

ENHANCING THE LOCAL SUSTAINABILITY THROUGH CREATING SHARED VALUE (LOCUS OF RESEARCH ON GARUT LEATHER HANDCRAFT)

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Abstrak

Background: Business actors in the leather crafting MSME sector in Garut have yet to optimize performance, despite increasing awareness of social and environmental business values.

Objective: The objective of this research is to examine whether Creating Shared Value (CSV) moderates the correlation between Entrepreneurial Orientation (EO) with both financial and non-financial performance among Micro, Small, and Medium-Sized Enterprises (MSMEs) in the leather crafting sector in Garut.

Research Methods: The research method used a quantitative approach using a survey conducted on MSMEs in the leather crafting sector in Garut that have been operating for more than six months. Data were collected from a selected sample and analyzed to examine the relationships between Entrepreneurial Orientation, Creating Shared Value, and both financial and non-financial performance.

Research Results: The research found that entrepreneurial orientation has no significant impact on the financial performance of MSMEs. However, it significantly enhances non-financial performance, such as social and environmental outcomes. Additionally, CSV has no moderating effect on the relationship between entrepreneurial orientation and the performance of MSMEs.

Originality/Novelty of Research: To the best of the researcher's knowledge, no previous research has specifically explored the relationship of entrepreneurial orientation to financial and non-financial performance, especially in terms of the environment related to sustainability and MSMEs leather craftsmen in Garut.

Keywords: Entrepreneurial Orientation; Creating Shared Value; Sustainability.

Introduction

The main goal of an organization is its economic performance, such as increasing revenue, profit, investment, and others. However, the performance of an organization is not only fixated on its economic performance, but also measured by its social and environmental performance. This is supported by the statement of Marcelo F. et al., (2024) in his article which states that non-profit organizations are increasingly expected to actively participate in improving the well-being of the community and the environment by creating social value as an added value to economic value and market value. Most

organizations express their commitment to focus on dimensions of value beyond profitability with the implication that organizational behavior that leads to more socially beneficial outcomes is in line with the focus of the strategy. This statement is in line with a concept called sustainability. Sustainability is about utilizing the present to preserve the environment for the next generation. Sustainability has three main components: environmental, equitable and economic. When the people in business think about sustainability, they use a similar term, the Triple Bottom Line (TBL) (Brinkmann 2016).

Entrepreneurship is a concept that defines activities that include the discovery, evaluation, and exploitation of opportunities to carry out production activities that result in benefits for both oneself and the community (Sampe et al. 2023). Entrepreneurial activity is a key component in the recovery of a country's economic conditions that is determined to grow and improve. In the long term, the economic growth and prosperity of any nation are largely dependent on innovative approaches, entrepreneurial initiatives, and activities. Entrepreneurship acts as a vital component that impacts a nation's economy both directly and indirectly, playing an essential role in shaping the country's economic landscape.

The Micro, Small, and Medium-Sized Enterprises (MSMEs) in many countries, including Indonesia, are the mainstay of the country's economy, as they contribute significantly to total employment and gross domestic product (GDP). This is due to their high flexibility and adaptability, which allows them to respond quickly to market changes. However, despite their significant contribution, they often face problems in their daily operations, such as insufficient supply of funds, limited technology, and management skills (Indriastuty et al. 2024). The Micro, Small, and Medium-Sized Enterprises (MSMEs) make a significant contribution to the Indonesian economy, with over 64.2 million business units, accounting for 61.9% of the Gross Domestic Product (GDP) and employing 97% of the labor force. (Kementerian Koordinator Bidang Perekonomian, 2023).

Garut is a city known for its variety of culinary and tourism. In addition, Garut is also known as a fashion city, which is one of the leading leather product producing cities in Indonesia that has been famous to foreign countries (Putra 2024). One of the cooperatives that houses various leather craftsmen MSMEs in Garut is called Koperasi Cinta Carma Bella. Cinta Carma Bella Cooperative is a Joint Production House (JPH), and with this JPH, it is expected that the management of the quality of leather products from Garut can continue to develop and grow in accordance with the wishes and demands of the world market (Fadil 2024).

