

BUSINESS STRATEGY AND FIRM PERFORMANCE IN SMES: RECOGNIZING THE ROLE OF THE ENVIRONMENTAL MANAGEMENT PROCESS

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Abstract

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Firm performance (FP) has become a significant challenge for every organization to survive in the markets. The present study investigates the FP directly through business strategy (BS) and environmental management process (EMP) and the mediating role of EMP between BS and FP among small and medium-sized enterprises (SMEs) in Saudi Arabia. The study's conceptual framework is based on vigorous literature, i.e., Ilmudeen and Bao (2020) and Al Daghan et al. (2022). We gathered quantitative cross-sectional data from employees of SMEs in Saudi Arabia. The conclusions of the study are based on 366 valid samples. Employing path analysis using Analysis of Moment Structures (AMOS) version 26.0, the study's results exert a positive and significant impact of BS and EMP on FP. Besides, BS also has a significant positive effect on EMP. Finally, EMP is a significant mediator between BS and FP. The study's findings will assist policymakers and the top management of SMEs in understanding BS and EMP's roles in connecting to FP and developing policies considering these links. Finally, the findings would enrich the fathom of literature providing empirical evidence from SMEs of Saudi Arabia.

Keywords: Business Strategy, Environmental Management Process, Firm Performance, Small and Medium-Sized Enterprises, Organizational Challenges

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1. INTRODUCTION

In the present era, maintaining firm performance (FP) among organizations has become a significant challenge as it is a valuable tool in accomplishing corporate goals required for the organization's endurance based on financial and non-financial performance (Rehman et al., 2019). In this way, the performance of the industries may be enhanced by developing an effective environmental management process (EMP) and business strategy (BS) (Rehman et al., 2019; Tjahjadi et al., 2023). The BS enhances productivity, return on equity, and performance (Richard, 2000) and brings sustainable development among organizations (Lee et al., 2010). Likewise, EMP is a multidisciplinary and multi-faceted initiative that defends nature from destructive business processes (Appannan et al., 2023). EMP also helps to identify the obstacles and grey areas to achieve the organizational goals (Tjahjadi et al., 2023). In the literature, several investigations provided positive links between BS, EMP, and FP (Pereira-Moliner et al., 2012; Al-Surmi et al., 2020; Park, 2023; Rehman et al., 2023; Torrent-Sellens et al., 2023). However, some studies recognized EMP's positive and mediating role between BS and FP (López-Gamero et al., 2009; Arda et al., 2019; Sari et al., 2021).

With regard to the contribution of BS, EMP, and FP in small and medium-sized enterprises (SMEs) has a significant contribution to the gross domestic product (GDP) and economic growth, especially in emerging situations (Elrehail et al., 2018; Bruque & Moyano, 2007). However, in SMEs of Saudi Arabia, the association between BS, EMP, and FP still needs concentration due to its vital role in SMEs (Al Doghan et al., 2022; Alnaim et al., 2022). Based on these gaps, we proposed the research questions:

RQ1: What is the role of BS and EMP in enhancing FP among SMEs in Saudi Arabia?

RQ2: How does EMP mediate the relationship between BS and FP among SMEs in Saudi Arabia?

Building on these research questions, the current study examines the direct impact of business strategy on firm performance within SMEs, both independently and mediated through the EMP. The findings of this investigation reveal a substantial and positive influence of both BS and EMP on FP. Moreover, the relationship between BS and EMP is also positively and significantly correlated. Most notably, the study underscores the pivotal role of EMP as a significant mediator in the relationship between BS and FP. In essence, the results highlight the intricate dynamics at play within SMEs, emphasizing the indispensable contribution of EMP in translating strategic intent into tangible firm performance outcomes.

The study holds significant promise for practical and theoretical contributions to business and environmental management. On a practical level, this research has the potential to provide valuable insights to SMEs regarding the integration of environmental management processes into their business strategies. This study could offer practical guidance for SME decision-makers on how environmentally sustainable practices can reduce costs, enhance their reputation, and contribute to better financial performance. Policymakers can also benefit from this research by gaining a deeper understanding of the environmental challenges

faced by SMEs, allowing them to develop policies that support and incentivize sustainability efforts in these businesses.

