



Proceeding Paper

Sustainability within Medium-Sized Businesses: A Study on Performance Impact in the Pakistani Context [†]

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Abstract: The goal of this study is to find out how corporate social responsibility (CSR) affects managers' commitment to sustainability and the long-term success of small and medium-sized businesses (SMEs) in Pakistan. In addition to that, this study aims to find out how a manager's focus on sustainability affects CSR activities and how these activities affect the economic, social, and environmental performance of a company in Pakistan. People who own or run small businesses in Pakistan's manufacturing sector filled out survey questionnaires that were used to collect the data. Using the software SmartPLS 3.0, a statistical method called partial least square structural equation modeling was used to look at the research model. The findings show that CSR acts as a bridge between managers' and owners' sustainability goals and employees' sustainability goals.

Keywords: sustainable performance; organizational behavior; employee's motivation; owner's influence



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1. Introduction

A huge amount of research has been performed on small and medium-sized businesses' sustainability performance over the last ten years [1]. The media and social media have made businesses more environmentally friendly. Due to the lack of a board or other civil organization that can oversee their operations and decisions, the owners and managers of these kinds of businesses are directly affected by their own thoughts. Thus, learning about managers' views on sustainability in society could help us comprehend their actions and, as a result, the outcomes of the organization. Business sustainability performance is crucial for SMEs as it contributes to integrating sustainable practices into their operations. SMEs can adapt to changing market conditions, mitigate risks, and remain competitors in the evolving business landscape. Implementing sustainable practices such as energy efficiency, waste reduction, and responsible sourcing can lead to cost savings for SMEs by minimizing resource consumption and waste generation; as such, businesses can reduce expenses and improve their bottom line. The sustainable performance of SMEs can have several effects, which can be positive or negative. SMEs often have limited financial resources, lack of awareness, market competitiveness, and regularity compliance challenges.

By integrating environmental, social, and governance (ESG) practices into their operations, companies can enhance their reputation, attract socially responsible investors, and reduce operational costs through resource efficiency. Nowadays, organizations are facing a problem because the growing emphasis on environmental sustainability presents challenges for businesses to adopt eco-friendly practices. Scholars have contended that sustainable performance and social and environmental practices positively influence the desires and needs of societies [2]. Thus, a clearer picture of sustainable performance can

be obtained by examining these factors, particularly in the context of SMEs in developing economies [3]. Consequently, the purpose of this research is to fill in the gaps in the literature regarding the following questions:

RQ1: how does corporate sustainability affect a firm's performance in Pakistan?

RQ2: how is Pakistani business performance impacted by corporate sustainability?

This study contributes the following: First, there is a need to cultivate a sustainability-focused attitude among workers to augment corporate social responsibility efforts. Second, we can extend our understanding of how internal company practices can affect broader sustainability outcomes. Third, this study provides a more nuanced understanding of the dynamics between different stakeholders within a firm and their impact on sustainability. Finally, this theoretical application can help to deepen the academic discourse on sustainable performance and CSR.

2. Literature Review

2.1. Hypothesis Development

2.1.1. Owners' Orientation and CSR

The owner's orientation towards sustainability is positively related to environmental and financial performance. It is argued that the owners of those companies cannot justify their investments in social and environmental issues because their clients will not pay a premium for such investments [4]. A gap in the literature arises from the need for research that identifies the precise obstacles to the adoption of ESG practices and proposes solutions to surmount them in various circumstances. However, organizations can gain advantages from such practices, such as attracting and retaining talented personnel, enhancing their reputation [5], and fostering innovation [6]. Figure 1 shows the relationship as:

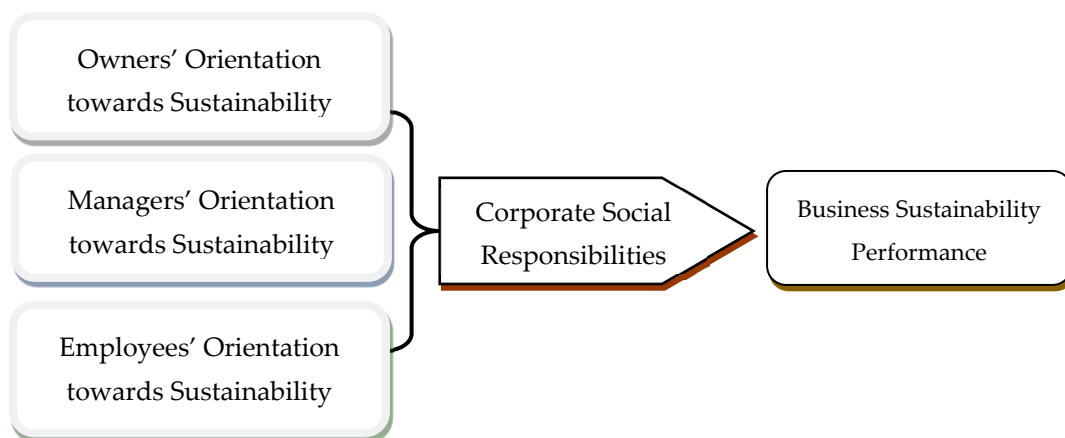


Figure 1. Conceptual framework of this study.

