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ENVIROMENTAL GOVERNANCE, LOCAL WISDOM, AND FINANCIAL SUSTAINABILITY: EMPOWERING WOMEN ENTREPENUEURS IN SOUTH SUMATERA

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Abstract

Indonesia's economic growth has been significantly driven by women entrepreneurs in SMEs, which are vital for job creation and income generation. However, these enterprises face challenges in scaling and sustainability, influenced by social, environmental, economic, and governance factors. This study explores the mediating role of local wisdom in village environmental governance for the financial sustainability of women-led SMEs in South Sumatera, using the Triple Bottom Line (TBL) framework. A survey-based approach collected data from women entrepreneurs in formal and informal sectors, analyzed using Partial Least Squares (PLS) with Smart-PLS software. Findings reveal that local wisdom positively impacts financial sustainability through environmental governance, reinforcing the TBL's emphasis on economic, social, and environmental balance. The study underscores the role of women entrepreneurs in fostering sustainable business practices and contributes to green entrepreneurship literature, calling for further research on sustainability-driven entrepreneurship in Indonesia.

INTRODUCTION

Entrepreneurship has emerged as a significant catalyst for Indonesia's economic expansion in contemporary times. There has been a noticeable rise in the involvement of women entrepreneurs in initiating and advancing enterprises across diverse sectors of the economy (Hayati & Arini, 2023). The presence of women entrepreneurs can exert a substantial influence on the economic advancement of a nation, even within the context of Indonesia. The provision of opportunities for women to initiate and expand their own enterprises can result in their valuable contributions to the generation of employment, fostering of innovation, and facilitation of economic progress. Furthermore, it is noteworthy that women entrepreneurs possess the potential to exert a broader influence on society, encompassing the promotion of gender equality and the empowerment of women. Through the initiation and expansion of their own entrepreneurial ventures, women have the capacity to confront conventional gender roles and norms, thereby assuming the role of exemplars for fellow women and young girls. Women entrepreneurs have the capacity to make valuable contributions to the realms of social and environmental sustainability through the adoption of inclusive and responsible business practices (Gah, et al., 2020).

In recent years, Indonesia has witnessed a notable surge in its economic development, wherein entrepreneurship has emerged as a pivotal catalyst for this progress. The participation of women entrepreneurs has witnessed a notable surge, as they have become progressively engaged in the initiation and advancement of enterprises throughout diverse sectors of the economy. The small and medium enterprises (SMEs) sector in Indonesia plays a substantial role in generating employment opportunities and income. Nevertheless, the impact on employment generation is highly noteworthy. Numerous little and medium enterprises face obstacles when endeavoring to expand and transform into large-scale organizations (Hidayat, 2017). The presence of women entrepreneurs in Indonesia is predominantly observed within the SMEs sector. Women entrepreneurs have substantial challenges when it comes to managing a small firm. According to data from the Indonesian Statistics Central Agency (BPS, 2023), the current female population in Indonesia stands at 49.42%, which corresponds to approximately 134 million individuals. In 2022, the proportion of women in managerial roles stood at 32.26%.

The sustainability of microfinance is influenced by various elements, as discussed by Allet & Hudon (2013). These considerations encompass demographic, social, economic, and environmental aspects. However, the precise interplay between these components remains uncertain. The study conducted by García-Perez et al. (2016, 2018) examines the impact of four exogenous variables, namely social, environmental, governance, and economic aspects, on the sustainability of SMEs. The significance of governance in SMEs cannot be overstated, particularly in facilitating the transition towards SMEs that are better equipped to adopt environmentally sustainable practices. Atahau, et al. (2020) and Soegiono, et al. (2019) have devised a comprehensive rural microfinance model rooted on indigenous knowledge, which aligns with Elkington's (1997) triple bottom line framework encompassing the economic, environmental, and social dimensions.

This study gave contributions to the aspect of the business industry in the province of South Sumatera, especially the role of women in entrepreneurship to the green governance. First, this research appeared the novelty of the measurement of local wisdom: (1) knowledge of local wisdom and (2) culture of local wisdom. It became an important aspect of environmental governance, which is closely related to maintaining a relationship with nature. Secondly, in the context of the role of women entrepreneurs in Indonesia, local wisdoms can maintain business sustainability through the relationship between nature and economy. The result showed that the effect of local wisdom can increase influence on environmental governance. These women entrepreneurs can improve the economy through their business and protect nature for the sustainability of their business by using local wisdom.

The necessity to amalgamate indigenous knowledge, environmental management, and fiscal sustainability to tackle urgent ecological and socio-economic issues. Indigenous knowledge, grounded in traditional traditions, provides essential insights for sustainable resource management, whereas efficient environmental governance guarantees the enforcement of legislation that safeguard ecosystems. Nonetheless, attaining financial sustainability is a significant deficiency, necessitating creative funding structures and economic models that correspond with conservation objectives. The

issue statement highlights the possibility for comprehensive solutions that integrate ecological protection, cultural legacy, and economic viability by strengthening the relationship between these factors (Caldeira, et al., 2025; Chen, et al., 2025)

The conversion of SMEs into environmentally friendly entities is considered a viable strategy for attaining financial sustainability in the long term. This study specifically examines the role of local wisdom variables to village environmental governance as the primary catalyst for the sustainability of SMEs managed by women in the South Sumatera Province. Furthermore, this study examines the interrelated functions of local wisdom, environmental governance, and financial sustainability in attaining comprehensive and sustainable development, thereby addressing a significant knowledge deficiency. Although local wisdom, grounded in traditional ecological knowledge, provides significant insights for resource management (Tengö et al., 2021), and environmental governance establishes the framework for enacting sustainable policies (Nastran, et al., 2022), the incorporation of financial sustainability is still inadequately examined. Financial mechanisms that correspond with conservation objectives and assist local communities are frequently neglected, resulting in a disjunction between ecological preservation and economic sustainability (Costanza et al., 2020). The study seeks to illustrate how the integration of these three components might yield more effective, inclusive, and sustainable environmental solutions, so assuring enduring ecological health and socio-economic resilience.

