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Impact of Corporate Social Responsibility on Smes Performance: A Mediating Role of Innovation

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Abstract - Corporate Social Responsibility (CSR) has increased substantially over the past decade, but existing research usually focus on a single dimension of CSR. This dissertation extends previous studies on CSR by measuring different dimensions of CSR in a single integrative construct. In addition, although the link between CSR and business value have been investigated, a significant research gap remains when considering the relationship between CSR and innovation. There is little work on whether and how CSR can support organizational innovation. To cover the above-mentioned gaps in the literature, this research focuses on the measurement of four main dimensions of CSR and, then, assesses its relationship with organizational innovation and firm performance in a single integrative model by using structural equation modelling on a data set of 135 Bahraini SMEs. Results showed that CRS is positively associated with organizational innovation and firm performance and that organizational innovation mediates the relationship between CSR on firm performance. These findings indicate that CSR is an important driver for firm performance mainly by enhancing organizational innovation.

Keywords: Corporate Social Responsibility, Innovation, Firm Performance, Small and Medium Enterprises, Mediation

INTRODUCTION

Corporate social responsibility (CSR) has emerged and developed rapidly as a field of study. It has emerged as an important approach and framework for addressing the role of business in society, setting standards of behavior to which a company must fallow to impact society in a positive and an effective way at the same time as abiding by values that exclude profit seeking at any cost. It is a known fact that the main reason for a firm's existence is that of profit maximization. In a bid to achieve this goal, firm's processes have not been able to avoid leading to the degeneration of the environment within and around it. The result has been unhealthy workplaces and the surrounding environment through emission of toxic substances and other similar issues (Schrempf-Stirling et al., 2016). This has not spared such firms sharp criticisms for their actions. Through this pressure, firms have come to the realization that without adopting CSR, they will not be able to thrive in this competitive arena. The result has been an immense involvement of firms in varied ranges of CSR activities, if only to win and retain the confidence of investors and that of the other stakeholders (Jamali et al., 2017).

A firm can expect to experience sustainable growth through the trust placed in it by society. Accordingly, if a firm performs trust-based entrepreneurial activities, it can maintain good relationships with various stakeholders, and ultimately expect improvement in economic performance. Furthermore, it has already been verified that companies use CSR as a channel to distinguish themselves from other firms; they have been filling gaps to improve people's quality of life that the government finds difficult to fill (Jang et al., 2019). Moreover, there has been increased consensus that corporate social responsibility (CSR) is significant for the sustainable development of companies. A considerable stream of scholarly research has emerged in the literature suggesting that corporate social responsibility orientation is the key

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to stimulating long-term stability, growth and sustainable performance in a dynamic and changing environment. Empirical evidence suggests that CSR actions lead to superior market performance (Orlitzky & Benjamin, 2001; Dabas, 2011). CSR practices can impact customer satisfaction, employee satisfaction, stronger brand equity and favorable attitudes towards firms (Bocquet et al., 2017). These relational benefits, in turn, increase firm reputation and financial performance (Khalid Anser, 2018).

The innovation carried out by firms has been studied from diverse standpoints and may be driven by different business goals. Earlier studies have implicitly considered that investment in innovation is related to CSR (Ali et al., 2017) but no in-depth analysis of this question has yet been made. The general domains of CSR and innovation are frequently overlapped. However, linking the overall concept of CSR with the overall concept of innovation is not easy (Hasan et al., 2018). In this paper we aim to establish a relation between these concepts. Companies became aware of the utility of good innovation management that can allow then strengthening their position in their market. By being innovative, business would be more suitable to meet the needs of new competitiveness. Having recognized the benefits of innovation for the business, it seems the innovation approach can be associated with that of corporate social responsibility (Akram, Murugiah, & Arfan, 2017). Then, heeding the call for different, innovative, and sustainability-oriented approaches to management and doing business, the collaborative enterprise perspective is advanced, which is deeply rooted in a relational view of the firm (Jang et al., 2019). According to this perspective, the goals of a firm are multidimensional, and its final purpose is to provide stakeholders with fitting (social, cultural, economic, environmental, institutional, and so on) values.