From a theoretical perspective, this study could advance several academic fields. This can contribute to understanding how environmental management processes are integrated into the broader business strategies, enhancing the strategic management and environmental management literature. Moreover, much of the existing research in this area predominantly focuses on larger organizations, and this study can offer SME-specific insights into the relationship between environmental management and firm performance, addressing a notable gap in the literature.

The remainder of the study is structured as follows. Section 2 is a literature review and hypotheses development. Section 3 explains the research method. Section 4 presents the results of the study. Section 5 provides a discussion of these results. Section 6 concludes the study.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Business strategy

The BS indicates an organization's actions, decisions, and plans to accomplish its goals and objectives. BS could help recognize the company's needs to fulfil its goals through rational decisions for the hiring process and the allocation of resources (Mansur & Djaelani, 2023; Singharat et al., 2023; Konstantinidis et al., 2022; Mashingaidze et al., 2021). In the long run, this may reduce companies' social and environmental risks (Abdin et al., 2022; Alsayegh et al., 2020). According to Bergeron (2004), successful organizations develop their talent strategy through the routine practice of their strategic planning process and assimilate it into daily operations. Likewise, the BS framework is a sophisticated and well-organized method of strategic thinking that extends a strategic vision throughout all organizational divisions and satisfies fundamental client needs (Cheng, 2013). In the perception of Tjahjadi et al. (2023), BS and spiritual capital positively and significantly affect environmental sustainability performance. This connection is mediated through the EMP.

2.2. Environmental management process

EMP involves identifying the obstacles to achieving these results on a physical, economic, social, cultural, political, and technical level. It is recognized as the most feasible choice for attaining the desired consequences (Tjahjadi et al., 2023). Appannan et al. (2023) claim EMP as a multidisciplinary and multi-faceted practice that protects nature from possibly destructive business processes. It entails putting policies in place to limit the damaging impacts of industrial activity on the environment and to save resources like water and electricity. Performance is improved when internal resources are used by businesses with an emphasis on environmental preservation and sustainable development (Zhou et al., 2020; Yildiz Cankaya & Sezen, 2019). Hence, such resources must be consumed through an effective EMP. This may

reduce companies' social and environmental risks in the long run (Alsayegh et al., 2020). According to Raza (2020), EMP is a significant predictor for tumbling the negative effect of business operations; hence, EMP would be favourable to improve sustainability performance, i.e., environmental, economic and social goals.

2.3. Firm performance

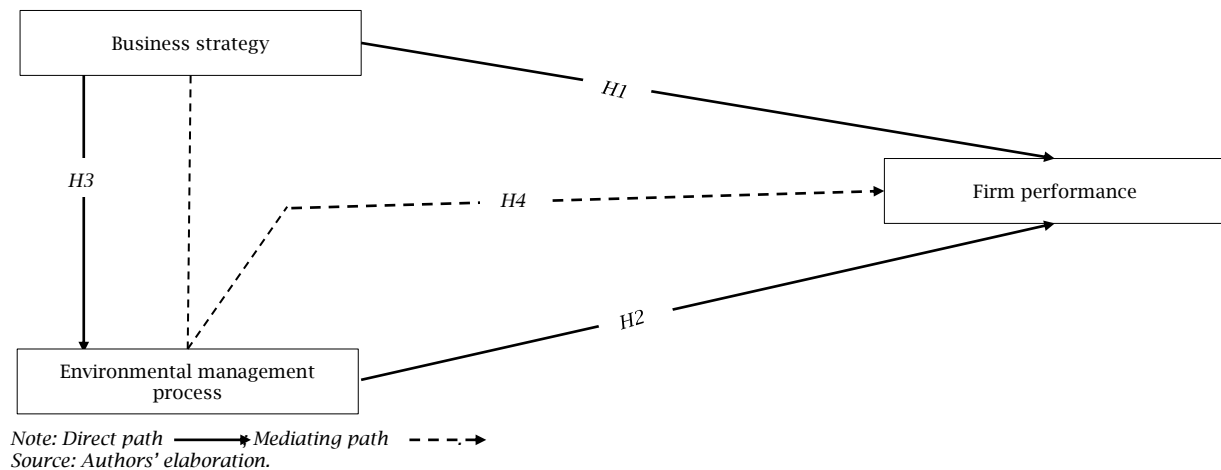
The FP term may embrace organizational performance, the operation of the firm and the outcomes of its processes. Likewise, business performance refers to accomplishing corporate goals required for the organization's survival, comprising financial and non-financial performance (Rehman et al., 2019). Rather than relying solely on pure strategies, firms practice hybrid techniques that blend elements of different approaches to achieve a more flexible and adaptive business model. The firm's size and industry positively affect performance accompanied by strategy (Anwar & Hasnu, 2016). Richard (2000) demonstrates that racial diversity is interrelated with BS in determining FP assessed in three modes: 1) return on equity, 2) productivity, and 3) market performance. The human resource management (HRM) practices positively predict FP and BS. The BS positively and substantially affects FP (Lee et al., 2010). Boulhaga et al. (2023) found that higher environmental, social, and governance ratings are positively linked to FP, with internal controls' quality as a crucial moderating factor. Likewise, FP is positively influenced by corporate philanthropy and overall corporate strategy (Cha et al., 2023). In the perception of Uyar et al. (2023), firm strategy significantly influences corporate social

