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Service Customer Orientation and Social Sustainability: The Case of Small Medium Enterprises

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Abstract

Social sustainability is an intricate subject with interrelated but distinct components. This paper measures social sustainability as an employee outcome, customer outcome and organizational outcome. To test the strategy-sustainability relationship model, this study examines service customer orientation as the corresponding strategy. Using a sample of 400 SMEs in the service sector, the results show that all the direct and indirect relationships between service customer orientation and the three social sustainability indicators are significant.

Keywords: Social sustainability, Service customer orientation, Resource-based view (RBV), employee outcomes, customer outcomes, organizational outcomes.

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1. Introduction

In today's world, organizations are increasingly seeking to achieve competitive advantage by integrating sustainability into their corporate strategy. For the most part, the sustainability discourse centers on the triple bottom line standards with goals addressing economic, social and ecological aims (Bansal, 2005). However, much of the public and business efforts are focused on economic and environmental issues. These issues are reported to overshadow the social elements of sustainability discourses (Ajmal, Khan, Hussain, & Helo, 2017).

Starik and Rands (1995) assert that sustainability is the ability of one or more entities, either independently or jointly, to exist and prosper in the long term. There is an increasing trend of examining the social aspects of sustainability by looking at employees and consumers (Pfeffer, 2010). In this way, social sustainability embodies employees, customers and the organization's image that could lead to stronger organizational performance (Orlitzky, Schmidt, & Rynes, 2003).

Accordingly, this study employs social sustainability as a strategic resource in achieving competitive advantage within organizations. This study does not address the 'social' aspect of sustainability from a narrow perspective, but views it more widely by examining employees, customers and organizations.

In maintaining long-term organizational sustainability, organizational strategy plays a significant role (Duygulu, Ozeren, İşıldar, & Appolloni, 2016). Core capability is the driver of this strategy. With this, we introduce the driver that influences social sustainability in our study – service customer orientation (SCO). In this study, SCO refers to the essential frameworks of service-oriented organizations in relation to the constant interactions between customers and service providers. The interaction with customers is a critical source of knowledge of various social identities (Rowley & Moldoveanu, 2003). As such, by meeting customer needs

organizations are not only fulfilling individual economic needs but also social demands (Gelhard & von Delft, 2016).

However, despite the importance of SCO to social sustainability, not all organizations are able to integrate it into their business activities from a strategic standpoint, especially when it concerns small and medium enterprises (SMEs). SMEs are significant drivers of economic growth, wealth and job creation (Hill, Nancarrow, & Wright, 2002). It is widely accepted that SMEs are not a scaled-down variant of large organizations, and that they have their attributes which influence how they operate (Lee & Che-Ha, 2016). We use SMEs as our sample for a number of reasons. Their lack of capability when addressing customer service is, for instance, widely acknowledged (Appiah-Adu & Singh, 1998). Moore & Manring (2009) assert that SMEs need to rethink their business strategy and find a more sustainable solution for their business activities. Their short-term outlook (Pelham & Wilson, 1995) and lack of skill to adopt sustainability into their strategy have been a major cause of challenge which has somewhat slowed down their progress; they are also continuously faced with fierce competition from both local and overseas markets. Hence, by focusing on SCO and social sustainability, it is anticipated that this study will guide SMEs to view sustainability systematically and practically in assisting them to achieve competitive advantage.

This study aims to address two main research gaps. The first is the overshadowed role of social sustainability. In this regard, sustainability that is known by three constructs parts; economic, environmental and social, should be given equal emphasis in the context of its social aspect. We also view social sustainability from a multidimensional perspective; this presents a new approach for achieving competitive advantage and long-term sustainability particularly in the context of SMEs. In this study, we examine social sustainability from three perspectives - employee outcome (EO), customer outcomes (CO), and organizational outcomes (OO).

Using resource-based view (RBV), we treat SCO as the source of competitive advantage for SMEs and examine its impact on the long-term sustainability of organizations (i.e., social sustainability). In particular, we aim to develop a framework that enables SMEs to measure the social sustainability performance of their strategy. This aspect addresses the question regarding the effect of SCO on social sustainability among SMEs.

The paper begins by reviewing the literature on social sustainability from the perspective of SMEs. The literature review section specifically engages with SCO and its origins. The paper proceeds by discussing the relationship between SCO and social sustainability. This is followed by a research methodology section and finally, a discussion on findings and their broader implications.

2. Literature review

2.1. Sustainability – a single or multiple constructs?

According to Hult (2011), sustainability can be a strategic resource that leads to competitive advantage, and in turn, to superior organizational performance. While much of the sustainability studies look at all three aspects of the triple bottom line, a review of the literature shows inconclusive results when the strategies aim to address all three approaches of sustainability together (refer to Table 1). Given the ambiguity of the results, the prospects for research using individual approaches of sustainability should be welcomed in providing better evidence on the strategy-sustainability relationship.