The focus on CSR engagement has during the last decade increased but there are those who criticize it, claiming that CSR is not a company issue. Putting focus on CSR will only take the eye from the real goal; to increase their shareholders wealth, is to confuse the essence of what corporations should do (Yoon & Chung, 2018). Corporation's sole responsibility is to increase profits by legal means, donating to charities, is detrimental to firms since it may decrease profitability or increase product prices or both (Schrempf-Stirling et al., 2016). There is an increased pressure by the various stakeholders who are in quest for different role for businesses in society. These changes in roles have resulted to most companies engaging in CSR. As observed by Okiro, Kinyua and Omolo (2014), CSR expenses are being accepted by managers much the same way as operational expenses. This then raises complex issues as to whether firms that are socially responsible perform better or worse than those firms that are not considered to be socially responsible. This further raises the question on how much effort and resources that firms should allocate to social activity. This study hence sought to examine the influence of CSR on a firm's financial performance (Akram, 2017).

Many studies on CSR have been conducted both locally and internationally but little research has focused on this issue. Even the existing empirical study has some inconsistencies in the results studying the effect of CSR on firm performance due to flawed empirical analysis (Bocquet et al., 2017). Innovation has been considered as a key factor determining a firm's ability to sustain its competitive advantages nowadays (Alamgir & Uddin, 2017; Crifo et al., 2016; Khalid Anser, 2018; Selcuk & Kiymaz, 2017). A firm's capability to innovate helps the firm better respond to the fast and abrupt environmental changes (Bocquet et al., 2017; Research & 2016). Although abundant attention has been paid to the antecedents of firm innovation (MacGregor et al., 2018; Poussing, 2019), limited efforts have been devoted to examining whether or not innovation may influence a firm's other strategic choice. Indeed, innovation can be a help as well as a hamper for the firm. This study aims to examine the effect of corporate social responsibility on firm performance and to analyze the effect of corporate social responsibility on innovation and to measure the mediating effect of innovation between corporate social responsibility and firm performance (Akram, Abrar ul haq, & Raza, 2018).

RELATED LITERATURE

CSR refers to a firm fulfilling its legal, economic, ethical, and philanthropic responsibilities to society (Schrempf-Stirling et al., 2016). Generally, CSR is interpreted as a firm's social contribution. However, CSR and social contribution must be clearly differentiated: social responsibility refers broadly to a firm's legal, economic, ethical, and philanthropic responsibilities, while a firm's social contribution refers to only one aspect of CSR (Jamali et al., 2017). Therefore, it is not accurate to simplify the concept of CSR into social responsibility; thus, CSR will be redefined using the concepts in various CSR studies. CSR is rapidly becoming a corporate priority. The percentage of executives giving high priority to CSR had increased to 70%. CSR can take many forms (Liang & Renneboog, 2017). There are many definitions of CSR by various scholars basing on the area they are tackling. This study focuses on external CSR which relates to customer loyalty. According to the World Business Council for Sustainable Development, (WBCD), CSR is regarded as the continuous process of firms acting by ethically spending in the society, management acting responsibly in its relationships with the various stakeholders who have a legitimate interest in the business and contributing to economic spending development while improving the quality of life of the workforce and their families as well as of the local community and society at large. The company's responsibility is to be fair and honest, trustworthy and respectful, in dealing with all its constituents (Jang et al., 2019; Qasim, Ul Haq, Hussain, & Roshan, 2019). CSR is viewed as the ability of a company to incorporate its responsibility to society to develop solutions for economic spending and social problems (Ali et al., 2017). It is also regarded as the impact of assessing the various contributions of the business to the society and ensuring that there's a balance between the economic spending, environmental and social aspects (Jang et al., 2019; Mahmood, Shah, Waqas, & Bhatti, 2014). Poussing (2019) stated that CSR is the positive outcome a company provides while it manages its normal business trade. CSR is said to provide a long-term commitment to social contribution be it towards the society or for the development of a particular company's workers. In doing so, a company as a whole, can organize its business ethical spending in order to directly contribute to the betterment of the society as a whole (MacGregor et al., 2018; Qamri, Abrar-ul-haq, & Akram, 2015).

