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Green Entrepreneurial Orientation, Self-Efficacy, and Innovation: An RBV and Dynamic Capabilities Perspective on SME Performance

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ABSTRACT

Sustainable entrepreneurship is vital for small and medium-sized enterprises (SMEs) in emerging economies facing environmental and market pressures. This study investigates how green entrepreneurial self-efficacy (GESE), green entrepreneurial orientation (GEO), and green innovation (GI) influence the economic performance of SMEs in Jakarta, Indonesia. Drawing on the Resource-Based View (RBV) and Dynamic Capabilities (DC) theory, the study examines both direct effects and the mediating role of GI. A quantitative approach was employed using survey data from 95 SME owners who implement green practices. Analysis with Partial Least Squares Structural Equation Modeling (PLS-SEM) revealed that GEO significantly promotes GI, while GESE does not. GI strongly enhances economic performance and mediates the relationship between GEO and economic performance, but not between GESE and performance. These findings extend RBV and DC by showing that strategic orientation, when translated into innovation, drives SME competitiveness, whereas self-efficacy alone is insufficient. The study offers theoretical contributions and practical implications for strengthening green strategies and innovation capacity in SMEs.

Keywords: *Green Entrepreneurial Orientation, Self-Efficacy, Green Orientation, Economic Performance, Resource-Based View, Dynamic Capabilities.*

INTRODUCTION

In the era of globalization and increasingly intense market competition, companies across the world are striving to maximize profits by producing diverse products and services. However, the pursuit of higher revenues often comes at the cost of excessive natural resource exploitation, leading to pressing environmental challenges such as air pollution, water contamination, deforestation, and climate change. These environmental issues not only threaten ecosystems and planetary health but also pose severe risk to human well-being, including respiratory illnesses, pollution-related diseases, and broader social vulnerabilities. To address these challenges, governments and organizations worldwide have introduces policies and initiatives promoting sustainable practices. Some of the examples are, the European Union enforces Restriction of Hazardous Substances (RoHS) Directive that prohibit the use of hazardous chemicals in electronic products and EcoDesign regulations that ensures products are designed for energy efficiency and minimal environmental impact, while California implements strict emission standards and promotes of electric vehicles. Similarly, China has advanced its Green Technology Innovation policy to accelerate clean energy adoption. In Indonesia, government initiatives encourage renewable energy development, carbon capture technologies, and electric vehicle ecosystems, aiming to steer the economy toward sustainable growth (Limanseto, 2024).

Green technology innovations such as solar power systems, demonstrate the potential to reduce environmental harm while providing economic benefits. However, their development requires creativity, research, and significant investment in innovation. Companies are therefore increasingly expected to integrate environmental management practices, not only to comply with regulations but also to enhance competitiveness and reputation in sustainability-oriented markets (Alvarez-Risco, 2021). Green Innovation (GI), which involves developing environmentally friendly products, processes, and technologies, has emerged as a strategic approach for firms seeking to balance economic

performance with environmental responsibility (Hayat & Qingyu, 2024). Despite its potential, the adoption of GI remains particularly challenging for small, medium enterprises (SMEs). SMEs often face resource limitation, insufficient knowledge of green initiatives, and restricted access to financing. This lack of capacity can hinder their ability to implement GI effectively, even though SMEs collectively contribute around 70% of industrial pollution worldwide (Koirala, 2019). Pressure from governments, consumers, and other stakeholders are pushing SMEs toward greener practices (Gunawan & Lubis, 2023). Failure to adapt not only risk environmental degradation but also exposes firms to regulatory penalties and the loss of business opportunities (Rustiarini et al., 2022).

The adoption of GI is influenced by multiple factors including customer demands, supplier readiness, regulatory pressures, technological change, and government support (Jun et al., 2021; Wasiq, 2023; da Silva et al., 2023). While these factors are important, the emphasis on external drivers leaves a gap in understanding the internal enablers of GI, particularly those rooted in the entrepreneurial cognition and strategic posture. Addressing this gap requires considering the Resource-Based View (RBV) and Dynamic Capabilities (DC) Theory as guiding frameworks. RBV emphasizes that firms gain sustained competitive advantage from unique, valuable, rare, and inimitable resources (Barney, 1991), such as entrepreneurial orientation and self-efficacy. Meanwhile, DC highlights a firm's ability to sense opportunities, seize them through innovation, and reconfigure resources to remain competitive under dynamic conditions (Teece, 2007).

