

**Entrepreneurship****Delineating Small Businesses' Firm Performance from a Contemporary Sustainable Development Approach in South Africa****Reginald Masocha<sup>1</sup>**

**Abstract:** The study at hand explored the impact of practising environmental sustainability by South African SMEs on their firm performance. With a contemporary view, the study considered a multidimensional viewpoint by measuring firm performance through financial, customer satisfaction and employee satisfaction as constructs of firm performance. Herein, three hypotheses were postulated which stated that environmental sustainable development (ESD) was significantly and positively related to (1) financial performance (2) customer satisfaction performance and (3) employee satisfaction performance amongst SMEs in South Africa. A questionnaire was distributed in the month of August 2017 with a sample size of 222 participants being subsequently utilised. Convenience sampling method was employed and data was subsequently analysed with the structural equation modelling (SEM) being the primary technique. Descriptive statistics and factor analysis were also utilised in data analysis. Of the postulated hypotheses, all were supported. Thus, established in this study is that environmental sustainable development was significantly and positively associated to financial performance, customer satisfaction performance and employee satisfaction performance. Hence, recommendations are put forward for policy formulations that take cognisance of the multidimensionality of firm performance which is ideal for the future and contemporary sustainable development dispensation.

**Keywords:** Environmental development; Firm Performance; Customer satisfaction; Employee satisfaction; Financial performance; SMEs; South Africa

**JEL Classification:** M370

**1. Introduction**

Sustainable development is a contemporarily vital phenomenon across the globe. The recently promulgated Agenda 2030 for Sustainable Development indicates the commitment towards the notion of sustainable development by all nations. In the South African context, to this end, the National Framework for Sustainable Development (NFSD) is a policy document disseminated to guide the efforts and aspirations of the nation pertaining to sustainable development. Furthermore, Section 24 of the constitution of South Africa stipulates the obligation of civil society

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<sup>1</sup> Lecturer, Business Management, School of Economics and Management, University of Limpopo, South Africa, Address: P. Bag X1106 Sovenga 0727, South Africa, Tel.: +27152682802, Corresponding author: reginald.masocha@ul.ac.za.

and government towards securing the environment in a sustainable development manner (NFSD, 2008). The National Environmental Management Act (NEMA), (Act No. 107 of 1998) constitutes the South African definition of sustainable development which is in line with the globally consented Brundtland Commission definition (NFSD, 2008). According to Borim-De-Souza, Balbinot, Travis, Munck, & Takahashi, (2015), the Brundtland commission defines sustainable development as “attainment of current development that does not demise future generations’ ability of meeting their own needs”. The NFSD (2008) highlights that sustainable development pertains to the process pursued so as to attain sustainability.

Environmental sustainability arises from the danger posed by human operations towards the ecological environment. For instance, human operations have been noticed to have enormous retrogressive influence on the natural environment, such as diminished biodiversity, ozone depletion, greenhouse gases accumulation, disposal mismanagement, deforestation and toxic emission (Jämsä, Tähtinen, Ryan, & Pallari, 2011). Consequently, Høgevoid, Svensson, Klopper Wagner, Valera, Padin, Ferro, & Petzer, (2015) are of the view that more and more firms are adopting internationally recognised, and industry-certified environmental managements systems (EMSs). However, the paramount driver for environmental sustainability amongst firms has been the embedded possibility to reduce costs which dovetails into profitability. On the other hand, cost reductions by means of environmental actions have received criticism as the sole motivator for action (Høgevoid et al., 2015).

Research in sustainability for SMEs that has focused on the environmental dimension is still fragmented, underdeveloped and limited (Williams & O’Donovan, 2015). Sustainable development is prominently described based on the three dimensions, namely, economic, environmental and social. Commonly researchers have utilised these dimensions of sustainable development (Lankoski, 2009; Hull & Rothenberg, 2008), as well as, assessed the integrated impact of all sustainable development dimensions on the performance dimension (Wagner, 2010; Lopez, Garcia & Rodriguez, 2007; Chang & Kuo, 2008; Goyal, Rahman & Kazmi, 2013). Despite numerous studies existing on the dimensions of sustainable development, their influence on firm performance is still not clear particularly within the small business context (Moneva & Alvarez, 2014). There is need to deepen empirical investigations in order to solicit comprehensive insights on the two critical research concepts embedding this study, namely environmental sustainability and firm performance. In consistency, Adebajo, Teh & Ahmed (2016) and Curkovic and Sroufe (2016) assert that there is no consensus pertaining to the latent impact of practising the three components of sustainable development on the performance of firms.

