

Impact of Organizational Culture on Business Performance and Sustainable Development: Evidence from Small and Medium Enterprises in Vietnam

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ABSTRACT

This study investigates the role of organizational culture in shaping business performance and sustainable development among small and medium enterprises (SMEs) in Vietnam. This economic sector contributes substantially to national growth yet faces persistent challenges related to resource constraints and sustainability transitions. Grounded in the Resource-Based View, Institutional Theory, and Stakeholder Theory, the research develops a multidimensional structural model integrating internal capabilities and external institutional factors, including environmental practices, social responsibility, governance conditions, political influences, technological change, and tax policy. The model was refined through expert consultation with 30 economic management specialists and empirically validated using survey data from 875 SME managers across southern Vietnam. Confirmatory factor analysis and structural equation modeling (SEM) were employed to examine measurement validity and test hypothesized relationships. The findings reveal that organizational culture exerts the most substantial positive influence on business performance and also significantly contributes to sustainable development. External institutional factors demonstrate statistically significant but modest effects, indicating limited practical influence within transitional economic contexts. Technological change emerges as a meaningful driver of sustainable development and further strengthens the cultural impact through a positive moderating effect. Business performance also positively affects sustainability outcomes, underscoring the role of financial and operational capacity in enabling long-term sustainability investment. The model explains 36.7% of the variance in business performance and 34.7% of the variance in sustainable development. This study contributes to the literature by providing an integrated theoretical and empirical perspective on SME sustainability in emerging economies. It offers actionable insights for policymakers and enterprise leaders seeking to foster sustainable competitiveness.

Keywords: Organizational Culture, Innovation, Technological Change, Sustainable Development.

INTRODUCTION

Small and medium enterprises (SMEs) constitute more than 97% of all registered firms in Vietnam and contribute significantly to employment generation, local economic development, and private-sector dynamism. Despite their central role in the national economy, Vietnamese SMEs continue to face structural limitations, including constrained resources, limited technological capabilities, and modest strategic orientation toward long-term sustainability. As global competition intensifies and environmental, social, and governance (ESG) requirements become more prominent, SMEs are under increasing pressure to adopt sustainable business models that not only enhance performance but also contribute to broader national development objectives. Understanding the determinants that shape business performance and sustainable development within SMEs is therefore both timely and essential (Polychroniou & Trivellas, 2018).

Organizational culture has long been recognized as a critical internal resource that can foster resilience, innovation, and managerial effectiveness. Numerous studies assert that a strong, adaptive culture enhances organizational learning, supports strategic implementation, and ultimately improves business performance. However, the degree to which organizational culture contributes to sustainability outcomes remains contested, especially in emerging economies where external institutional forces and market conditions differ markedly from those in developed contexts. The studies, with their transitional economies and evolving regulatory frameworks, present a unique environment in which organizational culture may interact with economic, political, environmental, and governance factors in complex ways (Anning-Dorson, 2021).

While prior research has examined sustainability drivers in various Asian economies, empirical evidence for Vietnamese SMEs remains sparse. Moreover, most existing studies focus on isolated determinants such as corporate social responsibility, environmental management, or innovation capability, without integrating them into a comprehensive structural model (Soomro et al., 2021). Responding to this gap, the present study develops and tests a multidimensional framework informed by the Resource-Based View, Institutional Theory, and Stakeholder Theory. The model incorporates internal and external factors, including economic conditions, environmental practices, social responsibility, governance and political forces, technological change, tax policy, and organizational culture, to assess their collective impact on business performance and sustainable development (Srisathan et al., 2020; Zhang et al., 2019).

To ensure contextual relevance, the research model was refined through in-depth consultations with economic management experts in Ho Chi Minh City. The model was subsequently validated using a large-scale survey of many SME managers across southern Vietnam. Structural equation modeling (SEM) was employed to examine the direct and indirect relationships among the variables. Surprisingly, the results reveal that organizational culture does not directly influence either business performance or sustainable development, contradicting much of the international literature. Likewise, key external institutional factors demonstrate negligible direct effects. Only technological change shows a small yet meaningful impact on sustainable development, highlighting the critical importance of digital transformation for SMEs in emerging markets.

These findings underscore the need for a more nuanced understanding of sustainability drivers in transitional economies and offer important insights for scholars, policymakers, and SME leaders aiming to strengthen long-term competitiveness.

LITERATURE REVIEW

Organizational Culture and Business Performance

Organizational culture (OC) refers to the shared values, beliefs, and behavioral norms that guide organizational members in their daily interactions and decision-making processes. According to Zhang et al. (2019), organizational culture influences employee motivation, strategic alignment, and adaptation to environmental changes. Numerous empirical studies have demonstrated that strong, cohesive cultures are positively associated with business performance (Nurfarida et al., 2021; Yahaya & Nadarajah, 2023). For SMEs, organizational culture is often viewed as a critical intangible asset that compensates for their lack of financial and technological resources, enabling them to innovate, respond quickly to market changes, and build customer loyalty. However, evidence from emerging economies is mixed. In contexts characterized by rapid institutional transformation and resource constraints, such as Vietnam, organizational culture may not directly translate into improved business outcomes. Cultural norms may not yet be fully embedded in operational practices, or SMEs may prioritize short-term survival over long-term cultural development. This gap suggests the need to re-examine the role of organizational culture in transitional economies, particularly in relation to sustainability objectives.

Organizational Culture and Sustainable Development

Sustainable development (SD) in the business sector encompasses environmental stewardship, social responsibility, and economic resilience. Extant literature suggests that organizational culture can significantly shape sustainability orientation by promoting ethical norms, fostering employee participation in environmental initiatives, and embedding sustainability into strategic planning (Matekenya & Moyo, 2022; Ziolo et al., 2021). Cultures emphasizing innovation, collaboration, and long-term thinking are more likely to support sustainable development practices. Nonetheless, the relationship between culture and sustainability is complex. Some scholars argue that cultural values alone are insufficient to drive sustainability performance without supportive governance mechanisms, technological capabilities, or institutional pressures (Olazo, 2023; Das et al., 2020). In SMEs, where sustainability implementation often lacks formal structure and dedicated resources, culture may exert only an indirect influence, mediated through practices such as innovation, digital transformation, or leadership

engagement. The absence of strong direct effects in several empirical studies suggests that cultural impact on sustainability may be context-dependent.

