

**Capabilities, Proactive CSR and Financial Performance in SMEs:
Empirical Evidence from an Australian Manufacturing Industry Sector**

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Capabilities, Proactive CSR and Financial Performance in SMEs: Empirical Evidence from an Australian Manufacturing Industry Sector

Abstract

Proactive corporate social responsibility (CSR) involves business strategies and practices adopted voluntarily by firms that go beyond regulatory requirements in order to manage their social responsibilities, and thereby contribute broadly and positively to society. Proactive CSR has been less researched in small and medium enterprises (SMEs) compared to large firms; and, whether SMEs are ideally placed to gain competitive advantage through such activity therefore remains a point of debate. This study examines empirically the association between three specified capabilities (shared vision, stakeholder management and strategic proactivity), proactive CSR and financial performance in SMEs. Using quantitative data collected from a sample of 171 SMEs in the machinery and equipment sector of the Australian manufacturing industry, we find that all specified capabilities are positively associated with adoption of proactive CSR by SMEs, and that proactive CSR is, in turn, associated with an improvement in firm financial performance. Evidence of a fully mediating role for proactive CSR on the association between capabilities and financial performance presented in this study aligns with RBV theory that suggests adoption of value-creating strategies that make the most effective use of a firm's capabilities is essential to financial success. The study contributes to the CSR literature by demonstrating a case for SMEs being able to maximise financial returns whilst proactively making progress towards CSR.

Keywords: Proactive corporate social responsibility (CSR), capabilities, financial performance, resource-based view (RBV), small and medium enterprises (SMEs).

Introduction

The increased industry attention and researcher enthusiasm for corporate social responsibility (CSR) has led to the development of various theories and approaches aimed at understanding how, and with what impact, CSR strategies can contribute to creating competitive advantage and superior performance. One of the most widely-accepted of these approaches is the resource-based view of the firm (RBV); a theoretical framework predicated on the idea that firms gain competitive advantage by implementing value-creating strategies derived not only from the acquisition of unique and heterogeneous resources, but also from their ability to integrate and deploy those resources as the basis for core organisational 'capabilities' (Amit and Schoemaker, 1993; Barney, 1991; Grant, 1991; Wernerfelt, 1984). In today's competitive business climate, business faces increasing pressure to take the initiative and recognise its social responsibilities; this has led to growing interest in the question of whether adoption by firms of CSR strategies that actively support sustainable economic, social and environmental development can play a key role to the generation of competitive advantage and superior performance (Dunphy, 2003; Jenkins, 2009).

Despite a growing body of CSR literature (Crane et al., 2008; Lockett et al., 2006), no definition of CSR is universally accepted. This may be because "CSR is an umbrella term overlapping with some, and being synonymous with other, conceptions of business-society relations" (Matten and Moon, 2008, p. 405), and its rules of application are relatively open (Moon et al., 2005). In this study, we have drawn on the notion of CSR (also called 'responsible entrepreneurship') produced by the European Commission (2003, pp. 5-7) to define proactive CSR as responsible business strategies that support the three principles of sustainable development – economic growth and prosperity, social cohesion and equity, and environmental integrity and protection – at a level over and above that required to comply with government regulations. Embedding the three (economic, social and environmental) principles of sustainable development into CSR provides an alternative business model to the traditional

growth and profit-maximisation model (Jenkins, 2009). Using the term ‘CSR’ to discuss the social responsibility of SMEs provides compatibility with the larger CSR debate (Fitjar, 2011), and aligns with previous research (e.g. Murillo and Lozano, 2006; Williamson et al. 2006, Sweeney 2007).

Drawing on the long-established ‘reaction-defence-accommodation-proaction’ typology (Carroll, 1979; Wartick and Cochran, 1985; Wilson, 1975), firms can be viewed as operating along a continuum of CSR ranging from reactive to proactive in nature. The assumption underpinning this continuum is that every firm has a social responsibility and that it is the degree and kind of CSR strategies a firm uses to meet that responsibility which will vary (Carroll, 1979; Wartick and Cochran, 1985). Thus, for example, firms engaging in reactive CSR are characterised as expending only the minimum level of effort required for non-voluntary regulatory compliance (Carroll, 1979; Groza et al., 2011; Wilson, 1975). This is not to suggest that such firms are acting irresponsibly; it is simply that they do not see CSR as a possible source of competitive advantage warranting discretionary expenditure. Conversely, firms engaging in proactive CSR are characterised as willingly adopting strategies which go beyond regulatory requirements in order to manage social responsibility issues as a competitive priority (Carroll, 1979; Du et al., 2007; Groza et al., 2011; Wilson, 1975). Such strategies embrace the design and development of sustainable products, operations, and production processes that anticipate the projected evolution of external regulation and social trends (Groza et al., 2011; Wilson, 1975). Strategy scholars advocate engagement in such proactive CSR as a value-creating action from which a competitive advantage can be derived (Benn et al., 2006; Berry and Rondinelli, 1998; Klassen and Whybark, 1999; Sharma and Vredenburg, 1998).

Proactive CSR has been well researched in large enterprises; however, so far little attention has been given to the challenge that its adoption poses for SMEs (Aragon-Correa et al., 2008). Given the lack of adequate publicly available data and the lesser degree of empirical research evidence pertaining to SMEs (Rutherford et al., 2000; Scott, 1990), it is generally assumed that: business and legislative pressures produce only a reactive approach to CSR among SMEs; once compliance requirements have been satisfied, SMEs have limited or no resources with which to engage proactively in CSR; and, therefore SMEs are less likely to reap the benefits that proactive CSR offers (Gadenne et al. 2008; Palmer, 2000; Russo and Fouts, 1997; Rutherford et al., 2000; Schaper, 2002; Tilley, 1999). Some recent research (e.g. Fitjar, 2011; Russo and Tencati, 2009) does raise a question about the basis for these assumptions; it suggests the possibility that some proactive CSR may indeed be occurring in SMEs but, because the language of CSR is often not used for reporting, it goes unrecognised as such. However, we have adopted the view that where such activity is not fully voluntary and more of “a reaction to, or reflection of, a corporation’s institutional environment” i.e. driven by societal “values, norms, and rules that result in (often codified and mandatory) requirements for corporations” (Matten and Moon, 2008, p. 410), it sits more towards the ‘reactive’ end of the CSR continuum, and therefore falls outside the focus of this study on ‘proactive’ CSR.

In the absence of conclusive empirical evidence, the importance of proactive CSR to SME competitiveness remains a question for debate, as does the question of whether SMEs can develop the necessary enabling organisational capabilities for proactive CSR. This study aims to contribute to the debate by examining the association between organisational capabilities, proactive CSR and financial performance in SMEs, using empirical evidence from the machinery and equipment sector of the Australian manufacturing industry. In line with RBV theory which identifies organisational capabilities as a key consideration in formulating strategy (Barney, 1991; Grant, 1991), we consider three specific capabilities which may make adoption of proactive CSR in SMEs more likely. We focus on the importance of these capabilities in generating proactive CSR, the impact proactive CSR has on financial performance, and the potential mediating effect proactive CSR has on the likelihood that the deployment of such capabilities will generate an improvement in financial performance.

Proactive Corporate Social Responsibility (CSR)

As mentioned earlier, proactive CSR is represented in this study by a pattern of responsible business strategies that support the economic, social, and environmental principles of sustainable development at a level over and above that required to comply with government regulations. In what follows, we discuss proactive CSR in relation to its support of each of these principles.

