

## Exploring the Role of CSR in Enhancing the Sustainability of SMEs

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### Abstract

*This study explores the role of Corporate Social Responsibility (CSR) in enhancing the sustainability of Small and Medium Enterprises (SMEs), with a specific focus on aligning industry-driven initiatives with societal expectations. It investigates the nature and impact of CSR activities undertaken by industries, especially in areas like environmental sustainability, ethical business practices, and social welfare. Using both qualitative and quantitative approaches, the study evaluates stakeholder satisfaction and analyzes the association between socio-demographic profiles and perceptions of CSR effectiveness. Key statistical tools such as ANOVA, Chi-square tests, and mean value analysis were applied to examine differences and relationships across groups. The findings revealed significant gaps between CSR activities proposed by the industry and those expected by society, particularly in terms of transparency, inclusivity, and long-term commitment. The study provides valuable insights for SMEs to design more effective, stakeholder-inclusive CSR strategies that not only comply with regulatory standards but also contribute meaningfully to societal and environmental development.*

**Keywords:** Corporate Social Responsibility (CSR), Small and Medium Scale Enterprises (SME), Environmental Sustainability, Ethical Business Practices

### 1. Introduction

In today's dynamic and socially conscious business environment, Corporate Social Responsibility has emerged as a strategic imperative, not just for large corporations but also for Small and Medium Enterprises. Traditionally perceived as philanthropic or compliance-based, CSR has evolved into a multidimensional approach that integrates ethical, environmental, and social considerations into core business operations. For SMEs, which form the backbone of most economies and play a crucial role in employment generation and innovation, embracing CSR is no longer optional which is essential for long-term sustainability. While large corporations often have dedicated resources and structured CSR frameworks, SMEs typically operate with limited capacities and face unique challenges in implementing socially responsible practices. However, this constraint can also become a catalyst for innovation and strategic alignment, as CSR initiatives in SMEs tend to be more personalized, community-driven, and

integrated with local development needs. By aligning their business goals with social and environmental responsibilities, SMEs can enhance their reputation, improve stakeholder relationships, attract and retain talent, and gain competitive advantages in the market.

This study seeks to explore the evolving role of CSR in enhancing the sustainability of SMEs, focusing on how responsible business practices contribute to economic viability, social inclusivity, and environmental stewardship. It also investigates the motivations, barriers, and benefits associated with CSR adoption among SMEs. As global consumers and investors increasingly value ethical business conduct, the integration of CSR into SME strategies has the potential to transform them into resilient, future-ready enterprises. The findings of this study aim to offer practical insights for SME owners, policymakers, and stakeholders seeking to promote sustainable growth through responsible business behavior.

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## 2. Literature Review

Shafique, I., et.al., (2021) defined that the purpose of this study was to look at how small and medium-sized businesses' environmental performance is affected by organisational ambidexterity and green entrepreneurial orientation [1]. This study proposes corporate social responsibility as a significant setting that modifies the relationship between organisational ambidexterity and GEO, based on social capital theory. 307 manufacturing SMEs in Pakistan provided the data, which was then analysed using structural equation modelling based on partial least squares. The study's hypotheses were empirically supported by the findings. The results suggest that concurrent research and exploitation of innovation and GEO might lessen the complexity and challenge businesses have in attaining environmental performance. Moreover, ambidexterity's ability to stimulate GEO and ensuing environmental performance may be maximised as long as businesses can establish an appropriate framework, or corporate social responsibility.

Le, T. T., et.al., (2021) mentioned that due to globalisation and the fast changes in the environment, businesses worldwide and small and medium-sized businesses in emerging economies in particular are confronting a growing variety of dangers and problems [2]. The purpose of this study is to define the precise function that corporate social responsibility plays in company success. It will next investigate the mediating impacts of business continuity and customer retention. A clever partial least square structural equation model was used in this study to analyse 548 answers. A random selection technique was used to get the samples. The study's findings demonstrate that corporate social responsibility initiatives that benefit society, the environment, workers, and other stakeholders are crucial for improving customer retention and company continuity, which in turn improves firm performance. This study is unique in that it offers insight into how corporate social responsibility (CSR) improves company success by looking at the integrated model, which modifies this connection via business continuity and customer retention. Additionally, this research's originality is reinforced by its applicability to the context of SMEs in developing nations' changing economic and environmental circumstances. Entrepreneurs and company management can use the research's findings to sustainably improve the performance of SMEs in emerging economies. Furthermore, the results of this study are important for policymakers to take into account when determining the best possible policy to encourage and support businesses to engage in CSR in a way that balances the advantages for the economy, society, and environment.

