**On the relationship between corporate social responsibility and competitive
performance in Brazilian Small and Medium Enterprises - empirical evidence
from a stakeholders' perspective**

Paula Back

MBA34

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Abstract

This paper aims to show that the strategic incorporation of socially responsible actions, in small and medium enterprises contribute to improving the competitiveness of those organizations. The analysis is from a multi-stakeholder perspective. It investigates the link among firms' relationship with key stakeholders with the objective to find out if there is a competitive advantage in applying Corporate Social Responsibilities practices.

Besides the direct influence of Corporate Social Responsibility practices on competitive performance, the mediating connection of relationship improvements has been analyzed. By using their influence, stakeholders hold the key to the environment in which the organization operates and its subsequent financial performance.

The empirical analysis was constructed on survey data through structural equation modeling (SEM). To accomplish this assignment data were collected from a sample of Brazilian SMEs. Participants were firms from the Southern region of Brazil mainly from the State of Rio Grande do Sul, Santa Catarina, and Parana.

The outcome shows that there is a strong connection between the development of Social Responsibilities practices and relational improvements. In addition, the significant relationship in developing Social Responsibilities Practices positively translates, with a high accuracy outcome into competitive performances.

Key-words: Corporate Social Responsibility, Stakeholders, SMEs, Competitive Performance.

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List of Abbreviations

C.Pr – Clients practices

CFA – Confirmatory Factor Analyses

Com Perf – Competitive Performance

CSP – Corporate Social Performance

CSR – Corporate Social Responsibility

Emp.Pr – Employee Practices

En.Pr – Environment Practices

Fac - Factor

Imp – Improvement

Perf – Performance

PLS – Partial Least Squares

Rel Imp – Relational Improvements

S.Pr – Social Practices

Sebrae – Serviço Brasileiro de Apoio às Micro e Pequenas Empresas

SEM – Structural Equation Modeling

SMEs – Small and medium enterprises

Chapter 1

Introduction

1.1 An Overview

Corporate social responsibility is a widely discussed concept in scientific literature and it has been found to have positive impacts of business on their stakeholders (Madueno, Jorge, Conesa, & Martinez, 2016; Roloff, 2008). Despite the growing body of literature on this concept, the measurement of CSR is still problematic. The limitations are even greater when it comes to SMEs.

1.2 Problem Definition

In a competitive environment, where sources of competitive advantage are constantly being challenged and in which companies are under increasing pressure to assume social responsibilities certain issues can be identified in this area:

CSR is studied extensively in the literature on the topic usually being focused on Large Corporations as a research subject, and, much less on Small and Mediums Enterprises - SMEs (Blowfield & Murray, 2011). Nevertheless, SMEs are higher in numbers and they cover a wider dimension of social and economic issues than large companies (Vives & Peinado-Vara, 2011). For instance, in the southern region of Brazil, which is formed by the states of Rio Grande do Sul, Santa Catarina, and Parana, SMEs employs 55% of the workforce but in academia, those numbers are not borne out by research on this segment of the market despite its importance for the economy (Sebrae, 2018).

Because of their unique characteristics of a prevalent overlap of control and ownership, and because of the way SMEs approaches business and social responsibilities practices in a short-term orientation there is a need for a specific approach to the CSR-SMEs model (Perrini, 2006; Spence, 2014). It is sensible to expect that CSR contributes to the creation of sustainable competitive advantages that improve business performance. In addition to this fact, CSR practices have an impact on different stakeholders groups, and the improvement in the relationship with these groups can contribute to competitive advantages (Barnett, 2007).

Empirical studies identify corporate social responsibility as a tool for competitive advantages (Hernandez, Palacios, & Galvan, 2017). It is a very subjective term and there is no validated scale accepted to measure performances. So, there are concerns on how to measure the competitive performances of a company using CSR practices.

1.3 Research Objective

This paper investigates how CSR practices and the relationship with stakeholders can contribute to competitive advantages in SMEs. In addition to this, the paper considers the firm's capacity to manage stakeholders and achieve competitive advantages has a mediating role between CSR practices and the competitive performance of SMEs. The paper uses and validates a study previously carried out in the region of Murcia in Spain. The model proposed is the same as the one suggested by Madueno et al (2016).

1.4 Theoretical Framework

The study will embrace the stakeholder theory stated by Edward Freeman in 1983 as the approach to CSR practices in SMEs (Freeman & Reed, 1983). To measure the CSR practices four stakeholders groups are considered in this study: environment, employees, customers, and

society. The competitive advantages are gauged as subjective measures from the manager's perceptions with reference to competitors. In order to value relational improvement, it is deliberated in a way that reflects how much companies have improved their relationship with customers, suppliers, employees, owners, local community and the environment in comparison to the previous years.

1.5 Research Question

From the overall issues discussed above the following research question is derived:

What impact does the application of Corporate Social Responsibility have on the competitive advantage of SMEs in South of Brazil, more precisely in the states of Rio Grande do Sul, Santa Catarina, and Parana?

For the purpose of attaining a sufficiently detailed answer to this main research question, this study will use minor research questions that will provide complementary information, which would help to work towards a conclusive answer:

1. Which practices enable SMEs to improve their competitive performance?
2. What are the most influential stakeholders for SMEs?
3. How to measure the competitive performance of SMEs?
4. How does the relationship with stakeholders affect the company's performance?

1.6 Research Methodology

This is an exploratory research with the use of a quantitative data. The paper uses a survey to collect data from a sample of respondents from small and medium enterprises located in the South of Brazil. Inferential statistics and associated statistical instrument and tools will be used

to explain the results. The instrument used is an online questionnaire containing several constructs. The main constructs are the Likert scale; it is in line with research published in key articles. A self-administered questionnaire is a tool used to facilitate the collecting of data because respondents answer the questionnaire without the need of an interviewer (Saunders, Lewis, & Thornhill, 2009). Rating questions, frequently, use the Likert-style rating scale in which the respondent is asked how strongly she or he agrees or disagrees with a statement or series of statements. Finally, using the Internet has significant advantages, especially, where the population you wish to interview are geographically dispersed.

1.7 Outline of the document

This research study is structured into the following five chapters.

Chapter 1 provides an overview of the situation in relation to CSR in SMEs, and explains the use of the Stakeholder theory as a suitable approach to measuring the competitive advantages in practicing CSR, and presents the problem statement and the research approach.

Chapter 2 provides the literature review that includes general information about the direct relationship between CSR practices and firm performance. The mediating role of relationships improvements is also analyzed. Stakeholders theory is used as a tool to categorize the practices and measure performance.

Chapter 3 describes the methodology; research setting, the population, and sample used in this study. This is followed by the explanation about the measurement; instrument the data collection, the data analysis, the validation and the reliability.

Chapter 4 analyses the data and tests the different hypotheses, and answers the main and minor research questions, and discusses the main findings. In the end, the chapter provides a discussion of the main findings in the comparison with Spain and Brazil.

Chapter 5 provides a conclusion over the findings from the analyses, implications for theory and practice, mention the limitations and presents the future research possibilities.

Chapter 2

Literature Review

2.1 Introduction

Corporate social responsibility (CSR) is one of the theoretical frameworks to explain the role of business in society. Since the mid-1950s, when the term first emerged with a definition along the lines of action which is desirable in terms of the objectives and values of society, CSR has evolved significantly, through concepts, such as firm citizenship, corporate philanthropy (Battaglia, Testa, Bianchi, Iraldo, & Frey, 2014) and stakeholder theory (Freeman & Reed, 1983). Over the last two decades, the concept of CSR has increasingly focused on corporate strategy (Blowfield & Murray, 2011), which is linked with financial and competitive performance. CSR is no longer seen as the ethical responsibility of corporate managers for the social good, or as an expense that could hamper a corporation's profitability, but as a strategic resource to be used to improve the corporation's ultimate performance (Dahlsrud, 2008). In the late 1990s, a wide debate developed around the business case for CSR and its real capacity as a driver for improving competitive performances (Battaglia, Testa, Bianchi, Iraldo, & Frey, 2014).

From literature review of CSR, it is understood that business is impacted in three dimensions: social, environmental, and economic (McWilliams, Siegel, & Wright, 2006), also known as the triple bottom line (Slaper & Hall, 2011). These three dimensions must be considered when devising CSR business strategies. On the other hand, some authors agree that to achieve even greater performance, companies should go beyond these three dimensions which in turn are only legal contributions of the company (Blowfield & Murray, 2011; Dahlsrud, 2008; Perrini, 2006).

