Antecedent Effects of the Green Business Strategy and Innovation Capability on the Performance of Creative Fashion SMEs in Bantul Regency

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ABSTRACT

This study examined the performance of environmentally conscious small and medium-sized enterprises (SMEs) in the fashion industry focusing on implementing green business strategies and cultivating innovation skills for eco-friendly practices. Using Structural Equation Modeling with Partial Least Squares (SEM-PLS), data were collected through a survey from 94 natural batik artisans and organic leather craftsmen creatives SMEs in Bantul Regency. Results revealed that a green business strategy effectively mediates the relationship between environmental orientation and business performance. However, the direct link between environmental orientation and business performance was not significant. Similarly, environmentally friendly innovations did not significantly enhance corporate performance as creative SMEs struggle to meet environmentally conscious client preferences. The mediation of green innovation on the relationship between green market orientation and business performance also showed insignificant results. The lack of impact is attributed to slow responses by SMEs to regulatory demands, such as the green branding for natural colored batik products. The novelty of this research lies in emphasizing the green business strategy as a mediator, enforcing SMEs to reveal both external and internal environments factors to boost performance effectively.

Keywords: Business Performance, Environmental Orientation, Green Market Orientation, Green Business Strategy, Green Innovation

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INTRODUCTION

The framework for ecologically sustainable fashion consumerism is shaped by economic, sociocultural, and local government factors. Creative SMEs in the fashion industry must prioritize environmental consciousness, tap into new markets, adopt eco-friendly business strategies, and bolster their environmental innovation capabilities. This shift is driven by a surge in consumer demand for eco-friendly fashion products and the enforcement of government regulations.

The contemporary fashion business industry grapples with significant environmental challenges. The movement towards eco-conscious consumerism is marked by a growing segment of consumers who actively support environmental protection, take responsibility for their ecological footprint, seek information, and show a keen interest in environmentally friendly products (Chang, 2010).

Moreover, the inclination of Small and Medium-sized Enterprises (SMEs) to assume risks constitutes a substantial determinant in the adoption of environmentally friendly strategies and innovative methodologies. The proclivity towards risk-taking exerts a notable influence on the decision-making process, signifying an entrepreneur's readiness to engage with challenges and uncertainties in the pursuit of business objectives (Salleh & Ibrahim, 2013; Garba et al., 2022). In the realm of sustainable entrepreneurship, the assessment of risks associated with the implementation of green strategies and innovative practices assumes paramount significance. The government has accorded precedence to village development as a precursor to national progress. Yields from highly potential villages can serve as foundational data for conducting comprehensive regional appraisals concerning the viability of regional infrastructure, amenities and services, spanning economic, social and regional dimensions (Sudapet et al., 2023).

Recent considerations regarding the involvement of SMEs in environmental conservation activities continue to be encouraged, because if SMEs are involved in environmental conservation activities correctly they will be able to improve business performance in the right way (Majid et al, 2019). Therefore, this study focused on SMEs to explain the relationship between environmental orientation and green market orientation and

business performance. The study of environmental orientation is assumed to be an emerging ecological attitude and to meet stakeholder demands (Huang and Kung, 2010). Also, the role of green market orientation according to Chan et al (2015) explains that a company's attitude regarding environmental responsibility in responding to pressure from suppliers and customers needs to be responded to by efforts to align green business strategy and green innovation practices. Therefore, the main objective of this research emphasized the contribution of enriching knowledge by analyzing the indirect effects of environmental orientation and green market orientation through green business strategies and green innovation in improving business performance.

Implementing effective waste management practices empowers creative SMEs to achieve significant cost savings through the adoption of a green business plan. These SMEs can also adapt to the demands of eco-friendly supply chains by increasing the number of environmentally conscious suppliers and distributors. This, in turn, augments the potential for enhanced business performance. Creative SMEs are able to provide value by leveraging initiatives aimed at boosting the capacity for eco-friendly innovations. SMEs with a creative edge can build positive relationships with regulators, investors, financial institutions, insurance providers, and other stakeholder groups. The company's business activities will be supported and facilitated by it as well (Salleh et al., 2023)

According to Yasir et al. (2020), environmental orientation serves as an important prerequisite for developing strategic policies as well as providing security and environmental protection. Chan, et al. (2016) stated that internal environmental orientation forces organizations to involve internal stakeholders in formulating environmentally friendly strategies. Furthermore, external environmental orientation provides important information about external stakeholders, such as customers, suppliers and regulatory authorities, which is considered a critical factor that encourages the organization to engage in strategy, such as eco-friendly products, eco-friendly services or eco-friendly marketing.

