

Does Innovation Play a Role in the Relationship Between Corporate Social and Financial Performance? A Systematic Literature Review

Fadwa El Fallahi¹, Abdelmajid Ibenrissoul², Adil El Amri³

LAREM- ISCAE Business School Casablanca, Morocco¹

ISO-ENCG National School of Business and Management (ENCG) Casablanca, Morocco²

LERSEM Laboratory, National School of Business and Management (ENCG) El Jadida, Morocco³

fadwa.elfallahi@gmail.com¹, encg.departement@gmail.com², elamri.a@ucd.ac.ma³



Article History

Received on 24 May 2022

1st Revision on 19 June 2022

2nd Revision on 20 July 2022

3rd Revision on 21 July 2022

4th Revision on 22 July 2022

Accepted on 27 July 2022

Abstract

Purpose: This research aims to provide a comprehensive knowledge map of the intellectual structure of the field of study on the role of innovation in shaping the social and financial performance link.

Research methodology: Systematic literature review using the SALSA (Search, Appraisal, Synthesis, and Analysis) Method based on a 10-year data set (2012-2021) from the “Google Scholar” database.

Results: The findings point to the existence of a positive influence of innovation in linking Corporate Social Performance to firm Financial Performance and reveal the existence of five themes in the research, specifically complementarity between Corporate Social Responsibility and innovation, the special case of small and medium-sized enterprises, and the context of emerging countries. Also, we highlight a lack of research in this field and the theoretical, design, and methodological limitations of previous studies.

Limitations: The primary limitation of this study is the small number of studies that address the research question addressed by this systematic literature review, which was generated by the research protocol.

Contribution: The study suggests avenues for future research to address the previous shortcomings. Particularly, identifying the condition effects through which innovation may affect the studied relationship.

Keywords: *Corporate financial performance (CFP), Corporate Social Responsibility (CSR), Innovation, Mediation, Moderation*

How to Cite: Fallahi, F. E., Ibenrissoul, A., & Amri, A. E. (2022). Entrepreneurial Marketing And SMEs Growth In Post Covid-19 Era In Awka, Anambra State, Nigeria. *International Journal of Financial, Accounting, and Management*, 4(3), 315-334.

1. Introduction

In recent years, scholars and managers have paid close attention to corporate social responsibility (CSR) (Aguilera-Caracuel & Guerrero-Villegas, 2018); (Lopatta, Jaeschke, & Chen, 2017). According to the Commission (2006), CSR is defined as responsible business practices that promote the three principles of sustainable development: social cohesion and equity, economic growth and prosperity, and environmental integrity and protection. Firms use CSR to show their commitment to long-term social, economic, and environmental development (Husser, André, Barbat, & Lespinet-Najib, 2012). In recent years, many studies have been carried out to explain the relationship between CSR and financial performance (Hull & Rothenberg, 2008); (Margolis & Walsh, 2003); (Zahid, Naeem, Aftab, & Mughal, 2021). However, this area of research has been a source of contention among scholars due to a lack of consensus on the impact of CSR on firm performance (Marc Orlitzky, Schmidt, & Rynes, 2003) as well as an incomplete understanding of how CSR improves financial performance (Doh, Howton, Howton,

[& Siegel, 2010](#)). Thus, academics have advocated for more research on the contingencies that influence the CSP–CFP relationship (moderators and mediators variables) ([McWilliams & Siegel, 2000](#)); ([Schnippering, 2020](#)).

On the other hand, in today's competitive and insecure environment, innovation is increasingly regarded as one of the key drivers of a company's long-term success ([García-Morales, Lloréns-Montes, & Verdú-Jover, 2008](#)). It has been revealed that innovation activities have a significant and positive impact on overall firm performance ([Porter & Kramer, 2011](#)). In this regard, CSR literature has established the truth that the relationship between CSR and firm financial performance cannot be fully understood unless the role of innovation is considered ([McWilliams & Siegel, 2000](#));([Busch & Schnippering, 2022](#)). Based on the business case for CSR, some authors propose that innovation can act as a mediator or moderator variable in the CSP-CFP relationship. ([Schnippering, 2020](#)). Along with that, to explain the link between CSR and a firm financial performance, [Hull and Rothenberg \(2008\)](#) suggested that innovation can be considered an additional variable as it becomes an essential component for companies operating in certain industries. In the Moroccan context, ([Kammoun, Romdhane, Loukil, & Ibenrissoul, 2021](#)) emphasized the importance of innovation by urging businesses to rethink their strategies toward innovative investment in environmental products and social goods to increase profits and thrive in the long run.

Regardless of many academics recognizing the existence of the relationship between CSR and financial performance driven by innovation, empirical research is rarely available ([Zahid et al., 2021](#)). Whether and how innovation can shape the CSP-CFP relationship is still unknown ([Busch & Schnippering, 2022](#)).

To shed light on this issue, we decided to conduct a systematic literature review within the Google Scholar database for the identification of relevant studies within the set of journals from 2012 to 2021 in “the Google Scholar” database. we chose 2012 as the starting point for our review as [Hadj, Omri, and Al-Tit \(2020\)](#) argue that empirical research on the impact of innovation on the CSP-CFP relationship began to emerge in the last decade.

The purpose of this article is to articulate the trends in the literature concerning this research area, as well as to identify additional implications for future research. To the best of our knowledge, no other systematic review has been conducted in this research field. To begin, we describe the methodology that was used to conduct this systematic literature review. Then, we provide a summary of the scientific contribution to the role of the specific innovation variable in shaping the impact of CSR on a firm's financial performance, either as a mediator or moderator variable, and finally, we discuss the limitations of current studies and further recommendations to a better understanding of this relationship. Our findings indicate a scarcity of research in this area and call for a new understanding of the contribution of innovation to the CSP-CFP relationship, particularly during times of crisis. As researchers, we also believe that we need to step back from the silo-like thinking that has dominated corporate social activity research to date, particularly by developing a better understanding of how and when innovation can lead to a greater impact of CSR on financial performance.

