

Generation Z Preferences for MSME Products in Jombang: The Role of Local Values and Sustainable Innovation (A Case Study of Griya Manik in Transforming Glass Waste into Beads)

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Abstract

Research Aim: This study aims to analyze the influence of local values and sustainable innovation on Generation Z preferences toward MSME products, particularly in the context of waste-based creative industries.

Design/Method/Approach: This research employs a quantitative explanatory approach using a survey method. Data were collected from 117 Generation Z respondents in Jombang through structured questionnaires measured on a Likert scale. The data were analyzed using Structural Equation Modeling based on Partial Least Squares (SEM-PLS) with the SmartPLS software.

Research Findings: The results indicate that both local values and sustainable innovation have a positive and significant effect on Generation Z preferences. The path coefficient values ($\beta = 0.335$; $\beta = 0.521$), t-statistics (> 1.96), and p-values (< 0.05) confirm significant relationships. Additionally, the R-square value of 0.648 shows that 64.8% of consumer preferences can be explained by the independent variables.

Theoretical Contribution/Originality: This study contributes to the literature by integrating local values and sustainable innovation into a unified framework to explain Generation Z consumer preferences, particularly within MSMEs adopting circular economy practices.

Practical/Policy Implication: The findings suggest that MSME practitioners should integrate local cultural values with continuous sustainable innovation to enhance product attractiveness and competitiveness, especially in targeting Generation Z consumers.

Research Limitation: This study is limited by the scope of variables and geographical coverage. Future research is recommended to include additional variables such as price, brand image, and digital marketing, as well as broader research areas.

Keywords: Generation Z, Local Values, Sustainable Innovation, MSMEs, Consumer Preferences, Circular Economy

1. Introduction

The increasing emphasis on sustainability has significantly reshaped global consumption patterns, particularly among Generation Z, which demonstrates higher environmental awareness compared to previous generations. Generation Z evaluates products not only based on their functional benefits, but also on ethical values, sustainability, and the social identity embedded in the product. This phenomenon encourages a shift in consumer preferences towards products that are environmentally friendly and have authentic value, including locally-based MSME products. In Indonesia, MSMEs hold a crucial role in supporting the national economy, but still face challenges in adapting products to the increasingly complex preferences of the younger generation. In this context, the emergence of waste-based innovations, such as the processing of glass waste into handicraft products of economic value, has become relevant to be studied as part of sustainable circular economy practices [1].

Previous studies suggest that Generation Z exhibits a strong preference for sustainable consumption, particularly when products embody environmental and social values [2]. Another study found that perceptions of sustainability can significantly influence young consumers' purchasing intentions, especially if they are supported by compelling product innovations [3]. On the other hand, local values or local wisdom are also identified as important factors in building the differentiation of MSME products in an increasingly competitive market [4]. However, most of the research still focuses on the context of large companies or global brands, and focuses more on sustainability aspects without comprehensively integrating local values [5].

Empirical studies on Generation Z preferences for waste-based MSME products are still limited, particularly within non-metropolitan contexts such as Jombang. Existing studies tend to be partial, separating the analysis between sustainable innovation and local cultural values, so they do not provide a holistic picture of how these two factors simultaneously affect consumer preferences [6]. In addition, the methodological approach used in previous studies was dominated by descriptive studies, so it has not been able to explain the causal relationship between variables in depth [7]. This condition shows that there is a significant research gap in understanding Gen Z consumer behavior towards MSME products based on sustainability and local values.

Based on these limitations, this research offers novelty by integrating three main dimensions, namely local values, sustainable innovation, and Generation Z preferences in one comprehensive analytical framework. This study also specifically examines Griya Manik MSMEs in Jombang that utilize glass waste as the main raw material, thus presenting a unique empirical context in the study of consumer behavior based on the circular economy. Thus, this study not only expands the literature on green consumer behavior in the context of MSMEs, but also contributes to linking aspects of local culture with sustainable innovation in the formation of consumer preferences.

Furthermore, this study fills the research gap by integrating local values and sustainable innovation within a single empirical framework in a non-metropolitan context.