Table 1 here

Studies that apply social sustainability for performance measurement successfully demonstrate a positive relationship to strategy (Darcy et al., 2014; Paillé, Amara, & Halilem, 2018). As the social sustainability measurements in these studies are unidimensional, the current study, is, to

the best of our knowledge, the first to address social sustainability as a multidimensional factor using employee outcomes, customer outcomes, and organizational outcome to empirically demonstrate the strategy-social sustainability performance.

In this study, social sustainability is conceived as the ability of organizations to add value to the communities within which they operate by increasing the human capital of individual partners as well as furthering the societal capital of these communities (Dyllick & Hockerts, 2002). Given that organizations have enormous social responsibility within their operational contexts and the need to develop the social resources which will result in the creation of sustainable competitive advantage (Elkington, 1999; Cano, Carrillat, & Jaramillo, 2004), social sustainability in this study thematically addresses the social environment of an organization's employees and consumers (Pfeffer, 2010). This aspect specifically deals with how such organizations decide what happens to their employees, customers and other stakeholders and how they manage the resulting impacts proactively. Issues such as improvements in employee retention, customer satisfaction and retention, innovation, enhanced company image and positive corporate performance (Darcy et al., 2014) are common strategic issues that need to be managed well and consistently. Generally, employees are the most valuable asset of organizations; not only do they determine the formulation and implementation of corporate strategy, they also embody the corporate social values of the organization (Korschun, Bhattacharya, & Swain, 2014). Likewise, customers are key to the success of organizations when their needs are served through quality services. They also have the power to reject any service providers for not meeting their expected standards (Ferrell, 2004; Székely & Knirsch, 2005).

These separate themes will facilitate the relevant needs of SMEs to proceed beyond the traditional scope of competitive advantage to take on the changes of their external and also

internal environments (Darcy et al., 2014). This approach could firmly assert their competitive advantage and also improve the prospect of social sustainability and long-term success.

2.2. Social sustainability and SMEs

Sustainability, and even more so, social sustainability, is not widespread among SMEs. For example, only 10% of the GRI Sustainability Disclosure Database comes from SMEs (Kromjong, Rajpal, Thorns, & Verkouw, 2016). At the same time, sustainability adoption in SMEs occurs on a more general level and less on the social sustainability specific level (Johnson & Schaltegger, 2015). One of the key barriers is the notion that SMEs generally adopt short-term survival strategies as well as the perception of the fewer benefits of social sustainability adoption. However, SMEs often do not realize that social sustainability can be capitalized upon as opportunities to build sustainable competitive advantage. Furthermore, similar to how globalization and the digital age have drastically changed the competitive landscape for many SMEs, in the near future, the adoption of social sustainability may no longer be optional for SMEs.

Given the importance of social sustainability objectives for SMEs, studies that take the unique characteristics and the operational context of these entities into account are imperative (Appiah-Adu & Singh, 1998; Radas & Božić, 2009). The assumption that SMEs are not merely scaled-down types of a large organization has been long disputed in the literature (Hill et al., 2002).

Using the perspective of RBV, competitive advantage can be generated for SMEs through social sustainability (Ojo, Mbohwa, & Akinlabi, 2015). RBV concentrates on building the resources or capabilities of organizations in ways that are hard to imitate, subsequently forming the foundations for durable sustainable competitive advantage. The application of the theory is

fairly intuitive, as the theory shares certain terminologies with other common sustainability research, such as “resources” and “sustainable”, (Connelly, Jr, & Slater, 2011). According to Lozano et al. (2015), RBV provides a unique framework for explaining how internal resources result in positive organizational changes when social issues are taken into consideration. Therefore, the RBV theory facilitates the focus on the social dimensions in managing and developing such resources.

Recent evidence suggests that growing numbers of SMEs are now engaging in some social sustainability initiatives (Del Giudice et al., 2017; Johnson & Schaltegger, 2015). These approaches can revolve around attracting, retaining, and motivating human capital or resources comprising employees, society, supply chain, and peer SMEs (Del Giudice et al., 2017). SMEs should also be more inclined to perform activities in a unique way to create and communicate their values to customers, as a pathway to gain a competitive advantage in the marketplace (Clark, Toms, & Green, 2014). Ojo et al. (2015) noted that the impact on a company’s image and brand is the principal benefit of addressing sustainability. This, in turn, indicates the potential of sustainability in bringing about new sources of competitive advantage.

2.3. Service customer orientation & SMEs

From the RBV perspective, sustainability initiatives that reside at the intersection of social concerns and market opportunities have the greatest chance of success (Connelly et al., 2011). Service customer orientation, presented as a driver of social sustainability in this study, introduces the ability to scan for market opportunities. SCO refers to the service provider’s capability, and long-term dedication to recognizing both customers’ expressed and latent or future needs, as well as innovating solutions that deliver superior value to them. The development of this capability will address SMEs’ lack of expertise in attending to customer

needs sustainably. Research shows that the adoption of SCO can be an effective strategy to achieve a sustainable competitive advantage for small and medium organizations (Appiah-Adu & Singh, 1998).

