

The Effect of Green Innovation and Sustainability Report on the Financial Performance of MSMEs in Karawang



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ABSTRACT: Green practices are becoming increasingly important around the world. The performance of MSMEs is a crucial issue due to increasing consumer awareness of environmentally friendly products. Therefore, companies that do not follow green practices may face a significant decline in performance. This study aimed to identify the Green Innovation and Sustainability variables on MSME Financial Performance. This study used a quantitative method with primary data collection. The samples used were 100 Culinary-based MSMEs in Karawang. The data in this study were processed using PLS (Partial Least Square) with SmartPLS 3.0 software. The research results show that the Green Innovation variable has a significant positive effect on financial performance. Furthermore, the Sustainability variable also has a significant positive effect on financial performance. The results of this research provide important implications for MSMEs to pay more attention to and increase green innovation to achieve better financial performance.

KEYWORDS: Green Innovation, Sustainability Report, Financial Performance

I. INTRODUCTION

MSMEs are a key factor in Indonesia's economic growth, as evidenced by the resulting annual increase in employment and GDP. Unfortunately, the growing environmental issues are a result of the abundance of MSMEs (Firdausyi et al., 2023). This is due to their ignorance of the importance of environmental sustainability and because of their smaller size, their impact on the environment is not properly considered at regional and national levels (Mahsina & Agustia, 2023). Direct disposal of production waste without prior recycling can contaminate water and soil both within and outside the company environment (Firdausyi et al., 2023). Green innovation, namely innovation that takes into account environmental factors in the production process, can reduce MSME operational costs by saving energy, water, and raw materials. In the long term, this can increase profits and the competitiveness of MSMEs in the market (Mahsina & Agustia, 2023).

Green innovation aims to improve products to increase productivity, lower costs, expand market opportunities, improve business economic performance, reduce adverse environmental impacts, and encourage businesses to convert production waste into goods that can increase their profits (Cahyaningtyas et al., 2022). Increasing environmental problems are driving environmentally sound companies, one of which is through green innovation. Green innovation has become a popular concept due to global warming and environmental damage which is a serious threat to the world (Firdausyi et al., 2023).

A sustainability report is a form of commitment to accountability for social, economic, and environmental impacts in order to contribute in the form of benefits to society and the environment. This concept was originally introduced by Bowen in 1953 as a response to the outbreak of many cases of environmental and social damage, such as environmental pollution and damage to animal and plant habitats—arising from company or industrial operational activities (Moshood et al., 2022). This causes the credibility of a company in the eyes of the public to deteriorate (Nayenggita et al., 2019). Sustainability is seen as an important component in the success and survival of a company (Shahzad et al., 2020). A company that discloses sustainability activities in its annual reports depicts an impression of responsibility so that they are accepted by society. Green innovation and sustainability report are both aimed at the general welfare, the difference is that green innovation is controlled by the Government or Agencies while sustainability is managed by companies (Shahzad et al., 2020).

Financial performance is a company's financial condition which is determined by the analytical techniques used to determine good and bad company financial performance over a certain period of time (Zhang et al., 2019). Among MSMEs, the use of ERP software can provide excellent and profitable opportunities, especially for market growth (Yanti et al., 2022). This can be seen from the many uses of ERP adopted by MSMEs in meeting their business needs (Yanti et al., 2022). By implementing the use of ERP, especially for MSME business actors, they will focus on their main business (Yanti et al., 2022). Therefore, they can be used as a reference in making relevant strategies for their business (Yanti et al., 2022). Financial statements intend to provide information about the financial position, performance, and changes in the financial position of a company that is useful for most users in making

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decisions (Li, 2023). Company performance is measured to improve and regulate its operational operations so it can compete with other businesses (Sarfranz et al., 2023). Performance evaluation is also needed to choose the best course of action to achieve organizational goals. In other words, assessing business performance is the cornerstone of successful control (Rachprilani et al., 2021).