What matters is how CSR is constructed in a specific context; the definition does not provide any description of the optimal performance (Chandler, 2016). The optimal performance is dependent on the stakeholders of the business (Dahlsrud, 2008), in other words, how the company meets the needs of its stakeholders, such as customers, employees, suppliers, and so on. CSR is an integral element of the firm's strategy and the way it goes about delivering its products or services to markets. It is also a way of enhancing the legitimacy of the firm's actions in the larger society by bringing stakeholder concern to the center. Therefore non-financial measures will be of great importance yet this information is often considered more subjective than financial information (Crowter & Aras, 2008). Within this dynamic context, researchers are still working to improve the knowledgebase supporting the link between theory and practice in CSR. (Perrini, 2006).

In the majority of published papers, CSR is considered a source of sustainable competitive advantage (Hernandez, Palacios, & Galvan, 2017; Battaglia, Testa, Bianchi, Iraldo, & Frey, 2014). The stakeholder approach covers the relationship between corporations and the society with which they interact. It also includes the responsibilities that are inherent on both sides of these ties (Chandler, 2016). The emphasis in small businesses on relationships and networks makes stakeholder theory intuitively appealing to this empirical group (Jenkins, 2006; Spence, 2014). Corporate Social responsibility programs should be integrated into the business and find an efficient and effective way to return value to the company. But the question is how being socially responsible is a competitive advantage for SMEs?

To address this question, the paper first provides an important theoretical background about the specific characteristics that differentiate small and big companies. One of these differentiations is that, for SMEs, control tends to be in the hands of the owners. This special characteristic in a

way increases the suitability of stakeholder theory in establishing to what extent CSR practices have a positive effect on competitive performance in SMEs. Soon after the introduction of the characteristics that differentiate SMEs, it will be discussed how CSR practices positively impact companies and especially SMEs. Then follows a discussion on the impact of CSR practices and the relationship between stakeholders and the competitive advantages derived from this relationship. The next section also includes the prepositions of the hypotheses under analysis.

2.2 The meaning of CSR for SMEs

In terms of responsible practices in CSR, all companies can benefit from responsible practices in CSR. The effectiveness of a company's CSR practices is largely determined by how consumers react to the information that reaches them. Large companies can be impacted disproportionately by consumer reaction to information. For instance, unfavorable publicity derived from irresponsible practices can have an immediate and wide-ranging consequence on income (Vives, 2006). For SMEs, these consequences can be handled more easily, because generally they do not work with mass consumption products and there is much less information about their products or services on the media. (Vives, Corral, & Isusi, 2005).

To be able to explain CSR in SMEs, first of all, it is necessary to be familiar with their behavior and characteristics. SMEs are indeed a group of organizations which presents a very heterogeneous size and working structure, from the majority microenterprises with no employees to medium-sized businesses with over 200 workers (Murillo & Lozano, 2006). Besides the size, there is another relevant factor that influences their behavior. SMEs are usually companies in which there is little distinction between the roles of management and ownership. The most common form of SME is the owner-managed firm where ownership and control lie with the

same person (Jenkins, 2006). This lends legitimacy to the personal decisions made on how to use company resources, such as on CSR related schemes, and allows a degree of autonomy in how CSR is approached (Vives, Corral, & Isusi, 2005).

Blowfield et al (2011), state that owner-managers in SMEs do not possess enough tools to implement responsible corporate strategies. The same authors added that most of the managers or owners of SMEs serve local markets, and they may be heavily engaged in their local communities, and have particular passion such as education or conservation, but they are likely to be unaware of terms such as corporate responsibility and sustainability. The prevalent overlap between management and ownership makes it easier to align the objectives of both. SMEs' activities may reflect the values, character, attitudes, educational background and the like of owner/entrepreneur (Vives, 2006). This will have a direct impact on the firm's corporate responsibility.

Another point is related to the ethical behavior, which customarily is informal and personal for SMEs. To deal with business partners on a personalized basis, the integrity of the owner-manager is key in acting as a means of social capital between business partners and can be a source of trust in which business transactions are embedded (Spence, 2014). Relations with customers, suppliers and competitors are more based on trust and mutual recognition than in big companies. While the normal approach for large companies is to form contractual relationships. From Vives et al (2011), SMEs tend to adopt the less formal approach. There are cases in which credit is extended to customers or received from suppliers with little documentation. Clearly, despite the fact that the basics principles of CSR are the same in large and small companies there are still considerable differences (Munoz-Torres, Izquierdo, Soria, Lirio, & Olmedo, 2009).

Among these differences mentioned before, it is noteworthy that SMEs rarely use the language and concept of CSR to describe their activities (Murillo & Lozano, 2006).

Some papers argue that CSR means something different in the SMEs sector (Morsing & Perrini, 2009) vs. the large companies, although there are many relatively common elements in CSR practices across all businesses. SMEs, due to their characteristics, described above, require applications of these elements adapted to their reality (Vives, Corral, & Isusi, *Responsabilidad Social de la Empresa en las PyMEs de Latinoamerica*, 2005). Spence (2014), suggests expanding core theory - the stakeholder theory and Carroll's CSR pyramid - to the small context. For this, the well-known stakeholder theory which was first introduced in the 1980s by Freeman (Freeman & Reed, 1983) has offered some early insights into CSR in small business. The emphasis on small businesses is on relationships and networks, and that makes the stakeholder theory intuitively appealing to this particular set of companies (Jenkins, 2006). The intention of this theory is not to predetermine who or what is looked at as part of the group. A stakeholder is a widely understood to be a group or individual with a self-defined interest in the activities of the firm (Chandler, 2016). Stakeholder theory in this sense seems to be applicable to any organization because in each application the stakeholders get a different dimension. The key stakeholders for small businesses are likely to be employees, small local competitors, suppliers, local community, family, customers (Spence, 2014) and, owners (Perrini, 2006).

2.2.1 Gap in literature

As with larger enterprises, SMEs must be shown that CSR can be a tool to increase competitiveness. However, while the reasons might be similar in both small and large companies, the emphasis will be very different. It will be less a matter of education and more an

issue of awareness and changing perceptions over the implications of CSR for the small enterprises (Vives, Corral, & Isusi, 2005; Vives, 2006). Civil society shows less interest in SMEs regarding CSR practices; preferring instead to apply resources or influences in large companies where CSR has the greatest impact (Vives, 2006). It is possible, considering the number of SMEs in comparison to the number of large companies, that the aggregate impact of SMEs is larger.

CSR has been less researched in SMEs compared to large companies (Perrini, 2006). This is somewhat surprising given that small firms are an important part of the economic and social landscape, comprising more than 95% of private business consistently around the globe (Chandler, 2016). Their contribution translates to important job provision (Spence, 2014). Another gap is observed in the literature in regard to the relationship between CSR and business performance and more prominently to investigate the factors that make this connection plausible. In this sense, a few studies have been carried out analyzing the CSR-firm performance link in SMEs (Madueno, et al, 2016; Martínez et al, 2017; Hernandez et al, 2017). These studies tried to measure the CSR performances from a multi-stakeholder perspective.

2.3 CSR-SMEs and performance link

Corporate social responsibility theory is typically portrayed as something universal with application to all companies, irrespective of their size. In the context of SMEs, a lesser engagement in CSR can be observed as opposed to Large Companies (Madueno, Jorge, Conesa, & Martinez, 2016). The limited resources associated with the managers' lack of knowledge, the closeness that these firms have with their stakeholders (Perrini, 2006) and the use of non-standardized means of communication all contribute to lack of awareness of CSR as a competitive tool. These characteristics point to a need for further research of CSR in the context

of SMEs (Martínez, Madueno, Jorge, & Sancho, 2017; Vives & Peinado-Vara, 2011). Jenkins (2006) argued that organizations undertake a fairly high level of overall CSR activities that they are unaware of fitting to social responsibility. This is considered a silent CSR or Sunken CSR (Perrini, 2006) and they are only practiced as a natural part of running a business to engage in local communities, manage stakeholders, create a good working environment, and preserve local natural resources (Blowfield & Murray, 2011).

The pressure to achieve benefits with social corporate responsibility is much less in SMEs. For instance, Owner-managers make their own decision regarding the implementation of responsible practices. Unlike multinationals, SMEs tend to have informal reporting instruments, based on face-to-face interaction with stakeholders, rather than formal written reports such as annual corporate accountability reports (Baumann, Wickert, Spence, & Scherer, 2013).

As the vast majority of SMEs are owner-managed, they tend to face less pressure from investors to maximize their returns, giving them more resources and legitimacy to dedicate resources to socially responsible business practices. For SMEs, it may be enough that the benefits or competitive advantages from CSR go in the right direction and not that they are as big as possible (Vives & Peinado-Vara, 2011). For these reasons is important to advance in the studies directed to explore the origins, implementation, and effects of CSR in SMEs (Martínez, Madueno, Jorge, & Sancho, 2017). However, as suppliers of large companies, SMEs may receive pressure from their buyers who are exposed to these pressures and must ensure that the value chain incorporates responsible practices (Vives, Corral, & Isusi, 2005).

