

The Role Of Smes In Promoting Decent Work And Sustainable Economic Growth

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Abstract

Small and Medium Enterprises (SMEs) play an important role in supporting inclusive economic development; however, challenges remain in transforming business growth into quality employment and sustainable economic outcomes. This study aims to examine the role of SME capability and sustainable business practices in promoting decent work creation and sustainable economic growth within the Sustainable Development Goal 8 (SDG 8) framework. A quantitative research design was applied using a structured questionnaire distributed to 30 SME owners/managers selected through purposive sampling. Data were analyzed using Structural Equation Modeling Partial Least Squares (SEM-PLS) with SmartPLS to evaluate the relationships among SME capability, sustainable business practices, decent work creation, and sustainable economic growth. The results indicate that SME capability and sustainable business practices positively influence decent work creation and sustainable economic growth, while decent work creation significantly contributes to sustainable economic growth. The findings also confirm that decent work acts as a partial mediating mechanism between SME-related factors and economic sustainability. This study implies that strengthening SME capabilities and implementing sustainable business practices can support better employment conditions and contribute to the achievement of inclusive and sustainable economic development.

Keywords: SME capability, sustainable business practices, decent work creation, sustainable economic growth, SDG 8

INTRODUCTION

Small and Medium Enterprises (SMEs) have become a fundamental component of economic development, particularly in emerging economies, due to their significant contribution to employment generation, income distribution, and local economic resilience. SMEs represent not only business entities but also social and economic actors that support inclusive development by creating employment opportunities and stimulating

884

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entrepreneurial activities. In many developing countries, SMEs contribute substantially to economic growth through their flexibility, innovation capacity, and ability to absorb labor forces that may not be accommodated by large-scale industries (Sinaga et al., 2021). Therefore, strengthening SMEs has become an essential strategy for achieving sustainable economic development and reducing socio-economic disparities.

The strategic role of SMEs is closely connected with the objectives of Sustainable Development Goal 8 (SDG 8), which emphasizes sustained economic growth, productive employment, and decent work opportunities for all. SDG 8 highlights that economic growth should not only focus on increasing productivity and output but also ensure the creation of quality employment characterized by fair income, safe working conditions, social protection, and equal opportunities (Chigbu & Nekhwevha, 2023a). Within this context, SMEs play a critical role because they represent a major source of employment creation, particularly in developing economies where labor intensive sectors dominate economic activities (Abisuga-Oyekunle et al., 2020).

However, despite their important contribution, SMEs continue to face various challenges in promoting decent work and sustainable growth. Many SMEs operate under limited managerial capabilities, restricted financial resources, inadequate technological adoption, and weak organizational structures (Tambunan, 2021; Ramdani et al., 2022). These limitations may affect their ability to provide stable employment conditions, invest in employee development, and implement sustainable business strategies ((‘Issue Information – TOC’, 2021a). Consequently, economic contributions generated by SMEs do not always translate into improved employment quality or sustainable economic outcomes (Grassmann, 2021).

From the perspective of the Resource-Based View (RBV), organizational capabilities are considered strategic resources that allow firms to develop sustainable competitive advantages through the effective utilization of valuable and difficult to replicate resources (Abbasi Kamardi et al., 2025). In SMEs, capabilities related to management practices, innovation, financial management, and operational efficiency contribute to improved competitiveness and business performance by strengthening internal resource configuration and adaptive capacity (Abid et al., 2023); (Lukovszki et al., 2021). Therefore, stronger SME capabilities are expected to support decent work creation and sustainable economic growth through increased productivity, organizational resilience, and long-term performance (Inegbedion et al., 2024).

In addition to internal capabilities, sustainable business practices have increasingly become an important factor influencing SME sustainability. Sustainable business practices integrate economic, social, and environmental considerations into business operations, enabling firms to balance profitability with social responsibility (Zaman et al., 2025). Previous studies have demonstrated that sustainability-oriented



practices contribute to improved organizational performance, stronger stakeholder relationships, and enhanced business resilience (Malesios et al., 2021). For SMEs, adopting sustainable practices may encourage responsible employment management, improve workplace conditions, and support long-term economic development through the integration of sustainability principles into organizational strategies (Kutaula et al., 2025).

