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## **Corporate social responsibility and SME's competitiveness**

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**Abstract:** Corporate social responsibility (CSR) is both a core and emerging issue in management. Recently, many contributions were developed by scholars and practitioners to better understand the phenomenon and its practical relevance for the corporations. However, defining the phenomenon and the specific characteristics it assumes particular to individual corporations is challenging. Moreover, it is directly linked to the perceptions and values of managerial personal, the specific characteristics of the business, and the size of the corporations. Many contributions have been developed to investigate the relationship between the CSR and the corporate social performance (CSP) of the corporations but inconsistent results were found and very little is known about the phenomenon inside the small and medium sized firms (Spence, 1999, 2007; Thompson and Smith, 1991). This paper tries to investigate this research problem following an empirical approach based on direct interviews to the CEOs of Italian small and medium sized enterprises (SMEs) which developed successful CSR strategies.

**Keywords:** corporate social responsibility; CSR; small and medium sized enterprises; SME; competitiveness; strategic CSR; business sustainability.

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## 1 Introduction

Notwithstanding a great proliferation of definitions, theories (Garriga and Melè, 2004) and approaches (Carroll, 1979; Commission of the European Communities, 2001; McWilliams and Siegel, 2001; OECD, 2000; Sethi, 1990; World Business Council for Sustainable Development, 2000, 2001;), there is still a certain degree of uncertainty about the ways in which the concept of sustainability and corporate social responsibility (CSR) can be applied into the business environments and the exact meaning of the terms. Moreover, the specificities of each corporation – in terms of dimension, industry, corporate governance system, etc. – directly affect the capability to develop structured CSR strategies (Campbell, 2007; Maignan and Ralston, 2002; Simpson and Kothers, 2002). For example, different approaches were been developed by large corporations and by small and medium enterprises (SME) due to the specific characteristics of SMEs (Holliday, 1995; Spence, 1999; Spence and Rutherford, 2003; Tilley, 2000). They cannot be viewed as ‘little big firms’ (Tilley, 2000) and they are characterised by specific traits which distinguish them from large corporations (Spence, 1999; Spence and Rutherford, 2003). Despite their important role, very little is known about the way in which they can successfully implement sustainable business models and a knowledge gap

exists regarding the phenomenon of CSR in small and medium sized firms (Spence, 1999, 2007; Thompson and Smith, 1991).

The paper is organised as follows. First, we offer a literature review concerning the most relevant contributions given by recent research in order to shed light on:

- 1 the definition of the phenomenon
- 2 the strategic dimension of CSR
- 3 the characteristics of CSR systems implemented by SMEs.

We next present the methodology used for the empirical investigation of the phenomenon and the main results of the study. Finally, expected implications and future research development are discussed.

## **2 Theoretical background and research questions**

Corporate Social Responsibility is “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (Commission of the European Communities, 2001) and it is represented by the “continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large” (World Business Council for Sustainable Development, 2000). We believe there are three key points to highlight:

- 1 the voluntary nature of the phenomenon
- 2 the capability of the firm to integrate environmental, social and economic objects inside its strategy
- 3 the view of the phenomenon as an instrument to create value for different stakeholders of the companies.

These points make CSR an area of company's strategic behaviour relevant in developing its strategic advantage through the alignment of firm's economic and financial objectives with public objectives backed by different stakeholders (Khoury et al., 1999; Parmar et al., 2010; Tantalo, 2011; Tantalo and Priem, 2010; Tantalo et al., 2011). Many scholars have explored the linkages between CSR engagement and competitive advantage (Burke and Logsdon, 1996; Porter and Kramer, 2006); Corporate social performance (CSP) and corporate financial performance (CFP) (Brammer and Millington, 2008; Griffin and Mahon, 1997; Margolis and Walsh, 2001; McWilliams and Siegel, 2000; Russo and Fouts, 1997; Waddock and Graves, 1997; Wood, 1991). Part of this work has suffered some methodological limitation such as: model misspecification, measurement errors, insufficient scope of the data set (Igalens and Gond, 2005; Lee, 2008; Margolis et al., 2007; Orlitzky et al., 2003) and the inability of these models to specify under what conditions CSR can be categorised as strategic (Husted and Allen, 2007). CSP and CFP, however, are generally found to be positively related across a wide variety of industries (Orlitzky et al., 2003).

A high degree of social commitment helps a firm protect and increase its intangible assets, which, in turn, strongly influences its success in the competitive context (Dyer and Singh, 1998; McEvily and Zaheer, 1999; Morgan and Hunt, 1999). In particular, support of CSR: helps build a positive image with customers, investors, bankers and suppliers (Fombrun and Shanley, 1990); increases firm's reputation (Zyglidopoulos, 2002; McWilliams and Siegel, 2001) and corporate identity (Hosmer, 1994); builds support from stakeholders that is necessary for firm survival (Clarkson, 1995); increases relational linkages (Barney and Hansen, 1994; Nahapiet and Ghosal, 1998; Waddock and Graves, 1997); may attract better employees (Greening and Turban, 2000) or increase current employees' goodwill (Waddock and Graves, 1997); represents a popular means of achieving differentiation (McWilliams and Siegel, 2001); and provides an insurance mechanism to preserve than generate CFP (Godfrey et al., 2009). According to the resource-based view (RBV), CSR can be viewed as a means to generate intangible resources which can be a source of competitive advantage of the firm and, in turn, which can affect the value creation capability of the corporation, (Barney, 1991; Priem and Butler, 2001).