To implement responsible practices in companies it is also essential to demonstrate to owner-managers that these practices can contribute to the benefit of the company by increasing

competitiveness. However, some hesitation is perceived in adopting CSR practices. This may be because of the fact that these practices usually offer little basis for balancing long-term objectives against short-term cost they incur (Porter & Kramer, 2006). To support SMEs in their embrace of CSR stakeholder theory may possibly be the best approach. The theory developed by Freeman (1983) satisfies a "Group of Interest" for the benefit of CSR practices. This Group of Interest is composed of people whose objectives are in line with the company's and on whom the company depends (Hernandez, Palacios, & Galvan, 2017; McWilliams, Siegel, & Wright, 2006). According to this view, it is not sufficient for managers to focus exclusively on the needs of stockholders, or the owners of the corporation. Stakeholder theory implies that it can be beneficial for the firm to engage in certain CSR activities that non-financial stakeholders perceive to be important, because, absent this, these groups might withdraw their support for the firm. Engaging with local community might play an important role to strengthen the company's image, in the same line engaging in scandals of corruption and fraud has an opposite effect. McWilliams et al (2006) stressed the moral and ethical dimensions of CSR, as well as the business case for engaging in such activity.

Grounded on the strategic character of CSR in companies, Vazquez et al (2013) allege that most competitive firms have the highest level of social responsibility. They explain this fact regardless of the other considerations of additional social unselfishness. Contrary to this statement, Barnett (2007) was specific when he affirmed, that after decades of research, it is still not possible to conclude unmistakably whether a one-dollar investment in social initiatives returns more or less than one dollar in benefit to the shareholder. However, a number of studies indicate a constructive relationship between CSR and positive performance (Jenkins, 2006; Spence, 2014; Porter & Kramer, 2006).

In many cases, socially responsible practices require the investment of resources, which most of the time are limited to SMEs. It may, therefore, be necessary to demonstrate that, even if this investment does not bring about an immediate financial reward, it is at least suitable to the interests of the company. And, given that these practices are relatively new and some of them with no ensured return, they tend to face greater resistance than other more traditional expenses or investments. Even though some managers are convinced that in the long term they can benefit from the socially responsible practices it is necessary to demonstrate the benefits in business arguments (Vives, Corral, & Isusi, 2005).

Discovering a universal rate of return for CSR activities would be ideal but it is virtually impossible; it is necessary to focus on a provisional perspective (Madueno, Jorge, Conesa, & Martinez, 2016). For that reason, the model previously proposed by a Spanish researcher Laura M. Lechuga and already tested with some adjustments in (Madueno et al, 2016; Martínez et al, 2017; Vazquez et al, 2013) for the specific context of the SMEs not only looks at the direct link between CSR and firm performance, but also aims to clarify how the CSR efforts are rewarded by the different stakeholders. This is also a motive why we will focus on the validation of this model in Southern Brazil in the state of Rio Grande do Sul, Santa Catarina, and Parana.

2.4 The direct relationship between CSR and firm performance

The effects of CSR on firm performance remain uncertain. The challenge of measuring the practices is because we are still unable to measure accurately. The vast majority of studies tend to capture only a narrow slice of a firm's CSR profile (Chandler, 2016). In the field study of SMEs, we observe that authors that have analyzed the CSR-performance link are restricted to suggest some strategic CSR adoption and implementation (McWilliams, Siegel, & Wright,

2006; Vives, 2006) or have explain some theoretical implications in regard to translating the incorporation of a socially responsible behavior in business strategy into a value-added performance (Murillo & Lozano, 2006; Spence, 2014). Only a few authors in recent times have dedicated studies to the phenomena of providing empirical evidence to corroborate these theoretical implications (Madueno et al, 2016; Martínez et al, 2017; Hernandez, Palacios, & Galvan, 2017).

However, there are specific areas in which the practices of CSR have been recognized as true architects of the improvement of organizational performance and this is especially important for SMEs. Innovation (Gallardo & Sanchez, 2013; Battaglia, Testa, Bianchi, Iraldo, & Frey, 2014) and flexibility in response to a changing environment (Spence, 2014) are some of the assets of the small firm in the generation of competitive advantages. CSR has the potential to promote innovation since socially responsible behavior leads to new ways of working and the development of new and more advanced products, services, and processes (Martínez, Madueno, Jorge, & Sancho, 2017). Cost and risk reductions may also be achieved through CSR activities aimed at the natural environment by managing community relations. In this case, initial investments tend to pay off over time, thanks to cost savings from a better and more rational management of natural resources, lower litigation expenditure and lower insurance costs (Battaglia, Testa, Bianchi, Iraldo, & Frey, 2014).

2.4.1 The positive impact of CSR practices

It is widely agreed in the literature that the theoretical assumption of a firm's good relationship with stakeholders the firm's competitiveness stands up to scrutiny (Gallardo & Sanchez, 2013; Jenkins, 2016; Munoz-Torres et al, 2009; Madueno et al, 2016). Despite how SMEs manage their

reputation, these organizations are generally better positioned to take advantage of the potential benefit from CSR actions in terms of meeting the stakeholders' needs. This may be a consequence of the relationship with most of the stakeholder which is more flexible, closer and relatively more authentic (Madueno, Jorge, Conesa, & Martinez, 2016) comparison to large enterprises. Attention to stakeholders' interests is the essence of social responsibility, and this could be understood as a basic strategy for regional competitiveness (Hernandez, Palacios, & Galvan, 2017). A firm with good employee relations can lower its employee turnover rate and improve employee motivation (Battaglia, Testa, Bianchi, Iraldo, & Frey, 2014).

Previous studies in SMEs regarding competitive performance, show that even smaller entities with significant limitations to available resources can ensure better competitive performance by developing their skills with respect to managing CSR. On the other hand, Martínez et al (2017) concluded that some factors that develop strategic capabilities do not consume available resources and yet are characteristic of SMEs, such as shorter lines of communications, closer interaction with stakeholders, the presence of the founder's vision, management style, in addition to the strategic relevance of networking for SMEs (Battaglia, Testa, Bianchi, Iraldo, & Frey, 2014).

A greater competitive advantage is created by investing in employees and customers (Battaglia, Testa, Bianchi, Iraldo, & Frey, 2014; Martínez, 2017). In a study carried out by Gallardo & Sanchez (2013) covering an economic dimension of measuring, high quality at fair prices is the main concern on the part of consumers. However, the study, in turn, does not refer to aspects related to product safety or the implementation of systems to support customer complaints,

which would indicate a higher level in terms of a concern with the issues mentioned above. These issues will be covered in the analyses in this paper.

In addition to the fact that innovation has been previously indicated as a competitive advantage factor, Battaglia et al. (2014) complemented the discussion agreeing that innovation is the most direct and effective competitive implication of CSR initiatives. In their study, it becomes evident that the engagement with the environment and local community contributes to the innovation capacity of smaller companies more than engagement with core business stakeholders. In this regard, the authors mentioned above stated that environmental tools, such as audits, monitoring systems or the adoption of formal environmental management systems, tend to lead to an accumulation of know-how and increase technical capacity.

In the literature review it is remarkable that not all socially responsible practices affect a firm's performance correspondingly (Martínez, Madueno, Jorge, & Sancho, 2017), a proper initiative, which facilitates the company's ability to make progress on key business strategy may enable decision-makers to transform this investment into competitive advantages for their firms. Consequently, managers interested in drawing a direction for CSR could focus the resource allocation considering that certain stakeholder's satisfaction improves business return (Morsing & Perrini, 2009). Furthermore, the existing studies in the perspective of SMEs incline not to accept any causal relationship that predicts that companies will not be compensated by their efforts in CSR. Therefore, since we hold that any relationship that arises between these variables must be made adopting the hypothesis of social impact, which is expecting positive stakeholders' reaction from increasing socially responsible business behavior, the hypothesis for testing in this paper is as follows:

H₁. A superior competitive performance in SMEs may result from the development of CSR practices.

Figure 1 Hypotheses 1: The influence of CSR practices on Competitive Performance

2.5 The relationship between stakeholders and firm performance

Part of the set of practices that characterize responsible corporate management is the ability to institute a constructive relationship with an extensive set of stakeholders. It has been considered that the firm's relationship with stakeholders improves when the firm concerns itself with gaining knowledge of those stakeholders and their demands and expectations, to improve the communications with them and when it takes into account the stakeholders' demands when it comes to making decisions (Hernandez, Palacios, & Galvan, 2017; Martínez et al, 2017).

