Exploring the relationship between social responsibility and firm performance within SMEs.

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Abstract,
Purpose – A businesses' impact on the environment, society and its employees has become of great interest over the last years. Customers, employees, suppliers, shareholders and other stakeholders nowadays all expect businesses to not only pursue economic value but to recognize a broader scope of responsibility. Literature highlights the importance of small and medium-sized enterprises (SMEs) engaging in socially responsible practices, since their aggregate potential impact is significant. However, there have only been a small number of studies that have explored the effect of social responsibility within SMEs, and even fewer explore the effect of social responsibility on social and economic performance simultaneously. Therefore, the purpose of this work is to examine the effect of social responsibility and social innovation on social and economic performance within SMEs.
Method – An online survey is designed and the data is analyzed with structural equation modeling (SEM). ADANCO is used as a statistics tool.
Results – Commitment to social responsibility has a positive effect on social innovation and social performance. However, social innovation was founded to be insignificantly related to social performance and significantly related to economic performance. Meaning that to simultaneously enhance social and economic performance, SMEs need to both commit to social responsibility and focus on social innovation activities.
Value – This thesis provides a deeper insight into social responsibility in SMEs and examines the role of social innovation on social and economic performance.

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1 | INTRODUCTION

Over the last years, social responsibility has been an important topic for scholars and managers (Carroll et al., 2010; Du et al., 2010; Oduro et al., 2022). The topic includes a business' impact on the environment, society and its employees. The interest in social responsibility comes from its increasing urgency (Carroll et al., 2010) and the growing demand for socially responsible firms from a wide range of stakeholders (Candi et al., 2018; Ofori & Hinson, 2007). Customers, employees, suppliers, shareholders and other stakeholders all expect businesses to not only pursue economic value but to recognize a broader scope of responsibility. This demand forces firms to rethink their roles and social responsibility agenda (Sigurdsson & Candi, 2020). The 'social responsibility agenda' involves the integration of social and environmental concerns into a business' operations and interaction with stakeholders. While such social responsibility practices are partly driven by governmental regulations, businesses are mainly encouraged by stakeholders to go beyond regulatory requirements and take a more proactive role to support and contribute to society and the environment (Torugsa et al., 2013). Although this was traditionally seen as the province of large businesses, recent studies have acknowledged that small and medium-sized enterprises (SMEs) also play a part in social and environmental concerns (Jenkins, 2004; Torkkeli & Durst, 2022). In Europe, SMEs represent more than 99 percent of all businesses and generate 65 percent of all employment (Commission et al., 2021). Furthermore, worldwide SMEs account for more than two-third of the total production and cumulatively contribute for at least one-third of all pollution (Wiesner et al., 2018). Therefore, attention is now turning to principles and practices of social responsibility in SMEs (Ferramosca & Verona, 2020; Kechiche & Soparnot, 2012).

A business' social responsibility includes commitment to social responsibility (Carroll et al., 2010) and innovations with social intent (García-Piqueres & García-Ramos, 2020; Sigurdsson & Candi, 2020). Social innovation is regarded to be necessary to reduce social and environmental issues (Phillips et al., 2015) and is founded to positively affect corporate social performance, stakeholder expectations and the global 'Sustainable Development Goals' (SDG) (Adomako & Tran, 2022; Eichler & Schwarz, 2019). While it is well documented by prior studies that large businesses can reap a competitive advantage by actively engaging in social responsibility practices, these theoretical and practical implications may not apply to SMEs (Kim & Bhalla, 2021). For the reason that SMEs are different in nature compared to large businesses (Jenkins, 2004). SMEs often lack resources, time and knowledge of matters concerning sustainable development (Kechiche & Soparnot, 2012). However, Baumann-Pauly et al. (2013) state that SMEs possess several organizational characteristics that are favorable for the internal implementation of social responsibility practices. Furthermore, previous studies did find a positive relationship between social responsibility and economic performance (financial and non-financial) within SMEs (Oduro et al., 2021, 2022). This makes social responsibility within SMEs an interesting topic for scholars and managers (Winn et al., 2012).

Thus, social responsibility has the potential to create win-win scenarios within SMEs. Meaning that by actively engaging in the social responsibility agenda SMEs can potentially create social and environmental value (social performance) and simultaneously create financial and non-financial value (economic performance). Although it is established that SMEs possess several favorable characteristics for the implementation of social responsibility practices, research still lacks analysis of empirical links between social responsibility and its outcomes within SMEs (Kim & Bhalla, 2021). Furthermore, literature still fails to focus on trade-offs between social and economic performance, especially within SMEs. Given the understanding that social innovation is needed to solve social and environmental issues and that SMEs potentially have a significant cumulative impact on these issues, there is a need for a better understanding between social responsibility practices, social innovation and their outcomes within SMEs. Especially because existing literature on trade-offs and social innovation mainly focuses on larger companies.