Proactive CSR that supports Economic Growth and Prosperity

Proactive CSR that supports economic growth and prosperity is a means by which firms can pre-empt economic responsibility issues that might arise in their interactions with customers, suppliers and shareholders in the marketplace (European Commission, 2003, p.11). Such activity goes beyond short-term profit maximising issues, and emphasises long-term performance issues related to effective creation and distribution of goods and services that increase the standard of living at both local and global levels (see Bansal, 2005; Russell et al., 2007). It involves effective management of a firm's economic capital to establish longevity in profitability and growth through encouraging innovation, efficiency and wealth creation (Dyllick and Hockerts, 2002; Willard, 2005).

The most common form of SME is the owner-managed firm where ownership and decision-making and managerial control rest with the owner-manager (Jenkins, 2009). Research indicates that in general SME owner-managers are aware that their firms' economic viability is crucially dependent on strong customer and supplier relationships based on loyalty, openness, honesty and fairness in contracts, payments and marketing information (Hornsby et al., 1994; Lahdesmaki, 2005; Vitell et al., 2000). Where this awareness is acute, economic-prosperity related proactive CSR is likely to occur. Compared to many large firms, those SMEs with the capacity to adapt speedily and take advantage of changing market conditions and opportunities (Goffee and Scase, 1995) are better positioned and equipped to benefit from new niche markets for products that add value to the society. However, research also suggests that the adoption of a long-term economic perspective often proves difficult for those SME owner-managers, whose personal style of management is primarily an adaptive process concerned with manipulating a limited amount of resources to gain maximum immediate financial gain and ensure economic survival at least in the short-term (Beaver and Jennings, 2000; Spence, 1999).

Proactive CSR that supports Social Cohesion and Equity

Proactive CSR that support social cohesion and equity actively recognises "the health, safety and general well-being of employees; motivate[s] the workforce by offering training and development opportunities; and enable[s] firms to act as good citizens in the local community" (European Commission, 2003. p.5). This definition highlights a dual focus on stakeholders in the workplace and in the community. In so doing, however, it raises the question of where the impetus for such activity is generated. Some researchers argue that SMEs are influenced by the general value systems which dominate social networks in the value chain in which they operate; therefore, norms and pressures from employees and the community influence SME competitiveness and can drive social equity-related CSR (e.g. Arbuthnot, 1997; Petts et al., 1999). In such cases, the imperative is not commonly expressed in formally written codes of conduct as in large firms, it may not even be described in the language of CSR; rather, it is derived from informal positive relationships that engender trust and reciprocity in network interactions between SMEs and their employees and local communities (Hammann et al., 2009; Lahdesmaki, 2005; Longo et al, 2005; Matten and Moon, 2008). Other researchers have presented a contrasting view that emphasises the resource constraints SMEs face generally in developing social-equity related CSR through activities such as employee health and safety

programs, and community involvement in the form of charitable donations or sponsorship (e.g. Brammer and Millington, 2006; Gerrans and Hutchinson, 2000). The argument runs that with restricted financial and human resources, some SMEs may only be able to engage proactively in a limited program of social equity-related CSR activities (Jenkins, 2006) or partly undertake such activities in isolation (Lepoutre and Heene, 2006).

Proactive CSR that supports Environmental Integrity and Protection

There is consensus in the literature that proactive CSR in support of environmental integrity and protection goes beyond regulatory compliance to focus on innovation, eco-efficiency, pollution prevention, and environmental leadership, with the aim of minimising a firm's ecological impact along the entire product life cycle (e.g. Aragon-Correa, 1998; Buysse and Verbeke, 2003). Such activity is often characterised by adoption of internationally compliant environmental management systems that ensure a firm's environmental impacts are monitored and managed systematically rather than on an ad hoc basis (Walley and Whitehead, 1994). Engaging in environmental integrity-related proactive CSR can also require a sophisticated capacity to integrate and manage complex value chain activities (Rutherford et al., 2000; Schaper, 2002). Unfortunately, the requisite resources and skills to underpin such a capacity are simply not available in many SMEs, meaning that compliance-driven reactive CSR rather than proactive engagement in environmental integrity-related CSR is often the case (Tilley, 2000). Research suggests factors such as a lack of capacity for shaping environmental behaviour beyond compliance, and the potential conflict that can arise between environmental goals and production and survival pressures mitigate against the adoption of such proactive activity in SMEs (Hooper and Gibbs, 1995; Petts, 2000; Tilley, 1999). Even so, some studies (e.g. Hillary, 2000) have presented findings that show SMEs can successfully engage in proactive CSR that supports environmental integrity. Bianchi and Noci (1998) also, for example, show that SME adoption of proactive CSR with this effect can be feasible if the establishment of positive and stable relationships with external stakeholders (especially research centres and government agencies) provides SME access to the high level skills, resources and information necessary for the introduction and management of complex environmental initiatives.

Capabilities for Proactive CSR

There is general agreement in the literature that SMEs and large firms possess fundamentally different resources and characteristics (Dean et al., 1998). Compared to their larger counterparts, SMEs are typically described as having a lesser and limited resource base and fewer opportunities to reap the benefits of scale, scope and learning (Aldrich and Auster, 1986; Carson et al. 1995; Dean et al., 1998; Nooteboom, 1994). Although resource constraints can impose barriers to SMEs making significant investments in proactive CSR, we argue that such constraints may not be the determining factor. Recent research suggests that SMEs possess several distinctive organisational characteristics, such as better entrepreneurial alertness and simpler capital structures that can significantly promote organisational efficiency and flexibility (Jones, 2003; Yu, 2001), and innovativeness with which to respond with agility to their competitors' actions (Chen and Hambrick, 1995; Dean et al., 1998; Vossen, 1998). These characteristics are held to contribute substantially to competitive advantage built on CSR principles (e.g. Jenkins, 2009; Lepoutre and Heene, 2006).

A range of specific capabilities and their influence on the choice to engage in proactive CSR for firms in general have been discussed in the literature. Such capabilities include: shared vision and employee involvement (Andersson and Bateman, 2000; Hart, 1995; Jenkins, 2009); stakeholder management (Buysse and Verbeke, 2003); innovation (Christmann, 2000; Sharma et al., 2007); strategic proactivity (Aragon-Correa, 1998); capital management (Bansal, 2005); higher-order learning (Marcus and Geffen, 1998); and the integration of CSR issues in

strategic planning (Cordano and Frieze, 2000). In relation to the adoption of environmental integrity-related proactive CSR in SMEs in particular, the only relevant study to date found that: SMEs, like large firms, require three particular capabilities, namely ‘shared vision’, ‘stakeholder management’ and ‘strategic proactivity’; but SMEs are likely to draw on a different set of characteristics to generate these capabilities (Aragon-Correa et al., 2008). As neither Aragon-Correa et al. (2008) nor any other empirical studies have examined these three capabilities in relation to proactive CSR that simultaneously supports all three principles of sustainable development – economic growth and prosperity, social cohesion and equity, and environmental integrity and protection – this study therefore does so.