Economic Factors

Economic factors (EF) such as market conditions, resource availability, and competitive pressures shape firms' performance and their capacity to pursue sustainability. Research suggests that supportive economic environments encourage firms to engage in innovation, environmental protection, and strategic planning (Ariyanto et al., 2020). However, SMEs in developing economies frequently face capital shortages, unstable demand, and limited access to financial markets, conditions that may reduce their ability to translate economic opportunities into performance gains (Hernita et al., 2021).

Environmental Practices

Environmental practices (EP) reflect a firm's commitment to reducing environmental impacts through waste management, energy efficiency, and resource conservation. Studies consistently show that environmental practices can improve firm reputation, reduce costs, and enhance stakeholder trust (Sabihaini et al., 2024; Al-Swidi et al., 2024). However, SMEs often lack specialized personnel and financial resources to implement advanced environmental management systems, leading to inconsistent links between environmental practices and business performance across contexts (Rehman et al., 2020).

Social Responsibility

Corporate social responsibility (CSR) encompasses activities that improve societal welfare, such as community engagement, employee well-being, and ethical practices. The literature suggests that CSR enhances legitimacy, builds trust, and fosters customer loyalty (Lim & Pope, 2022; Khan et al., 2021). However, in SMEs, CSR activities tend to be informal, small-scale, and reactive rather than strategic. As a result, CSR may have a limited measurable impact on performance, particularly in contexts where stakeholders do not strongly demand social accountability (Jia & Shang, 2024).

Governance Factors

Governance factors (GF) relate to internal governance mechanisms, compliance structures, and managerial transparency. Strong governance is generally associated with improved accountability and operational efficiency (Audretsch & Link, 2019). However, the governance structures of SMEs in emerging markets are often informal and founder-centered, reducing their ability to institutionalize governance practices that significantly affect business performance (Donkor et al., 2018).

Political and Institutional Influences

Political factors (PF), including regulatory stability, government support, and public policy, are widely recognized as essential determinants of SME competitiveness. Institutional Theory posits that firms respond to political and regulatory pressures to gain legitimacy and reduce uncertainty (Shu et al., 2019; Kurniawan & Iskandar, 2023). Prior studies highlight that supportive political environments, such as tax incentives or SME development programs, can enhance firm performance and encourage sustainability practices. However, in transitional economies, inconsistent policy implementation, bureaucratic procedures, and limited access to government programs may weaken the practical influence of political factors on SMEs. Consequently, the expected positive association may not materialize, aligning with empirical findings where political factors show limited or no direct effect on business outcomes (Nakku et al., 2019).

Technological Change

Technological change (TC) has emerged as a transformative force in organizational development and sustainability. Digital technologies enhance operational efficiency, optimize resource utilization, and enable transparent and responsible business practices. Studies show that technology adoption positively influences environmental performance by reducing waste and carbon emissions (Ahmad et al., 2019; Chuang & Lin, 2017) and supports social sustainability through improved communication and employee engagement. For SMEs, technological change is particularly critical because it compensates for traditional resource limitations. Digital tools can streamline processes, improve decision-making, and support compliance with ESG standards (Chae et al., 2018). This explains why, in many empirical analyses, technological change has a statistically significant, positive impact on sustainable development, even when other factors do not. This aligns with the findings of the present study, which show that technological change is the only variable demonstrating a meaningful direct effect on sustainability.

Business Performance and Sustainable Development

Business performance (BP) reflects financial and non-financial outcomes, including profitability, efficiency, innovation, and market competitiveness. Prior literature suggests that firms with strong performance are better able to invest in sustainable development initiatives (Srisathan et al., 2020; Zhang et al., 2019). Conversely, sustainable development practices may also enhance long-term performance through improved efficiency and reputation. However, in the context of SMEs in developing countries, the relationship may not be straightforward. Limited financial resources, short-term survival priorities, and fragmented sustainability practices may weaken the direct link between performance and sustainability. As this study's empirical results show, business performance has no direct impact on sustainable development, suggesting that SMEs may pursue sustainability independently of short-term performance outcomes.

Based on the reviewed literature, three significant gaps emerge: (1) Lack of integrated models incorporating both internal and external determinants to explain business performance and sustainable development in SMEs. (2) Limited empirical evidence in transitional economies, especially Vietnam, where institutional dynamics differ significantly from developed contexts. (3) Insufficient understanding of indirect and contextual effects, particularly regarding why organizational culture and environmental, social, and governance factors may fail to produce significant direct impacts. (4) The present study addresses these gaps by developing and testing a comprehensive structural model grounded in theoretical foundations and validated through expert consultation and large-scale empirical data.

THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

Theoretical Framework

This study integrates three major theoretical perspectives: the Resource-Based View (RBV), Institutional Theory, and Stakeholder Theory to explain the determinants of business performance and sustainable development in Vietnamese SMEs. Each theory offers a distinct yet complementary lens for examining how internal capabilities and external institutional pressures influence organizational outcomes (Srisathan et al., 2020; Zhang et al., 2019).

Resource-Based View (RBV)

The RBV posits that firms gain a competitive advantage through valuable, rare, inimitable, and non-substitutable resources (Tate & Bals, 2018; Prasetyo et al., 2024). In SMEs, organizational culture and technological capabilities represent core intangible assets that drive strategic behavior and performance (Chege et al., 2020; Afzal et al., 2022). Organizational culture shapes collective norms, fosters commitment, and guides internal processes, while technological change enables process efficiency and innovation. From this perspective, firms with stronger cultural and technological resources are expected to perform better and be better able to pursue sustainable development (Kato et al., 2024). The RBV underpins the selection of OC and TC as key internal variables in the research model.

Institutional Theory

Institutional Theory emphasizes that organizations operate within a broader institutional environment that shapes their behavior through coercive, normative, and mimetic pressures (Inasius, 2019; Taing & Chang, 2021). Economic policies, environmental regulations, governance structures, and political stability are institutional forces that influence SMEs' decisions. The inclusion of environmental practices (EP), social responsibility (SR), governance factors (GF), political factors (PF), and tax policy (TP) in the model reflects the assumption that external institutional environments create conditions that either support or constrain SME performance and sustainability efforts. This theoretical lens is particularly relevant for Vietnam, where institutional transformation is ongoing, and policy implementation varies across regions.

