THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

CSR Initiatives in SME and Its Impact on Attaining Competitive Advantages

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Abstract:
This paper provides a systematic assessment of how small and medium enterprises entail competitiveness through CSR initiatives. SMEs entails number of competitive advantages using CSR practices but understanding and attainment of these competitive are not clear. This study revisits the successful entrepreneurship voyage by introducing a touch of CSR initiatives. Drawing on literature survey we suggest that small and medium enterprises indulge in CSR initiatives attain more competitiveness. A systematic literature review has been conducted for supporting our conclusions. We conclude with avenues for future sustainable entrepreneurship research. Results revealed that resource based view, stakeholder approach, socially responsible presentation and philanthropic activities are key components fueling CSR initiatives in small and medium enterprises and leads toward competitiveness. However, in contrast to the prevailing view in the literature, we find no significant and unique CSR initiatives recommended internationally.

Keywords: *SMEs, CSR initiatives, Competitive Advantage*

1. Introduction

Understanding CSR initiatives for attaining competitive advantages is very difficult in context of Pakistan. Higher productivity than rivalry firms create competitiveness (Baron, 2001). Production factors, demand criteria, strategy and rivalry context and finally relating and supporting industries when combined effectively boost up competitive advantages, furthermore CSR are so split and away from firms that it became difficult to understand various attractive opportunities for businesses which lead to lose competitive edge (Porter & Kramer, 2002; 2006). The genesis of CSR has been highlighted then evolutionary concepts of CSR and SMEs has been identified chronologically. How different countries set criteria for SMEs structure is shown in sight of researchers. The relationship between CSR and SMEs has been discussed in detail. The competitive advantage entails by SMEs through CSR practices have elaborated in light of different scholars.

Small and medium enterprise in the context of Pakistan are contributing up to 40% to GDP (Economic Survey of Pakistan 2010-11) and approximately up to 70.49% of non agriculture labor force has been employed by manufacturing sectors (Labor Force Survey 2009-10). There is steadily and considerable enlargement in economy at both micro and macro level which shows the way SMEs development.

2. Small and Medium Enterprises (SMEs)

Turyakira, Venter and Smith (2014) acknowledged that SMEs are those businesses where number of persons should be more than 5 but less than 100. On the basis of literature on CSR they set CSR factors as workforce, society, market and environmentally oriented and reported that these CSR factors can independently or cooperatively lead to the increased competitiveness of SMEs in the long range in terms of increased sales volume, growth rate, market share and profitability. They have conducted research on SMEs in Uganda using self administered questionnaires from 383 SMEs respondents. They used factors analysis, cronbach's alpha for checking validation an reliability test and correlation with help of structured equation modeling. According to different nations the criteria for developing structure of SME differs. The following table gives details regarding SMEs as provided by the EU (European Union).

Enterprise Category	No of Persons	Annual Turnover (€)	Annual Assets (€)
Medium-Size Enterprise	Equal or less than 250	Equal or less than € 50 million	Equal or less than € 43 million
Small Enterprise	Equal or less than 50	Equal or less than € 10 million	Equal or less than € 10 million
Micro Enterprise	Equal or less than 10	Equal or less than € 2 million	Equal or less than € 2 million

Table 1
Source: The New Thresholds European Commission 2003

There are no hard and fast rules for developing formations standards of SMSs as every country has its own unique view and criterion.

3. SMEs in Pakistan

Since the date of independence, Pakistan had a thin industrial and business structure. There is gradual and substantial growth in economy, at micro and macro level which leads SMEs development. Pakistan is developing country and its every organization is facing a lot of hurdles and constraints while operating their activities. Specifically SMEs are playing an imperative role in its economy and still functioning under frustrated infrastructure as the economy of Pakistan is the mixture of both rural and urban. SMEs in Pakistan are contributing 40% to gross domestic product (Economic Survey of Pakistan 2010-11) while 70.49% of non-agriculture labor force has been employed by manufacturing sectors (Labor Force Survey 2009-10). The rural economy could be further classified into landowners and worker like formers constituting medium to small enterprises. While urban area businesses include industries very small or small to medium. Small and medium enterprises development authority (SMEDA) under the management of Government of Republic of Pakistan, Industry and Production ministry asserted that the organization would be considered as SME in Pakistan if it is constituted with 250 or less employees, paid up capital of Pak Rs. 25 million and financial transaction should not increased then Pak Rs. 250 million or it would be the annual turnover amount. SMEDA has been created in 1998 for sustaining economic growth and development via strengthening numerous economic establishments which are possible through SMEs. Further, 90% or more than it country's employments are fulfilled by SMEs, similarly the SMEs contributions in gross domestic product is almost 30% approximately. (SME Development Report 2010-11)

