in Indonesian SMEs: external drivers role

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### Abstract

Many researchers agree about the important role of external drivers to sustainable entrepreneurship behavior and this paper has provided a deeper insight into the role of external drivers toward sustainable entrepreneurship behavior. This study aims to find out the role of external drivers such as government policy, economic incentives, customers, community surrounding, product and service offered, competitors, and also evaluate the contributions of each external driver toward sustainable entrepreneurship behavior. This research was conducted in South Kalimantan Indonesia with a sample as many as 242 SMEs. These samples were taken by purposive sampling technique using an online questionnaire as an instrument. The data analysis technique used was Structural Equation Model to obtain a model which can be used to explain the role of external drivers toward sustainable entrepreneurship SMEs behavior. The results of this study indicate that external drivers such as government policy, economic incentives, customers, community surrounding, product and services offered and competitors have a significant impact on SMEs entrepreneurship behavior. The findings of this research also provide insights for the contributions of customers and community surrounding as the dominant external driver compared to others in forming sustainable entrepreneurship behavior.

**Keywords:** Relationship; effective contributions; impact; influence; small; medium enterprises; green practices

## INTRODUCTION

Indonesia as a supporting country to the SDGs (Sustainable Development Goals) is currently continuing to encourage SMEs (small and medium enterprises) which have a much role in the national economy for a sustainable entrepreneurship formation. This reflected by the emergence of government policies that better prioritize for the development of environmentally oriented (Zulfikar et. al, 2019). The Government continues to raise awareness about the impact of environmental damage through a green economic campaign that is in Indonesia, and is expected to foster environmental pro behavior for economic and community actors in Indonesia (Wahab et. al, 2017).

Seeing the many SME in Indonesia, they able to motivated to behave sustainable entrepreneurship if handled properly they can be a barrier in their application of green economy but when SMEs owner are unwise and unfriendly environment, the resulting is waste can interfere with the environment. This is unfortunate, because understanding the concept of green economy is still very far from the daily business activities of SMEs. The orientation the owner is how the business continues to run and profit can be maximized. Various challenges related to concepts adoption and understanding of environmentally sound business practices where one of the challenges comes from SME owners on their understanding and willingness to carry out this concept (Zulfikar et. al, 2019).

At the beginning of 2012, Bank Indonesia reported that SME in generally, most of their efforts still did not make environmentally friendly criteria an issue that needed special attention. This is caused by several factors such as: (a) lack of information / knowledge about the environment, (b) weak management aspects, (c) the existence of unsupported technical aspects, and (d) the unavailability of environmentally friendly financing sources. Many of SMEs have not implemented a green economy in their businesses due to lack of understanding, knowledge about the environment and high application costs, which is one of the reasons why green economy has not been implemented by UKM (Noviardy & Mellita, 2014).

In a previous, it was found that SMEs in South Kalimantan province actually already have a good level of knowledge and perception of the concept of green practice, but have not been fully reflected in behaviors that are environmentally friendly (sustainable entrepreneurship). To be able to further check the understanding of the behavior of SME sustainable entrepreneurship, it is felt necessary to see both external and internal factors that can encourage SMEs to behave in sustainable entrepreneurship (Zulfikar & Mayvita, 2019).

### Review of literature

#### Sustainable entrepreneurship

In a study on sustainable entrepreneurship has stated two goals of environmentally oriented sustainable entrepreneurship, i.e. (1) entrepreneurship that drives environmental management operation and (2) entrepreneurship that improves environmental conditions that have deterioration or damage (Munoz & Dimov, 2015). With the existence of sustainable entrepreneurship behavior, business actors will continue to look for opportunities that lead to better economic, social and environmental conditions (Hahn et.al, 2010; Thompson et.al, 2011).