In a corporation thriving in an era of environmental awareness, Green Market Orientation is crucial for the achievement of effective business processes. According to Bambang Tjahjadi et al. (2020), Green Market

Orientation is a very successful and efficient organizational strategy for developing behaviours necessary for providing superior value and superior performance.

In order to attain the best environmental performance, Green Business Strategy incorporates environmental concerns into company strategies (Bçakcolu et al., 2019). This implies that compared to other businesses, environmentally conscious corporations will invest more in green initiatives. Hence, if a company bases its strategic business model on environmentally friendly policies and has the necessary resources to combine environmentally friendly skills, then it is imperative to complete the model (Gupta & Zhang, 2019).

The role of green innovation is pivotal for SMEs in an era marked by environmental consciousness. Environmentally friendly innovations empower SMEs to drive sustainable production practices, ultimately enhancing their overall performance. Hence, SME owners or managers must possess a comprehensive understanding of their need to continue innovating and elevating business performance (Bambang Tjahjadi et al., 2020).

LITERATURE REVIEW

Stakeholders Theory

In the Stakeholders Theory, stakeholders as defined by Freeman (2010), refer to groups or individuals with an interest in an organization's activities and outcomes, and upon whom the organization relies to achieve its objectives. Administrators of organizations often consider stakeholders to be important if they hold authority and legitimacy. In addition, stakeholders hold power if they possess the necessary resources or have the ability to influence outcomes through various methods, such as politics or coercion.

The public, customers, government organizations, environmental activists, and other stakeholders continue to put pressure on businesses to adopt environmentally friendly business strategies and expand the capability of environmentally friendly technologies. The development of environmental

orientation and eco-friendly market orientation helps to satisfy stakeholders' needs. The manager's ability to understand the significance of environmental requirements by satisfying the demands of numerous stakeholders is referred to as environmental orientation (Lin, Huang et al., 2010). Based on the company's attitude toward environmental responsibility in response to pressure from suppliers, customers, and regulatory bodies that compel the organization to protect the environment through the alignment of its business strategy with the environment, environmental orientation refers to the company's approach to environmental responsibility (Leonidou et al., 2015). According to Chao Hung Wang (2020), a focus on the green market facilitates accessible to businesses for garnering fresh ideas from the market boosts their motivation to address stakeholder requests from customers.

Environmental Orientation and Business Performance

Meeting stakeholder requests appears to be facilitated by the company's environmental approach. Environmental Orientation is regarded as an effective source that provides a considerable grasp of the perceptions of various stakeholders and their impact on the organization's decision-making operations (Peng & Wei, 2015). Environmental Orientation has two components, namely internal and external. Both of these orientations are regarded as significant sources of input for establishing an organization's strategic decisions (Gabler et al., 2015). Chan et al (2012) explained that companies' failure to document internal practices in formulating green business strategies occurred due to an inability to align with a number of requirements from external interests such as suppliers, customers or policy authorities. Several studies in developing countries such as Indonesia, Pakistan and so on often provide empirical evidence of the relationship between environmental orientation and business performance that is not strong enough (Yasir, et al, 2020).

According to Yu and Huo (2019), everyone and every employee will have environmental protection as part of their daily routine in a company with an ecologically conscious culture. This company actively takes on environmental responsibility, cultivates a climate of full engagement in environmental protection and will notably encourage ecologically responsible conduct. This type of environmental protection activity will assist in creating the reputation of an environmentally conscious business,

boost sales and gain market share, which will ultimately lead to higher profitability. Performance is a company's level of quality or achievement over a specific time (Sabihaini, 2020). According to Kaplan and Norton (2004), companies can utilize the Balanced Score Card to monitor performance. They emphasized that the Balanced Scorecard must use both financial and non-financial variables as measuring benchmarks. Yu and Huo (2019) also found that environmental orientation has a favourable and considerable impact on financial performance.