Two internal factors relevant to this discussion are green entrepreneurial self-efficacy (GESE) and green entrepreneurial orientation (GEO). GESE refers to an individual's belief in their ability to successfully engage in environmentally oriented entrepreneurial activities. Entrepreneurs with higher self-efficacy are more likely to adopt innovative green practices, thereby enhancing business competitiveness and economic performance (Sanchez-Garcia et al., 2024). GEO, on the other hand, reflects a firm's proactive, innovative, and risk-taking posture toward sustainability-driven strategies. From an RBV perspective, both constructs represent intangible resources that can foster competitive advantage and from DC perspective, they provide the foundation for transforming intent into innovation through GI. Companies can achieve competitive advantage by offering more environmentally friendly products and processes, which are in line with increasing consumer demand and regulations regarding sustainability (Mao et al., 2021).

In Indonesia, SMEs represent a vital pillar of the economy but continue to struggle with the transition to sustainable practices (Rubio-Mozos et al., 2019). Some SMEs in agribusiness and manufacturing industry such as organic farming, clean production initiatives, and eco-friendly brands like Gendhis Bag, Brodo Shoes, and GreenKid, have adopted green innovations in response to regulatory requirements and rising consumer demand. Nonetheless, many SMEs remain constrained by limited resources and inadequate knowledge, underscoring the need to explore mechanisms that can enhance their green innovation capacity. Previous research studies in Indonesia highlight the importance of entrepreneurial education and university support in fostering green entrepreneurial intentions (Aurellia, 2023; Nuringsih, 2022). Maryani & Yuniarsih (2022) suggests that high levels of entrepreneurial self-efficacy and entrepreneurial orientation can strengthen green entrepreneurial intentions and improve economic performance. However, empirical evidence explaining how GESE and GEO drive economic performance through GI, particularly in the context of SMEs in Jakarta, remains scarce. To address these gaps, this study aims to examine whether GESE and GEO influence GI among SMEs in Jakarta, whether GI contributes to SME economic performance, and whether GI mediates the relationships between GESE, GEO, and economic performance. By grounding the analysis in RBV and DC, this research contributes to a deeper understanding of how entrepreneurial

cognition and orientation act as resources and capabilities that shape innovation and sustainability-driven performance in emerging economies.

LITERATURE REVIEW

Economic performance reflects a firm's ability to generate returns, profits, and growth relative to its competitors. Financial performance is one factor that indicates a company's level of effectiveness and efficiency in achieving its goals. For SMEs, it encompasses profitability, sales growth, market share, and operational efficiency (Ahinful et al., 2023). Gutterman (2023) states that economic performance is a term used to describe part or all of an organization's activities over a period, then projected based on management efficiency, responsibility, or accountability. SMEs in Jakarta face rising competition and increasing costs of energy, materials, and compliance with environmental regulations. As a result, traditional performance drivers (e.g. cost-cutting) may no longer be sufficient. Instead, integrating sustainability through GESE, GEO, and GI provides a strategic pathway for enhancing economic performance in a resource-constrained urban environment.

This study is grounded in two complementary perspectives which are, the Resource-Based View (RBV) and Dynamic Capabilities (DC) Theory. According to RBV, firms achieve sustainable competitive advantage when they possess resources that are valuable, rare, imperfectly imitable, and non-substitutable (Barney, 1991). In the context of green entrepreneurship, intangible resources such as entrepreneurial orientation and self-efficacy, as well as innovative capabilities like green innovation can serve as strategic assets that strengthen competitiveness and performance. Meanwhile, DC Theory emphasizes the firm's ability to integrate, build, and reconfigure resources in response to rapidly changing environment (Teece, 2007). It highlights three critical processes which are sensing opportunities and threats, seizing opportunities through investment and innovation, and reconfiguring resources to sustain competitiveness. For SMEs in Jakarta facing both environmental pressures and market demand for sustainability, DC are crucial to transform entrepreneurial resources (GESE and GEO) into innovations (GI) that enhance economic performance.

