



# Leaders' Commitment to Business Sustainability and SMEs' Performance

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**Abstract.** This research is motivated by the low business performance of soybean processing SMEs in West Java. Soybean processing SMEs are a business that contributes mainly to employment and people's income. However, SMEs engaged in processing soybeans cause many social and environmental problems that impact long-term business performance. This study analysed the effect of the leadership's commitment to business sustainability on business performance. This research used a quantitative approach with a survey method of 332 business owners. Data collection was carried out by distributing questionnaires to respondents. Data analysis was carried out descriptively with PLS-SEM. The results of this study state that a Leader's Commitment to Business sustainability is in the low category, and business performance is in the medium category. The performance of SMEs is mainly indicated by the ownership of resources, especially fixed assets and knowledge that supports business independence. However, access to funding is relatively low, mainly due to SMEs' lack of legal aspects and readiness to partner. The Leader's Commitment to Business sustainability is mainly shown by its relatively high level of saving electrical energy and using renewable raw materials. However, commitments that tend to be low are commitments to reduce air and water pollution and the use of clean water. This research reveals that a Leader's Commitment to business sustainability influences business performance.

Keywords: sustainability, commitment, performance,

## 1. Introduction

Along with the increasing number of SMEs in Indonesia, the contribution of SMEs to the Indonesian economy has also continued to increase. Based on data from the Ministry of Cooperatives and Small and Medium Enterprises<sup>1</sup>, the role of MSMEs is very large in Indonesia's economic growth, reaching 99% of all business units. The contribution of MSMEs to GDP also reaches 60.5%, and to employment is 96.9% of the total national employment absorption. One of the SMEs that many Indonesian people have been involved with for a long time is the SMEs made from soybeans. This business has a high role and opportunity in Indonesia, considering that many business actors have started this business long ago and are hereditary. The perceived advantage for soybean-based business actors compared to other non-oil and gas sectors is because 1) Soybean, which is a legume product, has high potential as a commodity non-oil and gas export product for Indonesia; 2) Business that is hereditary and is a labour-intensive sector in which many people are involved; 3) Can employ many workers even though their education level is low; 4) Subsistence to the level of people's income; 5) Plays a role as one of the providers of accessible, inexpensive, safe and nutritious food for the community; 6) Food that is characteristic of Indonesia; 7) Waste generated from production activities is organic waste that is easy to recycle; 8) Production activities that have stable, strong and easy-to-develop business roots in Indonesia<sup>2</sup>.

Nevertheless, 2015 was a bad year for soybean business actors in West Java because the level of soybean production experienced a decline, which resulted in uncertainty in the supply of soybeans. This condition caused many soybean-based MSMEs to experience bankruptcy until they experienced business closures. This condition causes much unethical behaviour carried out by business actors with the excuse of covering up these loss conditions by using non-food preservatives mixed with original production materials, applying substandard wages to employees, and minimising waste in every production step to reduce production costs and reduce the business risks faced<sup>2</sup>. The challenges faced by soybean business actors are related to the negative impact of business activities carried out on economic, social, and environmental dimensions and culture to reduce business continuity, which is characterised by reduced business units. This production is mainly carried out in residential areas, so the results will produce waste that, if not appropriately managed, will disturb the surrounding environment. It can damage groundwater quality, resulting in unpleasant odours and triggering the growth of various bacteria<sup>3</sup>. Many external and internal factors can influence the sustainability of a business. Internal factors that are considered capable of influencing business continuity consist of business owners, employees and performance. In contrast, external factors are influenced by the role of stakeholders. A leader will be considered successful if he can manage and organise all business interests well, starting from effectiveness, decision-making, creativity, dynamic, inspiring change and carrying out the vision and mission properly [3]. In MSMEs, leaders play an essential role in determining their business performance.