Therefore, the objective of this research is to examine the effect of social responsibility and social innovation on social and economic performance within SMEs. This study adds to the ongoing discourse on the effect of social responsibility within SMEs and answers the following research questions:

"What is the influence of social responsibility and social innovation on social and economic performance within small and medium-sized enterprises?"

This study aims to provide insight into the effects of social responsibility and its outcomes within SMEs. It contributes to a higher understanding of social responsibility practices within SMEs and studies whether they can simultaneously contribute to social and economic performance through social innovation. The research question is answered by examining the literature and by conducting a quantitative survey.

This study adds to the existing literature on SMEs, social responsibility, social innovation and their performance outcomes, since researchers claim that there is a lack of quantitative research examining the relationship between these variables (Kim & Bhalla, 2021; Sigurdsson & Candi, 2020). This study extends the discourse on social responsibility within SMEs by bringing together these four variables. It contributes to literature by offering new and critical understanding of social responsibility and social innovation and their effect on social and economic performance within SMEs. It provides deeper insight into knowledge on trade-off situations between social and economic performance within SMEs. Additionally, the practical relevance can be found in the fact that an improved understanding of social responsibility and its performance outcomes could encourage SMEs to actively engage in the social responsibility agenda. This provides managers of SMEs with important knowledge on how to simultaneously create both social and environmental value as well as economic value for their businesses.

This paper is structured as follows: first, a literature review on social responsibility, social innovation and the trade-off debate is given. This is followed by a description of the research methodology, in which the data collection and analysis are given. Then the findings and results of this study are given. Finally, the final section highlights the contributions, discusses the limitations and provides recommendations for future research.

2 | THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

2.1 | Social responsibility within SMEs

Although social responsibility has become of interest to scholars in the recent decades, the concept already appeared in the mid-1950s (Carroll, 1999). Here it was argued that firms should make commitments beyond making profits and that they should take their stakeholders into account. Bowen (1953) defined social responsibility as the guide to pursue policies and decisions that are likely to bring benefits for society. Since the 1980s, social responsibility has been viewed as a management issue that must be integrated into organizations' daily operations (Rodriguez-Gomez et al., 2020). From this moment on the concept social responsibility began to expand. In 1991, Carrol introduced the 'Pyramid of Social Responsibility' in which he stated that firms have four main responsibilities: economic, legal, ethical and philanthropic (Carroll, 1991). In 1994, Elkington made another important contribution to the literature by introducing 'The Triple Bottom Line' (Latapí Agudelo et al., 2019). This framework balances a company's social, environmental and economic impacts. Nowadays, the consensus is that the broad aim of social responsibility is to simultaneously ensure business profitability and benefit society (Hopkins, 2003). However, there is a debate going on whether social and economic performance require a trade-off or whether they can be in synergy (Usunier et al., 2011).

Traditionally, social responsibility was seen as the province of big businesses. However, the SME sector is such a significant sector worldwide in terms of economic, environmental and social impact that attention has been turned to discussion and analysis of principles and practices in SMEs (Kechiche & Soparnot, 2012). In addition, the significance of the SME sector suggests that their cumulative societal and environmental impact can be substantial (Kim & Bhalla, 2021; Oduro et al., 2022). This highlights the importance of research on social responsibility practices and their outcomes within SMEs. Early research examined the level of knowledge and awareness SMEs had of the concepts of social responsibility and sustainability. This came from the notion that SMEs had limited understanding and knowledge of social responsibility and its potential benefits (Oduro et al., 2021). Since it is established in the literature that SMEs are active players concerning social responsibility practices, study began to focus more on performance measurement, green practices/behavior and reporting and disclosure of SMEs (Oduro et al., 2021). The main drivers for SMEs to engage in social responsibility practices are intrinsic motivation and citizenship (Grimstad et al., 2020; Kechiche & Soparnot, 2012). However, external motivation (e.g., market forces, competitive advantage, etc.) was also founded to be a driver for SMEs to engage in social responsibility practices (Oduro et al., 2021). This highlights that both internal and external motivators, as well as the desire to achieve competitive advantage, drive SMEs to adopt social responsibility initiatives.