Self-efficacy refers to an individual's belief in their ability to successfully accomplish specific tasks or achieve desired goals (Ahmed et al., 2021). Within the entrepreneurial context, entrepreneurial self-efficacy (ESE) represents the capacity to mobilize motivation, cognitive resources, and actions necessary to succeed in business creation and development (Hussain et al., 2021). It serves as a key cognitive antecedent of entrepreneurial intention and behavior (Nguyen, 2020). Extending this concept, GESE captures entrepreneurs' confidence in managing environmentally oriented business activities. It reflects their beliefs in their ability to identify sustainable opportunities, design eco-friendly products, and implement green business practices (Sanchez-Garcia et al., 2024). From an RBV perspective, GESE represents an intangible cognitive resource that can help entrepreneurs sense and pursue green opportunities, potentially leading to competitive advantage. At the same time, DC theory suggests that self-efficacy enables entrepreneurs to sense sustainability opportunities, but successful innovation requires seizing and reconfiguring resources. Therefore, entrepreneurs with higher GESE are more likely to overcome barriers and take risks in exploring sustainability-driven solutions, inspire the stakeholders, and persist through challenges, thereby fostering the development and adoption of Green Innovation (GI).

H1: Green entrepreneurial self-efficacy has a positive effect on green innovation.

Entrepreneurial orientation is commonly described as a firm's strategic posture characterized by innovativeness, proactiveness, and risk-taking. When sustainability principles are embedded into this posture, it evolves into Green Entrepreneurial Orientation (GEO). It is the tendency of firms to pursue environmentally responsible opportunities while seeking competitive advantage (Hernández-Perlines

& Cisneros, 2018; Tuncer & Korchagina, 2024). GEO is a valuable and hard to imitate strategic resource that provides direction for sustainable competitiveness. GEO allows SMEs to sense environmental challenges and seize opportunities by investing in eco-innovations. Firms with a strong GEO emphasize the integration of environmental challenges and commit to the risks involved in adopting green technologies and practices such as energy-efficient production (Anwar et al., 2024). Through this orientation, entrepreneurs actively search for ways to reduce environmental harm, develop eco-friendly products, and adopt clean production processes. Consequently, GEO stimulates the implementation of Green Innovation, positioning firms to simultaneously meet regulatory requirements and seize opportunities in the growing green market (Al-Swidi et al., 2024).

H2: Green entrepreneurial orientation has a positive effect on green innovation.

Green innovation refers to the development and implementation of products, processes, and business models that minimize environmental impact while enhancing sustainability (Agrawal, 2024). It encompasses pollution prevention, waste reduction, eco-design, and adoption of renewable technologies. GI helps SMEs differentiate themselves among competitors and reduce cost, For SMEs. GI provides both environmental and economic benefits such as reduced operating cost, improved efficiency, access to eco-conscious markets, and enhanced firm reputation (Budi, 2021). SMEs engaging in GI not only reduce their ecological footprint bur also improve their economic performance through increased efficiency, stronger brand reputation, and compliance with regulations. GI reflects a firm's ability to reconfigure resources in response to dynamic entrepreneurial pressures turning green opportunities into sustainable economic performance. Moreover, firms implementing GI often benefit from government incentives and stronger stakeholder support (Dewi et al., 2024).

H3: Green innovation has a positive effect on economic performance.

While GESE and GEO provide the cognitive and strategic foundations form sustainable entrepreneurship, their impact on economic performance may be indirect. GESE and GEO are critical resources but they need to be transformed into unique capabilities (green innovation) to generate economic value. GI acts as the mechanisms that translates entrepreneurial confidence and orientation into tangible financial outcomes. Entrepreneurs with strong GESE possess the confidence to pursue eco-innovative solutions and integrate them into business practices. These innovations, in turn, enhance efficiency, reduce costs, and open access to sustainability-focused markets that will ultimately improving financial outcomes (Alshebami, 2023). Thus, GI mediates the link between GESE and economic performance. Similarly, GEO reflects a proactive and risk-taking approach to sustainability-driven opportunities. However, the economic benefits of GEO are fully realized only when firms translate this orientation into concrete innovations, developing green products, processes, and technologies that yield competitive advantages (Zhu et al., 2023). Accordingly, this mediating role of Jakarta's SMEs is particularly relevant. While many entrepreneurs possess awareness and orientation toward sustainability, only those who implement GI can capture measurable economic benefits such as cost savings, regulatory compliance, and competitive differentiation.