Women entrepreneurs in South Sumatra face systemic barriers that hinder their access to environmental governance and financial resources, limiting their ability to promote sustainable practices (Leach, et al., 2025). Furthermore, the decline of local wisdom, which has traditionally supported sustainable resource management, underscores the need to incorporate indigenous knowledge into contemporary governance frameworks (Suharko, 2021). Empirical research on the role of women entrepreneurs in environmental governance, especially in South Sumatra, is scarce, as is the exploration of how local wisdom can enhance sustainability efforts (Arifin et al., 2022). This study aims to address these gaps by examining innovative governance models that harmonize financial sustainability with cultural preservation and environmental protection, providing region-specific insights for inclusive and equitable development (Firdaush, et al., 2024). The urgency of this research lies in its potential to tackle gender inequality, environmental degradation, and cultural erosion while offering actionable solutions for policymakers and communities. Therefore, the purpose of this study is to analyze the role of women entrepreneurs in leveraging local wisdom—both knowledge and culture—toward achieving financial sustainability, with a focus on the mediation of environmental governance.

Lee & Huruta (2022) have developed a comprehensive rural microfinance model based on indigenous knowledge, which aligns with Elkington's (1997) triple bottom line (TBL) framework encompassing economic, environmental, and social dimensions. The TBL framework asserts that true sustainability cannot be achieved by focusing solely on economic growth; it requires equal attention to environmental stewardship and social equity. Economically, the model promotes financial inclusion and income generation by providing tailored microfinance solutions that empower rural communities, especially women entrepreneurs, to thrive in local economies. Environmentally, TBL emphasizes the importance of protecting ecosystems and promoting sustainable resource use, which corresponds with the integration of indigenous knowledge in their model to encourage practices like biodiversity conservation and climate resilience. Socially, the framework underscores equity, inclusivity, and community well-being, which is reflected in the model's focus on gender empowerment and strengthening social networks through traditional practices. By adhering to the TBL framework, Huruta & Lee's model illustrates how sustainable development can be achieved by harmonizing economic growth, environmental stewardship, and social justice, thus offering a holistic approach to addressing global challenges such as poverty, inequality, and environmental degradation. Women entrepreneurs actively participate in various facets of entrepreneurship, demonstrating a willingness to undertake risks and identify opportunities within their environment. They adeptly leverage available resources in innovative ways to enhance the performance and success of their enterprises. Home-based businesses are frequently observed among women entrepreneurs, encompassing SMEs operating within both formal and informal sectors.

Women entrepreneurs globally have a substantial influence on economic development since their entrepreneurial endeavours are generating novel employment prospects. In recent years, there has been a growing interest among scholars in the field of women entrepreneurship, driven by the rising number of women entrepreneurs who are making significant contributions to the economy (Bullough et al., 2015; Faisal et al., 2017). The significance of human resources as a pivotal determinant of economic development, facilitating a constructive contribution to its overall expansion (Sajjad, et al., 2020). Even though women-owned firms are recognized as the fastest-growing businesses globally and have made substantial contributions in terms of innovation, employment, and wealth generation, it is projected that their overall share in the economic development However, there is a lack of comprehensive study on the overall impact of women entrepreneurs in global economies, as less than 10% of existing studies on entrepreneurship focus specifically on women's entrepreneurship.

Numerous scholarly investigations have been conducted about women entrepreneurship within the context of emerging markets. Notably, Amine & Staub (2009), Katre (2018), Lindvertetal (2017) and Rosca, et al. (2020) have delved into the social and environmental limitations encountered by female entrepreneurs, particularly those that are unique to emerging markets. The factors contributing to this phenomenon encompass a deficiency in skills and entrepreneurial education, limited availability of resources, institutional gaps, and the presence of poor self-esteem or diminished societal position for women within the socio-cultural framework (Goyal & Yadav, 2014). Furthermore, it has been demonstrated that cultural sensitivity and prevailing societal attitudes significantly influence the empowerment of women, as well as their engagement in entrepreneurial endeavours (Anggadwitaetal., 2015; Amine & Staub, 2009; Kantor, 2002). Furthermore, the study conducted by Lindvert et al. (2017) revealed that family networks and connections significantly contribute to the entrepreneurial endeavours of women in emerging economies. Specifically, these networks serve to enhance access to financial resources, such as cash. This study seeks to explore the way women establish their social ventures within the context of emerging markets, based on the premise that women entrepreneurship contributes significantly to socio-economic development and poverty reduction. Furthermore, numerous studies have been undertaken within the setting of India. This research examines two firms within a specific environment and contributes to the existing knowledge by investigating the emerging economy scenario in Colombia. Therefore, this study can utilize valuable insights from literature that focuses on the Indian context and juxtapose them with the context in Colombia.