CSV is a business strategy that is focused on providing solutions to social problems and needs at the same time in the design of business plans. It allows companies to create economic value and social value simultaneously, without prioritizing or excluding one of them (Sambuaga and Astrella 2020). CSV

places greater emphasis on innovation and adopts a more customer-oriented perspective compared to CSR. Furthermore, CSV facilitates the achievement of both social and economic advantages at the same time. Recognizing societal needs and addressing them forms the foundation of the social benefits associated with CSV. The advantages of CSV initiatives are expected to provide social value to society and the environment, while achieving economic value (Ardillah et al. 2022; Harventy 2025; Setiawan, Adriana, and Sihombing 2021). Although CSV is an important factor to improve performance, MSMEs lack an understanding of the theory. They must acknowledge that CSV is essential for gaining a competitive edge, driving business motivation, and enhancing social and environmental contributions. (Christianto and Setiawan 2024).

This study refers to investigation carried out by Seo et al., (2023) which found that Entrepreneurial orientation (EO) positively influences both financial and non-financial performance, while shared value creation moderates the relationship between entrepreneurial orientation (EO) and these performance metrics in Small and Medium Enterprises (SMEs) in Korea. In addition, this study also refers to research conducted by Christianto & Setiawan (2024), this indicates a notable positive impact of entrepreneurial orientation on both financial and non-financial performance; however, shared value creation does not serve as a moderating factor in The connection between EO and both financial and non-financial outcomes in MSMEs in Sumedang, Indonesia.

Consequently, researchers are motivated to explore the effects of entrepreneurial orientation on financial performance and non-financial performance, include economic, social, and environmental role. They also aim to assess whether shared value creation influence the connection between entrepreneurial orientation and both financial and non-financial outcomes in MSMEs (MSMEs) among leather craftsmen in Garut. The novelty of this study as compared to previous studies is that the study adds environmental indicators as a measurement in measuring shared value creation variables and also non-financial performance (environmental benefits).

Literature Review

Legitimacy Theory

Legitimacy Theory is one of the most popular theories used in the field of social and environmental accounting (Tilling 2004). As expressed by Dowling & Pfeffer (1975), it reveals that an organization must align its activities with the values and norms of society to maintain its legitimacy. This theory emphasizes that legitimacy is important for the survival of an organization because it can affect public perception or

views and access to resources. An organization's legitimacy is determined by its operational methods and outputs as well as its purpose or domain of activity.

Legitimacy in an organization can be achieved if there is a similarity between the results and people's expectations of the organization. Organizations can perform social actions as a reflection of concern for society. Therefore, legitimacy theory is related to the existence of a social agreement between the organization and the community, with the condition that the community is socially accepted and mutually understands the organization (Deegan, Rankin, and Tobin 2002; Ogunode 2022).

Resource-Based View Theory

According to the Resource-Based View (RBV) theory, resources are anything that can be considered an advantage or a weakness, and become an organizational limitation (Wernerfelt 1984). According to Barney in his article, organizational resources are defined as assets, capabilities, processes, information, and knowledge that are owned and can be controlled by the organization. Barney explained that to achieve a sustainable competitive advantage, an organization must have resources that meet four main criteria often referred to as VRIN Criteria (Valuable, Rare, Inimitable, and Non-substitutable) (Barney 1991). One of the ultimate goals of a business is profit, according to RBV theory, a good entrepreneurial orientation factor will create a business that is able to maintain and manage the business well, maintain relationships with the business environment, and can establish good cooperative relationships as a reflection of a sustainable business (Kristinae et al. 2023).

Entrepreneurial Orientation

Entrepreneurship according to Mintzberg (1973), strategy making is influenced by actively seeking new opportunities and also dramatic or innovative actions in the face of uncertainty. Meanwhile, according to Friesen & Miller (1982), the entrepreneurial model can be applied to businesses that dare to innovate and routinely take considerable risks in developing strategies to compete in the market. According to Miller (1983), an organization is considered entrepreneurial only if the organization applies 3 measurement dimensions, namely innovation, proactivity, and risk-taking. A few years later, several researchers also developed these measurement dimensions, one of which was Lumpkin & Dess (1996). Based on the article, there are 2 additional dimensions, namely competitive aggressiveness and autonomy. This reflects the need to understand how organizations can adapt and innovate in a dynamic and often uncertain environment Lumpkin & Dess, (1996).