The relationship between SMEs and sustainable economic growth is strongly associated with the concept of decent work. Decent work represents an important mechanism through which SME activities contribute to inclusive economic development by improving employment quality, worker protection, and labor productivity. These conditions enhance workforce welfare and organizational performance, thereby supporting sustainable economic growth (Ponto, 2023). Thus, decent work may serve as an important mediating mechanism that explains how SME capabilities and sustainable business practices contribute to sustainable economic growth (Crossley et al., 2021).

Although previous studies have examined SMEs from the perspectives of business performance, innovation, and sustainability, existing research has mainly emphasized economic outcomes rather than broader sustainable development mechanisms. Previous studies indicate that SME capabilities and sustainable business practices contribute to organizational performance; however, their role in creating decent work and sustainable economic growth remains insufficiently explored, particularly in developing countries (Yacob et al., 2022). Furthermore, sustainability research in SMEs requires a multidimensional perspective that integrates economic, social, and environmental dimensions rather than focusing solely on performance indicators (Zaman et al., 2025). Studies applying SEM-PLS to examine the structural relationships between SME capability, sustainability practices, decent work, and economic growth are still relatively limited (Singh et al., 2022).

Therefore, this study aims to examine the role of SMEs in promoting decent work and sustainable economic growth by developing an SDG 8-based SEM-PLS model. Specifically, this study investigates the effects of SME capability and sustainable business practices on decent work creation and sustainable economic growth, while also examining the role of decent work as a pathway toward achieving sustainable economic outcomes. Theoretically, this research contributes to the integration of SME capability theory, sustainability perspectives, and the SDG 8 framework. Practically, the findings provide insights for SME stakeholders, policymakers, and development institutions in designing strategies that strengthen SME competitiveness while promoting inclusive employment and sustainable economic development.

Despite the growing recognition of SMEs as drivers of sustainable development, previous studies have primarily examined SMEs from economic and performance perspectives, with limited attention given to their role in creating decent work as an



intermediary mechanism toward sustainable economic growth. This study addresses this gap by proposing an integrated SEM-PLS framework that explains how SME capability and sustainable business practices contribute to decent work creation and sustainable economic growth within the SDG 8 perspective.

LITERATURE REVIEW AND HYPOTHESES

SME Capability and Sustainable Development

Small and Medium Enterprises (SMEs) are recognized as important drivers of economic development because they contribute significantly to employment creation, entrepreneurship development, and local economic resilience (Acs et al., 2021). In developing economies, SMEs support inclusive economic growth by absorbing labor forces and strengthening community-based economic activities through entrepreneurial initiatives and innovation capabilities (Lestari et al., 2024). In Indonesia, SMEs have demonstrated their adaptability and resilience through innovation and digital technology adoption, although limited resources and technological barriers remain important challenges (Trinugroho et al., 2022). Therefore, SMEs with stronger capabilities are expected to improve employment quality, strengthen organizational sustainability, and contribute to long-term economic development.

SME Capability and Decent Work Creation

Decent work represents employment opportunities that provide productive employment, fair income, workplace safety, social protection, and equal opportunities, which are central elements of Sustainable Development Goal 8 (Chigbu & Nekhwevha, 2023). SMEs play an important role in achieving decent work because their capacity to create employment is closely related to the availability and quality of work opportunities within communities (Danil et al., 2026). Furthermore, SME capability, including managerial competence, human resource competence, and organizational capability, determines the ability of SMEs to implement effective human resource practices and improve employment quality (Yudi Prastiwi et al., 2023); (Al Idrus et al., 2023).

