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Is CSR the panacea for SMEs? A study of socially responsible SMEs during economic crisis

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1. Introduction

Despite numerous studies related to Corporate Social Responsibility (CSR) within Small-and-Medium Sized Enterprises (SMEs) few studies have considered firm survival and, resilience during economic downturn and the possible link to associated CSR activities. This is an important and overlooked area of study as there are many reports of SME closures during the economic crisis of countries as small firms have limited resources, making them more vulnerable to unexpected changes in the environment, and especially financial hardship. In an effort to identify the role of CSR in securing financial stability during times of crises, our research focuses on SMEs who are already committed to engaging successfully with CSR practices. The study utilizes the context of Greece for the study during the economic downturn in Europe (2010–2015); an exemplar region to study due to the reliance on SMEs for the country’s economic survival.

In an effort to legitimize expenditure on corporate social responsibility (CSR) actions in the face of criticism, CSR advocates have always tried to link positive financial performance to CSR investment (Schreck, 2011; Apospori, Zografos, & Magrizos, 2012). For example, a number of researchers have argued that CSR can lead to cost reductions (Berman, Wicks, Kotha, & Jones, 1999) or influence employee recruitment, retention and motivation (Aguilera, Rupp, Williams, & Ganapathi, 2007) and enhance a firm’s image and reputation while differentiating it to increase customer loyalty (Pivato, Misani, & Tencati, 2008). Although numerous studies report that a firm’s CSR actions may positively affect its competitiveness, results do not consistently provide evidence for a universal link between CSR and financial performance. This study investigates SMEs who actively participate in CSR activities in a south-eastern European country during the economic crisis of the Eurozone. Data collected reveals that stakeholder salience and proximity moderate the relationship between CSR and financial performance. The context of this study is important as it addresses the paucity of research carried out in countries during economic crisis and sheds light on the positive aspects of CSR practices adopted during crisis.
research specifically exploring SMEs (Hoogendoorn, Guerra, & Zwan, 2015; Soundararajan, Jamali, & Spence, 2017). We assert that leveraging additional benefits from an integrated CSR strategy is crucial for smaller businesses who are incumbent due to the following: limited financial and business resources and a lack of managerial expertise. Informal approaches to business planning and strategy within smaller businesses results in the heterogeneous implementation of CSR (Harness, Ranaweera, Karjaluoito, & Jayawardhena, 2018).

The search for the business case for CSR in SMEs is limited and, despite a few dedicated scholars, there are calls for more empirical papers to address it. Business benefits are hard to demonstrate due to the largely informal nature their responsible practices (Jenkins, 2009; Perrini, Russo, & Tencati, 2007; Santos, 2011; Tencati, Perrini, & Pogutz, 2004). Many SMEs implement CSR “without actually knowing it” (Santos, 2011, p. 499) and many are not even realizing the strategic benefits of their CSR initiatives (Baden, 2010). Results range from a positive (Jenkins, 2006; Luken & Stares, 2005; Mandl & Dorr, 2007) to a neutral link between CSR and business benefits. Longo, Mura, and Bonoli (2005), for example, report no direct link between CSR and SME competitiveness while other researchers assert that the business benefits exist only under certain circumstances: e.g. when CSR is integrated in the strategic orientation of the firm (Tantal, Caroli, and Venenhaven 2012), when it is applied to the primary stakeholders of the firm (Iturrioz, Arágón, Narbaiza, & Ibáñez, 2009) or when it is proactive (Bocquet, Le Bas, Mothe, & Poussing, 2013; Torugsa, O’Donohue, & Hecker, 2012).

This research investigates whether or not CSR leads to improved financial performance in smaller firms and under which conditions this may occur. In doing so, we make our contribution in three ways. First, we add to the limited search for a business case of CSR in SMEs. Scholars observe that the business case for CSR in SMEs is built on misunderstandings (Fassin, 2008), and indeed, have questioned whether a CSR business case, particularly for SMEs, even exists (Stoian & Gilman, 2017). In an effort to resolve this conundrum and address this important gap in research, this paper examines the relationship between social and financial performance specifically in small firms. Second, we position our research in a single country context, Greece. This is important because which at the time of data collection Greece was undergoing a severe financial crisis, which made CSR issues particularly relevant, and secondly, the Greek economy is heavily dependent on the survival of its SMEs. According to the annual report on SMEs by the European Commission, in Greece, SMEs account for more than 99.9% of all Enterprises, employing 85.2% of the country’s human resources and were responsible for 63.6% of the value added. These numbers are significantly higher than the European average (99.8%, 66.4% and 56.8% respectively) making Greece first in the 27 EU countries in terms of both numbers of SMEs and people employed (Muller et al., 2018). Finally, we contribute to stakeholder theory by examining which stakeholders should be prioritized by SMEs during economic crisis.

2. Previous literature and rationale

SMEs are companies where it is difficult to distinguish between management and ownership. The owner-manager is a great source of influence for the values or culture of the company (Jenkins, 2006) and its strategic practice (Carson, 1999). This coincidence of ownership and controls usually means less tension and conflicts between stakeholders (Spence, 1992). Most SME owner-managers are depicted as having a "permanent lack of time and (specialized) knowledge ... occupied with ‘firefighting’ operational problems" (Lepoutre & Heene, 2006, p. 262). Besides time and knowledge constraints, small business managers often face a lack of financial resources (Lepoutre & Heene, 2006; Russo & Perrini, 2010). Studies suggest that SMEs are much more involved with their local communities (Murillo & Lozano, 2006; Russo & Perrini, 2010) compared to large firms that can be national, multinational or even global. This may be partly because employees usually come from neighboring localities meaning that SMEs tend to rely on their community’s health, stability and well-being. The nature of doing business in SMEs is largely personal, often with direct contact between the owners of the business and the customers (Fuller & Tian, 2006). They usually cater to a small customer base with niche markets, and focus on local or regional markets (Sen & Cowley, 2013).