Currently, there are only a few studies on the analysis of green innovation in the MSME sector. Research tends to focus on green innovation in large companies rather than MSMEs/small industries. The novelty of this study is the use of the sustainability variable as one of the factors of green innovation and the environmental dynamics variable as the relationship variable between green innovation and financial performance. In addition, the research object used was MSMEs in Karawang (Firdausyi et al., 2023)

The gaps in this study were Lin et al. (2019) revealed that market demand leads to green innovation; Chang (2020) identified business ethics as having a positive effect on green innovation; Weng et al. (2019) highlighted that external and internal stakeholder pressures are important factors affecting green innovation; Cai and Li (2018) found that the determinants of green innovation are environmental regulations, technological and environmental capabilities, market pressure and competition, and customer green demand, which in turn affect company performance; Cloud et al. (2019b) showed that creativity enables sustainable development through Green innovation; and finally, Dangelico et al. (2019) disclosed that an organization's environment-oriented capability has an impact on green innovation. However, other researchers have revealed that sustainability can increase business innovation (Zhou et al., 2020). Despite having a lot of literature on sustainable development and green innovation, the aspect of how this affects sustainability practices is still not properly focused on (Zhu et al., 2019). Therefore, this study conceptualized that environmental strategy might be a significant predictor of green innovation with the integration of sustainability report practices.

Researchers have revealed the role of sustainability in assimilating social, environmental, and economic aspects into corporate strategies for survival and smooth operation in an ever-changing business environment (Shahzad et al., 2020). Furthermore, researchers have also identified the role of green innovation regarding sustainability and financial performance, however, there is still a dearth of research on how sustainability is practiced for environmental preservation using green innovation in developing countries (Shahzad et al., 2020). The aforementioned facts and the gaps in the existing literature have motivated the development of this research framework. This study aimed to explore the effect of green innovation and sustainability report on the financial performance of MSMEs.

II. RESOURCE-BASED VIEW (RBV) THEORY

Resource-Based View (RBV) is a theory used in this study. Resource-Based View was developed through research by economic experts around the world, where this theory is believed to provide answers to creating a competitive advantage for a company (Ozdemir et al., 2023). The Resource-Based View (RBV) theory claims that the company plays an important role in its ability to generate above-average profits (Ozdemir et al., 2023). This model focuses on creating or acquiring significant resources and talent that are difficult or impossible for competitors to imitate. According to the RBV theory, firm resources are significantly more important for gaining and maintaining competitive advantage than industry structure (Ozdemir et al., 2023). According to this method, the organization is seen as a collection of resources and skills; no two businesses are the same because they all have unique experiences, resources, and skills as well as different organizational cultures (Ozdemir et al., 2023). Assets, company capabilities will determine the efficiency and effectiveness of every job done by the company (Ozdemir et al., 2023). This strategy assumes that the company will have a long-lasting competitive advantage due to some core assets but it will succeed if it has the best and most suitable resources for its operations and goals (Ozdemir et al., 2023)

According to the RBV model, core competencies are the foundation of a company's or organization's competitive advantage, the key to strategic advantage, and the potential to generate above-average profits (Quispe, 2023). RBV is everything that goes into the production process, but only a select few are truly productive; this requires special coordination and skill combinations among various resource-producing groups (Quispe, 2023). Based on the aforementioned statement, the Resource Based View (RBV) theory discusses increasing competition and a changing environment that requires every organization to always make competitive strategies and also innovate so that MSMEs in Karawang can continue to gain competitive advantage (Ogiemwonyi et al., 2023). A company must be able to release innovative items that go beyond what its customers expect in order to gain a competitive advantage (Ogiemwonyi et al., 2023). The resource-based view has a positive impact on improving organizational performance and productivity in innovating, therefore the resource-based view theory is related to this study conducted by researchers, namely about the effect of green innovation and sustainability report on the financial performance of MSMEs (Quispe, 2023).