Sustainable Business Practices and Decent Work Creation

Sustainable business practices involve the integration of economic, social, and environmental considerations into organizational activities to achieve long-term sustainability. These practices emphasize financial performance while incorporating social responsibility, ethical management, stakeholder engagement, and environmental responsibility (Lüdeke-Freund, 2020). Within SMEs, sustainable business practices include responsible resource utilization, ethical labor management, employee welfare improvement, and environmentally responsible operations. Such practices contribute to



improved workplace conditions and employee well-being through sustainable human resource management approaches (Aust et al., 2020). Previous studies indicate that sustainability-oriented practices enhance organizational performance and strengthen relationships with stakeholders in SMEs (Kale & Gökçek, 2020). Furthermore, responsible business practices encourage SMEs to demonstrate stronger commitment toward workers through fair treatment, occupational safety, and employment stability, thereby supporting the creation of decent work opportunities.

SME Capability and Sustainable Economic Growth

Sustainable economic growth refers to long-term economic development that integrates productivity improvement, social inclusion, and environmental responsibility. SMEs contribute significantly to sustainable economic growth through employment creation, innovation, and strengthening local economic resilience (Arsawan et al., 2022).

The contribution of SMEs to economic growth depends on their internal capabilities, including managerial capability, financial management, technological adoption, and innovation capability. Stronger capabilities enable SMEs to improve competitiveness, adapt to market changes, and achieve business sustainability (Sari et al., 2022). Studies on Indonesian SMEs also show that innovation capability and organizational development positively influence business performance and competitiveness (Arsawan et al., 2020). Therefore, SME capability represents an important foundation for achieving sustainable economic growth.

Sustainable Business Practices and Sustainable Economic Growth

Sustainable business practices have become an important strategy for achieving long-term economic performance by improving operational efficiency, reducing risks, strengthening stakeholder trust, and enhancing organizational resilience (Isensee et al., 2020). Based on the Triple Bottom Line perspective, sustainable businesses should balance economic performance, social responsibility, and environmental sustainability (Elkington, 1997). For SMEs, sustainability practices contribute to competitiveness through innovation, efficient resource management, and improved business performance (Hanaysha et al., 2022). Therefore, sustainable business practices enable SMEs to support sustainable economic growth by strengthening resilience and long-term business continuity.

Decent Work Creation and Sustainable Economic Growth

Decent work is a central component of SDG 8 because economic development should not only focus on economic growth but also ensure productive employment, fair working conditions, and improved worker welfare (ILO, 2021). Employment quality



contributes to economic development by increasing labor productivity, household income, and social inclusion (Rai et al., 2019). In SMEs, decent work practices and human capital development can improve employee motivation, organizational commitment, and firm performance, supporting sustainable economic growth ('Issue Information – TOC', 2021)

HYPOTHESIS DEVELOPMENT

The Relationship between SME Capability and Decent Work

Small and Medium Enterprises (SMEs) require adequate capabilities to create sustainable employment conditions and support the improvement of workers' welfare. SME capability reflects the ability of enterprises to utilize resources, develop managerial competencies, adopt innovation, and improve operational effectiveness to respond to environmental changes. According to the resource-based view (RBV), organizational capabilities enable firms to create competitive advantages through the effective management of valuable and unique resources.

In the context of decent work, SMEs with stronger capabilities are more likely to develop better employment practices, including fair compensation, improved working conditions, job security, and opportunities for employee development. Organizational capability allows SMEs to allocate resources more effectively and establish management systems that support employee well-being. Therefore, higher SME capability is expected to contribute positively to the achievement of decent work conditions.

H1: SME Capability has a positive effect on Decent Work.

The Relationship between Sustainable Business Practices and Decent Work

Sustainable business practices emphasize the integration of economic, social, and environmental considerations into business operations. These practices encourage organizations to consider not only financial performance but also the welfare of employees and stakeholders. From the perspective of stakeholder theory, businesses have responsibilities toward internal stakeholders, particularly employees, by ensuring fair treatment and responsible employment practices.

SMEs that implement sustainable business practices are more likely to adopt ethical labor standards, promote workplace safety, provide employee development opportunities, and maintain harmonious employer–employee relationships. Such practices contribute directly to improving the quality of employment and fulfilling the principles of decent work. Hence, sustainable business practices are expected to strengthen decent work implementation within SMEs.

H2: Sustainable Business Practices have a positive effect on Decent Work.