As CSR changes over time, the demands became more sophisticated, and all of these aspects of context can be opportunities for CSR initiatives (Porter & Kramer, 2006). However, especially in recent decades, there has been rapidly increasing pressure on the business community to behave more responsibly to their stakeholders. Turker (2009) measured CSR in a scale development study. The stakeholders selected were employees, customers, society, government, natural environment, future generations, and NGOs. The author states that for CSR to meet the demands of the stakeholders it should go beyond the monetary goals. It needs to be an outcome of the

organizational decision. Stakeholder management theorists have focused on the rights, needs, and interests of stakeholders (Turker, 2009; Barnett, 2007).

In general, SMEs by their very nature are local institutions whose owners/managers, customers, and workers come from the same community. Because SMEs have relatively few employees, many of them are known to the managers and owners, leading to a more tangible concern for their well-being. It should be natural for these firms to be concerned with community development, the local environment, and social issues, although for lack of knowledge, economic reasons or fear of regulations they may not be as involved as would be expected. SMEs normally struggle to survive under adverse economic conditions and, as a result, regulations tend to be more burdensome for them than for larger corporations.

The implications of social and environmental concerns and regulations are likely to make SME owners and managers quite anxious because they will perceive them as an additional burden unless the business case is made in a language and form that they can understand. The most common form of SME is the owner-managed firm where ownership and control lie with the same person (Jenkins, 2006). The close relationship between management and ownership makes it easier to align the objectives of both. SMEs activities may reflect the values, character, attitudes, education background and the like of owner/entrepreneur (Vives, 2006). This will have a direct impact on the firm's corporate responsibility.

2.5.1 The impact of the relationship with stakeholders

Stakeholder management is a systematic approach to organize the relationship between business and society. In the process of globalization, companies tend to interact with more and more heterogeneous actors. As a result, they find it increasingly difficult to adapt to the numerous and

often contradictory societal expectations. In this situation, stakeholder management is vital in order to foresee changing expectations and to detect conflicts when they are not yet threatening for the corporation (Roloff, 2008).

Oliveira (1984) proposes a thought experiment whereby the company can be imagined to be surrounded by potential beneficiaries who fall into different categories. These categories equate to what we now call stakeholders. The company is allowed to choose which categories will benefit the most, even though all will benefit to some extent from its existence. The categories chosen reveal the reason for the existence of the company, while the benefits to the others are necessary to keep the company viable.

The communication between stakeholders in pursuit of socially responsible behavior allows firms to develop some particular intangible assets (Madueno, Jorge, Conesa, & Martinez, 2016). On the basis of the establishment of relationships and interactions, firms are able to develop resources that will promote the development and maintenance of competitive advantages, which are hard to measure by means of accounting or physical parameters.

Earlier studies had already found that those organizations with a closer relationship among the stakeholders were able to achieve a progressive competitive advantage. Perrini (2006) proposes that the use of certain mediating variables that characterize these interactions would add understanding about the mechanisms through which the CSR practices positively impact on business performance. In addition to this discussion, Madueno et al (2015) agree that relationship improvements may be the cause or effect depending on the group of stakeholders in which the company concentrates CSR practices. Some constructive business performance can be interpreted based on the positive reaction of stakeholders (Turker, 2009).

Convergent with the theoretical approach embraced, there should be a positive reciprocity between the company and stakeholders. Through the relational improvements variable the importance of interaction with stakeholders is emphasized, with the relationship being the unit of analyses, which must be understood as the farming of strong interactions between two parties that keep any economic or social link and pursue mutual benefits (Madueno, Jorge, Conesa, & Martinez, 2016). To explore any intermediating effect that this variable could show, the following hypothesis is suggested:

H₂. In SMEs, the relational improvements have a mediating effect on the relationship between developed CSR practices and competitive performance.

Figure 2 Hypotheses 2: The mediating effect of Relational improvement

Chapter 3

Theoretical Framework and Research Methodology

3.1 Introduction

For research involving organizations, it is essential to understand the organizations in which the research has been undertaken. The focus here is on the SMEs companies. In Brazil, there are three instruments to categorize SMEs. Two models adopt the turnover as a reference, which is not a concern in this study because we are investigating competitiveness and performance based on the perception of owner-managers. The other one, the main emphasis here, is based on the numbers of employees. The enterprises are classified by industry and trade and, service. The classification is the following: Microenterprises are up to 09 employees for trade and service, and up to 19 for industry; small enterprises are from 10 to 49 for trade and, from 20 to 99 for industry; medium enterprises are from 50 to 9 499 for industry (Sebrae, 2018).

For international or cross-cultural research, it is important to have an understanding of the countries or cultures in which you are undertaking the research (Saunders, Lewis, & Thornhill, 2009). For this reason, the questionnaire was designed based not only on the reviewed literature, it was also widely discussed with entrepreneurs and CSR practitioners and conceptualized by the researcher own knowledge. The survey was applied in the South of Brazil in the local language which is Portuguese. A pilot questionnaire is necessary, without this, it is easy to make mistakes, such as using the wrong terminology or language, and to collect useless data (Saunders, Lewis, & Thornhill, 2009).

3.2 Theoretical Framework

The theory applied to test the explanatory research is the Stakeholder theory (Freeman & Reed, 1983). From this perspective, this study is following the same approach used by Madueno et al (2016) that defined four categories of stakeholders to be investigated as relationships between the variables and the competitive advantage. The four categories in discussing here are environmental, employees, local community and, customers. In the further analyses, the competitive advantages will be investigated by the CSR practices through the indirect or mediating effect of the relationship improvements with the stakeholders.

Note that a number of researchers have employed control variables in complex models like this one applied in the case of our study. Madueno et al (2016) and Hernandez et al (2017) have considered firm size as a control variable. In short, their results showed that, regardless of the size of the company, the development of socially responsible practices favor stakeholders reactions and improve its competitiveness. Since our sample consists only of SME's and from the results of previous research, mention above, in this study we are not having any control variable.

3.3 Sample and data

The selection of SMEs was done based on a convenience sample in the three states that compose the Southern part of Brazil. The reason to decide on convenience sampling is due to the appropriate accessibility and proximity to the researcher. The questionnaire was sent out through social media mainly on messenger, e-mail and, WhatsApp in private messages addressed exclusively to the entrepreneurs or employees with knowledge of the company. The

questionnaire was applied from May 18th to June 26th, 2018. In total 205 SMEs were approached. From this amount, 104 questionnaires returned and 15 were partially filled.

With reference to the location, 76 responses are from the State of Rio Grande do Sul, 7 responses from the State of Santa Catarina and, 10 responses from the State of Parana. These three States geographically constitute the Southern region of Brazil. With regard to the size, differently, from the original study in Madueno et al (2016) the sample in Brazil includes companies with fewer than 10 employees, in other words, microenterprises. The sample size can be seen as follow:

Table 1

Sample data

Sample Data analysis		
Size (employees)	Number	%
0-10	55	53
11-50	33	31
51-100	6	6
101-50	3	3
Missing Information	7	7
Total	104	100

Table 1 Sample Data Analysis

3.4 Questionnaire

The data is collected through a questionnaire. The questionnaire is divided into three parts, where each part belongs to a latent construct. The CSR practices are evaluated by indicators in four clusters. The company's performance is composed of indicators that are observed from a

comparison with competitors. The last construct measures the improvements factors which are a perception of the SMEs owner-managers point of view.

3.4.1 CSR practices

Since the emphasis is from the multi-stakeholder perspective, to construct the social impact hypothesis the paper considers four key groups to measure the CSR practices. The instrument of measuring the socially responsible practices was chosen from the scale of Madueno et al (2016). The authors pondered a CSR measure where 24 items are grouped into four key stakeholders' categories, being the groups: environment, employees, customers, and society. This is a measuring scale based on a former scale of Lechuga (2012) which was developed and validated according to the psychometric theory of scale validation. For Martinez et al (2017), this paper can be well-thought-out as the most complete proposal that has been made within the specific context of socially responsible practices in SMEs. Originally the practices were grouped into six stakeholders' categories: employees, customers, suppliers, environment, local community, and corporate governance.

In a previous study, Turker (2009) had portrayed responsibilities to five categories which may benefit from corporate social responsibility: the employees; the owners and shareholders; the consumers; the public or the community where the company operates; and the suppliers/creditors. In Brazil, it was stated that the local community, where the company operates, is the category that deserves the greatest attention from the companies surveyed (Oliveira, 1984).

The validity of each of the indicators used can be also corroborated according to other CSR measures developed from different approaches such as the triple bottom line (TBL) perspective.

The TBL, commonly called the 3Ps, is an accounting framework that incorporates three dimensions of performance: social, environmental and financial. This differs from traditional reporting frameworks as it includes ecological (or environmental) and social measures that can be difficult to assign appropriate means of measurement (Slaper & Hall, 2011). A few authors have developed a study from this perspective (Vazquez, Hernandez, & Corchuelo, 2013; Hernandez, Palacios, & Galvan, 2017).