Furthermore, under specific conditions, "CSR can be much more than a cost, a constraint, or a charitable deed – it can be a source of opportunity, innovation and competitive advantage" (Porter and Kramer, 2006). This occurs when CSR projects work in ways that seek to create competitive advantage for the firm (Burke and Logsdon, 1996) underling the strategic nature of CSR. This may exist when a corporate social strategy (CSS) has been developed as a part of competitive strategy and in which competitive advantage is the result of the fit between the firm's social strategy and the external environment, including market and non-market stakeholders, as well as the firm's internal environment, including values and resources (Andrews, 1987; Husted and Allen, 2007). This kind of strategy focuses on the relationship of non-value chain related activities to the creation of competitive advantage, and in turn, to the value creation process. Thus, according to the RBV of the firm, CSR can be viewed as a specific strategy which generates valuable, rare, inimitable, and effectively organised resources, (Barney, 1991; Peteraf, 1993; Priem and Butler, 2001), addressing a social issue in order to achieve long-term objectives and create competitive advantage (Husted and Allen, 2000).

Despite many researchers who have postulated that linkages exist between social responsibility and the creation of competitive advantage, the nature of those linkages and the conditions under which they exist are often underspecified or not specified at all (Porter and Kramer, 2006). Moreover, the way in which CSR policies are developed is directly affected by the managerial perception of the phenomenon, as such, not all CSR policies will in turn directly affect the firm's competitive advantage. Some studies recognised that good ethical practices and integrity create potential competitive advantage for some small firms (Spence, 1999; Wilson, 1980) but theoretical and practical gaps still exist. In particular, questions like "How do managers perceive the phenomenon?", "What is the nature of the activities which need to be strategically implemented?" and "What is the nature of the relationship between the corporate effort in these activities and the capability of the firm to acquire a competitive advantage in respect to the other competitors?" represent some gaps we address. The main critical issue is represented by a better understanding of the linkages between the involvement in specific CSR activities and the competitiveness of the firms, defined as the capability of the firm to improve its competitive advantage inside its specific industry, through a

higher effort in a social strategy development because of the benefits highlighted above (Barney, 1991). This represents the key issue to review the previous empirical contributions which investigate the unclear relationship between corporate social performance of the firm and its financial performance (Waddock and Graves, 1997).

### *2.1 Corporate social responsibility in SMEs*

Many key characteristics distinguish CSR policies in SMEs (see Spence, 2007 for an exhaustive review): a lack of codification of CSR in SMEs (Moore and Spence, 2006; Murillo and Lozano, 2006; Spence and Lozano, 2000); personal motivations prevail over others motivations such as marketing approach, strategic or public relations approach (Jenkins, 2004a, 2004b; Spence, 2000). Generally, when a firm engages in social responsibility activities the owner-manager is the primary person responsible to develop and implement CSR activities. The involvement of the firms in local communities (Spence et al., 2004; Tencati et al., 2004) affects the choice of the firm to focus on socially responsible behaviours (Spence, 2004); the importance of social capital and informal relationships for the success of the firms – which is closely linked to their reputation – represent an important input to act with honesty and integrity (Spence et al., 2004); the central role played by human resources in small firms generates a high commitment of the corporations in employees and their employee's families' well being (Jenkins, 2004a, 2004b; Spence et al., 2004); the industry in which the firms operate directly affects their approach to CSR (Spence et al., 2004).

The nature of CSR implemented in small and medium-sized firms is mostly tacit. So, small businesses are sometimes assumed to perform poorly in socially responsible activities (Jenkins, 2006). This is a consequence of the characteristics which distinguish SMEs from big corporations, which adopt formalised and more structured CSR systems. This confirms the different nature SMEs and large corporations (Holliday, 1995). Furthermore, the academic work on small firms is limited (Spence, 1999). To fill this knowledge gap in the CSR – SMEs relationship, Spence (1999) suggests that there are four main contextual problems (definition, assumptions, clarity and method) that should be addressed to further improve the knowledge of the phenomenon in a SME context. Many of these problematic points can be addressed by better investigating the managers' perceptions of the phenomenon, the nature of socially responsible activities developed, and the link between these and the competitiveness of the firms (Spence, 2007). These represent the main contribution of our paper.

## **3 Methodology**

According to the specificity of our research questions, the first step is represented by a better understanding of the characteristics of the phenomenon in SMEs in terms of: the way in which the managers/owners perceive and develop the phenomenon because this directly affects the nature of the CSR activities which are strategically developed by the corporation; the nature of the activities and the strategic involvement of the corporation; the relation between the effort in each strategic CSR activity and the effect of this on the competitiveness of the corporation.

Obtaining data about this is difficult because of the voluntary nature of the phenomenon and the lack of a codified general rules to develop CSR inside each corporation. For this reason, we needed to gather primary data rather than secondary sources and to base our methodology on an exploratory study. To do this we held directed interviews and asked open-ended questions to a sample of 50 CEO/CSR Directors of Italian SMEs. We next summarise our field procedures.

### *Step I The sample selection*

We decided to select the sample following the criteria of national ‘best in class’ firms. They are represented by Italian SMEs which developed sustainable strategies in the last five years and they were explicitly recognised by national institutions – such as Sodalitas organisation<sup>1</sup>. In this way, we argue that:

- The adoption of a strategic approach for CSR management is required to better understand the phenomenon in terms of kinds of activities which can be developed by firms in order to their own perception of the social responsibility of the corporation.
- The medium – long run (5 years) is necessary to highlight the nature of the linkages between the strategic development of CSR and the competitiveness of the firms.
- Shared knowledge showing real examples represent an effectively way to underlie the compatibility of the sustainable strategies and the constraints of the small and medium sized firms.