H1: Environmental Orientation has a positive effect on Business Performance in creative SMEs (fashion).

Green Market Orientation and Business Performance

According to Chao Hung Wang (2020), a Green Market Orientation helps businesses obtain new ideas from the market and boost their drive to act as stakeholders and meet client expectations. Businesses can better understand their potential target customers and consistently produce superior value for the organization by focusing on eco-friendly customers (Deshpandé & Farley, 1998). Green Market Orientation is an organizational approach that is an extremely effective and efficient technique for establishing the behaviour needed for providing superior value and sustaining superior performance for customers (Bambang Tjahjadi et al.: 2020). Orientation towards eco-friendly clients will enable to rapid response to changes in market needs that are increasingly environmentally friendly (Randal et al., 2003). In a corporation that is operating in an environmentally conscious era, Green Market Orientation is crucial for the success of business processes. It is necessary to harmonize communication and share strategic information and other resources, as well as integrate and collaborate different functional units in the company (green interactional orientation) in order to create value for customers. Thus, it can be stated that a focus on the green market improves business performance.

H2: Green Market Orientation has a positive effect on Business Performance in creative SMEs (fashion).

Green Business Strategy and Business Performance

Bçakcolu *et al.* (2019) stated that a Green Business Strategy is an action that integrates environmental issues into a business strategy in order to achieve optimal environmental performance. The study also stated that success in a Green Business Strategy is dependent on employee competence and knowledge or management. It is critical to complete the business strategy model by making environmentally friendly practices a strategic business model for the company as well as the required capacity to synergize the company's environmentally friendly skills. The financial returns of eco-friendly programming to businesses are dependent on the profit maximization motive of the corporation (Zhang & Gupta, 2019).

H3: Green Business Strategy has a positive effect on Business Performance in creative SMEs (fashion).

Green Innovation and Business Performance

Green Innovation should be implemented since it presents strategic opportunities for businesses to improve cost efficiency and company profitability. Profits will increase if a company develops, manufactures, and sells environmentally friendly products that deliver environmental and social advantages. Green innovation adoption and implementation will have a substantial impact on corporate performance. Companies dedicated to environmentally friendly markets will elevate the role of green innovation and boost commercial performance (Bambang Tjahjadi et al., 2020).

H4: Green Innovation has a positive effect on Business Performance in creative SMEs (fashion).

Environmental Orientation and Green Business Strategies

According to Yasir (2020), Environmental Orientation is a crucial prerequisite for formulating strategic policies as well as ensuring security and environmental protection. Chan et al., (2020) also stated that Internal Environmental Orientation forces organizations to incorporate internal stakeholders for developing environmentally friendly initiatives. Furthermore, External Environmental Orientation provides critical information about external stakeholders, such as customers, suppliers and

regulatory authorities, which are regarded as critical factors that compel organizations to engage in strategies, such as eco-friendly products, eco-friendly services, and eco-friendly marketing.

H5: Environmental Orientation has a positive effect on Green Business Strategies in creative SMEs (fashion).

Green Market Orientation and Green Innovation

Green Innovation is described as innovations and information used by businesses to continuously explore experiences from current or new settings. This entails improving and developing environmentally friendly products, processes or services in order to meet anticipated market and customer expectations (Wang *et al.,* 2019).

According to Chao Hung Wang (2020), Green Market Orientation facilitates a company's access to fresh market ideas and boosts company incentives in response to customers' environmental demands. Companies that can produce Green Innovation to meet the demands of an environmentally conscious market can attract an environmentally conscious market. As a result, Green Innovation developed by the company based on customer demand will be capable of generating value for new innovations.

H6: Green Market Orientation has a positive effect on Green Innovation in creative SMEs (fashion).

The Mediating Green Business Strategy

Environmentally responsible businesses will invest more in environmentally friendly programs than other businesses. Hence, if their strategic business model is based on green policies, and if organizations have the requisite capacity to synergize green capabilities, then it is absolutely necessary to complement the green business strategy model (Zhang & Gupta, 2019).