Consequently, the major premise for this study is that despite extensive research having been conducted on the principle of environmental sustainability, research efforts considering all the various potential pillars of firm performance from the premises of sustainable development is unsatisfactory and very scant (Turyakira, Venter & Smith, 2014). Thus, this study endeavours to assess the way in which environmental sustainability practices influence firm performance in SMEs. Herein, firm performance is considered as the degree to which a firm attain success or accomplish its outcome relating to competitors in conditions of customers, profitability and employees based on various performance metrics (Shankar & Chin, 2011). This study utilises the subjective definition of firm performance relating to the subjective judgements of the respondents of how the firm is doing based on the firm performance indices. The major dimensions of firm performance that the study looks at are financial performance, customer satisfaction and employee satisfaction as subjective measures of firm performance.

## 2. Hypotheses

The following hypotheses were postulated for this study:

- H1: Environmental sustainability practices (ESD) have a significant and positive effect on customer satisfaction performance (CSP) of SMEs in Limpopo Province
- H2: Environmental sustainability practices (ESD) have a significant and positive effect on financial performance (FP) of SMEs in Limpopo Province.
- H3: Environmental sustainability practices (ESD) have a significant and positive effect on employee satisfaction performance (ESP) of SMEs in Limpopo Province.

## 3. Literature Review

### 3.1. Environmental Sustainability and SMEs

The ability of the ecosystems is “regarded to be constrained in terms of regeneration capacity and potential to expand” (Høgevold et al., 2015). Closely, Turyakira et al. (2014) describe environmental sustainability as the measures a firm adopts towards the minimisation of its adverse consequences towards the natural environment. Such activities pertain to the ecological and economic utilisation of the natural resources, implementing packaging strategies that are ecologically friendly, conservative, water and energy preservative, as well as pollution and waste managing. Gomes, Eugénio and Branco (2015) argue that “the past decade global industrial production has enlarged by over a 100-times and it is expected that this output will consume 50%

of the resources and producing 20% of the current carbon dioxide". Sen (2014) propounds that because of the current exponentiation in world population which is anticipated to reach 11 billion in the year 2030 from 5.5 billion, sustainability distresses like biodiversity demise, waste upsurge and deforestation are deepening. On that note, Martinez-Conesa, Soto-Acosta and Palacios-Manzano (2017) stress that the environmental facet pertains to conserving the environs and improving the aspect of ecological performance is pivotal in sustainability concerns.

Ratiu and Anderson (2015) argue that sustainable development practices depend on how each professional group defines the concept. The European Commission acknowledged that the utmost pertinent practices by businesses that are consistent with environmental sustainability sentiments concern an environmentally cognisant approach to the exploitation of resources and energy, as well as management of disposals, emissions and effluents (Turyakira et al., 2014). Studies on European SMEs stressed that environmentally cognisant business activities and decisions mostly reckon environmentally responsive goods and services as coupled with production processes that are vigorously encompass recycling decisions and practises (Mandl & Dorr, 2007). Consistently, studies on SMEs in Denmark concluded that ecologically embedded actions resulted in a desirable influence on firm reputation, and consequently on their effectiveness (Turyakira et al. 2014). While SMEs may be regarded to have a minor impact individually towards sustainable development, their collective impact is undoubtedly significant. As such, the need for SME businesses to proactively adopt sustainable management practices is supported as an ideal point of emanation in creating the change desired towards sustainable development. However, the degree of proactivity in sustainable practices adoption tends to be proportional to the business size (Urban & Naidoo, 2012).

According to Gomes et al. (2015), large firms are more likely than small firms to adopt sustainability practices. It has been propounded that SMEs present significantly severe environmental bearing per unit than large firms. Thus, sentiments in literature suggest clearly that approaches of SMEs towards environmentalism substantially differ from those of large firms. For instance, evidence in latent literature suggests that the subsequent negative and collective impact of SMEs towards environmental degradation may outweigh that of large corporations (Musa & Chinniah, 2016). Even though prior research studies fixated on the bearings of huge firms on the ecological surrounding, it is deemed that the integrated impact of SMEs on the environment is extensive (Musa & Chinniah, 2016). Stubblefield Loucks, Martens and Cho (2010) argue that due to inadequate financial abilities and lack of skilled labour, most SMEs were highly dispossessed to assess their harm towards the environment. Furthermore, Musa and Chinniah (2016) pinpoint that many SMEs worldwide do not have adequate knowledge on ecological management practices and seldom understand the concept of managing the

environment. Consequently, the possibilities of SMEs being involved in activities that are environmentally friendly are very low.