They are represented by Italian SMEs which received a national award in the last five years for the development of CSR activities. We used the Sodalitas Social Solution Database to select the sample. It contains more than 1200 national CSR experiences classified by size/industry of the enterprise, principle content of the project, location of the initiative and kind of award received. The small and medium sized firm category encompasses 87 SMEs. Each of them was called to ask for their involvement and 50 of them accepted to participate to our research. Given our research goals, the sample of 50 firms is appropriate and robust enough to generalise to Italian firms that wish to pursue CSR activities.

### *Step II The sample description*

The sample can be described by three main characteristics:

- Industries<sup>2</sup>: services (40%), hard goods (36%), soft goods (18%) and large-scale retail trade (6%)
- Size<sup>3</sup> – medium-sized firms (56%) and small firms (44%)
- Geographical location – Northern Italy (54%), Centre and Southern Italy (46%)

### *Step III The pilot study and the semi-structured surveys*

A pilot study was necessary because of the specificities of SMEs (see Spence, 2007, for an exhaustive review) in terms of:

- The tacit nature of the phenomenon – the manager/owner unwittingly develops many activities and they do not explicitly recognise these as socially responsible activities.
- These activities are included inside the strategic orientation of the corporation and they belong to the ordinary activity of the firm.
- The activities which are explicitly recognized as socially responsible policies reflect the personal values and the ‘philosophy’ on which the owner/manager bases the management process of the firm.
- Any tools or metrics used to quantify the effects of the phenomenon on firms’ competitiveness are difficult and rarely used.

For the reasons above, the pilot surveys of seven SMEs was aimed at understanding the most effective structure of the interview (open-ended rather than closed-ended questions; a qualitative rather than a quantitative approach) which fit with our specific research goals, in terms of: the managers’ perceptions of the phenomenon; the nature of the activities developed by each firm; the effort of firm’s involvement in these activities and their relative affect on the firm’s competitiveness. Direct interviews were conducted to seven managers who directly manage the CSR activities. The results we gathered in this pilot study suggested that: open questions better fit with our aim to understand the nature of the CSR activities strategically implemented by SMEs and the managerial perception of the phenomenon; a quantitative approach was useful to quantify the degree of involvement in these policies and the effect on the firm’s competitiveness.

This exploratory approach follows Eisenhardt’s (1989) suggestion that when a particular issue such as this has not yet been studied, or it has been not been updated and validated for some time, a qualitative approach is most appropriate.

#### *Step IV The direct interviews*

Direct interviews were conducted with 50 managers/owners who directly developed the award winning CSR policy in their company. In particular, they are represented by CSR directors (24), Owners/CEOs (23) and Presidents (3). Some of the interviews were conducted by phone (80%) and the remainder (20%) were conducted face to face. Each interview took from 40 minutes to 60 minutes. The questions were formulated in the following way:

- 1 We asked the participant to make a list of all the activities that the corporation developed in the last five years with the purpose to create value – not just for the shareholders but for some of the stakeholders of the corporation (like the employees, the suppliers, the customers, the local community and the environment). In this way, the CSR activities were recognised as those strategic activities which are able to align public and private interests creating economic, social and environmental value (according to the definitions of CSR presented above).
- 2 A personal perception of the phenomenon which is based on the strategic orientation of the firm.
- 3 A personal judgement about the involvement of the corporation in each activity (Likert scale from 1 to 4) and their relative effect on the competitiveness of the firm (Likert scale from 1 to 4).

## 4 Data analysis and results

### 4.1 *What CSR means for the SMEs*

We asked to managers to give a definition of the phenomenon in order to understand the perception that they have about CSR and the principal motivations based on these activities. Due to the lack of consensus on the exact meaning of the phenomenon, this represented a good starting point. The definitions given by the interviewees are characterised by a high degree of heterogeneity. However, many common aspects can be summarised:

- The recognition of the firm as a social actor – It directly affects both the society and the local community in which it operates. The firm can be viewed as a citizen with rights and social duties. So, CSR becomes an instrument to align public and private interest, satisfying the requirements not just of shareholder but of all stakeholders, and minimising the environmental and social effects of the corporation.
- The necessity to integrate social and economic/financial objectives – CSR can be viewed as a means to create economic value and shared wealth integrating multiple goals of different stakeholders into the firm's management process.
- The explicit recognition of the strategic dimension of the phenomenon – So, CSR can be a source of a firms' competitive advantage and shared wealth for the society. This occurs when a sustainable approach is directly included into the strategy of the firm and it fits with the core business of the corporation and its business philosophy. This excludes all the CSR activities developed as a marketing tool to improve corporate image and reputation.
- The voluntarily nature of the phenomenon – The firms may engage in CSR activities by their own choice. The corporations may satisfy the needs of the society doing more than as required by law. This occurs when CSR principles are included into the strategic orientation of the firms.
- The primary role of the stakeholders relationships – Satisfying the social requirements of the primary stakeholders of the firm (shareholders, customers, employees, suppliers and public actors; Clarkson, 1995) represents a way to generate shared wealth for all stakeholders, including shareholders. This effectively works when relationships are based on trust and transparency. Engaging in CSR activities represents, in turn, the primary means in which to create trust-based relationships with stakeholders.
- The local involvement of the firms – This represents the main input to use CSR to create shared value/wealth for both the local community and the stakeholders, aligning private interests to social requirements of the external environment of the firm.
- The internal environment of the corporation – CSR policies increases the wealth of the employees, who can represent one of the most important sources of competitive advantage.