2.2 | Social innovation

The demand and urgency for socially responsible practices also forces innovations to have societal and environmental improvement as their objective (i.e., social innovation) (García-Piqueres & García-Ramos, 2020; Sigurdsson & Candi, 2020). The term social innovation is still poorly defined and not well integrated in literature (Sigurdsson & Candi, 2020). Social innovation is most broadly defined as: "Innovative activities and services that are motivated by the goal of meeting a social need" (Phillips et al., 2015, p. 430). Herrera (2015) goes further and defines social innovation as follows: "Social innovation is a measurable, replicable initiative that uses a new concept or a new application of an existing concept to create shareholder and social value" (p. 1469). Social innovations address a wide range of issues, such as sustainable consumption, health issues, and sustainable cities and communities (Eichler & Schwarz, 2019). While social responsibility practices are more focused on philanthropic or generic initiatives aiming to answer external pressures and improve the reputation of firms, social innovation tries to co-create shareholder value (Dionisio & de Vargas, 2020; Herrera, 2015). Thus, social innovation aims to achieve both social and environmental goals as well as economic goals.

Literature has different views on how social responsibility and social innovation are linked. Study finds that social responsibility drives firms to engage in innovation that is not necessarily about cutting-edge technology but about solving social problems (Van der Have & Rubalcaba, 2016). Van der Have & Rubalcaba (2016) state that social responsibility serves as a driver for social innovation. Herrera (2015) describes social innovation as a mechanism through which firms integrate social responsibility. Other studies describe a bilateral relationship between social responsibility and innovation, i.e., social responsibility and innovation influence each other. MacGregor & Fontrodona (2008) expect SMEs to be either driven by values or by the search for value, where value is more closely linked to 'employees', 'supply chain' and 'customers' categories of corporate social responsibility and values are linked more to

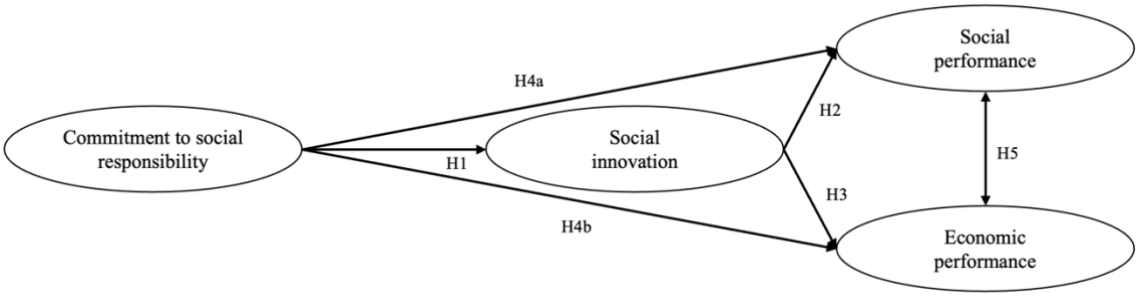

FIGURE 1. Research model

'community' and 'environment' categories. They expect that the majority of SMEs will be driven by value, which also leads to a more sustainable and less risky approach through taking closer account of employees, customers and supply chain actions. Which in turn drives SMEs to innovate with social intent. So, social responsibility is likely to drive firms to integrate innovation that has social and environmental needs as its goal. Drawing from this, the following hypothesis can be developed:

H1. Commitment to social responsibility has a positive effect on social innovation.

2.3 | Firm performance

2.3.1 | Social performance

It is generally believed that social responsibility activities are focused on a stakeholder model (i.e., taking into account all stakeholders and their needs) and that firms establish a social responsibility agenda to satisfy stakeholder expectations (Sigurdsson & Candi, 2020). In addition, social innovations are mainly triggered by a concern for people and communities (Dawson & Daniel, 2010). Furthermore, Adomako & Tran (2022) did find a positive relationship between social innovation and corporate social performance. Social innovation not only has a positive effect on stakeholder expectations, it also positively addresses the 'Social Development Goals' (SDG) (Eichler & Schwarz, 2019) and creates social value (Herrera, 2015). Drawing from this, the following hypothesis can be developed:

H2. Social innovation has a positive effect on social performance.

2.3.2 | Economic performance

It is also believed that social responsibility practices can lead to win-win scenarios (Rodriguez-Gomez et al., 2020). Meeting the demands of stakeholders not only benefits the stakeholders and society in general, but also leads to better economic performance. Firms can achieve customer acceptance, and thus better economic performance, through social innovation (Candi et al., 2018; Sigurdsson & Candi, 2020). In addition, social innovation can be a valuable approach to companies, because it promotes and supports efforts toward co-creation with customers (Herrera, 2015). Furthermore, study did find that social innovators have better economic performance than normal innovators and non-innovators (Begonja et al., 2016). More research concludes that social innovation creates competitive advantage (Herrera, 2015). Drawing from this, the following hypothesis can be developed:

H3. Social innovation has a positive effect on economic performance.