Shared Vision

A shared vision capability is the firm’s ability to embody the collective objectives and aspirations of its members (Oswald et al., 1994; Tsai and Ghoshal, 1998). Such a capability supports organisational learning and employee creativity; those firms that have it are better able to accumulate and harness the resources and skills necessary for developing and adopting proactive CSR (Graafland et al., 2003; Hart, 1995). Because proactive CSR activities emphasise employee involvement and are thus inherently people intensive, a shared vision enables a firm to generate the internal pressure and enthusiasm necessary for innovation and change (Graafland et al., 2003; Hart, 1995). Compared to large firms, the simple management structures and shorter lines of communication generally characteristic of SMEs allow the values underpinning proactive CSR to be shared and embedded more easily across the entire firm thus facilitating greater involvement by all employees (Worthington et al., 2006). However, SMEs (and owner-managed SMEs in particular) can often lack the necessary managerial skills and resources to work effectively with employees to develop clear CSR objectives and a sense of shared responsibility for achieving those objectives (Merz and Suber, 1995). While the uncertain availability of managerial skills and resources implies a shared vision capability is not intrinsic to all SMEs, we argue that those SMEs that do have the requisite skills and resources to develop and exploit a shared vision of responsible business will tend to adopt proactive CSR. Therefore, we suggest:

Hypothesis 1: A shared vision capability is positively associated with the adoption of proactive CSR by SMEs.

Stakeholder Management

Research suggests that a stakeholder management capability, defined as “the ability to establish trust-based collaborative relationships with a wide variety of stakeholders, especially those with non-economic goals” (Sharma and Vredenburg, 1998, p.735), can enhance a firm’s ability to reduce negative social and environmental impacts in its pursuit of competitive advantage. These impacts are often “reflected in context-specific stakeholder pressures along a firm’s value chain” (Sharma et al., 2007, p.272), and firms that have the capability to focus on all of their stakeholder types are more likely to adopt proactive CSR (Buysse and Verbeke, 2003; Greeno and Robinson, 1992; Henriques and Sadorsky, 1999). Notably, the literature on stakeholder management mostly offers evidence for the importance of this capability for generating proactive CSR in large firms (e.g. Henriques and Sadorsky, 1999; Sharma and Henriques, 2005); however, there is some limited evidence that suggests such a capability is also likely to be important to SMEs (Aragon-Correa et al., 2008; Worthington et al., 2006). Strategy scholars suggest that SMEs, by dint of their more flexible managerial structures and greater responsiveness to changing business and stakeholder needs, can develop an effective stakeholder management capability, particularly in regard to managing specific external relationships through which access to specialised resources and information required for proactive CSR can be achieved (Bianchi and Noci, 1998; Jenkins, 2006; Rondinelli and London, 2003). Therefore, we suggest:

Hypothesis 2: A stakeholder management capability is positively associated with the adoption of proactive CSR by SMEs.

Strategic Proactivity

A strategic proactivity capability can be understood as a firm's ability to foresee and capitalise on, rather than merely react to, emerging opportunities in its business environment (Aragon-Correa, 1998; Dunphy, 2003; Sharma et al., 2007). The concept of strategic proactivity draws on the work of Miles and Snow (1978), which suggests that strategically managed firms develop entrepreneurial, production and administrative processes that integrate external information and opportunities. Such firms will also often empower employees to engage in CSR-oriented innovation to acquire a competitive advantage (Aragon-Correa, 1998; Starik and Rands, 1995; Veliyath and Shortell, 1993). Several empirical studies point to the importance of strategic proactivity for SMEs in competitive markets, where in order to survive and prosper, SMEs will often initiate competitive actions to challenge the status quo and create market opportunities (e.g. Chen and Hambrick, 1995; Hitt et al., 1991; Storey, 1994). Structural simplicity and streamlined operations characteristically enable SMEs to be flexible, adaptable, and quicker to act than larger competitors (Mintzberg, 1979). Moreover, there is research to suggest that, notwithstanding possible resource limitations, SMEs often can create a competitive advantage in emerging niche markets by being more innovative and proactive in incorporating economic, social and environmental benefits that value-add to products (Jenkins, 2006; Starik and Rands, 1995). Therefore, we suggest:

Hypothesis 3: A strategic proactivity capability is positively associated with the adoption of proactive CSR by SMEs.

Proactive CSR and Financial Performance

To date the evidence pertaining to the influence of proactive CSR on a firm's financial performance has been inconclusive. While some studies show no relationship at all (e.g. Gilley et al., 2000; Thornton et al., 2003), some others have shown a negative relationship (e.g. Wagner et al., 2002). However, the majority of studies positively associate proactive CSR in large firms with enhanced product differentiation, improved production efficiencies, and lower operation costs, each of which contributes positively to a firm's financial performance (e.g. Harrison and Freeman, 1999; Hart and Ahuja, 1996; Mackey et al., 2007). These mixed findings may be explained in part by the difficulty of demonstrating empirically a clear direct causal effect of proactive CSR on financial performance, particularly in cases where the activity is philanthropic in nature and not necessarily related directly to the operational business of a firm (Burke and Logsdon, 1996; Castka et al., 2004). Furthermore, as proactive CSR requires a significant investment in resources, the return on that investment may often only be realised in the long-term, rather than becoming immediately apparent through obvious improvement in short-term financial performance (Eisenhardt and Martin, 2000; Hart and Ahuja, 1996; Russo and Fouts, 1997).

As suggested earlier, the debate over whether a lack of resources constrains the implementation of proactive CSR in SMEs, thus limiting any positive impact on financial performance, remains ongoing (e.g. Gadenne et al., 2008; Miles et al., 1999; Orlitzky, 2001; Rutherford et al., 2000; Simpson et al., 2004). However, the idea that there is a positive causal link between proactive CSR and financial performance in SMEs has some empirical support. For example, Sturdivant and Ginter (1977) found that SMEs with moderate to high levels of CSR outperformed those that did not. Aragon-Correa et al. (2008) found a positive and significant relationship between environmentally-related proactive CSR and SME financial performance. Similarly, by proposing and testing a model that combines an SME's entrepreneurial value orientation with socially responsible business practices, Hammann et al. (2009) found a link between such practices and favourable financial outcomes in terms of cost

reduction and increase in profit. In the light of what research evidence is available regarding the impact of proactive CSR on financial performance in SMEs, it is plausible to posit that such practices could be financially beneficial to SMEs. Therefore, we suggest:

Hypothesis 4: Proactive CSR is positively associated with SME financial performance.

Capabilities and Financial Performance

A shared vision capability has been cited as a key generator of the internal pressure and enthusiasm needed for innovation, organisational learning and change (Garcia-Morales and Llorens-Montes, 2006). A stakeholder management capability has been shown to be of value for accessing externally available specialised resources and information required for implementation of complex competitive strategies (Jones, 2003). A strategic proactivity capability has been recognised as fundamental to an entrepreneurial orientation and facilitating a business focus on niche strategies in competitive markets (Hitt et al., 1991).

Drawing on RBV theory, not only are these three particular capabilities valuable, but because their foundations are socially complex, causally ambiguous and deeply embedded in a firm, they are also each likely to be firm-specific and costly to imitate (Baum et al., 1998; Hillman and Keim, 2001; Rangone, 1999). As such, the three distinctive capabilities, which derive from SME specific characteristics (e.g. closer interaction within a firm, greater flexibility and innovativeness, and entrepreneurial orientation), provide a foundation for successful strategy formulation and implementation, which in turn promotes financial performance. Research demonstrates that capabilities are not likely in themselves to have a direct effect on performance, but rather that their effects will be mediated by strategy (Barney, 1991; Grant, 1991). On this basis, it can be reasoned that the contribution of these three distinctive capabilities to SME financial performance is likely to be indirect via proactive CSR. Therefore, we suggest:

Hypothesis 5: Proactive CSR mediates the association between a shared vision capability and SME financial performance.