H4: Green innovation mediates the relationship between green entrepreneurial self-efficacy and economic performance.

H5: Green innovation mediates the relationship between green entrepreneurial orientation and economic performance.

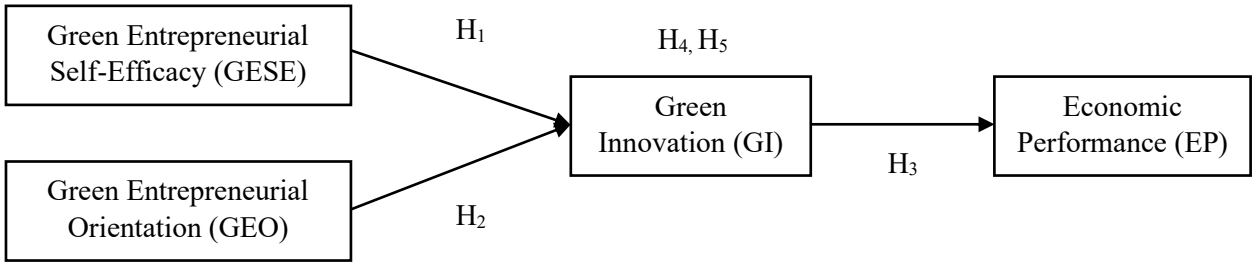

Figure 1. Research Model
Source: Alshebami (2023)

METHODS

This study employed a quantitative research design using primary data collected through an online questionnaire. The respondents consisted of 95 SME owners in Jakarta who implement green practices in their business processes. SMEs were selected because of their significant role in Indonesia's economy and their increasing exposure to environmental regulations and market pressures. Prior to the actual data collection, a pre-test with 40 respondents was conducted to ensure the validity and reliability of the measurement items. The results indicated that two indicators of the green innovation construct (GI1 and GI3) did not meet the validity criteria and were therefore excluded from further analysis.

Sampling and Instrument Development

The study adopted a purposive sampling technique, focusing on SME owners actively engaged in green initiatives. The questionnaire was structured using previously validated scales by Alshebami (2023), adapted to the Indonesian SME context. All items were measured using a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. Economic Performance (EP) is measured with four items capturing environmental certifications, improvements in environmental performance, reductions in resource consumption, and compliance with regulations. Green Entrepreneurial Self-Efficacy (GESE) is measured with three items assessing entrepreneurs' confidence in their ability to solve environmental problems and contribute to sustainability. Green Entrepreneurial Orientation (GEO) is measured with seven items reflecting organizational tendencies toward eco-material adoption, risk-taking in green projects, green R&D, technological leadership, and innovation, initiating green actions, and leadership in green product introduction. Green Innovation (GI) is initially measured with five items reflecting eco-material use, green packaging for existing and new product, recycling, and eco-labeling. Based on the pre-test, GI1 and GI3 were excluded, leaving GI2, GI4, and GI5 for the main analysis.

Data Analysis Technique

The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM), which is suitable for predictive models with relatively small sample sizes and non-normal data distributions. Model evaluation in PLS-SEM involves assessing both measurement model (outer model) and the structural model (inner model). Outer model evaluation was conducted through validity and reliability tests. Validity test is evaluated using outer loadings and average variance extracted (AVE). Outer loadings should exceed 0.70, indicating that the indicator contributes adequately to the construct. An AVE value above 0.50 suggests that more than a half of the variance of the indicators is captured by the construct (Hair et al., 2021). Internal consistency reliability was measured through composite reliability and Cronbach's alpha. Both values should exceed 0.70, indicating acceptable reliability.