The concept of environmental governance has emerged as a proactive approach to tackle the pressing issues associated with the Earth's climatic crises, with the aim of promoting global sustainability through a transformation in human interactions with the environment. The concept of environmental governance encompasses the comprehension of the incorporation of various players in the decision-making and implementation processes of a collective entity. For instance, within the framework of green governance, the range of actors extends beyond states and governments, embracing a wide array of public, private, and non-state entities. This expansion results in a greater number and diversity of actors involved in green governance (Debbarma & Choi, 2022; Gupta & Sanchez, 2012). The attainment of global sustainability targets, as agreed upon by governments and various stakeholders, is contingent upon the implementation of green governance. Li, et al., (2018) developed a framework for green governance that promotes collaboration among corporations, governments, social organisations, the public, and nature, with a focus on sustainable development. Their study explored the interplay between human activities and the natural environment to establish this framework.

The discipline of applied social sciences has seen a growing importance placed on environmental governance. However, due to varying study objectives, specialists have divergent interpretations of the connotation of environmental governance. Kuo et al. (2015) provided a definition of green governance as a systematic approach across the life cycle of an organisation, with the objective of facilitating the organization's journey towards achieving ecological sustainability. Kusis et al. (2017) argue that the concept of green governance facilitates comprehension of the incorporation of various players and collective activities in the process of decision-making. According to Dieng & Pesqueux (2017), green governance is a comprehensive framework that encompasses several levels of implementation and

manifestation of environmental policies and regulations. Its primary objective is to foster harmonious coexistence and address the requirements of society while ensuring the creation of a sustainable and favourable living environment in the future. In contrast, the study conducted by Padilha & Verschoore (2013) revealed that green governance encompasses five distinct elements, including common aims, norms, involvement, resources, and communication.

A primary aim of environmental governance is to uphold or enhance the capacity of environmental systems to operate effectively and generate ecosystem services by ensuring the persistence of species, habitats, or biodiversity. The attributes of the first objective, which is effective environmental governance, encompass various elements such as direction, coordination, competence, informed decision, The provision of unambiguous guidance is achieved by the precise articulation of vision, goals, aims, and the construction of well-defined constraints on activity and scope (Graham et al., 2003; Lockwood et al., 2010; Wyborn, 2015b; Bennett & Satterfield, 2018). Albushairi, et al. (2021) and Suratno, et al. (2017) define "local wisdom" as an area's born and established way of life that determines how that region lives while retaining its native uniqueness. Local wisdom affects a company's ability to compete due to rising product requirements and skilled labour, according to Jaya, et al. (2020). Azizah & Muhfiatun (2017) found that local wisdom in creative economy-based microenterprises affects SMEs' competitiveness. Nawangsari & Ahmad (2018) discovered that local wisdom, innovation, and talent management affect competitiveness.

Local knowledge, which includes philosophy, values, norms, ethics, rituals, beliefs, habits, traditions, and more, is important to social studies. Culture produces local wisdom (Uge, et al., 2019). Local knowledge is inseparable from a culture's language. Local wisdom is usually passed down orally. Folklore, proverbs, songs, and sports include local wisdom. Local knowledge is information accumulated by local populations via experiential learning. This knowledge is then beautifully combined with a location's culture and environment. Local genius—local wisdom—forms the bedrock of national identity. Local wisdom is a nation's cultural foundation. Language, art, community organization, technology, and other innovations often arise from local ethnic cultures and are integrated into cross-cultural situations. The main reason for studying local wisdom is to determine and, if desired, consolidate national identity, which may be undermined by dialect mixing or the inevitable processes of acculturation and transformation. Creating a new national identity based on indigenous knowledge and the archipelagic regions' identities is essential for cultural cohesion (Darmadi, 2018).

The cultivation of pertinent and situational indigenous knowledge holds great importance for the progress of a country, particularly when seen through the lens of cultural resilience, as well as its impact on regional identity. The cultivation of indigenous knowledge within a specific locality fosters a profound appreciation for the cultural heritage and creates a sense of pride in the community. This is due to the active involvement in advancing the nation's cultural development (Rumkel, et al., 2021). Through the continual integration of local knowledge and cultural education, it is undeniable that individuals can avoid being trapped in a state of alienation from their own reality, characterized by a loss of individuality and assimilation into a collective identity. Hence, it is imperative to interpret local content within the framework of emancipation in cultural education, enabling individuals to develop a deeper understanding of themselves and their surroundings, rather than perceiving it as a means of sociocultural domestication. The strategic function of local wisdom values is vital for the development of national character and identity (Minah, et al., 2019). As a result, this study provides a description of local wisdom in terms of knowledge and culture.

Women entrepreneurs have difficulties that inhibit their success, making financial sustainability vital. Women face discrimination while obtaining credit and financial services, a major obstacle to finance. This limited access affects company growth and economic empowerment. Financial inclusion initiatives are crucial to improve women's access to basic financial services and financial outcomes. Sustainable company concepts can also assist women entrepreneurs cut costs and boost revenue, improving their financial sustainability. This lack of access hinders business growth and economic empowerment. Sustainable business models can assist women entrepreneurs cut costs and boost revenue, boosting their financial sustainability (Adetiloye, et al., 2020). Financial sustainability for

women-owned businesses means they can meet expenses, reinvest in growth, and weather economic shocks. Profitability, solvency, and liquidity allow firms to exist and contribute to the economy. Financial sustainability considers the business's social and environmental implications to ensure long-term survival without compromising ethics or depleting resources. This notion also tackles women entrepreneurs' capital constraints and social biases (Azman & Kassim, 2017).