Some predictors that can show sustainable entrepreneurship behavior include: (1) Making energy savings, (2) Making water savings, (3) Implementing Waste Management, (4) Not releasing active pollutants and (5) Not releasing active substances water and soil pollutants. External drivers are one of the important factors that encourage SME to conduct environmentally oriented behaviors (Yadav et.al, 2018). Based on previous study, our research hypothesis proposed was:

H1 = External drivers has a positive impact on SME sustainable entrepreneurship behavior

#### Government policy

The government can influence the behavior of SME through policies, rules, infrastructure and economic support and training. The policies expended by the Government can have a much influence in shaping the environment-oriented model (Gandhi et.al, 2018). Likewise with the rules made by the government, it can definitely motivate SME to implement environmentally oriented businesses (Cambra-Fierro & Ruiz-Benítez, 2011). As the previous studies opinion, our research hypothesis proposed was :

H2 = Government policy has a positive impact on SME sustainable entrepreneurship behavior

#### Economic incentives

Economic incentives are financial applications that can motivate environmental-oriented actions such as carrying out waste management processes and recycle activities (Gunsilius, 2015). The offers in the form of grants, subsidies, loans and tax breaks proved to have a significant effect on the behavior of the owner and company goals (Chang, et.al, 2011; Roxas & Coetzer, 2012; Teri, 2015).

Several studies provide many suggestions for the government to always provide support in the form of economic incentives (Mutz, 2015) and have been proven to influence the company's commitment to conduct activities that do not damage the environment (Sezen & Cankaya, 2013; Chang, et.al, 2011). Based on earlier studies, this research hypotheses proposed was as follows:

H3 = Economic incentives has a positive impact on SME sustainable entrepreneurship behavior

#### Customers

An increase in the number of green customers can effectively lead SMEs to change behavior through a mechanism of increasing demand for green products and demand specifically for customers who expect SME to environmentally oriented. This directs SMEs to implement more sustainable entrepreneurial ventures (Battisti & Perry, 2011; Sáez-Martínez et. al, 2016). Several studies have shown that there is a significant increase in customer demand so that suppliers have ISO 4001 which is a certificate for businesses that have been environmentally (Günerergin et.al, 2012). Based on earlier studies, the research hypotheses proposed are as follows:

H4 = Customers have a positive impact on SME sustainable entrepreneurship behavior

#### Community surrounding

Community surrounding were found to have a large and significant influence on SME to adopt the adoption of environmentally business activities (Williams & Donovan, 2015; Jansson et.al, 2017; Wattapinyo & Mol, 2013) and even environmental factors became a major reason which considered by SME to behave in sustainable entrepreneurship (Gandhi et.al, 2018). Based on previous opinion, our research hypotheses proposed was as follows:

H5 = Community surrounding has a positive impact on SME sustainable entrepreneurship behavior

#### Product and services offered

SME that produce and offer products and services that are environmentally based will be increasingly motivated to start sustainable business practices entrepreneurship (Uhlener et.al, 2012; Hoogendoorn et.al, 2015). More exist SME play in environmentally based product and service sectors, the desire for behaving sustainable entrepreneurship will be stronger (Uhlener et.al, 2012). Based on earlier studies, our research hypotheses proposed was as follows:

H6 = Products and services offered have a positive impact on SME sustainable entrepreneurship behavior

#### Competitors

Changes in competitor behavior that lead to environmentally oriented businesses, is factor that considered by SMEs to move their businesses into sustainable entrepreneurship (Testa, et.al, 2016). As the previous study opinion, our research hypotheses proposed was as follows:

H7 = Competitors has a positive impact on SME sustainable entrepreneurship behavior

## METHODS

This research was a survey research conducted in South Kalimantan Province. The sample is 242 SMEs. The sample was taken using a purposive sampling technique and online questionnaire as a research instrument. Data analysis techniques were performed using (1) Test the validity and reliability of the instrument to see the validity and reliability level of the questionnaire used, (2) Test of influence to prove the hypothesis used in this study. Analysis using Structural Equation Model (SEM).