2.3.3 | Social innovation as a mediator

There is little research on the effect of social innovation as a mediator between social responsibility and firm performance outcomes. However, social innovation is believed to derive from commitment to social responsibility and to enhance a firm's social and economic performance (Hermundsdottir & Aspelund, 2022). Furthermore, it has been suggested that firms with greater social innovation have a greater social impact (Adomako & Tran, 2022) and a greater economic performance (Begonja et al., 2016). Commitment to social responsibility is most often established to satisfy stakeholder expectations, which goes hand in hand with increased stakeholder interaction. This, for example, supports the creation of social innovations to find solutions for people and communities while simultaneously enhancing customer acceptance (thus economic performance). Drawing from this, the following hypotheses can be developed:

H4a. Social innovation positively mediates the relationship between commitment to social responsibility and social performance.

H4b. Social innovation positively mediates the relationship between commitment to social responsibility and economic performance.

2.4 | Trade-off debate

Although some scholars argue that addressing corporate sustainability can simultaneously realize financial gain, others argue that there is a necessary trade-off that needs to be addressed (Van der Byl & Slawinski, 2015). Trade-off situations have been defined as "compromise situations where a sacrifice is made in one area to obtain benefits in another" (Byggeth & Hochschorner, 2006, p.1420). Meaning that trade-offs result in win-lose propositions where the net sum gain to sustainability is positive and the impact on economic performance is negative. When these win-lose propositions occur, firms will normally favor their financial goals over their societal goals (Slawinski & Bansal, 2015). Which disturbs their balance of social and economic performance. The win-win thinking between social performance and economic performance is largely based on the *resource-based view (RBV)*. The RBV considers a firm as an entity of resources and capabilities, generating competitive advantages (Barney, 1991). Social responsibility practices foster the development of intangible resources, resulting in improved capabilities and long-term competitive advantages (Gallego-Álvarez et al., 2011). Thus, accomplishing both social and economic performance at the same time. Hahn et al. (2010) state that the win-win paradigm is too narrow and that there is a need for research on trade-offs between social performance and economic performance.

Businesses still experience tensions between social and economic performance when practicing corporate sustainability (Haffar & Searcy, 2019). Furthermore, research finds that businesses tend to hold a narrow view of social responsibility, which means that socially responsible practices are only considered in terms of their financial gain (Varenova et al., 2013). Literature mainly focuses on how and if businesses perceive a trade-off situation between social and economic performance, neglecting empirical research on the relationship between the two performance outcomes. However, although no antecedents and determinants of the trade-off situations between social and economic performance are established, social innovation is believed to be able to create both social value and competitive advantage (Herrera, 2015). Social innovation resolves social issues and simultaneously considers shareholder value by staying competitive through innovation. Businesses that not only commit to social responsibility but also actively engage through social innovations not only aim to satisfy stakeholder expectations, but also aim to achieve

economic goals. Therefore, it is expected that there is no trade-off between social and economic performance in companies that practice social innovation. Therefore, the following hypothesis can be developed:

H5. Social performance and economic performance are positively correlated.

3 | METHOD

The objective of this research is to examine the effect of social responsibility and social innovation on social and economic performance within SMEs. To achieve this goal, quantitative research is used. An online survey was selected as the data gathering tool which employees of Dutch SMEs answered. The online survey has the advantage of being capable of collecting data from a large number of respondents in a short time and without high costs, regardless of geographical barriers (Wyatt, 2000).

3.1 Sample selection and data collection

The research model (see Figure 1) was tested using data from employees of Dutch SMEs using an online survey. The survey was set out via different network platforms, mainly LinkedIn and E-mail. Participants who were invited via E-mail were drawn from various websites on which Dutch SMEs are listed. The survey was completely voluntary and the data was only used for this study. Also, the survey contained an introduction to the topic of social responsibility. The survey was formulated with Qualtrics. The aim was to recruit at least 75 respondents, following the rule of thumb of a 5 to 1 sample-to-item ratio (O'Rourke & Hatcher, 2013). The survey was set out for a total of three weeks. The total number of respondents from Dutch SMEs during this time was 86. The respondents who filled in that their company contains 250 employees or more, were eliminated from the data analysis. Further selected characteristics were gender, age, job function and company age. Of these respondents, 64 percent were male and 36 percent were female. Furthermore, a third of the respondents were owners or founders of their company. Table 1 shows the demographics of all respondents from Dutch SMEs.