- The simultaneous process – The firms can align different interests of the myriad of stakeholders further developing the strategic nature of the phenomenon. This strategic orientation recognises a central role to the human dimension, social dynamics and environmental issues.
- CSR as an opportunity – The responsibility of business is perceived as a means to satisfy both the social demands of stakeholders and the financial goals of shareholders. This may represent an opportunity when it is directly involved in the strategic orientation of the firm.

#### *4.2 The nature of the CSR policies implemented by SMEs*

The nature of the activities developed by SMEs directly reflects their perceptions of the phenomenon. However, not all activities are recognised by SMEs as socially responsible policies, despite their sustainable nature. This for two reasons:

A socially responsible orientation represents a frequent way by which SMEs develop their strategies. The strategic decisions of the firms are based on strong values of the owners/managers; quite often they also consider different stakeholders' interests. Social responsibility encompasses SME's business orientation, even if it frequently remains 'implicit'. Few activities are mentioned as directly aimed to improve company's sustainability, most part are considered part of ordinary activities.

The set of companies we interviewed listed 13 homogeneous categories of activities relevant do the sustainability (See Table 1).

Most of the CSR activities are developed to create value for the employees and they are described by activities such as employee care, direct employee involvement, employee health and safety/working environment, employee training, employment of disabled people, social involvement of employees, special activities for employees and their families, and work life balance policies. The aim of these activities is: to create value for the employees and their families by increasing the integration and the cooperation between the people; improving the skills and the knowledge of employees; valorising the personal human dimension of each employee. The involvement of employees in the strategic orientation of the firm means to recognise them with an active and primary role into the firms which, in turn, positively affect the business environment and the empowerment of everyone. The nature of the activities developed by SMEs is heterogeneous. Many benefits are directly linked to these activities such as: increase the quality of working environment; the wealth and the satisfaction of employees; improve their trust in the corporation; the company atmosphere and the productivity of employees; facilitate the recruitment of talented human capital; increase the productivity because of a cooperative working environment. The fact that most of the activities are focused on creation of value for the employees explicitly recognises the critical role assumed by human resources in SMEs. Furthermore, a high level of care for employees may positively affect the firm's performance because of the importance of the quality of knowledge and competencies of the employees for SMEs.

**Table 1** Categories of CSR activities

|   | Percentage | Frequency | Content   |
|---|------------|-----------|---|
| Value creation for employees                  | 30%        | 65        | Employees care, employees direct involvement, employees health and safety/working environment care and safety, employees training, involvement of disabled people as employees, social employees involvement, special activities for employees and their families, work life balance policies |
| Ethical communication/cause related marketing | 13%        | 29        | Cause related marketing, ethical communication and orientation, Ethics code/sustainability reports  |
| Value creation for customers                  | 11%        | 25        | Customer care, customer satisfaction and sustainable products/productivity process  |
| Value creation for the local community        | 9%         | 20        | Co-operation with local organizations/institutions (schools, organizations of disabled people) and support and involvement of the local community   |
| Environmental care                            | 8%         | 18        | Internal environmental policies and footprint reduction activities  |
| Philanthropy (Donations/Onlus/Foundations)    | 6%         | 13        | Financial or products donations, Onlus/foundations building   |
| Value creation for the society                | 6%         | 14        | Support to international social projects/social projects and support to the society   |
| Value creation for suppliers                  | 4%         | 9         | Suppliers monitoring/partnership  |
| Certifications                                | 3%         | 7         | Environmental, quality, social certification systems  |
| Ethical procurement                           | 3%         | 7         | Green either and organic material rows  |
| CSR network                                   | 2%         | 4         | Building partnership with the aim to implement CSR projects   |
| Stakeholder/corporate care                    | 2%         | 5         | Value creation for each stakeholders group, compliance the business obligations   |
| Sustainable innovation                        | 2%         | 4         | Investments which are able to reduce the environmental footprint and to create value for the customers and the society  |

The second category of activities is represented by the Ethical communication/Cause related marketing which is composed of activities like Ethics code/Sustainability reports, partnership with non-profit organisations, and sponsorship and communication with social aims. Communication activities, per se, are not largely implemented by SMEs. This is because the CSR is something directly embedded into the strategic orientation of the corporation and it is not used as a marketing tool. The communication as CSR instrument is characterised by specific characteristics which distinguish it from the marketing communication. In particular, this assumes a strategic dimension when it is aimed to: communicate CSR values of the firms; focus attention on social issues such as environmental protection, child labour, harmful substance prohibition, etc.; and to 'Give the example' communicating their own CSR strategy. This represents a valid tool to highlight how SMEs can act socially responsible despite financial and structural limitations that may exist. The benefits directly linked to these activities are: higher satisfaction of customers who attribute value to CSR activities; a better reputation and visibility of the firm; higher motivation and productivity of human resources; a better business atmosphere and internal cooperation; and, stronger relations with local community and institutions.

Value for customers is created by a sustainable process and products – which are obtained by an ethical product chain – customers care about policies and customer satisfaction oriented activities. Value for the local community is created by the cooperation with local organisations/institutions (schools, organisations of disabled people) and supporting/involving the local community with direct donation/support to local people/organisations. The strong involvement of SMEs in a local community is evidenced by specific activities such as: directly support local community not just by financial resources but involving structural and human resources of the corporation for the development of real local projects; concrete support to institutions and associations which operate at local level (for examples schools, social cooperative, etc.); the development of activities which are aimed to sensitise and to educate young people to social issues; the promotion of a local network which encompass local economic actors and institutions; and, the implementation of projects which are aimed to generate shared value for the community.