These characteristics make CSR practices within SMEs unique, highlighting the need for research designed specifically for small firms. Only recently have researchers highlighted that CSR is not a prerogative of large firms, with the focus starting to shift towards SMEs; as supply chain members, as recipients of donor funds and support, or as critical pillars of the economy. Still, there is still a “lack of consensus on the managerial tools and opportunities that SMEs should derive from CSR” (Russo & Perrini, 2010, p. 209) and we know relatively little about the impact of CSR on SMEs (Bocquet, Le Bas, Mothe, & Poussing, 2013; Torugsa, O’Donohue, & Hecker, 2012). The search for the business case for CSR in SMEs is limited and, focusing on shareholder value creation (Wagner & Schaltegger, 2004) or when it is proactive (Bocquet, Le Bas, Mothe, & Poussing, 2013; Torugsa, O’Donohue, & Hecker, 2012). The lack of consideration for moderators has been recognized as an explanation for the mixed results of the business case (Wang & Sarkis, 2017; Grewatsch & Kleindienst, 2017). Following these arguments, we do not view CSR as a binary concept that firms either do or do not implement; rather we examine the differential effects of distinct CSR activities on firm competitiveness (Aguilera et al., 2007; Pelazo & Shang, 2011) and report supporting results.

This paper uses the theoretical lens of stakeholder theory to investigate the nature, extent, and impact of the relationship between SME CSR and financial performance. According to this theory, firms have many stakeholders and should take into account the effects of their actions on them (Freeman, 1984; 2018). Stakeholder theory has been characterized as: “inescapable if one wants to discuss and analyze CSR” (Branco and Rodríguez 2006, p. 5) and as a necessity to the body of CSR literature (Matten, Crane, & Chapple, 2003). However, it has mostly been employed to study larger firms. We argue that it is an appropriate lens to examine not only if firms decide to implement CSR but especially how they decide which stakeholders to satisfy.

A firm’s successful stakeholder management in relation to CSR
can lead to better bottom line results (Galbreath, 2018). This success depends on the firm’s ability to create value for its stakeholders (Clarkson, 1995), with the concept of value being addressed through CSR (Galbreath, 2018). From a stakeholder theory perspective, CSR may be viewed in terms of a firm’s ability to meet and satisfy the demands of its stakeholder groups. Avetisyan and Ferrary (2013, p.119) note the similarity between stakeholder theory and CSR: stakeholder theory; “asserts that companies have a social responsibility to consider the interests of all actors affected by their business decisions” and similarly, CSR; “suggests that companies’ responsibilities extend beyond the shareholders to include other stakeholders”. After examining 250 articles on the corporate social/financial performance link, Perrini et al. (2011) suggest focusing on firms’ stakeholders separately could enhance academic search for the business case of CSR.

SMEs may be reluctant to engage in stakeholder management (Klewitz & Hansen, 2014), being characterized as focusing on operational, rather than strategic processes, leading to them to be branded as ‘strategically myopic’ (Mazzarol, 2005), with limited numbers of expert personnel (Sen & Cowley, 2013). On the other hand, strategy scholars (e.g. Fuller & Tian, 2006) suggest that the flexibility, responsiveness, and smaller stakeholder bases of SMEs enable them to become effective in stakeholder management (Torugsa et al., 2013) by engaging in CSR that is more relevant to their primary stakeholders (Lee, Mak, & Pang, 2012). The emphasis on relationships and network studies in SME research adds to the appeal of stakeholder theory as a lens for studying small firms (Tang & Tang, 2016), especially since SMEs rely on strong, direct personal relationships with stakeholders to acquire the resources critical for their survival and sustainable growth (Spence, Schmidpeter, & Habisch, 2003). The setting of the economic crisis is important because if “some, but not all, CSR activities of SMEs [lead to] economic benefits” (Kramer, Pfister, & Lee, 2005, p. 39) it is crucial that SMEs invest their limited resources to the profit maximizing initiatives. Against this background, calls for greater emphasis on which stakeholders are considered relevant for SME CSR (e.g. Russo & Perrini, 2010; Schlierer et al., 2012) remain unanswered and guide our research questions:

RQ1. During economic crisis, does the SMEs’ stakeholder selection and choice (by salience and proximity) affect SME financial performance?
RQ2. Are CSR initiatives beneficial for SME resilience during economic crisis?

3. Hypothesis development

Research indicates that when firms are engaged in CSR activities, they can gain a wide variety of potential benefits including: increased reputation (Jenkins, 2009; Murillo & Lozano, 2006; Santos, 2011); enhanced innovation (Bocquet and Mothe 2011; Hojnik & Ruzzier, 2017); and increased customer satisfaction and loyalty (Jenkins, 2006). Employees of responsible firms are more motivated and productive (Itrurrio et al., 2009) and exhibit more job satisfaction and trust towards their employer (Lee, Kim, Lee and Li, 2012). Literature also suggests that there is a positive link between CSR and supplier attraction, more favourable credit terms and overall a better relationship between the firm and its suppliers (Zhang, Ma, Su, & Zhang, 2014).

Business benefits specifically for SMEs, however, are hard to identify due to the largely informal nature of responsible practices (Jenkins, 2009). Results range from a positive (Niehm, Swinney, & Miller, 2008), neutral (Longo et al., 2005) to a negative (Kramer et al., 2005) link between CSR and business benefits. Barnett and Salomon (2012) found that this link is U-shaped, as firms with low CSR have higher performance than those with moderate CSR, but firms with high CSR have the highest financial performance. This suggests that causal relationships between CSR and performance are still not clear (Margolis, Elfenbein, & Walsh, 2007; Preston & O’Bannon, 1997) leading to a lack of awareness as to whether financial performance is an antecedent condition or an outcome of social performance.