In SEM analysis, there were several analyzes that conduct before the model can answer the hypotheses including the normality test, multicollinearity and outliers, the model suitability test, where the research model must meet the criteria for goodness of fit index, the model modification step, if the model in the study does not meet SEM prerequisite test, model suitability test, and construct validity and reliability test for the construct validity and reliability level. While the models used in our study is in Fig. 1.

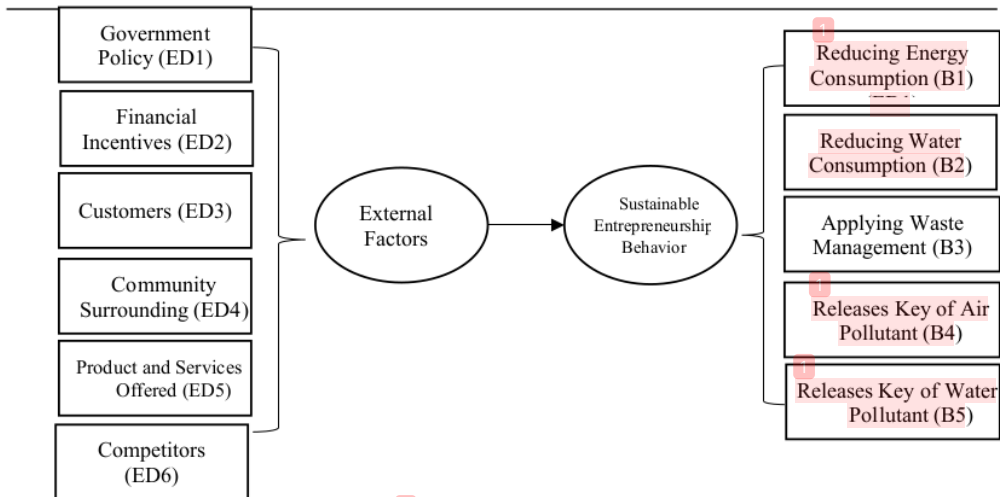


Fig. 1. Research model design

**RESULT**

Before conducting research, an instrument test in the form of a validity test and a questionnaire reliability test is used. In determining instrument validity, Pearson Correlation test and reliability test by looking at the value of Cronbach's alpha. The instrument used was an online questionnaire consisting of 39 question items and the results of the validity test contained 5 items that were invalid (Sig > 0.05) so that they had to be removed from the instrument and the study continued using 34 question items (table 1). From the reliability test results, each component of the variable questions has a reliability value > 0.8 (table 2), which means the questionnaire was in high reliability (Arikunto, 2010).

Table 1. Instrument Validity Test Result

| No | Question        | Validity Test       |       |            |
|----|-----------------|---------------------|-------|------------|
|    |                 | Pearson Correlation | Sig.  | Conclusion |
| 1  | Gov_Policy-1    | 0.685               | 0.000 | Valid      |
| 2  | Gov_Policy-2    | 0.539               | 0.000 | Valid      |
| 3  | Gov_Policy-3    | 0.586               | 0.000 | Valid      |
| 4  | Gov_Policy-4    | 0.524               | 0.000 | Valid      |
| 5  | Fin.Incentive-1 | 0.566               | 0.000 | Valid      |
| 6  | Fin.Incentive-2 | 0.807               | 0.000 | Valid      |
| 7  | Fin.Incentive-3 | 0.631               | 0.000 | Valid      |
| 8  | Fin.Incentive-4 | 0.026               | 0.878 | Not valid  |
| 9  | Customers_1     | 0.692               | 0.000 | Valid      |
| 10 | Customers_2     | 0.149               | 0.432 | Not valid  |
| 11 | Customers_3     | 0.347               | 0.035 | Valid      |
| 12 | Customers_4     | 0.827               | 0.000 | Valid      |
| 13 | Community_1     | 0.754               | 0.000 | Valid      |
| 14 | Community_2     | 0.655               | 0.000 | Valid      |
| 15 | Community_3     | 0.804               | 0.000 | Valid      |
| 16 | Community_4     | 0.574               | 0.000 | Valid      |
| 17 | Prod&Service_1  | 0.733               | 0.000 | Valid      |
| 18 | Prod&Service_2  | 0.503               | 0.000 | Valid      |
| 19 | Prod&Service_3  | 0.305               | 0.102 | Not valid  |
| 20 | Prod&Service_4  | 0.726               | 0.000 | Valid      |
| 21 | Competitors_1   | 0.760               | 0.000 | Valid      |
| 22 | Competitors_2   | 0.041               | 0.808 | Not valid  |
| 23 | Competitors_3   | 0.737               | 0.000 | Valid      |
| 24 | Competitors_4   | 0.468               | 0.009 | Valid      |



