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Improving Marketing Performance through Green Innovation Value Creation as a Pathway to Sustainability for Small and Medium Enterprises in the Modern Era

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ABSTRACT

Environmental challenges are increasingly pressing, prompting Small and Medium Enterprises (SMEs) to adopt sustainable practices. According to the Indonesian Central Statistics Agency, SMEs contribute 97% of the workforce, yet only a small fraction implement environmentally friendly practices. This research investigates how SMEs can leverage green innovation to enhance marketing performance and promote sustainability. It employs a quantitative approach to assess the relationship between green innovation, green marketing, and marketing performance among SMEs in Medan City. The findings reveal that green innovation and value creation significantly influence green competitive advantage, with an R^2 value of 0.807. While green marketing does not directly relate to marketing performance, green innovation substantially affects it. Additionally, green competitive advantage is a partial mediating variable, indicating SMEs' potential to develop innovative sustainable marketing strategies that create competitive value and encourage environmental responsibility. The study underscores the critical role of green innovation in transforming SME marketing approaches, positioning sustainable practices as key differentiators in competitive markets.

Keywords: Green Innovation Value Creation, Marketing Performance, MSMEs, Green Competitive Advantage, Sustainability

ABSTRAK

Tantangan lingkungan semakin mendesak, mendorong Usaha Kecil dan Menengah (UKM) untuk mengadopsi praktik berkelanjutan. Badan Pusat Statistik Indonesia melaporkan bahwa UKM menyumbang 97% dari tenaga kerja, namun hanya sebagian kecil yang menerapkan praktik ramah lingkungan. Penelitian ini menyelidiki bagaimana UKM dapat memanfaatkan inovasi hijau untuk meningkatkan kinerja pemasaran dan mempromosikan keberlanjutan. Penelitian ini menggunakan pendekatan kuantitatif untuk menilai hubungan antara inovasi hijau, pemasaran hijau, dan kinerja pemasaran di antara UKM di Kota Medan. Temuan penelitian menunjukkan bahwa baik inovasi hijau maupun penciptaan nilai inovasi secara signifikan mempengaruhi keunggulan kompetitif hijau, dengan nilai R^2 sebesar 0,807. Menariknya, sementara pemasaran hijau tidak memiliki hubungan langsung dengan kinerja pemasaran, inovasi hijau memberikan dampak yang substansial. Selain itu, keunggulan

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kompetitif hijau berfungsi sebagai variabel mediasi parsial, menunjukkan potensi UKM untuk mengembangkan strategi pemasaran berkelanjutan yang inovatif, yang menciptakan nilai kompetitif dan mendorong tanggung jawab lingkungan. Studi ini menekankan peran kritis inovasi hijau dalam mentransformasi pendekatan pemasaran UKM, yang menempatkan praktik berkelanjutan sebagai pembeda utama di pasar yang kompetitif.

Kata kunci: Green Innovation Value Creation, Marketing Performance, MSMEs, Green Competitive Advantage, Sustainability

A. INTRODUCTION

The imperative for Small and Medium Enterprises (SMEs) to adopt sustainable practices in their operations reflects a critical challenge many businesses face today. This need has become even more pronounced amid increasing environmental awareness among consumers. Despite this growing consciousness, SMEs often struggle to integrate eco-friendly strategies into their business models, highlighting a significant research gap in understanding how green marketing and innovation can create competitive advantages and enhance marketing performance for these enterprises. Recent literature emphasizes the role of green marketing strategies in shaping consumer attitudes and behaviors toward eco-friendly products. An important aspect of this is that consumers' environmental consciousness significantly affects their purchasing decisions; individuals who recognize the benefits of sustainable practices are more inclined to purchase environmentally friendly products (Guerreiro & Pacheco, 2022; Amoako et al., 2020). In particular, SMEs can leverage these consumer trends by implementing concrete green marketing tactics, such as transparent communication of their eco-friendly initiatives, thereby establishing sustainability as a core value within their operational framework (Sugandini et al., 2020).