SCO is specific to the service sector. This is because the context of SMEs in many economies is highly concentrated in the services sector. In Malaysia for example, services account for a total of 89.2% of business establishments, warranting the need to conduct research within the service sector. Johnson and Schaltegger (2015) also noted the importance of considering the heterogeneity of SMEs (i.e., sector-specific) when designing strategy-sustainability studies.

SCO, which is rooted in the customer and market orientation studies is identified as an organizational culture that serves as the basis for developing a competitive advantage within the marketplace (Narver & Slater, 1990). As an organizational culture, it is also capable of instilling sustainability into the organization's operations (Clark et al., 2014). Deshpandé, Farley, & Webster Jr (1993) define customer orientation as the beliefs which prioritize the customer's interest first, but without excluding the interest of all other stakeholders, i.e., owners and employees in creating long-term profitability. Bharadwaj et al. (1993) stress the importance of obtaining more profound insights into customer orientation, seeing it as a significant component in the service-centric view. The concept is crucial in a service organization, due to the constant exchange between customers and the service organizations and how it enables customers to perceive relevant organizations as offering greater value in the service provided.

By connecting with external stakeholders or customers, in this case, the SMEs get to tap into the 'voice of the environment' in the pursuit of their sustainability strategies (Hart & Dowell, 2011). The customers are a critical source of knowledge of various social identities and also representations of multiple viewpoints of different stakeholders, such as community members, employees and citizens of the world with a long-term stake in the planet's future (Homburg, Wieseke, & Hoyer, 2009; Smith, Drumwright, & Gentile, 2010). Accessing this information

through SCO, the small and medium-sized service provider can retrieve knowledge related to the customer's current and future needs that not only encompasses individual economic demands but the social and environmental demands too.

Therefore, the orientation towards customers as the external stakeholders has a substantial influence on organizational social sustainability (Gelhard & von Delft, 2016). Through the provision of valuable insights into the external environment, SCO is an essential framework for achieving competitive advantage, which develops from satisfying sustainability-related demands performance (Ibid.). In the current environment where organizations can easily imitate a competitor's service or process, one of the fields where they can still stay competitive is through the capabilities they build. This is because capabilities are not easily replicated or imitated. At the same time, SCO as a capability is unlike physical resources that need massive up-front investment, allowing SMEs which do not have vast capital to still be able to develop it (Cherry, 2014).

Thus, the current study conceives SCO as a potential framework through which SMEs can achieve sustainable competitive advantage. The schemes which interplay between the SCO and the social sustainability approaches may prove to be a complex model of sustainability.

2.4. Hypotheses Development

2.4.1. Service customer orientation and employee outcomes

The employee outcomes pertaining to their welfare can reveal the social sustainability impact of an organization. On a macro level, organizations also contribute to the improvement of society through job creation. Social programs will never be able to compete with the business sector when it comes to jobs, innovation and wealth creation which in turn improve standards of living and social conditions over time. Organizations that implement successful sustainable

programs view it as a strategic business ideal and not a mere regulatory issue. These organizations integrate social sustainability into their core strategy to consider employees as critical stakeholders. Internally, in the organization itself, social sustainability practices can increase employee morale by 55%, increase productivity by 16% and reduce average turnover and save replacement costs (Whelan & Fink, 2016).

Research on the outcomes of SCO or the employee's inclination to fulfill customer needs reveals that SCO strengthens employees' job engagement or performance, decreases job burnout and increases employee retention rates (Babakus, Yavas, & Ashill, 2009; Lee, Ok, & Hwang, 2016; Zablah, Franke, Brown, & Bartholomew, 2012). Another study which views SCO as a psychological resource instead of capabilities states that SCO leads to desirable employee outcomes, as it assists in shaping their perceptions and attitudes toward their jobs (Wu, Shie, & Gordon, 2017). Their service minds fuel the enjoyment feelings that they obtain from serving customers, solving their problems and meeting their demands (Schlosser & McNaughton, 2009). Customer-oriented employees are adept at managing customer requests and dealing with problems quickly. Pleased with their work, these employees often have lower turnover intentions (Babakus et al., 2009). Turnover intention is a strong predictor of employee retention (Wu et al., 2017). In light of this discussion, we hypothesize that:

H1. Service customer orientation is positively associated with employee outcome.

2.4.2. Service customer orientation and customer outcome

Being customer oriented in service organizations means listening closely to customers' voices. One of the major deficiencies of current organizational sustainability strategies is that they do not focus on the customers directly – the marketing function can successfully implement the customer-centric approach to sustainability (Sheth, Sethia, & Srinivas, 2011). In general, social

sustainability initiatives pay higher attention to other stakeholders, i.e., regulators, investors, media. Therefore, this situation warrants an intensified emphasis on the customer.

Organizations need to be close to their customers because they are increasingly demanding more in-depth information regarding the services they receive. Social sustainability initiatives should address the customer concerns with enhanced service quality as customers can be very powerful and successful when it comes to banning or boycotting certain services (Székely & Knirsch, 2005). At the same time, customers are vital-partners because they embody multiple stakeholder identities (Homburg et al., 2009; Smith et al., 2010) and therefore their interests intertwine with many other stakeholders' interests too. Thus, customer satisfaction and retention are important outcomes in the social sustainability agenda.