| No | Question        | Validity Test       |       |            |
|----|-----------------|---------------------|-------|------------|
|    |                 | Pearson Correlation | Sig.  | Conclusion |
| 25 | Reduce_Energ-1  | 0.771               | 0.000 | Valid      |
| 26 | Reduce_Energ-2  | 0.859               | 0.000 | Valid      |
| 27 | Reduce_Energ-3  | 0.749               | 0.000 | Valid      |
| 28 | Reduce_Water-1  | 0.508               | 0.000 | Valid      |
| 29 | Reduce_Water-2  | 0.364               | 0.027 | Valid      |
| 30 | Reduce_Water-3  | 0.695               | 0.000 | Valid      |
| 31 | Waste_Man-1     | 0.790               | 0.000 | Valid      |
| 32 | Waste_Man-2     | 0.647               | 0.000 | Valid      |
| 33 | Waste_Man-3     | 0.747               | 0.000 | Valid      |
| 34 | Air_Pollutant-1 | 0.782               | 0.000 | Valid      |
| 35 | Air_Pollutant-2 | 0.512               | 0.000 | Valid      |
| 36 | Air_Pollutant-3 | 0.546               | 0.000 | Valid      |
| 37 | Wtr_Pollutant-1 | 0.754               | 0.000 | Valid      |
| 38 | Wtr_Pollutant-2 | 0.688               | 0.000 | Valid      |
| 39 | Wtr_Pollutant-3 | 0.109               | 0.565 | Not valid  |

Table 2. Reliability Instrument Test Result

| No | Predictors                 | Reliability Test |            |
|----|----------------------------|------------------|------------|
|    |                            | Cronbach's Alpha | Conclusion |
| 1  | Government Policy          | 0.935            | Reliable   |
| 2  | Economic Incentives        | 0.907            | Reliable   |
| 3  | Customers                  | 0.914            | Reliable   |
| 4  | Community Surrounding      | 0.963            | Reliable   |
| 5  | Product & Services Offered | 0.924            | Reliable   |
| 6  | Competitors                | 0.919            | Reliable   |
| 7  | Reducing Energy            | 0.933            | Reliable   |
| 8  | Reducing Water             | 0.921            | Reliable   |
| 9  | Waste Management           | 0.928            | Reliable   |
| 10 | Air Pollutant Release      | 0.971            | Reliable   |
| 11 | Water Pollutant Release    | 0.915            | Reliable   |

This study used SEM analysis, prior to further analysis conduct, several SEM analysis prerequisite tests such as normality, multicollinearity and outliers are tested (Ghozali, I & Fuad., 2011; Waluyo, 2016). Normality testing by observing a critical ratio value of  $\pm 2.58$  at a significance level of 0.01% (Ghozali, I & Fuad., 2011) and the results of normality test data, showing all indicators have a cr value in the range of  $-2.58 < cr < 2.58$  (Table 3).

