

# Perceived Barriers among SMEs in Banyuwangi to Engage in Green Entrepreneurship

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**Abstract.** The transition towards sustainable business practices is critical for addressing environmental challenges and ensuring long-term economic resilience. However, small and medium-sized enterprises (SMEs), particularly in developing regions, often face substantial barriers to adopting green entrepreneurship. This study investigates the perceived barriers that hinder SMEs in Banyuwangi, East Java, from implementing environmentally friendly business models. A quantitative approach was employed, with data collected from 88 SME owners through structured questionnaires across key sectors such as food processing, handicrafts, and tourism services. The analysis identifies four dominant categories of perceived barriers: (1) limited financial resources and access to green financing; (2) inadequate knowledge and technical skills regarding sustainable practices; (3) weak market demand and unclear economic benefits of green products; and (4) regulatory and institutional constraints, including insufficient local government support and unclear policy guidelines. Additionally, cultural attitudes and traditional business mindsets were found to subtly influence the adoption process. The findings emphasize the need for targeted policy interventions, capacity-building programs, and market incentives to overcome these barriers and foster a supportive ecosystem for green entrepreneurship in Banyuwangi. These insights contribute to the growing body of literature on sustainability in SMEs and offer practical recommendations for policymakers and development agencies aiming to accelerate the green transition at the local level.

**Keyword:** green entrepreneurship, SMEs, perceived barriers, sustainability, Banyuwangi, East Java

## 1. Introduction

The shift to green entrepreneurship has become an essential tool to deal with the urgent environmental problems of the 21st century. As sustainability becomes a key part of global economic growth, more people are realizing how important small and medium-sized businesses (SMEs) are for promoting green growth. Green entrepreneurship is when businesses use environmentally friendly innovations and sustainable resource management to make their operations more environmentally friendly, socially responsible, and economically sound. It is important for small and medium-sized businesses (SMEs) to overcome the barriers to green entrepreneurship in order to stay competitive and sustainable in the long run. So, it's very

important to understand and get rid of these barriers in order to move the green economy forward.

Some studies have found major obstacles to the growth of green entrepreneurship, especially in developing countries. Makki et al. (2020) identify financial constraints and insufficient institutional support as significant obstacles to the advancement of green entrepreneurship. Conversely, Jabarzadeh et al. (2018) examine socio-economic impediments, such as market acceptance and consumer behavior, in Iran. Mkhonza (2018) also talks about the problems that small and medium-sized businesses (SMEs) have in developing countries. She says that limited knowledge and technological capacity make it even harder for these businesses to adopt sustainable practices. Hoogendoorn et al. (2019) corroborate these findings, indicating that perceived risks and a lack of awareness regarding green business opportunities are widespread in entrepreneurial contexts. Moreover, recent research by Badjeena et al. (2024) highlights the significance of circular economy principles in green entrepreneurship, especially within African contexts.

This study examines SMEs in Banyuwangi, East Java, a region that has experienced considerable transformation in recent years due to the promotion of eco-tourism and the establishment of green businesses. Banyuwangi is a suitable place to study green entrepreneurship because it has successfully integrated sustainable practices into the local economy. Banyuwangi is a top eco-tourism destination because it is dedicated to protecting the environment. The government has made significant efforts to protect natural resources and promote eco-friendly tourism (Banyuwangi Government, 2020). The local government's "Green Banyuwangi" program and other projects are all about promoting sustainability through things like managing waste, using renewable energy, and farming in a way that doesn't harm the environment (Wahono,). These actions fit with Banyuwangi's larger plan to build a strong and green economy, making it a good place to study the problems and chances that come with green entrepreneurship.

Despite the positive development, the problems that small and medium-sized businesses in the area face when trying to start green businesses are still not well understood. This study aims to address the existing gap by systematically identifying and analyzing these barriers through a quantitative methodology, concentrating on elements such as financial limitations, insufficient knowledge, market demand, and regulatory assistance. The results seek to enhance the current body of knowledge by supplying empirical evidence regarding the obstacles SMEs experience in implementing green practices and presenting pragmatic solutions to address these challenges.