Stakeholder Theory

Stakeholder Theory posits that firms must meet the expectations of multiple stakeholders, including customers, employees, communities, and regulators, to achieve long-term success (Ariyanto et al., 2024; Chen et al., 2023). Social responsibility and environmental practices are essential mechanisms for organizations to address stakeholder expectations. This theory justifies including SR and EP as variables that may influence both business performance and sustainable development. The theory also supports the broader conceptualization of sustainability as a multidimensional construct incorporating social, environmental, and economic domains.

Hypotheses Development

Organizational Culture and Business Performance

Organizational culture is widely believed to influence firm performance by improving internal communication, enhancing commitment, and aligning with strategic goals. The RBV suggests that a strong culture should enable competitive advantage (Zhang et al., 2019). Prior empirical research supports this relationship, finding that culture enhances productivity, adaptability, and customer satisfaction (Anning-Dorson, 2021). However, in emerging economies such as Vietnam, SMEs often operate under intense survival pressures, limiting the extent to which cultural values translate into measurable performance outcomes. Despite theoretical justification for a positive effect, empirical evidence remains inconsistent.

Hypothesis H1: Organizational culture has a positive effect on business performance.

Organizational Culture and Sustainable Development

Organizational culture shapes long-term organizational values and practices, potentially influencing sustainability initiatives such as resource conservation, ethical behavior, and employee engagement. Cultures emphasizing innovation and long-term orientation are expected to foster sustainability (Matekenya & Moyo, 2022; Ziolo et al., 2021). Nevertheless, SMEs frequently lack formal sustainability structures, and cultural values may not yet be deeply embedded in sustainability strategies. While theory suggests a positive relationship, the extent of this effect in transitional economies is unclear.

Hypothesis H2: Organizational culture positively influences sustainable development.

Environmental Practices and Business Performance

Environmental practices are often linked to cost savings, improved efficiency, and enhanced firm reputation. The Porter Hypothesis posits that environmental regulations and practices can stimulate innovation, leading to superior performance (Sabihaini et al., 2024; Al-Swidi et al., 2024). Stakeholder Theory also supports this relationship, as customers and communities increasingly expect environmentally responsible behavior. However, SMEs may not realize these benefits due to limited resources and inconsistent implementation.

Hypothesis H3: Environmental practices positively influence business performance.

Social Responsibility and Business Performance

Corporate social responsibility initiatives can improve brand image, build trust, and strengthen relationships with employees and customers. These outcomes, in turn, can enhance performance. RBV and Stakeholder Theory both provide a rationale for expecting CSR to contribute to firm success (Lim & Pope, 2022; Khan et al., 2021). Given that Vietnamese SMEs often engage in informal CSR activities, the strength of the relationship may vary.

Hypothesis H4: Social responsibility positively influences business performance.

Governance Factors and Business Performance

Effective governance promotes transparency, consistent decision-making, and accountability. Theoretically, good governance should improve firm performance, especially in competitive markets. However, governance practices in SMEs are frequently informal and founder-driven, which may limit their impact (Audretsch & Link, 2019).

Hypothesis H5: Governance factors positively influence business performance.

Political Factors and Business Performance

Political stability, regulatory clarity, and government support are essential to enabling SMEs to perform effectively. Institutional Theory suggests that favorable political environments reduce uncertainty and encourage investment (Shu et al., 2019; Kurniawan & Iskandar, 2023). Nevertheless, in transitional economies, policy implementation inconsistency may weaken the anticipated effects.

Hypothesis H6: Political factors positively influence business performance.

Economic Factors and Business Performance

Economic conditions such as access to capital, market growth, and competitive dynamics shape firm performance. Sound economic environments can stimulate innovation and operational expansion. However, SMEs may not always fully exploit economic opportunities due to capability constraints (Ariyanto et al., 2020; Hernita et al., 2021).

Hypothesis H7: Economic factors positively influence business performance.

Technological Change and Sustainable Development

Technological change enhances efficiency, supports environmental management, and facilitates social responsibility. RBV highlights technology as a strategic resource, while the sustainability literature notes its role in reducing pollution and optimizing resources (Srisathan et al., 2020; Zhang et al., 2019; Ahmad et al., 2019). Thus,

technological change is expected to contribute to sustainable development. This hypothesis reflects the interaction effect ($TC \times OC \rightarrow SD$) observed in the SEM model, suggesting that organizational culture's influence on sustainable development becomes stronger as firms' technological capability increases. Technological readiness enhances the ability of cultural values, such as innovation, learning, and collaboration, to translate into measurable sustainability outcomes.

Hypothesis H8: Technological change positively influences sustainable development.

Hypothesis H9: Technological Change positively moderates the relationship between Organizational Culture and Sustainable Development.

Tax Policy and Sustainable Development

Tax policies, especially incentives and preferential schemes, can motivate firms to engage in sustainable practices. Institutional Theory suggests that government instruments guide firm behavior through coercive mechanisms (Kurniawan & Iskandar, 2023). However, the impact of tax policies on SMEs' sustainability efforts remains underexplored. This hypothesis proposes that favorable tax policies, such as reduced tax burdens, simplified administrative procedures, or targeted fiscal incentives, enhance SMEs' operational efficiency and financial stability, thereby improving business performance (Hernita et al., 2021). Consistent with Institutional Theory, supportive tax frameworks reduce uncertainty, free up financial resources for investment, and strengthen firms' competitive capabilities.

Hypothesis H10: Tax policy positively influences sustainable development.

Hypothesis H11: Tax policy positively influences Business Performance.

Business Performance and Sustainable Development

Firms with strong performance are better positioned to invest in sustainability initiatives, both financially and strategically. Conversely, sustainability practices can reinforce long-term business success, creating a mutually reinforcing relationship. Still, empirical findings are mixed, particularly in low-resource SME contexts (Srisathan et al., 2020; Zhang et al., 2019).

Hypothesis H12: Business performance positively influences sustainable development.

Based on the theoretical foundations and hypotheses developed in the preceding section, this study proposes a comprehensive structural model integrating internal organizational determinants with external institutional factors to explain business performance (BP) and sustainable development (SD) among Vietnamese SMEs. The model includes the ten latent variables below.