Creating Shared Value

Creating Shared Value (CSV) was first introduced through an article written by Porter & Kramer (2006) in the Harvard Business Review (Tresnadi and Mangkuto 2024). CSV is a business strategy that is focused on providing solutions to social problems and needs at the same time in the design of business plans. It allows companies to create economic value and social value simultaneously, without prioritizing or excluding one of them (Sambuaga and Astrella 2020). Examples of economic value include enhanced returns, enhanced effectiveness, and a broader target market.

The concept presented by Porter & Kramer (2006b) in their article entitled “Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility”, emphasizes that every organization can create economic value (profit or profit) by creating social value. This means that organizations are not only focused on generating profits, but also providing benefits to society and the environment.

Sustainability

Sustainability is about utilizing the present to preserve the environment for the next generation. Sustainability has three main components: environmental, equitable and economic. When people in business think about sustainability, they will use a similar term, the Triple Bottom Line (TBL) (Brinkmann 2016). The TBL concept highlights that, in addition to prioritizing profit generation, companies should also contribute to society (people) and actively participate in environmental preservation (planet) while conducting their operations. (Hantono et al. 2023).

Based on research conducted by Kristinae et al., (2023), it is said that The Resource-Based View (RBV) theory supports the notion that entrepreneurial orientation can significantly enhance sustainable business practices, serving as a positive response to business development. This statement is also in line with research conducted by Christianto & Setiawan, (2024) which found that entrepreneurial orientation significantly significantly enhance the financial performance of MSMEs in Sumedang. In addition, research conducted by Seo et al., (2023) and Al-mamary et al., (2020) also proved that entrepreneurial orientation significantly and positively enhance the financial and non-financial performance. Therefore, this hypothesis has been developed.

H1: Entrepreneurial Orientation has a positive influence on Financial Performance

Based on research conducted by Yanto, (2020), it is found that entrepreneurial orientation also has a significant positive effect on non-financial performance. In addition, not only does it have a positive effect

on financial performance, it turns out that in a recent study conducted by Christianto & Setiawan, (2024), it was found that EO also had a positive impact on the non-financial performance of MSMEs in Sumedang. Therefore, this research was formulated.

H2: Entrepreneurial Orientation has a positive influence on Non-Financial Performance

The study carried out by Seo et al., (2023), found that CSV has a positive effect as a moderator in the relationship between entrepreneurial orientation and financial performance. Research conducted by Ham et al., (2020) also obtained similar results, namely CSV positively impacts the connection between entrepreneurial orientation and financial performance with shared value creation as a moderating factor. However, this differs from the findings of the study conducted by Christianto & Setiawan, (2024). In this study, CSV showed no moderating role in the relationship between entrepreneurial orientation and financial performance among MSMEs in Sumedang. Thus, the hypothesis is formulated as below.

H3: Creating Shared Value influences the relationship between Entrepreneurial Orientation and Financial Performance as a moderating factor

The study carried out by Ham et al., (2020) discovered that within the relationship between entrepreneurial orientation and non-financial performance, CSV does not act as a moderating factor. This is in line with study carried out by Seo et al., (2023) which obtained similar results, namely CSV has no influence on the relationship between entrepreneurial orientation and non-financial performance. But research conducted by Christianto & Setiawan, (2024) found the opposite. Findings indicated that CSV does not serve as a moderator in the link between entrepreneurial orientation and non-financial performance within the MSMEs examined. Therefore, the above hypothesis was formulated.

H4: Creating Shared Value influences the relationship between Entrepreneurial Orientation and Non-financial Performance as a moderating factor

Of the four variables below, each variable is broken down into respective indicators, where entrepreneurial orientation has 9 developmental indicators, financial performance has 4 developmental indicators, non-financial performance has 2 developmental indicators, and CSV has 8 developmental indicators. The total number of indicators is 23. Entrepreneurial orientation is the independent variable, while financial and non-financial performance are the dependent variables, and CSV is the moderating variable. In the next stage, the outer model will eliminate invalid indicators before conducting hypothesis testing.