Aside from building competitive advantages, from a capability standpoint, one of the main benefits of SCO is its ability to generate customer satisfaction and a loyal customer base. In this way, organizations direct their resources to take care of the evolving customer needs and provide a superior solution to their customers. Therefore, in this study, we hypothesize that:

H2. Service customer orientation is positively associated with customer outcome.

2.4.3. Service customer orientation and organizational outcome

Organizational outcome refers to the competitiveness of SMEs. In this regard, organizations adopt sustainability initiatives in the hope of building a sustainable organizational competitive advantage. Some beneficial aspects of organizational competitiveness are innovation success, a positive impact on company image or reputation, and a stronger competitive advantage (Tajeddini, 2011).

From the RBV perspective, capabilities may eventually trigger sustainable competitive advantage (Barney, 1991) and therefore, sustainable competitiveness, as the organizational

outcome is attainable through SCO. Tajeddini (2011) affirms this by stating that customer orientation is an indispensable resource that is necessary to compete successfully in the global marketplace. This is consistent with Deshpandé et al.'s (1993) view noting that to sustain a competitive advantage, organizations need to place customer orientation at the heart of the organization's strategy.

The literature points out that there is a relationship between SCO and organizational outcome regarding competitive advantage, innovation, and the company's image or reputation. For example, Zhou, Brown, Dev, & Agarwal (2007) find a positive relationship between customer orientation and competitive advantage regarding market and innovation advantage. Several studies find a positive relationship between customer orientation and innovation (Han, Namwoon, & Srivastava, 1998; Wang, Zhao, & Voss, 2016). Tajeddini (2011) identifies the positive effect of customer orientation on the various organizational competitiveness outcomes. Thus, in this study, we hypothesize that:

H3. Service customer orientation is positively associated with organizational outcome.

2.4.4. The mediated relationships

Generally, several studies have portrayed the chain of relationships between strategy, employee outcomes, customer outcomes, and organizational outcomes. This chain of relationship is often represented by different names, including: 'Loyalty-based Cycle of Growth' (Reichheld, Teal, & Smith, 1996), 'Service Profit Chain' (Heskett, Sasser, & Schlesinger, 1997), 'Employee-Customer-Profit Chain' (Rucci, Kirn, & Quinn, 1998) and 'The Extended Service Profit Chain' (Homburg et al., 2009). These studies relate the links between the elements in the chain or cycle in a meaningful manner that can lead to the development of

comprehensive strategies for achieving sustainable competitive advantage (Heskett, Jones, Loveman, Sasser, & Schlesinger, 2008).

Past studies have linked the relationship between SCO and EO (Hennig-Thurau, 2004; Homburg et al., 2009; Hawa, 2015). At the same time, there are also studies which have linked the relationship between EO and CO. Heskett et al. (2008) explain that a critical cost of employee turnover is the decreased customer satisfaction rate (Heskett et al., 2008). Loveman (1998) shows a strong relationship between employee loyalty, customer satisfaction, and customer loyalty. Rucci et al. (1998) also include employee retention and customer retention in their revised model of Employee-Customer-Profit Chain. Hence, we hypothesize that:

H4. Employee outcome mediates the relationship between service customer orientation and customer outcome.

Previous studies have shown a link between customer outcomes and organizational competitiveness outcomes. The whole idea of the sequence of relationships between strategy, employee and customer is ultimately to attain a sustainable competitive advantage. Heskett et al. (2008) state that the most important outcome of loyalty among stakeholders is the referrals they provide. These referrals have an impact on the image or reputation of relevant organizations. Dusek et al. (2014) state that employee turnover influences customer service quality, and this might influence organizations' competitive advantage. Loveman (1998) for instance finds support for all the links in the service profit chain. Similarly, Martensen and Grønholdt (2006) established the link between customer orientation, employee outcome and employee loyalty. In light of this discussion, we hypothesize that:

H5. Employee outcome and customer outcomes mediate the relationship between service customer orientation and customer outcome.

Figure 1 presents the graphical representation of the relationship between the variables.

Figure 1 here.

3. Method

3.1. Sampling

The data for this research was obtained by surveying SME managers from the service industry. The classification of SMEs is in accordance with the guidelines provided by SME Corporation Malaysia – that is organizations with a sales turnover of less than RM20 million or 75 full-time employees. The companies listed in the Media Planning Guide Book 2014, Matrade’s Malaysia Services Directory and relevant industry conferences are the study samples.

3.2. Pre-test

This study employed a self-administered questionnaire as its instrument. The instrument was pre-tested on five academic experts and nine business directors to assess its clarity, organization and relevance. Overall, they provided favorable feedback, and only minor adjustments were made to the survey questions based on the feedback.