Moreover, green innovation plays a crucial role in boosting competitive advantage. For SMEs, introducing environmentally sustainable practices meets regulatory demands and fosters stronger brand loyalty and customer engagement (Niedermeier et al., 2022; Zhang & Dong, 2021). The findings indicate that integrating environmental considerations into their strategies can enable SMEs to differentiate themselves in an increasingly competitive market. As such, firms that successfully adopt green marketing strategies tend to witness enhanced brand image and customer loyalty, resulting in improved marketing performance (Machová et al., 2024). Importantly, scholars have noted a paradox: while awareness regarding sustainability is increasing, adopting green business strategies often lags. This phenomenon can be attributed to multiple factors, including limited resources, knowledge gaps regarding

green practices, and consumer skepticism regarding green claims, also called "greenwashing" (Machová et al., 2024). Therefore, SMEs may benefit from educational efforts that enhance understanding of green marketing principles and the benefits of adopting sustainable practices while addressing consumer skepticism towards perceived greenwashing (Machová et al., 2024; Ni Wayan Sukartini, 2019).

The literature further suggests that decision-makers within SMEs should engage with consumer segments that prioritize sustainability, tailoring their marketing efforts to align with the values of environmentally conscious consumers. This alignment is particularly crucial in emerging markets where awareness and demand for sustainable products are (Sembiring et al., 2019; Gallego et al., 2020; Mukonza & Swarts, 2020). However, the challenge persists that translating green consumer intentions into actual purchasing behavior remains a significant hurdle that requires strategic marketing interventions focused on building trust and genuine engagement with the brand (Sembiring et al., 2019; Vela et al., 2022; Guerreiro & Pacheco, 2022; Li et al., 2020).

In conclusion, the intersection of green marketing, green innovation, and competitive advantage provides a fertile ground for SMEs seeking to enhance their marketing performance (Leung & Wong, 2024; Quaye & Mensah, 2020; Hikmawati et al., 2022; Loučanová et al., 2020). By understanding the complexities of consumer behavior and addressing both the emotional and cognitive factors that drive eco-friendly purchasing decisions, SMEs can effectively close the gap between environmental awareness and sustainable business practices. Ultimately, bridging this gap not only aligns with global sustainability goals but also contributes to the long-term viability and growth of SMEs in today's eco-conscious marketplace (Nupueng et.al, 2022).

Important conclusions show that marketing performance and green marketing are not always directly correlated. Nonetheless, green marketing can make a big difference when it is mediated by competitive advantage. This suggests that adopting sustainable business practices requires a deliberate and comprehensive strategy. The research context in the cities of Medan and Deli Serdang offers a distinct viewpoint on the dynamics of SMEs in Indonesia. This study successfully revealed the intricacies of opportunities and barriers in implementing green business practices by including 125 entrepreneurs from the food and cosmetics industries. The research's consequences are crucial for promoting long-term change in SMEs. The findings demonstrate the importance of green innovation in generating value

and gaining a competitive edge. This study offers valuable insights for creating more sustainable company strategies, in addition to its scholarly contributions.

LITERATURE REVIEW

Green marketing is defined as the development and promotion of products that are environmentally friendly and do not harm the environment (Chen & Chang, 2023). This concept has evolved into an effective marketing strategy to encourage more environmentally friendly purchasing behaviors. According Mishra & Sharma (2022) green marketing encompasses key elements such as eco-labels, eco-brands, and environmental awareness. Green marketing strategies, as outlined by Leung & Wong (2024) focus on marketing mix, market segmentation strategies, and the STP process (Segmentation, Targeting, Positioning). This approach enables companies to develop more strategic methods in marketing environmentally friendly products (Nupueng et al., 2022).