Hypothesis 6: Proactive CSR mediates the association between a stakeholder management capability and SME financial performance.

Hypothesis 7: Proactive CSR mediates the association between a strategic proactivity capability and SME financial performance.

Methods

The sample population consisted of 1,388 SMEs (i.e. firms with less than 200 employees as defined by the Australian Bureau of Statistics [ABS], 2001) listed in a commercially available database (Dun and Bradstreet, 2009) as operating in the Australian manufacturing (machinery and equipment) industry. The machinery and equipment sector of the Australian manufacturing industry was selected for three reasons. First, it is the largest sector in the Australian manufacturing industry in terms of gross value added and the second largest in terms of employment and export values (ABS, 2009). Second, the environmental impacts of this sector are significant owing to the nature of the multiple activities and processes used to transform raw materials into finished products. Since the Australian government delegated significant responsibility for the 2007 Kyoto Protocol to stabilise and limit carbon emissions and introduced a carbon pollution reduction scheme (ABS, 2010), the machinery and equipment manufacturing sector has experienced increasing pressure to engage explicitly in CSR activities (see Matten and Moon [2008] for extensive discussion of explicit and implicit CSR). Finally, it is a growing industry sector experiencing new entries and high competition; therefore, firms in this sector tend to emphasise production of innovative products and their organisational structures can be expected to be flexible and less bureaucratic (Russo and Fouts, 1997). For these reasons, the proactive adoption by this industry sector of policies and

procedures associated with CSR that simultaneously support economic growth and prosperity, social cohesion and equity, and environmental integrity and protection, could be expected.

As this study focuses on theory testing at the firm level of analysis, a quantitative survey-based method was used for testing the research hypotheses. As no published data were available on capabilities, proactive CSR and performance for the targeted sample population, a questionnaire was developed based on: the extant literature providing theoretical domains for the constructs of interest; existing published questionnaire items; and discussion with several SME owner-managers in the machinery and equipment manufacturing sector, as well as academic researchers and senior public servants familiar with CSR in Australian manufacturing SMEs. To ensure clarity and content validity, a trial questionnaire was personally administered to SME owner-managers in three firms. Their responses were not used in the final study.

Following accepted practices in strategy research (e.g. Sharma et al., 2007; Shortell and Zajac, 1990), data were collected from CEOs, managing directors and general managers whose roles are crucial in developing responsible business practices. The survey was administered by mail in 2009 in April (Time 1) and November (Time 2), providing a six-month time lag between the measurements of predictors/mediator (capabilities/proactive CSR – Time 1) and dependent variable (financial performance – Time 2). Recognising that self-reporting methods could threaten the reliability of the constructs, all respondents were also asked to report: their firm's financial performance in Time 1 and their firm's capabilities and proactive CSR in Time 2, with the aim of testing the correlation between the same variable at the different time points. Respondents were promised that analysis would be done at the aggregate level and no firm would be identified individually. After an intensive follow-up process was undertaken (via online, telephone and fax contact), 200 from a possible 1,388 responses were received, representing a 14.4% response rate. A total of 171 firms remained in the sample after responses with missing data were eliminated, resulting in a final response rate of 12.3%.

All firms responding to our survey were owner-managed, and nearly 70% of respondents were the 'owner-managers'; 81.3% had less than 50 employees, and 85.6% had an estimated annual turnover greater than \$1 million but lower than \$30 million. Respondents confirmed that both the Time 1 and Time 2 survey data were provided by the same person. In order to allow the respondents to make subtle distinctions in their answers, the questionnaire provided respondents with space for additional qualitative comments (via an open-ended question) relating to the difficulties their business faces in actively implementing responsible business strategies in today's business environment. Fifty-eight respondents (34%) provided comment in response to the question.

Given that the overall response rate was lower than might be expected (Anseel et al., 2010), and in line with recommended practice (e.g. MacCallum and Austin, 2000; Kline, 2005), a 'power analysis' was done to ensure that the sample size had adequate power for detecting when null hypotheses were false. Estimated power was calculated at 0.7624, meaning that with a sample size of 171 if the model did not have close fit then the probability of rejecting this incorrect model was 76.24%. On this basis, the sample size was considered adequate for statistical analysis. Non-response bias was assessed through Armstrong and Overton's (1997) time-trend extrapolation procedure. The analysis showed no significant difference between early and late respondents in terms of their firm size, location and range of activities. Since the data were assessments by single informants in each firm, common method bias may have augmented relationships between the variables (Podsakoff et al., 2003). To test whether this was a problem, Harman's single-factor test was performed through an exploratory factor analysis (Podsakoff and Organ, 1986). Results showed no single general factor to accounts for most of the covariance in the variables, thus suggesting the interpretation of our results would not be confounded by substantial method bias.

Measures

Proactive Corporate Social Responsibility (CSR)

Proactive CSR was measured using 27 items based on: the extant literature (e.g. Aragon-Correa et al., 2008; Bansal, 2005; European Commission, 2003; Dyllick and Hockerts, 2002; Jenkins, 2006; Sharma et al., 2007) and initial discussion with pretest participants. Given no data on social responsibility is publicly available for Australian manufacturing SMEs, we measured proactive CSR in terms of the perceptions of managers. Proactive CSR in the economic dimension was measured using an eight-item scale (Cronbach's $\alpha = 0.805$); an eight-item scale was used to measure the social dimension (Cronbach's $\alpha = 0.835$); and an eleven-item scale was used to measure the environmental dimension (Cronbach's $\alpha = 0.921$) (see Table A1 in Appendix). Respondents were asked to indicate, using a five-point scale (1 = "not addressed issue at all" to 5 = "we are leaders on this issue") for each of the three CSR dimensions, the extent to which their firms voluntarily engaged in CSR activity compared to similar firms in their industry sector. The use of this comparative approach enabled respondents to use an objective point of external reference for self-evaluation and helped increase the precision of the measurement results (Sharma et al., 2007). The factor scores of proactive CSR in each dimension for each firm were a weighted average of the relevant items calculated using the standardised loading obtained from the second-order confirmatory factor analysis (CFA). A high score was indicative of high adoption of proactive CSR. The high correlation obtained for proactive CSR between Time 1 and Time 2 surveys ($r = 0.95$) confirmed our confidence in the reliability of the proactive CSR scale.

Shared Vision Capability

A shared vision capability was measured with three items from the previously validated scale used by Aragon-Correa et al. (2008). All items were presented as statements related to the firm, against each of which respondents were asked to rate their level of agreement on a six-point scale (1 = "strongly disagree" to 6 = "strongly agree") (see Table A2 in Appendix). Exploratory maximum likelihood factor analysis with varimax rotation showed that the three items formed only one factor with Eigen values greater than 1 (Cronbach's $\alpha = 0.703$). The factor scores were a weighted average of the three items using the standardised loading obtained from the second-order CFA. A high score was considered indicative of a high degree of a shared vision capability. The high correlation obtained for this capability between Time 1 and Time 2 surveys ($r = 0.89$) confirmed our confidence in the reliability of the shared vision scale.