Business performance is defined as the ability of the entrepreneur or the organisation to realise their objectives, such as high profit, good quality products, good financial outcomes, long-term survival and significant market share, by using relevant strategies for action<sup>3,4</sup>. Leaders who understand the nature and strength of commitment will be able to use it effectively throughout the business<sup>4</sup>. The scope of this business sustainability includes economic, environmental and social dimensions, called the triple bottom line<sup>2,5</sup>. Sustainable commitment is an entrepreneur's commitment to business sustainability, namely a business that emphasises economic, social and environmental aspects. Meanwhile, performance is a measure that can be used to compare the results of carrying out tasks and responsibilities given by the organisation in a certain period and can be used to measure work performance or organisational performance<sup>4</sup>. If workers feel that organisational values bind their souls, then they will feel happy at work, so their performance can increase. In other research, organisational commitment mediates the relationship between leadership behaviour and performance<sup>6</sup>, where if organisational members are satisfied with their work, then performance will be high<sup>7</sup>. The sustainability commitment of a leader influences the sustainability of the business being carried out, so this also indirectly will directly influence the performance carried out to maintain business value<sup>8-10</sup>. Based on this, this study aims to analyse the effect of leadership commitment on business sustainability on MSME performance. The hypothesis proposed in this study is that a Leader's Commitment to Business Sustainability affects business performance.

## 2 Methods

This research was conducted with a quantitative approach and exploratory survey method. The research was conducted by survey method with cross-section. The data collection method used in this study is through the distribution of questionnaires and interviews. The population is the owners of MSME products made from soybeans (tofu, tempeh, and soy sauce) in West Java who are registered with the West Java MSME Office, totalling 2,524, while the sample size by using simple random sampling is 332. The research instrument used in this study was a closed and open-question questionnaire in the form of exploratory questions and an interview guide. Data analysis used PLS-SEM to test the hypothesis.

## 3 Results and Discussion

### 3.1 Results

#### 3.1.1 SME's Performance

The literature defines it from the perspective of its outputs and indicators, as pointed out by 11: "firm performance is a subset of organisational effectiveness that covers operational and financial outcomes". In this study, performance has three dimensions, namely: 1) management (M), 2) financing (F), and 3) resources (R). The results of research on the performance of SMEs based on data processing by using descriptive statistics are as follows:

**Table 1. Descriptive Statistics**

Indicators	N	Minimum	Maximum	Sum	Mean	Std. Deviation
M1	332	1,00	5,00	1086,00	3,2711	1,13660
M2	332	1,00	5,00	1322,00	3,9819	,96446
F1	332	1,00	5,00	1077,00	3,2440	1,09274
F2	332	1,00	5,00	1008,00	3,0361	1,24076
F3	332	1,00	5,00	1278,00	3,8494	1,04357
R1	332	1,00	5,00	1053,00	3,1717	1,26684
R2	332	1,00	5,00	1221,00	3,6777	,99320
R3	332	1,00	5,00	1304,00	3,9277	1,02575
R4	332	1,00	5,00	1010,00	3,0422	1,10397
R5	332	1,00	5,00	1391,00	4,1898	,98791
Valid N (listwise)	332					

Source: primary research, 2023

Table 1 shows that the best performance of the respondents is the ownership of their resources, which is a hereditary business. These resources consist of private ownership of fixed assets (land, vehicles, and equipment), and the knowledge acquired is passed down from generation to generation and developed through the community. A relatively low resource is the ownership of beneficial relationships, especially relations with wider agencies, a low growth rate indicator.

#### 3.1.2 Leadership Commitment

Leadership commitment has five dimensions, namely renewable resources (A), commitment to reduce waste (W), energy consumption (E), carbon emission reduction (C) and water efficiency (Y)<sup>12</sup>. Based on research on leadership commitment, there are dominant business sustainability commitments, namely saving electricity and the ability to use renewable raw materials. Besides, the dominant commitment appears to be an environmentally friendly production process. However, the waste generated if it does not flow often results in environmental pollution. In addition to the things that are considered dominant, this research also looks at the weak commitment to business sustainability, including high air pollution and the use of firewood fuel, which is still widely used in tofu and tempeh businesses located in rural areas, it is necessary to have business relations in the form of inbound and outbound logistics so that the business can run smoothly. In addition, the soybean processing business is low in effective water efficiency. Soybean processing requires much clean water. Often, in the process, it wastes water that can still be used.