To date, CSR is viewed by the majority of researchers as an aggregate measure of different dimensions such as actions towards the community or the marketplace (Theodoulides et al., 2017). Few scholars have examined the consequences of distinct CSR dimensions empirically, despite arguments that the; “specification of each category as a unique dimension of CSR may provide better insight into CSR research” (Inoue & Lee, 2011, p. 492). When they have, the results have been enlightening. For example, Brammer and Pavelin (2006) found that different types of social performance (e.g. towards the environment or employees) may have varying reputational impacts, whereas Barnett and Salomon (2012) acknowledge that not every individual CSR activity or program in every context always leads to improved financial performance. More recently, Chen et al. (2018) classify CSR as either promotional, philanthropic, or value creating, finding evidence that the latter leads to a more favourable CSR image among consumers. It becomes evident, then, that not all CSR actions maximize profits. A key research question for both academics and practitioners, therefore, is to identify which actions do maximize profits. Against this backdrop, we re-examine the link between CSR and financial performance, by disentangling CSR as one aggregate measure and focusing separately on each of SMEs’ most commonly studied stakeholders, namely employees, customers, suppliers, the environment and, community (Nejati, Quazi, Amran, & Ahmad, 2016), we focused on five stakeholders, namely the environment, the community, and firms’ employees, customers and suppliers. Academic justification for these five stakeholders comes from Giannarakis, Linitas, and Theotokas (2009) who analyze the indicators used by eleven CSR agencies and eleven authors and conclude that these five are the most commonly used stakeholders when assessing CSR performance of firms.

Thus, we argue that:

H1. A) Employee-based; b) customer-based; c) supplier-based; d) environment-based; e) community-based CSR will positively affect SME financial performance.

Stakeholder theory asserts that firms need to identify their primary stakeholders (i.e. those whose ongoing support is crucial to survival; Clarkson, 1995) and satisfy their claims through their CSR efforts. This argument becomes even more critical for SMEs whose CSR actions usually target a smaller spectrum of stakeholders (Shaw, 2012), in contrast to larger firms that implement actions in multiple CSR categories, favoring all primary stakeholders (Meiseberg & Ehrmann, 2012). Cavaco and Crifo (2014) found that investing into one responsible practice to the detriment of others may damage financial performance. Taking into account the stakeholder salience model (Mitchell, Agle, & Wood, 1997), and also literature that debates the universal social-financial performance link and calls for focus of the contingencies of this relationship (Grewatsch & Kleindinst, 2017), we argue that; the profit-maximizing CSR actions are those that focus on satisfying the most important stakeholder’s claims. This argument aligns with Porter & Kramer (2006) suggestion that companies prioritize their relevant social issues and choose those that maximize both social and financial benefits. It further corresponds to resource dependency theory, which proposes that organizations should be; “concerned with, pay more attention to, and deal with sources of critical
resources to ensure continued survival” (Jawahar & McLaughlin, 2001, p. 402). Thus, we hypothesize that companies that align their CSR strategy with the desires of their most important stakeholder will experience a higher increase in their financial performance than those who implement CSR actions in favor of another stakeholder.

Stakeholder salience, or the “degree to which managers give priority to competing stakeholder claims” (Mitchell et al., 1997, p. 854) is affected by how much power stakeholders can exercise over the firm and the degree of legitimacy and urgency of their demands. Power relates to what Froman (1999) calls the “strategic” stakeholder—one who can affect the firm, while legitimacy focuses on the “moral” stakeholder (Froman, 1999), one who is affected by the firm. The legitimacy perspective argues that a firm’s right to exist is given by society, thus the company’s values must be “congruent” with that of the society (Maggness, 2008). Finally, a stakeholder claim is urgent when it is time sensitive and considered important (critical) to the stakeholder. Eesley and Lenox (2006) argue that there are two different issues to be examined regarding legitimacy. The legitimacy of the stakeholder making the claim, and the legitimacy of the claim itself (regardless by whom it is made). Legitimacy is an important attribute specifically for SMEs’ CSR actions, as they “act responsibly because their legitimacy with immediate stakeholders [...] is at stake in a far more direct and personal way than it is with major corporations” (Fuller & Tian, 2006, p. 295).

Thus, Fuller and Tian (2006, p. 857) define urgency as “degree to which stakeholders claims call for immediate attention”. These authors provide examples of when an issue can be characterized as urgent: ownership—the stakeholder’s possession of firm-specific assets; sentiment—as in the case of stock that is held by genera-
tions within a family; expectation—the stakeholder’s anticipation that the firm will continue providing it with something of great value (e.g., compensation in the case of employees) and exposure, the importance the stakeholder attaches to that which is at risk in the relationship with the firm (Mitchell et al., 1997, p. 857). Having defined stakeholder salience as the cumulative attributes of that stakeholder’s power, urgency and legitimacy, our basic premise can be advanced into hypothesis two:

H2. The effect of a) employee-based; b) customer-based; c) supplier salience; d) environment-based; e) community-based CSR actions on company performance will be positively moderated by the respective stakeholders’ salience, as measured by their aggregate power, legitimacy, and urgency.