Research Model

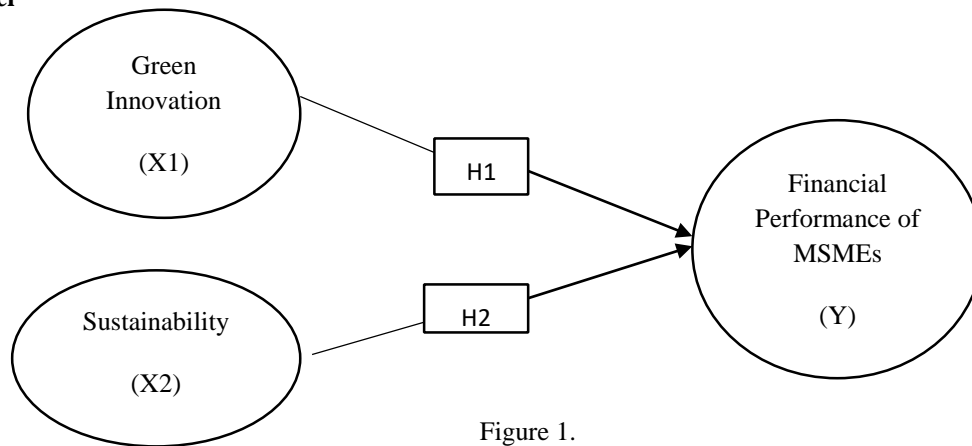


Figure 1.

Research Model

Green Innovation and Its Effect on the financial performance of MSMEs

Green innovation is the adoption of environmentally friendly production processes and product production (Majali et al., 2022). These practices include reducing emission levels, reducing the use of unsustainable materials, using recycled materials, and consuming less energy in the production process (Majali et al., 2022). Currently, MSMEs are trying hard to promote green innovation (Majali et al., 2022). Along with sustainability and market reputation, companies also focus on economic elements (Majali et al., 2022). Researchers try to strike a balance between the environmental and economic aspects of green innovation, however, they claim that companies that engage in green innovation practices obtain better financial and market performance (Majali et al., 2022). The quality of environmentally friendly products and the production of these products through environmentally friendly processes enhance their market reputation, leading to improved market performance (Majali et al., 2022). Recently, researchers have paid special attention to knowledge management to promote innovation and sustainable performance. Green innovation is the main resource and is supported by RBV as the main source to gain a competitive advantage (Majali et al., 2022). Previous researchers examined green innovation related to financial performance including green innovation focusing on reducing the use of resources or energy to minimize costs and increase company profits, which have an impact on improving financial performance (Küçükolu & Pnar, 2019). Green innovation creates products or processes that are effective and environmentally friendly. Businesses need tactics to increase profitability (Agustia et al., 2019). Then, studies by Xie et al. (2019), Dewi & Rahmianingsih (2020), Suryani & Dianawati (2018, 2019), and Lin et al. (2019) show that Green Innovation has a beneficial impact on improving financial performance (Putri Fabiola & Khusnah, 2022). Financial performance is positively and significantly affected by green innovation as identified by the researchers, disproving claims that green practices are a burden to businesses (Andersén, 2021). Similarly, companies that engage in eco-friendly practices usually follow cost-saving tactics to save resources, leading to cost efficiency and improved performance of MSMEs (Majali et al., 2022). Cost efficiency also improves market position, as seen in better feedback from consumers, suppliers, and government (Majali et al., 2022). Energy saving, as part of eco-friendly product innovation, reduces costs and generates reduced waste, which positively affects company costs (Andersen, 2021). Based on the aforementioned discussion, the hypothesis is constructed as follows.