Zafar and Farooq (2014) reported that 500 or less persons in an organization are to be considered as SME in United States. Keeping in view the above guidelines it could be argued that structure of SMEs vary from country to country. They found that with the help of CSRs practices the financial achievements could be enhanced in SMEs. Furthermore CSR plays dominant role in acquiring competitive edges like business reputation, motivation, trust, providing better employment, cost cuts and higher revenues. They analyzed CEOs and other executive level personals of SMEs in Pakistan don't have awareness about CSR although they are indulged in CSR practices.

4. Corporate Social Responsibility (CSR)

The current debate on CSR has emerged through deferent stages, one can't suggest the accurate information about its origin, but the researchers have admitted that the modern concept of CSR traced back since the birth of businesses. Adam Smith (1776) was the first one who has initiated the dominant ideology of ethics in business and show labors as nation's wealth. Furthermore, he introduced the concept that free market economy is self-governing by means of the ''invisible hand'', whereby an individual's self-interested goals will certainly result in a democratic capitalist system. There was sign of CSR's genesis as the motive was to focus on democracy rather than individuality. Long before the concept of CSR there was the concept of Social Responsibility (SR) and this concept was constituted since the birth of businesses itself i.e. how and in which angles businesses are responsible to society. It broadens the area of responsibility of and moved think ton of enterprise owner from individuality toward society. Although the nature of any business enterprise was to earn profit and it is and remained in past the basic responsibility of an enterprise. The development of CSR is traced back from since 1930s to 1940 when Chester Burnard (1938) published work on "The Functions of the Executive, J. M. Clark's Social Control of Business". When Bowen (1953) provided the first definition "Obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society", the genesis of CSR has evolved drastically, through concepts, like firm citizenship, corporate philanthropy and stakeholder theory. The largest part of community is influenced directly or indirectly by decisions taken by businesses and these powerful affect civilians' life at so many points. Bowen's primary objective was to find out solutions for those responsibilities that businessman must assume to society and his thought is still alive today that is why some authors consider him as 'Father of CSR'. Friedman (1970) argued that the concept of social responsibility could not aligned with businesses as business is just an artificial so, there responsibility would be considered as artificial and businesses are being operated by businessman in and in corporations business managers work for owners. The major responsibility of these responsible persons like owners and managers is to conduct business activities profitably and the social responsibility is on businessman not on businesses itself. If business is not functioning properly and social responsibilities are preceded than profit objectives the business very soon will be demolished. E.g. a businessman prefers society in a way to hire hardcore, unskilled employees to secure their future instead of highly educated and trained employees how could business grow. He added that if social responsibility of business is to serve society then the businessman must establish eleemosynary institution like hospitals or schools where the major motive is not profit. Further, all the stakeholder could be beneficiary if business is earning healthy profit and it is obligatory for business comply with all ethical and legal requirements.

Carroll's (1979) contribution extended the concept of CSR beyond profitability and law obedience. He proposed CSR as the economic, legal, ethical and discretionary or philanthropy prospects which humanity expecting from the businesses. His definition was based on four major parts which need further elaboration. First, he considered that every business must be economical and it is primary responsibility to profit not only beneficial for business itself but society too, gets benefits from flourished and sound business. Second, legal responsibilities provide an umbrella of infrastructure and principles under which business activities could be operational. Society is ever expecting from business that it must be legal and fulfill desired economic achievements within the territory of social law imposed by society. Third, major responsibility is an ethical prospect of business which represents business attitude and behaviors expected by the society from business. This is ahead of law or economic considerations and includes all those activities and decisions which could be helpful to the society. These are the highly appreciated business actions by society. Fourth and final major responsibility is discretionary or philanthropic one that businesses don't do it for economic reason not required by law and doesn't expect from business that's why it is called as discretionary i.e. it is at the discretion of business itself to announce for the society. It includes charitable donations, providing in-home projects to drug addicted, trainings to society, other desired activities like disaster management or first aid to patients and day care centers for working mothers etc.