Driscoll and Starik (2004) propose proximity as a criterion for evaluating stakeholders. Inkpen and Tsang (2005:156) argue that proximity “helps the formation of network ties and facilitates interfirm and especially interpersonal interactions through which knowledge is exchanged”. Proximity is critical for SMEs because, “issues closer to home are far more likely to hold their attention” (Jenkins, 2006, p. 243). Consequently, their CSR strategy often focuses on internal dimensions of CSR that benefit employees and their community (Perrini 2006). For many SMEs, physical proximity translates to moral proximity (Spence, 2007). Campin, Barraket, and Luke (2013) explore CSR actions of micro firms, and find geographical proximity and personal connectivity to people in the local area to be important motives for and intensifiers of socially responsible firm behaviour. Similarly, Courrent and Gundolf’s (2009) research on 125 French micro-enterprises concludes that social and inter-organisational proximity influence the role of ethics in managerial decisions (but fail to show similar effect for the geographical proximity). It is argued, therefore, that proximity can be a useful addition in developing a framework for measuring SME stakeholder salience. It has only recently been proposed that proximity should be taken into account as a stakeholder attribute for SMEs (Lähdesmäki, Siltaoj, & Spence, 2017). Arguably, SMEs that focus their CSR practices on stakeholders that are morally and spatially close, will gain more business benefits than those whose focus is further away. We therefore argue that:

H3. The effect of a) employee-based; b) customer-based; c) supplier-based; d) environment-based; e) community-based CSR actions on company performance will be positively moderated by the respective stakeholders’ perceived proximity

4. Methodology

4.1. Study context

As discussed earlier, much of CSR research has little fundamental knowledge of SME behavior and is based on a common assumption that SMEs are simply smaller versions of their larger counterparts (Jenkins, 2006; Tilley, 2006). Our research premise is that CSR practices, tools and benefits cannot simply be scaled down to fit SMEs. In addressing the problematic issues raised earlier by SME scholars in the CSR domain we carried out an initial viability study prior to determining the research hypothesis and choice of constructs. This is explained in further detail in the hypothesis validation section (3.2).

The survey data collection involved 140 SMEs in two points in time. The country context of Greece is helpful in responding to calls for greater focus on contextual factors in SME CSR (Soundararajan et al., 2017) and non-US data (Grewatsch & Kleindienst, 2017). There is growing evidence suggesting that CSR is culture-bound and that the institutional environment and socio-economic development of a given country will influence CSR outcomes (Azmat, 2010). At the time of the data collection, Greece was in the midst of a financial crisis, making CSR efforts particularly relevant (Iatridis & Kesidou, 2018). We focus our study in Greece, a country that came in the centre of the Eurozone debt crisis and due to an increasing trade deficit and a sharp deterioration of its finances requested financial support by the euro-area and the International Monetary Fund. As a result, it was required that Greece underwent major structural reform and cuts in public spending, making the implications of the crisis far deeper than in any other European country (Palamida, Papagiannidis, Xanthopoulou, & Stamati, 2015). The sheer size of the fiscal reforms introduced huge uncertainty in the market and froze all long-term investments causing significant pressure on firms operating in Greece (Glavopoulos, Bemis, Georgakellos, & Sfianakis, 2014). A final reason that Greece requires special consideration in the context of this paper is that it has one of the highest proportions of SMEs in Europe (Muller, 2018).

Few studies have explored firms CSR efforts during times of economic crisis and when they have, the focus was always large, publicly held firms. It is expected that expenditures for CSR will lower during an economic downturn (Bouslah, Kryzanowski, & M2zali, 2018) as economic demands will take precedence over social demands. On the other hand, firms may face a dilemma: should they restrict CSR to minimize costs, or keep investing in CSR to differentiate effectively (Branca, Pina, & Catalao-Lopes, 2012). Perhaps counterintuitively, limited evidence suggests that firms may choose the latter. Arevalo and Aravind (2010) found that some companies increased their CSR efforts during an economic crisis as it was “cause for embracing, not rejecting, socially responsible practices”. Giannarakis, Litinas and Thetokas (2009) studied 112 firms’ social performance before and after a crisis, and find that social performance actually increased, in order to gain lost trust in business. Charitoudi, Giannarakis, & Lazarides, 2011 also find that CSR performance increased during the economic crisis, perhaps as
firms expected to differentiate themselves from other companies seeing CSR as an opportunity to increase financial performance when traditional business approaches do not work. All of the above studies focus on large companies and how SMEs respond during an economic crisis remains unknown.

4.2. Development of SME relevant constructs

In developing suitable constructs to support the research hypotheses we utilized relevant aspects of an earlier exploratory SME study. Semi-structured interviews with ‘key informants’ from a purposive sample (Shaw, 1999; Jones and Rowley, 2013) of ten SMEs active in CSR activities allowed for investigation and analysis of the CSR phenomenon. These participants were also included in the larger survey sample. CSR-related material from participating firms’ websites provided a background to the research context (Hunoldt, Oertel, & Galander, 2018). Research participants were selected from each sample firm according to their seniority and influence in the development of the firm’s CSR strategy. Data collection included interviews with CEOs/SME entrepreneurs or employees who could offer real-time accounts and retrospective views on the selection and implementation of CSR initiatives (Gioia, Corley, & Hamilton, 2013). Coded data was compared to existing scales and measures for CSR developed for use in large firm studies and as no studies have been found to utilize adapted scales or measures in respect of SMEs, the researchers looked at the suitability of these measures. Of particular relevance were the exploratory findings for hypothesis 3. In the SME context the exploratory inductive evidence highlighted the importance of proximity for SMEs. Proximity to stakeholders affected which felt more important (“With our suppliers, or the customers, that’s a business relationship. But these people [employees] are the ones we interact with every day; it doesn’t feel like CSR, it’s just the obvious choice”) and proximity to the cause played a role in deciding on which action to implement (“Of course issues that are closer to us feel more important. It shouldn’t make a difference if you save a tree/help a child in Athens or in Paris, but it does”). Questions relating to proximity were adapted from current literature so as to reflect CSR operations in the SMEs and so that the data captured was representative of the phenomenon, this being a financially constrained context of the Greek economic downturn and in the context of SME firms who usually exhibit a focus on CSR activities.

