




Business sustainability practices and financial performance in the creative economy sector in Indonesia: Moderating role of power distance and long-term orientation

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Abstract

Purpose: This research explores the effect of business sustainability practices (BSP) on micro, small, and medium enterprises (MSMEs) financial performance, with cultural dimensions serving as moderating variables.

Design/methodology/approach: A survey strategy was used to gather data from 467 MSMEs keris respondents in Indonesia. Meanwhile, the hypothesis was validated using the Partial Least Squares Structural Equation Modeling (PLS-SEM) method.

Findings: The results suggested that incorporating BSP positively impacted financial performance. This research also reported the moderating effects of culture on the relationship between BSP and financial performance. However, there was no evidence to support the idea that long-term orientation (LtO) in BSP moderated financial performance.

Research limitations/implications: This research should be carried out in other sectors to observe the differences in characteristics of each MSMEs location. Additionally, cultural dimensions were considered to obtain more complex results.

Theoretical implication: BSP enhanced MSMEs financial performance, particularly when cultural factors such as power distance (PwD) were considered.

Managerial implication: The results implied that MSMEs systematically integrated BSP into business strategies and operations. Meanwhile, cultural factors, such as PwD could be reported in the implementation of these practices to optimize financial performance.

Originality/value: Novel insights were provided into the effect of BSP on MSMEs financial performance, emphasizing the role of cultural factors. This research advanced the literature by showing the moderating influence of the cultural context on practices and identified a gap regarding LtO.

Keywords: Business sustainability, Financial performance, Culture, MSMEs

Jel Codes: Q56, B26, M14

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1. Introduction

Micro, small, and medium enterprises (MSMEs) are important pillars of economy in various countries during complex globalization challenges (Mukherjee, 2018), driving growth and job creation (Soomro, Memon, Dahri, Al-Rahmi, Aldriwish, Salameh et al., 2024). However, the concept is often threatened by operational constraints and the challenges can be turned into opportunities through business sustainability practices (BSP). The transformative role is explored in improving performance of MSMEs, with a special focus on the creative economy sector. Additionally, the research investigates the effects of cultural factors, particularly power gaps and long-term orientation (LtO), on the relationship between BSP and financial performance, opening up new insights into the navigation of evolving market dynamics.

Financial performance is a crucial indicator of organizational health and management effectiveness (Lassala, Apetrei & Sapena, 2017). Various internal and external factors affect economic performance of companies (Hoang, Dang, Tran, van Vu, & Pham, 2019; Xiao & Su, 2022). However, BSP was developed as a key factor in improving long-term financial performance. This includes innovative natural resource management, waste reduction, and corporate social responsibility (Wong & Ngai, 2021). The integration of the elements into daily operations has been shown to have a positive impact on financial performance (Alshehhi, Nobanee & Khare 2018; Shashi, Cerchione, Centobelli & Shabani, 2018). Research show that BSP can save costs through efficient use of resources (Zandi & Lee, 2019), increase profitability (Shahedul-Quader, Kamal & Hassan, 2016), and create a competitive advantage (Aboelmaged, 2018). In the context of MSMEs, the implementation still faces various challenges.

The specific impact on financial performance in the creative economy sector, has not been fully understood even though various research have shown the benefits of BSP, such as reduced operational costs (Montiel & Delgado-Ceballos, 2014), improved brand reputation (Lee, Lee & Park, 2024), and access to new markets (Al-Ali-Mubarak, Gorgenyi-Hegyes & Fekete-Farkas, 2020). BSP practices are more widely adopted by large industries since MSMEs face various obstacles related to sustainability (Bartolacci, Caputo & Soverchia, 2020). In addition, previous research were focused on specific aspects of BSP, such as environmental management (Cariola, Fasano, La Rocca & Skatova, 2020) or corporate social responsibility (Gelbmann, 2010; Valdez-Juárez, Gallardo-Vázquez & Ramos-Escobar, 2018), without holistic method including three dimensions of BSP.

In this context, the role of culture has not been fully explored. UNESCO emphasizes that environmental sustainability depends on the interconnectedness between humans and nature subjected to interdependent development. Local creativity and societies can be affected when cultural factors are ignored (Claxton, 1994). Previous research showed that language and culture were the main obstacles to sustainability of MSMEs (Lewis, Cassells & Roxas, 2015). However, research that integrates cultural aspects, specifically Hofstede's dimensions such as power distance (PwD) and LtO is limited.

The influence of cultural moderation is investigated in the relationship between BSP and financial performance of MSMEs in the creative economy. Based on institutional theory, companies adopting BSP can improve financial performance, and cultural values embedded in society to shape corporate perspectives and the implementation of initiatives. The methodology combines quantitative analysis of data from 467 MSMEs in the creative economy sector, covering economic, social, and environmental aspects.

This research has significant potential to enrich the understanding of BSP. By exploring the role of cultural moderation, valuable insights are provided into the effect of local cultural factors on the implementation of BSP. The results are expected to assist policymakers in designing effective support programs for MSMEs, considering cultural aspects in the promotion of BSP. This research can be a guide in adopting BSP in line with cultural context to improve financial performance while contributing to sustainable development. In addition, there is

also a significant contribution to the development of sustainable management theory and practice in the context of developing economies.

Several sections were presented to answer the research question comprehensively. After the introduction, the second part showed an in-depth literature review of BSP, financial performance of MSMEs, and role of culture. The third section reported the research methodology, including the data collection and analysis. The fifth section presented the results of data analysis, hypothesis testing, and discussed key results related to existing literature, as well as theoretical and practical implications. Finally, the sixth section concluded the research, summarized the main contributions, acknowledged the limitations, and suggested the directions for future research.