The environmental care is aimed at reducing the environmental footprint of the organisation. For this reason, different internal policies are developed in terms of minimising adverse climate actions, minimising adverse effects on natural resources, internal transportation policies, and internal environmental teams who are responsible for environmental policies promotion and diffusion. The value for the society is created by direct support to social projects and by donations (financial or in terms of products donations)/creation of corporate foundations which are able to develop social projects and create value for disadvantaged people. Strong supplier monitoring and partnership agreements are developed to create value for suppliers. Adding to this ethical procurement and certifications systems contribute to the value creation in each step of the value chain of the corporation. Finally, value for shareholders is created by a stakeholder/corporate care approach to the corporation management which is aimed at guaranteeing the survival and the long term profitability of the corporation. Many support activities are developed to make the profile of the corporation more sustainable such as CSR network development and sustainable innovation.

### 4.3 *The CSR policies and the benefits on the firm's competitiveness*

To confirm the benefits that CSR activities have on many components of the firm's competitiveness, we asked to the managers/owners to quantify their perceptions about this topic, using a Likert scale from 1 to 4. A linear regression shows the existence of the relationship between the strategic CSR involvement of the corporation and the reported competitiveness of the firm. The results confirm a generally strong positive relation between the CSR effort of the corporation and its competitiveness ( $p < 0.01$ ). However, the  $R^2$  of the model is low due to the lack of many variables which directly affect the firm performance and which were not considered in this regression.

Furthermore, the managerial perception of the effect of each category on the firm's competitiveness is different because of the different nature of the activities developed. Our results suggest, for example, that the managers perceived the sustainable innovation as the category in which the firms put the most effort – despite just few of them invest in this kind of innovation (see Table 2) – and which strongly, positively affect their competitive profile. These kinds of innovations in fact, create value not just for the society but for the corporation because of their effect on the firm's efficiency (we are referring to all innovations which are able to have a positive effect on the creation of shared value for the society like production plant which are able to reduce the environmental footprint, etc.).

A positive strong effect of the customer value creation process is confirmed by the managerial perceptions. The activities developed are aimed to create value improving the overall product quality and reliability – adopting an ethical production process – and delivering products which are able to directly affect the value for the customers (for example, because they are able to have a positive effect on people health because of some extra nutritional characteristic which are included in the basic version of the product). These activities create value for the customers due to: an explicit orientation to value creation oriented for the customers and for everyone involved in the production process; the recognition of a customer care approach into the long term strategic approach of the corporation; and, the creation of products which improve the value not only for customers, but for society as whole. The products which are aimed to creating social value, in fact, may satisfy some of these characteristics: oriented to environmental care and not using dangerous substances; obtained by and earmarked for fair trade economy; and, accessible and usable by all consumers. The managers confirmed a positive relation on the firm competitiveness in terms of terms of differentiation advantage due to: the traceability of the product and its safety; customer care given by the transparency in the production process and the real usability of the product; and, the respect of the environment obtained by an ethical production process able to minimise the ecological footprint of the corporation.

However, the capability of the activities to generate competitive advantage is moderated by the value that consumers explicitly recognised on these dimensions. The higher the importance that the market gives to these activities, the higher is the effect on the firm long-run competitiveness.

**Table 2** CSR involvement and firm's competitiveness

|     |   |              | <i>Effect on the<br/>competitiveness</i> | <i>Involvement of<br/>the corporation</i> |
|-----|---|--------------|--|---|
| 1   | <i>Ethical communication/cause<br/>related marketing</i>  | Average      | 3.17                                     | 3.28                                      |
|     |   | St Deviation | (0.75)                                   | (0.74)                                    |
| 1.1 | Cause related marketing   | Average      | 2.87                                     | 3.27                                      |
|     |   | St Deviation | 0.83                                     | 0.80                                      |
| 1.2 | Ethical communication<br>and orientation  | Average      | 3.78                                     | 3.44                                      |
|     |   | St Deviation | 0.44                                     | 0.73                                      |
| 1.3 | Ethics code/<br>sustainability reports  | Average      | 3.00                                     | 3.00                                      |
|     |   | St Deviation | 0.00                                     | 0.71                                      |
| 2   | <i>Certifications</i>   | Average      | 3.29                                     | 3.14                                      |
|     |   | St Deviation | (0.49)                                   | (0.90)                                    |
| 2.1 | Certifications  | Average      | 3.29                                     | 3.14                                      |
|     |   | St Deviation | 0.49                                     | 0.90                                      |
| 3   | <i>Value creation for the local<br/>community</i>   | Average      | 3.05                                     | 3.10                                      |
|     |   | St Deviation | (0.94)                                   | (0.79)                                    |
| 3.1 | Cooperation with<br>external organisations/<br>institutions (schools,<br>organisations of disabled<br>people) | Average      | 2.60                                     | 2.90                                      |
|     |   | St Deviation | 0.97                                     | 0.74                                      |
| 3.2 | Support and involvement<br>of the local community   | Average      | 3.50                                     | 3.33                                      |
|     |   | St Deviation | 0.67                                     | 0.78                                      |
| 4   | <i>Stakeholder/corporate care</i>   |              |  |   |
| 4.1 | Stakeholder/corporate<br>care   | Average      | 3.60                                     | 3.60                                      |
|     |   | St Deviation | 0.89                                     | 0.55                                      |
| 5   | <i>CSR network</i>  |              |  |   |
| 5.1 | CSR network   | Average      | 3.50                                     | 3.25                                      |
|     |   | St Deviation | 0.58                                     | 0.96                                      |
| 6   | <i>Value creation for customers</i>   | Average      | 3.64                                     | 3.72                                      |
|     |   | St Deviation | (0.7)                                    | (0.46)                                    |
| 6.1 | Customer care   | Average      | 3.75                                     | 3.50                                      |
|     |   | St Deviation | 0.50                                     | 0.58                                      |
| 6.2 | Customer satisfaction   | Average      | 4.00                                     | 4.00                                      |
|     |   | St Deviation | 0.00                                     | 0.00                                      |
| 6.3 | Sustainable products/<br>productivity process   | Average      | 3.60                                     | 3.75                                      |
|     |   | St Deviation | 0.75                                     | 0.44                                      |