Researchers have shown that CSR-related reactions to a company are determined not only by its actions in this domain, but also by those of its stakeholder groups (for instance customers), which are typically beyond the company's control (Benlemlih & Bitar, 2018; Ullah, Abrar-ul-haq, & Shah, 2016). CSR moves beyond the often-rare field of controlled empirical contexts to paint more extsernally valid picture of the forces determining consumer reactions to CSR spending (Zheng & Lee, 2018). In other words, in as much as the competitive context impacts the marketing mix, a company, in formulating its CSR strategy, needs to understand how consumers perceive and react to its CSR actions not in isolation but in the context of different CSR actions, if any, taken by its competitors (Akram, Abrar-ul-Haq, & Surjit, 2018). Ratajczak and Szutowski (2016) argue that organizations should realize and invest in corporate social responsibility schemes in order to enhance their relationships with customers by initiating robust corporate strategy particularly in social concerns such as setting reasonable price, improving their services, developing innovation, and implementing privacy policy. Moreover, organizations should communicate CSR ways to the general public. Several marketing studies have reported that CSR behaviors can positively affect consumer attitudes towards the firm and its offerings (Marín Rives & Juan Martín Castejón, 2017; Akram, Abrar Ul Haq, & Umrani, 2019).

The literature is rich with several studies examining the association between the social involvement of businesses and financial performance and profitability (Alamgir & Uddin, 2017). However, empirical findings reveal integrative evidence of the relationship between CSR and profitability. Selcuk and Kiymaz (2017) examine 21 studies of corporate social performance and financial performance. The findings of 12 studies demonstrate a positive association, eight showed no association, and only one study indicates a negative correlation. Moore (2001) examines the relationship between corporate social and financial performance in the UK. Supermarket industry, the outcomes find a negative relation between contemporaneous social and financial performance are while prior-period financial performance is positively related with subsequent social performance. Moreover, researchers (Khalid Anser, 2018b) reveal no significant direction between CSR and corporate performance (Akram & Iqbal, 2016; Qasim et al., 2019).

The impact on the company's finances is achieved through the economic dimension of corporate social responsibility. Companies should be motivated by profit and put the company's business in hand of consumers, investors and other stakeholders (Abrar-ul-haq, Jali, & Islam, 2017). From the aforementioned, it follows that the only business world and the community can work together for the benefit of society and the environment from altruistic motives. Enterprises are aware that their survival in today's market depends on sacrifice short-term profits due to the positive effects in the future, which satisfy the owners and managers, not just as they used to maximize profits (Slavić, 2015; Rehman, Ullah, & Abrar-Ul-Haq, 2015; Shah, Abrar Ul Haq, & Farooq, 2015; Shah, Shahzad, & Abrar Ul Haq, 2015).

Benlemlih and Bitar (2018) also contributed to the debate on CSR by indicating that it is a tactic that firms adopt to enable them to attain and surpass stakeholder's expectations. This goes past the common responsibilities of profit, revenue and legitimate duties. CSR is hence imputed to include employee relations, public investments, ecological practices, human rights and moral behavior. A more comprehensive definition was obtained from (Janssen et al., 2018) who posit that businesses should not only be responsible for making maximum profit, but should also protect the environment and contribute to the wellbeing of societies .This could only be achieved if it conducts socially responsible businesses and help solve societal issues (Abrar-Ul-Haq, Akram, & Farooq, 2015).