2. Literature and Hypothesis Development

2.1. Instrumental Stakeholder Theory (IST)

Donaldson and Preston (1995) defined instrumental stakeholder theory (IST) as a framework that examined the effect of stakeholder management practices on the achievement of corporate financial performance objectives. IST emphasizes the importance of ethical relationships between companies and stakeholders, grounded in mutual trust, cooperation, and information sharing (Jones, 1995). In this context, a key element of success is the ability of managers to enhance trust among business stakeholders, thereby gaining a competitive advantage. The concept shows the strategic necessity for managers to balance actions with the overarching economic objectives of the company, typically related to maximizing shareholder value (Hendry, 2001). This theoretical method states that BSP is a strategic actions designed to enhance future financial performance and secure long-term value.

Different stakeholders expect managers to integrate economic, environmental, and social dimensions of sustainability into the strategic framework. Therefore, BSP should be viewed as integral to meeting stakeholder demands and achieving sustainable financial objectives. By adopting IST, companies can enhance reputation, secure stakeholder support, and potentially mitigate costly conflicts and agency costs. In this context, IST provides a strong theoretical basis for understanding the balance needed by stakeholder management to enhance corporate financial performance sustainably.

2.2. Institutional theory

Institutional theory is a sociological perspective focused on the shaping of an institution or company by the society (Scott, 1987). This theory states that institutions are an essential part of social life playing an important role in shaping the values, beliefs, and behaviors of societies (Suddaby, 2010). Institutions are influential in shaping the broader social, cultural, and political context of norms and values (Klafke, Urdan, Didonet & Arnold, 2021; Willmott, 2015). Norms are rules recognized by society and considered essential for the survival of social life. Meanwhile, values are principles considered necessary in the society (Kostova, Roth & Dacin, 2008; Willmott, 2015).

Institutional theory can be used to explain the relationship between MSMEs culture and performance. According to this theory, social institutions, such as norms, and government policies, influence the behavior of societies and groups (Scott, 1987; Tina-Dacin, Goodstein & Scott, 2002; Zhu, Sarkis & Lai, 2013). Culture is a social institution that affects performance of MSMEs (Packalén, 2010). Institutional theory explains that culture has a strong influence on the way societies and social groups behave and manage resources (Klafke et al., 2021). The culture owned by MSMEs affects the management of business activities (Khare, Sarkar & Patel, 2019; Srisathan, Ketkaew & Naruetharadhol, 2020).

2.3. BSP and Financial Performance

Numerous research have examined the relationship between BSP and corporate financial success, but the results are inconsistent (Al-Ali-Mubarak et al., 2020; Bansal & DesJardine, 2014). The relationship can conceptually be divided into two opposing views. From the traditional perspective, BSP are only considered to increase company costs (Alshehhi et al., 2018). This leads to an increase in total costs, prices, and a negative impact on competitiveness (Alshehhi et al., 2018). Other academics argue that BSP are a tool generating a win-win situation by improving the value of ecosystems and society (Rezaee, Tsui, Cheng & Zhou, 2019). According to Gutiérrez-Martínez and Duhamel (2019), financial performance and improvement of the long-term value can

only be achieved when the company carries out continuous activities. This is conducted by fulfilling corporate social responsibility and obligations to the environment and improving the reputation of the company. Therefore, BSP efforts may require a sizable allocation of resources conflicting with short-term shareholder wealth maximization goals.

IST assumes that stakeholders have interests in the company represented by economics to survive and thrive (Jones, 1995). According to this theory, companies must pay attention to interests affecting financial performance. This method emphasizes that the interests of all stakeholders must be considered in a balanced manner (Hörisch, Freeman & Schaltegger, 2014). Additionally, companies should be open and transparent in managing stakeholder interests and be responsible for the impact caused by business decisions. In this context, organizations must consider environmental, social, and economic sustainability (EcS) in business decisions to ensure long-term sustainability. Based on the IST and the bulk of empirical data, the following hypotheses are provided.

H1. BSP has a positive effect on financial performance

2.4. Culture Moderates the Influence of BSP on Financial Performance

The lack of a proper and commonly understood definition of culture is among the difficulties in researching cultural influences concerning financial performance (McGrath, MacMillan, Yang & Tsai, 1992). Scott and Lane (2000) defined culture as a person's interpretive framework for understanding behavior and collectivity in society. However, several business research considering cultural variables tend to follow the framework introduced by Hofstede (Bartikowski, Walsh & Beatty, 2011; Khan, Liu, Khan, Liu & Hameed, 2018; Turró, Urbano & Peris-Ortiz, 2014; Zhang, Zhu & Liu, 2012).

This research proposes culture as a moderating variable for the relationship between BSP and financial performance. In this context, culture refers to the shared values, conventions, beliefs, and practices of an organization. A strong culture balanced with BSP can be critical in driving behaviors that support financial performance (Ahsan, 2024). Therefore, a culture emphasizing BSP provides a solid framework for adopting socially and ecologically responsible activities. A culture valuing sustainability can enable organizational members to adopt attitudes and actions supporting environmental conservation, social protection, and prudent management of resources (Camacho, Litheko, Pasco, Butac, Ramírez-Correa, Salazar-Concha et al., 2024). In this context, a strong culture committed to sustainability leads members of the organization to make decisions supporting socially and environmentally responsible business practices.

Marino, Strandholm, Steensma and Weaver (2002) discovered a cultural moderating effect in the association between entrepreneurial orientation and creating strategic partnerships in MSMEs. Memili, Fang, Koç, Yildirim-Öktem and Sonmez (2018) showed the moderating effect of LtO on achieving sustainable performance in the tourism service sector in Turkey. Similarly, Khan, Afeef, Jan and Ihsan (2021) reported that LtO weakened the effect of representativeness bias on investment decisions. Le, Lu and Kweh (2022) stated that PwD significantly impacted the link between CSR practices and corporate performance. This research followed the cultural dimension of Hofstede (2011), which investigated the moderation of cultural variables on intermediate influences of BSP with financial performance. PwD and LtO were the two dimensions used because Indonesian culture has the most significant score on the variables.