4.3. Sample, data collection, controls and measures

We developed the survey instrument in two stages. A pilot survey was circulated to 10 SME managers/owners and minor changes were made to remove any ambiguity or unfamiliar terms (Arend, 2014). In the second stage, the final questionnaire was sent via an online platform to all Greek SME that performed and communicated CSR efforts and so that the data captured was representative of the SMEs active in CSR activities. From the 344 SMEs, 140 returned a completed questionnaire. There was no sampling strategy as the entire population of SMEs that actively communicated their CSR operations in Greece is estimated to be around 100,000. This support greatly assisted in getting high participation rates. We also contacted all companies that had participated in CSR awards or had ever advertised their CSR efforts via ads, press releases or dedicated tabs in their websites. Naturally, there must exist countless other SMEs that are less active in communicating their CSR efforts but as our main focus was to compare different CSR strategies rather than explore the range of CSR implementation in SMEs, this sampling strategy was deemed appropriate.

A t-test between early and late respondents (Armstrong & Overton, 1977) showed no statistically significant differences, suggesting that non-response bias was unlikely to be a problem. The independent variables were mean-centered to account for potential multicollinearity, as evidenced by the high variance inflation factor scores in some of the independent variables (Cohen, Cohen, West, & Aiken, 2013).

To measure stakeholder salience (the cumulative sum of stakeholder power, urgency and legitimacy), we used Agle, Mitchell and Sonnenfeld’s (1999) scale. We measured proximity based on Courrent and Gundolf (2009) work and pretested the scale in a pre-survey qualitative phase with 12 SMEs. The exploratory qualitative phase was crucial in uncovering the importance of power, urgency and legitimacy of various stakeholders’ demands and it also highlighted which stakeholders are most influential for SMEs’ CSR. Based on these discussions, we focused on five of the most commonly cited stakeholders for SMEs, i.e. employees, customers, supplier, community and the environment. We measured CSR performance based on Turker’s (2009) scale, slightly adapted to include suppliers, a more relevant stakeholder for SMEs compared to Turker’s original suggestion for government. Seven-point scales were used throughout, anchored by strongly disagree/strongly agree. All scales were found to be internally consistent (Cronbach’s α >0.7) and uni-dimensional (all factor loadings > 0.7) with the exception of some reverse-coded questions that were excluded for the rest of the analysis. As extensive evidence suggests a high correlation and concurrent validity between objective and subjective data on company performance (Dess & Robinson, 1984), and as SMEs are unknowing or reluctant to provide specific information about performance (Wolff & Pett, 2006), we used the SME managers’ assessment of performance indicators compared to their competitors of a similar size and region, consistent with the approach used in large (Wiklund & Shepherd, 2005) and small firms (Runyan, Droge, & Swinnen, 2008). Tables 1 and 2 show the study’s scales and confirmatory reliability analysis results.

As with most studies that examine the link between CSR and financial performance, the same survey was used to gather data about both stakeholder salience and financial performance. Several measures were taken prior and during the data collection process to minimize the risk of common-method bias, following Podsakoff, MacKenzie, Lee, and Podsakoff (2003), such as ensuring anonymity of the results, creating a psychological time separation for the variables of interest, and using different terminology for questions related to the dependent and independent variables, a method aimed at alleviating common method bias concerns from previous studies on SME CSR (e.g. Burton & Goldsby, 2009). To determine whether common method bias was an issue in our data set, we estimated the partial correlations of the variables using the conceptually irrelevant measurement of SME export orientation. The scale was reliable (Cronbach’s α = 0.791) and did not correlate to the main study variables (Podsakoff, MacKenzie, & Podsakoff, 2012). Partial correlations were similar to those correlations without the control variable, indicating that the relationship between the variables is not explained by high common method variance.

Finally, we examined the effect of market turbulence, market growth, industry, company size and age as controls to our empirical model. SMEs are vulnerable to market dynamics, which are mostly determined by large enterprises (Endere, 2004). Market turbulence and market growth have been found to affect the relationship between stakeholder orientation (Greenley & Foxall, 1998) and firms’ financial performance. This was particularly relevant to our study, given the highly turbulent Greek market due to the economic crisis challenging firms’ ability to accurately anticipate stakeholders’ needs. We measured market turbulence by asking participants to rate “The extent to which the marketing operations of key
Table 1  
Study measures.  

| Stakeholder power | [This Stakeholder] have power, to apply direct economic reward or punishment and/or coercive or physical force to obtain their will | [This Stakeholder] have access to, influence on, or the ability to impact our firm whether used or not | [This Stakeholder] have the power to enforce their claims |
|---|---|---|---|
| Stakeholder urgency | [This Stakeholder] are active in pursuing claims demands or desires which they feel are important | [This Stakeholder] actively seek the attention of our firm | [This Stakeholder] urgently communicate their claims to our firm |
| Stakeholder legitimacy | The claims of [This Stakeholder] are viewed by our firm as: proper or appropriate | The claims of [This Stakeholder] are legitimate in the eyes of our firm | The claims of [This Stakeholder] are not proper or appropriate |

Table 2  
Confirmatory Factor Analysis Results for the studied variables.  

| Construct                  | Cronbach’s α |
|----------------------------|--------------|
| Employee Salience          | .731         |
| Customer Salience          | .804         |
| Supplier Salience          | .817         |
| Community Salience         | .839         |
| Environment Salience       | .853         |
| Employee Proximity         | .688         |
| Customer Proximity         | .668         |
| Supplier Proximity         | .740         |
| Community Proximity        | .695         |
| Environment Proximity      | .810         |
| CSR Performance            | .933         |
| Financial Performance      | .895         |
moderating role of stakeholder proximity. As seen in Table 4 (Model 3), we find that supplier proximity and community proximity moderate the relationship between supplier CSR ($b = 0.187, p < .05$) and community CSR ($b = 0.259, p < .05$) respectively, and SME financial performance, only supporting hypotheses 3c and 3e.