Though much literature does not link CSR with firms performance directly, they have provided considerable knowledge to the various responsibilities a company has to the various stakeholders. The economic spending, ethical spending, philanthropic and legal spending variables used on the Carroll model which tries to explain the various responsibilities a firm has to its various stakeholders are the main concern of this study. Theories used in this study assist to analysis the various conflicting interests among stakeholders (Bhati, Shah, Waqas, Abid, & Malik, 2013). If managers understand the various contributions of CSR, they will engage more in it so as to gain strategic advantage over their rivals. It is also essential for firms to treat its employees in a better manner since they are also customers of the company. A company which engages in CSR creates a relational behavior that is associated to go beyond the purchase of a product to consumer loyalty to the company's existing product, willingness of the consumer to buy new products that the firm might offer, favorable word of mouth and resilience in the face of negative information about the company, such as in a product-harm crisis (Mahmood, Shah, Waqas, & Bhatti, 2014; Malik, Mahmood, Usman, Rziwan, & Abid, 2019). When the firm is perceived to undertake CSR in a proper manner by customers it will strengthen the brand relationship leading to better company performance (Abrar ul haq, Jali, & Islam, 2018).

There is still much debate over the years regarding how CSR influences on financial performance of firms. The empirical studies have never been in accord. Some found a positive correlation; others determined a negative one, others found no correlation at all, while others found that, it affects companies differently. Researcher argues that the impact of CSR varies from one firm to the other. Moreover, CSR is good for the financial health of large and medium sized companies but not small companies; CSR led to superior performance. Besides the empirical analysis, there are various theoretical studies trying to explain the relationship between CSR and firm performance. The importance of other parties apart from shareholders within the organization. Firms can improve performance by reducing the cost associated with maintaining the relationship with its stakeholders. This is achieved when companies meet the expectations and demand of its very diverse stakeholders. A good relationship also positively influences the company's corporate image. Slack resource hypothesis put forth also postulates that improved financial performance increases the availability of slack resources, which then helps companies invest in CSR activities.

Conceptual Framework

Theoretical framework of the study provides support for the conceptual framework. Moreover, stakeholders theory provides groundings for the following model which is consist of one independent variable (corporate social responsibility), a mediator variable (innovation) and dependent variable (firm performance). According to the proposed model, CSR has direct effect on innovation and firm performance as well as CSR indirectly affect the firm performance through innovation (known as mediator). CSR focuses on five main dimensions based on the research proposed by Alexander Dahlsurd (2008). He gathered the concepts and definitions related to Corporate social responsibility and identified the similarities in the literature. The environmental dimension considers the environment where the business organization survives. The business practices should be developed in such way that it should not harm the environment. Thus, they should concentrate on developing practices in an environmentally friendly way.

The social dimension explains the relationship between the society and business organization. Business organizations should provide its contribution to the society in a better manner by including the concern for social issues in its business operations. It should also consider the impact of such activities on the local communities.

The economic dimension focuses on the profitability of the business operation which aims at maximizing the wealth of the business. Though profit maximization is the base of the existence of any business, it must foster socio economic development of the nation. The stakeholder dimension ensures good relationship with its entire stakeholders mainly with local communities, suppliers, customers and employees in the organization. The smooth running of business is possible only if the organization has cordial relationship among its stakeholders. Employee-related CSR involves a safe and comfortable working environment, high level of investment in employee salaries and benefits, training of knowledge and skills, and emotional care and commitment.

