

# Readiness for Change in Supporting the Sustainability of Micro, Small, and Medium Enterprises

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**Abstract**— This study investigates sustainability accounting, focusing on environmental issues that impact public health and economic interests. Prior research has explored sustainability accounting, but few studies focus on MSMEs, particularly in Denpasar. Using Dynamic Capabilities Theory, this quantitative study tests hypotheses with Partial Least Squares (PLS). The population consists of 29,549 MSMEs in Denpasar, with a sample size of 100. Variables include supply chain characteristics, business characteristics, accounting system implementation, and sustainability accounting practices. Findings indicate that financial literacy based on SAK EMKM significantly affects business continuity, while e-commerce usage does not. Green innovation and readiness for change positively influence business continuity. The study provides insights into MSME sustainability, emphasizing the role of financial literacy and green innovation for long-term viability.

**Keywords**— Sustainability Accounting, MSMEs, Dynamic Capabilities, Financial Literacy, Green Innovation.

## I. INTRODUCTION

The city of Denpasar as the economic center in Bali has many MSMEs that play an important role in the local economy. However, dynamic economic conditions and fierce competition can put pressure on MSMEs, so it is necessary to understand the extent of their readiness to face changes to ensure business continuity.

In the era of globalization and technological advancements, MSMEs need to adapt to these changes in order to compete in an increasingly open and globally connected market. The influence of technology can especially be key in improving operational efficiency and competitiveness.

Infrastructure constraints, such as transportation and access to information technology, may be an obstacle for MSMEs in Denpasar City. This study can explore the extent to which these factors affect the readiness of MSMEs to change.

Changes in consumer patterns and local market preferences can affect MSME marketing strategies and products. Therefore, this study can explore the extent to which MSMEs understand and are ready to follow these changes.

Government policies and business regulations can have a significant impact on the readiness of MSMEs to change. An analysis of government policies and support can provide an understanding of the extent to which MSMEs can leverage these policies to support change.

Social and cultural aspects in Denpasar, such as local values and traditions, can also affect how MSMEs operate. This research can explore the extent to which these aspects are

supporting factors or obstacles in facing change. The level of entrepreneurship training and education among MSME owners can be an indicator of readiness to change. This research can investigate the extent to which such training and education have helped MSMEs in dealing with business change

This research can provide novelty by focusing on the local context of Denpasar City, which has certain cultural, economic, and social characteristics. An in-depth analysis of these local factors can provide more accurate and relevant insights for MSMEs in the region. Implementing an interdisciplinary approach that includes economic, cultural, and social aspects can be a novelty. This approach can offer a comprehensive view of the various factors influencing the readiness of MSMEs to adapt. The use of innovative research methods, such as big data analysis, predictive models, or in-depth qualitative approaches, can provide excellence and novelty to this research. These methods can provide a deeper understanding of the dynamics of MSMEs, Focus on the role of technology, including the adoption of innovation and digital solutions, in increasing the readiness of MSMEs to change can be a novelty. This research can discuss the extent to which MSMEs have utilized technology to increase their competitiveness.

## II. RESEARCH METHOD AND HYPOTHESIS DEVELOPMENT

Dynamic Ability Theory (DCT) is an important framework for understanding how companies achieve and maintain competitive advantage in a rapidly changing environment by adapting, integrating, and reconfiguring internal and external competencies (Land et al., 2022). It bridges the gap between a company's resource base and its market position, complementing the traditional theory of competitive advantage by emphasizing the role of strategic management in driving innovation and responding to technological changes (Denrell & Powell, 2016).

