



Corporate social responsibility and its effect on innovation and firm performance: An empirical research in SMEs



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ARTICLE INFO

Article history:

Received 27 November 2015

Received in revised form

4 November 2016

Accepted 6 November 2016

Available online 8 November 2016

JEL codes:

Q55

Q56

M14

M19

Keywords:

Corporate social responsibility

Firm performance

Organizational innovation

SMEs

ABSTRACT

The link between CSR and business value has been investigated, but a significant research gap remains when considering the relationship between CSR and innovation. The paper assesses its relationship with organizational innovation and firm performance in a single integrative model by using structural equation modelling on a data set of 552 Spanish firms. Our results supports a partial mediation effect of innovation performance on the relationship between CSR and firm performance, since the effect of CSR on firm performance shrinks upon the addition of innovation performance to the model. The findings may help to understand how CSR is an important driver mechanism for companies to be more innovative, efficient and effective.

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1. Introduction

In recent years, the concepts of corporate sustainability, corporate social responsibility (CSR), corporate social performance and environmental management have received increasing amounts of attention from both academics and practitioners. Given that sustainability practices are key to a company's survival, targeted sustainable actions within a company's strategy are likely to become a source of competitive advantage (Lloret, 2016). Corporate sustainability is achieved at the intersection of economic development, environmental protection and social responsibility (Bansal, 2005; White, 2009). Consequently, managing corporate sustainability is a strategic and profit-driven corporate response to environmental and social issues caused through the organization's activities (Saltzman et al., 2005). Research on corporate sustainability conclude that it is necessary to consider these three dimensions as well as their impact and interrelations. Baumgartner (2014) develops an integrated framework for corporate sustainability

management. The framework consists of different management levels and is supplemented with the classification of management instruments to support planning, implementing, reviewing, and controlling corporate sustainability activities.

Economic sustainability embraces general aspects of an organization that have to be respected in order to remain in the market for long time. These aspects include innovation and technology (see Baumgartner and Ebner, 2010). Social perspective requires that companies act responsibly toward consumers, investors, and the government and responsibly manage internal firm affairs by motivating employees in ways that create value for the company (Eesley and Lenox, 2006; Freeman et al., 2010). Regarding the environmental dimension, protecting the environment and increasing the environmental performance are at the heart of sustainability issues to be considered (Baumgartner, 2014).

Economic, social and environmental constraints are not simply analytical concepts but represent drivers that a firm can use to align the business model to business strategy. CSR is usually associated as approach to integrate social and environmental aspects into corporate activities (Baumgartner, 2014). The academic community has shown that CSR orientation is the key to stimulating long-term stability, growth and sustainable performance in a dynamic and

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changing environment (Luo and Homburg, 2007; Gyves and O'Higgins, 2008; Prado-Lorenzo et al., 2008). Lo (2010) discusses the terms CSR and corporate sustainability, maintaining that both are “voluntary business activities” and that CSR is subsumed under corporate sustainability, providing a transitional stage that a firm undergoes on its way to implementing corporate sustainability. According to Heikkurinen and Bonnedahl (2013), a sustainable development orientation argues that organizations have a responsibility for undertaking strategic responsibility for corporate sustainability.

Another key areas tackled by the sustainable development discourse is the role of innovations in enhancing sustainability (Matos and Silvestre, 2013; Boons et al., 2013). One increasingly important way for firms to contribute to sustainable development are their sustainability-driven innovation practices (Roome, 1994; Paramanathan et al., 2004; Schaltegger, 2011). Sustainability-oriented innovations (SOI) is the integration of social aspects into products, processes, and organizational structures. SOI describes a direction, which to follow requires the deliberate management of economic, social, and ecological aspects (Hansen et al., 2009) so that they become integrated into the design of new products, processes, and organizational structures (Klewitz and Hansen, 2014).

Recently, following the recommendations outlined in the EU document entitled “A renewed EU strategy 2011–2014 for CSR”, the Spanish government has taken a step forward when on October 24, 2014 it approved an important initiative called “Spanish strategy on companies' corporate social responsibility practices 2014–2020” to extend CSR practices not only to listed companies and state-owned business enterprises but also to the rest of companies, including SMEs. One of the main goals of the Spanish Strategy on CSR (2014) is to link CSR with innovation.