Table 3. Data Normality Test Result

| Variabel     | Kurtosis | Critical Ratio |
|--------------|----------|----------------|
| B5           | -1.049   | -3.331         |
| B4           | -0.767   | -2.436         |
| B3           | -0.811   | -2.577         |
| B2           | -1.080   | -3.430         |
| B1           | -1.044   | -3.314         |
| ED1          | -0.950   | -3.016         |
| ED2          | -0.236   | -0.749         |
| ED3          | -1.197   | -3.800         |
| ED4          | 0.789    | 2.507          |
| ED5          | -0.128   | -0.406         |
| ED6          | 1.283    | 4.074          |
| Multivariate | 1.276    | 0.587          |

The next SEM requirements test was the multicollinearity and singularity test, where the multicollinearity presence and singularity can be determined through determinant values of covariance matrices that are really small or close to zero (Ferdinand, 2004). For the analyzed research data it was

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found that the determinant value of the covariance matrix was 6,862 which showed that the determinant value of the covariance matrix was far from zero and it could be said that the research data used did not have multicollinearity and singularity so it was possible to use (Hair, 2006).

The purpose of this study is to find external factors that affect sustainability entrepreneurship, it is necessary to test the level of validity and reliability of the constructs used in the study. Validity test done by calculating AVE (Average Variance Extracted) and construct reliability test by calculating the value of CR where if AVE is worth  $\geq 0.5$ , the construct is valid and if the value of CR is  $\geq 0.7$  it is reliable (Ferdinand, 2004). The results of this analysis were all the values of AVE have a loading value  $\geq 0.5$  and the value of CR has a loading value  $> 0.7$ , so it can be said that all indicators have good validity and reliability for use in research. The result of validity and reliability test of the construct presented in table 4.

Table 4. Validity and reliability construct test result

|                | Factor Loading | Standard Error | AVE   | CR    |
|----------------|----------------|----------------|-------|-------|
| ED6 ← External | 0.859          | 0.262          | 0.612 | 0.904 |
| ED5 ← External | 0.760          | 0.422          |       |       |
| ED4 ← External | 0.746          | 0.443          |       |       |
| ED3 ← External | 0.731          | 0.466          |       |       |
| ED2 ← External | 0.795          | 0.368          |       |       |
| ED1 ← External | 0.796          | 0.366          |       |       |
| B1 ← Behavior  | 0.834          | 0.304          | 0.614 | 0.888 |
| B2 ← Behavior  | 0.712          | 0.493          |       |       |
| B3 ← Behavior  | 0.866          | 0.250          |       |       |
| B4 ← Behavior  | 0.752          | 0.434          |       |       |
| B5 ← Behavior  | 0.744          | 0.446          |       |       |

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The next step of our research was is to change the model based on (1) the modification indices suggested by AMOS software by connecting several covariance to produce a model that meets GOF criteria (2) Eliminating data that has outliers. The suitability of the model as Goodness Of Index (GOF) criteria, by observing the value of Chi-square, probability, GFI, AGFI, TLI, CFI, CMIN/DF and RMSEA values. The model produced in this study gives a chi-square value of 20.568 (small), probability value (0.991)  $> 0.05$ , GFI value (0.985)  $> 0.9$ , AGFI value (0.974)  $> 0.9$ , TLI value (1.124)  $> 0.95$ , CFI value (0.95) 1,000  $> 0.95$ , CMIN / DF value (0.542)  $< 2,000$  and RMSEA value (0.000)  $< 0.080$ . As the result, the research model has met the required GOF index criteria (Figure 2).