The Hofstede cultural dimensions of PwD and LtO were used as a moderation variable. This was because the dimensions possessed the highest score compared to others. The PwD index evaluates the tolerance level of inequality and power (Khelif, 2016). A high PwD score suggests that a culture accepts inequity and power inequalities, promotes bureaucracy, and shows a strong regard for authority (Jie, Harun & Djubair, 2020). Meanwhile, a low index implies that culture promotes a flat organizational structure and stresses decentralized decision-making duties, participative management methods, and power distribution. (Le et al., 2022). The LtO shows the comprehension of societies' considerations (Bearden, 2006). A high LtO includes deferring success or short-term gratification for long-term achievement. In contrast, a low LtO concentrates on short-term achievement or fulfillment, and emphasizing the present rather than the future (Agziz, Hazez & Sidmou, 2018).

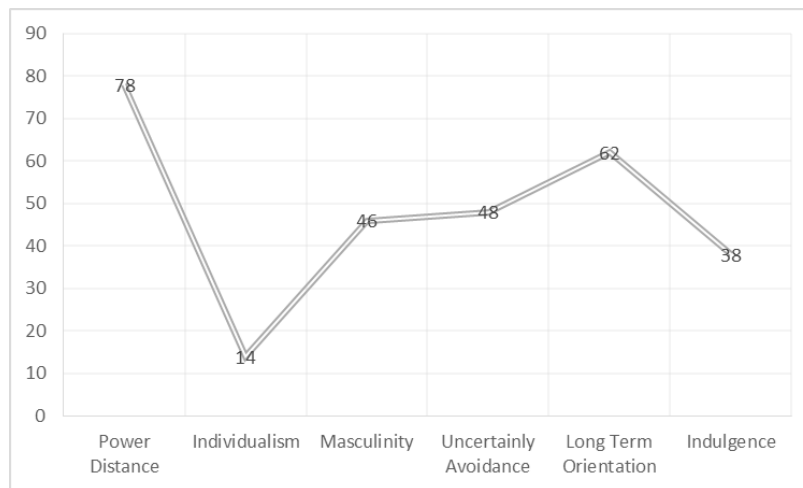


Figure 1. Indonesia Hofstede Cultural Score (<https://www.hofstede-insights.com>)

Institutional theory is used to explain the influence of cultural moderation on financial performance and BSP. This idea shows the significance of culture, rules, and governance in influencing performance (Scott, 1987). According to the theory, the structure and governance, as well as the norms and culture in an organization, can increase or decrease performance (Aten, Howard-Grenville & Ventresca, 2011). Culture has a significant impact on performance through various mechanisms. LtO in organizational culture has been shown to positively influence entrepreneurial performance (Pinelli, Debellis & De Massis, 2024; Schepers, Voordeckers, Steijvers & Laveren, 2020). National cultural dimensions such as PwD and uncertainty avoidance also affect employee performance (Jie et al., 2020). In addition, national and organizational cultures shape beliefs and perceptions about sustainability to influence initiatives (Tata & Prasad, 2015). Organizations must understand these cultural impacts and balance the strategies with prevailing values to optimize performance. However, the relationship between culture and performance is complex and moderated by various contextual factors. The following hypotheses can be formulated based on empirical evidence and theoretical research.

H2. LtO has a positive effect on financial performance.

H3. PwD has a positive effect on financial performance

H4. LtO has a moderating role in BSP and financial performance relationship

H5. PwD has a moderating role in BSP and financial performance relationship

3. Methodology

3.1. Research Design

This research is explanatory since the concept shows the relationship between variables, namely BSP (independent), financial performance (dependent), and the moderating effect of culture. Therefore, a quantitative method is implemented to collect numerical data for statistical analysis. The planning and data collection process is facilitated using the survey method (Bougie & Sekaran, 2019).

3.2. Sample and Data Collection

This research uses 860 MSMEs in the Kris craft industry in the Sumenep District of Indonesia. This region was selected due to the reputation as the largest Kris craft center. For sample determination, the guidelines set by Roscoe (1975) were considered. According to Roscoe (1975), most ideal sample size ranged from 30 to 500. In this context, only 467 samples were selected from the total of 860 Kris craft MSMEs. The G*Power software was used to determine the minimal sample size for SEM-PLS analysis. The software used an effect size of 0.3, an alpha level of 0.05, and power of 0.95. SEM-PLS was a frequently used and recommended method used in previous research (Faul, Erdfelder, Buchner & Lang, 2009; Yang, Al-Mamun, Hayat, Jingzu, Hoque & Salameh, 2022). The respondents were MSMEs managers with substantial knowledge and expertise in managing organizations and possessing different perspectives on economic, environmental, and social issues. This research

used a survey strategy to gather primary data from respondents for direct observation. Meanwhile, questionnaires were delivered directly to achieve a high response rate. Different society representatives were included to coordinate the questionnaire sheets through a *pickup survey*. This method provided time to fill out the questions and increased the responses (Jogiyanto, 2008).