responsibility (CSR) and, consequently, FP. Likewise, Gerged et al. (2023) emphasized the positive impact of environmental management accounting on FP.

The existing literature reveals several notable gaps that warrant further exploration. Firstly, while some studies have established direct relationships between BS, EMP, and FP, along with individual examinations of BS and EMP (e.g., Pereira-Moliner et al., 2012; Al-Surmi et al., 2020; Park, 2023; Rehman et al., 2023; Torrent-Sellens et al., 2023). However, there is a shortage of research that considers the mediating role of EMP between BS and FP. This mediation perspective can offer a more nuanced understanding of the intricate dynamics. Secondly, previous studies have largely overlooked the potential mediating function of EMP, and this research aims to address this gap by exploring the mediation effect. Lastly, these crucial associations and mediating impact have not been extensively studied within the specific context of SMEs in Saudi Arabia, as the cited studies suggest (Al Daghan et al., 2022; Alnaim et al., 2022). Addressing these gaps in the literature is vital for advancing academic knowledge, understanding the intricate relationships between these factors, and providing practical guidance for businesses and policymakers. This research can have far-reaching implications for sustainability, economic growth, and environmental management in the SME sector, especially in a specific context like Saudi Arabia.

Therefore, building on the existing literature and recognizing these gaps, we have developed Figure 1 to validate these relationships among employees of SMEs in Saudi Arabia, contributing to a more comprehensive understanding of the interactions between BS, EMP, and FP in this unique context.

Figure 1. Conceptual model of the study



2.4. Business strategy and firm performance

The BS is the best indicator which enhances the FP (Anwar & Hasnu, 2016). The empirical study of Richard (2000) demonstrates a substantial effect of the predictors, i.e., racial diversity and BS on FP in the banking industry. Likewise, Lee et al. (2010) find a positive connection between HRM practices, BS and FP among managers of steel firms in Taiwan. Al-Surmi et al. (2020) claim a predictive and positive relevance of triadic strategic alignment on FP among

Yemen managers using configuration theory and contingency theory. According to Park (2023), corporate sustainability enhances and strengthens the FP when firms pursue a differentiation strategy. In the Indonesia Stock Exchange (IDX) and shipping companies, enterprise risk management and BS to the competitive advantage and company performance listed on the IDX (Ricardianto et al., 2023). A research and development (R&D) strategy different from the industry's dominant R&D strategy improves performance, while the rest of the industry's

R&D strategy reduces FP (Mavroudi et al., 2023). As a result, BS is the best predictor of FP among organizations, with the fewest findings in SMEs of the Saudi Arabia context. Thus, we suggest:

H1: BS plays a significant and positive role in enhancing FP among SMEs in Saudi Arabia.