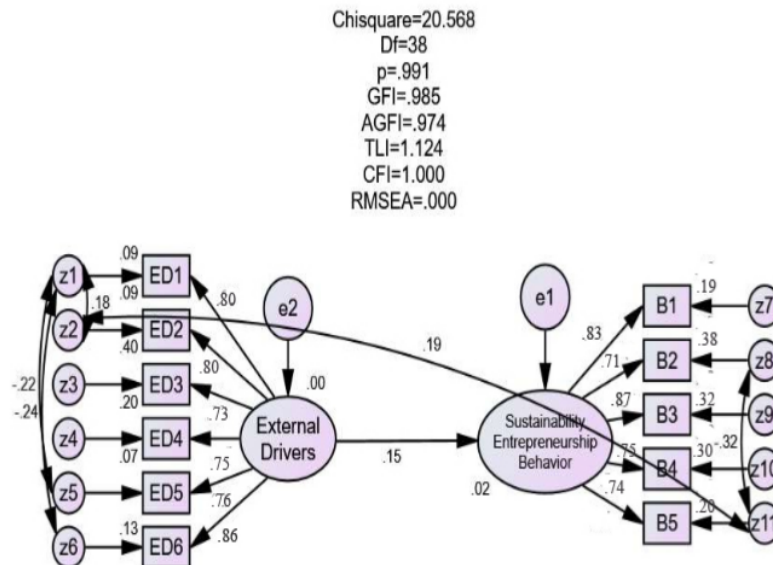


Fig. 2. Research model after modification

After the research model meets the GOF criteria, the next step is the hypothesis test the proposed if hypothesis is accept or rejected. Hypothesis testing done by observing the P value of the studied variable based on maximum likelihood estimates wherein said variable observed give significant effect if the CR value > 1.96 and probability < 0.05. Sobel test needed to see the effect of indicators on sustainable entrepreneurship that are not displayed by SEM.

According to influence test (Table 5), our results has support hypothesis 1, i.e. the external drivers give significant influence on the behavior of sustainable entrepreneurship, because the CR value is 6.597 > 1.96 and the P value is 0.000 < 0.05. Furthermore, with the sobel test found that the results of the study support hypothesis 2, i.e. government policy give significant influence on the behavior of sustainable entrepreneurship, because the P value of 0.03 < 0.05. The results also support hypothesis 3, i.e. economic incentives give significant effect on sustainable entrepreneurship, because the P value of 0.01 < 0.05.

Table 5. Influence test results

|          |            | Estimate | CR    | P     | Conclusion |
|----------|------------|----------|-------|-------|------------|
| Behavior | ← External | 0.626    | 2.882 | 0.004 | Supported  |
| ED1      | ← External | 0.293    | 3.181 | 0.001 | Supported  |
| Behavior | ← ED1*)    | 2.138    |       | 0.03  | Supported  |
| ED2      | ← External | 0.257    | 3.431 | 0.000 | Supported  |
| Behavior | ← ED2*)    | 2.206    |       | 0.03  | Supported  |
| ED3      | ← External | 0.645    | 6.597 | 0.000 | Supported  |
| Behavior | ← ED3*)    | 2.642    |       | 0.01  | Supported  |
| ED4      | ← External | 0.533    | 5.273 | 0.000 | Supported  |
| Behavior | ← ED4*)    | 2.531*   |       | 0.01  | Supported  |
| ED5      | ← External | 0.252    | 2.996 | 0.003 | Supported  |
| Behavior | ← ED5*)    | 2.079*   |       | 0.04  | Supported  |
| ED6      | ← External | 0.361    | 4.077 | 0.000 | Supported  |
| Behavior | ← ED6*)    | 2.359    |       | 0.02  | Supported  |

\*)Based on Sobel Test

This research result also support hypothesis 4, i.e. customers give significant influence on the behavior of sustainable entrepreneurship, because the P value of 0.01 < 0.05 and Supporting hypothesis 5, i.e. community surrounding gives a significant effect on sustainable entrepreneurship because the P value of 0.01 < 0.05 and supporting hypothesis 6, i.e. product and services give significant effect on sustainable entrepreneurship because the P value of 0.04 < 0.05. Furthermore, the results of the study also support hypothesis 7, i.e. competitors give significant effect on sustainable entrepreneurship because the P value of 0.02 < 0.05.