2. Literature review

CSR: A polysemous concept

CSR research has frequently been criticized for having an overly broad scope ([Ullmann, 1985](#)); ([Barnett, 2007](#)). In this paper, we define CSR as firms achieving economic goals while incurring as few social costs (negative externalities) as possible. This definition includes some welfare economic insight, which identifies CSR as the private provision of public goods or the reduction of public controversies. ([Wei, Peng, & Zhang, 2012](#)). The provision of public goods implies the addition (maximization) of positive externalities of corporate action; whereas the suppression of public controversies implies the reduction (minimization) of negative externalities of corporate action.

However, our definition differs, in two ways, from the mainstream definition, found in western CSR literature. For starters, this definition outlines CSR's bottom line, which is that businesses should cause as little harm as possible. It could also be appropriately used for CSR research in developing countries where the institutional system is a weak and corporate malfeasance, such as shoddy products, counterfeit goods, environmental pollution, and so on, is prevalent.

The concept of Innovation

The concept of innovation has evolved over time. For example, ([Hitt, Hoskisson, Johnson, & Moesel, 1996](#)) mainly focused on its technical aspects. They established a definition of innovation that encompasses both novelties in the manufacturing process as well as their spread to other industries, companies, and countries. On the other hand, ([Myers & Marquis, 1969](#)) proposed a broad definition of innovation based on the social and economic benefits of novelty which included the entire process of developing a new concept and solving a problem. According to [Drucker \(2017\)](#), innovation can result in two types of changes: changes in services or products, and changes in the abilities required to integrate innovation. According to ([Zenko & Mulej, 2011](#)), the presence of innovation appears to be critical in contemporary business as "the human society's development or survival is dependent on it".

CSR's New Brand model: Innovation

The recent debate on CSR strategies, particularly the development and implementation of new and more effective responsible managerial practices, has fueled the relationship between CSR and innovation ([MacGregor, Espinach, & Fontrodona, 2007](#)); ([Nidumolu, Prahalad, & Rangaswami, 2009](#)), ([Russo Spena & De Chiara, 2012](#)). This type of innovation is one of the tenets of the Global Compact Performance Model (GCPM), a management tool that assists organizations in implementing CSR strategies. (GCPM, 2007, p.11). Innovation is defined in this context as "a method of implementing responsibility principles and transforming them into innovative solutions and business opportunities." The ability of an organization to generate innovation is a key indicator of its success ([Saunila, Pekkola, & Ukko, 2014](#)).

Focus on Financial Performance

According to ([Venkatraman & Ramanujam, 1986](#)), corporate financial performance (CFP) is defined as a company's financial viability or the extent to which it meets its economic goals. We retain the definition of ([Guérard, 2006](#)), who defines financial performance as "the situation of a company that achieves good profitability, satisfactory growth, and creates value for the shareholder by limiting as much recourse to credit as possible through the maintenance of financial stability." The company's financial performance is determined by how well it manages the financial resources that are made available to it. This management conditions the return on the funds originally invested as well as the renewal of the company's most profitable operations. Today, the company must consider the impact of its activities on all its stakeholders in addition to generating profits on its own ([Frimousse & Peretti, 2020](#)). Accounting and/or market indicators can be used to measure financial performance ([Aupperle, Carroll, & Hatfield, 1985](#)); ([McGuire, Sundgren, & Schneeweis, 1988](#)); ([Seifert, Morris, & Bartkus, 2004](#)); ([El Idrissi & Alami, 2021](#)). Several authors have questioned CSR's ability to improve financial performance. So far, the results do not support a consensus.

CSR and Financial performance

According to [El Amri, Boutti, and Rodhain \(2020\)](#), companies are interested in non-financial indicators because they provide better measures of performance than financial indicators. The authors support this statement by citing the company's performance after accounting for non-financial factors. In the literature, several models aim to link social and financial performance, most of which are based on the classical asset valuation theory, which attributes rational behavior to individuals ([Fama & French, 2004](#)). In the field of sustainable finance, the concept is broadened to include agents' moral and social behavior, with CSR serving as a tool for social benefit and general well-being ([Lahouirich et al., 2022](#)). In this context, the intangible paybacks of CSR provide firms with a sustainable competitive advantage ([Branco & Rodrigues, 2006](#)); ([M Orlitzky, 2008](#)). CSR also lowers business risk ([EL FALLAHI, 2021](#)) or increases a firm's profitability ([Frooman, 1997](#)). Most studies discovered a positive relationship

between CSR and performance ([Aupperle et al., 1985](#)); ([Waddock & Graves, 1997](#)); ([McGuire et al., 1988](#)); ([McWilliams & Siegel, 2000](#)); ([Marc Orlitzky et al., 2003](#)).

3. Research Methodology

To provide further clarification, on the role of innovation in determining the CSP-CFP relationship, as well as to deliver an overview of existing studies, we conducted a systematic literature review based on medical research methods and traction in management research ([Mengist, Soromessa, & Legese, 2020](#)). Systematic literature reviews intend to overcome the issue of researcher bias, which is frequently evident in narrative literature reviews, by employing a comprehensive search and analysis framework that combines cross-referencing among researchers, extensive quests of research databases, and the application of agreed-upon inclusion and exclusion criteria ([Bramer, De Jonge, Rethlefsen, Mast, & Kleijnen, 2018](#)).

The whole process of this systematic review was carried out between January and June 2022.