H1: Green innovation has an effect on the financial performance of MSMEs

Sustainability and Its Effect on the financial performance of MSMEs

To improve the quality of life and the environment for the benefit of the company, the surrounding environment, and the wider community a company must carry out sustainable economic growth (Shafira, 2023). Sustainability is the concept that a business should serve the social community while benefiting shareholders financially. The company must also be sustainable over time so management will ultimately realize that the choice to adopt sustainability is an important matter in strategic planning (Shafira, 2023). According to Leon (2019), the company's financial statements have a strength called financial performance (Padilla-Lozano & Collazzo, 2022). By understanding the relationship between the accounts in the statements of financial position and profit and loss, MSMEs will have a more comprehensive understanding of the company's financial performance and the various aspects of the business that are interrelated. Financial ratio analysis is a process to determine a company's financial strengths and weaknesses (García-Piqueres & García-Ramos, 2022). Reports of financial condition and financial performance are also evaluated using financial ratio analysis as a benchmark. Financial performance according to Malik and Nadeem (2019) is described as an analysis of a company's financial condition report for a certain period to determine how effectively and efficiently an organization generates money (Cahyaningtyas et al., 2022).

According to the Resource-Based View (RBV) theory, organizations can gain a competitive advantage by leveraging intangible assets that are distinctive and different from others, such as morality or social responsiveness, which is reflected in training (Khan

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et al., 2022). When used properly, a sustainability report is an ethical framework that enables businesses to innovate and generate value by leveraging resources to outperform competitors (Partners, 2023). Recently, researchers revealed the important role of Sustainability in financial practices and organizational competition (Lee and Min, 2019). Market performance shows that sustainability is an influential element in improving the quality of products and services because it responds to stakeholder expectations (Windolph et al., 2020). Innovation is purely an activity for sustainability, so a business that is more proactive in its sustainability efforts will be the best (Padilla-Lozano & Collazzo, 2022). Innovation fully mediates the relationship between sustainability and environmental pressures with the company's business performance (Eiadat et al., 2008; Reverte et al., 2019) Investors respond well when companies disclose their sustainability initiatives, thereby increasing the value of the company (Afifah et al., 2021). Based on the aforementioned discussion, the hypothesis is constructed as follows.

H2: Sustainability has an effect on the financial performance of MSMEs

III. RESEARCH METHODS

This study used a quantitative approach with data collected in the form of primary data. The samples used were 100 Culinarybased MSMEs in Karawang. Data collection was carried out using a questionnaire. The variables used include green innovation, sustainability, and the financial performance of MSMEs. The green innovation (X1) variable consisted of ten indicators and was classified into green product innovation, green process innovation, and green marketing innovation. Then the sustainability report (X2) variable consisted of five indicators, which included environmental, social, and economic. Furthermore, the financial performance (Y) variable consisted of five indicators representing financial performance, environmental performance, and social performance. The data in this study were processed using PLS (Partial Least Square) with SmartPLS 3.0 software.

IV. RESULTS AND DISCUSSION

The research findings and analysis of data collected through questionnaires and processed using PLS (Partial Least Square) based SEM (Structural Equation Model) analysis are described as follows.

Table 1. Respondent Demographics

Gender	Percentage	Age		Percentage	Length of Business	Percentage
Male	70%	20-60 Years old		45%	3-5 Years	25%
Female	30%	20-50 Years old		55%	5-10 Years	50%
					10-15 Years	25%

Source: Researchers (2023)

The statistics in Table 1 show the age range of culinary business actors in Karawang, where the majority are males, but those who are married are supported by their wives in managing the company's finances. Business actors realize how competitive the food market is in Karawang. The background of their culinary business varies, some start from zero while some others take over the business from their parents.