3.3. Construct Measurement

Construct measurement elements were derived from previous research. BSP includes three dimensions, namely economic, social, and environmental practices, each represented by twelve items adapted from Yacob, Peter and Chin (2022), Masocha (2019), and Shahzad, Qu, Javed, Zafar and Rehman (2020). In BSP, the concept of sustainability forms the driving force in decision-making. Therefore, economic priorities as the main objectives of the company are balanced with social goals and environmental sustainability (Bansal & DesJardine, 2014; Slawinski & Bansal, 2009; Yacob et al., 2022). Financial performance (FnP) is measured by evaluating a company performance relative to the primary competitors. The criteria considered comprise profitability (ROI), productivity, market price, sales growth, operational costs, return on assets (ROA), and satisfaction with overall performance and marketing efforts (Bigliardi, 2013; Imran, Ahmed, Streimikiene, Soomro, Parmar & Vveinhardt, 2019). Culture (CLT) is the collectivity of thought differentiating the members of groups or categories of society from others (Mooij & Hofstede, 2010). CLT was measured using PwD as well as long and short-term orientation. The reason for selecting these two dimensions is because Indonesian culture has a high score for PwD, Uncertainty Avoidance, Societyism/Collectivism, Masculinity/Femininity, Long/Short Term Orientation, and Indulgence/Restraint Power distance with a score of 72, 48, 14, 46, 62, and 38, respectively (www.hofstede-insights.com). PwD describes the extent to which less powerful members of a society accept and expect unequal distribution (Jie et al., 2020). The variable refers to Hartidah and Ludigdo (2010) and Yoo, Donthu and Lenartowicz (2011). The second cultural dimension is Long/Short Term Orientation, which describes the tendency to seek virtue (Bearden, 2006; Hofstede, 2011; Khlif, 2016). The short-term orientation pertains to a strong society tending toward absolute truth. A society with a pragmatic orientation believes that truth depends mainly on the situation, context, and time. The measurement of this variable refers to Bearden (2006) and Khan et al. (2021). Meanwhile, age and the duration of MSMEs, are used as control variables, particularly in the correlation with FnP.

3.4. Data Analysis

This research analyzed the causal connection between latent variables and constructs using Structural Equation Modeling (SEM). A linear regression model was developed using the PLS-SEM method to examine the hypothesis regarding the influence of BSP and financial performance. BSP, FnP, and culture (PwD and LtO) function as independent, dependent, and moderating variables, respectively. Therefore, the equation of the linear regression model is shown as follows.

$$FnP = \beta_0 + \beta_1BSP + \beta_2LtO + \beta_3PwD + \beta_4(BSP \cdot LtO) + \beta_5(BSP \cdot PwD) + \varepsilon$$

PLS-SEM is used to confirm the relationship between latent variables and constructs. The method has been extensively used to examine the growing effects of variables in a hypothesis. PLS-SEM has numerous advantages, including the attractiveness of aesthetics. In addition, the visual is straightforward to interpret despite the complexity of the underlying statistics (Hair, Risher, Sarstedt & Ringle, 2019).

4. Results

4.1. Sample Characteristics

In the context of gender, the majority of the population is male, with 411 societies (88.01%), while women account for only 56 (11.99%). This shows that the sex comparison in the population is very unbalanced. In the age variable, 11.99% are under 25, while 25-34 is the largest group with 27.62%. The age group of 35-44, 45-54, and 54-year-olds accounted for 19.70%, 18.42%, and 22.27% of the population, respectively. This reports significant variation in age distribution within the populations. In terms of education, the majority of societies have an informal (43.47%) or low education level such as elementary (20.34%) and junior high school (31.05%). Only a few have a higher level of education, such as high school (4.28%) or university (0.86%). Considering the length of business, 9.85%, 15.42%, 16.70%, 20.13%, and 37.90% have been operating for less than 1 year, 1-5

years, 6-10 years, 11-15 years, and 15 years, respectively. Finally, 90.15% have less than 5 workers, while 9.85% have between 5 and 20 workers. This shows that most businesses in the population are small with few workers. The characteristics of the sample are representative of the intended population and are suitable for this research. Descriptive statistics of these samples are summarized in Table 1.

Criteria	Category	Sum	Percentage (%)	Accumulation (%)	
Gender	Man	411	88.01%	88.01%	
	Woman	56	11.99%	100.00%	
Age	under 25	56	11.99%	11.99%	
	25-34	129	27.62%	39.61%	
	35-44	92	19.70%	59.31%	
	45-54	86	18.42%	77.73%	
	over 54	104	22.27%	100.00%	
Education level	Informal	203	43.47%	43.47%	
	elementary	95	20.34%	63.81%	
	Junior high school	145	31.05%	94.86%	
	Senior high school	20	4.28%	99.14%	
University	4	0.86%	100.00%		
	Length of Business	under 1	46	9.85%	9.85%
		1-5	72	15.42%	25.27%
		6-10	78	16.70%	41.97%
		11-15	94	20.13%	62.10%
over 15		177	37.90%	100.00%	
Number of Workers	Under 5	421	90.15%	90.15%	
	5-20	46	9.85%	100.00%	

Table 1. Respondent Demographic (research data, processed)

4.2. Common Method Bias (CMB)

Kock (2015) introduced a full collinearity test to assess the presence of CMB in models. This method is fully automated by the SmartPLS software, which generates variance inflation factors (VIF) for all latent variables. A VIF value exceeding 3.30 is regarded as indicative of collinearity and suggests the presence of CMB. In this research, VIF obtained from the full collinearity test was below the threshold of 3.30, showing that the model was free from CMB.

4.3. Measurement Model

Measurement model testing is the initial step in PLS-SEM evaluation. This research includes EcS, social sustainability (ScS), and environment sustainability (EvS) as first-order reflective constructs. Therefore, the first stage comprises analyzing the reliability of the first-order measurement model. In PLS-SEM analysis, all constructs must have reliability indicators shown through convergent validity, discriminant validity, and composite reliability (CR).