3.2 Measurements

The items of the commitment to social responsibility variable were taken from Sigurdsson & Candi (2020) and Turker (2009). The corresponding items reflected the extent to which firms were committed to social responsibility. The following four items were measured: "Our company has a formal social responsibility strategy"; "Our company contributes to campaigns and projects that promote the well-being of society"; "Our company participates in activities that aim to protect and improve the quality of the natural environment"; and "Our company has a policy about social responsibility towards employees". A 5-point Likert scale was used for all the items in the survey, starting with 1 (strongly disagree) to 5 (strongly agree). Jöreskog's Rho was used to measure the reliability of the variables. For this variable, the Jöreskog's Rho was 0.858. Which indicates that all items constantly measure the variable 'commitment to social responsibility'.

Social innovation was measured using the items from Candi et al. (2018) and Sigurdsson & Candi (2020). The following four items were used: "We strive to improve people's lives through the new products and services we develop"; "We strive to initiate improvements in society through the new products and services we develop"; "We use new technologies to find solutions to social needs"; and "We generate novel ideas that can create social value". For this variable, the Jöreskog's Rho was 0.919. Which indicates that all items constantly measure the variable 'social innovation'.

Social performance was measured using the items from Adomako & Tran (2022), Crișan-Mitra et al. (2020) and Verwaal et al. (2021). The following four items were used: "Our company meets the necessary governmental social responsibility requirements"; "Our company does a better job regarding wage and gender discrimination than our competitors"; "Our company is able to remain a better image and reputation compared to our competitors"; and "Our company is better able to retain employees compared to our competitors". For this variable, the Jöreskog's Rho was 0.655. Which indicates that all items constantly measure the variable 'social performance'.

Economic performance was measured using the items from Abdallah & Al-Ghwayeen (2019). The following three items were used: "Our market share has increased during the last years compared to competitors"; "Our sales have increased during the last years compared to competitors"; and "Our customer satisfaction level has increased during the last years compared to competitors". For this variable, the Jöreskog's Rho was 0.875. Which indicates that all items constantly measure the variable 'economic performance'.

The perceived trade-off question was used to research whether SMEs perceive a trade-off between social and economic performance. The question was not used to measure a variable and therefore has no Jöreskog's Rho.

TABLE 1. Demographics of survey respondents (N = 86)

Characteristic	Item	N	Percent (%)
Gender	Male	55	64.0
	Female	31	36.0
	Other	-	-
Age	Below 21	1	1.2
	21 – 30	21	24.4
	31 – 40	13	15.1
	41 – 50	20	23.3
	Above 50	31	36.0
Job function	Operational	18	20.9
	Staff	16	18.6
	Middle mgmt.	12	14.0
	Executive mgmt.	13	15.1
	Founder / owner	27	31.4
Company size (employees)	1	4	4.7
	2 to 10	19	22.1
	10 to 50	33	38.4
	50 to 250	30	34.9
Company age (years)	1 to 10	20	23.3
	10 to 25	28	32.6
	25 to 100	32	37.2
	100 or more	6	7.0

3.3 Measurement model analysis

To test the measurement model, ADANCO version 2.3.2 was used to conduct structural equation modeling (SEM). SEM is a statistical tool that allows researchers to simultaneously test a set of relations between one or more independent variables, and one or more dependent variables (Ullman & Bentler, 2012). All the hypotheses were formulated into a one-sided test, thus the one-sided *p*-value was used to draw conclusions. The desired significance level was a minimum of 0.5.

3.4 Model fit

The model fit can be assessed using the chi-square test (χ^2) and the standardized root mean squared residual (SRMR). The chi-square has to be non-significant, whereas the acceptable range for the SRMR index is a score between 0 and 0.08 (Asparouhov & Muthén, 2018). However, inadequate values can occur quite often when the sample size is below 200 and should not be the reason to doubt an adequate model fit (Asparouhov & Muthén, 2018). The model fit results are given in Chapter 4.

TABLE 2. Model variables and items

Variables		Survey item	References
Commitment to social responsibility	CS1	Our company has a formal social responsibility strategy.	Sigurdsson & Candi (2020) and Turker (2009)
	CS2	Our company contributes to campaigns and projects that promote the well-being of society.	
	CS3	Our company participates in activities that aim to protect and improve the quality of the natural environment.	
	CS4	Our company has a policy about social responsibility towards employees.	
Social innovation	SI1	We strive to improve people's lives through the new products and services we develop.	Candi et al. (2018) and Sigurdsson & Candi (2020)
	SI2	We strive to initiate improvements in society through the new products and services we develop.	
	SI3	We use new technologies to find solutions to social needs.	
	SI4	We generate novel ideas that can create social value.	
Social performance	SP1	Our company meets the necessary governmental social responsibility requirements.	Adomako & Tran (2022), Crișan-Mitra et al. (2020) and Verwaal et al. (2021)
	SP2	Our company does a better job regarding wage and gender discrimination than our competitors.	
	SP3	Our company is able to remain a better image and reputation compared to our competitors.	
	SP4	Our company is better able to retain employees compared to our competitors.	
Economic performance	EP1	Our market share has increased during the last years compared to competitors.	Abdallah & Al-Ghwayeen (2019)
	EP2	Our sales have increased during the last years compared to competitors.	
	EP3	Our customer satisfaction level has increased during the last years compared to competitors.	
Perceived trade-off	PT1	In our company social performance comes at the cost of financial performance.	N/A.