3.3 Data collections

To encourage a higher response rate, this study employed a hybrid approach of using both paper-based and online-based surveys. For the paper-based method, the potential respondents received the questionnaire booklet through hand delivery; some booklets were also distributed during relevant conferences. The booklet cover contained the URL address of the internet survey to provide the respondents with the choice of answering the survey online or via the booklet. From the distributed 3421 questionnaires, a total of 400 responses were usable. The

response rate is 11.7%, and this number is consistent with those reported in organizational surveys (Lu & Ramamurthy, 2011; Zhu & Nakata, 2007).

3.4. Measures

Measurements for the SCO construct were adapted Blocker et al. (2011) proactive and responsive customer orientation scale. The construct has a total of six items. The measurement employed a seven-point Likert scale with “1” as “Strongly disagree” and “7” as “Strongly agree”.

The social sustainability indicator in this paper is employee outcome, customer outcomes, and organizational outcomes. The employee outcome measurement was a single item construct, adapted Zablah et al.’s (2012) measurement of employee retention. For customer outcomes, there were two items that measured the level of customer satisfaction (Vorhies & Morgan, 2005) and customer retention (Shin, Lee, Kim, & Rhim, 2015). The measurements for organizational outcomes consist of three items measuring innovation success (Zhang, 2010), contribution to the company’s competitive advantage and providing an impact on the company image/reputation (Tajeddini, 2011). All the measurement items in social sustainability also employed a seven-point Likert scale with “-3” as “Much worst than competitors” and “+3” as “Much better than competitor”.

3.5. Data analysis

The common method bias was tested by using Harman’s one-factor test (Malhotra, Kim, & Patil, 2006) via SPSS. The first factor captured 37.6% of the variance in the data, therefore, suggesting that common method bias is not an issue.

The descriptive statistics analysis provided the profile of the responded SMEs. The research model testing used SmartPLS. The bootstrapping method used 5000 resamples to test the significance of the path coefficients (Hair et al., 2014). This study follows the current practice on mediation testing suggested by Hair, Hult, Ringle and Sarstedt (2017) and Zhao, Lynch Jr., & Chen (2010).

4. Results

4.1. Survey sample properties

Table 2 presents the descriptive statistics of the SMEs. There is a higher percentage of small and micro organizations (56.0%) compared to medium organizations (44.0%). The majority (58.2%) of the organizations have been in operations for more than 10 years. Finally, the key informants are individuals at the managerial level, with 54.4% in senior management and the remainders are specialist or from the middle management.

Table 2 here.

4.2. Measurement model

Table 3 presents the measurement's loadings, average variance extracted (AVE), and composite reliability (CR) to determine the convergent validity. All the loadings except SCO2 and SCO4 are higher than 0.7. SCO2 and SCO4 loading values are between 0.4 and 0.7, and hence the measurements are retained. The AVE and CR for SCO are above the threshold of 0.5 and 0.7 respectively (Hair et al., 2017). The AVE and CR for the EO, CO and OO are also above the required threshold criteria.

Table 4 confirms the discriminant validity of the variables used in this study using both the Fornell-Larcker criterion and HTMT ratio (Henseler, Ringle, & Sarstedt, 2015). The Fornell-Larcker results show that the square root of the AVE was higher than the parallel columns and rows. The HTMT results too were all below the conservative threshold value of 0.85. Also, the bootstrapping procedure ensures that the HTMT values are significantly different from 1 (Hair et al., 2017). The results confirm that none of the confidence intervals includes the value of 1, and hence, establishing that the discriminant validity.

Table 3 here.

Table 4 here.

4.3. Structural model evaluation

Upon confirming the construct measures as reliable and valid, we proceeded to evaluate the structural model results. The assessment of structural model uses the coefficient of determination (R^2), beta (β) and t-values, and is obtained via the bootstrapping procedure, effect sizes (f^2) and predictive relevance (Q^2). Table 5 presents these results.

The R^2 value is above 0.35 (Cohen, 1988) for CO and OO indicating that it is a substantial model. However, it is below the threshold value for EO, signifying the need for caution in the interpretation of the model for EO. Figure 2 displays the path model with the R^2 value. The effect size (f^2), which indicate the evaluation of the change in R^2 to the relevance of the independent variable in explaining the dependent variable. The effect size of predictor SCO; on EO was 0.052, CO was 0.060 and OO was 0.049, implying that the effect size was small (Chin, 2010). The Q^2 values were above zero for all the endogenous variables, indicating the model's predictive relevance.

The standardized root means square residual (SRMR) was also examined to assess the model fit in PLS-SEM (Henseler, Hubona, & Ray, 2016). The SRMR value for this paper's research model is 0.070, indicating a good model fit.

4.4. Hypotheses testing

Figure 2 and Table 6 display the findings of the hypotheses testing. The results from the PLS-SEM analysis show that service customer orientation (SCO) has a significant positive effect on employee outcome (EO) ($\beta = .222, p < .01$), thereby supporting H1. There is also a significant positive effect of service customer orientation on customer outcome (CO) ($\beta = .192, p < .01$) and organizational outcome (OO) ($\beta = .175, p < .01$), supporting hypotheses H2 and H3.