Stakeholder Management Capability

A list of stakeholder categories was initially identified from the extant literature. These categories included: customers, suppliers, employees and communities (Graafland et al., 2004; Hammann et al., 2009; Longo et al., 2005); shareholders/owners and competitors (Aragon-Correa et al., 2008; Graafland et al., 2004); government agencies (Sharma et al., 2007); and NGOs and environmental groups (Aragon-Correa et al., 2008; Schiebel and Pochtrager, 2003; Sharma et al., 2007). After pre-testing and discussion with several SME owner-managers in the machinery and equipment manufacturing sector and with senior academics familiar with strategic issues in Australian manufacturing SMEs, accountants and research and development providers were added as two additional stakeholder categories, whilst NGOs and environmental groups were subsumed into the stakeholder category of communities. This produced the final nine categories of stakeholders that were used (see Table A3 in Appendix). The measurement of a firm's stakeholder management capability in relation to these nine categories was done using the approach of Ajzen and Fishbein (1980) in line with other published research (e.g. Aragon-Correa et al., 2008; Buysse and Verbeke, 2003; Sharma et al., 2007). Survey respondents were asked to use a five-point scale (1 = "very low", 5 = "very

high”) to rate the level of attention their firm gave to each type of stakeholder in organisational decision-making. Respondents were also asked to use a five-point scale (1 = “very low”, 5 = “very high”) to rate the importance of each type of stakeholder in helping them understand issues their firm was facing. The average value of a stakeholder management capability for each firm was calculated based on each respondent’s ratings of the attention given to each type of stakeholder and the perceived importance of each stakeholder (Buisse and Verbeke, 2003). Exploratory maximum likelihood factor analysis with varimax rotation showed that the nine items formed two factors with Eigen values greater than 1 (Cronbach’s $\alpha = 0.684$ for Factor 1 and 0.688 for Factor 2). The factor scores were a weighted average of the items (within a factor) using the standardised loading obtained from the second-order CFA. A high final score was considered indicative of a high stakeholder management capability. The high correlation obtained for this capability between Time 1 and Time 2 surveys ($r = 0.94$) confirmed our confidence in the reliability of the stakeholder management scale.

Strategic Proactivity Capability

Strategic proactivity was measured using three items from a previously validated scale developed by Aragon-Correa (1998). Respondents were requested to rate the extent of their agreement with each item statement using a six-point scale (1 = “strongly disagree” to 6 = “strongly agree”) (see Table A4 in Appendix). Exploratory maximum likelihood factor analysis with varimax rotation showed that the three items formed only one factor with factors with Eigen values greater than 1 (Cronbach’s $\alpha = 0.720$). The factor scores were a weighted average of the three items using the standardised loading obtained from the second-order CFA. A high score was considered indicative of a high strategic proactivity capability. The high correlation obtained for this capability between Time 1 and Time 2 surveys ($r = 0.89$) again confirmed our confidence in the reliability of the strategic proactivity scale.

Financial Performance

Discussions with pre-test participants indicated that respondents would be more likely to offer their general perceptions of their firm’s financial performance but very unlikely to provide specific quantitative data that was commercial-in-confidence in nature. Therefore, consistent with the literature that shows a high correlation and concurrent validity between objective and subjective data on performance, implying that both are valid when calculating a firm’s financial performance (e.g. Dess and Robinson, 1984; Homburg et al., 1999), the respondents’ perceptions on two financial performance items – return on assets and net profits to sales – were collected. Respondents were asked to rate their firm’s financial performance, over the preceding six-month period compared to similar firms in their industry sector, using a five-point scale (1 = “much worse” to 5 = “much better”) (see Table A5 in Appendix). Exploratory maximum likelihood factor analysis with varimax rotation of those three items showed that they formed only one factor with Eigen values greater than 1 (Cronbach’s $\alpha = 0.904$). The factor scores were a weighted average of the two items using the standardised loading obtained from the second-order CFA. A high score was considered indicative of a high level of financial performance. In the absence of publicly available objective data, the high correlation obtained for financial performance between Time 1 and Time 2 surveys ($r = 0.83$) confirmed our confidence in the reliability of the financial performance scale.

Control Variables

Three control variables were used. First, consistent with past research indicating that the size of a firm has a significant impact on the association between CSR and financial performance (e.g. Bansal, 2005; Moore 2001; Stanwick and Stanwick 1998), we controlled for firm size. This was measured by proxy using the number of employees employed on a regular basis (0-9, 10-19, 20-49, 50-99, 100-149 and 150-199). Second, recognising that the benefits from CSR

might only become fully visible over the long-term rather than the short-term (Hart and Ahuja, 1996), the duration of experience in managing CSR was used as a control variable. Respondents were asked to estimate overall how long their firm had engaged in each of the three CSR dimensions ranging from 1 year to greater than 9 years. The factor scores were a weighted average of the three items, and a high score was considered indicative of a long duration of a firm's experience with the management of proactive CSR. Lastly, as this study was conducted during the global financial crisis (GFC), the potentially negative impact on firm performance of this external influence was treated as a control variable. Respondents were requested to indicate the extent to which they perceived the general economic conditions had negatively impacted on their firm's financial performance in the preceding six-month period in relation to two financial indicators (return on assets and net profits to sales). A five-point scale (1 = "no impact at all" to 5 = "very high impact") was used. A high average score was considered indicative of a perceived high negative impact on a firm's financial performance.

Analysis and Results

We used structural equation modeling with LISREL 8.8 (Joreskog and Sorbom, 2006) to test our hypotheses. Employing a two-step modelling approach developed by Anderson and Gerbing (1988), the measurement model was tested and fitted to data through a confirmatory factor analysis (CFA) prior to testing the structural model. We firstly tested an unconstrained measurement model that had 8 latent variables. This measurement model contained 44 parameters to be estimated (11 factor loading coefficients, 28 covariances and 5 error variances). The CFA showed that this measurement model was not a perfect fit for the data: $\chi^2 = 47.23$, $p < 0.001$; $df = 22$; $RMSEA = 0.074$; $SRMR = 0.030$; $CFI = 0.98$; $NNFI = 0.95$ (see Hair et al., 1998; Ho, 2006). In an effort to improve the model fit, post-hoc model modifications were performed. Sizable standardised residuals were detected between economic-prosperity related CSR and either social-equity or environmental-integrity related CSR. Therefore, the error covariance of these corresponding parameters was made free in order to obtain a better fitting measurement model. The addition of these new parameters was reasonable, since the way firms operate in the market is a crucial indicator of how they have integrated social and environmental concerns into their decision-making process (Bansal, 2005; Schmidheiny, 1992; Wartick and Cochran, 1985). The modified measurement model provided enhanced fit statistics ($\chi^2 = 25.47$, $p = 0.18$; $df = 20$; $RMSEA = 0.040$; $SRMR = 0.028$; $CFI = 0.99$; $NNFI = 0.98$) with a drop in the model chi-square of 21.76, $p < 0.001$. All of the indicators had statistically significant standardised loadings on their intended constructs ($p < 0.001$).

Of note, as post-hoc measurement model modifications were conducted, a correlation was performed between standardised loading coefficients from the modified model and those from the unconstrained model. The high correlation obtained ($r = 0.96$) indicated a convergent validity meaning that the parameter estimates were very similar despite model modification. Moreover, estimated correlations between the latent variables shown in Table 1 were well below the recommended cut-off of 0.70 (Pallant, 2007), meaning that discriminant validity was established for all constructs in the measurement model. Both the convergent and discriminant validity results demonstrated that the modified measurement model was plausible and theoretically sound.