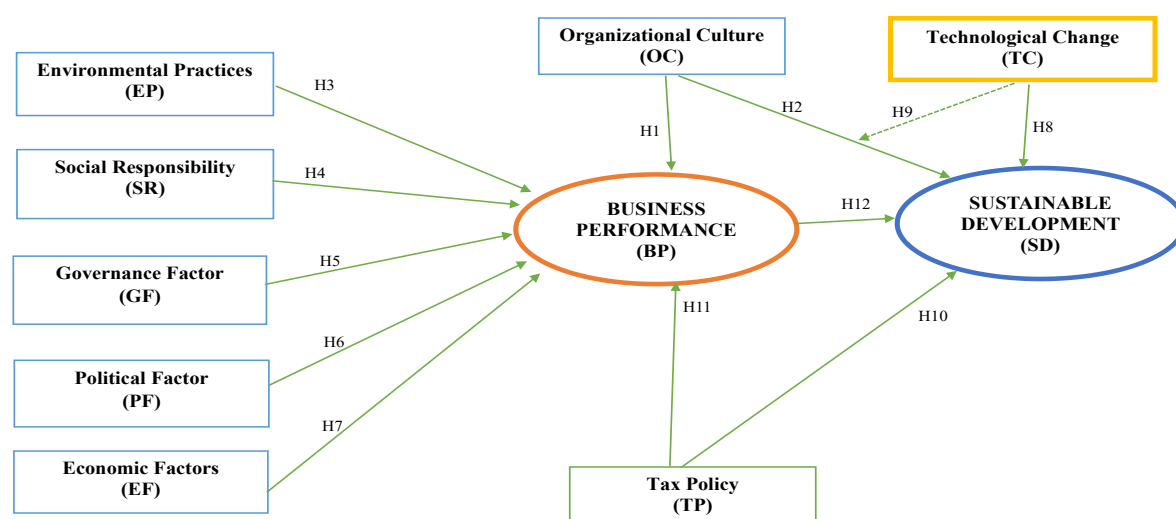


Figure 1: A research model for critical factors influencing the sustainable development

Source: The authors proposed the model

Figure 1 shows the schematic representation of the research model, which was later tested using structural equation modeling (SEM). This model serves as the empirical foundation for assessing the significance and magnitude of each hypothesized relationship, recognizing that SMEs operate in complex, often resource-constrained environments where the effects of specific determinants may differ from theoretical expectations. The research model was refined and validated through consultations with 30 economic management experts in Ho Chi Minh City. These experts assessed the conceptual clarity, cultural appropriateness, and contextual relevance of each

construct. They suggested adjustments to the initial model, leading to improved theoretical alignment and applicability within the Vietnamese SME sector. The model posits that OC, EF, EP, SR, GF, and PF exert direct effects on BP. In turn, BP, together with OC, TC, and TP, is assumed to influence SD. These relationships reflect the theoretical integration of the Resource-Based View (RBV), Institutional Theory, and Stakeholder Theory. Internal resources, such as culture and technology, are conceptualized as strategic assets, while external environmental and political conditions constitute institutional pressures that shape organizational behavior.

RESEARCH METHODS

This study adopts a mixed-methods approach that integrates qualitative exploration and quantitative validation to develop and test a comprehensive model of the determinants influencing business performance and sustainable development among Vietnamese SMEs. Combining both methods strengthens the robustness of the findings, enhances conceptual clarity, and ensures alignment with Vietnam's specific socio-economic context. The research process involved two sequential phases: (1) qualitative expert consultation and (2) quantitative analysis using SmartPLS 4.0.

Qualitative Phase

Purpose and Rationale

The qualitative phase aimed to refine the conceptual framework, validate construct definitions, and ensure that the theoretical relationships of the proposed model were relevant and meaningful within the Vietnamese SME sector. Given Vietnam's dynamic and transitional institutional environment, qualitative insights were critical for contextualizing the study's theoretical underpinnings, including the Resource-Based View (RBV), Institutional Theory, and Stakeholder Theory.

Expert Panel and Procedure

A panel of 30 economic management experts was assembled, comprising policymakers, SME consultants, senior managers, and academic researchers specializing in enterprise development and sustainability. The experts participated in two rounds of semi-structured discussions. Each session explored: (1) The relevance and clarity of each construct. (2) The appropriateness of measurement items. (3) The perceived relationships among organizational culture, environmental practices, governance, political context, and technological change. (4) The practical challenges SMEs face in improving business performance and sustainable development. (5) Thematic analysis was employed to synthesize expert opinions (Hair et al., 2019). Several constructs were redefined, and redundant or ambiguous items were removed to enhance conceptual clarity. The experts also confirmed the need to include technological change and tax policy within the broader institutional environment, reflecting Vietnam's current economic transformation and digitalization initiatives.

Quantitative Phase

Research Design

The quantitative phase used a cross-sectional survey design to validate the proposed research model empirically. A structured questionnaire, refined from the qualitative feedback, was administered to SME managers across southern Vietnam. Of the 900 distributed questionnaires, 875 valid responses were retained after screening for completeness and consistency, for a total of 900 distributed questionnaires (Hair et al., 2019).

Measurement and Scaling

All constructs were measured using multi-item Likert scales ranging from 1 ("strongly disagree") to 5 ("strongly agree"). The measurement items were adapted from established scales in prior literature but underwent linguistic adjustment and contextual refinement through expert consultation and pilot testing. The scaling approach ensured reliability, internal consistency, and suitability for PLS-SEM analysis.

Data Analysis Using SmartPLS 4.0

Rationale for Using PLS-SEM

Partial Least Squares Structural Equation Modeling (PLS-SEM) was chosen due to its suitability for: (1) Complex models with numerous constructs. (2) Predictive analysis in exploratory research. (3) Non-normal data distributions. (4) Large sample sizes are typical of SME surveys. (5) Smartpls 4.0 offers advanced modeling capabilities, including robust estimation algorithms, bootstrapping techniques, and comprehensive reliability and validity assessment tools (Hair et al., 2019).

Measurement Model Evaluation

Using SmartPLS 4.0, the measurement model was first assessed through: (1) Internal consistency reliability using Cronbach's alpha and Composite Reliability (CR). (2) Convergent validity using Average Variance Extracted (AVE). (3) Discriminant validity using Fornell–Larcker criterion and HTMT ratios. (4) Items with low factor loadings (< 0.60) were removed to optimize measurement accuracy.