Green innovation is defined as a revolutionary environmental innovation practice encompassing innovation application, process management, and sustainable marketing approaches. Aboelmaged (2023) explains that environmental market pressures drive industries to implement green innovations (Aboelmaged, 2023), develop sustainable practices, and respond to stakeholder demands. The concept of competitive advantage, according to (Nguyen et al., 2020), is defined as a company's ability to become more attractive than competitors through value creation that exceeds costs. Day and (Zhang et al., 2020) expand this concept by introducing differentiation advantage and low-cost advantage as key elements.

In the context of SMEs, the Indonesian Law No. 20 of 2008 defines micro, small, and medium enterprises as productive businesses owned by individuals with specific criteria based on business scale. The SME sector has extensive diversity, ranging from fashion to culinary businesses, with significant economic contributions. Recent research reveals the complex relationships between green marketing, green innovation, and marketing performance. Green marketing has been proven to influence consumer behavior, while green innovation creates competitive advantages that, in turn, enhance marketing performance. Shahzad (2021) identifies several challenges in implementing green strategies, including resource limitations, knowledge gaps, and consumer skepticism towards environmental claims (greenwashing). This underscores the need for a comprehensive and authentic approach to developing sustainable marketing strategies (Siregar, 2021; Mukonza & Swarts, 2020). Effective SME adaptation strategies include transparent communication of

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sustainability initiatives, developing environmentally friendly products, building consumer trust, focusing on environmentally conscious consumer segments.

Empirical research demonstrates that SMEs can create competitive advantages through green product differentiation, sustainable innovation, cost efficiency, brand image enhancement. Key conclusions suggest that green marketing and green innovation provide strategic foundations for SMEs to create competitive advantages, improve marketing performance, contribute to environmental sustainability.

This comprehensive approach generates economic benefits and supports sustainable transformation in the SME business ecosystem. Further research is needed to explore specific mechanisms that enable the effective integration of green practices. The intersection of green marketing, innovation, and competitive advantage presents a critical area of strategic development for SMEs (Sun et al., 2024). By understanding and implementing sustainable practices, these enterprises can position themselves more effectively in an increasingly environmentally conscious market. Theoretical and practical implications suggest that SMEs must develop holistic green strategies, invest in sustainable innovation, create value beyond traditional business models and respond to emerging environmental consumer demands. The research highlights the importance of a multidimensional approach to sustainability, emphasizing that green marketing is not just a trend but a fundamental shift in business strategy and consumer engagement (Peteru, 2022).

B. RESEARCH METHOD

This research employs a quantitative descriptive method to investigate how developing competitive advantages for small and medium enterprises (SMEs) improves marketing performance. The quantitative method uses numerical data to calculate the number of SME actors and ways to enhance their marketing performance. Data collection is conducted using questionnaires sent to SMEs in the food and beauty industries. Secondary data has been collected and documented apart from the primary data used in the research. The secondary data for this study comes from the North Sumatra Cooperative Office and BPS, which includes data from reports and documents related to improving marketing performance, including data on SMEs in Medan City. In this study, the analytical tool used is the SEM test. Additionally, this research was conducted through a field research approach. This research aims to identify the factors that influence marketing performance in the SME sector in Medan City. In this study, the analytical tool used is Smart PLS.

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To ensure that the questionnaire to be distributed to research respondents is valid and credible, the first step of this research is to conduct an instrument test. Outside of the research sample, the initial questionnaire was distributed to twenty respondents to test the validity and reliability of the instrument. The validity test is conducted to determine the validity of the questionnaire, as a questionnaire whose indicators can accurately measure the structure of the variables used is considered valid. The value of the factor loading (LF) produced allows for the assessment of indicator validity. When the LF value is greater than or equal to 0.7, the indicator is considered valid (Syafii et al., 2024). These non-functional indicators will be discarded from the model and not used in the subsequent stages. After valid indicators that can describe the structure are found, a reliability test of the questionnaire is conducted to ensure that the questionnaire can be used correctly. The Smart-PLS software is used to conduct reliability testing using the Cronbach's Alpha method. A variable is considered reliable if its Cronbach's Alpha value is greater than 0.70.