**Table 2** CSR involvement and firm's competitiveness (continued)

|      |   |              | <i>Effect on the competitiveness</i> | <i>Involvement of the corporation</i> |
|------|---|--------------|--------------------------------------|---------------------------------------|
| 7    | <i>Value creation for employees</i>                             | Average      | 3.31                                 | 3.66                                  |
|      |   | St Deviation | (0.53)                               | (0.79)                                |
| 7.1  | Employees care  | Average      | 3.26                                 | 3.67                                  |
|      |   | St Deviation | 0.81                                 | 0.69                                  |
| 7.2  | Employees involvement   | Average      | 2.43                                 | 3.71                                  |
|      |   | St Deviation | 1.40                                 | 0.49                                  |
| 7.3  | Employees health and safety/working environment care and safety | Average      | 3.15                                 | 3.62                                  |
|      |   | St Deviation | 1.07                                 | 0.77                                  |
| 7.4  | Employees training  | Average      | 3.67                                 | 3.56                                  |
|      |   | St Deviation | 0.50                                 | 0.73                                  |
| 7.5  | Involvement of disabled people as employees                     | Average      | 3.00                                 | 4.00                                  |
|      |   | St Deviation | 1.41                                 | 0.00                                  |
| 7.6  | Work life balance   | Average      | 3.73                                 | 3.67                                  |
|      |   | St Deviation | 0.46                                 | 0.49                                  |
| 8    | <i>Ethical procurement</i>                                      |              |                                      |                                       |
| 8.1  | Ethical procurement   | Average      | 3.43                                 | 3.43                                  |
|      |   | St Deviation | 0.53                                 | 0.79                                  |
| 9    | <i>Environmental care</i>                                       |              |                                      |                                       |
| 9.1  | Internal environmental policies/footprint reduction             | Average      | 3.39                                 | 3.67                                  |
|      |   | St Deviation | 0.70                                 | 0.49                                  |
| 10   | <i>Philanthropy (Donations/Onlus/Foundations)</i>               |              |                                      |                                       |
| 10.1 | Philanthropy (Donations/Onlus/Foundations)                      | Average      | 3.08                                 | 3.54                                  |
|      |   | St Deviation | 0.95                                 | 0.52                                  |
| 11   | <i>Value creation for suppliers</i>                             |              |                                      |                                       |
| 11.1 | Suppliers monitoring/partnership                                | Average      | 3.22                                 | 3.44                                  |
|      |   | St Deviation | 0.83                                 | 0.73                                  |
| 12   | <i>Value creation for the society</i>                           |              |                                      |                                       |
| 12.1 | Support to the society  | Average      | 2.93                                 | 3.50                                  |
|      |   | St Deviation | 0.73                                 | 0.65                                  |
| 13   | <i>Sustainable innovation</i>                                   |              |                                      |                                       |
| 13.1 | Sustainable innovation  | Average      | 4.00                                 | 3.75                                  |
|      |   | St Deviation | 0.00                                 | 0.50                                  |

The third variable which the managers perceived as very important for the firm's competitiveness is represented by the capability of the corporation to effectively satisfy the needs of its stakeholders and to guarantee the satisfactions of all the obligations of the firm. In this way the corporation can be viewed as an institution which is responsible not

just for itself, but for the entire group of stakeholders who are – directly or indirectly – involved by the activity of the organisation.

The high involvement that the corporations show in the activity aimed to create value for their employees seems to not proportionally affect the competitiveness of the corporations. This paradox can be solved referring to relative affect of each single activity of the category. The positive affect is confirmed for all those activities which are able to valorise the human resources - in terms of training – and their families – in terms of work life balance policies. A disproportional effect is registered for all those activities which try to directly involve the employee in the firm's management. This may be interpreted in terms of high personal pressure which is linked to the knowledge of problems which cannot be solved by they themselves, but by other people such as managers/owners. In order to hire disabled people, this choice has two main reasons: external benefits – it represents an opportunity for disabled people to have employment and to integrate itself into a business environment by their own capabilities; and internal benefits – it triggers a cultural process which directly affects the business atmosphere due to: solidarity spirit, cooperation, trust, etc.

An ethical supply chain management and an ethical procurement are perceived as a source of competitive advantage because of the internal and external value generated. The first one is directly linked to the positive effects on the production process. The second one is related to the social value generated for suppliers, employees and the society. Selecting and monitoring supplier and the procurement process means having raw materials which respects quality standards and ethical production processes. This determines the intensity of relations with suppliers, which, in turn, generates: improvement in professional skills of both suppliers and firms because of sharing of values, management systems and best practices; reinforcement of the social capital of the firm (for more details see Burt, 1992; Coleman, 1988); higher quality level of supply provisions.