Convergent validity measures the extent an indicator is positively related to others for the same construct. Several methods are needed to evaluate convergent validity, including examining scores from outer loadings and Average Extraction Variance (AVE). Table 2 shows that the valid first-order measurement model is seen from the element factor loading with a value of more than 0.7 and meets the indicator reliability criteria. This was achieved by eliminating the items EcS1, EvS4, LtO2, LtO7, LtO8, FnP5, and FnP8 since the loading factor values were below 0.7. However, several items were retained even though the loading factor values were <0.7 due to an impact on increasing AVE and CR (Hair, 2014; Hair et al., 2019). The convergent validity will be evaluated by checking the AVE value with an acceptable limit of 0.50 or higher. The AVE value is more significant than 0.50, showing that each construct passes the convergent validity conditions.

The subsequent stage in evaluating the measurement model is to assess the reliability of internal consistency. This procedure is carried out to ensure the question items can measure indicators consistently. Internal consistency reliability testing uses the score CR and *Cronbach's alpha* (CA). Each indicator is considered reliable with a score of >0.60 (Hair, Sarstedt, Ringle & Gudergan, 2017). Table 2 shows that all constructions have CR and CA values of more than 0.70 since the constructs satisfy the internal consistency reliability requirement (Hair et al., 2017; Manley, Hair, Williams & McDowell, 2021).

Construct/Dimension/ Indicator	Loading	Weight	CA	CR	AVE
Business sustainability (BSP) (Second Order Composite Mode A)			0.868	0.869	0.791
Economic sustainability/EcS (Composite, Mode A)	0.898	0.381	0.791	0.791	0.535
EcS2	0.635	0.635			
EcS3	0.790	0.790			
EcS4	0.760	0.760			
EcS5	0.690	0.690			
EcS6	0.771	0.771			
Social sustainability /ScS (Composite, Mode A)	0.896	0.381	0.815	0.826	0.522
ScS1	0.791	0.791			
ScS2	0.766	0.766			
ScS3	0.664	0.664			
ScS4	0.679	0.679			
ScS5	0.620	0.620			
ScS6	0.797	0.797			
Environment sustainability/EvS (Composite, Mode A)	0.875	0.361	0.816	0.821	0.576
EvS1	0.747	0.747			
EvS2	0.694	0.694			
EvS3	0.791	0.791			
EvS5	0.788	0.788			
EvS6	0.772	0.772			
Long-term orientation/LtO (Composite, Mode A)			0.852	0.862	0.514
LtO1	0.780	0.785			
LtO3	0.714	0.817			
LtO4	0.690	0.632			
LtO5	0.762	0.733			
LtO6	0.628	0.780			
Power distance/PwD (Composite, Mode A)			0.762	0.774	0.579
PwD1	0.639	0.714			
PwD2	0.823	0.690			
PwD3	0.734	0.762			
PwD4	0.820	0.628			
PwD5	0.710	0.639			
PwD6	0.819	0.823			
Financial performance/FnP (Composite, Mode A)			0.821	0.828	0.528
FnP1	0.804	0.734			
FnP2	0.691	0.820			
FnP3	0.767	0.710			
FnP4	0.705	0.819			
FnP6	0.696	0.804			
FnP7	0.690	0.691			

Table 2. Measurement Model: Reliability and Convergent Validity (First and second-order composite

After ensuring the convergent validity of question items, the next step is to evaluate the validity of the discriminant. The two methods typically used for this purpose are the Fornell Larcker Criterion and the ratio heterotrait-monotrait (HTMT). Even though the Fornell Larcker Criterion has been criticized due to the weaknesses, HTMT is considered a more reliable alternative (Voorhees, Brady, Calantone & Ramirez, 2016). As showed in Table 3, the Fornell-Larcker criteria are met, with the AVE root value for each construct being higher than others. Moreover, the HTMT value for all constructs is below the threshold of 0.9, showing that the validity of the discriminant is also fulfilled using the correlation ratio heterotrait-monotrait (Henseler, Ringle & Sarstedt, 2015).

	BSP	FnP	LtO	PwD
BSP	0.932	0.842	0.877	0.835
FnP	0.678	0.716	0.826	0.785
LtO	0.603	0.713	0.777	0.878
PwD	0.811	0.693	0.737	0.837

Note: The diagonal contains the square root of the average variance extracted. Correlations are showed in the lower triangle of the matrix, while the upper triangle shows HTMT.

Table 3. Measurement Model: Discriminant Validity Second-order level

The subsequent step includes evaluating the second-order construct. Measurement model assessment is inseparable in research models with a hierarchical method. Meanwhile, BSP is a reflective second-order hierarchical model consisting of three first-order constructs with 18 question items. Evaluation of *Second Order* includes testing convergent and discriminatory validity reliability (Sarstedt, Hair, Cheah, Becker & Ringle, 2019). As stated in Table 2, the convergent validity evaluation shows that the indicators have loading factors greater than 0.60. In addition, AVE values for indicators above 0.50 show that convergent validity qualification is met. After convergent and discriminant validity are satisfied, construct reliability must be evaluated. Based on CA and CA tests, each variable is considered reliable with a value of >0.7 since the indicators can be dependably measured.

4.4. Structural Model Evaluation

The structural model evaluation assessed the estimated path coefficients of influence among constructs. The values generated in the path coefficient analysis are the foundation for estimations. A positive value signifies a positive impact, while a negative outcome denotes either a negative influence or no impact. The evaluation of the structural model occurs after confirming the reliability and validity of the constructs.

The association and significance level among variables in the assessment of the inner model is investigated using PLS and multiple parameters, such as the Coefficient of Determinant (R^2), Cross-Validated Redundancy or Inner Model-Predictive Relevance (Q^2), and path coefficient. According to Hair et al. (2019), the coefficient of determination, or R-square (R^2), explains the combined influence of external variables on internal variables.