Together with being one of the few numbers of alternatives to assess the level of CSR practices in the field of SMEs, it should be noticed that there are structural similarities between this and the scale that other authors have proposed under the stakeholder's approach. In the same line Turker, (2009) constructed a scale with 42 items. Martínez et al,(2017) used the scale from the same survey and constructed a different model. To avoid any technical term that could hinder the understanding of questions, after the pilot survey, the model proposed here is compounded of 23 items convened into the four categories.

The variable to evaluate CSR was considered, therefore, as a molar or aggregate multidimensional construct, this is as a second-order composite model where its first-order four dimensions are configured as factor models. Besides specialized literature suggests that composite nature helps to model emergent constructs, as CSR, for which elements are combined to form a new entity (Madueno, Jorge, Conesa, & Martinez, 2016).

3.4.1.1 Corporate social responsibility practices

The CSR practices were accessed by the level of agreements with the following questions relate to environmental, employees, local community and, customers:

Table 2

CSR Practices in SMEs

Practices related to the environment:	
EnPr1	Minimize the environmental impact of your business activities
EnPr2	Design products and packing that can be re-used, repaired or recycled
EnPr3	Goes voluntary beyond legal environmental regulations
EnPr4	Regularly conducts environmental audits
EnPr5	Reuses and recycled materials
EnPr6	Adopts measures for ecological design in product/services
EnPr7	Implement programs to reduce water consumption
EnPr8	Makes energy-saving investments
Practices relate to employees:	
EmPr1	Employees' interests are taken into account in company decision-making
EmPr2	Support employees who wish to continue or upgrade their education/training
EmPr3	Help the employees find suitable work-life balance (Flexible working hours)
EmPr4	Recognizes the importance of stable employment for your employees and society (in the local area)
EmPr5	Develop/implement regular training programs
EmPr6	Assess employees work/ labor environment on a regular basis
Practices related to the Local Community:	
SPr1	Incorporates/includes local community interests in company decision making
SPr2	Support sports or cultural activities in the local community
SPr3	Maintain clear relations with local government authorities
SPr4	The business considers itself to be part of the local community and therefore care about its development/local impact or the improvement of the local infrastructure
SPr5	Support programs for the disadvantaged
Practices related to the Clients:	
CPr1	Meet its commitments with quality and fair price
CPr2	Inform customers about the proper use of their products and warning of

	potential risks
CPr3	Take measures to prevent customer complaints
CPr4	Respond to customer complaints or inquiries

Table 2 “CSR Practices in SMEs” scales. Source: (Madueno, Jorge, Conesa, & Martinez, 2016; Hernandez, Palacios, & Galvan, 2017)

3.4.2 Competitive performance (C.PERF.)

The different way managers interpret the same external environment leads to distinct policies formulation and differentiated actions, which, together, is reflected in organizational performance. The increased intensity of business competition has forced firms to adopt non-traditional management techniques and tools. Maintaining a competitive advantage is a dynamic and infinite activity (Rua, França, & Ortiz, 2018). Competitive advantage has to be achieved and further, the firms need to sustain it. Porter, (1991) would consider it a matter of creating value for customers and doing it better than the competition.

Performance is a construct that is difficult to operationalize holistically, as it may refer to different aspects of the organizational effectiveness. Many SME managers are unwilling to provide correct information about their financial performance, such as revenue, annual sales and return on investment. To address these problems in SMEs research, it is recommended using subjective measures, such as managers’ perceptions, rather than objective measures (Rua, França, & Ortiz, 2018) and some commercial and technological differentiation items (Madueno, Jorge, Conesa, & Martinez, 2016).

For evaluating firm performance, the approach selected is similar to the one adopted by Gallardo et al (2013) using a variable more focused on considering competitive performance than on financial performance data. The scale used in Madueno et al (2013) is multifactorial, the

competitiveness has been taken from a two-dimensional perspective, and using subjective information. It is formed by 7 factors which indicate superiority to competitors. For the model in this study, an extra factor is added since it has been proven of high relevance in the research carried out by Rua et al (2018). The Business performance evaluation stood on a measure that would allow considering the competitive position of SMEs based on the awareness of the respondents.

3.4.2.1 Competitive performance

The competitive performance was retrieved comparing the results of the SMEs to competitors.

The factors observed are as follow in the table:

Table 3

Competitive Performance Measurement

Competitive performance:	
Perf1	Sales
Perf2	Market share
Perf3	Customer satisfaction
Perf4	Benefits/utility
Perf5	Profitability
Perf6	Quality of products
Perf7	Technological superiority
Perf8	Sales price

Table 3 Items of the questionnaire to measure Competitive Performance. Source: (Madueno, Jorge, Conesa, & Martinez, 2016; Gallardo & Sanchez, 2013; Rua, França, & Ortiz, 2018)

3.4.3 Relational improvements (R.IMP.)

For this variable, a multidimensional construct has been designed from a multi-stakeholder organizational management perspective. Any company that is operating on a larger market or on several markets should engage in some organization-focussed stakeholder management. That means that they should know who their stakeholders are and keep in touch with them in order to understand their demands and expectations and to realize changes in the relationship (Roloff, 2008).

In order to evaluate relational improvement, a variable was designed that reflect trough five items. The variables are: how much-said companies have improved their relationship with customers, suppliers employees, owners and the local community and the environment in the previous years. The same model was used in earlier surveys by Madueno et al (2016) and Martínez et al (2017). All of which are considered key stakeholders of SMEs (Freeman & Reed, 1983). From the studies mention before, a subjective analysis included 15 measuring factors concerning improvements from the past few years.

In this paper, the pilot test indicated a misunderstanding in some factors. To avoid confusion synonyms words are used instead. The structure consists of 14 measures covering the same stakeholder's categories as in the model of Madueno et al (2016).

3.4.3.1 Relational Improvements

The relationships improvements are perceptions of improvements from the following aspects in the table:

Table 4

Relationship's Improvement Measurement

Relational Improvement:	
Imp1	The firm image
Imp2	Relations with customers
Imp3	Customer loyalty
Imp4	Customer service
Imp5	Relations with suppliers
Imp6	The cost reduction in suppliers
Imp7	The cost reduction in logistics and inventory
Imp8	The employee satisfaction
Imp9	Absenteeism
Imp10	Work environment
Imp11	The loyalty and morale of employees
Imp12	The owners and investors satisfaction
Imp13	The owners' knowledge about the progress of the firm
Imp14	Relations with its local community and environment.

Table 4 Factors influencing the relationships improvements. Source: (Madueno, Jorge, Conesa, & Martinez, 2016)

3.5 Research Methodology

In order to validate the questionnaire, the main methodology used has been the structural equation modeling. The SEM methodology has become the dominant analytical tool for testing cause-effect-relationships models with latent variables (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014). SEM brings together the contributions of econometric approach referring to the prediction psychometric approach, related to the measurement of latent or unobserved variables inferred from indicators or manifest variables (Madueno, Jorge, Conesa, & Martinez, 2016). The use of SEM for the analysis is because the model does not analyze the raw data. Most

social concepts are not directly observable, for instance, competitive advantage; this makes them hypothetical or latent constructs. SEM is not one statistical technique; it integrates a number of different multivariate techniques into one model fitting. It is an integration of Measurement theory, Factor (latent variable) analysis, Path analysis and, Regression. SEM also analyses the mean and simultaneous equations. The representation in diagrams facilitates the understanding of the data. The performance is calculated with the RStudio desktop, a free and open-source integrated development environment for R programming language (Racine, 2012).

3.6 Measuring the model

A final important issue is how to test the construct empirically. Empirical testing is vital both for frameworks and models. Testing of models is difficult given the need to match their assumptions. Given the innumerable of relevant variables in frameworks and the complex interactions among them, rigorous statistical testing of frameworks is also difficult, to say the least (Porter M., 1991).

As it was mentioned before, the model proposed and tested in this paper follows the structure used in Madueno et al (2016). The model contains both formative and reflective variables. The Com Perf is the latent variable or reflexive variable. The latent variable is measured using observable indicators (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014). The CSR practices and Rel. Imp are formative variables; these constructs are considered second-order formative constructs. Madueno et al (2016) understand that the dimension of these constructs attaches heterogeneous aspects.

While in latent variables a confirmatory factor analysis is performed in the second order formative constructs the factors are not directly connected to any measured in such situation the

analysis can be seen as analogous to a confirmatory factor analysis, but at a higher level of abstraction, where the indicators are actually latent variables (Chin, 1998).

