


Chapter 6


Transformative Governance: How CSR Practices Drive Innovation and Resilience in SMEs

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ABSTRACT

In a world marked by systemic crises and rapid change, small and medium-sized enterprises (SMEs) are expected to act not only as economic players but also as forces for social and environmental change. This chapter examines how integrating Corporate Social Responsibility (CSR) into SME governance becomes a driver of innovation and resilience. CSR is framed as a core strategy for decision-making, stakeholder engagement, and adaptability. Drawing on five international case studies, from Spain, Italy, the United States, and Sweden, it provides evidence that CSR-led governance creates competitive advantages. Through examples like pandemic response, stakeholder-focused design, and sustainable innovation, the chapter outlines how SMEs can help shape, not just respond to, their environments. It offers comparative insights and practical recommendations to promote a shift from compliance to conviction, and from risk mitigation to regenerative value creation.

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1. INTRODUCTION

The twenty-first century has witnessed the intensification of systemic crises that have exposed the vulnerabilities of traditional business models. The convergence of climate change, economic volatility, global health emergencies such as COVID-19, and rising social inequality has placed unprecedented pressure on enterprises of all sizes to rethink their governance practices and societal roles (Pilotti, 2023). In this volatile landscape, small and medium-sized enterprises (SMEs), which represent over 90% of businesses worldwide and generate more than 50% of employment globally, emerge not only as economic pillars but also as agents of societal transformation (Awad & Martín-Rojas, 2024).

Historically, Corporate Social Responsibility (CSR) in SMEs was treated as an optional or philanthropic gesture, often decoupled from core business strategy. However, growing academic and managerial discourse now recognizes CSR as a strategic governance function, integral to decision-making, innovation, and resilience.

In particular, the incorporation of CSR into the governance structures of SMEs is increasingly viewed as a mechanism to foster stakeholder legitimacy and responsible innovation (Gonzales-Gemio et al., 2020). Additionally, CSR has been linked to enhanced resource efficiency and adaptive capacity under green transition frameworks (Wu & Tham, 2023).

Empirical studies demonstrate that CSR-oriented governance enables SMEs to build stronger stakeholder relationships, enhance reputational capital, and develop adaptive strategies that are both innovative and sustainable (Bansal et al., 2023; Zhao, 2021). During the COVID-19 pandemic, SMEs that had strategically embedded CSR into their governance and decision-making structures demonstrated superior agility in responding to crisis scenarios, directly contributing to enhanced resilience and stakeholder trust (Le & Behl, 2022). This alignment of ethical orientation and operational flexibility allowed firms to navigate uncertainty with greater coherence and legitimacy. Complementing this, García-Santiago (2022) shows that Spanish SMEs actively communicating CSR initiatives during the pandemic reinforced public trust and reputational resilience, illustrating CSR's communicative and symbolic power in times of disruption (García-Santiago, 2022).

Beyond reactive crisis management, structural features such as decentralized decision-making and participatory governance have long been identified as drivers of organizational resilience. Bhamra et al. (2011) emphasize that resilience is deeply embedded in governance systems capable of empowering teams, distributing authority, and fostering internal adaptability, qualities often intrinsic to SMEs and amplified when guided by CSR principles (Bhamra et al., 2011). Collectively, these insights reinforce the argument that CSR, when embedded in the governance DNA of SMEs, operates as a core enabler of resilience and long-term strategic renewal.

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