4.5. R-Square (R^2), Effect Size (f^2), and Predictive Relevance (Geisser and Stone's Q^2)

Referring to a value R^2 , the research model reported that financial performance explained 62.0% ($R^2 = 0.620$) variance. Therefore, this model has moderate explanatory power for financial performance variables. Evaluation *effect size* assesses society predictors and the role in the model, according to the guidelines of Hair et al. (2019). The f^2 can be categorized into three, namely having a significant, medium, and small effect with a value of 0.35, 0.15, and 0.02 of the independent variable. In this context, an effect size value of less than 0.02 shows no effect. As reported in Table 4, BSP, culture, and the interaction between the two have little effect on financial performance. Based on the procedure, the blindfolding value Q^2 greater than zero (0) shows that the relevance and predictive accuracy of the path model are acceptable. Table 4 shows that this model can be effectively predicted on financial performance variables ($Q^2 = 0.299$).

	R square		Effect size (f square)		Q square	
			FnP			
BSP			0.103	Small		
LtO			0.097	Small		
PwD			0.001	Small		
LtO x BSP			0.005	Small		
PwD x BSP			0.012	Small		
FnP	0.620	(Moderate)			0.299	(Large)

Table 4. Test Results of R square, f square, and Q square

4.6 Research Hypothesis Testing

The subsequent step in PLS-SEM analysis includes assessing the research hypothesis. This occurs after achieving favorable outcomes during the measurement model evaluation phase. The evaluation of structural models as part of hypothesis testing comprises conducting 10,000 bootstrap resamples while considering T statistics, or T-tests (Becker, Cheah, Gholamzade, Ringle & Sarstedt, 2022). The results of hypothesis testing (Table 5) show some information related to the relationship between the variables tested. Hypothesis 1 reports that BSP has a positive impact on financial performance. This hypothetical relationship is fully supported ($\beta = 0.428$, $t = 6.385$, $p < 0.001$). Hypothesis 2, relating to the positive impact of LtO and financial performance ($\beta = 0.349$, $t = 6.529$, $p < 0.001$) is supported. Hypothesis 3 on the positive impact between PwD and financial performance ($\beta = 0.047$, $t = 0.697$, $p > 0.005$) is rejected. In addition, hypothesis 4 concerning the moderation role of LtO on the impact of BSP and financial performance is rejected ($\beta = 0.131$, $t = 1.122$, $p > 0.001$). Hypothesis 5 on the role of PwD moderation on BSP impact and economic performance ($\beta = -0.156$, $t = 1.722$, $p < 0.001$) is accepted. In this research, culture as a moderator variable does not significantly affect financial performance (Sharma, Durand & Gur-Arie, 1981).

Hypothesis	Path coefficient	Standard error	T. values	P. values	BCI LL	BCI UL	Decision
H1. BSP -> FnP	0.428	0.295	6.385	0.000	0.318	0.538	Supported
H2. LtO -> FnP	0.349	0.302	6.529	0.000	0.257	0.433	Supported
H3. PwD -> FnP	0.047	0.032	0.697	0.243	-0.065	0.155	Not Supported
H4. LtO x BSP-> FnP	0.108	0.052	1.122	0.131	-0.052	0.264	Not Supported
H5. PwD x BSP -> FnP	-0.156	0.080	1.722	0.043	-0.296	0.000	Supported

Table 5. Summary of results from Partial Least Squares Analysis

4.7. Predictive Power Testing Using PLS Predict

Hair et al. (2017) and Shmueli, Sarstedt, Hair, Cheah, Ting, Vaithilingam et al. (2019) Suggested performance of advanced prediction methods in PLS-SEM through PLS-predict. This research used the PLS-predict method to produce a case-level prognosis at the dependent construct level. Table 6 shows only a fraction of *root mean squared error* (RMSE) and *mean absolute error* (MAE) for PLS models smaller than the value on LM. Therefore, this conceptual model has weak predictability (Shmueli et al., 2019) and the former can be used for prediction purposes.

	Q ² predict	PLS-SEM_RMSE	PLS-SEM_MAE	LM_RMSE	LM_MAE
FnP1	0.391	0.548	0.462	0.544	0.437
FnP2	0.275	0.537	0.472	0.529	0.448
FnP3	0.362	0.593	0.493	0.593	0.467
FnP4	0.222	0.580	0.498	0.573	0.483
FnP6	0.257	0.606	0.541	0.624	0.551
FnP7	0.272	0.563	0.501	0.577	0.510

Table 6. PLS predict test results (research data, processed)

4.8. Model Robustness Test

This research adopts the FIMIX-PLS method to identify heterogeneously unobserved variance in the PLS pathway model (Sarstedt et al., 2019). Initially, testing is conducted using settings assuming a single-segment solution. Default Stop criterion $1-10^{-5}$ for a maximum of 5000 iterations, and the number of repetitions is 10. The research calculates the lowest sample size needed to estimate each segment to establish the maximum number to be extracted (Sarstedt, Ringle & Hair, 2017). The analysis results, assuming an effect size of 0.15 and power level of 80% show that a minimum sample size of 85 is required. With a sample size of 467, the maximum number of segments extracted is five. Therefore, FIMIX-PLS was retested for two to five segments using the same settings as the initial analysis.

The results of the match index test for solutions with one to five segments are confusing (Table 7). Several factors prevent the research from conclusively identifying a specific segmentation solution. (1) AIC3 and CAIC point to distinct segment numbers, while (2) MDL5, AIC4, and BIC show the same segments. Therefore, unobserved heterogeneity is neither critical nor a problem and the model is considered to have durability (*robust*).