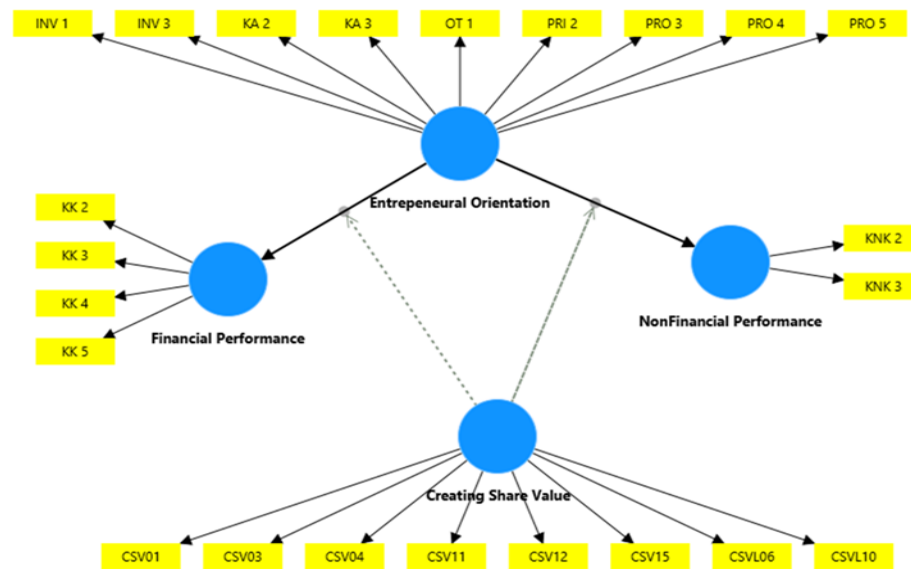


Figure 1 Conceptual Framework

Research Methods

The research method used a quantitative approach using a survey conducted on MSMEs in the leather crafting sector in Garut that have been operating for more than six months. Data were collected from all population (in total 46 Respondents) and analyzed to examine the relationships between Entrepreneurial Orientation, Creating Shared Value, and both financial and non-financial performance. In this study, the population or research subjects selected are Micro, Small, and Medium-Sized Enterprises (MSMEs) located in Garut. The sampling technique utilized in this research is probability sampling. The sample consists of Micro, Small, and Medium-Sized Enterprises (MSMEs) located in Garut that operate in the leather artisan sector and have been in business for over six months. The questionnaire was distributed directly to the respondents. The results of the questionnaire were measured using a Likert scale. The Likert scale used in this study has a value range of 1 to 7, namely 1 for strongly disagree, 2 for disagree, 3 for moderately disagree, 4 for neutral, 5 for moderately agree, 6 for agree, and 7 for strongly agree. The data in this study were processed and analyzed using Partial Least Squares (PLS) 4.

Table 1. Variable Measurement

Variable	Measurement Indicators	Questionnaire Measurement
Entrepreneurial Orientation (X)	Innovation, Proactive, Risk Taking, Competitive Aggressiveness, Autonomy (Seo et al. 2023)	Likert Scale
Financial Performance (Y1)	Income, Liquidity, Profitability, Return (Seo et al. 2023)	Likert Scale
Non-Financial Performance (Y2)	Employee Performance, Employee Improvement, Sustainability (Seo et al. 2023)	Likert Scale
Creating Shared Value (Z)	Economy, Social, and Environment Contribution (Diaz et al. 2021; Seo et al. 2023)	Likert Scale

Results and Discussion

Results

Outer Model Test

Table 2. Outer Loadings Results

Loadings	Creating Shared Value	Entrepreneurial Orientation	Financial Performance	Non-financial Performance	Creating Share Value x Entrepreneurial Orientation
CSV01	0.763				
CSV03	0.782				
CSV04	0.677				
CSV11	0.694				
CSV12	0.725				
CSV15	0.644				
CSVL06	0.779				
CSVL10	0.811				

Loadings	Creating Shared Value	Entrepreneurial Orientation	Financial Performance	Non-financial Performance	Creating Value Entrepreneurial Orientation	Share x
INV 1		0.695				
INV 3		0.820				
KA 2		0.819				
KA 3		0.770				
KK 2			0.873			
KK 3			0.851			
KK 4			0.677			
KK 5			0.879			
KNK 2				0.893		
KNK 3				0.886		
OT 1		0.657				
PRI 2		0.623				
PRO 3		0.663				
PRO 4		0.819				
PRO 5		0.747				

Source : Processed by the researcher

Convergent validity is used to assess the validity of each construct indicator in the study. It can be evaluated by examining the loading factor value of each construct indicator. The criteria for determining convergent validity stipulate that the loading factor value for each indicator should be greater than 0.7, and the Average Variance Extracted (AVE) value should exceed 0.5. (Ghozali 2021). In general, the outer loading value of 0.4-0.7 can be considered for elimination, because it can affect the composite reliability or average variance value.