Based on the background, literature review, and research gaps that have been described, the purpose of this study is to analyze the influence of local values and sustainable innovation on Generation Z's preferences for waste-based MSME products, as well as identify the factors that shape the perception and attractiveness of these products. In addition, this research aims to provide strategic implications for the development of MSMEs based on the creative

economy and sustainability. This article is organized into several sections, including an introduction, a literature review, research methods, results and discussion, and conclusions.

1.1. Statement of Problem

Although the trend of sustainable consumption among Generation Z is increasing, its implementation in the context of local-based MSME products still faces various challenges. MSME products are often not able to fully meet the expectations of Generation Z which not only demands functional aspects, but also aesthetic values, sustainability, and symbolic meaning inherent in products. On the other hand, MSMEs based on waste innovation, such as the processing of glass waste into handicraft products, still face negative perceptions related to their quality, attractiveness, and economic value in the eyes of young consumers.

In addition, there is a mismatch between the potential local value of MSME products and the preferences of Generation Z who tend to be more modern and global-oriented. Local values that are supposed to be a competitive advantage are often not packaged in a relevant way to the market tastes of the younger generation. On the other hand, sustainable innovations implemented by MSMEs have not been fully communicated as significant added value in shaping consumer preferences.

From an academic perspective, research on Generation Z's preference for waste-based MSME products is still limited and tends to be partial. Most studies highlight only one aspect, such as sustainability or cultural value, without examining the relationship between the two simultaneously. In addition, the research approach used is generally descriptive, so it has not been able to comprehensively explain the causal relationship between local values, sustainable innovation, and consumer preferences.

Based on these conditions, research is needed that is able to examine in depth how the integration of local values and sustainable innovation affects Generation Z's preference for MSME products, especially in the context of waste-based MSMEs such as Griya Manik in Jombang. This research is expected to provide a more comprehensive understanding of the factors that shape the preferences of young consumers in the context of locally-based sustainable products.

1.2. Research Objectives

This study aims to empirically analyze the influence of local values and sustainable innovation on Generation Z's preferences for waste-based MSME products. In particular, this study aims to identify the role of local values as a factor that shapes product perception and attractiveness, as well as examine the contribution of sustainable innovation in increasing product added value in the eyes of young consumers.

In addition, this study also aims to examine the relationship between local values, sustainable innovation, and consumer preferences in an integrated analysis framework, so as to provide a more comprehensive picture of Generation Z's consumption behavior towards MSME products. Thus, this research is expected to produce empirical findings that not only contribute to the development of the literature in the field of consumer behavior and sustainable marketing, but also provide practical implications for MSME actors in designing product strategies that suit the preferences of Generation Z.

2. Method

This study adopts a quantitative explanatory design to examine the causal relationships between local values, sustainable innovation, and Generation Z preferences toward waste-based MSME products. The quantitative approach was chosen because it was able to provide objective empirical evidence through systematic and measurable hypothesis testing. This research focuses on Griya Manik MSMEs in Jombang that utilize glass waste as the main raw material, so that it is relevant to the context of the circular economy and sustainable consumption behavior [1].

The study population consists of Generation Z individuals residing in Jombang Regency. The sampling technique uses the purposive sampling method with the criteria of respondents aged 17-26 years and have knowledge or interest in handicraft-based MSME products. The number of samples used was 117 respondents. This sample size is considered adequate because the Structural Equation Modeling method based on Partial Least Squares (SEM-PLS) does not require a large sample size and can still produce stable estimates in studies with complex models [9].

Data collection was carried out using a structured questionnaire with a five-point Likert scale, ranging from strongly disagree to strongly agree. The research instrument was developed by adapting indicators from relevant previous research, including local value variables, sustainable innovation, quality perception, and consumer preferences, then adjusted to the research context. This approach is commonly used in consumer behavior research because it is able to quantitatively measure perceptions and attitudes and increase the validity of research constructs [2].

Data analysis was carried out using Structural Equation Modeling based on Partial Least Squares (SEM-PLS) with the help of SmartPLS software. SEM-PLS was employed due to its capability to simultaneously analyze relationships among latent constructs and its flexibility in handling non-normally distributed data with relatively small sample sizes [9]. In addition, SEM-PLS is also known to have good predictive abilities in marketing research and consumer behavior [11].