2.5. Environmental management process and firm performance

There is a growing trend of conducting research from the perspectives of EMP and FP. Using content analysis, Montabon et al. (2007) find a constructive connection between EMP and performance measures. In the investigation of Claver et al. (2007), a positive significant relationship exists between pioneering proactive strategy and FP. The factors such as environmental management and quality management are the considerable business practices which robustly enhance FP (Molina-Azorín et al., 2009). According to Lundgren and Zhou (2017), EMP significantly affects three dimensions of FP: environmental performance, energy efficiency and productivity.

Similarly, recent contributions to firm environmental policy claim the link between EMP and FP among Spanish manufacturing firms (Martín-de Castro et al., 2016). The business level performance can be enhanced by EMP demonstrated by (Darnall et al., 2008). Wong et al. (2012) underline that process stewardship positively affects performance and that the EMP of suppliers moderates the association between process stewardship and FP. In the same dimension, the seminal work of Yang et al. (2011) and Pereira-Moliner et al. (2012) confirm the vital role of EMP as a mediator in resolving the conflicts between lean manufacturing and environmental performance among manufacturing firms. Among industrial firms in Spain, environmental asset management positively impacts social and economic performance (Torrent-Sellens et al., 2023). Likewise, Yeon et al. (2023) offer mixed associations between EMP and FP with the moderating effect of an outside board of directors.

Consequently, EMP appeared to be a significant analyst of FP in several contexts. To confirm the same connections in the presence of BS, we proposed:

H2: EMP plays a significant and positive role in enhancing FP among SMEs in Saudi Arabia.

2.6. Business strategy and environmental management process

The decisions associated with handling the supply chain and supply chain strategy have great prominence in many organizations' strategies in decision-making (Handfield et al., 2005). The empirical evidence of Kolk and Mauser (2002) demonstrates a significant and positive association among BS, environmental management and performance evaluation systems. Likewise, BS had an affirmative influence on sustainability performance, where EMP fully mediates the effect of BS on sustainability performance (Tjahjadi et al., 2023). According to Appannan et al. (2023), EMP is a mediator between environmental performance, pollution prevention, and clean technology initiatives, but not between environmental performance and process stewardship

techniques. Likewise, the empirical evidence of Rehman et al. (2023) exerts sustainable hotel performance through hotel EMP initiatives with the mediating effect of employees' eco-friendly behaviour. Industry 4.0 (I4.0) related ecosystem adoption has opened up new performance prospects for industrial enterprises. I4.0 can help businesses perform better economically and socially by supporting environmental asset management (Torrent-Sellens et al., 2023).

As a result, based on the positive and significant linkages between BS and EMP, we further proposed their confirmation in Saudi Arabia's SMEs. Thus:

H3: BS plays a significant and positive role in enhancing EMP among SMEs in Saudi Arabia.

2.7. Environmental management process as mediator

The factors such as quality management and EMP systems substantially enhance FP in the hotel industry (Pereira-Moliner et al., 2012). The notion of Sari et al. (2021) adopting environmental management accounting favours the organization's effectiveness. Adopting environmental management accounting promotes businesses to design techniques that enhance organizational performance. Among Turkish firms, the mediating contribution of quality performance and environmental proactivity are assessed through the association between integrated quality, EMP systems, and FP. Simply, EMP mediates the relationship between integrated quality and FP (Arda et al., 2019). According to López-Gamero et al. (2009), the adoption of a proactive EMP, which in turn encourages increasing environmental performance, is influenced by the time and intensity of first expenditures on environmental issues. The EMP is a mediator in developing the connection between the firm's resources and FP. Likewise, factors such as green innovation and firm value are positively connected due to the mediating role of EMP among the companies (Agustia et al., 2019). Likewise, EMP significantly positively affects customer loyalty, customer satisfaction and financial performance. Besides, switching costs significantly negatively moderates the association between EMP and customer loyalty (Feng & Wang, 2016).