Wood and Jones (1995) emphasized on stakeholders as they are effected by company's actions or the operations of companies are being effected by them. These are the groups to whom companies are responsible. They reported that company social performances are based on both social and financial performances. The stakeholders have preplanned expectations from business, afterwards observe company's behavior i.e. they experience the behavior of company and at last evaluate the companies performances according to their set expectations. Stakeholder get familiarity about the business's conduct then evaluate the business's social performance by judging against their experiences with their prior expectations.CSR could be, the giving back to the community, treating employees fairly and presenting good quality of products and services.

Snider, Hill and Martin (2003) examined the CSR in 21st century from the globally thriving firms and acknowledged that using spectacles of stakeholder concept CSR could be evaluated using different sources of communications i.e. CSP (Corporate Social Reporting). The major stakeholders for the success of any business according to their categorizations are customers, employees and owners. CSP is pattern by which companies represent their-self as more responsible and active for the societal works. It is a communication process launched by the companies to guide the public and specifically interested groups from the society about the company's participation and its economic achievements for them. These communications may be any media like print media; electronic media etc. role of the internet is marvelous and eminent in this regard. They viewed that although the firms are socially responsible and fit within the framework of stakeholder approach must emphasize on proper and timely conversations with society using the norms of corporate social reporting system. They believed that the public confidence upon businesses is trembling now due to business scandals around the globe like 9/11 have downturn the economy and war with Iraq reduced the investors from stock markets. Keeping in view these egregious activities the business must review their responsibility and acts which influences the stakeholder at large.

Matten and Moon (2004) emphasized on CSR education in context of Europe as there is ambiguity in understanding the real meanings of CSR and an intellectual biasness has been observed regarding CSR. They analyzed that there must be proper education and training to business students about CSR as today's student will be businessman tomorrow.

Frederick (2006) contribution regarding CSR is remarkable as he asserted that the CSR is evaluated since 1950 and got proper track in 1985. CSR concepts begins when people thought that business have responsibilities other than profit earning. All the business activities are auditable by the society this era of CSR growth is called as "Emergence and Struggle" by him. He suggested that managers must have awareness in depth about the societal issues and these issues could be resolved thorough implementation of CSR practices which includes ethical codes developed by businesses, different society training programs and business education etc.

Vaaland, Heide and Gronhaug (2008) reported CSR is based on four major considerations, the first is organizations' benefits that if corporations itself are not able to get benefits then how they could support society. Secondly, stakeholders must be treated according to their expectations as every stakeholder like employees, suppliers, customers, rival businesses, agents, public, community, competitors and shareholder should be provided promising rewards and values as they perceived. Third major emphasize was actions i.e. is whether the acts of businesses show responsibility or they are behaving irresponsibly to the society. And the last and fourth accentuate of CSR was environmental and social phenomena, the business attitudes toward environments which include micro or macro both as well. Business could never operate-able in vacuums nor be an open system. Each business has its specific environments where it has influences its activities could benefit or harm society. The societal phenomenon has been created by the environment and responsible attitude by businesses crop up marvelous CSR image. They viewed CSR through stakeholder' approach asserted that CSR could be applied to businesses via stakeholder theory as stakeholder consists of all those persons who are related to business and being affected from businessmen's decisions. It is obviously the eminent responsibility of business to work for all stakeholders and feel the gapes where its activities are against the CSR norms. As discussed earlier number of researchers has linked CSR through different theories and stages thus, Vaaland *et al* contribution is also considerable. They analyzed literature on CSR from 1995-2005 and tried to link CSR and marketing as nature of every business is to earn profit and it could be possible through customers. The larger group of customers will lead to higher profitability and marketing is the key to guide about customers' attraction.

Maimunah (2009) added that CSR includes working in partnership with local communities, making socially sensitive investments, developing relationships with employees, customers and their families, and involvement in activities that promote environmental conservation and sustainability.

Suprawan, De Bussy and Dickinson (2009) asserted that general CSR actions include sponsorship programmes, the stipulation of career improvement and development, employees 'training, waste recycling, and participation in community's welfare activities.