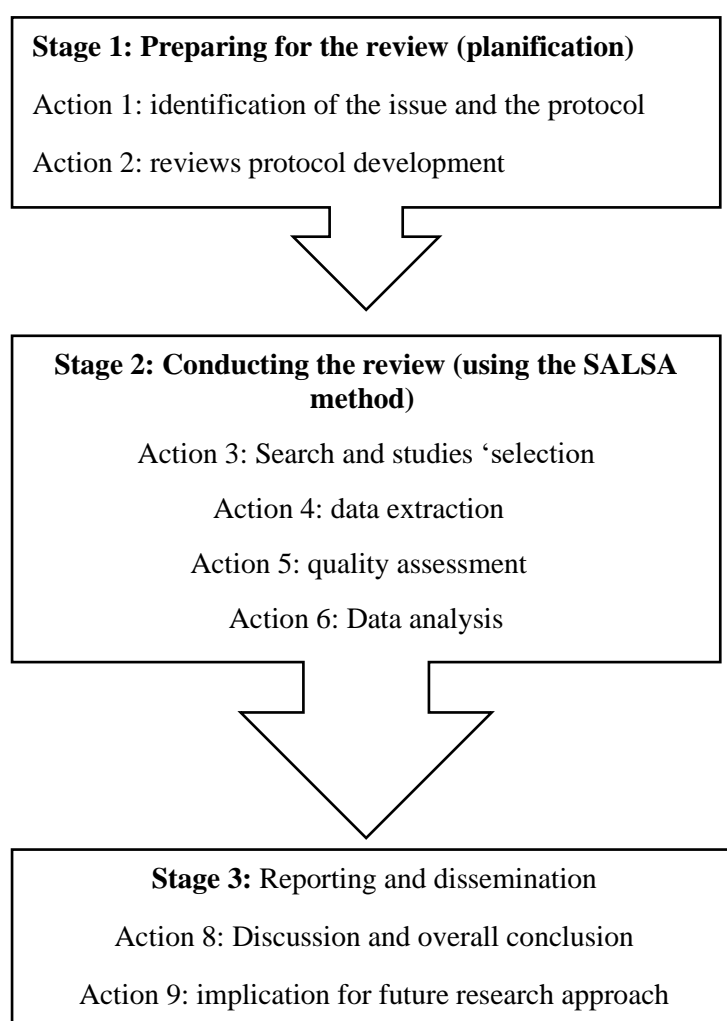


Figure 1. The research Protocol
Source: Adapted from [Tranfield, Denyer, and Smart \(2003\)](#).

The management review protocol (Figure 1) was designed to be both flexible and structured enough to allow creativity while also preventing any researcher bias from impacting the results ([Tranfield et al., 2003](#)); ([Phillips & Barker, 2021](#)). Throughout the process described below, specialists in both scientific research methods and CSR were consulted to define, advise, or adjust, as needed, the methodology and choices adopted.

The systematic literature review was performed using the SALSA method consisting of four stages: search, appraisal, synthesis, and analysis ([Booth, Sutton, Clowes, & Martyn-St James, 2021](#)).

Search

Initially, a "thematic analysis" was carried out to define the appropriate keywords that would be used during the research process. Following consultation with academics and professionals, the following keywords were chosen: Social firms, social companies, social performance, CSR, extra-financial performance, and ESG were chosen to designate the social performance of companies. Separate keywords such as innovation and social performance were also used. The keywords were constructed in search strings on the "Google scholar" database, such as "social performance AND financial performance AND innovation". The "Google scholar" database was chosen because of its seniority ([Zaugg, Savoldelli, Sabatier, & Durieux, 2014](#)).

The preliminary study combining the results of all the search strings resulted in 104100 papers. To refine the results, the study was restricted only to articles published between 2012 and 2021. The examination period was chosen in consultation with the team of specialists who were solicited when the research protocol was developed. This choice was thought to be sufficient to uncover the innovative character's early roots in the study of the relationship between the two performances (financial and social), and to capture the most recent and relevant results that had been built over time. Introducing this restriction resulted in a set of 15147 papers for further investigation.

Appraisal

Furthermore, the sample was analyzed according to inclusion and exclusion criteria (Table 1 and 2).

Table 1. Inclusion criteria.

Criteria	Reasons of inclusion
All countries	To ensure a cross-cultural understanding of the study
All sectors	To obtain a broad picture of the literature results
Theoretical and empirical articles	To capture all existing studies

Source: own development

Table 2. Exclusion criteria.

Criteria	Reasons of exclusion
Pre- 2012	To capture research developed in the last decade
Duplicates	As not to bias the descriptive analysis
Articles published in a language other than English	English is the universal language of academic research
Articles with titles, abstracts, and content that appear to be unrelated to the topic	To focus solely on research, having been interested in researching the exact topic of our study.
Conference papers, working papers, magazines, symposiums, lecture notes, workshops, letters, book reviews, and the least referenced articles (fewer than three)	For the sample's relevancy and scientific quality

Source: own development

The appraisal exclusion procedure was divided into two main steps: technical and substantial. The primary step in the technical exclusion section was to remove duplicates and non-English papers. There were 2478 such publications found and eliminated (2428 duplicates and 50 non-English), resulting in 12669 papers for further research. The remaining articles were then assessed for relevance and scientific robustness using [Pittaway, Robertson, Munir, Denyer, and Neely \(2004\)](#) quality criteria to ensure the

quality of the systematic review's results. Consequently, the fourth exclusion criterion was applied reducing the sample of studies to 8965.

Afterward, the substantial part was conducted on three sifts title, abstract, and full-text sifting. The first step was to go through all the titles and eliminate publications that do not focus on the link between CSR, innovation, and financial performance. 6821 articles have been eliminated reducing the sample to 2144 papers. Following that, the abstract sifting enabled the exclusion of studies that were considered relevant to the review subject. 2105 such publications were identified, lessening the overall number of articles to 39. However, due to limited access, one paper was eliminated before full-text analysis. In this sort, the remaining 38 papers were studied in detail. The precise analysis of the full texts enabled the elimination of 20 papers, having left 18 publications.