Entrepreneurship and environmental governance are becoming increasingly interconnected, especially for SMEs, which are essential in promoting sustainable development. Small and medium-sized enterprises that implement environmentally sustainable practices frequently experience greater company performance, including cost reductions from resource efficiency and increased market competitiveness via green branding (Naradda Gamage et al., 2020). By addressing the disparities, SMEs can attain equilibrium between environmental accountability and financial sustainability, so advancing overarching sustainability objectives. Pahl-Wostl et al. (2019) enrich environmental governance with their analytical perspective. Indigenous knowledge systems include the information, customs, and convictions passed down through generations, according to McGregor (2021). They also demonstrate how community-driven solutions are replacing top-down approaches (Obermeister, 2019). Researchers concluded that women-led small companies boost sustainability. They innovate socially and environmentally as well as economically (Sperber & Linder, 2019)

Knowledge of environmental governance enhances financial sustainability by improving resource efficiency and reducing environmental risks. A study by Van der Molen (2018) demonstrates that integrating environmental governance into corporate decision-making results in cost savings, regulatory compliance, and long-term financial stability. Additionally, Nguyen, et al. (2021) argue that strong governance frameworks enable businesses and communities to adapt to climate-related risks, thereby minimizing economic losses and bolstering financial sustainability. Knowledge equips people and organizations to make smart financial decisions, promoting financial sustainability (Jordão & Almeida, 2017). Furthermore, research by Latulippe & Klenk (2020) indicates that green investments, driven by sustainability knowledge, contribute to both financial growth and environmental preservation.

Local wisdom-based cultural enterprises show how traditional practises can become economic assets and provide sustainable income for communities (Parameswara & Wulandari, 2020). Tailoring solutions to distinct cultures is crucial for financial sustainability in various organizations and communities (Jelinčić & Šveb, 2021). The ecological transition requires a major mental and behavioural shift and new sustainable technology and behaviours. Understanding how cultural beliefs, values, and practices affect human conduct and the environment (Bennett, 2017). Grasp the ever-changing and linked world of green intention requires a deep grasp of culture, behaviours, and gender. Green solutions must consider consumer perspectives and adapt to cultural, behavioural, and gender issues (Sreen, et al., 2018). Circular economy models and natural solutions in business have redefined sustainability from following the regulations to protecting the environment (Nedopil, 2023). These findings challenge conventional wisdom by emphasizing the need for inclusive, flexible, and situation-specific tactics. These strategies should combine financial sustainability with social and environmental aims to inspire fresh thinking and action.

Environmental governance in financial decision-making allows organisations to fund eco-friendly projects, boosting conservation and the low-carbon economy (Junaedi, 2024). Effective environmental governance improves organisational performance and reputation, stakeholder cooperation, and resource management, boosting financial sustainability (Aguilera, et al., 2021). The connection to financial sustainability remains inadequately examined, as several SMEs encounter obstacles in securing capital for green initiatives and lack the proficiency to incorporate environmental governance into their business models. Enhancing this connection necessitates novel finance structures, including green loans or impact investment, alongside capacity-building programs to assist SMEs in aligning environmental governance with long-term financial sustainability and economic expansion (Brush et al., 2019).

According to the description above, the proposed hypotheses are described as: (H1) knowledge on local wisdom positively impacts financial sustainability; (H2) knowledge on local wisdom positively influences financial sustainability via environmental governance; (H3) culture on local wisdom effect

positively financial sustainability; (H4) culture on local wisdom positively influences financial sustainability via environmental governance; (H5) knowledge on local wisdom can positively increase environmental governance; (H6) culture on local wisdom will positively increase environmental governance; (H7) environmental governance positively increases financial sustainability positively. The conceptual framework can be shown in figure 1.

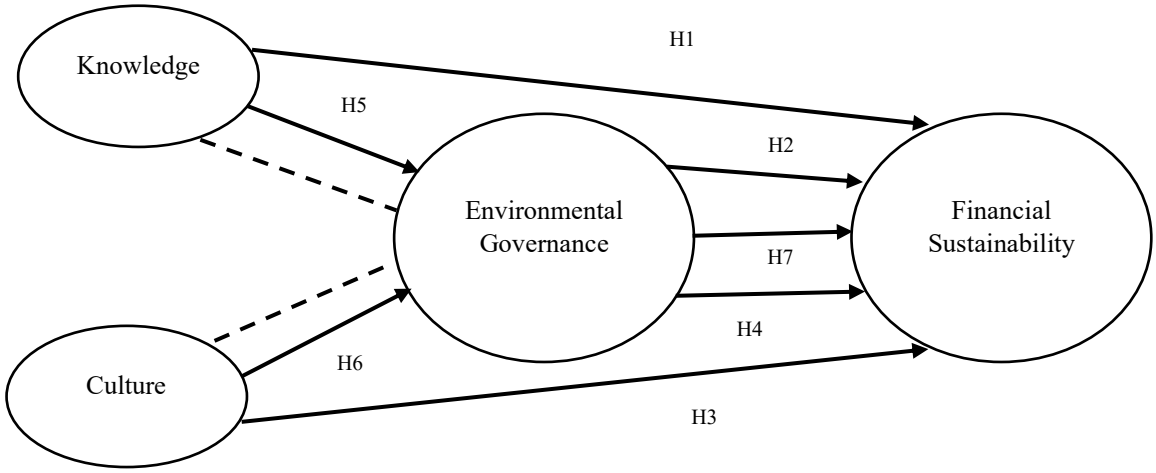

Figure 1. Conceptual Framework

METHOD

This study employed a survey research design with questionnaire to examine a population by selecting and analysing samples chosen from that group to identify relative events, distribution patterns, and relationships among the variables. user's text is already academic. The population under investigation in this study consisted of women entrepreneurs have an active role in multiple aspects of the entrepreneurial landscape. Women entrepreneurs often run small businesses out of their homes. These businesses can be in the formal or informal field (Hatoum, et al., 2023) (see table 1). This research was conducted in South Sumatera Province, Indonesia. They are 13 districts in South Sumatera Province. According to the Badan Pusat Statistik (2023), South Sumatra ranks 19th out of 38 provinces in terms of environmental challenges. This ranking indicates that stakeholders in South Sumatra continue to confront significant environmental issues. The sample in this research acquired by proportional sampling, where the researchers employed a systematic sampling approach to select representatives from each group within the population. The sample size for each group was modified proportionally to the number of participants present in that group (Lind, et al., 2022).