Green Innovation (X1)

Table 2. Description of the Green Innovation Variable

Items	X1_1	X1_2	X1_3	X1_4	X1_5	X1_6	X1_7	X1_8	X1_9	X1_10
Mean	4.290	3.950	4.140	4.160	4.040	4.030	4.260	4.121	3.890	3.920
Median	5.000	4.000	4.000	4.000	4.000	4.000	4.000	4.000	4.000	4.000
Minimum	2.000	2.000	2.000	2.000	3.000	1.000	2.000	3.000	1.000	2.000
Maximum	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000
Standard Deviation	0.909	0.740	0.800	0.731	0.720	0.899	0.783	0.697	0.871	0.673
Excess Kurtosis	0.806	0.790	1.011	0.515	1.063	0.230	0.698	0.927	0.751	0.267
Skewness	1.262	0.070	0.380	0.417	0.061	0.729	0.625	0.175	0.613	0.102
Number of Observations Used	100.00 0	100.00 0	100.00 0	100.00 0	100.00 0	100.00 0	100.00 0	100.00 0	100.00 0	100.00 0

Source: Researchers (2023)

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Table 2 shows that the green innovation variable obtains a mean value of 4.080. This shows that, on average, the respondents rated the green innovation variable highly. The highest mean value of the questionnaire items is at X1.1 of 4.290. This is because based on these results, the respondents know the concept of green innovation. Thus it can be said that green innovation in Culinary-based MSMEs in Karawang is high.

Sustainability (X2)

Table 3. Description of the Sustainability Variable

Items	X2_1	X2_2	X2_3	X2_4	X2_5
Mean	4.100	4.090	4.020	4.310	4.030
Median	4.000	4.000	4.000	4.000	4.000
Minimum	1.000	2.000	3.000	3.000	2.000
Maximum	5.000	5.000	5.000	5.000	5.000
Standard Deviation	0.889	0.736	0.761	0.703	0.806
Excess Kurtosis	0.857	0.637	1.278	0.859	0.835
Skewness	0.980	0.298	0.034	0.524	0.288
Number of Observations Used	100.000	100.000	100.000	100.000	100.000

Source: Researchers (2023)

Table 3 shows that the Sustainability variable obtains a mean value of 4.110. This shows that, on average, the respondents rated the sustainability variable highly. The highest mean value of the questionnaire items is at X2.4 of 4.310. This is because respondents have a level of confidence that sustainable business practices can provide long-term benefits for business owners and the environment. Then the lowest mean value of the questionnaire items is at X2.5 of 4.020. From these results, it can be said that the sustainability of Culinary-based MSMEs in Karawang is high.

Financial performance (Y)

Table 4. Description of the Financial Performance Variable

Items	Y1_1	Y1_2	Y1_3	Y1_4	Y1_5
Mean	4.260	4.110	3.720	3.630	3.870
Median	4.000	4.000	4.000	4.000	4.000
Minimum	3.000	2.000	2.000	2.000	1.000
Maximum	5.000	5.000	5.000	5.000	5.000
Standard Deviation	0.702	0.760	0.776	0.879	0.820
Excess Kurtosis	0.911	0.793	0.538	0.745	0.513
Skewness	0.416	0.328	0.016	0.002	0.525
Number of Observations Used	100.000	100.000	100.000	100.000	100.000

Source: Researchers (2023)

Table 4 shows that the financial performance variable obtains a mean value of 3.918. This shows that, on average, the respondents rated the financial performance variable highly. The highest mean value of the questionnaire items is at Y1.1 of 4.260. This is because the respondents have regular and documented financial records. Then the lowest mean value of the questionnaire items is at Y1.4 of 3.630. This is because respondents do not believe that their businesses have sufficient financial stability to survive in a difficult economic situation.

Evaluation of the Measurement Model (Outer Model)

Table 5. Convergent Validity Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Value
X1_1 <- X1	0.594	0.584	0.085	7.019	0.000
X1_10 <- X1	0.760	0.756	0.054	14.161	0.000
X1_2 <- X1	0.577	0.575	0.108	5.319	0.000