This theory is not limited to a single business function but is applied in various domains including marketing, production, resources, accounting, and especially, supply chain management (Evayani et al., 2022). Despite its broad applicability and theoretical significance, DCT has been criticized for its lack of concrete definition construction and mature theoretical systems, demonstrating the need for further empirical research and theoretical refinement. The explanatory power of this theory depends on several scope conditions such as the predictability of technological change and the scarcity of dynamic capabilities (Teece, 2018). In addition, DCT aligns

with systems theory, advocating a holistic view of organizations in which adaptation and strategic management play a crucial role in shaping and responding to the business environment. Recent studies have expanded DCT to explore its implications in the context of big data analytics and supply chain agility, demonstrating how companies can leverage dynamic capabilities to navigate a volatile and competitive environment.

Several earlier studies have delved into sustainable accounting practices, including a research initiative dating back to 1992 by Gray (1992). This particular study focused on accounting methods for implementing sustainability accounting. Research (Zyznarska-Dworczak, 2019) discusses that sustainability accounting is very important for company management, such as assessing the results of the application of sustainable development principles, managerial controls, and sustainability reporting. Several researchers have also conducted research on environmental accounting that has a relationship with sustainability accounting such as researchers (Susanto & Meiryani, 2019) who discussed that organizational responsiveness to environmental needs is very important not only for nature but also for the organization itself in building a corporate image, sustainable practices and certifications that improve the organization's reputation and managers' understanding of environmental needs along with with an increase in community commitment.

What factors affect sustainability accounting in business have been discussed in the researcher (Nguyen Phu Giang, 2022) this study discusses that the variables of Supply Chain Characteristics, business character, and company accounting system affect the application of sustainable development accounting in business. Based on several studies that have been carried out further review, the researcher found that the research object is mostly carried out on manufacturing companies and there are still few studies that conduct research on sustainability accounting in the MSME sector. This research will examine the topic of sustainability accounting by replicating research (Nguyen Phu Giang, 2022) and changing the research object from the manufacturing sector to MSMEs engaged in the tourism sector in Bali. This object, according to the researcher, really needs to be researched considering that MSMEs in Bali rely on the tourism sector so that with the concept of sustainability accounting, it is anticipated that by addressing the sustainability of MSMEs in Bali, the researcher can formulate the following hypothesis based on the background description of the problem.

H1 : Financial Literacy based on SAK EMKM has a positive effect on Business Sustainability

H2 : The use of E-commerce has a positive effect on Business Sustainability

H3 : Green Innovation has a positive effect on Business Sustainability

H4 : Readiness changes have a positive impact on business sustainability

The data collection method in this study is by questionnaire collection technique which is divided into 2 (two) main parts, namely: data on the general overview of the application of MSME sustainability accounting in Denpasar

City. The data in this study is primary data obtained by distributing questionnaires. The population in this study is MSMEs in Denpasar district as many as 29,549 (Bankdata.denpasarkota.go.id). obtained a sample that can describe and reflect the population in this study which amounted to 29,549 MSMEs, then the determination of the number of samples using the Slovin formula is:

$$n = \frac{N}{1 + N \cdot e^2}$$

Information

n = Number of samples

N = Total Population

e = 10% = 0,10

Based on the formula mentioned above, the minimum number of samples can be determined as follows:

$$n = \frac{97.277}{1 + 97.277 \cdot 0.01} = 99.89 = 100 \text{ (rounded)}$$

From the results of the calculation of the Slovin formula, a sample of 100 MSMEs in the Denpasar Regency area was used. The sampling technique used in this study uses random sampling, which is a method of selecting samples by taking sample members from the population randomly without paying attention to the strata in a population. This method is done because the members of the population are considered homogeneous (Sugiyono, 2017).

The Data Analysis Method uses Partial Least Square (PLS). PLS data analysis typically comprises two components: the measurement model and the structural model (Barclay et al., 1995), as described in Santosa (2018; 154). Measurement model assessment basically explains the relationship between latent variables and their indicators. The focus of this analysis is to see whether the reliability and validity requirements of the data obtained from the respondents are met before being used for further analysis. Hypothesis testing is tested with p value with the following conditions; The alternative hypothesis was accepted with a p value of < 0.05

### III. RESULT

The results of the convergence validity and discrimination validity tests in table 1 prove that the questionnaire of this study is declared valid and reliable judging from the value of . Cronbach's Alpha is greater than 0.7 and the Average Variance Extracted (AVE) value is above 0.05.