According to Bıçakcıoğlu (2016), an organization can boost its financial benefits by engaging in environmentally beneficial activities. The rationale for this is that by improving cost efficiency in the manufacturing

area, it can lower the quantity of waste produced and minimize the costs incurred by the company. Companies must respond to stakeholder demands and enhance their competitive position by implementing environmentally friendly initiatives that protect the environment. Consequently, public awareness and regulatory pressure are growing. The company will build a reputation, gain advantage over rivals and expand the number of accessible markets by satisfying stakeholders' environmental demands. Hence, it is anticipated that the organization will perform financially better. Yasir et al. (2020) discovered that an emphasis on the environment has a favourable and significant impact on the development of green business strategies. In addition, Olayeni et al. (2021) found that a green strategy has a favourable and significant impact on financial performance.

H7: Environmental Orientation, through Green Business Strategies, has a positive effect on Business Performance as a mediating variable in creative SMEs (fashion).

The Mediating Green Innovation

Chao Hung Wang (2020) stated that companies can produce green innovation to suit the needs of an environmentally friendly market while attracting such a market. Hence, it can be inferred that green innovation generated by enterprises based on customer demand will be capable of producing new innovative values. Green market orientation facilitates access to fresh market ideas and boosts firm desire to respond to customers' environmental demands. Customers who request information are valuable asset.

According to Bambang Tjahjadi et al. (2020), shifting consumer preferences have also affected consumers' manufacturing and consumption habits, which makes consumers are more ecologically conscious. Environmentally friendly items are more popular among consumers. Tjahjadi revealed that developing, producing, and marketing environmentally friendly products that provide environmental and social advantages will increase a company's revenues. Green innovation adoption and use will significantly affect corporate performance. The importance of green innovation is increasing as businesses become more focused on environmentally friendly marketplaces in order to achieve superior business performance. This is

consistent with Bambang Tjahjadi (2020), who opined that green innovation has a beneficial impact when it comes to mediating the relationship between Green Market Orientation and business performance.

H8: Green Market Orientation has a positive effect on Business Performance through Green Innovation as a mediating variable in creative SMEs (fashion).

METHODOLOGY

Creative SMEs in Bantul Regency that used eco-friendly tactics and green innovations were the samples used in this study. Batik-related creative SMEs and Leather craftsmen creative SMEs that were dedicated to implementing green business strategies and green innovations in their business activities were the sample selection criteria required to participate in this study. The following were requirements for creative SMEs, namely use dyes and environmentally friendly raw materials, possess facilities for managing liquid, solid, or gas waste and use environmentally friendly packaging, while tanning leather should use environmentally friendly procedures and possess facilities for managing liquid, solid, or gas waste.

Data analysis in this study used the Partial Least Square (PLS) analysis method. According to Ghozali (2015), PLS is a soft modelling analytical technique since it does not presuppose that the data must have a specific scale measurement that allows for a minimal number of samples (under 100 samples).

RESULTS

Hypothesis testing was performed using SmartPLS Version 3.2.8. The full path coefficient model is depicted in Figure 1 and hypothesis test results can be found in Table 1-2.