Zou, Z., et.al., (2021) discussed that although corporate social responsibility, or CSR, has gained a lot of attention in the past ten years, the most of the literature that is now available focusses on CSR's interactions with big businesses [3]. However, little emphasis has been paid to its contribution to the small and medium-sized business (henceforth referred to as SME) sector. Although several studies have statistically examined CSR activities in the SME sector in developing nations like Pakistan, the reality is that, as of right now, the Pakistani SME sector is not actively engaging in CSR-related activities because of a number of obstacles. The

current study is an innovative attempt to investigate the CSR obstacles that prevent Pakistan's SME sector from engaging in CSR activities. In order to have a thorough understanding of the various CSR hurdles, the current study investigates these barriers qualitatively. We accomplished this by conducting semi-structured in-depth interviews with nine SMEs in Pakistan's Lahore metropolis. Five pertinent themes of CSR hurdles emerged from our thematic analysis: a lack of resources, a lack of rules, a lack of commitment from senior management, a lack of education of CSR, and passive consumer behaviour. Our research also revealed that the biggest obstacle preventing SMEs from participating in CSR initiatives is a lack of funding. This work adds to the body of knowledge on corporate social responsibility in emerging economies. Policymakers and practitioners may take the required actions to enhance CSR activities in SMEs by being more aware of the obstacles.

## 3. Research Methodology

### 3.1. Problem Statements

Despite the increasing emphasis on Corporate Social Responsibility (CSR), there existed a noticeable gap between the CSR initiatives undertaken by industries, particularly SMEs, and the expectations of society. Many CSR efforts are often aligned more with regulatory compliance or brand positioning than with genuine community welfare and environmental sustainability. Furthermore, stakeholder satisfaction and involvement in CSR planning and execution remain limited. This study aims to address the problem of misalignment between industry driven CSR strategies and societal needs, and to analyze how socio-demographic factors influence perceptions, expectations, and satisfaction levels regarding CSR initiatives across different stakeholder groups.

### 3.2. Scope of the Study

The scope of this study encompassed an in-depth analysis of Corporate Social Responsibility (CSR) practices implemented by industries, particularly SMEs, and their alignment with societal expectations. It evaluated stakeholder satisfaction based on various dimensions such as transparency, environmental sustainability, ethical business practices, and community development. The study also examines the influence of socio-demographic profiles on stakeholder perceptions and expectations. By incorporating statistical tools to assess associations between industry actions and public priorities, the research provides actionable insights for improving CSR strategies. This scope enabled a comprehensive understanding of how CSR can be optimized for enhanced social impact and stakeholder engagement.

### 3.3. Objectives of the Study

Based on the problems that have been defined, the objectives of the study are mentioned below:

- To analyse/ know the expectations of society regarding CSR in the Satara District of Maharashtra State.
- To evaluate satisfaction of stakeholders regarding existing CSR in the Satara District of Maharashtra State.

### 3.4. Hypothesis of the Study

Based on the objectives of the study that have been defined for the study, the hypothesis of the study is mentioned below:

H1- The CSR activities proposed by industry and expected by society are associated.

H2- The stakeholders are satisfied with the existing CSR extended by industry.

### 3.5. Societal Importance of the Study

The present study holds significant societal importance as it bridges the gap between corporate initiatives and public expectations in the realm of Corporate Social Responsibility (CSR), particularly in relation to Small and Medium Enterprises (SMEs) and stakeholder satisfaction. By analyzing the perceptions of both industry representatives and various societal groups, the study highlights how CSR practices can be strategically aligned

to address critical social and environmental challenges. The findings underscore the importance of inclusive development, ethical practices, environmental sustainability, and community engagement factors that are increasingly being demanded by society. Moreover, the study reveals how demographic factors like age, gender, education, and income influence societal expectations from CSR, offering a nuanced understanding of stakeholder needs. This enables companies to tailor their CSR programs for maximum social impact and stakeholder satisfaction, thereby fostering trust, accountability, and long-term partnerships between businesses and communities for sustainable development.

## 4. Data Analysis and Interpretation

### 4.1. To Analyse/ know the Expectations of Society Regarding CSR.

Factors & Statements for CSR - Industry	Mean Value
<b>Strategic and Operational Integration of CSR - Industry</b>	
Our company believes that CSR enhances our brand image and market positioning.	3.25
Our CSR activities are aligned with our business goals and profitability.	3.99
We engage in CSR to comply with legal requirements and government policies.	2.61
CSR activities are designed primarily to meet stakeholder expectations.	4.12
CSR is integrated into our long-term business planning and operations.	3.34
We regularly monitor and evaluate the impact of our CSR programs.	4.10
<b>Social and Environmental Commitment through CSR - Industry</b>	
We prioritize environmental sustainability in our CSR initiatives.	3.68
Employee welfare and workplace safety are central to our CSR strategy.	2.97
We allocate specific funds annually for community development projects.	3.78
Supporting local education and skill development programs is part of our CSR vision.	4.23
(Source: Research Result)	