According to the guidelines for sample measurement in maximum likelihood estimation approach, a total of 331 target samples were dispersed. The primary focus of this study is women who own or manage SMEs in South Sumatera Province. These entrepreneurs work in sectors such as agriculture, fisheries, handicrafts, textiles, tourism, and retail, which are frequently shaped by local wisdom and environmental governance. The author selected 182 respondents from a total of 331 distributed samples using specific eligibility criteria to include only complete and relevant responses in the final analysis. This selection process likely employed purposive sampling or data filtering techniques within the Maximum Likelihood Estimation (MLE) approach, which necessitates high-quality data for accurate estimation (Mardia, et al., 2024). Moreover, employing procedural remedies, such as safeguarding respondent confidentiality and diversifying question formats, might mitigate self-report bias and enhance the validity of the gathered data. Furthermore, the data must be converted into interval data. If you want to convert ordinal scale data to interval scale, method of successive interval (MSI) analysis is used (Cheung et al., 2024).

This study employs two models in the PLS calculation: the Measurement Model (Outer Model), which includes R square with significance, and the Structural Model Testing (Inner Model), encompassing construct validity tests, discriminant validity, Confirmatory Factor Analysis (CFA), Composite Reliability, Average Variance Extracted (AVE), and Goodness of Fit (GOF). The outer model delineates the link between indicators and their corresponding construct variables. The forthcoming examination pertains to construct reliability, focusing on the values of Composite Reliability (CR), Cronbach's Alpha (CA), and Average Variance Extracted (AVE). Evaluating the discriminant validity of the reflexive measurement model by comparing the square root of the Average Variance Extracted (AVE) for each construct with its correlations to other constructs within the model (Hair Jr, et al., 2021).

In the present study, each question was assessed using a set of five scales. Responses that were in close range to the value of 1 were categorized as "strongly disagree," while those that were in close proximity to the value of 5 were classified as "strongly agree." The subsequent measurement is as delineated:

Table 1. Measurements of Variables

Variable	Definition	Source
	Independent Variables	
Knowledge on local wisdoms	Knowledge of local wisdom such as: (1) the comprehension, consciousness, and discernment acquired regarding the customary and native customs, (2) convictions, principles, and (3) abilities that are profoundly ingrained inside a particular group or culture	Brondízio, et al. (2021)
Cultural of local wisdom	Culture includes beliefs, values, norms, symbols, and practices, and how they impact individuals and communities. Cultural of local wisdom refers (1) the ways in which culture shapes and influences society, (2) values on local communities, and (3) beliefs impact individuals	Pesurnay (2018)
Environmental governance	Environmental governance is combining elements such as: (1) management, (2) strategy, (3) social systems, and evolutionary governance in environment	Kristof, et al. (2020)
	Dependent Variable	
Financial sustainability	The necessity for balanced spending policies and the effective allocation of resources is essential for achieving sustainable development leading to long-term benefits. Financial sustainability refers to (1) real preservation of the company, (2) a company's ability to survive, (3) total earnings risk exposure acceptable to owners, and (4) Economic interests of the owners	Gleißner, et al. (2022)

Descriptive statistical analysis was employed to provide a comprehensive description of the characteristics of the respondents, the sample, and the variables under investigation. To provide an account of the demographic characteristics of the respondents, it is necessary to consider their age, level of education, and marital status. The study also examined the participants' responses to the construct indicators investigated in this research. In order to analyse the hypothesis derived from the research model produced in this study, the tests conducted in this study utilized a data analysis tool called Partial Least Squares (PLS) with the help of Smart-PLS software.

RESULTS

This study examines the demographic features of respondents, including their age, highest level of education completed, and marital status.

Table 2. Respondents' Demographic Characteristic

Characteristics	Frequency	%
Age:		
17-20 years old	24	13,18
21-30 years old	25	13.73
31-40 years old	43	23,62
41-50 years old	50	27,47
51-60 years old	40	21.98
Education:		
Middle School	20	10,99
High School	80	43,96
Bachelor	77	42,31
Others	5	2,75
Status		
Married	112	61,54
Unmarried	70	38,46

The above table showed that respondents in this research for female entrepreneurs' respondents with the greatest age group 41 to 50 years, and most of them graduate from high school and it is clear that most of respondents were married status.

For this study, the outer model is employed to assess the reliability and validity of the variables in relation to each latent variable indicator. The loading factor test is conducted as a preliminary assessment for each indication, wherein the variables of knowledge, culture, environmental governance, and financial sustainability have achieved the requisite convergent validity using the SmartPLS software.