There are advantages for small businesses in adopting sustainable development practice which include, benefits to the society as well as stakeholder patronage, gaining a competitive edge on the market, increase in market share and shareholder value boosting (Høgevold et al., 2015; Gomes et al., 2015). Zindiye (2008) argues that SMEs result in social stability because they result in less damage towards the physical environment when compared to large enterprises. On the other hand, Ghazilla, Sakundarini, Abdul-Rashid, Ayub, Olugu and Musa (2015) indicate that many SMEs do not regard their activities as of significant environmental impact when compared with those of large corporations. Revel and Blackburn (2007) opine that for that reason many SMEs do not consider lack of environmental management as a costly practice. Consequently, as posited in the above, the aggregation of SMEs' impact coupled with their no-effect mentality towards environmentalism points towards a devastating environmental impact by SMEs, individually and collectively. Thus, there are higher prospects of SMEs being either environmentally irresponsible or increasing their environmental damage under the pretext of 'it is of no materiality'. Furthermore, due to lack of capacity in terms of skills, awareness, knowledge and financial capacity, SMEs are bound to be constrained in dealing with the environment when compared to large corporations.

### **3.2. Firm Performance in SMEs**

The concept of firm performance (also termed business performance) (Santos & Brito, 2012), is a vital variable in numerous studies in the contemporary business literature. Consistently, the concept of firm performance is deemed a critical concept in the field of strategic management and numerous strategy researches utilise the construct of firm performance (Al-Matari, Al-Swidi & Fadzil, 2014; Gharakhani & Mousekhani, 2012). Santos and Brito (2012) also state that the construct of firm performance is commonly used as a final dependant variable in latent research. Interestingly, notwithstanding being widely researched, in academic literature, the concept of firm performance is broad and involves great complexity (Pérez-Cabañero, González-Cruz & Cruz-Ros, 2012; Santos & Brito, 2012; Ha-Brookshire, 2009).

According to Rodríguez-Gutiérrez, Moreno & Tejada (2015), the unit being analysed, the choice of a concise and working definition together with the theoretical context to be utilised in a study result in differences on how the concept of firm performance is approached. Per se, SMEs differ to a larger extent from large businesses because they possess peculiar characteristics and the process of making decisions, equally differs. In the context of SMEs, the conceptualisation and assessment of firm performance is apparently an item for massive debate in literature (Pérez-Cabañero et al. 2012). Ha-Brookshire (2009) cites that researchers have

utilised various tools that are primarily found in large firms' studies to ascertain small firms' performance. This has transpired without justification and has resulted in bias and misrepresentation of reality (Ha-Brookshire, 2009). Therefore, Ha-Brookshire (2009) questions the appropriateness of performance measures "such as profits, sales and growth rates" that are used for large firm performance to be also recycled for SMEs' performance.

Traditionally, SMEs performance measurement has been approached primarily from two perspectives, namely, operations and financial (Saunila 2017). Bulak and Turkyilmaz (2014) are of the opinion that the majority of SMEs struggle to maintain the necessary performance indicators emanating from limited resources for data collating and evaluation. Furthermore, within SME milieus researchers have strongly cautioned against the utilisation of financial performance data especially in the form of objective measures. According to Liozu and Hinterhuber (2013) and Rodríguez-Gutiérrez et al. (2015), hard financial data from SMEs is prone to be biased due to managerial manipulation because of corporate and personal tax causes. As such, past SME researchers have primarily focused on non-financial measures which also tend to be easy when it comes to the gathering of the data (Jalali, Jaafar & Ramayah, 2014). As such, this study utilises a multidimensional approach to measuring firm performance.

#### **4. Methodology**

To obtain the empirical results, a quantitative research methodology was utilised formulated at the backdrop of a positivism epistemological approach and objectivism ontology. Five main classes of paradigms in business management have been identified by Brennan, Voros & Brady (2011) namely, positivism, post-positivism, criticalism, constructivism and participatory. Herein, the positivism paradigm is defined as a paradigm whereby facts get to be clearly definite and results can be measured (Burke, 2007).