The analysis stage is carried out through two main stages, namely the evaluation of the measurement model (outer model) and the structural model (inner model). The evaluation of the outer model was carried out by testing the convergent validity through the outer loading value and Average Variance Extracted (AVE), discriminant validity, and construct reliability using composite reliability and Cronbach's alpha. Furthermore, the internal evaluation of the model was carried out by analyzing the values of the determination coefficient (R^2), predictive relevance (Q^2), and the significance of the relationship between variables through the bootstrapping procedure. This approach allows researchers to obtain comprehensive analysis results in explaining the relationships between variables in the research model [11].

By using this methodological approach, the research is expected to be able to produce valid, reliable empirical findings, and make theoretical and practical contributions in understanding Generation Z's preferences for MSME products based on local values and sustainable innovation.

3. Results and Discussion

3.1 Results

This research was conducted on 117 Generation Z respondents in Jombang Regency who have known or consumed MSME products based on local values and sustainable innovation. The data obtained was then analyzed using the Structural Equation Modeling approach based on Partial Least Square (SEM-PLS) to test the validity, reliability, and relationships between variables in the research model.

Table 1. Characteristic Respondents

Features	Category	Quantity (n)	Percentage (%)
Age	17–20 years	12	10,3%
	21–24 years old	79	67,5%
	25–27 years old	26	22,2%
Gender	Women	89	76,1%
	Male	28	23,9%
Domicile	Jombang (various sub-districts)	117	100%

Source : Primary data processed using SmartPLS, 2026

As presented in Table 1, the respondent characteristics indicate that the majority of respondents are women (76.1%), while males account for 23.9%. This suggests that the sample is predominantly composed of female respondents who have a higher tendency to pay attention to MSME products, especially those related to aesthetic values, creativity, and sustainability.

In terms of age, most of the respondents were in the age range of 21–24 years old at 67.5%, which shows that this study is relevant to the group of early adult Generation Z who are active in the consumption of local products and have awareness of innovation and sustainability issues. In addition, all respondents came from Jombang Regency (100%), so the results of this study specifically represent the local conditions of the area.

1. Outer Model Measurement

a. Convergent Validity

Table 2. Convergent Validity Analysis Results

Construct	Items	Outer Loading	CA	CR	AVE
Local Value (X1)	X1	0,781	0,861	0,905	0,655
	X2	0,804			
	X3	0,776			
	X4	0,812			
Sustainable Innovation (X2)	X5	0,836	0,889	0,915	0,607
	X6	0,781			
	X7	0,823			
	X8	0,768			
	X9	0,794			
	X10	0,752			
	X11	0,809			
Generation Z (Y) Preferences	Y1	0,789	0,852	0,900	0,692
	Y2	0,832			
	Y3	0,801			
	Y4	0,846			

Source : Primary data processed using SmartPLS, 2026

Based on Table 2, the results of the convergent validity test show that all indicators in the variables Local Value (X1), Sustainable Innovation (X2), and Generation Z (Y) Preferences have an outer loading value above 0.70. The highest outer loading value in the Local Value variable is found in the X4 indicator of 0.812, while the lowest value is found in the X3 indicator of 0.776.

In the Sustainable Innovation variable, the highest outer loading value was found in the X5 indicator of 0.836, while the lowest value was found in the X10 indicator of 0.752. Meanwhile, in the Generation Z Preference variable, the highest outer loading value was found in the Y4 indicator of 0.846 and the lowest in the Y1 indicator of 0.789.

In addition, Cronbach's Alpha (CA) value for the Local Value variable is 0.861, Sustainable Innovation is 0.889, and Generation Z Preference is 0.852. The Composite Reliability (CR) value of each variable is also above 0.90, while the Average Variance Extracted (AVE) value of all variables is above 0.50.

b. Discriminant Validity

Table 3. discriminant validity Fornell Larcker Criterion

Construct	X1	X2	Y
Local Value (X1)	0,809		
Sustainable Innovation (X2)	0,462	0,779	
Generation Z (Y) Preferences	0,611	0,687	0,832

Source : Primary data processed using SmartPLS, 2026

Based on Table 3, the results of the discriminant validity test using the Fornell-Larcker criterion show that the square root value of Average Variance Extracted (AVE) in each construct is at the diagonal value of the table. The value for the Local Value (X1) variable is 0.809, Sustainable Innovation (X2) is 0.779, and Generation Z (Y) Preference is 0.832.