This article aims to enhance the existing literature by incorporating the viewpoints of SMEs in Banyuwangi, a subject that has not been previously examined in the realm of green entrepreneurship. This study aims to fill the research gap identified in the literature, thereby enhancing the comprehension of the socio-economic factors that hinder the adoption of sustainable business practices. It will also offer policy recommendations to cultivate a more conducive environment for green entrepreneurship in developing regions.

## **2. Method**

This study adopts a quantitative research approach to explore the perceived barriers to green entrepreneurship among SMEs in Banyuwangi, East Java. The research employs structured questionnaires to collect data from a sample of 88 SME owners in key sectors such as eco-tourism, food processing, handicrafts, and other environmentally-oriented businesses. The research design and data collection process aim to identify the barriers faced by these businesses in adopting green practices and to assess the influence of these barriers on their sustainability performance.

### *2.1 Sampling Strategy and Participants*

The target population for this study consists of SMEs operating in Banyuwangi that are involved in green entrepreneurship or environmentally friendly business practices. Given the focus on green-oriented businesses, the sampling frame includes SMEs engaged in sectors such as eco-tourism, organic agriculture, renewable energy, waste management, and green product manufacturing. A purposive sampling technique was employed to ensure that only those SMEs with a demonstrated commitment to sustainable practices were selected.

A total of 85 SME owners participated in the study. This sample size was determined based on previous studies that indicate a sufficient number of responses for ensuring statistical validity in surveys of SME populations (Ghozali, 2011). Respondents were selected from a database of local businesses, with assistance from the Banyuwangi Chamber of Commerce and Industry (Kadin Banyuwangi) and local government institutions supporting SMEs.

### *2.2 Data Collection*

Data collection was carried out through the distribution of structured questionnaires. The questionnaire was designed to capture both the socio-economic characteristics of the respondents and the perceived barriers to adopting green entrepreneurship. It consisted of three main sections:

1. **Demographic Information:** This section captured data on the SME owners' characteristics, such as age, education, business sector, and years of operation.
2. **Perceived Barriers:** This section focused on identifying the specific barriers to green entrepreneurship. Using a Likert scale (1 = Strongly Disagree to 5 = Strongly Agree), respondents rated their agreement with statements related to financial limitations, technical knowledge, market demand, regulatory constraints, and cultural attitudes. These categories were based on the findings of previous research, including Makki et al. (2020), Jabarzadeh et al. (2018), and Hoogendoorn et al. (2019).
3. **Green Business Performance:** The final section assessed the sustainability performance of the SMEs in terms of environmental, economic, and social factors. These items were also measured on a Likert scale, asking participants to rate the effectiveness of their green initiatives, such as waste reduction, energy efficiency, and community engagement.

### *2.3 Data Analysis*

The data collected from the questionnaires were analyzed using Descriptive Statistics to outline the demographic profile of the respondents and the general distribution of perceived barriers. To identify the main factors affecting green entrepreneurship, Factor Analysis was performed to reduce the number of variables into manageable components, highlighting the key barriers to green business practices.

## **3. Results and Discussion**

### *3.1 Results*

The data collected from 88 SME owners in Banyuwangi, East Java, revealed significant insights into the perceived barriers to green entrepreneurship and their impact on business sustainability performance. Descriptive statistics were first used to provide an overview of the respondent demographics and the main barriers identified. Subsequently, factor analysis and PLS-SEM were employed to analyze the relationships between perceived barriers and green business performance.

#### **1. Demographic Overview**

The majority of respondents (62%) were between the ages of 32 and 55, with a relatively equal distribution of male and female SME owners (51% male, 49% female). The businesses

represented a wide range of industries, with 42% involved in eco-tourism, 35% in food processing, and 23% in handicrafts. The respondents had an average of 7 years of experience running their respective businesses, and over 72% of them had been involved in some form of green practice, such as waste management, eco-friendly product development, or energy-saving initiatives.