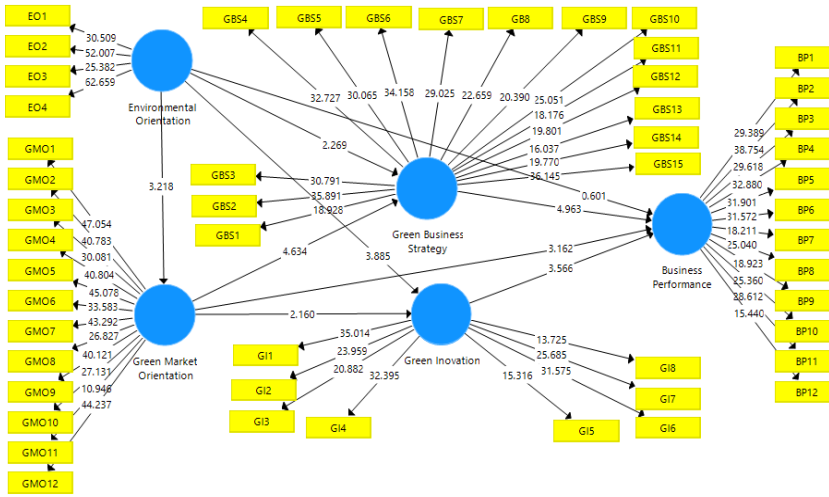

Figure 1: The Full Path Coefficient Model

Table 1: Direct Influence Bootstrapping Results

	Original Sample (O)	*T Statistics* (O/STDEV)	*P Values*	Hypothesis
Environmental Orientation → Business Performance	-0.049	0.601	0.548	Unaccepted
Green Market Orientation → Business Performance	0.273	3.162	0.002	Accepted
Green Business Strategy → Business Performance	0.449	4.963	0.000	Accepted
Green Innovation → Business Performance	0.319	3.566	0.000	Accepted
Environmental Orientation → Green Business Strategy	0.238	2.269	0.024	Accepted
Green Market Orientation → Green Innovation	0.228	2.160	0.031	Accepted

Source: Primary data processed, 2024

Table 2: Indirect Effect Bootstrapping Results

	Original Sample (O)	*T Statistics* (O/STDEV)	*P Values*	Hypothesis
Environmental Orientation → Green Business Strategy → Business Performance	0.107	2.118	0.035	Accepted
Green Market Orientation → Green Innovation → Business Performance	0.073	1.449	0.148	Unaccepted

Source: Primary data processed, 2024

Measurement Model Test Results (Outer Model)

The measurement of variables in this research used the development of variable measurements from previous research and the reliability and validity of the measurement scales developed were checked. Reliability was used to measure whether the indicator was accurate because it had internal consistency and referred to Zameer et al (2019), the results of model fit were evaluated and confirmed with CFI values above 0.90, GFI above 0.82, CMIN/DF below 0.5 and RMS less of 0.08. This research used a Likert scale, so checking the reliability of the scale needed to be carried out using Cronbach alpha and the alpha coefficient value of all variables was above the threshold level of 0.70 which supported the reliability of the scale. According to Bagozzi and Yi (1991) the reliability of all scales needed to be confirmed, namely an in-depth analysis of indicator validity, internal consistency reliability, convergent validity and discriminant validity. The test results are presented in Table 3. If the estimated value of the factor loading was above the minimum limit of 0.50, it meant that the validity of the indicator was achieved. Likewise, the factor loading value of each construct included in the final measurement model was above the minimum level of 0.50, thus the results of testing the validity of the required indicators were met. Internal consistency was ensured by the estimated composite reliability (CR) value and according to Hair et al (2010) the CR threshold must be above 0.70 to claim internal consistency. In this study, the CR results showed that these values were above the required threshold, meaning that internal consistency was met. Convergent validity can be measured using average variance extract (AVE) (Hair et al, 2010). The results of this research, the AVE value was estimated and the AVE for each construct was above the threshold of 0.50, meaning that there was convergent validity. After evaluating and confirming indicator validity, internal consistency reliability and convergent validity, it was then necessary to evaluate discriminant validity. Fornell and Larcker (1981) argued that the correlation between selected constructs should be lower than the square root of the constructs' AVE.

Table 3: Summary of Validity and Reliability Analysis

	Loading (>0.50	Cronbach's	*CR (.0.7)*	AVE (>0.5)
Environment Orientation				
EO1	0.82	0.842	0.840	0.672
OE2	0.88			
OE3	0.80			
OE4	0.86			
Green Market Orientation				
GM01	0.72	0.888	0.865	0.642
GMO2	0.67			
GMO3	9.82			
GMO4	0.88			
GMO5	0.89			
GMO6	0.81			
GMO7	0.88			
GM08	0.84			
GMO9	0.74			
GM010	0.82			
GMO11	0.78			
GMO12	0.82			
Green Business Strategy				
GBS1	0.82	0.864	0.882	0.788
GBS2	0.86			
GBS3	0.88			
GBS4	0.92			
GBS5	0.67			
GBS6	0.78			
GBS7	0.84			
GBS8	0.86			
GBS9	0.88			
GBS10	0.92			
GBS11	0.94			
GBS12	0.86			
GBS13	0.84			
GBS14	0.78			
GBS15	0.86			
Green Innovation				
GI1	0.67	0.815	0.857	0.687
GI2	0.82			
GI3	0.88			
GI4	0.76			
GI5	0.68			
GI6	0.86			
GI7	0.84			
GI8				