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X1_3 <- X1	0.700	0.697	0.067	10.446	0.000
X1_4 <- X1	0.525	0.514	0.099	5.290	0.000
X1_5 <- X1	0.709	0.711	0.090	7.901	0.000
X1_6 <- X1	0.392	0.379	0.109	3.588	0.000
X1_7 <- X1	0.287	0.281	0.125	2.289	0.022
X1_8 <- X1	0.830	0.833	0.038	22.034	0.000
X1_9 <- X1	0.282	0.261	0.128	2.158	0.009
X2_1 <- X2	0.794	0.790	0.054	14.817	0.000
X2_2 <- X2	0.734	0.731	0.080	9.127	0.000
X2_3 <- X2	0.797	0.798	0.051	15.669	0.000
X2_4 <- X2	0.287	0.273	0.136	2.109	0.035
X2_5 <- X2	0.887	0.888	0.024	37.175	0.000
Y1_1 <- Y	0.438	0.424	0.110	3.982	0.000
Y1_2 <- Y	0.252	0.246	0.131	2.917	0.000
Y1_3 <- Y	0.861	0.857	0.031	27.510	0.000
Y1_4 <- Y	0.895	0.894	0.024	37.501	0.000
Y1_5 <- Y	0.858	0.858	0.032	26.692	0.000

Source: Researchers(2023)

Table 5 shows that the Green Innovation, Sustainability, and Financial Performance variables each have a factor loading value higher than the error variance value of 0.70 meaning that the indicators can be declared valid and each indicator can reflect the measurement model of the construct variable. The Average Variance Extracted from all variables has a value higher than the cross-loading correlation, which is 0.50, meaning that all variables used in this study have fulfilled the validity test.

Table 6. Discriminant Validity Test Results (Cross-Loading)

	X1	X2	Y
X1_1	0.594	0.442	0.324
X1_10	0.760	0.537	0.529
X1_2	0.577	0.516	0.238
X1_3	0.700	0.589	0.422
X1_4	0.525	0.231	0.324
X1_5	0.709	0.550	0.428
X1_6	0.392	0.247	0.316
X1_7	0.287	0.109	0.251
X1_8	0.830	0.737	0.590
X1_9	0.161	0.140	0.022
X2_1	0.529	0.794	0.467
X2_2	0.561	0.734	0.409
X2_3	0.659	0.797	0.541
X2_4	0.191	0.287	0.314
X2_5	0.680	0.887	0.629
Y1_1	0.292	0.340	0.438
Y1_2	0.133	0.184	0.252
Y1_3	0.580	0.520	0.861
Y1_4	0.594	0.591	0.895
Y1_5	0.526	0.608	0.858

Source: Researchers (2023)

Table 6 shows the results of cross-loading on the indicators with the constructs on the Green Innovation (X1), Sustainability (X2), and Financial Performance (Y) variables.

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1. The green innovation (X1) variable value with its indicators including green product innovation, green process innovation, and green marketing innovation.
2. The sustainability (X2) variable value with its indicators including environmental, social, and economic.
3. The financial performance (Y1) variable value with its indicators including financial performance, environmental performance, and social performance.

Reliability Test

Table 8. Value of Cronbach's Alpha and Composite Reliability

Items	X1	X2	Y
Cronbach's Alpha	0.764	0.747	0.713
rho_A	0.829	0.811	0.830
Composite Reliability	0.825	0.840	0.816
Average Variance Extracted (AVE)	0.538	0.535	0.507

Source: Researchers (2023)

Table 7 shows the Cronbach's alpha value of the Green Innovation (X1), Sustainability (X2), and Financial Performance (Y) variables. For all Cronbach's alpha values of all variables is more than 0.70 so it can be concluded that all variables are very reliable. Then the composite reliability values of the Green Innovation (X1), Sustainability (X2), and Financial Performance (Y) variables are greater than 0.80 so it can be concluded that all variables are declared reliable.

Evaluation of the Structural Model (Inner Model)

Table 8. R-Square Value

Variable	R Square	Adjusted R Square
Financial Performance (Y)	0.496	0.486

Source: Researchers (2023)

Table 8 shows that the r-square value of the Financial Performance variable is 0.496, meaning that this variable can be explained by the Green Innovation and Sustainability variables by 33%, while the rest is explained by other variables.