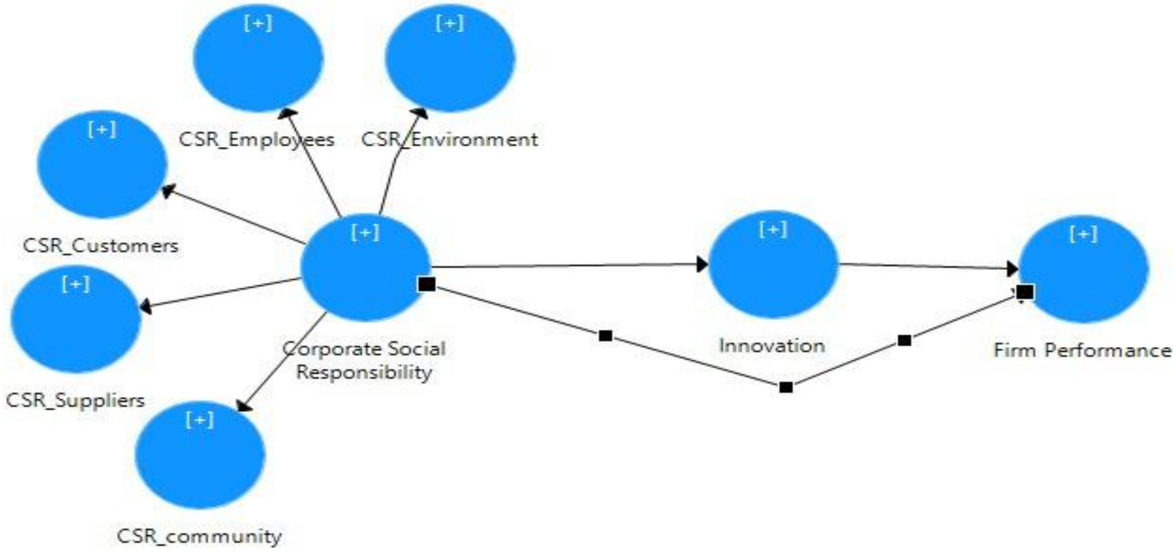

Figure 1. Conceptual framework

Research Hypotheses

Hypotheses of the study are as follows:

H_{01}: There is a significant relationship between corporate social responsibility and firm performance.

H_{02}: Corporate social responsibility significantly influences the innovation.

H_{03}: Innovation plays a significant mediating role between corporate social responsibility and firm performance.

METHODOLOGY OF THE STUDY

The survey was administered to the CEO of the SMEs via Online Survey due to the Covid-19 situation and the unit of analysis for this study was the CEO of the company. In addition, this approach was followed because it is generally assumed that CEOs are knowledgeable informants, particularly with regard to their firms' performance. Moreover, evidence suggests that CEO self-reports of performance significantly correlate with objective measures of firm performance. The target population of our study were SMEs of Bahrain. SMEs are considered the backbone of large economies and has been identified as a vital sector in Bahrain's economy, representing 99.3% of the total number of local companies and it has been a key growth driver in economic diversification. SMEs are typically defined based on the main measures of annual revenue and number of employees. In December 2017, The Ministry of Industry, Commerce and Tourism has issued a decree with the new definition of SMEs being those companies that don't exceed 100 employees or BD3 million in turnover. Notably, SMEs account for about 30 percent of the Bahraini economy with up to 6,435 enterprises in the Kingdom. While the small enterprises are 5,485, and the number of average enterprises is 950. Small enterprises have 6 to 50 employees while medium organizations have 51 to 100 employees. This study selected 150 CEOs to collect data using a simple random sampling technique.

Measurement of Instruments

Measurement items were introduced on the basis of a careful literature review. Constructs and associated indicators in the measurement model are listed in the Appendix and discussed below. To facilitate cumulative research, operationalization tested by previous studies were used. Variables were operationalized as multi-item constructs. Items included CSR practices with four stakeholders (suppliers, customers, employees and the local community) and environmental responsibility. These constructs were adapted from Hamman et al. (2009) and Lindgreen et al. (2009).

Organizational Innovation was measured following items in previous studies of Bocquet et al., (2012) and represents new technological knowledge and ideas in new products and processes.

Firm performance was operationalized using items in previous research (Aragón-Correa et al., 2008) through which respondents rated their organization's performance relative to others in the industry. Perceptual measures of financial performance have been previously used in the literature analyzing SMEs because objective data on the financial performance of these firms are rarely available, largely because the owners are not legally required to publish these data (Lubatkin et al., 2006).

Questions will be through Likert Type Scale. A Likert type scale is a rating scale which is widely used in research in the form of surveys that intends to measure the feelings of the respondents at a degree level. There is a neutral midpoint in the scale that demonstrate no feeling towards a specific question. The current study adopts 5 rating point Likert scale which are detailed in the below table. For this reason, A close- ended questionnaire was developed to collect the data (see appendix).

