

# Green HRM and Business Diversification as Drivers of Sustainable Performance in the Culinary Creative Industry MSMEs

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## ABSTRACT

This study is focused on creating a model for business sustainability for small and medium enterprises (SMEs) in the culinary creative industry, specifically in Surakarta City. The goal is to improve business performance in a sustainable way by using better business diversification strategies and applying Green Human Resource Management (Green HRM). The study uses a quantitative method with an explanatory design. Data was collected from 351 SMEs in the culinary sector through surveys, selected using purposeful sampling. The data was analyzed using Structural Equation Modeling (SEM) with AMOS software version 26.0 to check the validity, reliability, and relationships between different factors. The findings show that Green HRM and business diversification have a positive and significant impact on business sustainability, both directly and through improved performance of SMEs. This model adds value to the theoretical understanding of Green HRM and diversification strategies as key factors in achieving sustainable business growth. In practice, this model can help SMEs and related stakeholders create better strategies and policies that are adaptable, innovative, and environmentally friendly, supporting the growth of a green industry.

**Keywords:** SMEs, creative industry, culinary, business sustainability, business diversification, Green HRM

## INTRODUCTION

The creative industry plays a big role in helping the global economy grow because it adds to the Gross Domestic Product (GDP), creates jobs, and makes a country's exports more competitive. UNESCO (2021) says that the creative industry contributes about 3% to GDP and is expected to grow more as technology changes and people's tastes change (Betáková et al., 2020). In Indonesia, the creative industry is important for the country's economy. According to the Ministry of Cooperatives and SMEs (2023), there are about 65.5 million business units, which is up 1.7% from the previous year, and most of these are small and medium-sized enterprises (MSMEs) in the creative industry (Morozova, 2019). Data from the Ministry of Tourism and Creative Economy (Kemenparekraf, 2023) shows there are 15,898 MSMEs in the creative industry, showing that this is a promising and long-term business area (Sadick & Kamardeen, 2020). Surakarta, a city in Central Java, Indonesia, is one of the areas where the creative industry is growing a lot, especially in the food sector. According to the Surakarta City Cooperative, SME, and Industry Office (2024), there are 13,203 creative industry MSMEs in the city, mostly micro businesses (11,138 units), with 18 small businesses and only 3 medium-sized ones (Central Statistics Agency, Surakarta City, 2024). From this data, about 75% of these MSMEs are in the food and beverage sector, making it the most important part of the creative industry at both local and national levels. According to the Central Statistics Agency (BPS) of Surakarta City, there are 3,962 food and beverage MSMEs. These include businesses involved in making food and drinks, as well as those that offer creative and innovative serving services.

Culinary small and medium-sized businesses in Surakarta have a lot of economic potential, but they are still facing big challenges in keeping their businesses going long-term (Widjaja et al., 2018). To deal with these

problems, it's important to use strategies that help these businesses grow and stay strong. One such strategy is business diversification, which includes offering a wider range of products, using better marketing methods, and managing the supply chain more effectively (Nahar et al., 2019). Diversification helps businesses become more competitive, better able to handle changes in the market, and less likely to suffer from economic downturns (Rozi & Sunarsi, 2020). In addition to diversifying their business, these small businesses also need to embrace environmentally friendly practices. This includes using fewer raw materials, managing waste properly, and working with suppliers who are also eco-friendly (Arokiasamy et al., 2023). These efforts are part of green innovation and green supply chain management, which help make operations more efficient and improve how the business is seen in the community (Tobing et al., 2024). Successful management of these small businesses isn't just about strategy; it's also about how they manage their people (Sono & Limpo, 2024).

Using Green Human Resource Management (Green HRM) is a good way to increase awareness of environmental issues, improve productivity, and boost company performance (Di Vaio et al., 2022). Studies have shown that applying Green HRM helps businesses perform better in terms of the environment, their operations, and their overall sustainability (Purwadinata et al., 2021). Therefore, combining business diversification with Green HRM could be a powerful way to help these small businesses become more sustainable (Pradipta, 2024). Despite these opportunities, there are still several issues that small businesses in the creative culinary industry are facing. These include a lack of innovation in product variety, weak marketing plans, limited access to eco-friendly materials, and not enough use of Green HRM in managing their staff (Muñoz et al., 2020). These problems make it hard for some businesses to stay afloat and compete with more innovative products (Ud et al., 2024). To address this, there is a need to create a sustainable business model that smartly combines business diversification and Green HRM practices. This model could help improve business performance, make these businesses more competitive, and support the growth of a greener industry both locally and nationally.

## LITERATURE REVIEW

### Business Diversification

Business diversification is when a company tries to grow by creating new products or entering new markets, either partly or fully. This helps the company increase sales, profit, and flexibility (Nisa, 2023). Product diversification is when a company changes the type of products or services it offers, making them better match what customers want and need, which helps boost sales (Yusnidar & Amelyani, 2023). When a company diversifies in terms of products, markets, or how it distributes its goods, it needs a more flexible, adaptable, and sustainable human resource management system. Wulandari et al. (2024) say that business diversity also opens up chances for innovation and increases the need for people with different skills across departments. In the case of small and medium-sized culinary businesses, diversification might involve adding catering services, using digital menus, and selling online, which pushes the need for human resources to be more flexible and ready to adapt to changing markets (Nasution et al., 2025). Business diversification is a key strategy for dealing with complex and competitive markets (Porter, 2019). This strategy not only opens up more business opportunities but also helps lower the risk of failure and improve the long-term sustainability of the business (Hitt et al., 2020).