Although the evidence seems to suggest that both innovation and CSR should be considered important determinants of a firm's performance indicators, studies empirically addressing their joint effects on performance are limited (Mahmoud and Hinson, 2012; González-Ramos et al., 2014). Hence, this paper proposes and tests a model of the relationship between the three dimensions of sustainability: CSR activities (social and environmental sustainability), innovation performance and firm performance (economic sustainability) in a sample of Spanish small and medium-sized enterprises (SMEs). The purpose of this contribution is to better understand the links that may exist between innovation performance and CSR practices in the context of SMEs and highlight the added value that can benefit business interaction.

Various studies have defined measurement scales considering specific aspects or dimensions of CSR. However, none are found a satisfactory measure of the degree of a firm's orientation to CSR in its entire extent (see Gallardo-Vázquez and Sánchez-Hernández, 2014). In turn, we define a scale to cover the different dimensions of CSR at a specific regional level. Our study is articulated around three main research questions. Firstly, we aim to clarify the relationship between CSR and innovation performance from a firm strategic perspective in the specific context of SMEs. Secondly, we aim to clarify the relationship between CSR practices and firm performance in the specific context of SMEs. Social responsibility seems to have rather an ambiguous and complex impact on firm performance, although no true causality has been proved yet. The lack of consensus might reflect model specification problems, such as omissions of intangible resources. The relationship between CSR and firm performance may be an artefact of not controlling for the effect of R&D on CSR (McWilliams and Siegel, 2000). In this sense, Surroca et al. (2010) demonstrate that intangible resources, including innovation, might be a missing link to explain

relationships between CSR and financial performance. Thirdly, the paper explores if innovation performance mediates the relationship between CSR practices and firm performance in SMEs.

This paper contributes to the literature in a number of ways and differs from prior research on CSR in several aspects. Firstly, it has been noted that research on CSR in SMEs is quite scant and little is known empirically about the level of social responsibility in small firms. The relevant extant literature on the knowledge gap that exists in the CSR-SME relationship is still far from constructing a consolidated and generally accepted model to investigate such relationships, as well as providing a responsible perspective on the management of SMEs (Russo and Perrini, 2010). Secondly, while prior research has often dealt with SOI in large firms, the last decade has begun to generate broad knowledge on the specificities of SOI in SMEs as they are increasingly recognized as central contributors to sustainable development (Klewitz and Hansen, 2014). Finally, the paper try to give empirical support to the Spanish strategy on CSR and innovation for SMEs.

The remainder of the paper is organized as follows: section 2 contains our analytical framework related to CSR practices and their potential link with innovation and performance. Empirical evidence and research hypotheses are analyzed. Section 3 describes the research method (data collection and sample), and the variables and models to test the hypothesis are described. In section 4, the results of the empirical analysis are given. Section 5 summarizes the main findings and consequences and presents the conclusions.

2. Literature review and hypotheses

The European public governance model solidified by the “Europe 2020 Strategy” promotes a type of market economy centered on competition and consumer access as the real source of stimulating economic growth based on innovation. In the EU document entitled “A renewed EU strategy 2011–2014 for CSR” (European Parliament, 2011), the European Commission considers that concerns about CSR have become a constant of its actions and is in the center of the process and their business strategy. In general, it is argued that CSR should be integrated into business management models since it is useful for justifying strategic choices and allows the company to generate valuable intangible strategic assets in order to achieve competitive advantages and a high level of financial performance (McWilliams and Siegel, 2000; Hart and Sharma, 2004; Surroca et al., 2010). The main reason for choosing a sustainability approach is to reduce the negative environmental and social impacts of corporate activities while improving (or at least not reducing) the economic performance of the corporation (Baumgartner and Rauter, 2016).

Although the relationship between CSR and innovation has been analyzed and found to be positive in several papers (e.g., McWilliams and Siegel, 2000; Padgett and Galan, 2010; Wagner, 2010), CSR existing research has not yet clearly shown the nature of the relationship (Surroca et al., 2010). Increasingly, studies explore the link between innovation and CSR highlight the dual direction that innovation and CSR can take (MacGregor et al., 2007; Gallego-Alvarez et al., 2011; Bocquet et al., 2013; González-Ramos et al., 2014). Two trajectories have thus been put forward (Perrine, 2012). First, in some firms a CSR innovation trajectory has been found which is explained by the fact that enterprises are driven primarily by values. These firms take into account the significant impact of their activities on the environment and the community. This does not mean, however, these companies lose sight of profit. On the other hand, the innovation CSR trajectory is present in enterprises conducted mainly by the creation of value. It appears the relationship between CSR and innovation is most marked in en-

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