Criterion	Number of Segments				
	1	2	3	4	5
AIC (Akaike's information criterion)	2044.69	1894.02	1794.73	1682.74	1649.90
AIC3 (modified AIC with Factor 3)	2051.69	1909.02	1817.73	1713.74	1688.90
AIC4 (modified AIC with Factor 4)	2058.69	1924.02	1840.73	1744.74	1727.90
BIC (Bayesian information criterion)	2073.72	1956.22	1890.10	1811.28	1811.61
CAIC (consistent AIC)	2080.72	1971.22	1913.10	1842.28	1850.61
HQ (Hannan-Quinn criterion)	2056.12	1918.50	1832.26	1733.32	1713.54
MDL5 (minimum description length with factor 5)	2245.82	2325.00	2455.56	2573.42	2770.44
LnL (LogLikelihood)	-1015.35	-932.01	-874.37	-810.37	-785.95
EN (normed entropy statistic)	0.00	0.33	0.55	0.54	0.56
NFI (non-fuzzy index)	0.00	0.39	0.52	0.49	0.49
NEC (normalized entropy criterion)	0.00	312.57	211.99	216.91	203.48

Keterangan: AIC: Akaike's information criterion. AIC3: Modified AIC with factor 3. AIC4: Modified AIC with factor 4. BIC: Bayesian information criteria. CAIC: consistent AIC. HQ: Hannan Quinn criterion. MDL5: Minimum description length with factor 5. LnL: Log-likelihood. EN: Entropy statistic. NFI: Non-fuzzy index. NEC: Normalized entropy criterion. Na: Not available. Numbers in bold show the best outcome per segment retention criterion.

Table 7. Fit indices for the one-to-five-segment solutions

5. Discussion

This research enhances the existing literature by emphasizing BSP concerning the cultural and financial performance of MSMEs in the creative economy sector through the perspective of IST. The moderating effect of culture, namely LtO and PwD, is also considered. The results show a positive impact on BSP practices and financial performance. BSP includes three key dimensions, namely economic, social, and environmental. These dimensions exert a positive and significant influence on financial performance of MSMEs. Therefore, business operations prioritizing economic objectives and considering social and environmental sustainability can yield favorable results in terms of performance. These results support earlier research by Jacob et al. (2022) and Ameer and Othman (2012), showing the significant impact of BSP on performance of MSMEs, considering financial and non-financial aspects. The effects of BSP on financial performance are consistent with Lassala et al. (2017), where owners and managers of MSMEs believe ScS policies increase financial efficiency. In this context, MSMEs must reassess goals to ensure social responsibility and shift towards ethical business practices. Previous research showed that companies using BSP achieved better financial performance (Ameer & Othman, 2012). BSP is the capacity of an organization to satisfy customers while upholding social responsibility, protecting the environment, and providing honest and transparent sustainability reports (Rezaee et al., 2019). This concept can

help businesses in several ways, including increasing market share, financial efficiency, brand reputation, product innovation, revenue growth, as well as satisfaction among customers and employees.

IST states that BSP and financial performance are essential factors within a company. According to the theory, stakeholders have financial interests related to company performance (Hörisch et al., 2014). Therefore, managerial or corporate business practices must have a favorable effect on financial performance to benefit stakeholders. IST shows the need to treat stakeholders fairly because of the ability to impact financial performance. In this theory, businesses must consider the interests of stakeholders when making choices (Jones, 1995).

This research examines the influence of culture represented by LtO and PwD on the relationship between BSP and financial performance. A significant positive relationship was reported between LtO and financial performance (FnP), showing the importance of cultural factors in influencing organizational financial performance. The results suggest that LtO culture tends to achieve better financial performance in the long run. In this context, strong LtO influences strategic decisions, including resource allocation and risk management, as well as focuses on achieving long-term objectives. This is consistent with previous research showing that companies with high LtO tend to be more successful in achieving long-term objectives (Pinelli et al., 2024; Schepers et al., 2020). However, there was no significant impact of PwD on financial performance. This suggests that differences in hierarchy or power levels within SMEs do not directly influence financial performance. Companies tend to focus on more pragmatic and measurable factors to improve financial performance rather than on cultural aspects such as PwD in the context of globalization and increasing competition. In a rapidly changing business environment, aspects such as innovation and organizational flexibility are more critical than PwD in influencing financial performance (Chatterjee & Bhattacharjee, 2020; Correa-da-Cunha, Singh & Farrell, 2023).

The relationship between BSP and financial performance will become stronger when the culture of PwD and LtO practiced in UMKM environment is present. In this context, culture moderates BSP and financial performance (Bandarin, Hosagrahar & Albernaz, 2011). A strong culture that values sustainability can promote and support the implementation of BSP. In contrast, culture that does not prioritize short-term profits over long-term sustainability goals can undermine the adoption and success of practices (Kang, Lee & Yoo, 2016). In MSMEs environment, the concept significantly impacts BSP and financial performance (Steelyana, Alwiyah, Cahyadi & Yoyo, 2017). A culture that values social and environmental awareness helps MSMEs to conduct businesses responsibly and sustainably. This includes the cultural dimension, specifically PwD and LtO, used in this research.