We first aggregated the separate questions into the indicators they used in their SEM and then we ran the SEM models. So aggregation occurred in two steps; using unit weights for the first step to get from questions to the aggregate indicators, and then using factor loadings as weights within the SEM analysis. The R. Imp in this structure plays the role of mediator.

A moderator is a construct that affects the strength of a causal relationship between two other constructs, in this case between CSR practices and Com. Perf.

Chapter 4

Data Analysis

4.1 Main analyses

Structural equation analysis has the advantage of analyzing complex relationships between theoretical, latent constructs in a so-called structural model, while also making it possible to estimate the fit of that structural model with empirical data through a measurement model (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014). To do this, following Madueno et al (2016), the constructs should be interpreted as distinguishing between the measurement and structural models, applying to each of them the suitable statistical parameters to assess them. To put it in another way, the measurement model is the part which relates measured variables to latent variables. The structural model is the part that relates latent variables to one another. Statistically, the model is evaluated by comparing two variance/covariance matrices.

4.2 Measurement Validation

Structural Equation Modeling (SEM) is a confirmatory method providing a comprehensive means for validating the measurement model of latent constructs. The validating procedure is called Confirmatory Factor Analysis (CFA). Factor analysis is a technique that is used to reduce a large number of variables into fewer numbers of factors (Chin, 1998). This technique extracts maximum common variance from all variables and puts them into a common score.

At the same time factor analysis is performed, other important factors will be taken into consideration like reliability coefficients (e.g. coefficient Alpha or Omega) as well as

correlations between all items, the visual representation of the associations between all items using scatterplots (below and left of the diagonal), and every item's distribution using histograms (on the diagonal). These factors are important for the model construct but not necessary to explain the outcomes themselves. For this reason, not all the calculation made for the construct will be mentioned in the analysis. More details can be seen in the appendices. Following Cohen's 'learned lesson' that unit weights are often wiser choices than weights based on estimated coefficients or factor loadings, in this analysis, for simplicity, the items are averaged into the aggregate measure to use in the SEM.

4.2.1 Factor analyses and aggregate computations

The factor analysis of the competitive performance indicates two factors. Note that because we included the eighth performance indicator, it makes sense that the factor structure found in Madueno et al. (2016) does not exactly replicate. We will use the two factors found in this sample to create the two indicators for the formative performance variable (see Table 5).

Table 5

Factor Analysis Competitive Performance

Item	Factor1	Factor2
ComPerf1	0.886	
ComPerf2	0.859	
ComPerf3		0.722
ComPerf4		0.916
ComPerf5	0.695	0.111
ComPerf6	0.133	0.699
ComPerf7	0.592	0.204
ComPerf8		0.621
Variance explained	29.9%	28,6%
Total Variance explained	58.6%	

Table 5 Factor Analysis of Competitive Performance

The factor analysis of competitive performance shows two dimensions. One dimension, factor 2, gathers items relating to differentiation and user experience of the products/services. This could be connected to innovation management, reinforcing the outcomes in the study by Battaglia et al (2014) that innovation is the most undeviating and beneficial competitive implication of CSR initiatives. On the other side, the dimension *is* a financial and economic advantage, and the performance of the company in comparison to competitors shows it.

In relation to the second-order structure of the Relational Improvements, the factor structure does not repeat either. This is not very surprising since Brazilian culture, and the economic and politic context are very different from the Spanish culture and context. In addition, item 13 was omitted from this study. In the original study, the factor analyses indicated four factors. In the Brazilian sample, three factors are formed; each explains enough variance to be created (see table5).

We will aggregate these items using the factors we found here. In the end, it will not have a large influence, because these are only the second-order factors analysis anyway; in the Structural Equation Model, they will be aggregated again into the Rel Imp. variable. Of these, the second factor is the same as the fourth factor in the original study. Except for items 9 and 11, which originally were in the third factor and now are added to factor two, all other items load on the first factor.

Table 6

Factor Analysis Relationships Improvements

Item	Factor1	Factor2	Factor3
Imp.1	0.598		0.153
Imp.2	0.550		0.334
Imp.3	0.454		0.592

Imp.4	0.627		0.345
Imp.5	0.767		
Imp.6	0.258	0.766	
Imp.7	-0.181	0.114	0.948
Imp.8	0.376	0.416	
Imp.9		0.838	
Imp.10	0.721	0.276	
Imp.11		0.820	
Imp.12	0.383	0.386	0.123
Imp.13	0.838	0.127	-0.169
Imp.14	0.743		
Variance explained	30%	14%	11%
Total variance explained	55%		

Table 6 Factor Analysis of Relational Improvements

The original paper only verified the factor structure for the instrument that was not yet validated in earlier research. In this paper, that approach will be followed. That is the reason why for CSR practices there is no prerequisite to repeat factor analysis.

4.3 Structural Model

The main causal relationship in the investigation is the so-called reduced model (Chin, 1998) where a latent formative variable (CSR) determines a reflective variable (Comp. Perf). The assessment of the structural model supports the first hypothesis, where CSR practices enable SMEs to increase their competitive performances in a theoretical causal relationship. Taking into consideration the results shown in figure 3, the development of CSR practices has a positive and significant effect on competitive performance. More than that, based on the R squared, it can be said that the development of CSR practices can explain 47.9% of the competitive performance. In addition, it is possible to observe the loading of each stakeholder cluster in the CSR practices that redirect on competitive performance. Which in turn demonstrates the highest weight loading for the dimension that translates innovation management.

R squared 0.479

Figure 3 The direct influence of CSR practices on Competitive Advantages

Having tested the first hypothesis, the mediating effect of the relational improvements has been investigated. The second hypothesis considers the indirect influence of relationships improvements in competitive advantages. The results in figure 4 reveal a strong association between the independent variable originally considered (CSR practices) and the mediating variable Rel. Imp (0.80). There is also a significant link (0.32) between the mediating variable Rel Imp. and the variable originally considered as a dependent. Furthermore, there must be a substantial connection between the constructs proposed in the direct model analyzed in hypothesis 1, although this relationship, as a natural outcome of the inclusion of a mediating variable, will necessarily reduce (before = 0.69, now= 0.46). This decrease is due to the incorporation of the construct Rel. Imp as a mediating variable.

The partial mediation model should explain more variance in the main dependent variable (Comp. Perf) than the model without mediation (Madueno, Jorge, Conesa, & Martinez, 2016).

For the second model, the R squared impressively explains 54.6% of the competitive performance variance. Regarding the stakeholder clusters that formed the CSR practices, the features remain with no significant differences as in the first structural model. Additionally, in Rel Imp the three dimensions shaped by the factors analyses indicate that the aspects that compose Factor 1 have the highest weight, more than double Factor 3. From the outcomes of competitive performance, we observed the same structure as in the first model, where Fac 2 has a higher weight than Fac 1.

Figure 4 The indirect effect of relationships Improvements

4.4 Findings in comparison to Spain

Through the assessment of the measurement model, it was analyzed whether the theoretical concepts proposed were being properly measured by the manifest variables or indicators collected in the questionnaire. In both regions surveyed, Brazil and in Spain, the model was validated and the main findings can be seen as follows:

In relation to Competitive Performance, the differences between Brazil and Spain are noticeable. With an extra item included in the survey, the Brazilian SMEs factors for Com Perf are loaded in an equal way and in a slightly different structure from that perceived in Spain and described in Madueno et al (2016). This shows that, even where we prove that companies gain competitive advantages as a result of CSR practices, these advantages are perceived differently by the two regions discussed here. The values in the companies in these two regions might differ as well.

Table 7

Differences in the factor Analysis in Competitive Advantages

South of Brazil		Murcia (Spain)	
Item		Item	
Factor1	Factor2	Factor1	Factor2
Sales	Customer Satisfaction	Sales	Customer Satisfaction
Market Share	Benefits/Utility	Market Share	Quality of Products
Profitability	Quality of Products	Benefits/Utility	Technological superiority
Technological superiority	Sales Price	Profitability	

Table 7 Competitive Advantages perceived in Brazil Vs. Spain

The dimensions loadings also performed differently. While in the Spanish sample the weights for both dimensions are similar, in the Brazilian sample the dimension that translates innovation has

a superior weight in comparison to the dimension that translates financial and economic performance.

In the case of the second order formative construct, which is composed by CSR Practices and Relationship improvements, the results gathered in Murcia (Spain) by Madueno et al (2016) highlighted that in the case of the CSR construct, the highest weight belongs to practices related to employees in both structural models. In addition, the dimension capturing the practices related to society has the lowest weight. With respect to the Rel. Imp.'s construct, the relational improvements coming from customers and owners have a higher weight than the others.