Moreover, environmental initiatives significantly benefit businesses' environmental performance, and EMP can moderate this link (Solovida & Latan, 2017). Aslam et al. (2021) demonstrate a meaningful connection between EMP and financial performance and therefore determine whether environmental performance can mediate the EMP-FP nexus. According to Amir and Chaudhry (2019), the mediating impact of EMP is in shaping the association between environmental strategy and FP. The research focuses on environmental strategy to improve the firm performance in Pakistan and to enhance the adoption of environmental management accounting.

Subsequently, the literature meaningfully offers the mediating role of EMP in forming the connection between BS and FP. However, this relationship still disappears, particularly in SMEs in Saudi Arabia.

H4: EMP mediates the relationship between BS and FP among SMEs in Saudi Arabia.

3. RESEARCH METHODOLOGY

3.1. Survey plan and respondents

In the present research, we applied the quantitative survey strategy to achieve the study's objectives. This strategy is valuable and thoroughly forecasts the realities of the universe (Burkholder et al., 2020). We collected the cross-sectional response, which is the best mode to reach suitable data outcomes (Saunders et al., 2007). In the same aspect, various researchers, i.e., as Pereira-Moliner et al. (2012), Solovida and Latan (2017), Amir and Chaudhry (2019), Al-Surmi et al. (2020), Aslam et al. (2021), Ricardianto et al. (2023), Mavroudi et al. (2023), Torrent-Sellens et al. (2023), Yeon et al. (2023), Tjahjadi et al. (2023), and Appannan et al. (2023) applied the same strategy to investigate explore the role of BS and EMP towards FP in the different contexts.

We gathered the data from Saudi Arabian SMEs employees because they make a remarkable contribution to the GDP of numerous nations, particularly developing contexts (Elrehail et al., 2018; Bruque & Moyano, 2007), as well as Saudi Arabia (Al Doghan et al., 2022; Alnaim et al., 2022).

3.2. Sampling techniques and sample size

We used a survey questionnaire as a reliable way to get replies from respondents. Convenience sampling, which is preferable to using the entire population, was used to collect samples, and members, we employed members of the target demographic who satisfied certain practical requirements, such being readily available, close geographically, available at a given time, and eager to participate (Hussain et al., 2013). Convenience sampling's primary goal is to get data from respondents who are readily available to the researcher (Etikan et al., 2016). The researcher goes right to the Saudi SMEs. Emails and online survey forms also get some online responses. The surveys must be completed and returned to the researcher within two weeks. The researcher took into account the quality of care, the distinction between informed consent and intrusions, and its "reasonable availability" (Emanuel et al., 2004). The researcher initially issued/distributed 600 survey forms and 366 valid instances were returned with a response rate of 61%.

3.3. Measurement scales

We measured BS with nine items adopted from renowned scholars like Hussin et al. (2002), Cragg et al. (2002), Chen (2010), and Wu et al. (2015), with a sample item "We constantly strive to improve the efficiency of our production process". Likewise, the EMP factor is assessed with nine items adopted from Hojmosse et al. (2013) and Chen et al. (2012). The content item is "Our organization chooses environmentally friendly suppliers". Finally, we measured FP with three items. These items are adopted from Ilmudeen and Bao (2020). The sample item of the scale is "Our organization's return on

investment is better compared to other organizations in our industry". We gauged all the items of the scale using a five-point Likert scale ranging from "strongly agree" to "strongly disagree".

4. RESULTS

4.1. Demographic profile

As presented in Table 1 below, the demographic profile suggests a mainstream of males (n = 236 or 64.48%) than females (n = 130 or 35.52%). With regard to the respondents' age, we noticed a majority of respondents (n = 168 or 45.90%) as 26-30 years old; n = 112 (30.60%) as 31-35; n = 46 (12.57%) as 21-25; n = 36 (9.84%) as 36 and above; and finally, only n = 4 (1.09%) were less than 20 years old. The education of respondents shows a majority of respondents with a bachelor's degree (n = 188 or 51.37%), n = 96 (26.23%) as master's; n = 74 (20.22%) as below the degree of bachelor's and finally, only n = 8 (2.18%) respondents had a degree of MPhil/PhD. The final demographic indicator highlights that most respondents (n = 188 or 51.37%) had 6-10 years of experience. We noticed n = 90 (24.59%) respondents with 11-15 years; n = 26 (7.10%) and n = 62 (16.94%) with less than 5 years of experience.