**Table 1: Factors and Statements for the CSR Activities Proposed by Industry**

The factor Strategic and Operational Integration of CSR reflects a moderate to strong alignment of CSR with business strategy and stakeholder expectations. The highest mean score within this factor is for the statement "CSR activities are designed primarily to meet stakeholder expectations" (4.12), indicating that industries are highly responsive to external stakeholder demands. This is followed closely by "We regularly monitor and evaluate the impact of our CSR programs" (4.10) and "Our CSR activities are aligned with our business goals and profitability" (3.99), suggesting that many companies view CSR as a performance-driven tool embedded within their operational and financial frameworks. However, relatively lower mean values for "We engage in CSR to comply with legal requirements and government policies" (2.61) and "CSR is integrated into our long-term business planning and operations" (3.34) indicate that compliance alone is not the primary

driver of CSR adoption, and strategic long-term embedding of CSR still shows scope for improvement.

In the Social and Environmental Commitment through CSR factor, the highest mean score is for "Supporting local education and skill development programs is part of our CSR vision" (4.23), reflecting a strong commitment to human capital development. This is followed by "We allocate specific funds annually for community development projects" (3.78) and "We prioritize environmental sustainability in our CSR initiatives" (3.68), indicating moderate emphasis on environmental and community-related responsibilities. On the other hand, "Employee welfare and workplace safety" (2.97) received the lowest score in this category, pointing to a relatively weaker focus on internal social responsibility within the organization.

Factors & Statements for CSR - Employees	Mean Value
<b>Social Welfare and Community Development Expectations- Employees</b>	
CSR should focus on improving local community infrastructure and services.	3.57
Society expects businesses to create employment opportunities for marginalized groups.	3.24
Businesses must invest in local education and health initiatives as part of CSR.	4.22
CSR efforts should directly benefit the economically weaker sections of society.	4.05
CSR should include initiatives to promote gender equality and women empowerment.	3.17
Businesses should collaborate with NGOs and local bodies to implement effective CSR.	2.67
<b>Environmental and Ethical Responsibilities - Employees</b>	
Companies should prioritize environmental conservation in their CSR activities.	3.81
Transparent and ethical business practices are a crucial component of CSR.	3.69
The public expects companies to support disaster relief and emergency aid.	4.31
Society looks to businesses to reduce their carbon footprint and promote green practices.	2.97
(Source: Research Result)	

**Table 2: Factors and Statements for the CSR Activities Proposed by Employees**

Under the factor Social Welfare and Community Development Expectations, employees show a strong inclination towards CSR initiatives that support education and health, as indicated by the highest mean score for "Businesses must invest in local education and health initiatives" (4.22). Similarly, "CSR efforts should directly benefit the economically weaker sections of society" (4.05) and "CSR should focus on improving local community infrastructure and services" (3.57) also received relatively high scores, emphasizing employees' belief in the social obligation of businesses to contribute to community welfare and upliftment. However, relatively lower means for "CSR should include initiatives to promote gender equality and women empowerment" (3.17) and "Businesses should collaborate with NGOs and local bodies" (2.67) suggest that while there is general support for inclusive CSR, aspects related to gender empowerment and collaborative implementation are not perceived as strongly prioritized or perhaps

not well communicated within the organizations.

In the second factor, Environmental and Ethical Responsibilities, the highest mean was recorded for "The public expects companies to support disaster relief and emergency aid" (4.31), which reflects a heightened employee awareness of the need for companies to respond to urgent social crises. This is followed by "Companies should prioritize environmental conservation" (3.81) and "Transparent and ethical business practices are a crucial component of CSR" (3.69), indicating that environmental sustainability and ethical conduct are also seen as essential components of CSR. However, "Society looks to businesses to reduce their carbon footprint and promote green practices" (2.97) received a lower mean, suggesting either limited awareness or perceived insufficient action in this area by companies.

Association between factors of CSR by Industry * Society	Chi-Square Value	Sig. Value
Strategic and Operational Integration of CSR * Social Welfare and Community Development Expectations	15.121	0.001*
Strategic and Operational Integration of CSR * Environmental and Ethical Responsibilities	22.698	0.000*
Social and Environmental Commitment through CSR * Social Welfare and Community Development Expectations	19.367	0.000*
Social and Environmental Commitment through CSR * Environmental and Ethical Responsibilities	24.154	0.000*
(Source: Research Result)		

**Table 3: Significant Association between Factors of CSR by Industry \* Society in the Satara District**

### Hypothesis

**H0<sub>1</sub>:** The CSR activities proposed by industry and expected by society are not associated.

**H1<sub>1</sub>:** The CSR activities proposed by industry and expected by society are associated.

There is a significant association between "Strategic and

Operational Integration of CSR" by the industry and "Social Welfare and Community Development Expectations" of society, the Chi-square value is 15.121 and Sig. value is 0.001. This suggested that when companies integrate CSR into their business strategy aligning it with brand image, stakeholder expectations, and business goals. It closely resonates with society's expectation that

CSR should contribute to community development, employment generation, and basic services like education and health.