## 2. Perceived Barriers to Green Entrepreneurship

Through factor analysis, five major factors emerged as perceived barriers to adopting green entrepreneurship in the region. These factors were ranked based on the average scores from the Likert scale:

- Limited Financial Resources and Access to Green Financing (Mean: 4.03, SD: 0.85): Respondents overwhelmingly cited financial constraints as a significant barrier, particularly the high initial capital required for adopting green technologies and sustainable materials.
- Inadequate Knowledge and Technical Skills (Mean: 3.83, SD: 0.80): Many SME owners reported lacking the necessary expertise to implement green practices effectively. They highlighted the need for technical training and awareness programs focused on sustainable production processes and energy-efficient technologies.
- Weak Market Demand and Unclear Economic Benefits (Mean: 3.63, SD: 0.74): SMEs in Banyuwangi expressed concerns about the market's limited demand for eco-friendly products and services, with many respondents indicating that consumers remained largely indifferent to the environmental benefits of green products. Additionally, the economic benefits of green business practices were perceived as uncertain.
- Regulatory and Institutional Constraints (Mean: 3.50, SD: 0.78): A number of respondents pointed to the lack of clear government policies and institutional support for green entrepreneurship. They expressed frustration with vague regulations, insufficient incentives for green innovation, and the limited availability of green financing programs.
- Cultural Attitudes and Traditional Business Mindsets (Mean: 3.36, SD: 0.72): Cultural resistance to change and a preference for conventional, cost-effective business practices were noted as subtle but influential barriers. Many SME owners acknowledged that shifting business mindsets towards sustainability required overcoming deep-rooted attitudes.

### 3.2 Discussion

The findings of this study are consistent with previous research on the barriers to green entrepreneurship in developing countries. Makki et al. (2020) and Jabarzadeh et al. (2018) emphasize the critical role of financial resources and knowledge in green business adoption. In this study, limited access to green financing and a lack of technical expertise were the primary barriers identified by respondents. This finding suggests that SMEs in Banyuwangi, like those in other regions, face significant challenges in financing the adoption of green technologies and implementing sustainable practices.

The concerns raised by SMEs regarding market demand and unclear economic benefits align with the findings of Hoogendoorn et al. (2019), who discuss the uncertainty SMEs face regarding the economic returns from green practices. Many SME owners in Banyuwangi expressed that while they were willing to adopt environmentally friendly practices, they were unsure of the long-term financial benefits due to a lack of consumer awareness and limited market demand for green products. This highlights the need for stronger marketing campaigns and consumer education to increase demand for green products and services.

Regulatory constraints were also a significant barrier, echoing the conclusions of Mkhonza (2018), who found that ambiguous policies and insufficient government support hindered the

growth of green entrepreneurship in developing regions. Despite the Banyuwangi local government's commitment to promoting eco-tourism and sustainable business practices, many respondents reported that they were unclear about the specific incentives and support available to them. This points to the need for clearer, more accessible policies and financial incentives that encourage SMEs to invest in green practices.

Lastly, the cultural resistance observed in Banyuwangi reflects broader challenges faced by SMEs in traditional markets. Changing mindsets and traditional business practices takes time, and overcoming this cultural resistance is essential for the long-term success of green entrepreneurship initiatives. (Badjeena et al., 2024).

#### Implications for Policy and Practice

This study provides important insights for policymakers, local governments, and development agencies. To overcome the identified barriers, it is crucial to provide financial incentives and access to green financing for SMEs, particularly in the form of low-interest loans and grants. Capacity-building programs focusing on technical skills and sustainable business practices are also needed to empower SMEs in adopting green innovations. Furthermore, the government must work to clarify and streamline regulations and create a supportive policy framework that incentivizes green entrepreneurship. Lastly, increasing consumer awareness and demand for green products can help drive the market for sustainable businesses in Banyuwangi.

## 4. Conclusion

In conclusion, while Banyuwangi is making significant strides in promoting eco-tourism and green business practices, SMEs in the region continue to face several barriers that hinder the full adoption of green entrepreneurship. This study contributes to the growing body of literature on green entrepreneurship in developing countries and offers practical recommendations for overcoming these barriers. By addressing financial, knowledge, market, regulatory, and cultural barriers, Banyuwangi can foster a more supportive environment for sustainable businesses, contributing to the region's long-term economic and environmental resilience.

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