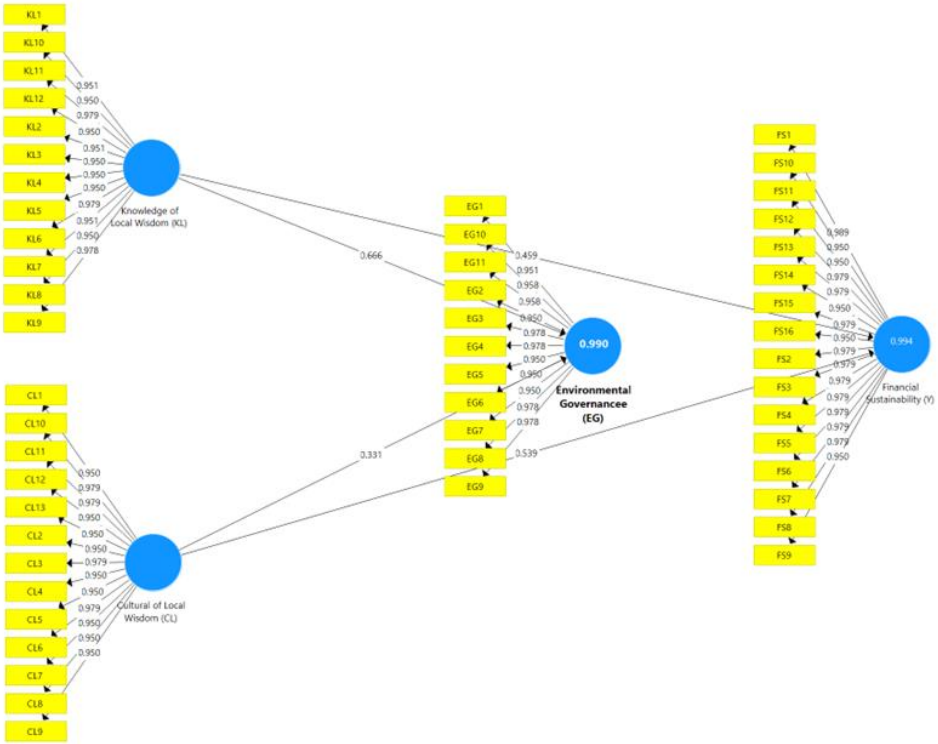

Figure 2. Outer Model

Table 3. The result of AVE

	Average Variance Extracted (AVE)	Cut-off Values	Descriptions
Knowledge (X1)	0.645	0.5	Valid
Culture (X2)	0.618	0.5	Valid
Environmental Governance (Z)	0.629	0.5	Valid
Financial Sustainability (Y)	0.624	0.5	Valid

Source: SmartPLS2024

Convergent Validity is evaluated using the Average Variance Extracted (AVE). A model with an AVE value greater than 0.5 is considered to have high Convergent Validity. The AVE values are all above 0.5. The AVE value for the Reward variable is 0.645 (64.5%), indicating that 64.5% of the variation in the X1 measurement item is explained by the knowledge variable. The AVE value for the Culture variable is 0.618 (61.8%), meaning that 61.8% of the variation in the X2 measurement item is explained by the culture variable. The AVE value for Environmental Governance is 0.628 (62.8%), which signifies that 62.8% of the variation in the Z measurement item is accounted for by the environmental governance variable. Lastly, the AVE value for Financial Sustainability is 0.624 (62.4%), indicating that 62.4% of the variation in the X1 measurement item is explained by the financial sustainability variable.

Table 4. Analysis Result Fornell Larcker Criterion

	Financial Sustainability (Y)	Culture (X2)	Environmental Governance (Z)	Knowledge (X1)
Financial Sustainability (Y)	0.890			
Culture (X2)	0.787	0.866		
Environmental Governance (Z)	0.788	0.789	0.892	
Knowledge (X1)	0.879	0.791	0.785	0.903

Source: SmartPLS2024

The next test is the Fornell-Larcker criterion, which assesses the discriminant validity of a research model. To achieve good discriminant validity, the square root of the Average Variance Extracted (AVE) for a construct must be higher than the correlations between that construct and other latent variables. Table 3 shows that all variables exhibit higher values. Specifically, the observed knowledge variable has a value of 0.903, which is the highest in its column. The observed culture variable follows with a value of 0.886, also the highest in its column. The observed environmental governance variable has a value of 0.892, surpassing other variables in the same column, while the observed financial performance variable is at 0.890, again higher than others in its column. These results indicate that the data model tested in this study meets the necessary criteria, providing evidence that the variables in the model possess discriminant validity.

Table 5. Analysis Result Cronbach Alpha dan Composite Reliability

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Financial Sustainability (Y)	0.953	0.959	0.624
Culture (X2)	0.938	0.947	0.618
Environmental Governance (Z)	0.934	0.944	0.628
Knowledge (X1)	0.938	0.948	0.645

Source: SmartPLS2024

The acceptable Composite Reliability value for exploratory research ranges from 0.60 to 0.70, with a value greater than 0.70 indicating high reliability. According to Table 4, all variables in this research have demonstrated reliability, as both the composite reliability and Cronbach's alpha values exceed 0.70. Therefore, all variables in this research model exhibit internal consistency reliability.

Additionally, based on previous data, it can be concluded that this research possesses good convergent validity, strong discriminant validity, and solid internal consistency reliability.

Table 6. Test Results of the Coefficient of Determination (R^2)

	R Square Adjusted
Financial Sustainability (Y)	0.980
Environmental Governance (Z)	0.979

Source: SmartPLS2024

The R^2 value for the financial sustainability variable is 0.980, indicating that the exogenous variables, knowledge and culture, collectively account for 98% of the variation in financial sustainability, with the remaining 2% influenced by other factors. Similarly, the R^2 value for the environmental governance variable is 0.979, showing that knowledge and culture together explain 97.9% of the variability in environmental governance, while 2.1% is attributed to other influences. According to the R-squared measurement standards, a value of 0.75 or higher is considered strong, 0.50 is moderate, and 0.25 is weak. The R^2 value for employee performance is 0.980 (98%), which falls within the strong category, suggesting a significant relationship between knowledge and culture and financial sustainability. Furthermore, the R^2 value of 0.979 (97.9%) for environmental governance also falls into the strong category, indicating a substantial relationship between knowledge and culture and financial sustainability through environmental governance.