Regarding the mediating effects of employee outcomes (EO), the results found that there was a presence of both the direct effect ($\beta = .192, p < .01$) and indirect effect ($\beta = .127, p < .01$) of service customer orientation (SCO) towards customer outcomes (CO). Therefore, this supports H4 with employee outcome (EO) partially mediate this relationship.

As for the mediating effect of employee outcome (EO) and customer outcomes (CO) towards organizational outcome (OO), the results also found the presence of the direct effect ($\beta = .175, p < .01$) and indirect effect ($\beta = .188, p < .01$) of the mediators in the relationship. Therefore, H5 is supported.

Table 5 here.

Table 6 here.

Figure 2 here.

5. Discussion and conclusion

5.1. Theoretical implications

This study contributes to theory in several ways. It focuses on the importance of using ‘social’ frameworks to predict organizational sustainability besides the three dimensions that are used to measure sustainability, namely: social, economic and environmental dimensions. This innovative approach is taken as several past studies show ambiguity in the results from the three dimensions. Moreover, the importance of investigating the social dimension is recognized (Starik and Rands, 1995) and has started to generate academic interests (e.g., Pfeffer, 2010, Darcy et al., 2014). The effort also could be used to enhance the understanding of relevant scholars and practitioners on how to achieve organizational sustainability.

Furthermore, this study examines social sustainability as a multidimensional construct. Arguably, no prior literature has empirically measured social sustainability as a multidimensional construct in the strategy-social sustainability relationship; this study fills an important gap by studying social sustainability as a complex construct of three indicators, namely: employee outcome, customer outcome, and organizational outcome. Also, this study found significant relationships between: SCO and employee outcome; SCO and customer outcomes; SCO and organizational outcome; and finally the partial mediation of employee and customer outcome in the relationship between SCO to customer and organizational outcomes. The issues are discussed in more detail below.

Consistent with past studies, the relationship between SCO and employee outcome is significant in this study (Babakus et al., 2009; Brown et al., 2002; Lee et al., 2016; Zablah et al., 2012). According to Heskett et al. (2008), what service employees value most about their job is the ability to make a difference in their customers and the benefit of providing them with

lasting results. Therefore, the ability to meet customer needs via SCO leads to higher retention rates among SMEs service employees.

Second, this study finds that acknowledging customers as vital partners lead to more significant positive relationships between SCO and customer outcomes. Prior studies which demonstrated how customer orientation produces satisfied and loyal customers (Hennig-Thurau, 2004; Homburg et al., 2009; Hawa, 2015) support this result.

Third, the significant relationship between SCO and organizational outcome also matches the results studied by Han et al. (1998), Tajeddini (2011), Wang et al. (2016) and Zhou et al. (2007). Interestingly, the study by Wang et al. (2016) found that the effect of customer orientation on innovation is stronger for service organizations when compared to the manufacturing counterpart. This finding is important as it affirms the practice of SCO among the SMEs in the service sector.

Lastly, in examining the sequence of the link between strategy and the various sustainability indicators, employee outcome partially mediated the relationship between SCO to customer outcomes, and both the employee and customer outcomes partially mediated the relationship between SCO and organizational outcomes. These mediations confirm the importance of the chain effect of the employee-customer relationship in building organizational competitiveness (Heskett et al., 2008). This sequence of relationships have previously shown a mix of empirical results when the end element of the chain is profit (Homburg et al., 2009). In the current study, (which uses social sustainability) the end element of the chain found a significant relationship. Hence, this study stresses the importance of tying strategy planning with sustainability and a longer time horizon. It is crucial that SMEs do not fall into the trap of adopting the approach for short-term survival and profitability, as it can be a key barrier to embracing a long-term approach for sustainable business performance.

5.2 Managerial implication

The findings of this study present several implications for SME managers. Firstly, the emergence of sustainability as a megatrend has made its adoption somewhat inevitable for SMEs (Lubin & Esty, 2010). As opposed to seeing it as an obstacle, our study shows that SMEs can capitalize on social sustainability as opportunities to building sustainable competitive advantage. When social sustainability is viewed as a resource, it can be developed as a strategy which can lead to positive changes for the organization. The resource-based theory has found the positive effect of the possession of resources on business performance both for emerging and developed economies (Degong, Ullah, Khattak, & Anwar, 2018; Golini, Longoni, & Cagliano, 2014). At the same time, resources that are difficult to imitate or substitute by competition, are often developed over time (Lozano et al., 2015). Hence, the adoption of social sustainability as a resource obliges SME managers to change from a short-term focus to a longer term one.

Second, the multidimensional view of social sustainability in this study shows SME managers that the employees, customers and other organizational stakeholders have substantial roles to effectively develop organizational social sustainability. Noteworthy is also the presence of the mediating effect of employee outcome and customer outcome towards organizational outcome which display the chain effect that exists between these social participants. This finding is particularly important for SME managers in emerging economies because the strategy is built upon existing grounds that are already important to SMEs – that is their employees and customers. Thus, it has the potential to alter the perception of the lack of benefits in the adoption of social sustainability (Darcy et al., 2014; von Delft, Thiel, & Leker, 2014).