When the two interaction terms were entered in the model simultaneously, all but one of the interactions between CSR and proximity were non-significant, while the interactions between CSR and salience remained significant with one exception. In particular, stakeholder salience interacts significantly with the respective CSR action (Model 5) for employees ($b = 0.288, p < .05$); customers ($b = 0.240, p < .05$); suppliers ($b = 0.216, p < .05$); and the environment ($b = 0.292, p < .05$), while proximity interacts significantly with community ($b = 0.238, p < .05$). In no case were both interactions simultaneously significant. This finding suggests that for SMEs, usually embedded in their communities and having strong ties with their locality, proximity may be a more important indicator of how the relationship between their CSR actions towards the community and their financial performance unfolds.

5.2. Robustness checks

5.2.1. Checking for endogeneity

Our results do not capture other potential influences that may drive CSR actions and financial performance. In order to negate this issue which may cause endogeneity and produce potentially biased estimates we ran a two-stage least square regression and employed the Hausman (1978) test, following Demar, Joerissen, and Laveren (2018). To explore whether our results are biased due to endogeneity we used the instrumental approach: appropriate instrumental variable had a positive and significant effect on financial performance of the firm, thus rejecting the null hypothesis that our instruments are exogenous. In the first stage, we regressed CSR with the instrumental variable (interest in participating in CSR awards) as the independent variable. Results indicate our instrumental variable had a positive and significant effect on CSR ($p < .05$), increasing our confidence for using the current instruments. In the second stage we regressed the residuals of financial performance obtained from the first stage with “interest in CSR awards”. Results indicate no significant effect on financial performance suggesting we do not have an endogeneity problem and that our OLS regressions are robust.

5.2.2. Controlling for common method bias

There are arguments in the literature suggesting that CSR initiatives and sustainable innovations may require a longer time horizon (Longoni & Cagliano, 2016). This is important because organizational CSR capability evolves over time (Harness 2018) and because stakeholder orientation may have a negative short-run, but a positive long-run financial impact (Garcia-Castro et al., 2010). Lu et al.’s (2014) review of recent empirical research in this area concludes that many studies that explore the link between social and financial performance also examine the time effect in this relationship. We view the CSR-financial performance link as a dynamic process that may change over time and therefore it is necessary to ascertain whether CSR may affect financial performance in a different timeframe; thus, we undertook a second round of data collection.
Table 4

| Stepwise regression results of CSR, stakeholder salience and SME financial performance. |
|---------------------------------------------------------------|
| **Independent Variables** | **Model 1** | **Model 2** | **Model 3** | **Model 4** | **Model 1** | **Model 2** | **Model 3** | **Model 4** | **Model 1** | **Model 2** | **Model 3** | **Model 4** | **Model 1** | **Model 2** | **Model 3** | **Model 4** | **Model 1** | **Model 2** | **Model 3** | **Model 4** |
| CSR performance | **.418** | **.431** | **.434** | **.186** | **.222** | **.235** | **.216** | **.172** | **.150** | **.178** | **.111** | **.204** | **.201** | **.200** | **.197** | **.207** | **.186** | **.238** |
| Salience | -.071 | -.095 | -.177 | -.159 | .054 | -.078 | .023 | -.100 | -.076 | .045 | .078 | .045 | .045 | .045 | .045 | .045 | .045 | .045 |
| CSR X Salience | .277 | .288 | .240 | .222 | .222 | .187 | .138 | .158 | .158 | .158 | .158 | .158 | .158 | .158 | .158 | .158 | .158 | .158 | .158 |
| CSR X Proximity | .001 | -.093 | -.112 | -.112 | -.112 | -.112 | -.112 | -.112 | -.112 | -.112 | -.112 | -.112 | -.112 | -.112 | -.112 | -.112 | -.112 | -.112 | -.112 |
| Market Growth | .025 | -.063 | .047 | -.063 | -.004 | -.012 | -.032 | -.031 | -.004 | .037 | -.019 | .014 | .014 | .014 | .014 | .014 | .014 | .014 | .014 |
| Controls | .09 | -.055 | -.085 | -.006 | -.076 | -.073 | -.082 | -.006 | -.001 | .000 | .005 | .002 | .001 | .002 | .001 | .002 | .001 | .002 | .001 |
| Micro | -.154 | -.199 | -.160 | -.194 | -.181 | -.251 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 |
| Medium | -.154 | -.199 | -.160 | -.194 | -.181 | -.251 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 |
| Large | -.154 | -.199 | -.160 | -.194 | -.181 | -.251 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 | -.257 |

| **DV: Financial Performance. R2: Adjusted R square.** |
|---------------------------------------------------------------|
| Community | Environment | Employees | Suppliers | Customers | Employees | Suppliers | Customers | Employees | Suppliers | Customers | Employees | Suppliers | Customers | Employees | Suppliers | Customers | Employees | Suppliers | Customers |
| R2 | .241 | .258 | .256 | .256 | .059 | .147 | .143 | .059 | .147 | .143 | .059 | .147 | .143 | .059 | .147 | .143 | .059 | .147 | .143 |
| F | 5.196 | 5.845 | 4.976 | 4.976 | 2.099 | 3.403 | 2.925 | 2.959 | 2.099 | 2.407 | 2.924 | 2.843 | 2.039 | 2.450 | 1.704 | 2.180 | 2.214 | 2.190 |
| p< | <.05 | <.05 | <.05 | <.05 | <.05 | <.05 | <.05 | <.05 | <.05 | <.05 | <.05 | <.05 | <.05 | <.05 | <.05 | <.05 | <.05 | <.05 | <.05 |

Out of the 140 SMEs we contacted, 102 (68 percent) returned a completed questionnaire. Five regressions were then conducted, with financial performance in year two as the dependent variable, and CSR actions and financial performance in year one as predictors. Supplier CSR and customer CSR, were found to be significantly related (betas = .274, .448, respectively p < .01) with financial performance in year two, even after accounting for the effect of financial performance in year one. Similar were the results for Community and Environment CSR (betas = .193, .156 respectively, p < .05) while employee CSR was found to be non-significant, suggesting that CSR actions towards employees may either be less effective during uncertainty and economic crisis or need to be examined over a longer time period.