Zahid Yousaf and Yasir (2014) clarified that CSR existed in organization in one or another way as discussion regarding the impact business organization has on community, society and the environment were initiated. The organization embarking about CSR sometimes may not performing duties as desired by community. They added that tax evasion and tax avoidances practices are founded by major organizations ignoring CSR norms. It is obligatory for business to operate fairly and should be transparent in all financial matters.

It's another brain storming debate that CSR in developing countries or developed countries the concept vary up till some extent.

5. The Relationship between CSR and SMEs

Perrini (2006) claimed that unlike larger companies the relationship between CSR and SMEs is based on social capital. As capital means all assets the business owed and human capital means their skilled and experienced employees while, social capital means collective well being, civic participation, unions for community development, co-ordinated actions for efficient society, social networks for trustworthiness and reciprocity. All these course of actions constitutes the SMEs legitimacy to create reputation and trust among society where it have to operate. It has been observed by many practitioners the SMEs have been influence largely by it surrounding communities thus, social capital is essential. As per United Nations Industrial Development Organization report, CSR distinguish SMEs ''CSR represents not just a change to the commercial environment in which individual SMEs operate, but also needs to be considered in terms of its net effect on society. If CSR, as critics believe, introduces social and environmental clauses resulting in protectionism by the back door, it imposes inappropriate cultural standards or unreasonably bureaucratic monitoring demands on small businesses, and then the net effect on the communities will be a reduction in welfare. On the other hand, CSR offers opportunities for greater market access, cost savings, productivity and innovation to SMEs, as well as broader social benefits such as education and community development''.

Jamali, Zanhour and Keshishian (2009) claimed that aftermath of CSR is linked to multinational and larger counterparts only while special attentions are required by SMEs. They conducted qualitative research and compared the differences of CSR orientations for multinational corporations and SMEs. They have proved that CSR practices must be top priorities and should be aligned with business transactions for SMEs. Likewise big corporations SMEs too are unable to operate business activities without positive response of community, employees and customers. The associations of SMEs with its stakeholders are closer than multinational corporations. During interviews with SMEs managers it has been observed that social involvements boosted their satisfactions level and comfort therefore, pure philanthropic CSR practices are highly appreciated in SMEs then larger companies.

Fassin, Rossem and Buelens (2011) asserted that SMEs has recognized the values of CSR practices while created difference between business ethics and CSR. They reported that SMEs' leaders give proper attention to corporate governance both in society and business. Further, it is concluded SMEs owners and mangers believe and incorporate corporate responsibility and ethical issues while making decision.

6. CSR and Competitive Advantage in SMEs

Husted and Allen (2001) argued that properly implemented CSR practices can build competitive advantages and both have positive associations.

Baron (2001) revealed that businesses focusing on enhancing profitability is strategic CSR and those firms having strong rivalry would face lower productivity which create competitive edge. During competition the non-market strategy could be useful and shields the business from negative impacts of the competitive advantages of rival firms. Further, any action of firm initiated for society has more motivation than that action which is useful for individual as provision of a day care centre to workers decreases the rate of juvenile/youth crimes in society but businesses offer for such facility for diminishing staff absenteeism.

Porter and Kramer (2002) suggested that companies' entails competitive advantages from four major interconnected elements of company's environment, i.e. tentative inputs or production factors, demand criteria, strategy and rivalry context and finally relating and supporting industries. They challenged that discretionary practices like corporate philanthropy manipulate the firm's competitive milieu and leads an organization to enhance its competitiveness as well as fulfill the stakeholders' needs. Porter and Kramer (2006) contended that the correct one CSR strategy always chases issues which express a convergence between social and economic goals. They added that existing approaches to CSR are so split and away from firms that it became difficult to understand various attractive opportunities for businesses which lead to lose competitive edge.

Bagnoli and Watts (2003) reported that when firms represent the public good for selling out their private product it constitutes strategic CSR and this firm's behavior is based on two major elements i.e. competition intensity in market and consumer's willingness to pay premiums for social responsibility. They proved an inverse relation between intensity of competition and CSR provision i.e. higher competitive markets, a smaller amount of the public good will be offered via strategic CSR.

