



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



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## ABSTRACT

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

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## 1. Introduction

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

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

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

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

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