Table 7. The result of F-square analysis

	Financial Sustainability (Y)	Culture (X2)	Environmental Governance (Z)	Knowledge (X1)
Financial Sustainability (Y)				
Culture (X2)	0.223		0.399	
Environmental Governance (Z)	0.340			
Knowledge (X1)	0.414		0.296	

Source: SmartPLS2024

Table 6 shows that knowledge has a value of 0.414, indicating a large influence on financial sustainability. Culture has a value of 0.223, also reflecting a significant influence on financial sustainability. Environmental governance has a value of 0.340, which similarly indicates a large influence on financial sustainability. The Effect Size (f^2) value for knowledge is 0.296, suggesting a moderate influence on environmental governance. In contrast, the culture variable has a value of 0.399, which indicates a moderate influence on environmental governance as well. Overall, the variables of knowledge, culture, and environmental governance all significantly impact financial sustainability, while knowledge and culture specifically exert a notable influence on environmental governance.

Table 8. Path Coefficient Result

	Original Sample (O)	T Statistics (|O/STDEV|)	P Values	Result
Knowledge (X1) → Financial Sustainability (Y)	-0.126	1.167	**0.244**	Not Supported
Culture (X2) → Financial Sustainability (Y)	0.562	3.769	0.000	Supported
Knowledge (X1) → Environmental Governance (Z)	0.326	2.788	0.006	Supported
Culture (X2) → Environmental Governance (Y)	0.665	5.685	0.000	Supported
Environmental Governance (Z) → Financial Sustainability (Y)	0.557	4.482	0.000	Supported

Source: SmartPLS2024

The calculation results indicate an original sample estimate value of -0.126, suggesting a negative relationship. The P-value is 0.244 (>0.05), and the t-statistic value is 1.167 (<1.96), which means that there is no effect of knowledge on financial sustainability, in other words, the knowledge possessed by women entrepreneurs does not affect financial sustainability. From this description, it can be concluded that knowledge has no significant effect on financial sustainability, thus Hypothesis H1 is rejected. The calculation results indicate an original sample estimate value of 0.562, demonstrating a positive correlation, accompanied by a P-Value of 0.000 (<0.05) and a t-statistic value of 3.769 (>1.96). This suggests a significant influence of culture on financial sustainability; specifically, an improvement in cultural factors correlates with enhanced financial sustainability. This description indicates that culture positively and significantly influences financial sustainability, leading to the acceptance of Hypothesis H3.

The study's results indicate an original sample estimate value of 0.326, suggesting a positive relationship between knowledge and environmental governance. This indicates that knowledge significantly influences environmental governance; in other words, as knowledge increases, so does the level of environmental governance. Therefore, we can conclude that knowledge has a positive and significant effect on environmental governance, leading to the acceptance of Hypothesis H5. The calculation results indicate that the sample estimate value of the knowledge variable on environmental governance is 0.665, demonstrating a positive relationship. Similarly, the sample estimate value of environmental governance on financial sustainability is 0.557, also indicating a positive direction. Therefore, both Hypothesis H6 and Hypothesis H7 are accepted. In conclusion, it can be stated that knowledge has a positive and significant effect on environmental governance, and environmental governance has a positive and significant effect on financial sustainability.

Table 9. Specific Effects Result

	Original Sample (O)	T Statistics (|O/STDEV|)	P Values	Result
Knowledge (X1) → Environmental Governance (Z) →Financial Sustainability (Y)	0.182	2.152	0.032	Supported
Culture (X2) → Environmental Governance (Z) → Financial Sustainability (Y).	0.370	3.854	0.000	Supported

Source: SmartPLS2024

The original sample estimate value is 0.182, with a P-value of 0.032 <0.05) and the t-statistic value is 2.152 > (less than 0.05) and a t-statistic of 2.152 (greater than 1.96). This indicates that knowledge positively influences financial sustainability through environmental governance. In other words, as the level of knowledge increases and the value of environmental governance rises, financial sustainability also improves. Therefore, we can conclude that knowledge has a significant positive effect on financial sustainability via environmental governance, leading to the acceptance of Hypothesis H2. The original sample estimate value is 0.370, with a P-value of 0.000 (<0.05) and the t-statistic value is 3.854 (>1.96). This indicates that culture influences financial sustainability through environmental governance. In other words, as culture and the value of environmental governance improve, financial sustainability also increases. Therefore, we can conclude that culture has a positive and significant effect on financial sustainability through environmental governance, leading to the acceptance of Hypothesis H4.

DISCUSSION

This study explores the complex relationship between knowledge, culture, environmental governance, and financial sustainability within women-led SMEs in South Sumatera Province. The findings reveal that local wisdom—encompassing knowledge and cultural values—significantly influences environmental governance, which mediates financial sustainability. The strong R^2 values indicate that knowledge and culture explain almost all variations in both financial sustainability and

environmental governance, underscoring their predictive significance. However, knowledge by itself does not directly impact financial sustainability, suggesting that entrepreneurial expertise must be effectively integrated into governance structures to achieve sustainable financial outcomes. This aligns with Li et al. (2018), who stressed the importance of collaborative environmental governance among enterprises, governments, and social organizations. Additionally, Uge, et al. (2019) highlighted the role of cultural knowledge in promoting sustainability, reinforcing the notion that local wisdom fosters sustainable business practices.