Hypothesis test

Table 9. Hypothesis Testing Results

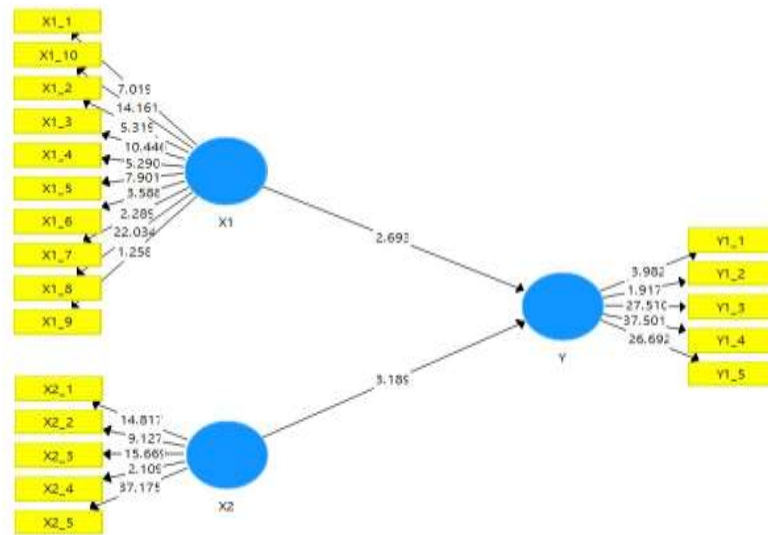
	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Value
X1 -> Y	0.332	0.362	0.123	2,693	0.007
X2 -> Y	0.420	0.398	0.132	3,189	0.002

Source: Researchers (2023)

Table 9 shows how great the direct relationship between the variables, which is described as follows:

1. The relationship between the Green Innovation (X1) variable and the Financial Performance (Y) variable is 0.332 and the t-statistics value is 2.693 which is greater than the significance used, which is 5% or with a value of 1.96 so that it can be stated that the Green Innovation variable has a significant effect on the Financial Performance variable.
2. The relationship between the Sustainability (X2) variable and the Financial Performance (Y) variable is 0.420 and the t-statistics value is 3.189 which is greater than the significance used, which is 5% or with a value of 1.96 so that it can be stated that the Sustainability variable has a significant effect on the Financial Performance variable.

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Source: Researchers (2023)

Green Innovation Has a Positive Effect on the Financial Performance MSMEs

Based on the results of the hypothesis testing, it can be concluded that Green Innovation (X1) has a positive and significant effect on financial performance (Y). The path coefficient value is 0.332 and the T-statistic value is 2.693 with a significance level of 0.007 indicating this conclusion. Empirically, it can be proven that green innovation has a positive and significant effect because the T-statistic value is higher than the T-table value of 1.96 and the significance threshold is greater than 0.05. Referring to this proves that MSMEs must look for raw materials that are sustainable and environmentally friendly. For example, using recycled materials or organic materials that can be broken down easily. Apart from that, MSMEs can also look for suppliers who have business practices that are in line with sustainable values (Alaika, 2023). The sustainable performance will improve if green innovation can be effectively incorporated into every stage of the production process by MSMEs. This supports the findings of Lie et al. (2020) showing that green innovation has a significant effect on sustainable business in China's energy-intensive industries. More than the creation of green products, green marketing, or green finance, recycling impacts social performance (Xie et al., 2019). MSMEs strive to incorporate cleaner production into every stage of the production process, limit the amount of waste generated, and recycle or utilize waste (Chang et al., 2020). The majority of MSMEs make compost from solid organic waste. Others sell their solid waste to farmers, such as leftover tofu. The findings of this study are also in line with a study by Tjahjadi et al. (2020) that MSMEs are empowered by green innovation to advance sustainable production and improve sustainability performance. MSMEs' efforts to improve environmentally friendly equipment will also have an impact on the health of employees. Yawar et al. (2020) stated that contemporary business pays more attention to the social dimension because it is related to social welfare. Based on Khotimah's Resource-Based View (RBV) theory (2019), intangible assets can be used to gain a competitive advantage and have proven capabilities in superior corporate performance. Strong financial skills, such as increasing revenue and sales, demonstrate this superior performance. The findings of this study are in line with studies by Salim et al. (2021) and Baah et al. (2021) claiming that financial performance affects the competitive advantage in a profitable way.