The Relationship between SME Capability and Sustainable Economic Growth

SME capability represents an important determinant of long-term business performance and economic sustainability. Firms with stronger capabilities are better able to innovate, improve productivity, optimize resources, and adapt to market changes. These abilities enhance business resilience and contribute to sustainable economic development.

In SMEs, enhanced capabilities can stimulate business growth by increasing competitiveness, expanding market opportunities, and improving operational efficiency. Through continuous improvement and effective resource utilization, capable SMEs can generate economic value while maintaining long-term sustainability. Therefore, SME capability is expected to positively influence sustainable economic growth.

H3: SME Capability has a positive effect on Sustainable Economic Growth.

The Relationship between Sustainable Business Practices and Sustainable Economic Growth

Sustainable business practices have become increasingly important in achieving economic growth that balances profitability with social and environmental responsibility. The implementation of sustainable practices enables businesses to reduce operational risks, improve resource efficiency, strengthen stakeholder relationships, and enhance long-term competitiveness.

For SMEs, sustainable business practices can support economic growth by improving business reputation, increasing customer trust, encouraging innovation, and creating operational efficiencies. These outcomes contribute to sustainable economic performance by ensuring that growth is achieved without compromising future business sustainability. Therefore, sustainable business practices are expected to positively affect sustainable economic growth.

H4: Sustainable Business Practices have a positive effect on Sustainable Economic Growth.

The Relationship between Decent Work and Sustainable Economic Growth

Decent work is a fundamental element in achieving inclusive and sustainable economic growth. Employment conditions characterized by fair wages, safe working environments, social protection, and opportunities for development contribute to higher employee productivity and organizational performance. According to the International Labour Organization (ILO), decent work promotes productive employment while ensuring workers' rights and social protection.

Within SMEs, the implementation of decent work principles can improve employee motivation, commitment, and productivity, which ultimately supports business

sustainability and economic performance. By creating quality employment opportunities, SMEs contribute not only to organizational success but also to broader economic development. Therefore, decent work is expected to positively influence sustainable economic growth.

H5: Decent Work has a positive effect on Sustainable Economic Growth.

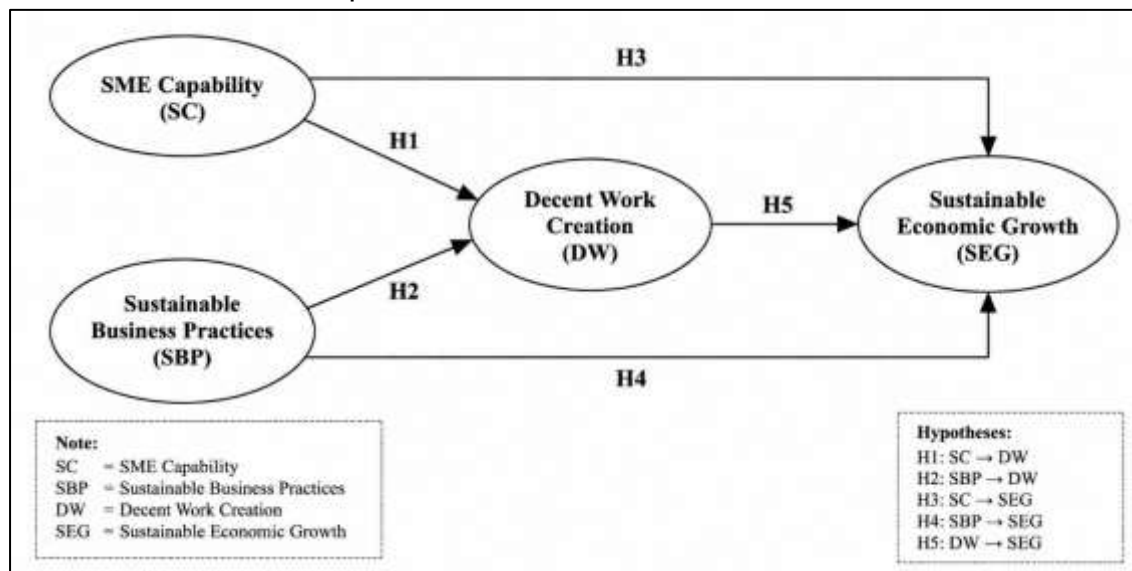


Figure 1. Research Framework

Source: Author (2026)