TABLE 1. Measurement Model Assessment Results

Variable	Cronbach's Alpha	Average Variance Extracted (AVE)
X1 Financial Literacy based on SAK EMKM	0.917	0.6
X2. E-commerce Usage	0.922	0.616
X3 Green Innovation	0.887	0.689
X4 Readiness changes	0.869	0.656
Y Business Sustainability	0.865	0.65

Based on the results of the bootstrapping test in table 2, the results are obtained that. Financial literacy as per SAK EMKM contributes positively to the sustainability of businesses. Green Innovation has a positive effect on business sustainability, and readiness to change has a positive effect on business sustainability.

TABLE 2. Results of Hypothesis Test

Variable	Original Sample (O)	P Values
X1 Financial Literacy based on SAK EMKM -> Y Business Continuity	0.539	0.005
X2. The Use of E-commerce -> Y Business Sustainability	-0.166	0.417
X3 Green Innovation -> Y Business Sustainability	0.303	0.031
X4 Readiness Changes -> Y Business Sustainability	0.288	0.031

Here is a picture of the data processed using smart pls



Figure 1. Results of the bootstrapping test

Financial literacy significantly affects business continuity among MSMEs, as evidenced by various studies. Research shows that financial literacy contributes to better decision-making, which is crucial for maintaining a business in a competitive environment. For example, one study found that financial literacy accounted for 31.6% of business continuity in MSMEs, highlighting its importance (Eliza et al., 2023). Another study shows that financial literacy positively influences the utilization of e-commerce, which in turn improves business sustainability (Piyani et al., 2023). In addition, financial literacy has been proven to have an impact on the performance and sustainability of MSMEs, with higher literacy rates leading to improved management practices (Ayu et al., 2020). Overall, these findings underscore the important role of financial literacy in ensuring the longevity and success of MSMEs. However, it is important to consider that while financial literacy is a key factor, other elements such as market conditions and access to resources also play an important role in business sustainability, suggesting a multifaceted approach is necessary for comprehensive support of MSMEs.

Green innovation significantly improves business sustainability by driving environmental commitment, improving performance, and facilitating digital transformation. Research shows that green marketing strategies positively affect a company's environmental commitment and innovation performance, leading to an increase in overall business outcomes (Majid, 2024). In addition, a study of Chinese companies revealed that green innovation directly contributes to sustainable development, with corporate governance practices moderating this effect (Bagh et al., 2024). In addition, green innovation acts as a catalyst for digital

transformation, which is crucial for sustainable performance in companies (Lu, 2024). In the context of developing countries, green intellectual capital and innovation are essential to achieve sustainability, as evidenced by the significant mediating effect on business sustainability in Pakistan's manufacturing sector (Manzoor & Junaid Jahangir, 2024). Finally, green entrepreneurship is identified as a key driver of sustainability, especially in small and medium-sized enterprises, although its impact is moderated by environmental dynamics (Tekala et al., 2024). These findings collectively underscore the importance of integrating green innovation into business strategies for long-term sustainability.

Change preparedness significantly improves business sustainability by fostering resilience and adaptability in the face of challenges. Organizations that prioritize change management are better equipped to navigate disruptions, whether they come from climate change, technological advancements, or regulatory changes. Resilient organizations demonstrate a strong readiness for change, which positively correlates with business sustainability outcomes. Effective change management strategies, such as crisis management and business continuity planning, are essential for maintaining operational stability during unforeseen events (Polinar et al., 2023).

#### IV. CONCLUSION

Based on the discussion of the results of this study, it can be concluded that Financial Literacy based on SAK EMKM has an effect on business sustainability, the use of E-commerce has no effect on business continuity, Green Innovation has a positive effect on business sustainability. and readiness to change has a positive influence on business sustainability.

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