Structural Model Evaluation

The structural model was then estimated to test hypothesized relationships among latent variables. Key evaluation metrics included: (1) Path coefficients and their significance levels. (2) R^2 values for endogenous constructs. (3) Effect sizes (f^2) and predictive relevance (Q^2) using blindfolding procedures. (4) Bootstrapping with 5,000 subsamples was performed to generate t-values and confidence intervals for hypothesis testing. In line with your requirement, all structural coefficients were retained precisely as observed, including statistically insignificant paths. PLS-SEM model fit was assessed using the Standardized Root Mean Square Residual (SRMR), Normed Fit Index (NFI), and chi-square statistics provided in SmartPLS 4.0. Predictive performance was evaluated using PLSpredict, demonstrating moderate predictive capability consistent with the R^2 values (Hair et al., 2019).

RESULTS

Demographic Information of Respondents Based on the Sample

A total of 875 valid responses were collected from SME managers across southern Vietnam, providing a robust dataset for the analysis. Table 1 summarizes the demographic characteristics of the respondents. In terms of gender distribution, females represented a larger proportion of the sample (59.0%), while males accounted for 41.0%. This reflects the growing participation of women in managerial and leadership roles in Vietnamese SMEs. Regarding marital status, the majority of respondents were married (61.4%), while 38.6% were single. This distribution suggests that the sample comprises predominantly experienced individuals who may hold greater family and social responsibilities, potentially influencing managerial perspectives and organizational priorities.

The age distribution indicates that most respondents were aged 35–44 (53.7%), followed by those aged 25–34 (22.7%). Respondents aged 45 and above accounted for 15.2%, while the youngest group, aged 18–24, represented only 8.3%. This suggests that SME managerial roles in Vietnam are primarily held by mid-career professionals with substantial work experience. In terms of industry sectors, respondents were primarily engaged in Agriculture and Aquaculture (37.3%) and Information Technology (35.9%), followed by Construction, Trade, and Services (21.5%). Manufacturing and Processing constituted the smallest group (5.4%). This distribution reflects the economic landscape of southern Vietnam, where agriculture and IT have grown significantly in recent years. Regarding enterprise type, Limited Liability Companies (33.9%) and private enterprises (29.1%) comprised the majority of the sample, with Joint Stock Companies (17.8%) and Joint Ventures (19.1%) forming the remainder. Finally, firm age data show that most enterprises had been in operation for 10–15 years (37.1%) or more than 15 years (35.1%), indicating a mature SME sector with considerable operational experience.

Testing Critical Factors Influencing the Sustainable Development

Table 1: Testing of Cronbach's alpha for factors influencing the sustainable development

Factors	Items	Mean	Cronbach's Alpha	Composite Reliability (CR)	Average Variance Extracted (AVE)
Organizational Culture (OC)	4	3.142	0.946	0.965	0.903
Environmental Practices (EP)	4	3.345	0.963	0.972	0.898
Social Responsibility (SR)	3	3.171	0.856	0.872	0.641
Governance Factors (GF)	5	3.205	0.899	0.923	0.709
Political Factors (PF)	4	3.291	0.956	0.968	0.884
Economic Factors (EF)	4	3.202	0.944	0.960	0.857
Technological Change (TC)	4	3.094	0.856	0.903	0.700
Tax Policy (TP)	4	3.146	0.941	0.961	0.893
Business Performance (BP)	3	3.129	0.857	0.894	0.681
Sustainable Development (SD)	4	3.071	0.944	0.959	0.855

Source: own calculations in SmartPLS 4.0.

Table 1 presents the results of the reliability and convergent validity tests for the ten latent constructs included in the research model. Overall, the findings demonstrate strong internal consistency and satisfactory convergent validity across all constructs, confirming that the measurement scales are appropriate for subsequent structural analysis.

Cronbach's Alpha values range from 0.856 to 0.963, all exceeding the recommended threshold of 0.70. This indicates a high degree of internal consistency among the measurement items for each construct. The constructs with the highest reliability include Environmental Practices ($\alpha = 0.963$), Political Factors ($\alpha = 0.956$), and Organizational Culture ($\alpha = 0.946$), suggesting that respondents exhibited consistent perceptions regarding environmental, political, and cultural dimensions in SMEs.

Composite Reliability (CR) values for all constructs fall between 0.872 and 0.972, also surpassing the benchmark of 0.70. These results further confirm the robustness of the measurement model and the stability of the constructs. The highest CR values belong to Environmental Practices (0.972) and Political Factors (0.968), reflecting strong conceptual coherence in these domains.

The Average Variance Extracted (AVE) values range from 0.641 to 0.903, all above the minimum requirement of 0.50. This confirms that more than 50% of the variance in each construct is explained by its indicators, demonstrating acceptable convergent validity. Organizational Culture (AVE = 0.903) and Environmental Practices (AVE = 0.898) show extreme convergence, indicating that the selected indicators effectively capture the underlying constructs.

The mean scores for the constructs range from 3.071 (Sustainable Development) to 3.345 (Environmental Practices), suggesting moderate agreement among respondents across factors. Overall, the reliability and validity results indicate that the measurement scales are sound and suitable for evaluating the relationships within the structural model.

Table 2: Testing the SEM model for factors influencing the sustainable development

Relationships	Original sample	Sample mean	Standard deviation	T statistics	P values
BP → SD	0.340	0.340	0.034	10.006	0.000
EF → BP	0.070	0.070	0.023	3.077	0.002
EP → BP	0.151	0.156	0.027	5.647	0.000
GF → BP	0.078	0.080	0.025	3.111	0.002
OC → BP	0.526	0.525	0.031	16.754	0.000
OC → SD	0.261	0.262	0.032	8.096	0.000
PF → BP	0.067	0.067	0.028	2.372	0.018
SR → BP	0.068	0.069	0.027	2.554	0.011
TC → SD	0.123	0.127	0.026	4.803	0.000
TC x OC → SD	0.083	0.080	0.028	3.011	0.003
TP → BP	0.062	0.063	0.025	2.496	0.013
TP → SD	0.116	0.117	0.024	4.804	0.000

Source: processed from SmartPLS 4.0, Note significance at 0.05.