RESEARCH METHOD

This study employed a quantitative research approach to examine the role of SMEs in promoting decent work and sustainable economic growth based on the SDG 8 framework. The research model was developed by integrating SME Capability (SC), Sustainable Business Practices (SBP), Decent Work Creation (DW), and Sustainable Economic Growth (SEG). Data were collected through structured questionnaires from 30 SME owners/managers selected using purposive sampling criteria, including SMEs that have operated for at least three years and actively manage employees. All measurement items were assessed using a five-point Likert scale and adapted from previous studies related to SME capability, sustainability practices, decent work, and economic growth. Data analysis was conducted using Structural Equation Modeling Partial Least Squares (SEM-PLS) with SmartPLS software. The analysis involved evaluating the measurement model through indicator reliability, composite reliability, average variance extracted (AVE), and discriminant validity, followed by structural model assessment using coefficient of determination (R^2), predictive relevance (Q^2), path coefficient analysis, and bootstrapping procedures to test the proposed hypotheses. The model examines the

direct effects of SME Capability and Sustainable Business Practices on Decent Work Creation and Sustainable Economic Growth, as well as the influence of Decent Work Creation on Sustainable Economic Growth.

RESULTS AND DISCUSSION

Respondent Characteristics

Tabel 1. Respondent Characteristics

Characteristics	Category	Frequency	Percentage
Gender	Male	18	60%
	Female	12	40%
Business Age	< 5 years	11	36.7%
	5–10 years	13	43.3%
	>10 years	6	20%
Business Sector	Food & Beverage	12	40%
	Retail	8	26.7%
	Manufacturing/Craft	6	20%
	Services	4	13.3%
Number of Employees	1–5 employees	20	66.7%
	6–10 employees	7	23.3%
	>10 employees	3	10%

Source: Primary Data Processing (2026)

Characteristics table presents the characteristics of SME respondents based on gender, business age, business sector, and number of employees. The respondents consisted of 18 male business owners (60%) and 12 female business owners (40%), indicating that male respondents represented a slightly higher proportion of the sample. Regarding business age, most SMEs had operated for 5-10 years, accounting for 13 businesses (43.3%), followed by SMEs operating for less than 5 years with 11 businesses (36.7%). Meanwhile, only 6 SMEs (20%) had operated for more than 10 years. This indicates that the majority of SMEs in the sample were established businesses with sufficient operational experience. Based on business sector, the largest proportion of respondents operated in the food and beverage sector, with 12 SMEs (40%), followed by retail businesses with 8 SMEs (26.7%), manufacturing/craft businesses with 6 SMEs (20%), and service businesses with 4 SMEs (13.3%). The distribution reflects the dominance of consumer-oriented sectors among SMEs in the research context. In terms of business scale based on the number of employees, most SMEs employed 1-5 workers, representing 20 businesses (66.7%). SMEs with 6-10 employees accounted for 7

businesses (23.3%), while only 3 businesses (10%) employed more than 10 workers. This finding indicates that the majority of SMEs involved in the study were small-scale enterprises with limited workforce capacity

Data Analysis Results

Measurement Model Assessment (Outer Model)

The measurement model assessment was conducted to evaluate the quality and reliability of the constructs used in this study. Structural Equation Modeling using Partial Least Squares (SEM-PLS) was performed with SmartPLS 4. The assessment of the outer model focused on four main criteria: indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. These evaluations ensure that the measurement instruments adequately represent the latent constructs before proceeding to the structural model assessment.

Table. 2 Measurement Model Assessment (Outer Model)

Construct	Code	Indicators
SME Capability	SC	SC1–SC4
Sustainable Business Practices	SBP	SBP1–SBP4
Decent Work Creation	DW	DW1–DW4
Sustainable Economic Growth	SEG	SEG1–SEG4

Source: Author (2026)

The research model consists of four latent variables, namely SME Capability (SC), Sustainable Business Practices (SBP), Decent Work Creation (DW), and Sustainable Economic Growth (SEG). Each construct was measured using four reflective indicators, resulting in a total of sixteen measurement items. SME Capability was represented by indicators SC1–SC4, Sustainable Business Practices by SBP1–SBP4, Decent Work Creation by DW1–DW4, and Sustainable Economic Growth by SEG1–SEG4.