From Table 1, the data imply that the measurement indicators for the Non-financial Performance variable have satisfied the convergent validity criteria. However, there are several measurement indicators that do not meet the criteria for convergent validity in other variables.

Reliability Testing

Table 3. Reliability Result

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Creating Share Value	0.881	0.902	0.904	0.542
Entrepreneurial Orientation	0.895	0.910	0.914	0.545
Financial Performance	0.809	0.836	0.878	0.648
Non-financial Performance	0.736	0.736	0.883	0.791

Source : Processed by the researcher

Reliability testing using the PLS program can be conducted through two methods: Cronbach's alpha and composite reliability. The composite reliability method is considered a more suitable approach for evaluating how consistently the elements of a construct align. The guideline for composite reliability testing is that it should exceed 0.6. On the other hand, the Cronbach's alpha method is utilized to assess the minimum reliability value of a construct and to confirm the composite reliability value. The guideline for Cronbach's alpha is that it should exceed 0.7. Based on the test results above, the results show that all constructs have a composite reliability value > 0.70 and Cronbach's alpha > 0.70 . It can be concluded that the variables used are reliable.

Inner Model Test

Table 4. Coefficient of Determination (R^2)

	R-square adjusted
Financial Performance	0.249
Non-financial Performance	0.383

Source : Processed by the researcher

The R-square value (coefficient of determination) is a value that can reflect how much the independent variable is able to explain the variance of the independent variable (Setiabudhi et al. 2025). Based on the results of the R-square test above, It can be inferred that the model implemented accounts for

roughly 24.9% of the variety in financial performance variables, while it explains about 38.3% of the variety in non-financial performance variables.

Estimation Test for Path

Table 5. Hypothesis Result

	P values
Entrepreneurial Orientation => Financial Performance	0.155
Entrepreneurial Orientation => Non-financial Performance	0.017
Creating Shared Value x Entrepreneurial Orientation => Financial Performance	0.467
Creating Shared Value x Entrepreneurial Orientation => Non-financial Performance	0.444

Source : Processed by the researcher

Discussion

Entrepreneurial Orientation has a positive influence on Financial Performance

From the hypothesis testing results, The results showed that entrepreneurial orientation did not influence financial performance as shown by a p-value of 0.155. This indicates that MSME owners lack understanding of financial aspects and entrepreneurial orientation, which need special attention from the government or external parties in order to obtain training or guidance related to the aspects mentioned above. Based on these results, it can be concluded that the above theories have not been able to prove their validity in the relationship between entrepreneurial orientation and financial performance. This demonstrates that the RBV and CSV theories have not been applied effectively and appropriately, implying that SME entrepreneurs have not been able to fully utilize available resources or opportunities, resulting in entrepreneurial orientation aspects failing to function effectively to generate significant economic benefits.

Entrepreneurial Orientation has a positive influence on Non-Financial Performance

According to the findings derived from hypothesis testing, It can be inferred that entrepreneurial orientation contributes positively to non-financial performance, as shown by a p-value of 0.017, pointing to a statistically significant connection between the entrepreneurial orientation and non-financial performance variables. This shows that, consciously or unconsciously, MSME owners have implemented entrepreneurial orientation aspects quite well, allowing them to achieve strong non-financial performance.

Based on these results, it can be concluded that the above theories can prove their strength in the relationship between entrepreneurial orientation and non-financial performance. This demonstrates that the RBV and CSV theories have been applied effectively and appropriately, implying that MSME entrepreneurs are capable of maximizing the use of available resources and opportunities. As a result, entrepreneurial orientation aspects can be effectively applied to generate significant social and environmental benefits. This is also related to the legitimacy theory, which states that to maintain its legitimacy, an organization must align its business activities with societal expectations. Therefore, an organization or business unit with a high entrepreneurial orientation typically engages in innovation and proactively captures and utilizes social and environmental opportunities, thereby increasing acceptance from stakeholders.