The results indicate that knowledge does not significantly impact financial sustainability directly. The negative correlation may suggest that increased knowledge, when not applied properly or aligned with organizational goals, could hinder financial sustainability; however, this relationship warrants further investigation. In contrast, there is a strong positive relationship between culture and financial sustainability. A robust and supportive culture likely enhances financial performance by fostering collaboration, innovation, and efficient resource management. Additionally, knowledge positively influences environmental governance. Organizations that possess greater knowledge are better equipped to implement effective environmental policies and practices, leading to improved governance. There is also a strong positive relationship between culture and environmental governance. A culture that values sustainability and ethical practices is likely to promote better environmental governance, resulting in more sustainable operations. Effective environmental governance, in turn, positively impacts financial sustainability. Good environmental governance can lead to cost savings, an improved reputation, and compliance with regulations, all of which contribute to financial stability. A closer examination of the mediation effect of environmental governance shows that both knowledge and culture influence financial sustainability indirectly through governance frameworks. This is also confirmed by Lina & Devyanti (2024) that the need of green performance become prioritize as a responsibility on profit or financial performance. The results explain that women entrepreneurs prioritize creating environments that will benefit their companies. This emphasis demonstrates how women's roles in business can promote gender equality as a means of achieving sustainable development objectives (Dillak & Hapsari, 2024). The study confirms that knowledge significantly improves environmental governance, which in turn enhances financial sustainability. This finding supports Battaglia et al. (2020), who highlighted the importance of structured environmental governance in reducing costs associated with environmental degradation and promoting long-term financial stability. Furthermore, Hechavarría et al. (2017) investigated how female entrepreneurs adopt eco-friendly business models, efficiently utilizing available resources while navigating market challenges. Despite their contributions, women entrepreneurs face significant barriers, such as limited access to green financing, policy obstacles, and competition. Addressing these challenges necessitates improved governance policies that incorporate local wisdom into decision-making processes.

The study emphasizes the Triple Bottom Line (TBL) theory by Elkington (1997) , which highlights the interconnectedness of economic, social, and environmental sustainability, particularly regarding the role of women entrepreneurs in South Sumatera.

Culture plays a crucial role in the model, positively influencing both financial sustainability and environmental governance. This connection aligns with the "People" aspect of the Triple Bottom Line (TBL), as organizational culture embodies the social dimension of sustainability. A positive culture promotes employee well-being, ethical behavior, and stakeholder engagement, all of which are essential for achieving long-term social sustainability.

Environmental governance is another key component of the model, significantly shaped by both knowledge and culture. This aspect corresponds with the "Planet" dimension of TBL, ensuring that organizations implement sustainable practices, minimize their ecological footprint, and adhere to environmental regulations. The "Profit" aspect of TBL is directly represented by the dependent variable, financial sustainability. The model illustrates that both culture and environmental governance have substantial positive effects on financial sustainability. Notably, while knowledge does not directly influence financial sustainability, it supports it indirectly through enhanced environmental governance.

This indicates that knowledge must be effectively leveraged in environmental and social initiatives to promote better financial outcomes.

For promoting green entrepreneurship and sustainable business practices, a multi-stakeholder approach is essential, involving policymakers, industry leaders, and educational institutions. Maziriri et al. (2019) emphasized that entrepreneurship education must be structured, inclusive, and globally competitive to equip women entrepreneurs with the necessary skills to tackle sustainability challenges. However, universities alone cannot drive change; a broader support ecosystem—including access to digital tools, financial literacy programs, and institutional backing—is critical. Future research should investigate how digital transformation, green financing, and innovative governance models can enhance the role of local wisdom in sustainable entrepreneurship. By strengthening environmental governance policies and fostering an ecosystem that supports sustainable entrepreneurship, women-led SMEs in South Sumatera can thrive in an increasingly sustainability-driven economy, ensuring long-term financial resilience and environmental responsibility.

CONCLUSION

This study examines local wisdom, environmental governance, and financial sustainability among women entrepreneurs in South Sumatra. The research highlights how local expertise, particularly in knowledge and culture, shapes sustainable business practices and governance systems. It finds that environmental governance mediates the impact of local wisdom on financial sustainability. The Triple Bottom Line (TBL) framework emphasizes the interconnectedness of people, planet, and profit for achieving long-term sustainability (Elkington, 1997). By embracing local wisdom and environmental governance, women entrepreneurs can improve social well-being, ecological balance, and financial resilience. However, the study has several limitations, including its focus on a single province, a narrow definition of local wisdom, an exclusive emphasis on female entrepreneurs, its survey methodology, and a small sample size. The researcher intentionally limited the scope of location, factors, and data collection methods, which opens opportunities for future research. Expanding the study to include different regions, incorporating male entrepreneurs into the concept of local wisdom, and employing qualitative approaches such as in-depth interviews could enhance understanding. Despite these limitations, the study contributes to sustainable entrepreneurship and environmental governance. It enriches the existing literature by integrating local wisdom, governance, and financial sustainability into a cohesive analytical framework. Policymakers, entrepreneurs, and sustainability advocates can learn how to leverage cultural heritage and governance practices to support women-led SMEs. Utilizing the Triple Bottom Line (TBL) framework, this research illustrates how women entrepreneurs promote environmental sustainability, social equity, and financial success, emphasizing the importance of balancing economic growth, environmental stewardship, and social inclusion. It underscores the need for inclusive policies that support women entrepreneurs and foster environmental responsibility. Ultimately, this research lays the groundwork for future studies on sustainable economic growth rooted in cultural contexts by highlighting the mediating role of environmental governance and the contributions of women entrepreneurs to financial sustainability.

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