Table 1. Demographic profile

Constructs	Category	Frequency	%
Gender	Male	236	64.48
	Female	130	35.52
	Total	366	100.0
Age [years]	Less than 20	4	1.09
	21-25	46	12.57
	26-30	168	45.90
	31-35	112	30.60
	36 and above	36	9.84
	Total	366	100.0
Education	Below Bachelors	74	20.22
	Bachelors	188	51.37
	Masters	96	26.23
	MPhil/PhD	8	2.18
	Total	366	100.0
Experience [years]	Less than 5	62	16.94
	6-10	188	51.37
	11-15	90	24.59
	16 and above	26	7.10
	Total	366	100.0

Source: Authors' calculations.

4.2. Descriptive statistics and correlational analysis

Initially, we observed descriptive statistics for indispensable information of the population using inferential statistical checks (Huebner et al., 2016; Kaur et al., 2018). With regard to the mean, we noticed its values from 3.298 (EMP) to 3.527 (FP), along with values of the scores of standard deviation from 1.038 (EMP) to 1.127 (BS) (Table 2). Besides, we observed the strength of correlations and the normal distribution of the data with support of Pearson's correlation (Table 2). As a consequence, we found all the variables within statistical significance at the 0.05 level (2-tailed) (Patrick et al., 2018).

Table 2. Descriptive statistics and correlational analysis

No.	Variables	Mean	Std. Dev.	1	2	3
1	Business strategy (BS)	3.432	1.127	-		
2	Environmental management process(EMP)	3.298	1.038	0.327**	-	
3	Firm performance (FP)	3.527	1.109	0.421**	0.338**	-

Note: * Correlation is significant at the 0.01 level (2-tailed); ** Correlation is significant at the 0.05 level (2-tailed).

4.3. Measurement model

We used path analysis, a robust multivariate statistical framework and simultaneously the ability to test the direct and complex relationship in the model (McDonald & Ho, 2002). This way, we confirmed the internal constancy among items by conducting factor loadings. In that connection, we found an ideal internal consistency (> 0.70) among all the items ranging from 0.765 (emp6) to 0.888 (fp1) (Hair et al., 2019). On the other hand, three items, i.e., bs4, bs7 and emp5, have not seen acceptable loadings (> 0.70) (Hair et al., 2019); hence

we decided to exclude these undesirable items. Moreover, we evaluated composite reliability to assess the total variance of the actual scores. We found from 0.808 (EMP) to 0.832 (BS), which are above the greater than suggested scores of > 0.70 (Hair et al., 2019). Likewise, > 0.70 values of average variance extracted (AVE) established the assumption of AVE with ranging scores from 0.768 (FP) to 0.822 (BS) which is acceptable (> 0.5) (Hair et al., 2019). Finally, Cronbach's alpha (α) reliability is found with consistent among all the factors ($\alpha = 0.780 = FP$ to $0.862 = BS$) (> 0.70) (Hair et al., 2019). Table 3 below presents a measurement model.

Table 3. Measurement model

Construct	Item code	Loadings	CR	AVE	α
Business strategy (BS)	bs1	0.876	0.832	0.822	0.862
	bs2	0.868			
	bs3	0.854			
	bs9	0.832			
	bs8	0.822			
	bs6	0.811			
Environmental management process (EMP)	bs5	0.800	0.808	0.798	0.859
	emp1	0.877			
	emp2	0.865			
	emp3	0.853			
	emp4	0.844			
	emp9	0.817			
	emp8	0.798			
Firm performance (FP)	emp7	0.788	0.812	0.768	0.780
	emp6	0.765			
	fp1	0.888			
	fp2	0.852			
	fp3	0.833			

4.4. Structural model

We conducted a path analysis to assess the assumed relationships. We noticed a positive significant influence of BS and EMP on FP ($H1 = CR=5.321^{***}$; $H2 = CR=6.091^{***}$; $p < 0.01$). Consequently, $H1$ and $H2$ are accepted. Besides, the exploration confirmed