To complete our sample, the one-step-backward snowballing procedure of [Jalali and Wohlin \(2012\)](#) was applied to the 18 selected papers. A manual check of bibliographical references was performed to fully exploit the determined set of articles. It was assumed that these would be useful resources for additional publications. The same inclusion and exclusion criteria as described were applied to form parallelism. It permitted the inclusion of two supplementary publications described as influential works because they appeared as references to multiple selected publications. Finally, the set of analyzed papers amounted to 20 publications.

Synthesis and analysis

The table below summarizes the followed protocol and its results. The documents' key aspects were coded. They also included information such as the study's object, subject, research questions, results, research gaps, and so on. An examination of the research material revealed the main similarities and differences between the studies. The various outcomes were compared, and the major research gaps were identified. The SALSA method's final two steps are detailed in the following section.

Table 3. Results of the systematic review protocol.

Research strings results	N= 104100
Excluding studies pre-2012	N= 15147
Excluding duplicates	N= 12719
Excluding non-English articles	N= 12669
Post-relevancy analysis	N= 8965
Post title analysis	N= 2144
Post-abstract analysis	N=39
Excluding inaccessible article	N= 38
Post-full text analysis	N=18
Including 2 articles after the one-step snowballing procedure.	N= 20

4. Result and Discussion

The data analysis is a key element of a comprehensive review ([Crossan & Apaydin, 2010](#)). It was divided into two parts:

1. A descriptive analysis of the subject in terms of field of study, publication year, key journals, methodology, mobilized theories as well as key results reached.
2. A thematic analysis—to identify the key emerging themes and outline the knowledge established within the selected documents.

Analysis I: descriptive analysis

At the initial stage of the articles 'assessment, we interrogated the research design and methodologies used. Thus, articles were classified as conceptual, theoretical, qualitative, or quantitative (Table 4). We found that quantitative studies predominated, accounting for 18 of the 20 articles reviewed, plus two conceptual ones. It was interesting to note the prevalence of empirical studies, suggesting that this area of research is developing as CSR and innovation are becoming more firmly grounded in theory. The

methods used in the research were highly represented by quantitative research, which primarily relied on structural equation modeling and regression models. However, the under-representation of qualitative research impedes or inhibits a detailed evaluation of phenomena, the study of high-complexity relationships, and the construction of novel ideas or theories.

Table 4. classification based on the type of article.

Type of article	Number of articles
Conceptual	2
Theoretical	0
Quantitative	18
Qualitative	0

The articles were also classified based on the country of origin appropriate to the research's sample. Spain (4) is the most representative country, followed by countries where English is spoken as a first foreign language, as the main business language, or as a mother tongue. The other findings were as follows: United States, South Africa, China, Saudi Arabia, Indonesia, Pakistan, (2) each, Slovenia, Bahrain, Malaysia, Germany, India, and Luxembourg (1) each, and the last article involved an international sample composed by developing countries. The research's global scope reflects a growing interest on a global scale in the role that innovation plays in addressing current CSR concerns and achieving firms' financial performance.

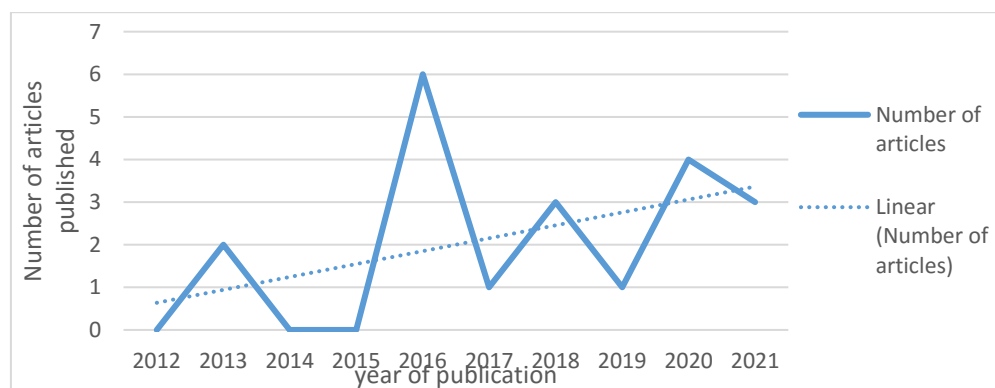


Figure 2. The number of publications between 2012 and 2021.

Even though the sample appears to be heterogeneous, we notice an increase in the number of articles in emerging countries. In addition, there appears to be a growing interest in Asia, with recent studies from China, Indonesia, Malaysia, Pakistan, Saudi Arabia, and Bahrain, adding to the growing interest in this topic in Arabic-speaking countries. Nevertheless, it should be noted that the study was limited to English-language journal articles, implying an implicit bias to research produced in English-speaking nations or by English-speaking academics. As a result, a review of non-English publications would aid in gaining a better understanding of significant research.

The articles were further categorized based on their publication year. Following the application of the review selection criteria, no articles appeared prior to 2012. Figure 2 shows that interest in the subject is growing, particularly after 2015, as indicated by the large rise in articles published between 2015 and 2021. Only 2 articles were identified between 2012 and 2014, whereas 16 articles were found between 2017 and 2021. In 2016, there was a spike with 6 article publications, and the overall trend is one of growth, implying that this field of research is receiving increased attention. The growing academic interest may be related to the recognition of the shortcomings of models that raised the question of the relationship between CSP and CFP without taking into account the impact of influencing variables (mediating or moderating), as highlighted by [McWilliams and Siegel \(2000\)](#) who addressed the need for alternative approaches treating the CSP-CFP relationship, such as innovative actions.

Table 5. Classification based on theories used.

Theory	unspecified theories	Stakeholders' theory	Ressource-based theory	Others theories
Number of articles	9	8	5	6*

* The other theories that have been used include the theory of resources and competencies, the neo-institutional theory, the institutional theory, the theory of social and environmental contestability, the knowledge-based theory, the trade-off theory, the stewardship theory, the slack resource theory. Some articles employed more than one theory at the same time.