Business Performance				
BP1	0.88	0.944	0.955	0.842
BP2	0.81			
BP3	0.92			
BP4	0.84			
BP5	0.86			
BP6	0.95			
BP7	0.93			
BP8	0.86			
BP9	0.83			
BP10	0.95			
BP12	0.89			

Source: Primary data processed, 2024

Results of Structural Model Testing (Inner Model)

Testing and evaluating the *inner model* in this study used a *goodness-of-fit* test and a *path coefficient* test, as explained in Table 4 below.

Table 4: Determination of Coefficient (R2)

	R Square	R Square Adjusted
Green Market Orientation	0.119	0.110
Green Business Strategy	0.335	0.322
Green Innovation	0.266	0.252
Business Performance	0.668	0.655

Source: Primary data processed, 2024

Findings indicated that the coefficient of determination for Green Market Orientation was 0.119, Green Business Strategy is 0.335, Green Innovation is 0.266 and Business Performance is 0.668.

The model in total had a contribution of 85.72%, as shown by the *predictive-relevance* (Q^2) score. These findings indicated that the model used in this study had a good goodness-of-fit.

DISCUSSION

From the results of testing the first hypothesis, it can be seen that environmental orientation has a negative but not significant influence on business performance, so the research hypothesis put forward by Yasir

et al. (2020) is not supported. The results of this research indicated that the environmental focus of SMEs had a negative impact on the business performance of innovative SMEs in the Bantul Regency fashion industry. This shows that demand and support from stakeholders, including suppliers and regulatory organizations, regarding environmental sustainability issues, actually hinders SME performance. A special phenomenon in the natural color batik craft industry, the process of recognizing hand-written batik as a green product has established a policy of giving the green brand label "GOLD MARK", however in the field a number of SMEs are still unfamiliar with this green brand. The lack of communication between SMEs and government institutions has resulted in an ecosystem that is less strong and not integrated, resulting in the influence of environmental orientation on business performance not being proven. Certain SMEs are required to allocate additional financial resources to adjust policies, green brand certification application procedures and the certification application process also takes a long time. The performance of SMEs is impacted due to the need to increase capital investment to establish wastewater disposal facilities and obtain certification for environmentally friendly sustainable practices to comply with local government regulations. Findings from testing the second hypothesis in this study indicated that green market emphasis has a beneficial influence on business performance. This is in line with a previous study by Bambang Tjahjadi et al., (2020), which also found that adopting a Green Market Orientation has a substantial and beneficial impact on business performance. In summary, this study revealed that incorporating environmentally friendly sustainable practices into the business operations of SMEs, particularly in the fashion industry, presents certain difficulties. However, this study also highlights the potential long-term benefits of adopting a green market orientation. This suggests that there is a need for further assistance, including in policy and infrastructure aspects, to help SMEs overcome initial barriers to implementing environmentally friendly sustainable practices, while also taking advantage of opportunities for improved performance. A positive value indicates that the Green Market Orientation element is very important to increase the success of SME businesses. SME business performance increases with a higher Green Market Orientation.

Based on the results of the third hypothesis testing, green business strategy had beneficial effect on corporate performance. Findings of this

study were consistent with recent studies by Olayeni (2021). The study's positive value demonstrates that Green Business Strategy plays a vital role in boosting SME business performance; therefore, the greater the green business strategy implementation of creative SMEs (fashion) in Bantul Regency, the higher the SME's business performance.

Subsequently, findings of the fourth hypothesis testing indicated that green innovation has a beneficial effect on corporate performance. The findings are in line with previous studies by Bambang Tjahjadi (2020), which found that green innovation has a positive impact on corporate performance. These findings confirm the reliability and importance of green innovation in the corporate context. SMEs' income will increase as a result of innovations that improve and develop products in line with market and customers' demand for green products.