### Green Human Resources Management (GHRM)

Green Human Resources Management (GHRM) is about having awareness and rules that help businesses, including small and medium-sized enterprises (MSMEs), manage the environment better (Ren et al., 2018). Studies show that using green HRM practices helps SMEs perform better in a sustainable way. Also, green innovation has a big effect on how well a company can be sustainable (Al-shammari et al., 2022). Another study found that Green HRM plays a major role in creating a sustainable HRM system. This means that things like hiring people with green values, training them in eco-friendly ways, and evaluating their performance with sustainability in mind can help build a work culture that cares about the environment (Veerasingam et al., 2023). These findings match the work of Jabbour et al. (2019), who said that including environmental values in the HRM process can make an organization perform better. Renwick et al. (2020) also showed that using Green HRM can make companies use energy more efficiently, cut down on waste, and encourage more eco-friendly work practices (Yong et al., 2020).

## Business Sustainability

Business sustainability is very important for small and medium-sized enterprises (MSMEs) in the creative industry, especially when dealing with economic and social problems in a constantly changing market. A study by Widya Paramita (2025) shows that MSMEs are a big part of the Indonesian economy, but most of them have not fully started using green business practices. In fact, 87.81% of these businesses have not yet put sustainability principles into action. This is because there are several challenges, such as limited regulations, lack of support for green financing, and high costs for starting sustainability efforts. However, there is still a lot of potential for MSMEs to include sustainability in their business plans. Most of these businesses are micro-enterprises, and they have shown good results, with an average increase in sales of 13.3%. Also, 1,655 MSMEs have used digital platforms, leading to a sales growth of 29.9% (Bank Indonesia, 2025). Research by Sudirman et al. (2025) highlights the need for MSMEs to adopt sustainability and resilience strategies to handle outside challenges and use digital technology to make their products more competitive and innovative. Therefore, including sustainability in the creative industry MSMEs not only helps their businesses improve but also brings positive changes to the economy and environment.

## METHOD

This study used a quantitative method to explain how certain factors affect business sustainability and performance. It involved a survey with a 1 to 5 scale questionnaire. The research focused on 3,962 small and medium-sized businesses in the food and culinary sector in Surakarta, Central Java. A sample of 351 businesses was chosen based on the Krejcie and Morgan (1970) table. The data was analyzed using SEM-AMOS software to examine the impact of business diversification and Green HRM on business sustainability and performance. Tests were done to check if the model was valid, reliable, and had a good fit. The variables in the study were: (1) Independent Variables: Business Diversification and Green HRM, (2) Mediating Variable: Business Sustainability, and (3) Dependent Variable: MSME Performance.

## RESULTS AND DISCUSSION

### RESULTS

The following are the results of data processing of the questionnaire results of all research respondents, using AMOS software version 26.00, as shown in the table below:

#### Goodness of Fit Model

**Table I.** Results of Goodness of Fit Model

Indeks	Results	Ideal Criteria	Description
Chi-Square (CMIN)	104,87	$p > 0,05$	Goode Enough
df	84	-	-
CMIN/DF	1,248	$\leq 2,00$	Fit
GFI	0,927	$\geq 0,90$	Fit
AGFI	0,888	$\geq 0,85$	Enough Fit
TLI	0,981	$\geq 0,90$	Fit
CFI	0,987	$\geq 0,90$	Fit
RMSEA	0,048	$\leq 0,08$	Fit

Based on the table above, the following interpretation can be given: that the model meets the goodness of fit criteria, so it is suitable for use.

### Validity & Reliability

- Loading factor  $\geq 0.6$  (valid).
- Construct Reliability (CR)  $\geq 0.70$  (reliable).
- Average Variance Extracted (AVE)  $\geq 0.50$  (valid).
- No excessive error terms.

### Path Analysis

- Green HRM  $\rightarrow$  Business Sustainability  $\beta = 0.61$ ;  $p = 0.001$  (significant).
- Business Diversification  $\rightarrow$  Business Sustainability  $\beta = 0.47$ ;  $p = 0.008$  (significant).
- Green HRM  $\rightarrow$  MSME Performance  $\beta = 0.59$ ;  $p = 0.000$  (significant).

## DISCUSSION

1. Green HRM is important for making businesses sustainable. Practices like green hiring, training, and performance reviews help create a work environment that cares about the environment, cuts down on waste, and uses energy more efficiently.
2. Business diversification helps with sustainability. by creating new products, offering services, using digital menus, and selling online, companies need to adjust their HR strategies to be more flexible and responsive.
3. Green HRM helps small and medium businesses perform better. The study found that it has a direct impact, especially in keeping a balance between money, people, and the environment.
4. Combining different models shows that Green HRM and business diversification help improve the performance of small food businesses. This happens through sustainable business practices that act as a bridge between these factors.

## CONCLUSION

The study shows that using Green Human Resource Management (Green HRM) and business diversification in the culinary creative industry in Surakarta, Central Java, helps businesses stay sustainable and improves the performance of small and medium enterprises (MSMEs). The analysis using SEM-AMOS shows the model fits well, is valid, and reliable, so it can be trusted as a real representation of the situation. Green HRM helps businesses stay sustainable by using better ways to hire people, train them, and assess performance based on environmental goals. These practices create a work culture that cares about the environment, uses energy wisely, and reduces waste. At the same time, business diversification encourages new product ideas, uses digital tools, and offers extra services, which helps businesses reach more customers and become more competitive. From these findings, it's clear that business sustainability plays an important role in connecting Green HRM, business diversification, and MSME performance. This research also adds to the understanding of how Green HRM and diversification strategies can work together to support sustainability in MSMEs.

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