In the articles reviewed, it was challenging to identify a dominant theory. First, because a significant number of authors did not provide any theoretical background; and second, because we did come across a variety of theories used by academics to address the research question. Some authors attribute the research field's theoretical diversity to the lack of a widely accepted underpinning theory, as well as the controversy and complexity of the CSR approach, and uncertainty about its exact definition and boundaries ([Cochran, 2011](#)). However, given the repeatability of their applicability, we can consider two partially dominant theories, namely the Stakeholder theory and the resource-based theory.

The underlying stakeholder theory suggests that greater CSR practices result in greater firm performance ([Freeman, 2010](#)). This theory contends that a firm may satisfy its stakeholders by aligning its interests or resources with appropriate CSR activities, which can lead to further gain ([Marc Orlitzky et al., 2003](#)). The resource-based view of the firm, on the other hand, assumes that a firm can outperform its competitors by producing scarce, valuable, difficult-to-substitute, and to-replace resources ([Barney, 1991](#)). It establishes the boundary for the inclusion of innovation as a component of CSR ([Padgett & Galan, 2010](#)).

The journals publishing research areas are a good indicator of the disciplines from which research draws its concepts and theories. The review has identified an array of disciplines including business, marketing, economics, CSR, innovation, entrepreneurship, environment management, and sustainability, implying a wide conceptual and theoretical foundation. Furthermore, using the most recent CNRS section 37 classification, an additional classification was performed to determine whether the articles chosen had been published in classified journals or not. Peer-reviewed journal articles are considered to have high disciplinary standing because they present validated knowledge that has been evaluated in terms of academic rigor, robustness and contribution to knowledge ([Podsakoff, MacKenzie, Bachrach, & Podsakoff, 2005](#)); ([Khabsa, Elmagarmid, Ilyas, Hammady, & Ouzzani, 2016](#)). 4 out of 20 articles were published in highly-ranked journals with 2 of them appearing in the "Journal of Business Ethics". The remaining sample was heavily represented by the "Social Responsibility Journal" and "Corporate Social Responsibility and Environmental Management Journal."

Table 6. Classification based on the data analysis method.

Method	Number of articles
Structural Equation model	10
Multiple regression model	5
Regressing model	3
Both Structural Equation and regression model	1

Models are widely used in social science, particularly economics. They intend to represent the real-world system in a simplified manner and analyze the data. The method used for data analysis was also examined for the 18 practical papers that were selected. Considering the research question, structural equation models and multiple regression models were primarily used. Other analysis models, such as comprehensive and descriptive analysis, were not required. Depending on the sample, model data analysis, and the theoretical framework used, multiple results were obtained regarding the nature of the

innovation variable's influence on the CSP-CFP link, whether as a mediating or moderating variable and the assumed direction of this influence.

Table 7. Classification based on articles' results.

	Positive effect	Negative effect	Absence of effect
Innovation (mediator variable)	14	1	2
Innovation (moderator variable)	1	1	0

Source: own development

The general trend argues for the positive impact of innovation as a mediator variable between CSR and social performance, and it implies that innovation can help explain the business case for CSR. Three other studies show either no link or a negative mediating effect. Two remaining studies (one of which treated both moderating and mediating effects) examined the effect of innovation as a moderating variable on the intensity of the CSP-CFP relationship, with one finding a positive moderating effect and the other finding none.

Analysis II: Thematic Analysis

The abstracts of the selected articles were coded as part of the thematic analysis.

Overall, the literature review highlighted five major themes:

1. CSR and innovation similarities and complementarity: two sides of the same coin.
2. Special case of small and medium-sized enterprises (SMEs) and emerging countries' context.
3. CSR and Firm's Financial Performance: The missing link of innovation.
4. CSR based competitiveness and firm value driven by innovation.
5. The innovation basis model approach.
6. *CSR and innovation similarities and complementarity: two sides of the same coin*

According to the review of the literature, the concept of CSR has evolved over time, changing the way innovation is conceived. CSR activities were initially introduced responsively to meet the needs and standards of stakeholders, to gradually transition to more strategic activities. Some academics show that there is a feedback loop between CSR and innovation; firms must incorporate strategic socially responsible activities into the core of their innovative policies since innovation can be viewed as a critical factor in enhancing a company's competitive advantage, survival, and growth, thus financial performance ([Hlioui & Yousfi, 2020](#)). Similarly, CSR may serve as a road map for a new innovation paradigm, motivating companies to engage in both innovation and socially responsible issues to gain legitimacy and satisfy the expectations of many stakeholders ([Marin, Martín, & Rubio, 2017](#)). The related relationship between CSR and innovation was confirmed by the ([Commission, 2006](#));([Commission, 2010, 2011](#)) as CSR is widely accepted to be a driver of innovation and CSR policy is supposed to be driven by innovation.

The special case of small and medium-sized enterprises (SMEs) and emerging countries' context.

The existence of SMEs has emerged as one of the answers in the effort to reduce unemployment and increase the speed of the local economy's wheel. Similarly, responsible SMEs contribute to society's economic, ecological, and social well-being ([Spence, Schmidpeter, & Habisch, 2003](#)). Responsible SMEs in developed countries have been widely studied by academics. However, given the differences between developing and developed countries in terms of sources of economic growth, institutional framework, and human development lags, it is not reasonable to extrapolate the findings and arguments of research undertaken in developed countries to developing ones ([Bahta, Yun, Islam, & Bikanyi, 2021](#)); ([Musah & Adutwumwaa, 2021](#)). SMEs are regarded as the backbone of developing economies, with an emphasis on entrepreneurship and job creation as important contributors to development and poverty reduction ([Fox, 2004](#)); ([Singer, 2006](#)); ([Jamali, 2009](#)). According to [Fox \(2004\)](#), there is an urgent need to prioritize the CSR discourse on SMEs in developing nations since it has the potential to make considerable progress toward Africa's sustainable development. As a result, an increasing number of academics have attempted to investigate responsible and innovative SMEs in developing countries, as seen through our sample.