Jones and Tilley (2003) explicated that the agenda of CSR for SMEs could create competitive advantage instead of considering it as threat of cost burdens on SMEs. With the implementations of CSR norms in SMEs could entails opportunities and broaden its efficiency.

Smith (2003) contends that business adopting CSR practices attract customers, employees and investors which strengthen its competitive advantage. While firms keeping them away from CSR initiatives suffer from competitive disadvantage in way to lose the widest talent and employees recruitment. He added that consumer's buying decisions are highly influenced by business reputation in CSR involvement further, employees have showed their interest to work for those businesses which more socially responsible. 'Competitive advantages' was quoted as one of the top two justifications for CSR in a survey of business executives as reported in Fortune (2003).

Bhattacharya and Sen (2004) scrutinize that a creating a positive link of CSR to consumer patronage is encouraging businesses to dedicate the higher amount of energies and resources to CSR practices.

Waldman, Siegel and Javidan (2004) claimed that the propensity of businesses to indulge in CSR practices majorly depend on the CEO's leadership style which leads them to avail competitive advantages. They added that individual feature of a CEO i.e. intellectual stimulation and firms' involvement in CSR has positive associations. Further, the major CSR strategic indicators like reputation and differentiation strategies are approachable.

Massey (2004) conducted research on SMEs in New Zealand and enlighten that quality, benchmarking and gaining competitiveness are best practices for businesses. One of the major competitive advantages of SMEs is its flexible management structure instead of formal one usually observed in larger counterparts. It is suggested for all businesses to view critically six major elements which are: Planning and leadership; focus on customer; information and benchmarking; practices of employee; focus on quality and suppliers; and technology and innovation for required outcomes.

Pearce and Doh (2005) identified that CSR streamline the business actions in terms of employee loyalty and motivation as well higher returns and reputation which ultimately leads competitive advantages.

Zadek (2005) presented three companies' generations according to their responsible competitiveness i.e. First, short-term, cost benefit, reputation and pain alleviation strategy. Second, launch of strategic planning for business and risk management policies. Third, and last generation companies integrate the concept of CSR into their strategy.

Bruch and Walter (2005) claimed that businesses obtain competitiveness via market and competences orientations with philanthropic activities. Under market orientation companies get competitive advantages like selling capabilities, improved marketing, customer relationships, dealings with governmental and local authorities etc by designing philanthropy align with external market demands and fulfill stakeholders' expectations. Whereas, competence orientation, companies can fit their philanthropic activities according to their capabilities and core competencies. In this way businesses crop up their charitable works and develop uniqueness in creating value which also avoids them from distractions.

Marcus and Anderson (2006) offered a novel Resource Based View framework to influence the competencies in CSR as competent firms get advantages in supply chain management which make them leader in rival industries. Anyhow, under the umbrella of environment management that may be 'success key' for social competence businesses' competitiveness is not influenced by a general dynamic capability. Hart (1995) added that RBV approach of all those businesses conducting social responsibility efforts may entail certain strength which might be their competitive advantages. With the appropriate use of being social good the business construct a capability and resource leading it to sustain competitiveness.

Jenkins (2006) asserted that implementation of CSR practices in SMEs are beneficial and these benefits may be measurable or may be intangible like goodwill, trust, prominent business profile, quick indulging in niche market, increased business share in market, reductions in cost, motivations for employees etc these could be competitive advantages. She added that SMEs their self are at dominant position as to gain competitive advantage because SMEs can quickly adopts tentative changes due to flexibility and are innovative in nature. Further, SMEs manager could be champion due to their closer attachment and rapid communicate because of small hierarchical structures. CSR lens provides SMEs an appropriate access to entail pertinent experiences and expertness to operate in environment. Her findings proved that SMEs enjoying CSR practices are well educated about competitive advantages which flourish the SMEs.

McWilliams, Siegel and Wright (2006) pinpointed various perceptions of CSR developing a framework for strategic CSR's implementation. McWilliams *et al.* (2002) under the consideration of resource-based view of the firm's perspective argued that the business can get competitive advantage as well when CSR policies are combined supported through political strategies.