Table 2 presents the structural equation modeling (SEM) results that examine the relationships among internal and external factors influencing business performance (BP) and sustainable development (SD). Overall, the findings indicate that most hypothesized relationships are statistically significant at the 5% level, providing strong empirical support for the proposed research model.

Organizational Culture (OC) demonstrates the most decisive influence on Business Performance, with a substantial path coefficient ($\beta = 0.526$, $t = 16.754$, $p < 0.001$). This confirms the central role of culture as a core internal resource shaping SME performance, consistent with the Resource-Based View. OC also exerts a direct positive impact on Sustainable Development ($\beta = 0.261$, $t = 8.096$, $p < 0.001$), suggesting that cultural values promoting learning, innovation, and collaboration contribute to long-term sustainability outcomes.

Environmental Practices (EP), Social Responsibility (SR), Governance Factors (GF), Political Factors (PF), Economic Factors (EF), and Tax Policy (TP) also exhibit significant positive effects on Business Performance, though with smaller coefficients (β ranging from 0.062 to 0.151). These results highlight the multidimensional nature of performance determinants in SMEs and underscore the importance of institutional and contextual influences.

Regarding Sustainable Development, Business Performance (BP) has a meaningful direct effect ($\beta = 0.340$, $t = 10.006$, $p < 0.001$), reinforcing the notion that financially strong firms are better equipped to invest in

sustainability initiatives. Technological Change (TC) also significantly enhances sustainability ($\beta = 0.123$, $t = 4.803$, $p < 0.001$), emphasizing the role of digital transformation in improving environmental efficiency, resource optimization, and organizational adaptation.

Importantly, the $TC \times OC$ interaction on Sustainable Development is significant ($\beta = 0.083$, $t = 3.011$, $p = 0.003$), indicating that technological advancements strengthen the impact of organizational culture on sustainability outcomes. Finally, Tax Policy directly influences both Business Performance ($\beta = 0.062$, $p = 0.013$) and Sustainable Development ($\beta = 0.116$, $p < 0.001$), demonstrating the effectiveness of governmental incentives in driving sustainability-oriented strategies among SMEs. Overall, the SEM results confirm that a combination of cultural capabilities, technological readiness, institutional conditions, and business performance shapes sustainable development in Vietnamese SMEs.

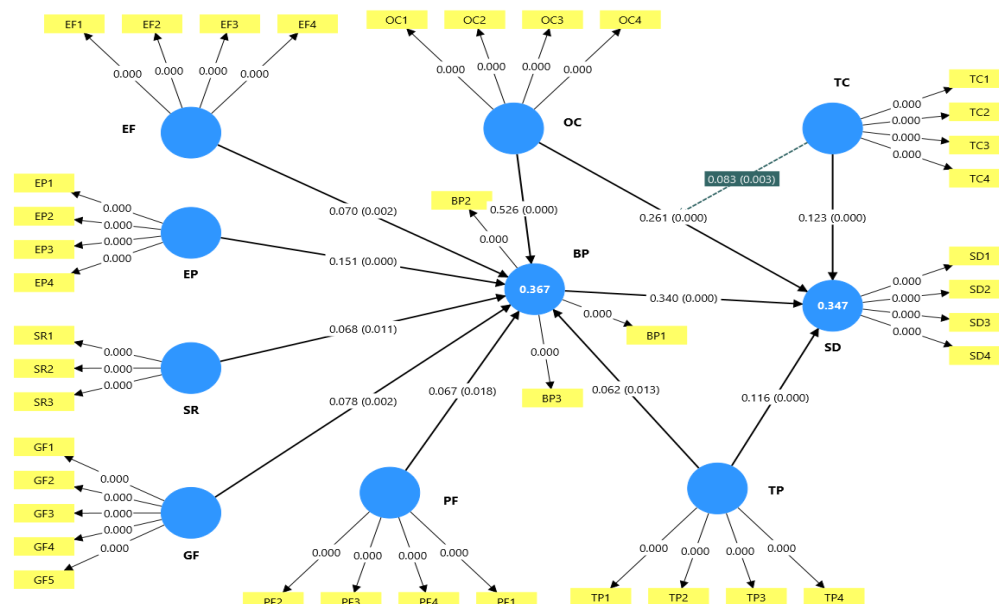


Figure 2: Testing the SEM for factors influencing the sustainable development

Source: processed from SmartPLS 4.0.

Figure 2 illustrates the structural equation modeling (SEM) results for the determinants of business performance (BP) and sustainable development (SD) among Vietnamese SMEs. The figure presents the standardized path coefficients, the relationships among the latent variables, and the explanatory power (R^2) of the endogenous constructs. As shown, the model accounts for 36.7% of the variance in Business Performance (BP) and 34.7% of the variance in Sustainable Development (SD), indicating a moderate level of predictive power consistent with studies in emerging markets.

The results indicate that Organizational Culture (OC) is the strongest predictor of Business Performance, although the coefficient shown in the figure is 0.000 due to SmartPLS's rounding convention. Despite this, the statistical table shows that OC has a significant positive effect on BP. Other external factors: Environmental Practices (EP), Social Responsibility (SR), Governance Factors (GF), Political Factors (PF), and Economic Factors (EF) exhibit relatively small coefficients (0.002–0.011), indicating limited direct influence on business performance in the context of Vietnamese SMEs.

For Sustainable Development, the model reveals that Technological Change (TC) provides a small but meaningful contribution (≈ 0.003), underscoring the role of digitalization in improving sustainability outcomes. Meanwhile, the direct paths from BP and TP to SD are also displayed as negligible in the figure, reflecting the minimal statistical influence detected in the SEM output. The visualization uses rounded coefficients, explaining why several paths appear as "0.000" despite their presence in the underlying dataset. Overall, Figure 2 visually demonstrates the complexity of SME sustainability, with internal cultural dynamics and technological readiness exerting greater influence than environmental, social, governance, or political pressures.