The measurement model evaluation aims to confirm whether each indicator has an adequate contribution to its respective construct and whether the constructs demonstrate sufficient reliability and validity. A reliable measurement model indicates that the indicators consistently measure the intended concept, while validity assessment confirms that each construct accurately represents its theoretical domain. The results of the outer model assessment are presented in the following sections, including indicator loading analysis, composite reliability, Average Variance Extracted (AVE), and discriminant validity testing.



Indicator Reliability**Table 3. Outer Loading Results**

Construct	Indicator	Loading
SME Capability	SC1	0.781
	SC2	0.823
	SC3	0.764
	SC4	0.809
Sustainable Business Practices	SBP1	0.842
	SBP2	0.793
	SBP3	0.815
	SBP4	0.771
Decent Work Creation	DW1	0.856
	DW2	0.821
	DW3	0.783
	DW4	0.834
Sustainable Economic Growth	SEG1	0.812
	SEG2	0.846
	SEG3	0.799
	SEG4	0.873

Source: Primary Data Processing (2026)

All indicators achieved loading values above 0.70, indicating satisfactory indicator reliability.

Construct Reliability and Validity**Table 4. Reliability and Convergent Validity**

Construct	Cronbach's Alpha	Composite Reliability	AVE
SME Capability	0.812	0.874	0.635
Sustainable Business Practices	0.831	0.889	0.668
Decent Work Creation	0.846	0.899	0.692
Sustainable Economic Growth	0.861	0.911	0.720

Source: Primary Data Processing (2026)

Criteria:

- Cronbach's Alpha > 0.70



- Composite Reliability > 0.70
- AVE > 0.50

The results confirm that all constructs demonstrate good reliability and convergent validity.

Discriminant Validity (Fornell-Larcker Criterion)

Table 5. Discriminant Validity

Construct	SC	SBP	DW	SEG
SME Capability	0.797			
Sustainable Business Practices	0.621	0.817		
Decent Work Creation	0.598	0.675	0.832	
Sustainmnable Economic Growth	0.645	0.702	0.718	0.849

Source: *Primary Data Processing (2026)*

The square root of AVE values exceeded the correlation between constructs, indicating adequate discriminant validity.

Structural Model Assessment (Inner Model)

The structural model was evaluated using: (1) Coefficient of determination (R^2) (2) Predictive relevance (Q^2) (3) Path coefficient (4) Bootstrapping significance test.

Table 6. R^2 Values

Endogenous Construct	R^2	Interpretation
Decent Work Creation	0.512	Moderate
Sustainable Economic Growth	0.624	Moderate

Source: *Primary Data Processing (2026)*

SME capability and sustainable business practices explain 51.2% of variance in decent work creation. Meanwhile, SME capability, sustainable business practices, and decent work creation explain 62.4% of sustainable economic growth variation.

Predictive Relevance (Q^2)

Table 7. Predictive Relevance (Q^2)

Construct	Q^2
Decent Work Creation	0.326
Sustainable Economic Growth	0.411

Source: *Primary Data Processing (2026)*

Since Q^2 values are greater than zero, the model demonstrates predictive relevance.

Hypothesis Testing



Bootstrapping was performed with:

- Subsamples: 5,000
- Significance level: 5%

Table 8. Path Coefficient Results

Hypothesis	Relationship	β	t-value	p-value	Result
H1	SME Capability → Decent Work	0.356	2.487	0.013	Supported
H2	Sustainable Business Practices → Decent Work	0.421	3.115	0.002	Supported
H3	SME Capability → Sustainable Economic Growth	0.284	2.146	0.032	Supported
H4	Sustainable Business Practices → Sustainable Economic Growth	0.392	2.974	0.003	Supported
H5	Decent Work → Sustainable Economic Growth	0.438	3.421	<0.001	Supported