PwD negatively moderates the relationship between BSP and financial performance. (FnP). The differences in levels of hierarchy or power can affect the extent to which BSP affect financial performance. This phenomenon occurs because PwD create barriers to communication and collaboration between different levels of the hierarchy to reduce the effectiveness of implementing BSP. The concept of PwD refers to the level of diversity recognized and accepted in a society or organization (Hofstede, 2011). A high PwD shows a clear distinction between societies, which is recognized and accepted normatively (Jie et al., 2020). Meanwhile, a low PwD shows higher equality between societies. In the context of MSMEs, high PwD negatively affects the relationship between BSP and financial performance. PwD creates a culture that is not inclusive and uneven, hindering effective communication and cooperation among members of the organization (Charina, Kurnia, Mulyana & Mizuno, 2022). This causes underlying problems in the decision-making process, specifically when leaders have excessive control. High PwD also leads to inequities in the distribution of resources and opportunities (Le et al., 2022). This can happen because members of the organization with less power are not fully in the decision-making process. Therefore, LtO does not moderate the relationship between BSP and financial performance (FnP). Even though LtO may provide a basis for long-term decision-making, the variable does not directly affect the effectiveness of BSP in improving financial performance. Other factors, such as economic factors, government regulations, and technological innovation, may have a more dominant role in moderating the relationship between BSP and FnP.

Institutional theory states that societal norms, values, and social structures influence performance of business (Suddaby, 2010). This theory emphasizes the importance of the social environment and organizational structure in shaping society behavior (Klafke et al., 2021). Cultural moderation can maintain business continuity and financial performance by expanding markets and increasing adaptability to environmental changes. This concept is crucial in assisting MSMEs to implement BSP and improve financial performance.

6. Conclusions

In conclusion, this research empirically proved the impact of BSP on financial performance of MSMEs in the creative economy sector. The cultural impact (PwD and LtO) in moderating the variables was also observed. The first research question was addressed by stating that BSP was crucial for enhancing financial performance. Similarly, the second research question was answered by determining that culture could weaken BSP practices to reduce financial performance. The importance of implementing triple-bottom-line BSP was also considered. According to the results, culture exemplified by PwD reduced the impact of BSP on financial performance. Therefore, MSMEs growing in a society culture that adhered to high PwD negatively impacted the implementation of BSP.

The results underlined the need to develop and continuously maintain sustainability dimensions to support financial performance. Therefore, learning was necessary for players in the creative economy sector to understand the importance of BSP. The society could also develop a culture to support BSP and improve financial performance.

The uniqueness of this research provided insight into the relationship between BSP, culture, and financial performance in an integrated model for MSMEs in developing countries. A theoretical contribution was made to broaden the understanding of BSP. The framework provided a foundation for future research and directed the development of policies and practices supporting the transition to a sustainable future. For governments, a scientific basis was provided for strengthening existing regulations or formulating new policies. In addition, this research reported empirical evidence used to advocate BSP to the private sector and society at large.

This research had some limitations that needed to be considered in future. The questionnaires relied on closed-ended questions with predetermined answer choices. This method could limit respondents from expressing opinions, experiences, or views in more depth. Complex and difficult-to-measure aspects might not be well captured on questionnaires, resulting in limited data and information from respondents. Future research were suggested to reach MSMEs more broadly and examine the impact of BSP on other variables such as non-financial performance, competitiveness, or sustainable performance. This method was theoretically limited by using PwD, and LtO, to show cultural complexity. Further research could enhance the effect of local culture on BSP and financial performance by broadening the cultural dimensions analyzed.

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Appendix 1 Research Variables and Indicators

Variable		Symbol	Indicators	Source
Business sustainability	Economic Sustainability	EcS1	Increase in the number of clients.	Yacob et al. (2022)
		EcS2	An increase in the average number of purchases by customers.	
		EcS3	Profitable company	
		EcS4	The company reflects a positive attitude toward economic factors.	
		EcS5	The company has channels to meet customer/consumer demand.	
		EcS6	The company has an adequate financial balance.	
	Social Sustainability	ScS1	The company has the support of the society.	Masocha (2019)
		ScS2	Company involvement in the society.	
		ScS3	The company defends the public's interest in participating in public policy development.	
		ScS4	The company lists sustainability issues in its vision, mission, and values.	
		ScS5	The company has policies that uphold human rights.	
		ScS6	Company involvement in occupational safety training.	
	Environment Sustainability	EvS1	Produce environmentally friendly products.	Shahzad et al. (2020)
		EvS2	Use of environmentally friendly production inputs.	
		EvS3	Responsibility for handling hazardous waste.	
		EvS4	The company's commitment to reducing waste.	
		EvS5	Commitment to efforts to reduce environmental accidents.	
		EvS6	Eco-friendly production process.	
Culture	Power Distance	PwD1	The superior makes decisions without consulting subordinates.	Hartidah (2010); Yoo et al. (2011)
		PwD2	Superiors rarely ask for opinions from subordinates.	
		PwD3	Superiors always avoid social interaction with subordinates.	
		PwD4	Subordinates should obey the decisions taken by superiors.	
		PwD5	Essential tasks in the company are rarely delegated to subordinates.	
		PwD6	The status symbol of honor is very significant.	
	Long Term Orientation	LtO1	Respect for a tradition	Bearden (2006), Khan et al. (2020)
		LtO2	Have a long-term plan.	
		LtO3	The importance of maintaining family/ancestral heritage.	
		LtO4	Appreciate connections made in the past.	
		LtO5	Work hard for a better future.	
		LtO6	Willingness to sacrifice present pleasures to achieve future success.	
		LtO7	Safeguarding traditional values.	
		LtO8	Persistent	
Performance	Financial Performance	FnP1	Your organization's return on investment (ROI) relative to your competitors.	Imran et al., (2019); Bigliardi (2014)
		FnP2	Your organization's sales growth relative to your competitors	
		FnP3	Your organization's total operating costs relative to your competitors.	
		FnP4	Your organization's market shares relative to your competitors.	
		FnP5	Your organization's productivity relative to your competitors.	
		FnP6	Your organization's return on assets (ROA) relative to your competitors.	
		FnP7	Financial profit of your firm is exceptionally well this year.	
		FnP8	The sales volume of your firm was higher than the average growth of the last three years.	

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