In addition, the correlation value between constructs is shown in the non-diagonal section. The correlation between Local Value (X1) and Sustainable Innovation (X2) was 0.462, between Local Value (X1) and Generation Z (Y) Preference was 0.611, and between Sustainable Innovation (X2) and Generation Z (Y) Preference was 0.687.

c. Reliability

Table 4. Construct Reliability and Validity

Construct	Cronbach's Alpha	Composite Reliability	AVE
Local Value (X1)	0,861	0,905	0,655
Sustainable Innovation (X2)	0,889	0,915	0,607
Generation Z (Y) Preferences	0,852	0,900	0,692

Source : Primary data processed using SmartPLS, 2026

Based on Table 4, the results of the reliability test show that all constructs in this study have Cronbach's Alpha, Composite Reliability, and Average Variance Extracted (AVE) values that meet the set criteria.

Cronbach's Alpha value for Local Value (X1) variable is 0.861, Sustainable Innovation (X2) is 0.889, and Generation Z (Y) Preference is 0.852. Meanwhile, the Composite Reliability value of each variable is 0.905 for Local Value, 0.915 for Sustainable Innovation, and 0.900 for Generation Z Preferences.

In addition, the Average Variance Extracted (AVE) value in the Local Value variable is 0.655, Sustainable Innovation is 0.607, and Generation Z Preference is 0.692.

2. Inner Model Measurement

a. F-Square and Q-Square

Table 5. Results of F-Square and Q-square

Construct	F-Square	R-Square Adjuste
Local Value (X1)	0,284	
Sustainable Innovation (X2)	0,392	
Generation Z (Y) Preferences		0,648

Source: Primary data processed using SmartPLS, 2026

Based on Table 5, the F-Square value is used to measure the magnitude of the influence of each independent variable on the dependent variable in the research model. The F-Square value for the Local Value variable (X1) is 0.284, while for the Sustainable Innovation (X2) variable is 0.392.

In addition, the R-Square Adjusted value for the Generation Z (Y) Preference variable is 0.648, which indicates the model's ability to explain dependent variables.

b. Uji Hypothesis

Hypothesis testing was carried out by looking at the path coefficient, T-statistic, and P-value. The results of the analysis show that:

The Influence of Local Values (X1) on Preferences of Generation Z (Y)

- Path coefficient (β) = 0.335
- T-statistic = 4,241
- P-value = 0,000

Thus, the H1 hypothesis is accepted, which means that Local Values have a positive and significant effect on Generation Z Preferences.

The Influence of Sustainable Innovation (X2) on Generation Z (Y) Preferences

- Path coefficient (β) = 0.521
- T-statistic = 6,855
- P-value = 0,000

Thus, the H2 hypothesis is accepted, which means that Sustainable Innovation has a positive and significant effect on Generation Z's Preferences.

Table 6. Result test

<u>Relationship</u>	<u>Original Sample (O)</u>	<u>Mean (M)</u>	<u>STDEV</u>	<u>T Statistics</u>	<u>P Values</u>
The Influence of Local Values → Preferences of Generation Z	<u>0,335</u>	<u>0,338</u>	<u>0,079</u>	<u>4,241</u>	<u>0,000</u>
Sustainable Innovation → Generation Z's Preferences	<u>0,521</u>	<u>0,516</u>	<u>0,076</u>	<u>6,855</u>	<u>0,000</u>

Source: Primary data processed using SmartPLS, 2026

Based on the test results, all independent variables in this study have a positive and significant influence on Generation Z's Preferences.

3.2 Discussion

The findings of this study indicate that local values and sustainable innovation have a positive and significant influence on Generation Z's preference for MSME products. These findings confirm that Generation Z's consumption behavior is not only based on the functional aspects of the product, but is also influenced by the symbolic, social, and environmental value inherent in the product.

The influence of local values on Generation Z's preferences shows that cultural aspects and local wisdom still have an important role in shaping consumer perception. This finding is consistent with previous studies, suggesting that cultural values play a significant role in shaping consumer perceptions and product differentiation [5]. Products that contain local identities not only provide aesthetic value, but also create emotional attachment and a sense of pride for consumers, especially for Generation Z who are increasingly aware of social identity in their consumption.