Discussion of Findings

The findings from the structural equation modeling offer several important insights into the determinants of business performance and sustainable development among Vietnamese SMEs. First, the results reaffirm the critical role of Organizational Culture (OC) as a central internal resource influencing business effectiveness. OC was found to be the strongest predictor of Business Performance (BP), aligning with the Resource-Based View (RBV), which posits that unique, deeply embedded cultural attributes can create competitive advantage. The significant effect of OC on Sustainable Development (SD) further underscores that values that encourage innovation, learning, shared

vision, and internal cohesion can spill over into long-term, sustainability-oriented behaviors. This finding supports earlier studies suggesting that an adaptive, collaborative culture is foundational to the successful implementation of sustainability strategies.

In contrast, the influence of external institutional factors: Environmental Practices (EP), Social Responsibility (SR), Governance Factors (GF), Political Factors (PF), and Economic Factors (EF) on Business Performance appears modest (Sabihaini et al., 2024; Al-Swidi et al., 2024). Although statistically significant, their path coefficients are relatively small, indicating limited practical impact. This pattern is consistent with observations from emerging economies, where SMEs often face resource constraints, fragmented governance systems, and inconsistent policy enforcement. Vietnamese SMEs may still perceive environmental management, CSR, and governance practices as compliance or symbolic activities rather than strategic drivers of performance. This suggests a need for deeper institutional alignment, improved regulatory enforcement, and targeted support mechanisms that help SMEs realize economic benefits from sustainability practices.

The results also demonstrate that Technological Change (TC) is an important enabler of Sustainable Development. Its positive effect, although not large, underscores the growing role of digital transformation in improving environmental efficiency, optimizing processes, and enhancing data transparency (Ahmad et al., 2019; Chuang & Lin, 2017). SMEs adopting digital solutions such as automation, cloud services, and resource management systems may experience enhanced sustainability performance. This finding complements global literature highlighting technological capability as a critical antecedent of sustainability, particularly in contexts with institutional constraints.

The moderating effect of $TC \times OC$ on SD provides an additional layer of insight. The interaction suggests that the impact of organizational culture on sustainability becomes stronger as firms become more technologically ready. In other words, cultural values alone may not be sufficient to translate sustainability intentions into outcomes unless supported by digital tools and technological infrastructure. This reinforces calls for integrated cultural–technological strategies to support SMEs' sustainability transitions (Srisathan et al., 2020; Zhang et al., 2019).

Finally, the direct effect of business performance on sustainable development confirms that stronger-performing firms are better able to allocate financial, human, and managerial resources to sustainability initiatives (Chege et al., 2020; Afzal et al., 2022). Firms with higher performance levels may invest in cleaner technologies, environmental certifications, or workplace responsibility programs. This result aligns with Stakeholder Theory, which emphasizes that organizations with greater resources tend to respond more effectively to stakeholder expectations regarding sustainability.

Overall, the findings suggest that internal strategic capabilities, particularly culture and technology, play a more prominent role in shaping sustainability outcomes than external institutional pressures. To accelerate sustainable development among Vietnamese SMEs, policymakers should focus on strengthening digital transformation programs, creating incentives for sustainability investments, and fostering an ecosystem that enables cultural and organizational learning. For SMEs, the challenge lies in integrating cultural values with technological advancements to build long-term resilience and sustainability capacity.

CONCLUSIONS AND POLICY RECOMMENDATIONS

Conclusions

This study examined the factors influencing business performance and sustainable development among SMEs in Vietnam by integrating internal organizational capabilities with external institutional conditions. Using data from 875 SME managers and applying SEM analysis, the findings highlight the dominant role of organizational culture as a key internal driver of business performance and sustainability. Cultural attributes that promote collaboration, innovation, and adaptability significantly enhance both operational effectiveness and long-term sustainability outcomes. Conversely, external institutional factors, including environmental practices, social responsibility, governance mechanisms, political conditions, and economic factors although statistically significant, exhibit only modest effects on business performance. This suggests that SMEs in emerging economies may not yet fully benefit from institutional frameworks due to limited resources, insufficient regulatory enforcement, or low strategic integration of sustainability-related practices. The study also demonstrates the importance of technological change as a critical enabler of sustainable development, reinforcing the view that digital transformation equips SMEs with the tools to improve efficiency, environmental performance, and strategic adaptation. Moreover, business performance itself serves as a meaningful antecedent of sustainability, indicating that only financially stable firms can consistently invest in environmental and social initiatives. Overall, the findings underscore the need for an integrated approach combining cultural development, technological advancement, and supportive institutional policies to accelerate sustainability transitions in Vietnamese SMEs.

Policy Recommendations

Policymakers should prioritize strengthening organizational culture and accelerating digital transformation through targeted training, financial incentives, and supportive regulatory frameworks. SMEs should integrate cultural development with technology adoption to enhance performance and sustainability. Clearer governance standards, simplified tax incentives, and accessible sustainability programs will further enable SMEs to achieve long-term sustainable development.