Third, SME managers are also often challenged to choose tools that help them operationalize sustainability relevant to their particular business and surroundings, such as by being sector specific (Johnson & Schaltegger, 2015). The service customer orientation is a significant component in the service-based organization. With particular reference to SMEs, this study has highlighted the importance of adopting SCO as an organizational culture to reap the benefits of social sustainability. Through SCO, the SMEs get access to the ‘voice of the environment’ via their customers (Hart & Dowell, 2011), as they represent various social identities (Homburg et al., 2009; Smith et al., 2010). Ultimately, the long-term dedication to customers across the organizations through SCO has a significant impact on the competitive advantage of SMEs via the various social sustainability outcomes.

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Appendices

Table 1

Research on the various approach to sustainability

Author	Approach to sustainability			Type of study	Examine the Strategy-Sustainability relationship?	Key findings
	Economic	Environmental	Social			
Elkington (1998)	Yes	Yes	Yes	Conceptual	No	Introduces 'Triple Bottom Line' and proposes a need to balance environmental, social and economical to achieve sustainability
Bansal (2005)	Yes	Yes	Yes	Empirical	Yes	Of the resource-based variables, only international experience was a significant and positive relationship to sustainability.
Székely & Knirsch (2005)	Yes	Yes	Yes	Empirical	No	Sustainability metrics show that the current GRI guideline produces a large discrepancy in what and how the firms measure sustainability performance.
Govindan, Khodaverdi, & Jafarian (2013)	Yes	Yes	Yes	Conceptual	No	Introduce a fuzzy multi-criteria decision method to evaluate sustainability performance
Author	Approach to sustainability			Type of study	Examine the Strategy-Sustainability relationship?	Key findings
	Economic	Environmental	Social			

Lloret (2016)	Are limiting factors of competitiveness			Empirical	Yes	Firms address sustainability restrictions via strategies that seek differentiation and costs' movements as the main drivers (market-based view) and incorporating resource and capability strategies (resource-based view).
Pfeffer (2010)	Yes (Unidimensional)			Conceptual	No	Stresses on the need to broaden the management research dependent variable to include organizational effects on employee health and mortality.
Ehrgott, Reimann, Kaufmann, & Carter (2011)	Yes (Unidimensional)			Empirical	No	Middle-level supply managers strongly influence the firms' socially sustainable supplier selection. The benefits of socially sustainable supplier selection relate to the supplier's capabilities, the buying firm reputation, and the organizational learning in supply management.
Darcy, Hill, McCabe, & McGovern (2014)	Yes (Unidimensional)			Conceptual	Yes	A composite model to the SME and human resource perspectives of organizational sustainability.
Author	Approach to sustainability			Type of study	Examine the Strategy-Sustainability relationship?	Key findings
	Economic	Environmental	Social			

Husgafvel et al. (2015)	Yes (Multidimensional)	Empirical	No	Pilot implementation of social sustainability index at the plant level.
Paillé, Amara, & Halilem (2017)	Yes (Unidimensional)	Empirical	Yes	Highlight the importance of social exchange in promoting social sustainability (measured via eco-helping).
Ajmal, Khan, Hussain, & Helo (2017)	Yes (Multidimensional)	Conceptual	No	Identify social sustainability indicators from societal and corporate perspectives.
Our study	Yes (Multidimensional)	Empirical	Yes	Empirically demonstrates that service customer orientation and the three social sustainability indicators are significant.

Table 2

Profiles of the respondents

Categories	No	Percent
<u>Profile of the SMEs</u>		
<u>Business Size</u>		
Small and Micro (Sales turnover of < RM 3 Million)	224	56.0
Medium (Sales turnover of RM 3 Million – RM 20 Million)	176	44.0
<u>Years in Operations</u>		
Less than 10	164	41.7
11 to 20 years	153	38.9
More than 20 years	76	19.3
<u>No. of Staff in the Business</u>		
1-5	160	40.3
6-10	96	24.2
11-20	71	17.9
21-30	31	7.8
31-40	13	3.3
41-50	12	3.0
>50	14	3.5
<u>International Affiliation</u>		
Yes	201	50.6
No	196	49.4
<u>Profile of Key Informant</u>		
<u>Position</u>		
Senior Management	217	54.4
Middle Management	166	41.6
Specialist	22	4.0

Table 3

Convergent validity of the measurement model

Construct	Item	Loadings	AVE ^a	CR ^b
Service Customer Orientation	SCO1	0.728	0.507	0.837
	SCO2	0.690		
	SCO3	0.731		
	SCO4	0.688		
	SCO6	0.723		
Employee Outcome	EO1	1.000	1.000	1.000
Customer Outcomes	CO1	0.904	0.818	0.900
	CO2	0.905		
Organizational Outcomes	OO1	0.841	0.752	0.901
	OO2	0.888		
	OO3	0.871		

Note: SCO5 was deleted due to low loading.