Inner model evaluation consists of path coefficients and coefficient of determination (R^2). Path coefficients represent the strength and significance of hypothesized relationships between constructs.

Hypotheses are accepted if t-statistics is greater than 1.645 and are significant if p value < 0.05. R^2 measures the proportion of variance in the dependent variable explained by its predictors. R^2 values of 0.25, 0.5, and 0.75 are considered weak, moderate, and substantial respectively (Hair et al., 2019). This study ensures the robustness of its measurement and structural models, providing reliable and valid insights into the role of green entrepreneurial self-efficacy and green entrepreneurial orientation in enhancing economic performance through green innovation among SMEs in Jakarta.

RESULTS

The study involved 95 SME owners in Jakarta who integrate green practices into their business processes. In terms of gender, the majority of respondents were female (58.9%), while male respondents accounted for 41.1%. Most respondents were between 31-40 years old (54.7%), followed by those aged 21-30 years (28.4%), 41-50 years (15.8%), and less than 21 years (1.1%). Regarding educational background, the largest proportion of respondents had completed senior high school or vocational education (40%), followed by a bachelor's degree (34/7%), a master's degree (13.7%), and a diploma (11.6%). These profiles suggest that the sample represents relatively young and educated SME owners, many of whom are female entrepreneurs engaged in green-oriented businesses.

The results of the validity test showed that all indicators had outer loadings above the recommended threshold of 0.7, with average variance extracted (AVE) values above 0.5, confirming convergent validity for all constructs (Table 1).

Table 1. Validity Test

Indicators	Outer Loading	AVE
EP1	0.815	0.643
EP2	0.904	
EP3	0.884	
EP4	0.726	
GEO1	0.708	0.543
GEO2	0.715	
GEO3	0.708	
GEO4	0.900	
GEO5	0.809	
GEO6	0.901	
GEO7	0.773	
GESE1	0.922	0.822
GESE2	0.898	
GESE3	0.899	
GI2	0.892	0.830
GI4	0.905	
GI5	0.935	

Source: Processed Data (2024)

The reliability test results also demonstrated strong internal consistency. Composite reliability values ranged from 0.875 to 0.936, and Cronbach's alpha values ranged from 0.816 to 0.897, all exceeding the minimum threshold of 0.7 (Table 2). These results confirm that the measurement items were both valid and reliable for further structural model analysis.

Table 2. Reliability Test

Variable	Composite Reliability	Cronbach's Alpha
EP	0.875	0.816
GEO	0.887	0.854
GESE	0.933	0.893
GI	0.936	0.897

Source: Processed data (2024)

The coefficient of determination (R^2) indicated that the model had substantial explanatory power. Specifically, GI was explained by 43.2% of the variance, while economic performance was explained by 78.5% of the variance. These values suggest that the independent variables included in the model provide a strong explanation for the observed outcomes, particularly economic performance.

The results of the hypotheses testing are summarized in Table 3. Out of the five hypotheses, three were supported while two were not. GEO had a significant positive effect on GI, while GESE did not show a significant influence. Furthermore, GI was found to have a strong positive effect on EP, confirming its pivotal role in enhancing SME outcomes. In terms of mediation, GI significantly mediated the relationship between GEO and EP, but its mediating role in the relationship between GESE and EP was not supported. These findings emphasize the strategic importance of orientation and innovation in improving SME economic performance, while suggesting that self-efficacy alone may not be sufficient without its transition into concrete innovative actions.

Table 3. Hypotheses Testing

Hypotheses	Path Coefficient	t-Statistics	p-Value
GEO → GI	0.683	9.425	0.000
GESE → GI	-0.100	1.313	0.189
GI → EP	0.886	44.869	0.000
GEO → GI → EP	0.605	8.989	0.000
GESE → GI → EP	-0.089	1.310	0.190

Source: Processed Data (2024)

DISCUSSION

The study confirms that GEO positively influences GI. From an RBV perspective, GEO represents a valuable and hard to imitate strategic resource that allows SMEs to align business objectives with sustainability, thereby generating eco-innovative outcomes. A sustainability-driven orientation constitutes such a resource because it reflects a strategic posture that is not easily replicated. In Jakarta's SMEs, GEO serves as a guiding framework that channels managerial vision and strategic intent toward eco-innovative practices. At the same time, DC theory explains this relationship through SMEs ability to sense environmental challenges and seize emerging opportunities by embedding sustainability into their entrepreneurial strategies. Consistent with Alshebami (2023), the results indicate that firms embedding sustainability into their orientation are more capable of developing innovations that reduce environmental impact and enhance competitiveness. The relatively young respondent group (54.7% aged 31-40 years) may also explain thins result, as younger entrepreneurs are often more proactive in aligning their strategies with global sustainability trends.