Similarly, the association between “Strategic and Operational Integration of CSR” and “Environmental and Ethical Responsibilities”, the Chi-square value is 22.698 and Sig. value is 0.000 indicated that strategic CSR initiatives by companies are also strongly related to public expectations of ethical conduct, transparency, and environmental conservation. This emphasized that society perceives responsible corporate behavior not just in social investments but also in the ethical and ecological dimensions of business. Furthermore, the “Social and Environmental

Commitment through CSR” by the industry is significantly associated with both “Social Welfare and Community Development Expectations”, the Chi-square value is 19.367 and Sig. value is 0.000 and “Environmental and Ethical Responsibilities”, the Chi-square value is 24.154, Sig. value is 0.000. This demonstrated that initiatives such as employee welfare, environmental sustainability, and community funding are well aligned with society’s broader expectations for inclusive and responsible business practices.

#### 4.2.To Evaluate Satisfaction of Stakeholders Regarding Existing CSR in the Satara District.

Factors	Socio-Demographic Profile of Stakeholders				
	Gender	Age	Edu Qual	Monthly Income	Occupation
Transparency and Communication	0.001*	0.200	0.002*	0.030*	0.042*
Social Impact and Community Development	0.000*	0.000*	0.000*	0.000*	0.000*
Environmental Sustainability	0.000*	0.000*	0.000*	0.000*	0.000*
Ethical Business Practices	0.012*	0.000*	0.051	0.002*	0.000*
Employee-Centric Initiatives	0.000*	0.030*	0.020*	0.000*	0.000*
Stakeholder Participation and Feedback	0.000*	0.000*	0.000*	0.000*	0.000*
Long-Term Commitment	0.001*	0.000*	0.040*	0.000*	0.044*

(Source: Research Result)

**Table 4: Significant difference of Opinion for the Satisfaction towards the CSR Activities among the Stakeholders of Satara District**

**H0<sub>2</sub>:** The stakeholders are not satisfied with the existing CSR extended by industry with reference to Satara district of Maharashtra State.

**H0<sub>2</sub>:** The stakeholders are satisfied with the existing CSR extended by industry with reference to Satara district of Maharashtra State.

The data reflected significant difference of opinion among the socio-demographic profile of stakeholders and their perceptions of different CSR satisfaction factors. Using significance levels, this analysis helped identify which stakeholder characteristics significantly influence their satisfaction with specific aspects of CSR. A p-value below 0.05 indicates a statistically significant association. The results shown that Gender has a significant impact on all factors, with the exception of Social Impact and Community Development (p = 0.000), Environmental Sustainability (p = 0.000), and Employee-Centric Initiatives (p = 0.000), suggested gender-based differences in CSR satisfaction, especially in employee welfare and environmental efforts.

Age is significantly associated with most factors, particularly Social Impact and Community Development, Environmental Sustainability, Ethical Business Practices, Employee-Centric Initiatives, Stakeholder Participation and Feedback, and Long-Term Commitment (all p < 0.05). This indicated that stakeholders

from different age groups perceive and value CSR efforts differently, especially in areas related to social welfare and long-term planning.

Educational Qualification also shows strong significance across most CSR dimensions, notably in Transparency and Communication (p = 0.002), Social Impact and Community Development (p = 0.000), and Environmental Sustainability (p = 0.000). This implied that more educated stakeholders may expect more structured, impactful, and well-communicated CSR initiatives.

Monthly Income has a significant association with all factors where p value is less than 0.05, indicated that income level influences stakeholder expectations and satisfaction with CSR programs, possibly due to varied needs or exposure to CSR benefits.

Occupation also shown a consistent significant relationship across all CSR satisfaction dimensions where p value is less than 0.05 for all the CSR factors, reflected the role of professional background in shaping stakeholder perspectives on CSR performance.

#### 5. Findings, Conclusions and Suggestions of the Study

The results revealed a strong and significant alignment between industry driven CSR practices and the societal expectations across

all dimensions studied. This validated the relevance of CSR as a mutual interest area and highlighted the importance of continued collaboration and responsiveness between businesses and society to maximize the impact of CSR efforts in the Satara district of Maharashtra State. However, in terms of monitoring the significant difference of opinion from the different stakeholders towards the satisfaction received from the CSR activities, it had been noted that, CSR satisfaction is not uniform across demographic groups, and organizations should consider socio-demographic diversity when designing and communicating CSR strategies to ensure broad-based stakeholder alignment and satisfaction [4-20].

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