According to [Nybakk \(2012\)](#) research, business innovation has a significant impact on the financial performance of SMEs. Innovation provides SMEs with numerous opportunities to further grow and adapt to new challenges ([Hadjimanolis & Dickson, 2000](#)). In fact, SMEs cannot accomplish performance if they simply emphasize their own tangible assets while ignoring other intangible assets, such as resource knowledge and innovation skills ([Martinez, 2016](#)). [Hult, Nichols Jr, Giunipero, and Hurley \(2000\)](#) and later [Handayani, Juzilam, Daulay, & Ruslan \(2020\)](#) highlighted that companies' abilities to learn, innovate, and develop are critical to business growth and sustainability. In addition, the CSR program enables the innovation of SMEs. [Conesa \(2014\)](#) assessed CSR programs across several dimensions related to SMEs' innovation, including CSR with employees, suppliers, customers, and CSR with the local community, and concluded that each CSR component promotes organizational innovation. Likewise, ([Ratnawati, Soetjipto, Murwani, & Wahyono, 2018](#)); [Alzadjali \(2020\)](#) along with [other academics](#) in our sample noticed the positive mediator impact of innovation on the CSR and financial performance relationship. As reflected in Table 9.

Table 9. Main results concerning SMEs in developing countries.

Authors	Date	Summary
Ratnawati et al.	2018	The CSR program oversees helping SMEs develop learning mechanisms by improving their analytical capabilities, information resources, processes, and internal system facilities for growth and adaptability to environmental change.
Alzadjali	2020	Developing SMEs' innovation capabilities through CSR initiatives can strengthen SMEs' competitiveness and regional economic development. Hence, the improvement in financial performance
Bahta and Yun	2020	Considering the effects of CSR's applicability in various contexts. It is important to investigate the association between SMEs in developing countries.
Al-Shuaibi	2016	CSR is a driver for business performance not only in developed and western countries but also in emerging ones. (data used from 197 CSR firms in Saudi Arabia)

Source: own development

CSR and Firm's Financial Performance: Is Innovation the missing link?

Very few previous studies have empirically examined the link between CSR and CFP involving the influence of innovation ([Chaudhry, Aftab, Arif, Tariq, & Roomi, 2019](#)). The general trend suggests that innovation plays a mediating role in shaping the impact of CSR on FP, albeit to varying degrees of intensity. Some studies focused on samples of companies from various sectors, out of which ([Bastič, Mulej, & Zore, 2020](#)) tested a conceptual model based on various dimensions of CSR related to employees, customers, the local community, and the natural environment to confirm the mediating role of innovation in improving the CSR impact on financial performance. The same approach was conducted by [Alzaidjali \(2020\)](#) and led to the same results. Similarly, [Zahid et al. \(2021\)](#) and [Bahta et al. \(2021\)](#) confirm the positive effect but argue that the degree of mediation of innovation is far less than that of other academically suggested variables, implying the partial influence of innovation in mediating the CSP-CFP relationship.

Other scholars considered the sensitivity of CSR's contribution to the business sector and worked with sectoral samples. ([Anser, Zhang, & Kanwal, 2018](#)) challenged the industrial sector by developing a theoretical model to test the indirect effect of social performance on financial performance and discovered no effect of innovation between CSR and financial performance. Yet, ([Blanco, Guillamón-](#)

[Saorín, & Guiral, 2013](#)) found empirical evidence of a positive CSP mediation impact on financial market-based performance via innovation for a sample of companies from the controversial sector.

Moreover, while exploring various CSR approaches, [Bocquet, Le Bas, Mothe, and Poussing \(2017\)](#) highlighted that strategic CSR is more likely to be productive while companies with responsive CSR behaviors, contrastingly, face counterproductive and negative consequences. [Hadj et al. \(2020\)](#) investigated the effects of responsible innovation's mediating role in the CSP-CFP link depending on the level of CSR and concluded that the presence of innovation as a vehicle of CSR is primarily relevant to the strategic and systemic stages of CSR because it entails orderly and regular improvements that are supported at the strategic level.

In another context, some researchers focused on the level and direction of innovation's influence as a moderator variable between CSR and financial performance. [Anser et al., 2018](#)) found no significant moderating effect, whereas [Fischer and Sawczyn \(2013\)](#) used a correlation model to show that the degree of innovation has a significant impact on CSP and its impact on CFP, indicating that the CSP-CFP relationship is moderated by the innovation variable.

Mostly, it can be argued that firms adopting better CSR are more likely to develop and innovate their processes, products, and other activities in response to stakeholder concerns. In turn, innovation tends to improve the firm's financial performance ([Cegarra-Navarro et al., 2016](#)). This also while ensuring that they are sufficiently and effectively armed to face the potential changes and threats that may arise ([Visser, 2016](#)); ([Hlioui & Yousfi, 2020](#)).

This means that innovation can act as a bridge between CSR and CFP. Nevertheless, despite increased academic interest in the subject in recent years, this phenomenon has not been thoroughly investigated yet. This area of research still requires further investigation ([Zahid et al., 2021](#)).