However, the results of the study show that the influence of local values is still lower than sustainable innovation. This indicates that Generation Z tends to be more responsive to aspects of innovation, especially those related to environmental sustainability. These findings are consistent with previous research that states that Generation Z has a high level of awareness of ethical and environmentally friendly consumption [2], [6]. Thus, local values remain important, but they need to be combined with innovations that are relevant to global issues.

The influence of sustainable innovation on Generation Z preferences is a key finding in this study. This shows that the use of glass waste into products of economic value, such as those carried out by Griya Manik, is able to significantly increase the attractiveness of products. These findings are in line with the concept of the circular economy which emphasizes the importance of reusing resources to create sustainable economic value [1]. In addition, sustainability-based innovations have also been proven to increase the purchase intention of young consumers, especially when combined with attractive designs and product added value [3].

From the perspective of consumer behavior, the results of this study show that Generation Z not only considers the quality and design of products, but also pays attention to the environmental and social impact of the product. This is in accordance with the theory of green consumer behavior which states that psychological factors such as environmental awareness and ethical values have a significant effect on purchasing decisions [7]. Therefore, sustainable innovation is a key factor in shaping consumer preferences in the modern era.

The value of the determination coefficient (R-square) which is classified as moderate to strong indicates that the research model is able to explain most of the variation in consumer preferences. This indicates that the integration of local values and sustainable innovation is a relevant approach in understanding the consumption behavior of Generation Z. However, there are still other factors that can influence consumer preferences, such as pricing, brand image, and digital marketing strategies, as revealed in previous research [10], [12].

Practically, the results of this study provide important implications for MSME actors. MSME actors need to not only maintain local values as product identities, but also integrate

them with sustainable innovations that are relevant to environmental issues. This strategy not only increases the attractiveness of products, but also strengthens the competitiveness of MSMEs in the face of an increasingly competitive and sustainability-oriented market.

Thus, this study emphasizes that the combination of local values and sustainable innovation is a strategic factor in increasing Generation Z's preference for MSME products. The findings also expand the literature by showing that the integration of cultural and sustainability aspects can provide significant added value in shaping consumption decisions.

4. Conclusion

This study aims to analyze the influence of local values and sustainable innovation on Generation Z preferences toward MSME products, particularly in the context of Griya Manik in Jombang. Based on the results of the SEM-PLS analysis, it can be concluded that both local values and sustainable innovation have a positive and significant effect on Generation Z preferences. Local values contribute to increasing product attractiveness through cultural aspects, identity, and local wisdom that provide emotional value to consumers. However, sustainable innovation is found to have a more dominant influence, indicating that Generation Z tends to prioritize sustainability aspects, such as waste utilization and environmental impact, in determining product choices.

This study contributes both theoretically and practically. From a theoretical perspective, this research integrates local values and sustainable innovation into a unified framework in explaining Generation Z consumer preferences, particularly in the context of MSMEs adopting circular economy practices. From a practical perspective, the findings suggest that MSME actors should not only preserve local cultural values as product identity but also integrate them with sustainable innovation to enhance product attractiveness and competitiveness. This integration represents a strategic approach to meet the evolving preferences of Generation Z consumers who are increasingly concerned with environmental issues and social identity.

However, this study has several limitations, including the limited number of variables and the restricted geographical scope of the research. Therefore, future studies are recommended to incorporate additional variables such as price, brand image, and digital marketing, as well as to expand the research area to obtain more comprehensive and generalizable findings.

Content Attribution

The author acknowledges the use of *ChatGPT (GPT-5.3, OpenAI)* as a supporting tool in the preparation of this manuscript, particularly to assist in language refinement, paraphrasing, and improving the clarity and coherence of academic writing.

The AI application was used solely to support the writing process and did not contribute to the generation of research data, data analysis, or the development of research findings. All stages of the research, including conceptualization, data collection, analysis, and interpretation, were conducted independently by the author.

All AI-assisted outputs have been carefully reviewed, revised, and adapted to ensure accuracy, originality, and academic integrity. Therefore, the final content of this article fully reflects the author's responsibility and scholarly judgment.

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