The research participants are given a legitimate and trustworthy questionnaire from the following step using Smart-PLS software. This software is used to evaluate the measurement and structural models (outer model) as part of the data processing procedure. The assessment of the inner structural model and the outer measurement model. Validity and reliability tests are used to evaluate the measurement model, where the value of the standardized loading factor indicates the validity of the test. An indicator is considered genuine when the loading factor value is more than or equal to 0.7. However, reliability is assessed using AVE (Average Variance Extracted) and the Cronbach's alpha value. The construct is deemed credible when the AVE is at least 0.5 and the Alpha Cronbach score is greater than or equal to 0.7.

Reliability is then assessed using discriminant validity. Two methods are employed to assess discriminant validity: cross-loading and comparing the square root of AVE with the correlations between components. The objective of cross-loading measurement is to compare the correlation of indicators with their structure and other block structures. The structure is better at predicting the block size than other block structures if the correlation between the indicator and the block structure is greater than the correlation between other block structures (Ghazali, 2008).

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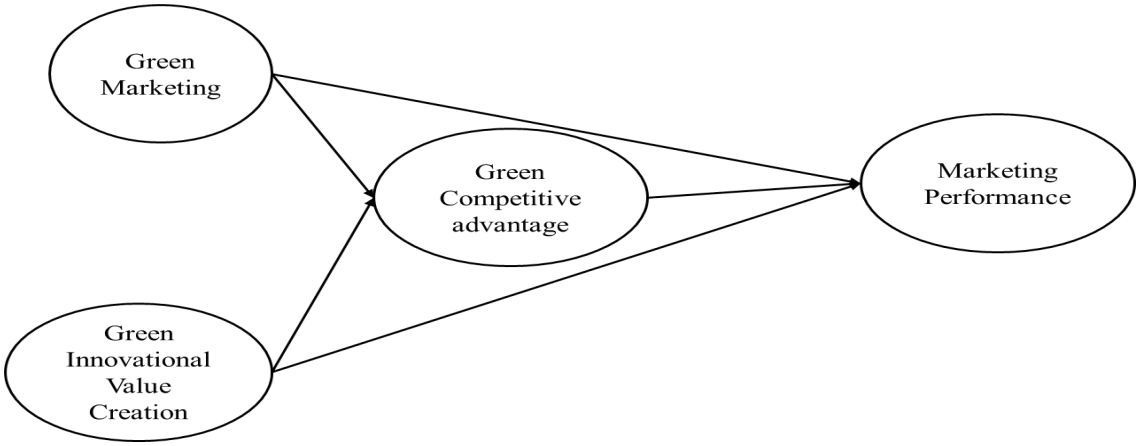

Figure 1. Conceptual Framework

C. RESULTS AND DISCUSSION

The results of the reliability and construct validity tests on the reflective measurement model are reinforced by the construct validity and reliability test results through the factor analysis above. This model is used in accordance with the recommendations from Hair et al. (2017). The required factor loadings in SmartPLS 3.3.9 are more than 0.70, so the constructs in this study are acceptable (valid) because all indicators have factor loadings greater than 0.70. For the Green Marketing variable, the results of Cronbach's Alpha (CA), CR, and AVE are as follows: Marketing Performance (CA=0.900; CR=0.920; AVE=0.590), Green Innovational Value Creation (CA=0.963; CR=0.968; AVE=0.771), and Green Competitive Advantage (CA=0.966; CR=0.972; AVE=0.811).

All indicators (observational variables) that influence each latent variable (Green Marketing, Green Innovational Value Creation, Green Competitive Advantage, and Marketing Performance) as a formative model are declared valid because the results of the classical assumption test have significant weights. There are no signs of multicollinearity among the indicators, as evidenced by t-statistics and P-Value values greater than 1.96 and less than 0.05, as well as collinearity statistics or VIF values less than 5. Additionally, the kurtosis and skewness values are between -2.58 and +2.58, so it can be said that the data is normally distributed. The Discriminant Validity test is declared valid because the square root of the AVE of each latent variable is higher than the correlation coefficient with other latent variables (Fornell-Larcker Criterion dan HTMT). Indicators also have a higher correlation

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with their respective latent variables compared to other latent variables (Cross Loading) (Henseler and Hubona, 2016).