H1: *There is a significant relationship between CSR and owners' orientation.*

2.1.2. Managers' Orientation and CSR

According to [7], managers make decisions based on personal factors such as orientation, even in the absence of substantial data. Managers rely not only on their own experiences and values but also on these factors when deciding between alternatives. An area where there is a lack of research is the need for further empirical studies that measure the financial advantages of ESG practices across different industries. However, the behaviors of individuals are not always determined by their characteristics; for instance, a manager may hold a particular viewpoint on a subject but exhibit contrary behavior that may appear to contradict his beliefs [8]. Figure 1 shows the relationship as:

H2: *There is a significant positive relationship between managers' orientation and CSR.*

2.1.3. Employees' Orientation and CSR

The employees' orientation towards sustainability is positively related to financial performance. Studies have found that the relationship between an owner's orientation, manager's orientation, and employee's orientation is positively related to business sustainable performance in SMEs. For instance, [9] found that the alignment between the owner's orientation, manager's orientation, and employee's orientation towards sustainability positively affects environmental and social performance. Figure 1 shows the relationship as:

H3: *There is a significant relationship between employees' orientation and CSR.*

2.1.4. CSR and Business Sustainability

Corporate social responsibility (CSR) and business sustainability are closely related concepts; there is a growing body of research that highlights the positive relationship between CSR and business sustainability in SMEs. By integrating CSR practices into their operations, SMEs can achieve improved environmental and social performance while also enhancing their financial performance, competitive advantage, and reputation [10]. Figure 1 shows the relationship as:

H4: *There is a significant relationship between CSR and business sustainability.*

3. Research Methodology

There are two approaches that we can use while conducting research: the deductive and inductive approaches. As our research is based on quantitative research and is also expanding the existing knowledge and research material on sustainability and its use in cases of business performance, that is why we are using a deductive approach. In this study, the population for this research is the SME's owner. The study uses Non-Probability Sampling techniques and the convenience sampling method with a 164-sample size. Smart PLS (3), a statistical application that analyzes data via partial least squares modeling (PLS-SEM), was utilized. The selection of this analytical method was justified by the characteristics of the data and sample, in addition to the moderation and mediation analyses. This method has gained significant recognition in the fields of human resource management, marketing, and other relevant disciplines. PLS-SEM was suggested by [11] as a method for forecasting the impact of the dependent variable. Furthermore, it has been suggested in reference [12] that this approach can be utilized to simultaneously predict the set of equations comprising the proposed research model and establish connections between variables. As a validated reporting method for in-depth analyses in the field of management science, PLS-SEM was utilized in this study. SEM is a multifunctional data exploration technique of the second generation that was originally designed to investigate additive and linear random relationships. This enables scholars to investigate the interconnections among constituents. SEM is regarded as the most effective method for measuring direct and indirect pathways due to its ability to analyze latent structures that are unobservable and difficult to study. SEM examines the relationships between latent constituents and their observed pointers, as well as between independent and dependent variables, via inner and outer model analyses. Smart PLS enables the analysis of variance, which is the focus of PLS. As a result, this methodology was selected for our research.

4. Results

The current study determined the internal consistency of the constructs through Cronbach's values. This study's results are presented in Table 1. Cronbach's alpha values were above the threshold of 0.680 set by [13]: BSP ($\alpha = 0.770$), EOTS ($\alpha = 0.730$), OOTS ($\alpha = 0.744$), MOTS ($\alpha = 0.765$), and CSR ($\alpha = 0.779$). Table 1 summarizes the result of composite reliability (CR) and the average variance extracted (AVE). The AVE values were also above the threshold of 0.50 [14]: BSP (AVE = 0.685), EOTS (AVE = 0.652), OOTS (AVE = 0.666), MOTS (AVE = 0.680), and CSR (AVE = 0.695). Factor loadings were signifi-

cant, and t-values were above the threshold value of 0.50 [15]. The values of CR > 0.7 [14] and AVE > 0.5 [15] were above the threshold values and fulfilled the standard requirements for validity [16].

Table 1. Reliability analysis and convergent validity.

Construct Name	Items	Outer Loadings	Cronbach's Alpha	CR	AVE
Business Sustainable Performance	BSP1	0.850	0.770	0.773	0.685
	BSP2	0.786			
	BSP3	0.846			
Employees Orientation Towards Sustainability	EOTS1	0.849	0.730	0.731	0.652
	EOTS2	0.839			
	EOTS3	0.730			
Owners Orientation Towards Sustainability	OOTS1	0.847	0.744	0.770	0.666
	OOTS2	0.903			
	OOTS3	0.680			
Managers Orientation Towards Sustainability	MOTS1	0.827	0.765	0.782	0.680
	MOTS2	0.806			
	MOTS3	0.841			
Corporate Social Responsibility	CSR1	0.819	0.779	0.781	0.695
	CSR2	0.886			
	CSR3	0.793			

Table 2 shows the hypotheses testing, which indicates that all four hypotheses are found to be supportive. Corporate social responsibility (CSR) and business sustainable performance with t-statistics 4.595 ($p = 000$) show null results. Employees' orientation towards sustainability (EOTS) has a significantly empty relation with corporate social responsibility with a t-value of 4.11 ($p = 000$). Managers' orientation towards sustainability also significantly differentiates from corporate social responsibility with a t-value of 8.603 ($p = 000$). Owners' orientation towards sustainability significantly varies compared to corporate social responsibility with t-statistics of 7.379 ($p = 000$), respectively.