From the Brazilian sample, regarding CSR practices, the category related to clients performed better than the others. Following the results from Spain, the practices relate to the local community were the ones with the lowest weight. This is true for both structural models. Rel Imp. in the Brazilian sample captures three dimensions - one dimension less than in the Spanish sample. Any comparison in this sense would not be reasonable and may be interpreted into misleading information.

The numbers of the coefficient path of the relationship between the constructs CSR and Rel Imp. and, CSR and Comp. Perf is also higher in the Brazilian sample. This shows that Brazilian SMEs have the strongest connection between CSR practices, relationships improvements, and competitive performances. Another important point is the R^2 , while the original structural model proposed it was 0.291, in the case of the Brazilian SMEs the final model is 0.549. To put in another way, the full model can predict or explain more than 50% of the competitive performances variance.

4.4.1 Discussions

The findings from these two surveys have led to the understanding that competitive performance in SMEs can be a reflection on CSR practices and the strong connection between the practices relate to the four groups of stakeholders and the relationships improvement with these stakeholders.

The feasibility of the research, in Brazil, was due to an online survey. With this approach, the Brazilian sample could be carried out in a shorter time and covering a larger area. Unlike the approach in Spain that was a personal interview and thus managed to reach a larger number of respondents. The research in Spain was carried out by a consulting firm while in Brazil the researcher herself was in charge of collecting data.

Interestingly, research in Spain excludes micro-enterprises from the final calculation. These companies represent the highest percentage of respondents in the survey in this paper. Together, the approximately 9 million micro and small enterprises in the Country represent 27% of GDP and, 40% of wages paid (SEBRAE, 2014). These features reveal the importance of these enterprises in the Brazilian economy. For these reasons, they are included in the survey.

The questionnaire is slightly modified to adapt to the Brazilian reality. In relation to CSR practices related to the environment, the understanding of alternative energy in Brazil differs from Spain. In Brazil, the largest source of energy is hydroelectric power. The difficulty of access and the high cost of renewable energies make this not an option for many entrepreneurs. Therefore, this was removed from the questionnaire so as not to confuse the respondents with the option of reducing energy costs. In making energy-saving investments is included a solar panel as a source of reducing cost.

In both cases, the R-squared of the final model showed that the model fits the set of observations. The fact that the Brazilian data was not a simple random sample explains why the model validated in this Country contracted much higher R-squared statistics (54.9%). Models based on geographic data can be inflated (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014). The Southern part is the smallest portion of Brazil, it is highly urbanized (82%) and it has a relatively high standard of living, with the highest Human Development Index of Brazil (IBGE, 2017). It would be appropriate to mention that main geographical difference between the two Countries is that the Brazilian sample covers a bigger area and it is mainly from small cities, while the in Spain, the sample is from Murcia. This urban area is composed of 10 only municipalities.

In relation to the statistics, the factor analyses revealed that the two dimensions of competitive performance are slightly different. Each factor is composed of different variables (see table 7). The particular cultural characteristics of the regions could influence this perception. The South Region of Brazil, where the sample was taken, received large numbers of European immigrants during the 19th century, who have had a large influence on its demography and culture, leaving the region with similar traits to Northern Europe.

Competitive performance in our study is a perception of superior performance in comparison to competitors. It means that not only financial advantages are considered. As it happens, the loadings of the dimension of profitability and market share factors have inferior performance than the factors related to innovation. The current financial crisis in Brazil may play a role. Companies are aware of the situation and do not expect significant financial rewards in a short term. It is important to mention that one of the most significant characteristics of innovation is

the strong relationship between market performance and new products (Hana, 2013). We could say that new products help maintain market shares and improve profitability.

Furthermore, in the case of Brazil, the strongest connection between CSR practices and the relationship improvements is seen for customers, suppliers, the local community and, the environment. This is a characteristic of Brazilian culture and values. The Brazilian society has a high interrelationship among its members (Hofstede Insights, 2018). In business, Brazilian SMEs value long-lasting relationships and the importance of entering for reliable agreements.

Brazilians need to have good and relaxing moments in their everyday life, chatting with colleagues, enjoying a long meal (Hofstede Insights, 2018). This certainly explains why the work environment is considered one of the main variables in the relationship improvements construct. By work environment, it includes everything that forms part of employees' involvement with the work itself, such as the relationship with co-workers and supervisors, organizational culture, room for personal development.

To conclude, the two groups of stakeholders that stand out in the second-order construct of CSR practices are respectively the clients and the employees. This is exactly the order suggested by (Drucker, 2011) when it comes to selecting which stakeholders' needs to meet first. Drucker (2011) defined the purpose of a company as being to create customers. Without customers, the company cannot survive, so in almost all situations, the customer needs have to come first.

In relation to employees, they are the ones who create and deliver the products or services that the customers consume. It is true to add that employees are imperative when the subject is customers' satisfaction. This proved to be one of the highest loaded competitive performance factors.

Chapter 5

Conclusions, Limitations & Recommendations and, Future Research

5.1 Conclusions

In general, the results confirm that the development of socially responsible practices contributes significantly to increase the competitive performance of SMEs. In this regard, consistent with Hernandez et al (2017) the outcome proves that CSR is strategic to manage SMEs. CSR produces substantial business-related benefits. According to this research, the magnitude of these benefits will be conditioned by the stakeholders' recognition of the practices effectively created by the firms as well as the capability to improve relationships with stakeholders simultaneously.

The research conducted previously in Spain and now in Brazil offers an alternative way of evaluating competitive performances through scale that embraces CSR practices. On the basis of stakeholder theory, the deliberation of this scale can be seen as guidance for developing responsible practices. The practices were related to the four key stakeholders groups, the order of relative relevance is customers, employees, local community, and the environment.

Regarding the outcomes reached, the managers' main concern issues should be the ones related to customers and employees, which places of interest the relevance of prioritizing their interests when a strategic approach is pursued. These two categories contribute more to the achievement of competitive performance than the management of the local community and the environment. Contrary to what was pointed out by Battaglia et al (2014), for them the engagement with the

environment and local community contributes to the innovation capacity more than the engagement with core business stakeholders. Because of the heterogeneity of the group of SMEs is certainly not possible to establish a universal value based creation of all SMEs (Krol, 2007). The specifics of each company have to be taken into account when selecting priorities. Therefore, the priority management that SMEs use with their stakeholders will be crucial to value generation (Turker, 2009) and consequently to competitiveness.

Concretely, this work demonstrates the simultaneous mediation role played by relational improvements between CSR practices and competitive performance. It seems natural that socially responsible practices related to stakeholders in SMEs strongly and positively impact on the relationship with them. From the improvements perceived by owner-managers, the variables that show improvement are those relative to customers and suppliers. In addition, the work environment and the owners' knowledge of the company are the internal factors that influence the relationships improvement. On the other hand, the firm's image and the relations with the local community and environment are the perceived external factors that contribute to relational improvements. After controlling for mediating effects of these variables, results continue showing a direct and significant effect of CSR practices on competitive performance.

Therefore, along with the ability to manage CSR practices, it should be emphasized the important role that SMEs should play in relationship improvements capacity. Owners and managers' ability to confirm better relationships with different stakeholders is configured as a strategic capacity with enough potential to improve business performance. However, as Hernandez et al (2017) highlighted, only through a CSR strategic implementation that takes into

consideration the needs, demands, and expectations of stakeholders, companies would be able to improve their competitive performance.

Finally, the competitive performance observed in this study, in general, is not exclusively linked to the economic and financial advantages obtained by SMEs. In fact, the results provide a superior performance in the utility and benefits of the product/service, and the quality of the products leading factors to relate to innovation. This corroborates those observations reinforced regarding the potential that CSR practices have to promote innovation (Hernandez, Palacios, & Galvan, 2017). Thus, a socially responsible behavior leads to new ways of working and the development of new and more advanced products, services and processes (Battaglia, Testa, Bianchi, Iraldo, & Frey, 2014). More than that, companies have performed better in customer' satisfaction and sales price. These variables prove that stakeholders perceived and value efforts made by the company to meet their needs. This confirms the study made by Doyle & Wong (1998), which stated that competitive advantage is founded on customer satisfaction, which in turn is built on a market-led strategy, effective systems and committed and empowered staff. These are the means to achieve the fundamental goals of a company which are financial returns and growth performance (Hana, 2013).

To sum up, it has been demonstrated that the development of CSR practices promote the strengthening of linkages that SMEs have with their stakeholders and that this improvement, in turn, clearly impacts on competitive performance. Simultaneously, the strengths of CSR variables applied and the significance of taking into account the effect of the relationship improvements confirm the stakeholder theory as a suitable approach (Madueno, Jorge, Conesa,

& Martinez, 2016) to analyze and validate the connection between CSR and competitiveness (Perrini, 2006).