The first structural equation model test analysis was conducted to determine the R^2 value, which indicates the extent to which the independent variables can explain the first dependent variable (e-value) as a mediator. The analysis results show that Green Marketing and Green Innovational Value Creation together influence Green Competitive Advantage with an R^2 value of 0.807 (R square for two independent variables). This means that 80.7% of the variance in Green Competitive Advantage by SMEs can be explained by Green Marketing and Green Innovational Value Creation, while other variables explain the remaining 19.30%.

The second structural equation model test analysis was conducted to determine the R^2 value, which indicates the extent to which the independent variables can explain the second dependent variable (Marketing Performance). The analysis results show that Green Marketing and Green Innovational Value Creation together influence Marketing Performance with an R^2 value of 0.848 (R square for two independent variables). This means that 84.8% of the variance in SME Marketing Performance can be explained by Green Marketing and Green Innovational Value Creation, while other variables can explain the remaining 15.20%. The structural equation model results from the above analysis can be seen in Figure 2 as follows:

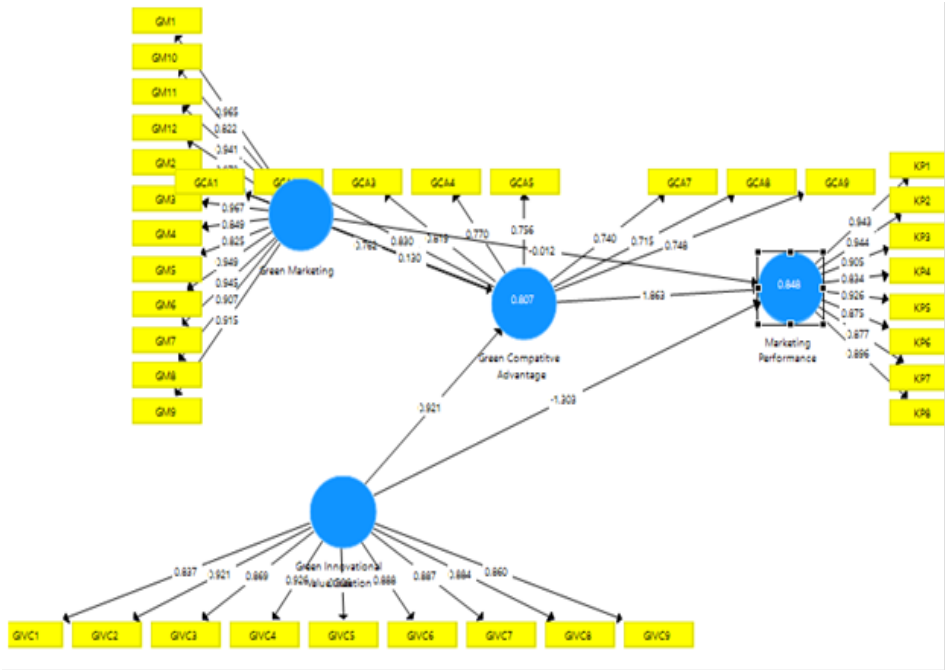

Figure 2. Structural Equation Model Results

Data bootstrapping can be used to explain the analysis of the direct influence of green independent variables (Green Marketing and Green Innovational Value Creation) on Green Competitive Advantage and Marketing Performance (Table 1)

Table 1. Results of the hypothesis test.