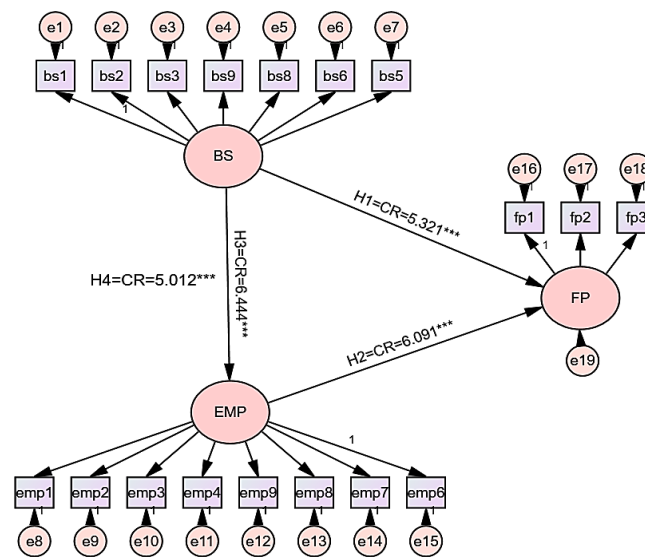
a significant positive effect of BS on EMP ($H3 = CR = 6.444^{***}$; $p < 0.01$), which supported the $H3$. Finally, we found a mediating influence of EMP in shaping the positive association between BS and FP ($H4 = CR = 5.012^{***}$; $p < 0.01$). As a result, $H4$ is also accepted by the data (Table 4).

Table 4. Path estimations

Hypothesis	Paths	Estimate	SE	CR	P	Assessment
$H1$	BS \rightarrow FP	0.253	0.036	5.321	***	Supported
$H2$	EMP \rightarrow FP	0.242	0.059	6.091	***	Supported
$H3$	BS \rightarrow EMP	0.344	0.051	6.444	***	Supported
$H4$	BS \rightarrow EMP \rightarrow FP	0.298	0.053	5.012	***	Supported

Note: SE = standard error; CR = critical ratio; p = significance level; *** $p < 0.05$; BS = business strategy; EMP = environmental management process; FP = firm performance.

Figure 2. Path analysis



Note: CR = critical ratio; p = significance level; $*** p < 0.05$; BS = business strategy; EMP = environmental management process; FP = firm performance.

Source: Authors' elaboration.

5. DISCUSSION

We proposed to investigate the effect of BS on FP directly and indirectly through EMP among the employees of SMEs in Saudi Arabia. The path analysis showed a significant positive influence of BS on FP. These positive results are supported by numerous scholars like Richard (2000), Anwar and Hasnu (2016), Al-Surmi et al. (2020), Park (2023) and Mavroudi et al. (2023), who found a significant positive effect of BS on FP. These findings imply that the workers try to stay one step ahead of their rivals by offering items at lower prices and in a distinctly unique way. They make an effort to launch new items while providing a variety of goods. They work hard to make their production process more efficient. They also try to provide their clients with high-quality services using aggressive marketing strategies. Last, they work to develop and broaden new markets.

Furthermore, the findings demonstrated a positive and significant influence of EMP on FP, which also concurred with prior investigations (Yang et al., 2011; Wong et al., 2012; Martin-de Castro et al., 2016; Torrent-Sellens et al., 2023; Yeon et al., 2023), who claimed a positive analytical power of EMP on FP. The outcomes demonstrate that SMEs of Saudi Arabia choose suppliers and ecologically friendly production methods. Their SMEs deploy innovative, ecologically friendly processes and eco-friendly goods. They examine strategies for environmentally responsible marketing and identify competitors. SMEs follow a procedure for observing environmental sustainability laws and improving the competency of their human resources.

The study confirmed a positive relationship between BS and EMP, which is also reinforced by the literature (Kolk & Mauser, 2002; Handfield et al., 2005; Tjahjadi et al., 2023; Appannan et al., 2023; Rehman et al., 2023; Torrent-Sellens et al., 2023). The positive connection between BS and EMP underlines the employees of SMEs in Saudi Arabia follow the best strategy, which is environmentally friendly with maximum EMP. They introduce new

productions with great innovation keeping in view the environmental impacts.