SMEs focused on the environmental issues implement a myriad of activities: the adoption of systems aimed to minimise the ecological footprint of the corporation (e.g., using internal policies for transportations, energy savings, etc.); the implementation of discharge reduction by climate management strategies; the minimisation of the natural resources used in the business processes of the corporation; the realisation of investments in research and development to generate innovations to be able to minimise the impact of the firm on the environment; and, dedicating groups of employees to manage environmental issues.

## **5 Discussion, implications and future direction**

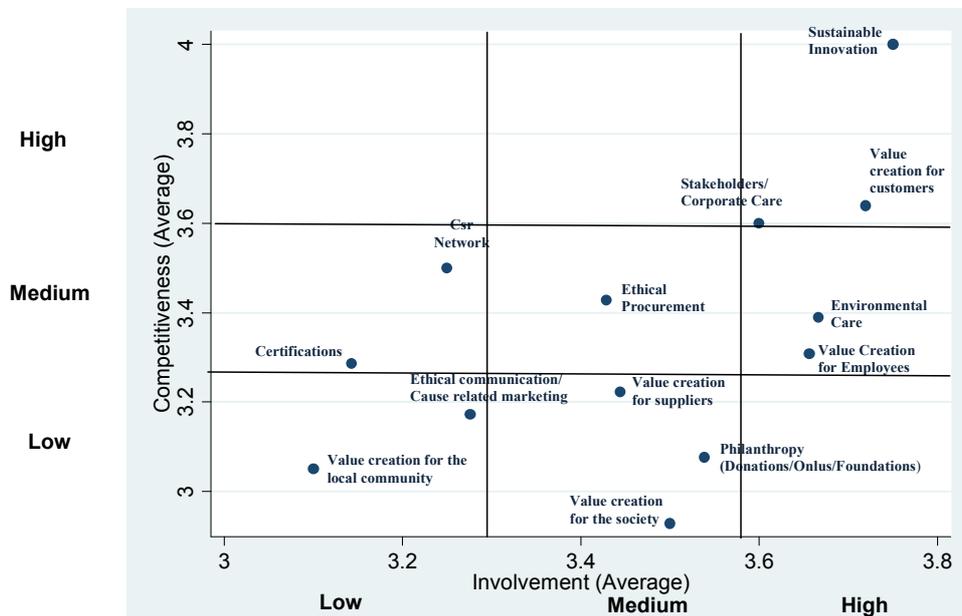
### *5.1 Discussion*

The structural and financial limitations of SMEs, their local involvement and the important role played by the human capital, directly affect the prioritisation process used by managers to develop specific socially responsible activities. For these reasons, rarely SMEs use CSR as a 'marketing tool' to improve external positioning of the corporation. In contrast, the core of CSR activities is represented by:

- Activities which create value for: employees and their families; local community and territory in which the firm operates; society as whole; environmental care.
- Generating value for customers by an ethical production process and an ethical supply chain management.

We can see the relation between the involvement of the firms in the CSR activities and the affect of these on the firms competitiveness on a perception map in which each category is characterised by a pair of: specific degree of firm’s effort in the developed of CSR activities in that category; the intensity of the effect of this on the firm’s competitiveness (low, medium, high).

**Figure 1** Matrix CSR involvement/SME’s competitiveness (see online version for colours)



In this way, the firms can analyse the general positive relationship in terms of nine different combinations. In our study, the categories can be represented in:

- 1 Low involvement/low importance for the competitiveness – this section represents the activities in which the firm’s does not put a high effort on, resulting in a low effect on competitiveness. They are, for the managerial perceptions, the value creation for the local community and the ethical communication/cause related marketing. The general justification that the managers gave was in term of lack of sensitivity of the society to recognise the importance of some social issues. Furthermore, despite the local community failing to recognise the firm’s effort in the support of the local development, the corporations continue to implement this kind of activity because they believe that their success is directly linked to their location and that they are responsible to share their success with the local as the firms are using part of the local resources to satisfy private interests.

- 2 Low involvement/medium importance for the competitiveness – this section represents certification systems (environmental, quality and social) and the involvement of the corporations in the development of CSR activities with other firms (network). This may be linked to many benefits which directly affect the firms competitiveness in terms of technical efficiency related to the certifications and the knowledge sharing linked to the network.
- 3 Low involvement/high importance for the competitiveness – there are few efforts found in this area as it would describe a clear need for the organisation while demonstrating a lack of action. Firms would not last long if they were positioned thus.
- 4 Medium involvement/low importance for the competitiveness; value creation for suppliers; philanthropy and the value creation for the society. The medium involvement of the corporation for these activities is justified by their effort in the value creation of shared value rather than only for private value. However, the managerial perception of their effect on the competitiveness of the firm is low because the external environment doesn't explicitly recognise the social involvement of the corporation (in terms of premium price or higher sales) or the importance of which to create value through suppliers' partnership and monitoring.
- 5 Medium involvement/medium importance for the competitiveness. The categories which show these characteristics is represented by the ethical procurement because the importance which the material row and their provenience assume into the production process of the firm.
- 6 Medium involvement/ high importance for the competitiveness.
- 7 High involvement/low importance for the competitiveness.
- 8 High involvement/medium importance for the competitiveness. They are represented by the environmental care and the value creation for the employees. The considerations we explained in the paragraphs above are confirmed.
- 9 High involvement/high importance for the competitiveness. Sustainable innovation, the value creation for customers and the stakeholders/corporate care represents the groups of activities which the managers perceived most important for the competitiveness of the corporation and in which they show the most effort.

This new point of view confirmed that not all CSR activities may positively affect the competitive profile of the corporations but some of them represent opportunities which the corporations can implement to create shared value. This value creation is not just for their shareholders but for their stakeholders as a whole.