Table 2. Hypothesis testing.

Hypotheses	Structural Relation	Std. Deviation	t-Values	Beta	p-Values	Results
H1	OOTS -> CSR	0.045	7.379	-0.351	0.000	Accepted
H2	MOTS -> CSR	0.048	8.603	0.234	0.000	Accepted
H3	EOTS -> CSR	0.046	4.114	0.149	0.000	Accepted
H4	CSR -> BSP	0.048	4.595	-0.564	0.000	Accepted

5. Discussion

The present study put forward and tested four hypotheses, and the outcomes support all of them. Within this section, the authors discuss the findings and how they relate to previous research.

Hypothesis (H1) indicates how owners' orientation towards sustainability and corporate social responsibility variables are disconnected from each other in context with the sustainable performance of an organization, as aided by the β value (-0.351). The current results have not been validated with the results of previous studies. In this context, the

sustainability orientation of owners is a product of the ecological culture of the nation and society. Thus, they are profoundly influenced by the thoughts and beliefs of their own and local communities, which favor ethical and environmentally conscious organizations. Consequently, an emphasis on sustainability improves environmental performance, as such perspectives are manifested in environmental practices [17].

Hypothesis (H2) shows that managers' orientation towards sustainability bridges a gap with corporate social responsibility and has a positive impact on it, as backed by the β value (0.234). These two variables have a complementary relationship, as determined and validated by the previous results. HRM has a substantial impact on the conception, development, and implementation of CSR; similarly, the manner in which businesses approach social responsibility affects how they treat employees. In addition, both CSR and HRM can be considered pertinent in terms of comprehending assumptions regarding the role of the corporation and the employer–employee relationship. Therefore, it is unsurprising that there are demands for additional research to be conducted regarding the correlation between HRM and CSR [18].

Hypothesis (H3) determines the lesser impact between employees' orientation towards sustainability and corporate social responsibility because these two are minimally connected and concerned with one another, which was concluded after the responses collected from employees and supported by the β value (0.149). The current results have not been validated with the results of previous studies. Additionally, the strategic importance of corporate social responsibility to achieving success was underscored by [19]. Thus far, there has been a dearth of research examining the impact of employees' perceptions of CSR on their level of organizational commitment. Conversely, organizations are also concerned about high employee turnover, employee absenteeism, and low employee motivation regarding the organization and their work.

Hypotheses (H4) state that corporate social responsibility has the least impact on business sustainable performance, as shown by the β value (-0.564). These two are not much concerned and linked with each other. The current results have not been validated with the results of previous studies. Contributing to the body of knowledge concerning the relationship between environmental disclosure and performance, our preliminary investigation of the sustainability disclosure–performance relationship contributes to business performance. This study draws inspiration from a specific source [20], which examines the correlation between disclosure and environmental responsiveness. The authors contend that environmental responsiveness, although distinct from performance, is an essential prerequisite for an organization to attain commendable ecological performance.

Practical Implication

This study shows that although owners' sustainability orientation may not respond to corporate social responsibility (CSR), it improves environmental performance via ethical and ecological activities. Managers' sustainability orientation improves CSR, emphasizing the need to integrate HRM and CSR initiatives to create a responsible company culture. The low correlation between workers' sustainability approach and CSR suggests that further study is needed to understand its effects on organizational commitment, attrition, and motivation. Finally, the poor relationship between CSR and business sustainable performance implies that although CSR is essential, it may not be the main driver of sustainability performance, underlining the necessity for a comprehensive sustainability strategy that incorporates environmental responsiveness.

6. Conclusions

This study investigated the mediated relationship between managers' sustainability orientations and the sustainable performance of firms in Pakistan. According to the findings of this study, employees' sustainability orientation has had a positive effect on CSR practices. Additionally, these activities have an impact on environmental and social sustainability. Moreover, this study contributes theoretically to existing sustainable performance studies

in the literature in many facets. It includes the relationship of CSR between owners', managers', and employees' orientation toward sustainability. Moreover, the research attains a comprehensive understanding through the application of theories. Despite the contributions made to the study, there are several limitations. The examination of Pakistan's economy has paved the way for future research to investigate sectors such as finance and service in other nations. In addition, it proposes three independent variables, though researchers may add other variables. The study sample includes owners, managers, and employees. Furthermore, the findings have impacted Pakistan's economic conditions, which cannot be generalized by other Asian states.

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