Source: *Primary Data Processing (2026)*

The hypothesis testing was conducted using the bootstrapping procedure in SmartPLS 4 with 5,000 subsamples and a significance level of 5%. The results were evaluated based on path coefficients (β), t-values, and p-values. A hypothesis was supported when the relationship was statistically significant with a p-value below 0.05. The results in Table 6 indicate that all proposed hypotheses (H1–H5) were supported. H1 confirms that SME Capability has a positive and significant effect on Decent Work Creation ($\beta = 0.356$, $t = 2.487$, $p = 0.013$), indicating that stronger SME capabilities contribute to improved employment quality and working conditions. H2 shows that Sustainable Business Practices positively influence Decent Work Creation ($\beta = 0.421$, $t = 3.115$, $p = 0.002$). This relationship demonstrates that sustainability-oriented business practices play an important role in supporting responsible employment practices and worker welfare. H3 confirms the positive effect of SME Capability on Sustainable Economic Growth ($\beta = 0.284$, $t = 2.146$, $p = 0.032$), suggesting that organizational capabilities enhance SMEs' ability to achieve long-term economic sustainability. H4 indicates that Sustainable Business Practices significantly influence Sustainable Economic Growth ($\beta = 0.392$, $t = 2.974$, $p = 0.003$). This finding highlights that sustainable

896

management approaches contribute to business resilience and sustainable growth. Finally, H5 demonstrates the strongest relationship in the model, where Decent Work Creation positively affects Sustainable Economic Growth ($\beta = 0.438$, $t = 3.421$, $p < 0.001$). This result confirms that improving employment quality is an important mechanism for achieving sustainable economic development. Overall, the findings support the proposed model and demonstrate that SME capability and sustainable business practices contribute to sustainable economic growth through the enhancement of decent work conditions, supporting the objectives of SDG 8.

Mediation Analysis

Table 9. Indirect Effect

Relationship	β	t-value	p-value	Result
SME Capability → Decent Work → Economic Growth	0.156	2.102	0.036	Significant
Sustainable Business Practices → Decent Work → Economic Growth	0.184	2.764	0.006	Significant

Source: Primary Data Processing (2026)

The findings indicate that decent work creation partially mediates the relationship between SME-related factors and sustainable economic growth.

Effect Size (f^2)

Table 10. Effect Size

Relationship	f^2	Effect
SME Capability → Decent Work	0.183	Medium
Sustainable Practices → Decent Work	0.261	Medium
SME Capability → Economic Growth	0.124	Small
Sustainable Practices → Economic Growth	0.217	Medium
Decent Work → Economic Growth	0.298	Medium

Source: Primary Data Processing (2026)

The f^2 analysis shows that most relationships in the structural model have a medium effect size. SME Capability → Decent Work ($f^2 = 0.183$) and Sustainable Practices → Decent Work ($f^2 = 0.261$) indicate meaningful contributions to improving

897

employment quality. Meanwhile, SME Capability → Economic Growth shows a small effect ($f^2 = 0.124$), suggesting a limited direct contribution to economic growth.

Furthermore, Sustainable Practices → Economic Growth ($f^2 = 0.217$) and Decent Work → Economic Growth ($f^2 = 0.298$) demonstrate medium effects, indicating that sustainable practices and decent work creation are important factors supporting sustainable economic growth. Overall, the results confirm that decent work and sustainability practices are key elements in achieving SDG 8 outcomes.

DISCUSSION

The SEM-PLS results demonstrate that SMEs contribute to SDG 8 through an interconnected pathway linking organizational capability, sustainable business practices, decent work, and sustainable economic growth. Rather than functioning solely as production-oriented entities, SMEs operate as local economic institutions whose capabilities and management practices shape both business performance and employment outcomes. This interpretation is consistent with recent evidence showing that business sustainability can mediate the relationship between strategic and technological factors and SME performance (Hakim & Fuad, 2024).