## *5.2 Conclusions and contributions*

The paper sheds light on some relevant issues regarding the development of sustainability and sustainable behaviour among small and medium sized firms in terms of: the perception of the phenomenon; the nature of the activities which are usually implemented by SMEs, despite their potential limited financial resources; the linkages of the firm's

effort in these activities and the affect on the firm's competitiveness perceived by managers.

The results of our research underline that SMEs consider sustainability not as a constraint or as a mere opportunity to improve their image. Sustainability is at the core of strategic orientation and affects key strategic decisions. It offers a strategic tool to manage the firm integrating economic objectives with social and environmental issues and aligning private and public interests satisfying the needs of different stakeholders. This is based on the managerial perception of the firm as a social actor, which directly affects and it is affected by the external environment in which it operates. For this reason, sustainability principles are strategically incorporated into the business models of the firms guiding the behaviour of the corporation. This strategic approach to CSR gives the firms the opportunity to achieve the benefits recognised by the literature and to positively affect the firm's performance. This may be viewed as the reason why opposite results were obtained by previous scholars about the relationship between CSR and CSP. Not all the activities positively affect the firm's performance and just a strategic approach to them may be able to transform these investments in Competitive Advantage for the firm.

Many heterogeneous activities have been developed based on different modalities by which they affect the firm's competitiveness. Many benefits are largely recognised to the result of the implementation of these activities. However, these are confirmed just when sustainability principles are recognised into the strategic orientation of the firm. This excludes all the activities developed with the pure aim to increase the visibility of the firm and used as a marketing communication channel. Adopting a 'responsible strategic approach' is directly linked to a different approach to develop the business activity. It represents a new way to compete into the traditional competitive environment. The magnitude of benefits linked to the adoption of the sustainable business model depends on the strategic fit between the internal and external environment of the firm which depends, in turn, on: the stakeholder's recognition of the value effectively created by the corporations; the capability of the firm to create value for different stakeholders satisfying their different needs, following a sustainable value creation process model (Tantalo, 2011; Tantalo and Priem, 2010). Our findings clearly show that the strategic orientation to the CSR and the involvement of the corporations in these activities may have positive benefits on the competitive profile of the corporations. Still, a strategic management to CSR is necessary and this is the reason why not significant results were found in order to clarify the relationship between CSR and CSP. This can be view as the new lens to review the previous contributions.

### *5.3 Limitations and future paths*

As with any qualitative study, limitations need to be considered. First, our sample is composed of Italian SMEs. The generalisability may only be accurate when comparing companies in similar cultural institutional environments. Moreover, the sample is composed of a small number of firms which is strongly biased towards company already very much involved in CSR activities. This is due to the selection choice limiting to recent award winning SMEs, but future studies may consider a large number of firms via an increased number of countries.

Because of the characteristics of the sample we analysed, the results obtained do not in any way represent the average Italian SMEs' attitude toward sustainability. They

highlight a significant trend observable in a particular set of companies which is still quite small but not irrelevant.

Secondly, the paper cannot consider the perception of external stakeholders regarding the relative importance of single activities. It doesn't explicitly refer to multi-attribute utility functions of different stakeholders (Harrison et al., 2010; Tantalo and Priem, 2010; Tantalo et al., 2011; Tantalo, 2011) and it ignores the value creation process (Tantalo and Priem, 2010). It represents the first step to explain a complex model which involves two different sides: the social value creation process of the corporation, in one side; the stakeholders' evaluation process, in the other side. The paper investigates the first side, explicitly recognising the strategic dimension of CSR and the policies developed by the firms to create social and economic value in the meantime. Future researches need to be conducted in order to incorporate into this process the utility functions of different stakeholders and the policies developed by the corporations to effectively satisfy their needs.

Finally, the data are based on personal perceptions of managers and not on quantitative data. However, this approach did not have any demand characteristics and presented not a priori assumptions resulting in the most appropriate method required by our desired specificity of the phenomenon in SMEs.

The contribution of the paper is very high for both theoretical and practical motivations. Regarding theoretical contributions, the paper directly contributes to a better comprehension of the strategic dimension of CSR and the process it needs to be based on. Regarding pragmatic contributions, the paper shows how SMEs can successfully implement CSR policies and how this directly affects their competitiveness. This can be viewed as a means to motivate different actors to include sustainability principles into their business models, as a different way to create value for shareholders and stakeholder in the meantime.

Finally, a practical tool in terms of perceptive maps has been presented. This can be easily used by each corporation to analyse its own effort in some activities and the affect of these on its competitive profile.

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## **Notes**

- 1 Sodalitas is an Italian foundation which help the firms to develop CSR strategies and to diffuse these practices in many environments, building a network between and the corporations and the society.
- 2 In particular, the sectors which composed the industry are represented by:
  - Services: Environmental Services; Communication and consulting, Cosmetic sector Energy and real estate, Engineering consulting, Environmental Services, Facility management, Information Technology support, Insurance and financial services, Multi-utility/Public sector, Tourism services, Training and consulting
  - Hard Goods: Chemical sector, Clothes/shoes production, Editorial sector, Food and beverages, Furniture production, IT services, Manufacturing sector, Packaging
  - Soft Goods: Chemical sector, Editorial sector b2b, Manufacturing sector, Mechanic/metallurgical sector, Packaging
  - Large scale retail trade: retail trade corporations.
- 3 Enterprise category: medium-sized < 250 employees; small < 50 employees; micro < 10 employees. Source: European Union, 2003.