Hypothesis	Path			t-Value	P-value	Remark
H1	*Green Marketing*	→	*Green Competitive Advantage*	2,722	0,007	Significant Hypothesis
H2	*Green Innovational Value Creation*	→	*Green Competitive Advantage*	65,152	0,000	Significant Hypothesis
H3	*Green Marketing*	→	*Marketing Performance*	0,292	0,770	Insignificant Hypothesis
H4	*Green Innovational Value Creation*	→	*Marketing Performance*	8,822	0,000	Significant Hypothesis
H5	*Green Competitive Advantage*	→	*Marketing Performance*	17,262	0,000	Significant Hypothesis

The results of the previous hypothesis test indicate that the four hypotheses found in this study have t-values or t-statistics greater than 1.96 and P-values less than 0.05. This suggests that the data obtained from the data analysis supports the research hypotheses, or in other words, the proposed hypotheses are accepted. In Table 3, the t-value is 0.292 (less than 1.96) and the p-value is 0.770. As indicated by this value, the p-value is greater than alpha. (0.05). Therefore, the first hypothesis of the research is rejected. Thus, it can be concluded that there is no relationship between green marketing and marketing performance in SME marketing. Therefore, Green Marketing, which was suspected to be one of the supporting factors for the marketing performance of SMEs (food and beauty) in Medan City and Deli Serdang, is considered to have no impact on the improvement of the marketing performance of these SMEs. The analysis results also show that the green independent variables (Green Marketing and Creation of Green Innovational Value) affect marketing performance through Green Comparative Advantage, which can be explained based on bootstrapping analysis data, as presented in Table 2.

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Table 2. Mediation Results

Hypothesis	Path	t-Value	P- Value	Remark
H1	Green Marketing has a positive and significant effect on Marketing Performance mediated by Green Competitive Advantage	15,455	0,000	Significant Hypothesis
H2	Green Innovational Value Creation has a positive and significant effect on Marketing Performance mediated by Green Competitive Advantage	2,768	0,006	Significant Hypothesis

The results of the previous indirect effect analysis showed that all t-statistic values < 1.96 and P-values < 0.05. Therefore, both hypotheses are accepted. Table 1 and Table 2 show that the Green Comparative Advantage variable functions as a partial mediator in the influence of Green Marketing on marketing performance. This indicates that, although the t-value decreases, the influence remains unchanged or equal to the direct influence. Green Competitive Advantage serves as a mediator between the indirect influence of Green Innovational Value Creation on marketing performance. This is because, although the t-value decreases, the indirect influence shows the same result as the direct influence, which is positive and significant.

CONCLUSIONS

This research aims to validate and confirm the reliability and construct validity of the SmartPLS 3.3.9 regression model, which has loading factors greater than 0.70. All indicators with loading factors greater than 0.70 also confirm construct validity. Additionally, the variables of Green Marketing, Green Innovation Value Creation, Green Competitive Advantage, and Marketing Performance were tested, with a CR or CA of at least 0.70 and an AVE of at least 0.50. This test uses Cronbach's Alpha (CA), CR, and AVE for these variables. The results show that green marketing and green innovation value creation significantly and simultaneously influence green competitive advantage, with an R2 value of 0.807. This indicates that Green Innovation Value Creation and Green Marketing can account for 80.7% of the variance in Green Competitive Advantage, while 19.30% of the variance can be attributed to other variables. According to the second structural model, based on bootstrapping data, Green Innovation Value Creation and Green Marketing jointly influence marketing performance. The results show that there is no significant relationship between SME business performance and green marketing. Furthermore, although green marketing has

become an important component in improving SME business performance, the study also found that the components of green marketing have a positive and significant impact on business performance.

This research also focuses on improving the performance of small and medium enterprises (SMEs) in Medan City and Deli Serdang, North Sumatra Province, Indonesia, and enhancing their competitiveness in a competitive environment. Using a sample of 125 businesses, this research focuses on the role of SMEs in environmental sustainability and energy efficiency. According to this research, SMEs can contribute effectively in this field. On the other hand, entrepreneurship plays an important role in meeting the needs of the younger generation and creating a more inclusive environment. Marketing is crucial for raising public awareness about environmental issues and promoting sustainable consumption. Moreover, this research emphasizes the role of entrepreneurship in promoting social responsibility.

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