Our study also measured the determination coefficient (R2) of each predictor to investigate the effective contribution of all predictors (table 6). As the result, the government policy explain 8.8 percent of its variance, the economic incentives explain 8.7 percent of its variance, the customer explain 39.8 percent of its variance, the community surrounding explain 19.9 percent of its variance, product and services offered explain 6.8 percent of its variance and next the Competitors explain 12.9 percent of its variance.

To support the existing hypotheses, this study also measures the total effect caused by all predictors (table 6). As the result the highest total effect gave by customer predictors (63.1 %), and the second highest total effect gave by community surrounding (44.6%) and followed by others predictors total effect such as : competitors (35.9%), economic incentives (29.5%), government policy (29.6%) the last was product and services offered (26.0%).

Table 6. Standardized Total Effects

| External Driver Predictors  | R <sup>2</sup> | Total Effect |
|-----------------------------|----------------|--------------|
| Government Policy (ED1)     | 0.088          | 0.296        |
| Economic Incentives (ED2)   | 0.087          | 0.295        |
| Customers (ED3)             | 0.398          | 0.631        |
| Community Surrounding (ED4) | 0.199          | 0.446        |



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| External Driver Predictors       | R <sup>2</sup> | Total Effect |
|----------------------------------|----------------|--------------|
| Product & Services Offered (ED5) | 0.068          | 0.260        |
| Competitors (ED6)                | 0.129          | 0.359        |

## RESULT AND DISCUSSION

Our results support previous study opinions which states that external drivers play an important role in SME sustainable entrepreneurship behavior (Moorthy, et al, 2012; Nulkar, 2014; Yadav et.al, 2018; Vuorio et.al, 2018). Then opinion which states that Government policy has a positive impact on sustainable entrepreneurship (Gandhi et.al, 2018). Furthermore our result in line with the opinion about economic finance such as grants, tax reductions has a positive impact on SMEs' sustainable entrepreneurship behavior (Chang, et.al, 2011; Roxas & Coetzer, 2012).

This research also in line with opinion which states that customer encouragement of SME will motivate SME sustainable entrepreneurship behavior because Customers definitely have positive impact to sustainable entrepreneurship behavior (Battisti & Perry, 2011; Sáez-Martínez et. al, 2016). Our result also in line with opinion which states Community surrounding gives an impact to sustainable entrepreneurship behavior and in line with this research results (Wattapinyo & Mol, 2013; Williams & Donovan, 2015; Jansson et.al, 2017).

Furthermore, this study similar with previous study opinions that Product and services offered have positive impacts to sustainable entrepreneurship (Uhlener et.al, 2012; Hoogendoorn et.al, 2015) and support researcher opinions about competitors has impact on sustainable entrepreneurship (Testa, et.al, 2016) is also strengthened by the results of our research.

As our results, the finding about effective contributions (R<sup>2</sup>) and total effect, has described that predictors of customers, surrounding communities and competitors tend more considered by SMEs to forming in their sustainable entrepreneurship behavior. This result was in line opinion, which stated that in general customers are the main reason encouraging SMEs to carry out environmentally oriented activities (Battisti & Perry, 2011; Günerergerin et.al, 2012; Sáez-Martínez et. al, 2016) and the opinion which states that environmental factors are the main factors considered by SMEs to behave in sustainable entrepreneurship (Gandhi et.al, 2018).

Our research slightly different from opinion which states that the main reason that encourages SMEs to behave in sustainable entrepreneurship is actually a government and legislation (Aghelie, 2017). The difference in these findings probably caused by differences in conditions or government policies that have a direct impact on SMEs businesses where the research conducted.

## CONCLUSION

Based on the research results, the conclusions are the external drivers predictors drivers such as government policy, economic incentives, customers, surrounding communities, products or services offered and competitors has a important role in forming SMEs sustainable entrepreneurship behavior. Furthermore, SMEs tend to consider more customer, community surrounding and competitors predictor than other predictors such as government Policy, economic Incentives, Products and Services Offered to sustainable entrepreneurship behavior.

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