Finally, the analysis found a mediating influence of EMP in shaping the association between BS and FP. Such results concurred with previous studies like Feng and Wang (2016), Solovida and Latan (2017), Agustia et al. (2019), Amir and Chaudhry (2019), and Aslam et al. (2021), who recognized the mediating contribution of EMP between BS and FP.

The study's outcomes can add to the strategic management field by examining the alignment of environmental strategies with overall business strategies in SMEs, where distinctive challenges and opportunities exist. In summary, this research has the potential to provide valuable guidance for SMEs and make significant theoretical contributions by bridging the gap between environmental management, business strategy, and SME-specific challenges.

6. CONCLUSION

To sum it up, the overall results suggest a significant positive effect of BS and EMP on FP. The relationship between BS and EMP is positive and significant. Finally, EMP is the significant factor which mediates the relationship between BS and FP. The findings show that the organization has a higher return on investment than other businesses in its sector. Compared to other businesses in their industry, their company's return on equity is more heightened. The company's return on assets is also higher than other businesses in the same sector.

The results of this study carry significant implications for businesses aiming to strike a balance between environmental sustainability and firm performance. The findings reveal a clear and positive relationship between BS and EMP with FP. This underscores the importance of incorporating environmentally conscious practices into overall business strategies, as it is evident that such integration can lead to improved financial and operational performance. Moreover, the mediating role of EMP in the relationship between BS and FP is

a key takeaway. This emphasizes that the positive effects of business strategies are channelled through effective environmental management processes, highlighting the crucial role of EMP in achieving desired outcomes. Consequently, organizations should prioritize developing and implementing robust environmental management processes, aligning them with their strategic objectives to maximize the benefits of their sustainability initiatives. In essence, these results guide decision-makers in pursuing more sustainable and performance-driven business practices.

The theoretical contributions of these results are manifold. Firstly, the findings highlight the necessity of integrating traditionally separate domains of management theory, specifically the merging of BS and EMP. This integration challenges the conventional silos within management literature and underscores the interconnected nature of strategic and environmental management. The theoretical framework guiding future research may need to adapt to account for this convergence, promoting a more holistic understanding of how organizations operate in an increasingly environmentally conscious world. Secondly, recognizing EMP as a significant mediator in the BS-FP relationship enriches the theoretical landscape by illuminating the underlying mechanisms that link strategic intent with actual performance. The theoretical models should now consider this mediating facet as they evolve, providing a more comprehensive perspective on the intricate dynamics at play. Lastly, the study's focus on SMEs in Saudi Arabia highlights the importance of contextual factors, accentuating that the relationships between BS, EMP, and FP may vary across diverse organizational types and cultural settings. The theoretical implications extend to the necessity

of accounting for context-specific variables in future theoretical models, further diversifying and enriching the theoretical landscape.

This study, while providing valuable insights, has its limitations. Firstly, it needs a specific theoretical framework to underpin its conceptual foundation, which may limit the depth of theoretical analysis. Second, the research solely employs a quantitative approach, potentially overlooking qualitative nuances and restricting the exploration of the subject matter's intricacies. Besides, the study relies on cross-sectional data collected from a specific demographic — employees of SMEs in Saudi Arabia, which may restrict the generalizability of findings to broader contexts or different populations. Lastly, the study employs convenience sampling with a sample size of 366, which, while pragmatic, may limit the representativeness of the results, warranting caution when applying these findings to the broader SME landscape.

In future research, there is an opportunity to enhance the robustness of studies by anchoring the conceptual framework in established theories, thus offering deeper and more substantiated insights into the models. Extending the scope beyond the SME sector, including education, health, and banking, can provide a broader understanding of how BS and EMP influence employee performance. Additionally, future research should consider longitudinal studies encompassing larger-scale data from diverse units of analysis, including managers, health practitioners, and professors, to provide a more comprehensive and multifaceted examination of the relationships between these factors. This approach would facilitate a more nuanced exploration of the dynamics in different organizational and professional contexts, ultimately enriching our understanding of the subject.

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