Table 1: Measurement of Likert Type Scale

Scale	Interpretation	Descriptions
5	Strongly agree	The consumers are highly inclined towards the question
4	Agree	The consumers are Somewhat inclined towards the question
3	Moderately agree	The respondents are neutral towards the question
2	Disagree	The consumers are Somewhat inclined towards the question
1	Strongly disagree	The consumers are Not at all inclined towards the question

Statistical Treatment

When the survey data was collected, codes were assigned to each individual respondent before the data was entered into the computer for analysis. The data was analyzed using the PLS program. Non- respondent characteristics was studied in order to check if the lack of response is significant. The collected data then summarized, analyzed, interpreted, and presented to address the research objectives that prompted the entire research process. Structural equation model (SEM) test was used. To test the mediating role of innovation was tested based on a (PLS-SEMs) as suggested by Hair et al. (2017).

RESULTS AND DISCUSSION

A total of 150 questionnaires were distributed out of which the valid response was only 135. Hence, the final sample of the study for analysis was only 135 CEOs. Data was collected through online survey due to Covid-19 situation. It took 12 days to collect data. Reliability and validity of the measurements was reported first then the hypotheses analysis was elaborated.

Reliability and Validity of Measurement Model

The measurement model of the study has been evaluated using composite reliability, average variance extracted (AVE) and significance of items loadings (Hair, Sarstedt, Ringle, & Gudergan, 2017).

Table 2: Reliability and Validity of Model

Variables	Items	Items' Loadings	t-statistics	CR	AVE
CSR with Customers	CC1	0.901	64.289	0.949	0.811
	CC2	0.941	30.213		
	CC3	0.815	60.773		
	CC4	0.705	29.519		
CSR with Employees	CE1	0.903	57.281	0.845	0.806
	CE2	0.889	82.715		
	CE3	0.869	68.440		
	CE4	0.904	72.123		
	CE5	0.861	84.663		
CSR with Environment	CEN1	0.876	28.975	0.840	0.796
	CEN2	0.919	71.671		
	CEN3	0.888	67.942		
	CEN4	0.905	71.197		
	CEN5	0.875	73.789		
	CEN6	0.786	92.280		
CSR with Local Community	CLC1	0.884	81.138	0.843	0.747
	CLC2	0.918	76.583		
	CLC3	0.925	58.513		
	CLC4	0.857	37.142		
	CLC5	0.907	50.850		
CSR with Suppliers	CSP1	0.870	41.848	0.816	0.688
	CSP2	0.876	11.278		
	CSP3	0.893	30.832		
Firm Performance	FP1	0.920	77.950	0.857	0.882
	FP2	0.954	156.614		
	FP3	0.910	19.428		
	FP4	0.897	62.748		
	FP5	0.852	47.651		
	FP6	0.834	14.578		
	FP7	0.775	95.605		
	FP8	0.805	92.429		
Innovation	INNO1	0.936	46.745	0.848	0.788
	INNO2	0.922	33.157		
	INNO3	0.901	62.554		
	INNO4	0.874	10.277		
	INNO5	0.913	36.234		

Outer loadings of items also known as the indicators reliability; higher outer loading refers that items of a construct have much in common. Generally, a rule of thumb for outer loadings is that it should be greater than the 0.700 and statistically significant any item with outer loading below this threshold should be considered for removal (Hair et al., 2017). Hair et al. (2017) suggested that value of CR should be greater than the 0.7 as well as CR value below 0.6 refers to lack of reliability. This criterion has been met in this study from values reported in Table 4.1. The value of AVE should be greater than the 0.5 and a value of AVE less than the threshold level indicate that more variance remains in the error term.

Hypotheses Testing

After running the PLS-SEM algorithm, estimates are obtained for the structural model relationships (i.e., the path coefficients), which represent the hypothesized relationships among the constructs. The path coefficients have standardized values approximately between –1 and +1 (values can be smaller/larger but usually fall in between these bounds). Estimated path coefficients close to +1 represent strong positive relationships (and vice versa for negative values) that are usually statistically significant (i.e., different from zero in the population). The closer the estimated coefficients are to 0, the weaker are the relationships. Very low values close to 0 are usually not significantly different from zero. Moreover, this section also elaborated the hypothesized statements evaluation and decision based on the significance of path coefficients. In line with the previous studies, this research applied three level of significance for accepting or rejecting a hypothesis.