Husted and Salazar (2006) acknowledged that businesses and society both would be fit with use of strategic CSR, further they argued that in the context of cost/benefit analysis firms are indulged in CSR activities under three circumstances i.e. [f]irst, Altruism when firms really desire to be social responsible without considering its pros and cons at bottom line, [s]econdly, Coerced egoism is constituted when firms are compelled to behave in socially responsible manner due to any factor. [T]hirdly, Strategic CSR occurs when there are clear benefits for firms by engaging in CSR practices and this strategic use of CSR leads firms towards competitive advantages. They employ standard microeconomic scrutiny to conclude the optimal social outputs that results under each of these cases and their conclusion that would make Adam Smith smile.

Kurucz, Colbert and Wheeler (2008) asserted that firms collect competitive advantage when indulged in those CSR activities which are expected by stakeholders. It is obvious success of business over its competitors that stakeholder prefer it due to involvement in CSR initiatives. The demands or expectations by stakeholders in context of CSR must be considered as opportunities instead of threats and therefore build competitive advantage for firms. Business meets the demands of stakeholder with the best use of resources and entails competitive advantage. Authors concluded four major CSR elements; [F]irst cost and risk reduction, [S]econd, strengthening legitimacy and reputation; [T]hird, building competitive advantage; and [F]ourth, creating win–win situations through synergistic value creation.

Pivato, Misani, and Tencati (2008) declared that brand loyalty via customer relationship has been positively influenced by social performances. Once the business have created customer's trust it can enjoy competitive advantage and enhance firms' financial performances.

Carroll and Shabana (2010) highlighted that businesses engaged in CSR activities entails high in term of financial and economic rewards from the market. By implanting CSR initiates firms enjoy competitive advantage and generate win–win relations with stakeholders, cost and risk reduction benefits, legitimacy and merits of reputation.

Filho, Wanderley, Gomez and Frache (2010) concluded that competitive advantage which stems from social responsibility can be seen through the direct influence of its resources, building reputation and image, employees' retention and motivation, aggregate value, better economic performance provided by social responsibility aligned with corporate strategy, innovative and efficient projects, better performances for environment and society plus improving corporate governance. These essentials are although intangible business resources but are not-replaceable, rare, valuable and inimitable.

Turyakira *et al* (2014) added that competitiveness of SMEs meant betterment of business than competitors in long term performance and sustainability. It would be included in competitive advantage that higher profitability, maximized market share, larger sales volume and increasing growth rate.

7. Conclusion

On the basis of literature hence it is concluded that strategic CSR build a way to improve competitive advantages (Bagnoli et al., 2003; Husted et al., 2006; McWilliams et al., 2006; Porter et al., 2002, 2006; Waldman et al., 2004). CSR activities enhance opportunities instead of threats (Jones et al., 2003) and attract customers (Bhattacharya et al., 2004; Pivato et al., 2008; Smith, 2003). SMEs' structure flexibility is a dominant factor to create competitiveness (Massey, 2004) and businesses obtain competitiveness via market and competences orientations with philanthropic activities (Bruch et al., 2005). Marcus and Anderson (2006) offered a novel Resource Based View framework to influence the competencies in CSR and leads businesses to dig up competitive advantages (Filho et al., 2010). The competitive advantages could be measurable or intangible when CSR norms are implemented by SMEs (Jenkins, 2006). Firms gather competitive advantage when indulged in those CSR activities which are expected by stakeholders (Kurucz et al., 2008). CSR activities crop up financial and economic rewards from the market and become competitive advantage for SMEs (Carroll et al., 2010). It could be argued that SMEs involvement in CSR initiatives could entail competitive advantages due to various reasons;

- [F]irslty, stakeholder expectations and demands from business when fulfilled by business creates a great level of trust which leads business to build competitive advantage.
- [S]econd, resource based view of firm guide business to involve in CSR practices and utilize resources properly to enhance profitability and provide good to community. This approach make a way for business to entails competitive advantage.
- [T]hird, it is the general perception of employee to be part of those organizations which are more socially responsible. Thus, by involving in CSR initiatives businesses automatically generate a talent pool which boosts its competitiveness, as talented employees are becoming part of business and retain themselves.
- [F]ourth, likewise employees the customers also are highly motivated to create relations with those businesses which are more socially responsible. Therefore, it would crop up the business' competitive advantage to have larger number of customers.
- [F]ifth, philanthropic CSR activities attracts community at large through gaining sympathy from public the businesses flourish its operations and get competitive advantage.

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