Creating Shared Value influences the relationship between Entrepreneurial Orientation and Financial Performance as a moderating factor

Similarly, the moderating relationship between creating shared value and both financial also non-financial performance variables was not significant. Both relationships have no effect, or it can be said that the CSV variable does not serve as a moderating variable in the connection between EO and financial performance. This phenomenon may be interpreted through the lens of legitimacy theory, which emphasizes that social and environmental activities serve more to gain legitimacy from society rather than as a direct means of increasing profitability. Thus, although EO drives financial performance, the role of CSV as a moderator is insignificant because its function is more strategic in building social legitimacy than in influencing financial performance.

Creating Shared Value influences the relationship between Entrepreneurial Orientation and Non-financial Performance as a moderating factor

Based on the discussion in the previous hypothesis, the p-value shows a figure of 0.444, so the hypothesis is rejected, which means that creating shared value does not succeed in moderating the relationship between entrepreneurial orientation and non-financial performance. This can be indicated as a lack of understanding by MSME owners of the aspects of creating shared value that can help them improve their entrepreneurial orientation so that their non-financial performance can also improve. The results show that entrepreneurial orientation contributes positively to non-financial performance, but CSV does not moderate this relationship. These findings are consistent with legitimacy theory, which emphasizes that companies can gain social legitimacy through various mechanisms. In this case, entrepreneurial orientation

itself has encouraged innovation and proactivity that enhance social and environmental benefits. Consequently, CSV fails to exert a significant moderating impact on non-financial performance.

The results of this study suggest that entrepreneurial orientation significantly positively influences non-financial performance, whereas it does not affect financial performance. This means the EO Impacts significantly only in terms of its social aspects and does not apply to the economic aspects of leather craftsmen MSMEs in Garut. This shows that the indicators of proactivity, innovation, risk-taking, and competitive aggressiveness applied by MSME entrepreneurs only affect aspects of their non-financial performance and have no impact on aspects of their financial performance.

Besides that, entrepreneurial orientation is an important aspect in influencing the non-financial performance of leather artisan MSMEs in Garut, because the shared value creation variable does not play a role in the connection between EO and the performance of MSMEs, whether in terms of financial or non-financial outcomes. This is further attributed to the lack of impact that entrepreneurial orientation has on the financial performance of leather artisan MSME entrepreneurs in Garut.

Conclusion

Based on the phenomenon and results of research conducted on Micro, Small, and Medium-Sized Enterprises (MSMEs) leather craftsmen in Garut, researchers found that entrepreneurial orientation only affects non-financial performance, and Shared value creation does not serve as a moderating factor in the connection between entrepreneurial orientation and either financial or non-financial performance. This means that the entrepreneurial orientation aspect has no correlation to the performance of MSMEs in economic aspects, but has a positive influence on non-financial aspects, both social and environmental benefits.

The conclusion aims to offer fresh knowledge and perspectives for professionals, stakeholders, and local government entities. This research underscores the critical role of entrepreneurial orientation for MSMEs and stresses the necessity of implementing effective strategies to amplify its beneficial impacts on social, economic, and environmental outcomes. Stakeholders are encouraged to investigate and pinpoint potential avenues for enhancing shared value creation, thereby promoting sustainable growth and positively affecting leather artisan MSMEs in Garut. Additionally, this study aspires to enrich the existing body of literature on entrepreneurship, shared value, and both financial and non-financial performance in the context of MSMEs by emphasizing the role of moderating variables in better comprehending the complex

connection between entrepreneurial orientation and the social, economic, and environmental advantages linked to MSMEs.

In this study, the researcher did not fully assist respondents in filling out and was limited in understanding the language used. Respondents' understanding of Indonesian was not entirely proper due to the use of local language in daily life. The number of questions is also quite numerous so it takes a long focus in understanding and filling out the questions.

For further research, it can be developed qualitatively related to the challenges and obstacles for Garut leather craftsmen in improving sustainability performance by continuing to increase product value in the midst of intense business competition. Research can be developed using observation, interviews and surveys to various stakeholders.

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