Contrary to expectations, GESE did not significantly affect GI. Within the RBV framework, GESE represents an intangible cognitive resource such as confidence in green entrepreneurship. However, unlike GEO, this resource alone may not be sufficient to produce competitive advantage unless combined with complementary organizational assets such as capital, networks, and institutional support. DC Theory further clarifies this result, while self-efficacy may enable the sensing of green opportunities, SMEs in Jakarta may lack in seizing and reconfiguring capabilities to convert entrepreneurial confidence into tangible GI (Teece, 2007). This finding aligns with Zhang et al. (2023), who emphasized that individual confidence must be reinforced by organizational culture and team collaborations to result in meaningful innovation.

The study found that GI strongly enhances EP. From the RBV perspective, GI can be viewed as a rare and valuable resource that delivers cost efficiencies, market differentiation, and reputational benefits (Chen et al., 2023). DC Theory adds that firms leveraging GI are better positioned to adapt to

environmental regulations and shifting consumer preferences, thereby ensuring long-term survival and competitiveness (Abdelfattah et al., 2024). In Jakarta's context, SMEs that implement green packaging, eco-friendly production, or recycling initiatives benefit from both regulatory compliance and improved customer appeal. The relatively high educational level of respondents (34.7% with bachelor's degree and 13.7% with a master's degree) may facilitate the translation of GI into EP by equipping entrepreneurs with knowledge and awareness of sustainability practices.

The results further indicate that GI mediates the relationship between GEO and EP. GEO provides the strategic vision, while GI operationalizes this orientation into concrete outcomes. From a DC perspective, GEO enables SMEs to sense and seize opportunities, while GI represents the capability to reconfigure resources toward sustainable performance. This aligns with Asad et al. (2023), who highlighted the role of GI in transforming entrepreneurial orientation into economic advantage. In Jakarta's SMEs, where regulatory pressures and consumer awareness are rising, GI acts as the essential mechanism that translates orientation into measurable financial gains.

CONCLUSION

This study examined the influence of green entrepreneurial self-efficacy (GESE), green entrepreneurial orientation (GEO), and green innovation (GI) on the economic performance of SMEs in Jakarta. Grounded in the Resource-Based View (RBV) and Dynamic Capabilities (DC) Theory, the findings highlight the crucial role of orientation and innovation in enhancing SME competitiveness. GEO was shown to significantly foster GI, which in turn strongly improved economic performance. Moreover, GI mediated the relationship between GEO and performance, emphasizing its role as the mechanism that translates strategic intent into tangible outcomes. In contrast, GESE did not significantly affect GI or performance, either directly or indirectly, suggesting that entrepreneurial confidence alone is insufficient without complementary organizational resources and supportive contexts.

The results contribute to theory by extending RBV and DC into the field of green entrepreneurship. They demonstrate that while intangible resources such as orientation and cognition matter, sustainable competitive advantage arises when these are dynamically deployed through innovation. For practitioners, the study suggests that SME owners and managers should move beyond individual confidence and strengthen their strategic orientation towards sustainability, while investing in eco-friendly innovations to achieve economic gains. Policymakers can further support this process by providing training, financial incentives, and collaborative platforms to overcome resource constraints faced by SMEs.

Despite its contributions, this study is limited by its relatively small sample size, cross-sectional design, and reliance on self-reported measures. Future research could adopt longitudinal designs, expand to other regions, and explore additional contextual factors such as government support, digital transformation, or environmental regulations. Such studies would provide a deeper understanding of how entrepreneurial resources and dynamic capabilities interact to shape green innovation and performance in SMEs.

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