Table 10. Main results on the influence of innovation on the CSP-CFP relationship

Authors	Date	Summary
Al-Shuaibi	2016	Built and tested a theoretical model (CIPP model) to demonstrate the mediating effect of innovation on the CSP-CFP relationship.
Ratnawati et al.,	2018	CSR initiatives can affect the performance of SMEs through innovation and learning orientation.
Li et al.,	2020	Working within the framework of Industry 4.0 ¹ , They concluded that Artificial Intelligence innovation flattens the U-shaped relationship curve, reducing the positive impact of CSR on idiosyncratic risk.
Zahid et al.,	2021	The degree of mediation of innovation of the CSR-CFP relationship is significantly lower than that of other academically suggested variables:
Bastic, Mulej, and Zore	2020	Tested a conceptual model based on various dimensions of CSR to confirm the mediating role of innovation in improving the CSR impact on financial performance.
Alzadjali	2020	Concentrated on measuring five major dimensions of CSR (employee, customer, environment, suppliers, and community-related CSR) to demonstrate that CSR is an important driver of firm performance, primarily by improving organizational innovation.

¹ It refers to the transformation of industry through the intelligent networking of processes and machines.

Bahta and Yun	2020	Highlighted the partial mediating role of innovation in the CSP-CFP relationship, implying that firms must innovate to maintain or enhance their competitiveness while meeting their many CSR obligations to diverse stakeholders.
Cegarra-Navarro et al.	2016	Noted that, while companies in developed countries use innovation outcomes to support both social and economic achievements, they only effectively leverage economic accomplishments to achieve higher financial performance.
Conesa, Acosta	2017	Supported a partial mediation impact of innovation on the CSR-CFP link, as the effect of CSR on firm performance decreases when the innovation variable is included in the model.
Anser et al.,	2017	built a theoretical model to test both the direct and indirect effects of social innovation on financial performance in the context of the industrial sector. The findings revealed the existence of a significant direct link between CSR, innovation, and firm performance, but no moderating influence.
Villegas, Garcia and Florenso	2018	Tested the moderator effect of innovation on the CSP-CFP relationship using the OSLO Manual's ² dimensions (Manual, 2005) to measure innovation in the context of Spanish companies and found no significant influence.
Blanco et al.,	2013	Addressed a sample of companies in the controversial sector and deployed the partial least square method to empirically test both the mediator and moderator effect of innovation on the CSP-CFP relationship. Their results show that innovation can positively mediate the relationship between CSP and financial market-based performance
Bocquet et al.,	2017	Investigated the impact of innovation on the CSP-CFP relationship based on the nature of CSR and concluded that innovation has an impact on the relationship but only when firms engage in assertive strategic CSR behavior. Firms adopting responsive CSR behaviors, on the other hand, face counterproductive and negative consequences.

Source: own development

CSR-based competitiveness and firm value

Considering CSR as a strategic approach to long-term and societal benefit and sustainability, some scholars suggest that societal demands will enable the best market opportunities for companies to differentiate themselves and acquire a competitive advantage ([Porter & Kramer, 2011](#)); ([Marin et al., 2017](#)). Thus, many firms have implemented CSR believing it to be a strategic roadmap for increasing and maintaining brand reputation, successfully overcoming competitive pressures, efficiently and effectively lowering operating costs while maximizing profit. The long-term view that underpins CSR orientation enables companies to build and discover new methods to produce, distribute, and sell goods and services.

² The Oslo Manual is the leading international source of guidelines for measuring innovation.

Nowadays, innovation is regarded as a critical factor in determining a company's ability to maintain a competitive advantage while remaining financially productive (Anser et al., 2018); (Alamgir and Nasir Uddin (2017)). According to (Hlioui and Yousfi (2020)), firms should invest in both innovative and social issues to gain legitimacy and respond to various stakeholders. Thus, they acquire a competitive advantage and create value. (Hadj et al., 2020) investigated the conditions' effects of responsible innovation's mediating role in the CSP-CFP link through enhanced competitive advantage and demonstrated that the degree of mediation of responsible innovation varies depending on firm size and activity sector, as well as the choice between a proactive or reactive CSR strategy³. Furthermore, (Li, Liao, & Albitar, 2020) investigated the mediating effect of corporate environmental responsibility on firm value, considering the added value of sustainable development, and observed that corporate innovation promotes firm value more for the firms with CSR than the firms without. Based on the findings of (Mathieu, 2006), the authors emphasized that including CSR criteria as a value-creating factor requires a shift in organizational mindset, as CSR involves significant changes in a firm's management (Bastič et al., 2020).

The innovation basis model approach

Because innovation can occur in any field of business activity, it has a wide range of applications. The Oslo Manual's approach to classifying innovation is perhaps the most widely used (Manual, 2005). It addresses four types of innovation: process, product, marketing, and organizational, each of which is distinguished by different socially responsible aspects (Guerrero-Villegas, Sierra-García, & Palacios-Florencio, 2018). A second fundamental classification of innovation is based on the degree of novelty involved. This classification is divided into three categories: new to the company, incremental and radical innovation (Tidd & Bessant, 2020). From the standpoint of social responsibility, radical innovation appears to offer the most advantages, as its effects radiate across the organization and its environment.

Some of the articles reviewed identified a new generation of innovation models known as OI “the open innovation model”, which refers to “the use of purposeful knowledge inflows and outflows to accelerate internal innovation while also expanding markets for external use of innovation” (Niedergassel & Leker, 2009). This model addressed issues associated with the new competitive landscape, which put immediate weight on businesses to develop and seek innovative sources of advantage. Enhancing the organization's inventiveness and generating widespread, relevant, and long-term social impact (Laurssen & Salter, 2006) ; (Roszkowska-Menkes, 2018); (El Amri et al., 2022). The strategic approach to CSR, on the other hand, develops an open corporate culture and an atmosphere suitable for the creation of OI initiatives through its emphasis on stakeholder involvement (Roszkowska-Menkes, 2018).

Discussion

1. Taking a Step Back: Current limitations and broader implications.

Theoretical limitations in literature and future implications

Nevertheless, the amount of research on the studied relationship is insufficient (N= 20) and the existing research fails to deliver clear-cut conclusions. Those findings seem to call for a complimentary to advance the research line.