Table 3: Hypotheses Testing

	Path Coefficients	**Standard Deviation**	**t- Statistics**	**R2**
CSR→Firm Performance	0.244*	0.070	9.511	
CS→Rnnovation	0.755*	0.059	12.828	0.467
CS→Innovation→Firm Performance	0.504*	0.078	6.445	

Note: * = significant at 1%

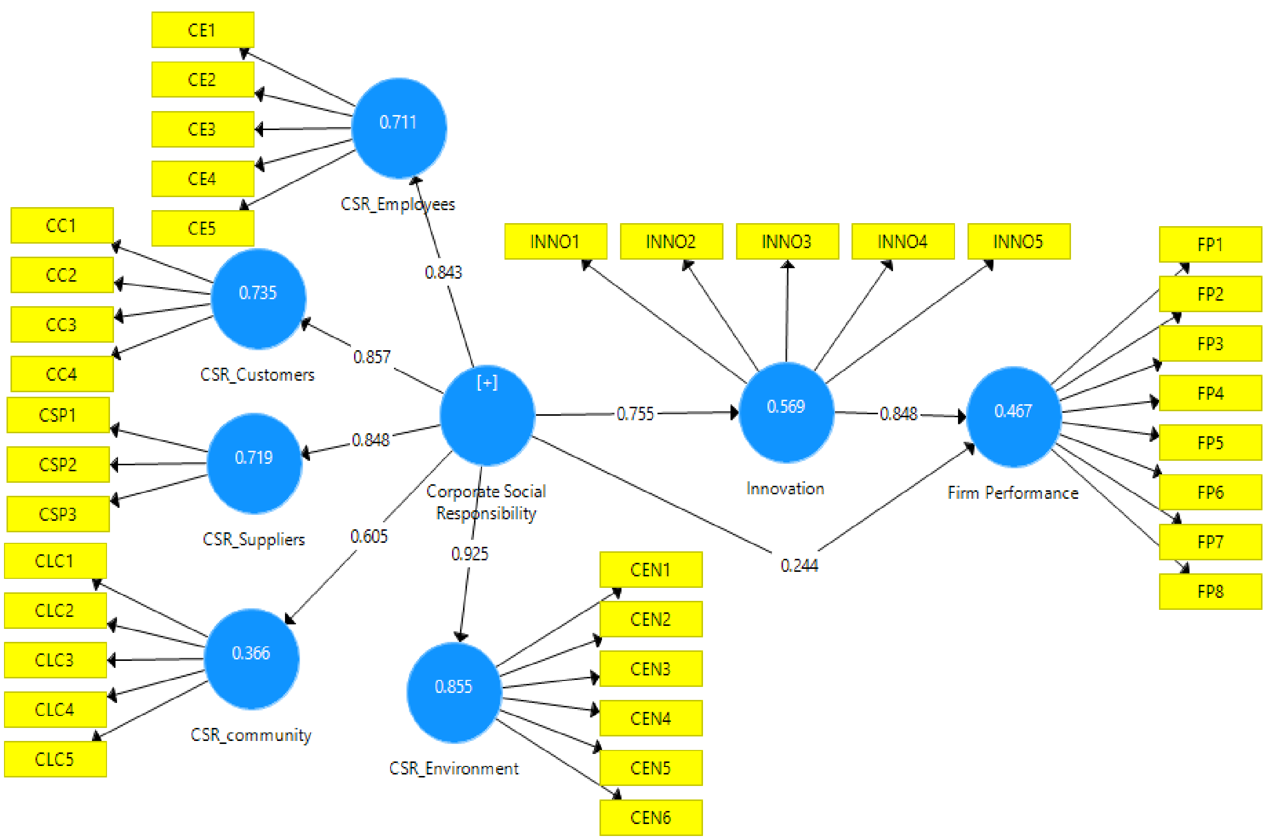

Figure 2: Hypotheses Testing

From table 2, it is evident that, all the proposed hypotheses have been accepted based on the criteria discussed above. The above statistics also indicated that CSR has significant direct and indirect effect on firm performance. Specifically, H01 is accepted at β = 0.244 which a significant positive effect of CSR on firm performance. CSR has significant positive effect on innovation as path coefficient has value of 0.755, hence, H02 is accepted at 1% level of significance. Moreover, the indirect/mediated effect of CSR on firm performance is positive significant which provide support for the acceptance of H03 at β = 0.504.