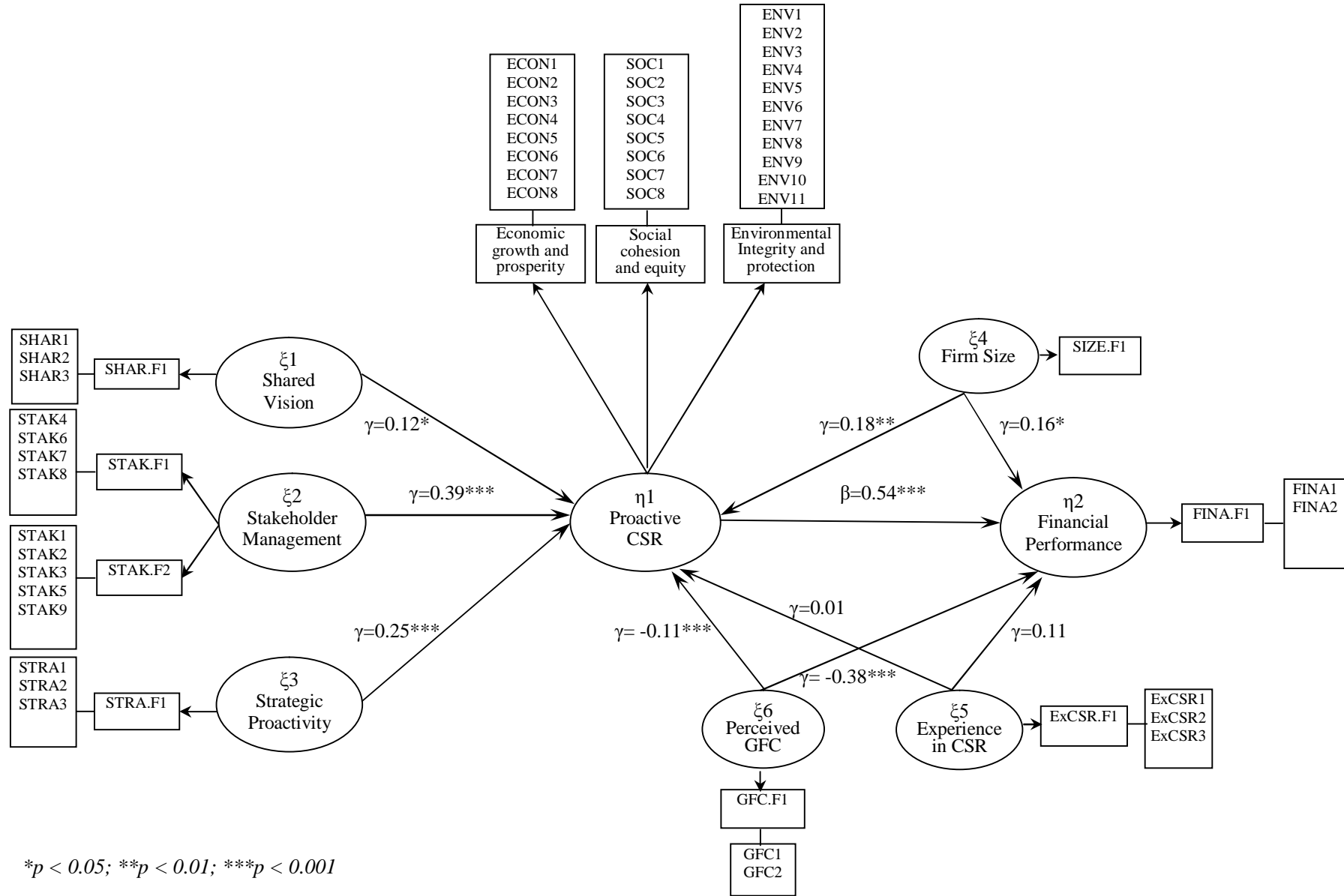
Table 1: Means, standard deviations and correlations

Variable	Mean	SD	1	2	3	4	5	6	7
1. Shared vision	3.79	0.59							
2. Stakeholder management	3.36	0.61	0.25**						
3. Strategic proactivity	3.91	0.68	0.53***	0.20**					
4. Proactive CSR	3.01	0.69	0.36***	0.50***	0.39***				
5. Financial performance	3.38	0.84	0.26***	0.24**	0.29***	0.47***			
6. Firm size	2.79	1.14	-0.04	0.04	0.06	0.21**	0.28***		
7. Experience in CSR	7.28	2.23	0.13	0.05	0.11	0.13	0.07	0.01	
8. Perceived GFC	2.68	0.82	-0.02	0.02	-0.09	-0.15*	-0.42***	-0.09	-0.01

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Having confirmed that the modified measurement model had adequate fit, we tested our proposed structural model. Results of the structural analysis provided a good fit to the data: $\chi^2 = 32.01$, $p = 0.10$; $df = 23$; $RMSEA = 0.038$; $SRMR = 0.033$; $CFI = 0.99$; $NNFI = 0.98$ (Hair et al., 1998; Ho, 2006). This fully mediated model was compared with a partially mediated model. For the partially mediated model, we specified a direct path between all three capabilities and SME financial performance. The partially mediated model also provided a good fit to the data ($\chi^2 = 25.47$, $p = 0.18$; $df = 20$; $RMSEA = 0.040$; $SRMR = 0.028$; $CFI = 0.99$; $NNFI = 0.98$); however, it did not provide a significant improvement in fit over the fully mediated model (chi-square different test: $\Delta\chi^2 = 6.54$, $\Delta df = 3$). No significant direct effect of any of these capabilities on financial performance was found in this partially mediated model. In accordance with rules concerning parsimony (James et al., 2006), the better-fitting, fully mediated model was thus used for examining the sampled data (see Figure 1).

Figure 1: Fully mediated structural equation model results



To test for mediation, we followed the approach recommended by Baron and Kenny (1986) which has three specific requirements. First, a significant association must exist between the independent variables and the mediator. Second, a significant association must exist between the mediator and the dependent variable. Finally, a goodness-of-fit test must be conducted to determine whether the only path from the independent variables to the dependent variable is through the mediator (Baron and Kenny, 1986). The results shown in Figure 1 for the fully mediated model reveal that the capabilities of shared vision ($\gamma=0.12$, $p < 0.05$), stakeholder management ($\gamma=0.39$, $p < 0.001$) and strategic proactivity ($\gamma=0.25$, $p < 0.001$) all were associated with the adoption of proactive CSR by SMEs; thus providing support for Hypotheses 1, 2 and 3 respectively. A significant positive association between engagement in proactive CSR and perceptions of a link to SME financial performance ($\beta=0.54$, $p < 0.001$) was also detected; therefore, Hypothesis 4 was supported.

In order to test the goodness of fit of proactive CSR as the mediator between capabilities and financial performance, as recommended by MacKinnon et al. (2002) the coefficients (of independent variables and mediator) using LISREL's effect decomposition statistics were calculated. A finding of a statistically significant indirect effect indicates that the relationship between independent and dependent variables occurs through the mediator. Our test results showed a significant indirect effect of shared vision ($\gamma=0.11$), stakeholder management ($\gamma=0.20$), and strategic proactivity ($\gamma=0.13$) on SME financial performance ($p < 0.01$); thus providing support for Hypotheses 5, 6 and 7 respectively. These results confirm that proactive CSR fully limits the direct influence of the three capabilities on SME financial performance, which in turn confirms the significant mediating role of proactive CSR.