##### **4.1. Sampling Procedures**

The research population constituted owners and managers of the respective SMEs in the Capricorn District Municipality, Limpopo province, South Africa. However, most of the SMEs are unregistered and as such there was no a readily available sample size. Consequently, the study utilised the convenience sampling technique in the collection of data. The questionnaire constituted 8 items for environmental sustainability operationalised from Høgevold et al. (2015) and 13 items for firm performance from former works (Ghouri et al., 2011; Liozu & Hinterhuber, 2013, p. 599). The items in the questionnaire were 5 point Likert scale type. The sample size constituted 222 respondents who were reached through a self-administered questionnaire which was distributed through e-mail or face to face. Overall, the

sample participants mostly constituted females (53%), the modal age group was the 31-40 years (40%) and the majority of the respondents were owners (55%) compared to managers (45%). Most (80%) of the businesses surveyed were based in urban areas contrasted to 20% who were rural based.

#### **4.2. Data Analysis Procedures**

Initially, data analysis comprised of basic analysis which included descriptive statistics and factor analysis (EFA). Also, normality assessments, outliers and missing values were also evaluated in this study. This is in line with the prerequisites for structural equation modelling (SEM) which was the approach that was utilised for inferential and hypotheses testing purposes. SEM followed a two- staged procedure, namely, measurement model and structural model. According to Schreiber, Stage, King, Nora, & Barlow (2006), the measurement model, or confirmatory factor analysis (CFA), is used to verify the reliability and consistency of questionnaire items (observed variables) to their latent (unobserved) variables. The second stage pertained to the structural model which integrates CFA and multiple regression analysis focused on the interrelationships between the latent variables (Schreiber et al., 2006). Data analysis was accomplished through encoding data utilising Microsoft Excel software as well as statistical analysis through IBM SPSS Version 24 and IBM AMOS Version 24.

### **5. Data Analysis**

#### **5.1. Measurement Model**

The results of preliminary analyses which included normality, outliers and missing values all did not reveal any anomalies that could potentially affect model fitness. Normality tests were conducted through kurtosis and skewness, while boxplots were used to assess outlier values. For missing values, Little's Missing Completely at Random (MCAR) test was used and the results indicated that data was completely missing at random. The study utilised CFA in order to ascertain dimensionality, validity and reliability of the research constructs. The results of CFA (See Table 1) indicated that there was a difference in terms of constructs, thus, there was no multicollinearity issues. Herein, the measurement model was tested for goodness-of-fit and the assessments depicted acceptable fitness to the data ( $C_{min}/df=2.6$ , CFI = 0.94, TLI= 0.90, RMSEA = 0.96). The results of validity and reliability tests also indicated satisfactory outcomes.

Firstly, the standardised factor loadings (SFLs) showed that all values were above the commended value of 0.50 representing satisfactory convergent validity. The concept of convergent validity was also measured through average variance extracted (AVE) values with all of the values for the constructs surpassing the

conventional assessment of 0.5 meaning that the constructs explained at least 50% of variance in its respective indicators. Reliability as ascertained through Cronbach's alpha (CR $\alpha$ ) values for each construct as well as composite reliability (CR) was also fitting. The rule of thumb is both CR $\alpha$  and CR statistics should at least be 0.7 and values above 0.8 are highly significant (Mishra 2015) and as appearing below (Table 1) the figures ranged between 0.893 and 0.947 indicating high significance in terms of reliability.

**Table 1. Assessment for unidimensionality, reliability and validity**

Construct	Item	SFLs	CR $\alpha$	CR	AVE
Environmental Sustainable Development (ESD)	Env1	0,830	0,946	0,947	0,798
	Env2	0,865			
	Env3	0,847			
	Env4	0,887			
	Env5	0,902			
	Env6	0,824			
	Env7	0,750			
	Env8	0,732			
Customer Satisfaction Performance (CSP)	CSP1	0,601	0,893	0,898	0,693
	CSP2	0,855			
	CSP3	0,953			
	CSP4	0,878			
Employee Satisfaction Performance (ESP)	ESP1	0,794	0,934	0,934	0,782
	ESP2	0,816			
	ESP3	0,972			
	ESP4	0,941			
Financial Performance (FP)	FP1	0,807	0,915	0,916	0,686
	FP2	0,909			
	FP3	0,870			
	FP4	0,755			
	FP5	0,791			

Discriminant validity was tested premised on the inter-construct correlations and the contrast of the square root of AVEs and the respective latent variable correlations in line with Fornell and Lacker (1981) criterion. Herein, all the inter-construct correlations were below the stipulated value of 0.8 which means there was acceptable divergence in the constructs. The comparison of square root of AVEs and the latent variables correlations was also suitable as all the square root of AVE values exceeded the correlation values. Table 2 below illustrates these findings.