Sustainability Has a Positive Effect on the Financial Performance MSMEs

Based on the results of the hypothesis testing, it can be concluded that Financial Performance (Y) and Sustainability (X2) have a positive and significant correlation. The path coefficient value is 0.420 and the T-statistic value is 3.189 with a significance level of 0.002 indicating this conclusion. Empirically, it can be proven that the effect is substantial and positive because the T-statistic value is higher than the T-table value of 1.96 and the significance threshold is below 0.05. Culinary-based MSMEs in Karawang have so far been successful in implementing sustainability. They are responsive to consumer and local community issues, especially the issue of the waste they produce. They are also active in community service and environmental development. Implementation of sustainability is an important activity that has contributed to the sustainable development of global ecosystems (Avotra et al., 2021). Corporate social responsibility is a strategic tool that helps companies achieve sustainable growth (Tiep Le et al., 2021). Environmental sustainability refers to organizations that deliberately carry out business activities to record the positive effects of sustainability on business performance (Sarfranz et al., 2023). Sustainability compels organizational entities to pursue environmental social responsibility by considering the ecological consequences of business activities such as environmental pollution (i.e., air pollution, intoxicants, and harmful emissions). These socially responsible practices increase the efficiency of natural resources, thereby reducing the company's ecological footprint. According to studies, companies that prioritize sustainability benefit, among others, better brand recognition, staff loyalty, customer and employee happiness, staff productivity, and sustainable economic and environmental performance (Yurdakul & Kazan, 2020). Financial performance can be influential because it gains the trust of the

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public which affects the company's image. From forming a better image, investors will provide funding for the company to increase production which will indirectly support increased sales. It can be said that the better the company's environmental performance, the better its financial performance, which can be obtained from the income and cost efficiencies that are carried out so it can increase the company's profitability (Andersen, 2021). The results of this study are in line with previous studies by Natalia and Tarigan (2019) and (Asuquo et al 2020) that environmental aspects of the Sustainability Report affect financial performance through the Return on Assets profitability ratio. However, the results of this study are not in line with previous studies by Kasbun et al. (2019) and Anggrawal (2022) that environmental aspects of the Sustainability Report did not affect financial performance (Yurdakul & Kazan, 2020).

CONCLUSIONS

The findings of the analysis and discussion in the previous section of this study allow the following conclusions:

1. Financial Performance is affected by green innovation. To support the notion that green innovation has a positive and significant effect on financial performance, MSMEs strive to incorporate cleaner production into every stage of the production process, limit the amount of waste generated, and recycle or utilize waste. The majority of MSMEs make compost from solid organic waste while others sell their solid waste to farmers.
2. Sustainability has an effect on Financial Performance. Thus the hypothesis stating that Sustainability has a positive and significant effect on financial performance is accepted. Environmental sustainability refers to organizations that deliberately carry out business activities to record the positive effects of sustainability on business performance. Sustainability compels organizational entities to pursue environmental social responsibility by considering the ecological consequences of business activities such as environmental pollution (i.e., air pollution, intoxicants, and harmful emissions). These socially responsible practices increase the efficiency of natural resources, thereby reducing the company's ecological footprint.

Based on these conclusions, it is suggested for future researchers to investigate the relationship between GSCM (green supply chain management) and financial performance by using actual empirical data from the industry. This will enable the creation of a more precise model.

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