With regard to the control variables, firm size was found to have a positive association with the adoption of proactive CSR ($\gamma=0.18$, $p < 0.01$) and financial performance ($\gamma=0.16$, $p < 0.05$). The GFC was found to be negatively associated with proactive CSR ($\gamma= -0.11$) and financial performance ($\gamma= -0.38$) at $p < 0.001$. No association was observed, however, between the duration of a firm's experience with the management of CSR on either the extent to which SMEs adopted proactive CSR or the perceived financial returns to be obtained from such practices.

Though not the focus of data analysis in this paper, a review of the qualitative comments that were collected in conjunction with the quantitative survey reinforced these findings. The majority of respondents who commented stated that their firm had adopted proactive CSR to some extent; however resource constraints, costs associated with the adoption of such activity, and perceptions that doing so is antagonistic to maximising profits, were highlighted by most as major stumbling blocks to the uptake of full-scale proactive CSR. The high costs imposed by business-related government policies in tough global economic conditions, particularly in relation to climate change initiatives, and the high competitive pressures from import penetration of products from lower-cost economies, were identified as major threats to SME survival and the implementation of proactive CSR.

Discussion and Implications

In this study, we have examined the association between three specific capabilities (shared vision, stakeholder management and strategic proactivity), proactive CSR and financial performance in SMEs. Consistent with our hypotheses, we have found significantly positive associations between three such capabilities and proactive CSR, and between proactive CSR and SME financial performance. Our findings confirm the importance of proactive CSR that simultaneously supports economic growth and prosperity, social cohesion and equity, and environmental integrity and protection as a necessary strategic mechanism for enhancing SME financial performance. The study findings thus provide support for the notion that strategic engagement in proactive CSR is an appropriate business model for SMEs. Specifically, the study findings confirm the importance of capabilities that: facilitate the strategic integration of

collective values about organisational goals; create sound trust-based relationships with internal and external stakeholders; and, support the exploitation of new business opportunities; as fundamental drivers for SME adoption of proactive CSR. They also indicate that the distinctive characteristics of SMEs (e.g. simpler organisational structures promoting closer interaction and communication within a firm, greater flexibility, adaptive and innovativeness, better entrepreneurial alertness) can provide a basis on which the limitations imposed by size-related resource constraints might be overcome in pursuit of competitive advantage. These findings have both theoretical and practical implications.

Theoretical Implications

The study findings that proactive CSR has a positive influence on SME financial performance, and more importantly that it plays a necessary and sufficient role in fully mediating the association between the three specified capabilities and performance, is consistent with RBV theory that holds organisational capabilities alone cannot lead to improvement in a firm's financial performance; and, the adoption of competitive strategy that makes the most efficient and effective use of a firm's capabilities is what truly drive a firm's financial success (Grant, 1991).

In terms of CSR literature, it is assumed that resource constraints prevent SMEs from adopting and successfully implementing proactive CSR, and that such activity may indeed threaten financial performance (e.g. Bansal, 2005; Brammer and Millington, 2006; Gadenne et al. 2008; Palmer, 2000). On the face of it the positive size effect found statistically in this study, and the general thrust of the anecdotal evidence found in the qualitative data, lends support to these assumptions by suggesting that the larger the SME the more likely are the adoption of proactive CSR and the consequent positive effect on financial performance. In other words, in the absence of the necessary sufficient resources or the capacity to generate and deploy the required capabilities for proactive CSR, SMEs face greater difficulties than large firms in engaging in proactive CSR and accessing the potential benefits for financial performance. However, we suggest that by revealing that proactive CSR can be an effective strategic tool for improving financial performance and competitive advantage in SMEs, the empirical findings of this study invite researchers to reconsider these traditional general assumptions. The simultaneous positive influence of firm size and specific organisational capabilities on proactive CSR revealed in this study suggests that the availability of slack resources is a relevant but not deterministic factor for the adoption of proactive CSR in SMEs. In particular, we suggest that even resource-constrained SMEs can achieve a 'win-win' outcome based on organisational capabilities, which can improve financial performance whilst enabling progress towards meeting the call for responsible business strategies.

Empirical research (e.g. Castka et al., 2004; Perez-Sanchez, 2003; Vives, 2006; Sarbutts, 2003; Sweeney, 2007) showing that the limitations arising from resource constraints traditionally considered as restricting SMEs adopting proactive CSR may be more theoretical than real, provides support for this suggestion pointing to an alternative mechanism available for overcoming resource limitations and realising the strategic opportunities offered by CSR. In other words, based on our findings we contend that the generation and deployment of the specific set of three CSR-related capabilities examined in this study i.e. shared vision, stakeholder management and strategic proactivity can be used to compensate for the absence of slack resources. By providing empirical evidence in relation to proactive CSR across its three constituent dimensions, our study extends the work of Aragon-Correa et al. (2008) which considered only environmentally-related CSR. It also extends the work of Lepoutre and Heene (2006: pp. 267-268) who concluded that "those firms that are able to integrate [social responsibility] in their strategic management, focus on win-win situations that result in returns, and increase their organisational visibility, will partly be able to overcome [resource] constraints".

Practical Implications

For SME managers, our findings clearly indicate the need to focus on the development of the three capabilities of shared vision, stakeholder management and strategic proactivity. Such capabilities can underpin the effective response to stakeholder pressure for sustainability in business, and provide a basis for securing the benefits to financial performance that can follow from the adoption of proactive CSR simultaneously across its economic, social and environmental dimensions. A vision of organisational goals shared widely in the firm is essential for a CSR-oriented culture to be realised and new ideas and skills for developing proactive CSR to be generated. The experiences and knowledge of the range of an SME's stakeholders are valuable sources for ideas about proactive CSR. Monitoring and proactively managing new opportunities and changing societal expectations can enable SMEs to take advantage of new emerging niche markets for responsible innovative products. By leveraging the three capabilities to engage in proactive CSR that simultaneously supports economic growth and prosperity, social cohesion and equity and environmental integrity and protection, our findings show it is possible for SMEs to achieve superior financial performance. The positive association between proactive CSR and SME financial performance reported in this study should help address often expressed concerns by business commentators about the tangible financial benefits generated by proactive CSR.

Notwithstanding that for some SME owner-managers in our study the difficult economic conditions were perceived as a major deterrent to engaging in proactive CSR, our findings indicate that even in tough economic times SMEs with higher levels of engagement in proactive CSR are likely to outperform those with lesser levels of engagement. This suggests that SME owner-managers, if they wish their firms to remain competitive, might do well to reconsider the value of proactive CSR as a means for anticipating and responding actively (rather than merely reacting) in uncertain business environments. On a related point, government policy-makers and agencies may need to consider the provision of: appropriate support and training to SMEs to assist in the development of those capabilities that underpin proactive CSR; and, incentives that foster an environment where SMEs can learn from each other in order to innovate and develop proactive CSR.