In this regard, the recent spread of COVID-19 and the resulting economic shrinkage, as well as the dramatic and dynamic environmental and social changes may compel both businesses and scholars to reconsider the role of innovation in overcoming current corporate issues and uncertainties, potentially leading to a spike in future scientific publications on the subject. Moreover, in the event of a crisis in which the company is forced to urgently turn to innovative solutions to overcome current difficulties, it would be scientifically worthwhile to challenge this question.

³ For (Porter & Kramer, 2011), Reactive CSR entails companies acting as good citizens and actively mitigating the harmful impacts of their value chain on society.

The research question in the set of articles studied rarely considered the sensitivity of the CSP-CFP link to the sample's sector of activity as CSR contributions may differ from one to another ([Bouslah, Kryzanowski, & M'zali, 2013](#)). Future research should concentrate on sectorial samples for a better understanding of the relationship. The same conclusion applies to the sample's country of origin. We have recently seen a slight uptick in research interest in developing countries where CSR and innovation are proving to be valuable assets for development and alignment with best practices ([Al-Shuaibi \(2016\)](#); [Alzadjali \(2020\)](#)). These factors, along with others, can be viewed as conditional effects of CSR on financial performance through innovation, and they can be quite useful in fully understanding "how" and "when" innovation can shape the CSP-CFP relationship.

CSR has clearly evolved from a compliance concern to a strategic one. Thus, we believe that CSP-CFP research should be reoriented away from a narrow view of the CSP-CFP relationship and toward a more integrated picture of CSP in strategic management. Given the variety of existing theoretical and practical definitions and methods, measuring CSR has always been a challenge for academics. A crucial component of CSP is the so-called Triple Bottom Line (TBL) approach, which refers to the incorporation of economic, social, and environmental results in company performance assessment and reporting ([Elkington & Rowlands, 1999](#)). However, measuring only the effect of CSP on CFP provides, almost by definition, a skewed picture. As researchers, we believe we must raise our awareness of the costs and benefits associated with corporate social activities. Cost-Benefit Analysis (CBA) can be a comprehensive and efficient tool for evaluating the impact of CSR projects. Aside from that, another necessary step toward gaining a strategic perspective on the CSP-CFP relationship is to shift away from a simple financial view toward a more holistic knowledge of business performance. Non-financial goals and indicators such as product quality, product development, market share, and marketing effectiveness and efficiency, are emphasized in the larger concepts of operational effectiveness and operational performance.

In terms of innovation, some authors concentrated on a specific topic, such as social or open innovations. Such an approach limits the scope of the investigation but allows for more specific results. Furthermore, there appears to be a lack of agreement on the types of innovation. e.g., [Al-Shuaibi \(2016\)](#) operationalized innovation as the intensity of a firm's investments in R&D, while ([Alzadjali, 2020](#)) distinguished 2 types of innovation – product and process. Such disagreement is a significant issue in the research on innovation [Szutowski and Bednarska \(2014\)](#). This condition hampers the comparison of any subsequent studies.

Overall, these findings point to a new and intriguing direction for future research, as they support the idea that the company's ability to innovate may aid in balancing economic profit and the competing demands of stakeholder groups. This is a significant finding, given prior research on the impact of CSR on financial performance showed innovation as a substantial affecting variable. We highly encourage future studies to take a step back and work toward re-orienting CSP-CFP-oriented innovation research considering the limitations mentioned above. Future research may contribute to the investigation of other issues raised during this review process, most notably in developing a better understanding of how and when innovation may drive an impact of CSR on financial performance. Another area for future studies is the need to question current understandings of this relationship in times of crisis. The economic downturn emphasizes the importance of investigating the relationship in all sectors to boost the future economy.

Implications for practice

Concerning the role of innovation in the CSR-CFP relationship, much has been written and emphasized. However, the role of the actors involved in such contexts, such as government agencies, research institutions, and professional organizations, appears to be under-researched. In terms of policy, there is insufficient evidence on how the government may promote and support appropriate innovation. On the practical side, this review has validated the CSR-oriented innovation as a financially feasible tool leading to the goal of increased economic and financial value for the companies, which is a more

difficult objective to achieve in the context of SMEs, companies from developing countries, or during a time of crisis marked by a scarcity of resources.

5. Conclusion

The evidence from the systematic review suggests that innovation may play a role in shaping CSR-focused financial performance. This field of study has grown rapidly over the last decade, attracting a flood of interest from a variety of disciplines in the recent five years. Academics' awe-inspiring interest is mirrored in their desire to find answers to the disparate findings of studies that have investigated the CSP-CFP link, as well as the practical and academic need to identify the factors influencing the relationship to validate the triple result approach.

The article's main contribution is to identify the key intellectual territory associated with the emerging field of research in CSP-CFP relationship-oriented innovation. By doing so, we may foster the formation of a more cohesive body of knowledge. As companies, especially in times of crisis, increasingly seek innovative ways to meet the ever-changing needs of stakeholders while remaining financially efficient.

Our review, however, reveals a scarcity of empirical studies on the support of innovation in the balancing of social, economic, and environmental goals with financial performance. Most studies stress the significance of a company's ability to innovate as a prerequisite for implementing a strategic CSR approach to achieve higher financial performance. However, we may not be able to aim for result generation unless studies become more frequent and investigate different contexts of companies, sectors, and countries. Furthermore, while the condition effect of innovation's mediating or moderating role in this research field may aid in understanding how and when innovation can play a role, it is still understudied.

Limitations and study forward

The primary limitation of this study is the narrow number of studies resulting from the research protocol and its focus on English results only. During our investigation, we discovered a plethora of articles written in Spanish and Chinese, for example. To supplement the work, it would be interesting to consider articles written in languages other than English.

Acknowledgment

The authors extend their sincere gratitude to Professor Hatim FAROUKI for working with them to proofread their article.

The authors did not receive any other non-financial or financial support from any organization or institution and do not have any conflicts of interest.

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