All survey items were phrased as statements and respondents were asked to select a response from 1 (strongly disagree) to 5 (strongly agree)

3.5 Reliability and validity of the instruments

As previously stated, Jöreskog's Rho was used to test the reliability of all variables because it is the preferred statistical test for SEM reliability (Peterson & Kim, 2013). Only the Jöreskog Rho of the social performance variable was not exceeding the threshold of 0.7. However, a value above 0.6 can still be regarded as acceptable (Ab Hamid et al., 2017). Meaning that all variables are reliable. The reliability of all items was assessed by looking at the factor loadings. When considering the loadings of the items, item SP3 was the only item with a value below 0.4, which indicates that it should be deleted (Ab Hamid et al., 2017). All the other items measuring social performance exceeded a value of 0.5, which can be regarded as significant item loadings (Peterson, 2000). Meaning that all the items are reliable after omitting the question: "our company is able to remain a better image and reputation compared to our competitors". Table 3 shows the item loadings, reliabilities and AVE results after removing item SP3.

The validity of the instruments can be divided into two parts that are convergent validity and discriminant validity (Ab Hamid et al., 2017). Convergent validity tests to which extent the items correspond and whether they represent the variable adequately. Discriminant validity tests to which extent the variables correlate and whether they differ adequately. The convergent validity of the data can be assessed using the average variance extracted (AVE). The threshold for AVE is 0.5 (Ab Hamid et al., 2017). Although the AVE for 'social performance' is below the threshold of 0.5, the composite reliability is above 0.6, which makes the construct validity for this variable adequate (Fornell & Larcker, 1981). The discriminant validity of the data can be assessed using Heterotrait-Monotrait Ratio (HTMT). The HTMT is an estimation of the correlation among the variables and is satisfied with a value below 0.9 (Ab Hamid et al., 2017). The variables 'commitment to social responsibility' and 'social performance' correlate with a value of 1.086, indicating that there is a collinearity problem between the variables (multicollinearity). Thus, the items of the two variables measure the same latent variable according to the respondents' perceptions to a slight extent. Table 4 shows the HTMT correlation results.

TABLE 3. Item loadings, reliabilities and AVE results

Variable	Item	Loadings (λ)	CR (ρ_c)	AVE
Commitment to social responsibility	CS1 CS2 CS3 CS4	0.838 0.761 0.792 0.709	0.858	0.603
Social innovation	SI1 SI2 SI3 SI4	0.837 0.897 0.801 0.902	0.919	0.740
Social performance	SP1 SP2 SP3* SP4	0.720 0.646 0.332 0.551	0.676	0.413
Economic performance	EP1 EP2 EP3	0.902 0.849 0.753	0.875	0.701

Abbreviations: CR, composite reliability; AVE, average variance extracted *Item was deleted for further analysis

TABLE 4. Heterotrait-Monotrait Ratio of Correlations (HTMT)

Variable	CS	SI	SP	EP
CS	-			
SI	0.679	-		
SP	1.086	0.652	-	
EP	0.214	0.345	0.474	-

Abbreviations: CS, Commitment to social responsibility; SI, Social innovation; SP, Social performance; EP, Economic performance

3.6 Common method bias (CMB)

The data were collected from single respondents, which brings with it concerns about common method bias (CMB). To reduce the propensity to respond in more socially acceptable ways, the introduction to the survey clearly stated that responses were anonymous. Additionally, to test for CMB, a Harman's single-factor test was conducted. The results showed that no single factor accounted for the majority of the variance. The total variance extracted by one factor was 34.83 percent, which is less than the recommended threshold of 50 percent. Meaning that the research method used did not cause variation in the responses and that there is no spurious correlation between the variables.

4 | FINDINGS

4.1 Direct model paths

The SEM results are shown in Table 5. Figure 2 shows a graphical representation of these SEM results. The chi-square for this measurement model was significant (χ^2 = 614.271, *df* = 91, *p* > 0.001). The SRMR for the measurement model was 0.109. The model fit statistics could be explained by the sample size. As mentioned in Chapter 3.4, the performance of the model fit statistics is often inadequate with a sample size lower than 200 and should not be the reason to reject a good model fit.