Limitations and Future Research Directions

In interpreting the study findings, the following limitations to the research need to be borne in mind. First, although we attempted to minimise differences between SMEs by adopting a focus on a single Australian industry sector, the SME sample was still quite diverse in character. Second, although a sample size of 171 was sufficient for hypothesis testing in the structural equation modelling analysis, a larger sample size would increase the reliability and stability of parameter estimates. Third, the data collection method relied on subjective and potentially idiosyncratic reporting by respondents of their firm's capabilities, proactive CSR and financial performance. The possibility of some regulatory requirements being ambiguously defined, thus causing difficulty for SME managers in differentiating between reactive and proactive CSR, also needs to be acknowledged. Furthermore, due to commercial-in-confidence concerns and the absence of publicly available objective data on financial performance of (owner-managed) SMEs, we were unable to test the correlation between subjective self-reported data and objective data. All of these limitations suggest caution is needed in generalising the study results and findings from sample to population to other sectors/industries, and from Australia to other economies.

Another limitation of the study arises from the two stage nature of the data collection. Although the data collection for the measurement of predictors/mediators and dependent variable occurred on two separate occasions, the gap of six months was insufficient time to establish proof of causality. Moreover, although the proposed model fitted the sampled data

well, there may be other models that fit the data at or near to the same degree. This implies that a finding of good fit to the hypothesised model, coupled with the fact that an error in analysis of causality may result from other unknown intervening variables, should not be taken to imply correctness or truth, but only plausibility. A longitudinal study over a longer time period with a larger sample size could confirm the causal relations between capabilities, proactive CSR and a firm's financial performance, thus allowing for broader generalizability in findings.

Several implications for future research are clear. Studying the interaction between the three dimensions of proactive CSR that support sustainable development would deepen understanding of the importance of the interaction between each dimension in enabling SMEs to make the best use of their capabilities to improve financial performance. Research addressing the questions of whether the association between capabilities, proactive CSR and financial performance in SMEs exists across all markets and different national business systems, would be of value. Future research linking the model variables to additional sources of data that take into account objective measures, and which include multiple informants and case studies, would contribute to the extension of our understanding of the link between CSR and financial performance. Multiple data source studies would allow for the multi-level insights into the development of capabilities and CSR strategies that single-source studies cannot reveal.

By way of summary conclusion, we believe this study makes a contribution to both the RBV and CSR literature: in the first case by showing that adoption of value-creating strategies that make the most effective use of an SME's capabilities is essential to financial success; and secondly, by demonstrating a case that resource constraints need not preclude SMEs being able to improve financial performance whilst proactively making progress towards CSR.

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Appendix

Table A1: Proactive CSR

Please indicate the extent to which your firm *voluntarily* engages in each responsible business strategy that *goes beyond regulatory requirements*, as compared to “*similar firms*” in your industry sector (1=‘not addressed issues at all’ to 5=‘we are the leaders on this issue’).

Item	Factor loading for Proactive CSR that supports:		
	<i>Economic growth and prosperity</i> ¹	<i>Social cohesion and equity</i> ²	<i>Environmental integrity and protection</i> ³
-Work with government officials to protect the firm’s interest (ECON1)	0.580		
-Adopt a long-term perspective in decision-making in order to guarantee sufficient cashflow and produce a persistent superior return to shareholders/owners (ECON2)	0.638		
-Reduce costs of inputs for the same level of outputs (ECON3)	0.506		
-Differentiate product/process by marketing of the social and environmental performance of the product/process (ECON4)	0.709		
-Sell waste products for revenue (ECON5)	0.508		
-Use of certification on quality aspects e.g. ISO 9000 (ECON6)	0.531		
-Responsible supply chain management, from sourcing to final payment e.g. meeting payment schedules (ECON7)	0.706		
-Create spin-off technologies that can be profitably applied to other areas of the business (ECON8)	0.549		
-Employee participation in decision-making process (SOC1)		0.679	
-Creation of good work-life balance and family friendly employment (SOC2)		0.701	
-Investor in people e.g. training and employee development (SOC3)		0.709	
-Equal opportunities in workplace e.g. employing disabled people, and/or promoting women to senior management positions (SOC4)		0.719	
-Improve employee health and safety (SOC5)		0.710	
-Engage in philanthropic activities e.g. charitable donation (SOC6)		0.737	
-Sponsorship of local community initiatives (SOC7)		0.832	
-Consider interests of stakeholders in investment decisions by creating a formal social dialogue (SOC8)		0.541	
-Periodic natural environment audits (ENV1)			0.798
-Purchasing criteria including ecological requirement (ENV2)			0.699
-Environmental training for employees (ENV3)			0.575
-Filters and controls on emissions and discharges (ENV4)			0.629
-Program for water recycling (ENV5)			0.504
-Program of waste recycling/reuse (ENV6)			0.741
-Increase energy efficiency (ENV7)			0.619
-Reduction/replacement of hazardous chemicals or materials e.g. substituting hazardous chemicals with less hazardous alternatives (ENV8)			0.562
-Systematically separate dangerous wastes (ENV9)			0.651
-Use of certifications on environmental aspects e.g. ISO 14000 (ENV10)			0.506
-Design products and manufacturing processes to minimise the ecological footprint along the entire product life cycle (ENV11)			0.653
<i>Cronbach’s α</i>	<i>0.805</i>	<i>0.835</i>	<i>0.921</i>

Overall please indicate how long your firm has engaged in:

¹responsible business strategies that support economic growth and prosperity (from 1 to greater than 9 years);

²responsible business strategies that support social cohesion and integrity (from 1 to greater than 9 years);

³responsible business strategies that support environmental integrity and protection (from 1 to greater than 9 years).

Table A2: Shared Vision Capability

Please tick the appropriate box below for the following statements as each relates to your firm (1='strongly disagree' to 6='strongly agree').

Item	Factor loading
The objectives of this firm are very well-known to everybody working here. (SHAR1)	0.611
Everybody working in this firm influences the way to work and the objectives of the firm. (SHAR2)	0.811
Everybody in this firm freely contributes his/her points of view about how to run it smoothly. (SHAR3)	0.579
<i>Cronbach's α</i>	0.703

Table A3: Stakeholder Management Capability

Please tick the appropriate box below to indicate the level of "**attention**" your firm gives to each type of stakeholder in organisational decision-making. Then, please tick the appropriate box below to indicate the "**importance**" of each type of stakeholder in helping your firm to understand issues it is facing. (1='very low' to 5='very high')

Item	Factor1 (factor loading)	Factor 2 (factor loading)
Competitors (STAK1)		0.530
Customers (STAK2)		0.749
Suppliers (STAK3)		0.548
Shareholders/Owners (STAK4)	0.507	
Employees (STAK5)		0.570
Communities (STAK6)	0.707	
Government agencies (STAK7)	0.767	
Accountants (STAK8)	0.554	
Research & development providers (STAK9)		0.515
<i>Cronbach's α</i>	0.684	0.688

Table A4: Strategic Proactivity Capability

Please tick the appropriate box below for the following statements as each relates to your firm (1='strongly disagree' to 6='strongly agree').

Item	Factor loading
Our products are many and very different. We are always looking for new opportunities i.e. in very different areas in the manufacturing industry. (STRA1)	0.645
The main technology focus of this firm is on having leading flexible and innovative technologies. (STRA2)	0.709
Our planning systems are very open and flexible to allow us to seize new opportunities. (STRA3)	0.693
<i>Cronbach's α</i>	0.720

Table A5: Financial Performance

Please tick the appropriate box below to indicate your firm's financial performance in the past six months compared to "*similar firms*" in your industry sector (1='much worse' to 5='much better').

Item	Factor loading
Return on assets (earnings generated from invested assets) (FINA1)	0.888
Net profits to sales (FINA2)	0.974
<i>Cronbach's α</i>	0.904