The research hypothesis states that leadership commitment to business sustainability affects SMEs' Performance. The hypothesis test was conducted using the t-test with data processing using SMART PLS version 3. The results of data processing are shown in Figure 1.

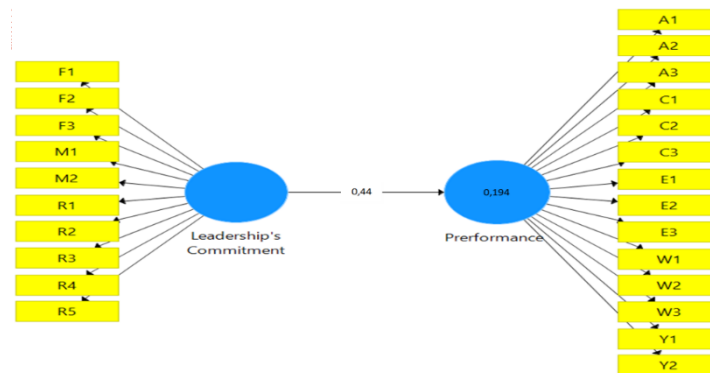


Fig. 1: Path Coefficient Effect Between Variable

Figure 1 shows the results of the data analysis, stating that the path coefficient was 0.44 and the determination coefficient was 0.194, meaning that the performance of SMEs was 19.4 % influenced by the Leadership Commitment to Business Sustainability. The significance of this causality is tested with the t-test. The results of the t-test state that  $t_{table} > t_{count}$ , so the conclusion that can be drawn is that Leadership commitment to sustainability affects SME performance.

### 3.2 Discussion

MSMEs require commitment from the owner<sup>13</sup>. This statement is in accordance with the results of research, which stated that leadership commitment to business

sustainability affects SMEs' performance. The performance of SMEs is measured with different indicators from performance indicators in large companies because SMEs have different characteristics and problems. Resource performance is a relatively good performance of all the dimensions used compared to other dimensions. Based on research results, most of the businesses were established on land and buildings owned by themselves, passed down from generation to generation. However, business units need to be more capable of obtaining funding from banks, mainly due to legal aspects<sup>14</sup> or cannot obtain funds from partnerships due to unpreparedness to enter into partnerships with<sup>15</sup>. Leadership commitment influences SMEs' performance. His findings align with previous research<sup>5</sup> that entrepreneurship Competence positively and significantly impacts micro-enterprises performance; in this case, commitment will influence how Leaders make business decisions. Business sustainability is a concept that aims to provide long-term value to stakeholders in the form of economic, social and environmental value<sup>16,17</sup>. From this opinion, leadership commitment to Business Sustainability is shown by the ability to save natural resources, waste reduction, carbon emission reduction, and water efficiency.

#### 4 Conclusion

The results of this study state that a Leader's Commitment to Business sustainability is in the medium category, and business performance is in the medium category. In addition, this study reveals that a Leader's Commitment to business sustainability affects business performance. The performance of SMEs is mainly indicated by the ownership of resources, especially fixed assets and knowledge that supports business independence. However, access to funding is relatively low, mainly due to the lack of legal aspects of MSMEs and readiness to partner. The Leader's Commitment to Business sustainability is mainly shown by its relatively high level of saving electrical energy and using renewable raw materials. However, commitments that tend to be low are commitments to reduce air and water pollution and the use of clean water due to the high cost of high-polluting fuel and the high cost of making a filtering system. This research also reveals the influence of leadership commitment on business sustainability on SMEs performance.

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