The fifth hypothesis testing demonstrated a positive impact of Green Market Orientation on green innovation. This finding is consistent with Bambang Tjahjadi (2020). The adoption of a Green Market Orientation enables SMEs to acquire novel market insights and enhances their drive to meet the demands of environmentally conscious customers. The adoption can also incentivize and entice SMEs to create environmentally sustainable technologies that cater to the demands of an ecologically conscious market. Hence, the eco-friendly advancements created by SMEs in order to meet client requirements possess the capability to develop novel creative benefits. The potential influence of environmentally-friendly innovation on market demand is substantial. SMEs can attract a rising number of environmentally concerned consumers who prioritise sustainability by creating and providing eco-friendly products or services. This does not only result in higher sales and market dominance, but also helps to realise a broader transition towards a more environmentally sustainable economy.

Results of the Bootstrapping test indicated that the Green Business Strategy had a significant and positive effect on the relationship between environmental orientation and business performance, as confirmed by the hypothesis testing. The t-test and P-value provided evidence of this. Results of this study corroborate a previous study by Yasir et al. (2020), whereby there is a positive and substantial influence on the development of green business strategies when prioritising the environment. In addition, Olayeni

(2021) found that implementing a green corporate strategy has a positive and substantial effect on financial success.

Utilising a Green Business Strategy as a mediating variable can have an impact on the success of SMEs. In order to effectively address the growing regulatory demands and meet stakeholder expectations, it is imperative for all SMEs to adopt environmentally sustainable strategies (Yasir et al., 2020). SMEs can improve their commercial success by implementing a green business plan, which will ultimately assist innovative SMEs (specifically in the fashion industry) in comprehending and addressing legal limitations imposed by stakeholders, while enhancing productivity and reducing operational costs. This aims to optimise the efficacy of eco-conscious business methods and bolster the environmental focus of innovative SMEs (fashion) in Bantul Regency.

CONCLUSION AND POLICY SUGGESTIONS

It is challenging for SMEs to perform well when facing poor ecosystem integration and relationships between suppliers, regulators and other SMEs. Environmental orientation is based on the company's attitude toward environmental responsibility in reaction to pressure from suppliers, customers and regulatory bodies that compel enterprises to protect the environment (Leonidou et al., 2015). According to this study, SMEs actually perform worse when they are subjected to stakeholders' demands and incentives, in this case it is the regulatory bodies and environmental issues. Environmentally responsible behaviour will improve sales and market share for environmentally conscious SMEs, which will ultimately lead to higher profits (Yu & Huo, 2019).

In order to build an effective integration and an environmentally friendly ecosystem, this study recommends that stakeholders, such as the Bantul Regency government, not only act as regulators. They should collaborate to raise awareness about eco-friendly initiatives. For example, building a technical guidance center for SMEs to support the practice of preparing green business strategies and developing green innovation. The government and SMEs can construct affordable municipal wastewater treatment facilities with environmentally friendly SME centres. Thus, if

the green SME centre works in tandem with local tourism initiatives, it will help improve the SME's reputation as a green business. In addition, the presence of an environmentally friendly raw material sector in the area will make it easier and less expensive for SMEs to acquire environmentally friendly raw materials.

Even though environmentally friendly innovation has yet to significantly improve business performance in order to meet the demands of environmentally conscious customers, creative SMEs (Fashion) in Bantul Regency must remain optimistic about developing their capabilities to embrace environmentally friendly innovation. This is because SMEs can employ innovations and knowledge to develop and improve environmentally friendly products and processes to fulfil the demands and needs of environmentally conscious consumers in the future.

This study also has a theoretical contribution, namely enriching knowledge related to environmental management research in several important ways, for example a holistic view of the preparation of green business strategies in improving business performance which must be aligned with environmental orientation and Green Market Orientation (Chan et al, 2012), as no previous research has developed comprehensive measures for measuring business performance through the formulation of green business strategies. Second, this research contributes to theory development by offering a more comprehensive Green Business Strategy measurement scale, namely 15 indicators adopted from a number of studies (Tjahyadi et al, 2020; Chao Hung Wang, 2020) which have been confirmed in manufacturing SMEs in a number of developing countries.

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