5.2 Limitations & Recommendations

The findings and conclusions from this study are subject to some limitations. The model proposed here is focused on SMEs. Variables were carefully selected to adequate to the specific characteristics of these companies. The company's approach towards CSR is highly conditioned by the attitudes and values of the owner-managers. The model could be improved by including control variables that have been shown to affect firm performance as reputation (Surroca, Tribó, & Waddock, 2010), human capital or organizational culture (McWilliams, Siegel, & Wright, 2006). Another improvement could be the approach implemented in Hernandez et al (2017) where the mediating variables were innovation and marketing improvement.

Due to the difficulty in collecting reliable quantitative financial data from SMEs, the method used to collect information is perception based; asking the owner-managers how they perceived the improvement and how they assess the firm performance relative to their competitors. A financial performance measurement could be adopted from the literature on large companies to meet this limitation observed in our model.

The feasibility of this study was thanks to an online questionnaire and the selection of SMEs based on a convenience sample. Even though online surveys are becoming popular, to have an unbiased result it would be advisable in-person interviews, especially for sensitive topics as financial reports. This method provides the most personable approach and can create trust and cooperation from respondents (Saunders, Lewis, & Thornhill, 2009).

Lastly, since the measurement of the constructs is stemming from Stakeholder theory, the scale to measure the CSR practices is limited to this approach. In the same way, the construct that is used as a mediating variable is based on stakeholder relational improvements. A criticism of this theory is that in the smaller community the various stakeholders may confuse roles. How companies deal with the conflicting needs when for instance employees and customers are the same. CSR has become increasingly important to the companies and should not limit to one theory or approach. Companies can benefit and be benefited in several ways from social responsibility and for different reasons. Other studies contemplating SMEs have opted for a different approach to socially responsible strategies. For instance, Gallardo & Sanchez (2013) focused on the triple bottom line.

5.3 Future Research

To overcome some of the limitations mention before, since the SMEs focused on this study were a constraint to a single region of Brazil, so the results cannot be directly extrapolated to another context. Therefore, the future area of analyses should expand the survey to regions with notorious geographical and cultural differences. Comparatives studies will allow the model to be both improved and adapted to different contexts.

In addition, this study challenges researchers to move towards more sophisticated assessment concerning competitive performance in SMEs, there is potential for further study and by incorporating additional important variables, future research may achieve a more comprehensive account of CSR practices' effectiveness and understanding of competitive performance.

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Appendix A

Factor analyses and aggregate computations

Performance indicators

<u>Information about this analysis:</u>			
Items: Perf_Perf1, Perf_Perf2, Perf_Perf3, Perf_Perf4, Perf_Perf5, Perf_Perf6, Perf_Perf7, Perf_Perf8			
Observations: 94			
Positive correlations: 28 out of 28 (100%)			
Estimates assuming interval level:		Greatest Lower Bound (GLB): 0.89	
Omega (total): 0.85		Coefficient H: 0.85	
Omega (hierarchical): 0.71		Cronbach's alpha: 0.84	
Revelle's omega (total): 0.88			
Estimates assuming ordinal level:			
Ordinal Omega (total): 0.8		Ordinal Cronbach's alpha: 0.8	
Ordinal Omega (hierarch.): 0.79			
Eigen values: 3.876, 1.041, 0.712, 0.623, 0.556, 0.493, 0.366, 0.333			
	TC1	TC2	
SS loadings	2.395	2.291	
Proportion Var	0.299	0.286	
Cumulative Var	0.299	0.586	

<u>Information about this analysis:</u>			
Items: Perf_Perf1, Perf_Perf2, Perf_Perf5, Perf_Perf7			
Observations: 94			
Positive correlations: 6 out of 6 (100%)			
Estimates assuming interval level:		Greatest Lower Bound (GLB): 0.81	
Omega (total): 0.8		Coefficient H: 0.82	
Omega (hierarchical): 0.78		Cronbach's alpha: 0.8	
Revelle's omega (total): 0.82			
Estimates assuming ordinal level:			
Ordinal Omega (total): 0.73		Ordinal Cronbach's alpha: 0.73	
Ordinal Omega (hierarch.): 0.73			
Confidence intervals:			
Omega (total): [0.73, 0.86]			
Cronbach's alpha: [0.73, 0.86]			

<u>Information about this analysis:</u>	
Items: Perf_Perf3, Perf_Perf4, Perf_Perf6, Perf_Perf8	
Observations: 94	Positive correlations: 6 out of 6 (100%)
Estimates assuming interval level:	
Omega (total): 0.77	Greatest Lower Bound (GLB): 0.8
Omega (hierarchical): 0.06	Coefficient H: 0.8
Revelle's omega (total): 0.48	Cronbach's alpha: 0.76
Confidence intervals:	
Omega (total): [0.7, 0.85]	Cronbach's alpha: [0.69, 0.84]
Estimates assuming ordinal level:	
Ordinal Omega (total): 0.69	Ordinal Cronbach's alpha: 0.68
Ordinal Omega (hierarch.): 0.69	
Confidence intervals:	
Ordinal Omega (total): [0.59, 0.79]	
Ordinal Cronbach's alpha: [0.57, 0.79]	

Relationship improvements

<u>Information about this analysis:</u>	
Items: Imp_Perf1, Imp_Perf2, Imp_Perf3, Imp_Perf4, Imp_Perf5, Imp_Perf6, Imp_Perf7, Imp_Perf8, Imp_Perf9, Imp_Perf10, Imp_Perf11, Imp_Perf12, Imp_Perf13, Imp_Perf14	
Observations: 92	Positive correlations: 91 out of 91 (100%)
Estimates assuming interval level:	Estimates assuming ordinal level:
Omega (total): 0.9 Omega (hierarchical): 0.77 Revelle's omega (total): 0.93 Greatest Lower Bound (GLB): 0.96 Coefficient H: 0.92 Cronbach's alpha: 0.89	Ordinal Omega (total): 0.89 Ordinal Omega (hierarch.): 0.88 Ordinal Cronbach's alpha: 0.88
Eigen values: 6.204, 1.448, 1.222, 0.875, 0.813, 0.702, 0.526, 0.48, 0.464, 0.378, 0.292, 0.257, 0.194, 0.147 an Eigen value over 1 are extracted.	

Mean item complexity = 1.3

Test of the hypothesis that 3 factors are sufficient.

The degrees of freedom for the null model are 91 and the objective function was 7.57 with Chi Square of 737.79
The degrees of freedom for the model are 52 and the objective function was 1.14

The root mean square of the residuals (RMSR) is 0.05

The df corrected root mean square of the residuals is 0.06

The harmonic number of observations is 92 with the empirical chi square 39.42 with prob < 0.9

The total number of observations was 104 with Likelihood Chi Square = 108.41 with prob < 7.5e-06

Tucker Lewis Index of factoring reliability = 0.844

RMSEA index = 0.11 and the 90 % confidence intervals are 0.075 0.13

BIC = -133.1

Fit based upon off diagonal values = 0.99

Measures of factor score adequacy

MR1 MR3 MR2

Correlation of (regression) scores with factors 0.95 0.92 0.89

Multiple R square of scores with factors 0.90 0.85 0.79

Minimum correlation of possible factor scores 0.81 0.70 0.58

<u>Information about this analysis:</u>	
Items: Imp_Perf1, Imp_Perf2, Imp_Perf3, Imp_Perf4, Imp_Perf5, Imp_Perf8, Imp_Per10, Imp_Per12, Imp_Per13, Imp_Per14	
	Positive correlations: 45 out of 45 (100%)
Estimates assuming interval level:	Estimates assuming ordinal level:
Omega (total): 0.89 Omega (hierarchical): 0.73 Revelle's omega (total): 0.91 Greatest Lower Bound (GLB): 0.94 Coefficient H: 0.9 Cronbach's alpha: 0.89 Confidence intervals: Omega (total): [0.86, 0.93] Cronbach's alpha: [0.86, 0.93]	Ordinal Omega (total): 0.86 Ordinal Omega (hierarch.): 0.85 Ordinal Cronbach's alpha: 0.86 Confidence intervals: Ordinal Omega (total): [0.82, 0.9] Ordinal Cronbach's alpha: [0.82, 0.9]

<u>Information about this analysis:</u>	
Items: Imp_Perf6, Imp_Perf7	
Observations: 92	Positive correlations: 1 out of 1 (100%)
Estimates assuming interval level:	
Spearman Brown coefficient: 0.82 Cronbach's alpha: 0.81 Pearson Correlation: 0.69	

<u>Information about this analysis:</u>	
Items: Imp_Perf9, Imp_Per11	
Observations: 92	Positive correlations: 1 out of 1 (100%)
Estimates assuming interval level:	
Spearman Brown coefficient: 0.69 Cronbach's alpha: 0.68	Pearson Correlation: 0.52