**Table 2. Inter-Construct Correlations and Square root of AVE**

Construct	Mean	SD	Inter-Construct Correlation Matrix & Square root AVE			
			1	2	3	4
1. ESD	2.83	1.260	<b><i>0,893</i></b>			
2.CSP	3.33	.828	0,391	<b><i>0,832</i></b>		
3.ESP	3.27	.800	0,406	0,717	<b><i>0,884</i></b>	
4. FP	3.27	.954	0,322	0,593	0,633	<b><i>0,828</i></b>

*Note: Square root of AVE values are presented in bold and italics*

## 5.2. Structural Equation Modelling

The second stage of SEM involved the assessment of the hypotheses through IBM AMOS version 24. Firstly, the model fit indices suggested acceptable model fit ( $\chi^2/df=2.76$ , CFI = 0.90, TLI= 0.86, RMSEA = 0.98). The results shown in Table 3 on path analysis indicate that all the postulated hypotheses (H1 to H3) were supported by the data. The standardised regression weights or path coefficients for all the hypotheses were positive, thus, 0.419, 0.348 and 0.428 for H1, H2 and H3 as well as significant at alpha significant level 0.01. The path model in Figure 1 diagrammatically illustrates the structural model with path analysis between the latent variables and Table 3 presents the results of hypotheses testing.

**Table 3. Hypotheses Results path analysis**

Path	Hypothesis	Path Coefficient Estimate ( $\beta$ )	S.E.	C.R.	P	Label
ESD → CSP	H1	,419	,044	5,242	***	
ESD → FP	H2	,348	,062	4,775	***	
ESD → ESP	H3	,428	,070	6,120	***	

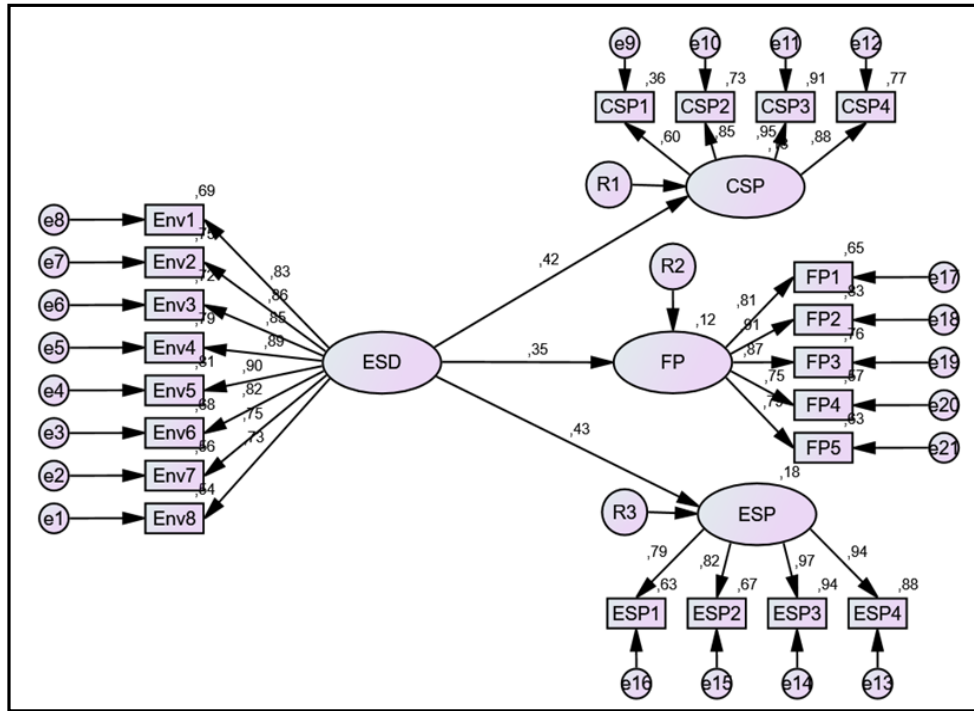


Figure 1. Path analysis with structural model

Note: ESD=Environmental Sustainability; CSP=Customer Satisfaction Performance; FP=Firm performance; ESP=Employee Satisfaction Performance