6. Discussion

The study investigates a sample of SMEs already predisposed to using CSR strategies. However, we studied them during a period of significant and potentially damaging economic crisis. We investigated the relationship between the SME’s individual selection of stakeholders (as the social construct) with the SME’s financial performance. By disaggregating CSR into relevant dimensions, we identified how stakeholder salience and proximity of stakeholders influenced their CSR’s effect on financial performance. During economic crisis, this sample of firms were likely to be forced into concentrating their stakeholder efforts on a limited few. Therefore, during crisis, there is an argument for adoption of a stakeholder retention strategy by SMEs to deliberately prioritize an SME’s CSR efforts towards those stakeholders with most salience or the closest proximity to the firm, to maximize most benefit. Counterarguments that prioritization of stakeholders might lead to decreased evaluations of benevolence are arguably less valid for SMEs, given that they already tend to focus on a limited number of stakeholders (Meiseberg & Ehrmann, 2012). The rest of this section discusses the results in relation to the research questions posited in section 2.

Our results suggest that stakeholder salience positively moderates the CSR-financial performance relationship during economic downturn. Thus, SMEs interested in increasing their financial performance via their CSR strategies should focus their campaigns to those stakeholders who are more important to them and, they should endeavour to find ways in which they can readily select those stakeholders most salient to them. Use of stakeholder theory was useful as the theoretical lens to investigate whether or not, SMEs benefit equally from a similar CSR action. CSR is viewed by participating SMEs was measured via objective measures of performance. Collecting data across different periods of time is often undertaken in CSR studies to reduce common method bias concerns (Rindfleisch, Malter, Ganesan, & Moorman, 2008) and increase confidence for causal inferences (Miao, Eva, Newman, Nielsen, & Herbert, 2020).
scholars as being implemented in response to pressures and demands of different stakeholders (Aguilera et al., 2007; Henriques & Sadorsky, 1999). However, it is difficult for firms to satisfy the demands of all stakeholders which might have not only competing but often conflicting demands (the trade-off problem). This case is even stronger for SMEs that usually choose one CSR action to focus on and not always with profit maximizing criteria. Based on our results, we suggest that stakeholders who are more powerful, or demand more urgent or legitimate claims of the SME will be those considered most important. A CSR initiative that focusses, for example, towards a firm’s suppliers is more likely to positively affect an SME for which suppliers are more important i.e. maybe harder to find or have more power or make urgent demands. Our results further suggest that proximity of stakeholders influences the importance SMEs assign to their stakeholders. We found that geographical and moral proximity towards suppliers and community positively moderated the relationship between CSR actions and financial performance within this sample of SMEs. This suggests that the greater the geographical and moral proximity SMEs assign to their suppliers and community, the more these firms will gain from CSR actions towards those stakeholders. The strong relationship and high degree of interaction of SMEs with their local communities has been well documented in the SME literature (Murillo & Lozano, 2006; Niehm et al., 2008). Yet, the way in which the customer and supplier proximity affects the CSR-financial performance relationship in SMEs has largely been overlooked, which is a novel finding. This analysis of proximity as an attribute of stakeholder salience suggests that moral and geographical proximity do not moderate the relationship between CSR towards employees, environment, customers, or SME financial performance and, therefore, may not be an appropriate attribute for measuring stakeholder salience for all stakeholders.

Arguably, improved financial performance may result in a surplus of resources, facilitating firms’ ability to invest in CSR. Longitudinal data collection is commonly offered as a solution to concerns about causality and potential common method bias (Quéré, Nouyrigat, & Baker, 2018; Rindleschel et al., 2008). For example, Garcia-Castro et al. (2010) use longitudinal data from 658 US firms and find that stakeholder management negatively affects market value in the short-run, but positively affects shareholders’ value in the long term. By measuring financial performance of the same SMEs a year after the first study we attempt to overcome this methodological hurdle. The fact that CSR in year 1 positively and significantly correlates with Financial performance in year 2 (which is measured by objective data) increases our confidence regarding the temporal ordering of the SME social performance - corporate financial performance relationship (Miao et al., 2020).

Scholars suggest that discussion on SMEs and CSR should move away from a narrow focus on financial benefits (Soundararajan et al., 2017). Their concern is valid. Not all SMEs care about increasing their financial returns. Researchers have questioned the “maximizing axiom” in SME CSR (Jamali, Zanhour, & Keshishian, 2009), with some SMEs recorded as enjoying enhanced personal satisfaction (Gorgievski, Ascalon, & Stephan, 2011), emotional fulfilment (Sen & Cowley, 2013), an alignment with their lifestyle choices (Carrigan, Lazell, Bosangit, & Magrizos, 2017) or creation of more and better jobs for their employees, even in times of economic crisis (Diaz-Chao et al., 2107); An alternative view however, suggests that if SMEs profit from CSR, they are more likely to survive in a competitive environment and sustain their efforts to tackle social problems. They are also more likely to avoid losses due to CSR. Negative financial performance resulting from CSR has been documented for firms whose CSR actions benefit anyone other than their primary stakeholders (Hillman & Keim, 2001) and for firms that over-invest on one stakeholder (Harrison & Bosse, 2013).