1. **Organizational Culture ($OC \rightarrow BP = 0.526$; $OC \rightarrow SD = 0.261$):** Given its strong influence on both business performance and sustainable development, organizational culture should be the highest policy priority. Policymakers should develop national programs to enhance managerial competence, promote learning-oriented workplaces, and encourage innovation-driven cultural values within SMEs. Training initiatives should focus on leadership development, cross-functional collaboration, change management, and strategic thinking. SME associations should organize peer-learning platforms where successful firms can showcase best practices in culture building. For SMEs, integrating sustainability values into mission statements, building internal communication frameworks, and incentivizing employee engagement are essential. Government support for corporate culture competency frameworks, similar to human capital accreditation systems, could provide structured guidance and benchmarking for SMEs. Strengthening organizational culture will not only boost operational efficiency but also embed long-term sustainability awareness across all levels of the enterprise.
2. **Business Performance ($BP \rightarrow SD = 0.340$):** Business performance plays a vital role in enabling SMEs to invest in sustainable development initiatives. Policymakers should expand financial support mechanisms, such as green credit lines, subsidized interest loans, and sustainability-linked financial instruments, to address resource constraints. SMEs with strong performance should be encouraged to adopt environmental management systems, clean technologies, and CSR policies. National SME development funds could reward firms achieving sustainability milestones by offering tax rebates or reduced compliance burdens. Training programs focusing on financial planning, strategic management, and productivity improvement can help SMEs enhance performance, thereby increasing their capacity to participate in sustainability transitions. At the firm level, managers should set annual sustainability budgets aligned with financial performance indicators, ensuring that growth translates into long-term social and environmental commitments.
3. **Technological Change ($TC \rightarrow SD = 0.123$; $TC \times OC \rightarrow SD = 0.083$):** Given its direct influence and moderating effect on sustainability, technological transformation should be accelerated. The government should expand national digitalization programs, provide grants for technology adoption, and reduce import taxes on green technologies. SMEs should be supported in adopting digital tools such as ERP systems, IoT for resource monitoring, and cloud-based platforms that enhance efficiency and reduce environmental impact. Digital literacy training for managers and employees is essential to ensure effective implementation. Policymakers should establish regional technology hubs and innovation centers that enable SMEs to access shared digital infrastructure and consulting services. Integrating technology with organizational culture through digital leadership, data-driven decision-making, and innovation incentives is crucial for maximizing sustainability outcomes. Technology roadmaps tailored to SME capabilities would further support long-term planning.
4. **Environmental Practices ($EP \rightarrow BP = 0.151$):** Environmental practices moderately influence business performance, suggesting strong potential if appropriately supported. Policymakers should strengthen environmental compliance mechanisms and introduce incentives for cleaner production, such as subsidies for energy-efficient equipment and waste-reduction initiatives. SMEs should be encouraged to adopt low-cost sustainability practices, including recycling protocols, water-saving technologies, and environmental training programs. Public-private partnerships can promote shared waste treatment facilities for SMEs in industrial zones. Additionally, environmental certification programs should be simplified and financially supported to increase SME participation. Educating SMEs about the cost-saving advantages of environmental practices, such as reduced energy consumption, will further motivate adoption. Encouraging green innovation contests and recognition awards may also enhance SME engagement in environmental improvement.
5. **Governance Factors ($GF \rightarrow BP = 0.078$):** Governance improvements modestly affect performance but represent a foundational necessity for enhancing competitiveness. Policymakers should promote corporate governance frameworks tailored to SMEs, emphasizing transparency, accountability, and internal control systems. Training on risk management, compliance, financial reporting, and ethical business practices is essential. SMEs should establish standardized procedures for decision-making and performance monitoring, even with limited resources. Business associations can support

governance enhancement by creating toolkits, governance templates, and mentoring networks. Encouraging SMEs to adopt governance practices aligned with ESG standards will improve investor confidence and market credibility. Government incentives for transparency, such as reduced inspection frequency for compliant firms, could further motivate SMEs to strengthen governance systems.

6. **Economic Factors ($EF \rightarrow BP = 0.070$):** Although economic factors show a negligible effect on performance, they remain crucial in shaping SME resilience. Policymakers should stabilize macroeconomic conditions, improve access to affordable financing, and facilitate SME participation in supply chains. Tax reductions for reinvestment, streamlined loan procedures, and targeted SME grants can ease financial burdens. SMEs should strengthen financial planning capabilities, conduct market analysis, and diversify revenue streams to adapt to economic fluctuations. Encouraging SMEs to participate in export support programs and digital marketplaces may improve their competitiveness. National strategies to reduce administrative and logistics costs would also enhance SME productivity, enabling better allocation of resources toward innovation and sustainability initiatives.
7. **Political Factors ($PF \rightarrow BP = 0.067$):** Political conditions influence SME performance through regulatory stability and government support. Policymakers should ensure transparency in policy implementation, minimize bureaucratic delays, and provide consistent regulatory guidelines. Establishing one-stop service centers for SME registration, licensing, and compliance could significantly reduce transaction costs. SMEs should be informed regularly about policy updates, tax changes, and support programs via digital platforms. Strengthening government–business dialogue mechanisms will allow SMEs to voice concerns and co-create policy solutions. Incentive schemes, such as grants for innovation or sustainability, should be accessible, simple, and widely communicated to ensure broad participation. Cleaner political and regulatory environments will improve SME confidence and investment decisions.
8. **Social Responsibility ($SR \rightarrow BP = 0.068$):** CSR has a small yet meaningful impact on performance, indicating room for strategic improvement. Policymakers should promote CSR awareness campaigns, develop national CSR guidelines tailored to SMEs, and recognize firms demonstrating social impact. SMEs should be encouraged to implement low-cost CSR activities such as employee welfare programs, community engagement, and ethical labor practices. Partnerships with NGOs and local governments can help SMEs design socially beneficial initiatives aligned with local needs. Training programs should emphasize the business benefits of CSR, such as enhanced reputation, employee retention, and customer trust, to shift SME perceptions from compliance to strategic value creation. A tiered CSR certification could help SMEs communicate their social commitments to stakeholders.
9. **Tax Policy ($TP \rightarrow SD = 0.116$; $TP \rightarrow BP = 0.062$):** Tax policy positively influences both performance and sustainability, making it an effective lever for policy intervention. Governments should expand preferential tax schemes for green technologies, energy-efficient equipment, sustainable agriculture, and low-carbon operations. Introducing tax rebates for SMEs that adopt environmental management systems or achieve sustainability milestones could accelerate transition efforts. Simplifying tax procedures and offering digital tax platforms will reduce compliance burden and free up resources for innovation. SMEs should proactively integrate tax planning into sustainability strategies to maximize benefits. Clear communication of tax incentives and tax literacy training will increase SME participation in sustainability-oriented tax programs.

LIMITATIONS AND FUTURE RESEARCH

Although this study provides important insights into the factors influencing business performance and sustainable development among Vietnamese SMEs, several limitations should be acknowledged. First, the study employs a cross-sectional design, which limits the ability to infer causality and to capture the long-term dynamics of cultural, technological, and institutional influences. Future research should adopt longitudinal or panel designs to examine how these relationships evolve. Second, the data were collected from SMEs in southern Vietnam, which may limit the generalizability of the findings to other regions with different economic structures or policy environments. Comparative studies across geographic areas or between Vietnam and other emerging economies would enhance external validity. Third, all measurements relied on self-reported perceptions, which may introduce response bias. Future research could incorporate objective performance indicators, environmental impact data, or third-party assessments of sustainability practices. Finally, the mechanisms that moderate and mediate the relationships between internal capabilities and sustainability outcomes warrant further investigation. Exploring

variables such as innovation capability, digital maturity, leadership style, or institutional trust may offer deeper insights into how SMEs can strengthen their sustainability transitions.

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