### 6. Conclusion

The study assessed the relationship between environmental sustainability practices and firm performance. In this regard, sustainability practices and firm performance are the research constructs whereby firm performance was measured through latent variables, namely, financial performance, customer satisfaction performance, and employee satisfaction performance. The first hypothesis (H1) postulated that environmental sustainability practices (ESD) have a significant and positive effect on customer satisfaction performance (CSP) of SMEs in Limpopo Province. Accordingly, the results obtained ( $\beta=0.419$ ;  $t=5.242$ ) revealed a significant as well as positive association concerning environmental sustainability and customer satisfaction performance in the study. The second hypothesis (H2) propounded a significant positive effect of environmental sustainability practices (ESD) and financial performance (FP) of SMEs in Limpopo Province. Consistently, the standardised path coefficient results ( $\beta=0.348$ ;  $t=4.775$ ) resulted in the supporting of

this hypotheses. Finally, the third hypotheses (H3) which proposed a significant and positive influence of environmental sustainability practices (ESD) on employee satisfaction performance (ESP) of SMEs in Limpopo Province was also supported. The standardised path coefficient results ( $\beta=0.348$ ;  $t=4.775$ ) in line with H3 means that there was a significant as well as positive association pertaining to ESD and ESP.

According to Tachizawa, Gimenez and Sierra (2015) there is plenty of latent literature on the impact of environmental practices on firm performance. However, the link between supplier-related ecological practices and firm performance is a contentious subject. The results of SEM analysis in this study substantiated earlier studies concerning the positive impact of environmental sustainability and financial performance (Russo & Tencati, 2009; Groenewald & Powell, 2016). Furthermore, the study extended contribution to the long debated subject of the impact on overall firm performance made by embracing environmental sustainability. This study examined the linkage between environmental sustainability and customer satisfaction and employee satisfaction as sub-variables to firm performance. In the past, the customer satisfaction and employee satisfaction have been utilised as measures or items to the subjective concept of firm performance. This comprehensive approach to the multidimensional construct of firm performance is in line with the concept of sustainable development which calls for firms' performance to be scrutinised in the various spheres. Furthermore, this particularly acquainted with the area of SMEs where the exclusive use of accounting performance indices has been questionable. Consistently, the study findings supports past studies that have established a positive relationship between environmental sustainability and customer satisfaction performance (Sun & Price, 2016) as well environmental sustainability and employee satisfaction performance (Gadenne, Mia, Sands, Winata, & Hooi, 2012). Thus, the more small firms embark in environmental sustainability the more they should expect in terms of financial gains as well as satisfaction of customers and employees.

## 7. Recommendations

Sustainability issues continue to abound due to the detrimental consequences to humanity as well as general life which depends on the planet earth. The prevailing concerns are on how the various players are contributing towards sustainability. With the rationality of participation in sustainability continuously sought, the study contributes immensely towards the practise of sustainability in the area of environmental sustainability. The findings contribute to the understanding of the concept of firm performance and how the concept of environmental sustainability contributes to the various variables, thereof. The attested hypotheses in the study allude to the strategic relationships and variables that managers need to monitor

within the sustainability dispensation. The findings point to a long-term concern for managers on the essence of adopting sustainability with negative implications for firms who fail to adopt sustainability practices. Management practices and strategies for SMEs need to encapsulate the environmental aspect for competitiveness. Thus, SMEs that practise environmental sustainable development stand to gain financially and simultaneously perform better in terms of customer satisfaction and employee satisfaction. These findings are encouraging and prompting for South African SMEs to participate in environmentalism and the individual items that were tested in the study can be operationalised and customised by managers into their businesses and examined in terms of their efficacy.

Apart of the above stated implications towards management practices, the study offers insights towards the future, policy formulation by the government. For future studies the study outlines how firm performance needs to be ascertained within the sustainability dispensation. Thus, the study posits an extensive viewpoint towards firm performance and the model formulated can be attested in future studies that are more comprehensive in terms of scope and variety of SMEs. The questionnaire items that were utilised can be operationalised in future studies. For policymakers, especially in the South African context, the outcomes of this study can be essential when justifications are sought on why SMEs should participate in sustainability. The study results posit some insights to SMEs voluntarily adopting environmental practices due to the effects on their profitability as well as satisfaction of customers and employees. This suggests a change in behaviour and practises that have positive impacts on the environment. Furthermore, the extensive framework towards the concept of firm performance that was used in this study can be utilised as a basis of formulating firm performance monitoring mechanisms. Thus, in the future new firm performance matrices can be emphasised on that clearly encapsulate broader facets of firm performance.

## 8. References

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