^aAVE = (summation of squared factor loadings)/(summation of squared factor loadings + summation of error variances)

^bComposite reliability = (square of the summation of the factor loadings) / [(square of the summation of the factor loadings) + (square of the summation of the error variances)]

Table 4

Discriminant validity of the measurement model

Fornell-Larcker Criterion					Heterotrait–monotrait ratio (HTMT)				
	CO	EO	OO	SCO		CO	EO	OO	SCO
CO	0.905				CO				
EO	0.614	1.000			EO	0.697			
OO	0.636	0.471	0.867		OO	0.788	0.516		
SCO	0.319	0.222	0.363	0.712	SCO	0.408	0.248	0.449	

Notes: CO: Customer Outcomes; EO: Employee Outcomes; OO: Organizational Outcomes; SCO: Service Customer Orientation. Fornell-Larcker Criterion: Bold values on the diagonal are the square roots of AVE, and the off-diagonals values are correlations.

Table 5

Results of the Structural Model Analysis (Hypotheses Testing for Direct Effects)

Relationship	Std Beta	Std Error	t-value	Decision	R ²	f ²	Q ²
H1 SCO→EO	0.222	0.042	4.323**	Supported	0.049	0.052	0.041
SCO→CO	0.192	0.043	4.490**	Supported	0.413	0.060	0.335
SCO→OO	0.175	0.042	4.157**	Supported	0.442	0.049	0.326

H2 $SCO \rightarrow EO \rightarrow CO$

H3 $SCO \rightarrow EO \rightarrow CO \rightarrow OO$

** $p < .01$, * $p < .05$

Table 6

Significance analysis of direct and indirect effects

Relationship	Direct Effect (β)	Boot CI [LL,UL]	Significance (p < 0.05)?	Indirect Effect (β)	Boot CI [LL,UL]	Significance (p < 0.05)?
H4 $SCO \rightarrow EO \rightarrow CO$	0.192	[0.103, 0.272]	Yes	0.127	[0.066, 0.365]	Yes
H5 $SCO \rightarrow EO \rightarrow CO \rightarrow OO$	0.175	[0.095, 0.259]	Yes	0.188	[0.129, 0.246]	Yes

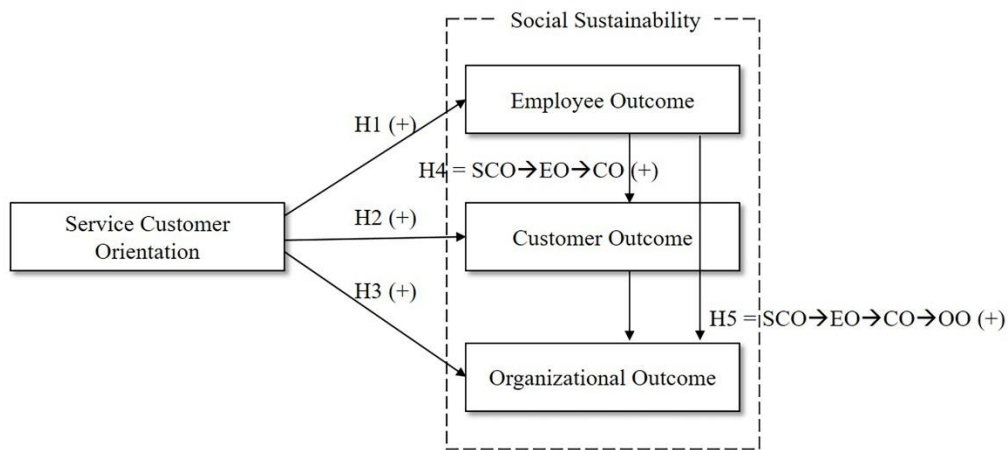


Fig.1. Conceptual framework

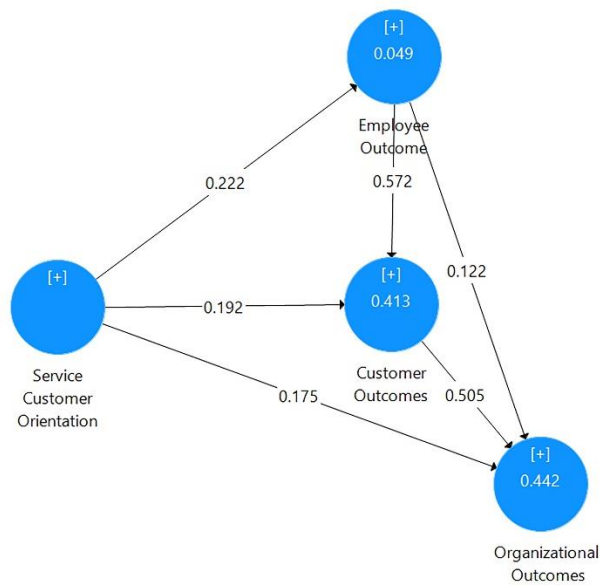


Fig. 2. Path model

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