Interpretation and Discussion

Based on the findings of this study on the relationship between CSR and financial performance, one can argue that a better CSR practice translates to a better financial performance. Results of this study are consistent with (Martinez-Conesa, Soto-Acosta, & Palacios-Manzano, 2017) who reveals that CSR, conceptualized as a multi-dimensional appraisal of a firm`s responsible performance, leads to innovation and strong social benefits.

The results of Martinez-Conesa et al. (2017) also demonstrate that intangible resources mediate the bi-directional relationship between CSR and firms financial performance. Many studies have used narrow measures of innovation that cannot fully capture innovation efforts or prevent the differentiation of various types of innovation, despite their potentially varying effects on performance (Bocquet, 2011). The use of such proxies could explain the contradictory results of these articles.

CONCLUSION AND RECOMMENDATIONS

From a theoretical perspective, a relation between CSR and innovation is accepted, especially when the influence of CSR practices on innovation is considered. However, not enough empirical studies have been made regarding this relation. Moreover, although extant investigation has analyzed the direct impact of CSR on firm performance, few works have analyzed whether a mediating effect exists between CSR and firm performance through the organizational innovation. This study aimed to contribute in this direction. Given this lack of empirical studies, this research has attempted to determine the impact of CSR practices on innovation from a firm strategic perspective to better understand the links that might exists in the context of SMEs and highlight the added value that can benefit business interaction. Despite various attempts to differentiate strategic CSR profiles, the impact of these various profiles on technological innovation remains unclear. In the saturated marketplace of today there are increasingly less factors to differentiate oneself from the competition. Responsibility is a key differentiation factor that can be sustained in the longer term. Companies who do not take account of the increasing importance of responsibility may not survive, in much the same way as those who fail to innovate.

CSR and innovation have rarely been discussed in combination in the literature, at least not explicitly, although CSR is increasingly becoming a part of company discussions worldwide in the quest for greater value and competitiveness. Innovation is understood to be one of the main drivers of competitiveness, yet it is far from easy to achieve. CSR for SMEs isn’t easy, yet innovation is even harder. This study focuses on the measurement of four main dimensions of CSR (CSR with suppliers, customers, employees and the local community) and then, assesses its relationship with organizational innovation and firm performance in a single integrative model by using structural equation modelling on a data set of 135 SMEs of Bahrain.

In a business environment with increasing importance on a company’s intangible, this research argued that innovation may help to ensure the sustainability of a more responsible approach to business, resulting in system level solutions that are at the same time, responsible and profitable. Therefore, the focus should be on integrating the different activities and tying them to the company strategy. This being the only way to generate value. These findings indicated that corporate social responsibility is an important driver mechanism for companies to be more innovative, efficient and effective. However, generally most of the small company implementation of CSR is done on an occasional basis, and not tied to business strategy. The real advantages will only be realized once CSR is tied to the core decision-making process. If SMEs add value to their business operations at the same time as behaving responsibility, there will be a real chance of positive change.

Despite the growth in CSR in recent years, practice is still mainly the preserve of large companies and is often tied to notions of sacrifice for small companies. There is still not enough belief in added value from CSR implementation. This can be partly attributed to a lack of adequate metrics with show the value of various CSR elements. The study described within this article aimed towards developing a better understanding of how CSR initiatives can lead to successful innovation in SMEs. The development of the innovation capabilities of SMEs through responsible and sustainable initiatives can contribute to the competitiveness of SMEs and the development of regional economies.

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