Based on the SEM results, commitment to social responsibility is predicted to have a positive effect on social innovation (β = 0.588, *p* < 0.001). Furthermore, the results predict social innovation to have a positive effect on economic performance (β = 0.281, *p* < 0.05). However, the results predict no relationship between social innovation and social performance (β = 0.014, *p* = 0.460). Hence, it can be concluded that social innovation is likely to derive from commitment to social responsibility and that it is likely to have a positive effect on economic performance but no effect on social performance.

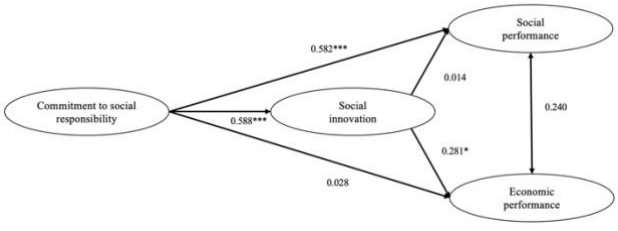

FIGURE 2. Model paths

4.2 Mediation effect

The mediation effect of social innovation is tested following the steps of the mediation decision tree (Zhao et al., 2010). First, the indirect effect is tested, followed by the direct effect between commitment to social responsibility and the performance variables.

Based on the SEM results, social innovation is not predicted to be a mediator between commitment to social responsibility and social performance (β = 0.008, p = 0.461). However, the results do indicate a direct effect between commitment to social responsibility and social performance (β = 0.582, p < 0.001), meaning that there is only a direct effect and no mediation effect. Thus, the following conclusion can be made. Commitment to social responsibility is likely to have a direct positive effect on social performance as social innovation is not likely to mediate this relationship. An explanation for this result could be the multicollinearity issue between commitment to social responsibility and social performance.

Furthermore, the results predict social innovation to be a mediator between commitment to social responsibility and economic performance (β = 0.165, p < 0.05). The results do not indicate a direct relationship between commitment to social responsibility and economic performance (β = 0.028, p = 0.427). Thus, social innovation is likely to be a full mediator. Meaning that there only exists an indirect effect between commitment to social responsibility and economic performance via social innovation.

4.3 Correlation inference

The results do not indicate a correlation inference between social and economic performance (β = 0.240, p = 0.135). Hence, this study cannot disprove the conventional notion that there exists a trade-off between social and economic performance for SMEs.

5 | DISCUSSION

A number of studies have investigated the relationship between social responsibility and firm performance within SMEs, but research on the empirical link between the two concepts is still largely missing (Kim & Bhalla, 2021). Furthermore, given the understanding that social innovation is needed to solve social and environmental issues and that SMEs potentially have a significant cumulative impact on these issues, this research aims to create a better understanding of the effect of social responsibility and social innovation within SMEs. This research examines the relationship between commitment to social responsibility and social and economic performance and examines whether social innovation can simultaneously contribute to both performance outcomes. In the following sections, the contribution to theory, the contribution to practice, the limitations and the directions for future studies will be discussed.

5.1 Contribution to theory

First, this study suggests a positive effect between commitment to social responsibility and social innovation, thus proving support for hypothesis 1. This is in line with García-Piqueres & García-Ramos (2020) and Sigurdsson & Candi (2020), who stated that social innovation is likely to stem from commitment to social responsibility. Furthermore, this study supports the findings of Van der Have & Rubalcaba (2016), who stated that social responsibility drives firms to engage in innovations that have social intent as their goal. Firms that participate in and contribute to society and the environment are more likely to also initiate new improvements, ideas and technologies. Social innovation is closely tied to a firm's commitment to social responsibility, which the findings of this study confirm. Hence, SMEs that are committed to social responsibility practices are more likely to engage in social innovation activities compared to SMEs that don't commit to social responsibility practices.

Second, this study implies that social innovation has no effect on social performance, thus not supporting hypothesis 2. This contradicts the findings of Adomako & Tran (2022), who suggest that social innovation has a positive effect on corporate social performance. The multicollinearity issue between commitment to social responsibility and social performance could be one of the explanations for this finding. The respondents from different SMEs perceived the two concepts as one to a slight extent.