Our study focuses on the under studied context of SMEs operating in a turbulent marketplace during economic crises. While many smaller firms ceased trading during the economic crisis in Greece between 2010 and 2015 some SMEs survived and indeed, remained resilient during this period. Our study intentionally focussed on SMEs who are publicly well-known for their visible CSR for several years within the Greek business community. Therefore, in reporting our results, we qualify them by taking into account the context in which this study took place. We focused on SMEs that already were visible within the CSR community, or willing to advertise their CSR efforts and we surveyed them during a harsh economic crisis, as CSR is unlikely to have been a priority to managers under those circumstances unless they believed it would yield business benefits. For example, Areal and Carvalho (2012) found that ethical companies outperform the market both in times of growth and during market decline suggesting CSR can be a future proof a business against times of crisis. A further explanation for this phenomenon could be that firms that implement CSR during financial crisis are more likely to do so because it is an integral part of their business as during that time they are unlikely to meet external pressures for CSR (Iatridis & Kesidou, 2018).

7. Conclusion and recommendations

This study addresses the paucity of studies concerning SMEs during economic crisis and the ongoing quest for a justified business case in CSR (Grewatsch & Kleindienst, 2017; Salzmann, Ionescu-somers, & Steger, 2005). During crisis many smaller firms fail because they have fewer resources available to them. It has been previously argued (Sen & Cowley, 2013) that SMEs may be encumbered by demanding and more powerful stakeholders (such as those in supply chains etc.). However, our study indicates that for those SMEs who are already adept at stakeholder management (choosing those most salient and closer in proximity), CSR strategies offer an important lifeline for SME survival. It could be of course that such SMEs are also more adept (than other failed businesses) at other aspects of business organization. Thus, new studies which can extend our knowledge of CSR competency and firm orientation under crisis would be interesting. This is important for any economic crisis but potentially even more so for crises such as the Covid-19 pandemic. Our findings lend credibility to the argument that CSR actions lead to improved financial performance of SMEs during crisis, noting that CSR actions with stakeholders need to be part of a well-informed strategy. SMEs should find their points of ‘intersection’ with society (Porter & Kramer, 2006) and focus their CSR initiatives on the stakeholders that are more important for them and crucial for their survival.

This study supports recent calls to move from the question of whether firms should pursue CSR, to exploring under which conditions they need to do so (Gras & Krause, 2020). Our findings support existing literature suggesting that the; “inaccurate assessment of stakeholder claims has the potential to cause the organization considerable financial and reputational harm” (Neville, Blake, & Whitwell, 2011, p. 357) and we extend this debate by exploring the benefits of identifying and satisfying salient stakeholders. A further contribution of our study concerns the investigation of stakeholder attributes comprising of stakeholder salience. Mitchell et al.’s (1997) model, despite its widespread acceptance, has not been extensively tested, and only in large firms (Agel, Mitchell, & Sonnenfeld, 1999). Here, we empirically test Mitchell et al.’s model (1997) in the context of SMEs. We advance this model by extending it to include proximity as another criterion to measure stakeholder importance, as stakeholder proximity is critical for smaller firms who have fewer resources, more significant constraints and, more likely to find their main stakeholders
We acknowledge that CSR is a different issue in SMEs than in larger enterprises (Lozano et al., 2011). In practice, understanding the dynamics of the CSR-financial performance relationship is particularly important for managers seeking to understand how business opportunities arise from the value created through their CSR. Although researchers note the need for firms to consider a broader conception of value than just profits (Carrigan et al., 2017). Moreover, while many SMEs decide to implement CSR based on strategic criteria, the choice of specific actions is commonly decided arbitrarily, based on personal or even random reasons. Our research shows that SME managers should place a lot more emphasis on which specific initiative to implement, especially given their limited resources. Our suggested framework shows that actions in favor of powerful, legitimate, close stakeholders with urgent claims need to be prioritized.

Our findings need to be qualified by a number of limitations, which suggest areas for future research to address. Firstly, we recognize that the legitimacy of a claim and the power of a stakeholder may change over time (Magness, 2008, p. 179). CSR and stakeholder evaluations may also vary across cultures or geographical locations (Pelova & Papania, 2008). This study was undertaken in Greece, and cultural influences and context are critical for SMEs, which strongly reflect national characteristics in their CSR engagement (Spence, 2007). The time of data collection offers a unique setting to measure SME CSR but perhaps limits the generalizability of our findings. While we have designed an approach that could be replicated in other international and cultural contexts, future research would benefit from multi-national and or comparative studies. Another limitation arises from the third phase of the data collection. A longitudinal study conducted over a longer period of time, with a larger sample, and in a different setting would confirm the causality between social and financial performance and allow for a broader generalizability of the findings. Further, future studies could explore whether the relationship between CSR and financial performance is in fact non-linear as stakeholders such as employees evaluate low-level CSR negatively and high-level CSR positively (Kostopoulos, 2019). Finally, we examined the non-hypothesized combined effect of proximity and salience. Models 5 in Table 4 show that the results are more blurred and the interaction terms are not simultaneously significant. Potentially this could be explained if proximity overlaps conceptually with legitimacy (moral proximity) and with power. Further research could shed light into how different stakeholder attributes interact with each other. As recently concluded by the academic world, we have introduced the C-S model of stakeholder performance into mainstream managerial literature: “Stakeholder theory is about ‘knowing how to engage stakeholders and create value for them, rather than the technical ‘knowing that’ such and such is the case for all firms for all times for all problems for all configurations of stakeholders” (Freeman, Phillips, & Siosid, 2018, p. 5). Our study makes a first step in suggesting how stakeholders can be engaged but further research can re-examine this relationship in different settings and samples.

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