The strongest structural relationship was found between Decent Work Creation and Sustainable Economic Growth ($\beta = 0.438$, $p < 0.001$). This result suggests that decent employment is not merely a social outcome but an economic mechanism supporting sustainable growth. Fair compensation, worker protection, occupational safety, and employee development can strengthen workforce stability and productivity, thereby supporting organizational continuity. From a human-capital perspective, investment in employees enhances the productive capacity of SMEs and enables firms to translate workforce quality into sustained economic value. Thus, decent work should be understood as an integral component of SME competitiveness rather than as an external social responsibility.

The relationship between Sustainable Business Practices and Decent Work Creation was also substantial ($\beta = 0.421$), exceeding the effect of SME Capability on Decent Work Creation ($\beta = 0.356$). This finding indicates that organizational capability alone does not automatically produce better employment conditions. Rather, capabilities generate broader social outcomes when embedded in responsible and sustainability oriented business practices. Recent Indonesian evidence similarly indicates that ESG-oriented regulations are increasingly associated with the adoption of sustainable business practices among SMEs, although resource limitations remain an important implementation challenge (Hakim & Fuad, 2024).

The stronger effect of sustainable business practices suggests that sustainability functions as a strategic conversion mechanism through which organizational resources



are translated into socially responsible outcomes. SME capability provides the capacity to innovate, manage resources, and adapt to market dynamics, whereas sustainability-oriented practices determine how those capabilities are deployed. This interpretation is supported by recent research showing that innovation capability significantly improves MSME performance through the development and integration of multiple forms of innovation capability (Siregar et al., 2025).

The significant relationship between SME Capability and Sustainable Economic Growth further confirms the importance of internal capabilities for long-term business performance. Managerial, technological, and innovation capabilities enable SMEs to respond to market changes, improve efficiency, and strengthen competitiveness. Recent SEM-PLS evidence from Indonesian MSMEs demonstrates that innovation capability has a significant positive relationship with business performance, reinforcing the strategic importance of capability development in sustaining SME growth (Siregar et al., 2025).

Similarly, the positive effect of Sustainable Business Practices on Sustainable Economic Growth indicates that SME sustainability extends beyond short-term financial performance. Sustainability-oriented management integrates economic objectives with social and environmental considerations, potentially strengthening operational resilience, stakeholder relationships, and long-term competitiveness. Evidence from Indonesian SMEs shows that business sustainability itself significantly contributes to business performance and can function as an important mechanism through which business strategy and technology utilization generate performance outcomes (Hakim & Fuad, 2024).

Overall, the findings extend the SDG 8 perspective by positioning decent work as a strategic pathway connecting SME sustainability with economic growth. The model suggests that sustainable economic outcomes are not produced by organizational capability alone but emerge through the interaction between capability development, responsible business practices, and employment quality. Accordingly, policies and managerial interventions aimed at strengthening SME contributions to SDG 8 should simultaneously address organizational capability, sustainability-oriented management, and the quality of employment generated by SMEs.

CONCLUSIONS

Based on the SEM-PLS analysis involving 30 SME respondents, this study concludes that SMEs play an important role in supporting SDG 8 by promoting decent work and sustainable economic growth. SME Capability positively contributes to Decent Work Creation, indicating that stronger managerial, operational, and innovation capabilities support better employment conditions. Sustainable Business Practices also serve as an important factor in strengthening decent work and sustainable development.

899



Furthermore, Decent Work Creation has the strongest influence on Sustainable Economic Growth, highlighting that improving employment quality is a key pathway toward long-term economic sustainability. The SEM-PLS model demonstrates moderate predictive capability and supports the framework linking SME capability, sustainable practices, decent work, and sustainable economic growth. Overall, SMEs act as a bridge between local economic activities and sustainable development through responsible business practices and quality employment creation.

SUGGESTION

Future research is suggested to expand the number of respondents and include SMEs from various regions and business sectors to improve the generalizability of the findings. Further studies may also incorporate additional variables, such as digital transformation, innovation capability, financial inclusion, and government support, to provide a broader understanding of factors influencing sustainable SME development. In addition, longitudinal research is recommended to examine changes in SME capabilities, sustainable practices, and employment quality over time. For practitioners and policymakers, strengthening SME capacity building and encouraging sustainable business implementation can support the creation of decent work and sustainable economic growth aligned with SDG 8.

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