TABLE 5. Model paths and correlation inference

Hypothesis	Relationship	Beta	S.E.	t-value	*p*-value (1-sided)	Result
H1	Commitment to social responsibility -> social innovation	0.588***	0.067	8.705	< 0.001	**Accepted**
H2	Social innovation -> social performance	0.014	0.139	0.101	0.460	**Not accepted**
H3	Social innovation -> economic performance	0.281*	0.152	1.851	< 0.05	**Accepted**
Mediation effect						
H4a	Commitment to social responsibility -> social innovation -> social performance	0.008	0.085	0.098	0.461	**Not accepted**
H4b	Commitment to social responsibility -> social innovation -> economic performance	0.165*	0.094	1.750	< 0.05	**Accepted**
Correlation inference						
H5	Social performance <-> Economic performance	0.240	0.161	1.495	0.135	**Not accepted**

***** Inference is significant at the 0.05 level (1-tailed) ** Inference is significant at the 0.01 level (1-tailed) *** Inference is significant at the 0.001 level (1-tailed)

Third, this study suggests a positive effect between social innovation and economic performance, thus proving support for hypothesis 3. This is in line with Begonja et al. (2016) who stated that social innovators have better economic performance than normal innovators and non-innovators. Social innovation requires constant evolution in terms of searching for new solutions and systems while considering social and environmental value, which in turn has a positive effect on, for example, customer satisfaction. This could explain the positive relationship between social innovation and economic performance. Hence, SMEs that engage in social innovation activities are also likely to improve their economic performance.

Fourth, this study implies that there is no mediation effect of social innovation between commitment to social responsibility and social performance, thus not supporting hypothesis 4a. This study offers new understanding on the effect of social innovation within SMEs and suggests that commitment to social innovation alone improves social performance within SMEs, without the help of social innovation activities. However, the nature of this relationship could be due to the fact that SMEs perceive commitment to social responsibility and social performance as one concept.

Fifth, the results of this study suggest a mediation effect of social innovation between commitment to social responsibility and economic performance, thus proving support for hypothesis 4b. This study offers new understanding on the effect of social innovation within SMEs and implies that social innovation practices are needed to enhance economic performance within SMEs. The full mediation effect of social innovation means that commitment to social responsibility alone is not likely to improve the economic performance of SMEs, but that social innovation is needed. This study finds that new products, improvements and ideas are needed to improve customer satisfaction and sales. This is in line with (Sigurdsson & Candi, 2020), who stated that firms must act on their social responsibility in order to improve customer satisfaction (economic performance).

Sixth, this study implies that there is no correlation between social and economic performance, thus not supporting hypothesis 5. This is in line with Van der Byl & Slawinski (2015), who stated that there is a necessary trade-off between sustainability and financial gain. Hence, this study did not find enough evidence to disprove the conventional notion that there exists a trade-off between social and economic performance for SMEs. No positive or negative correlation between the two performance variables can be confirmed. So, there is a need for further research on the determinants and nature of trade-offs between social and economic performance.

5.2 Contribution to practice

As stated in the introduction of this study, the practical relevance could be found in the fact that an improved understanding of social responsibility and its performance outcomes could encourage SMEs to actively engage in the social responsibility agenda. Therefore, the following paragraph provides SMEs and their managers with some suggestions.

For practice, this study suggests that SMEs that act on their commitment to social responsibility through social innovation activities are more likely to perform better (economically) than SMEs that focus solely on philanthropic or generic initiatives aimed at responding to external pressures and improving their reputation. This highlights the importance of really acting on social responsibility in order to both create social value and shareholder value. The research findings suggest that managers within SMEs should turn their attention to both commitment to social responsibility and social innovation activities to take full advantage of the opportunity to simultaneously improve social and economic performance. Meaning that SMEs should focus on creating new improvements, new ideas and new technologies aiming to tackle social and environmental issues in order to respond to both external pressure and improve economic performance. Only committing to social responsibility is not enough to improve customer satisfaction, improve sales and to increase market share.

5.3 Limitations and future studies

Despite these contributions to the literature and practice, this study has some limitations that offer opportunities for future research. First, this study relied on self-reporting and cross-sectional data, which, even though the Harman's single-factor test did not indicate it, is prone to common method bias. Future research should consider using different sources in order to measure the different variables.

Furthermore, the limited time to conduct this research restricted the database. Which increases the margin of error and causes type II errors to occur. Bigger databases are more reliable in terms of generalization. Therefore, future studies should examine the effect of social responsibility and social innovation within SMEs with larger databases.

Finally, the items of the variables 'commitment to social responsibility' and 'social performance' were measuring the same latent variable to the respondents' perception to a slight extent. Also, the variable 'social performance' had low but acceptable validity statistics. Meaning that future studies should focus on capturing the concept better. For example, this could be done by using more items to capture social performance.

6 | Conclusion

In conclusion, this study finds that SMEs can improve their social performance by committing to social responsibility. However, to also improve economic performance social innovation practices are needed, which are likely to stem from commitment to social responsibility. Suggesting that by committing to social responsibility, SMEs can improve both their social and economic performance. To do so, SMEs need to actively focus on creating new improvements, new ideas and new technologies aiming to tackle social issues so customer satisfaction, sales and market share can improve.

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