Corporate Social Responsibility Innovation in SMEs: Institutional Pressures, Resource Constraints, Stakeholder Demands, and Contextualized Pathways

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Abstract

Corporate social responsibility (CSR) has moved from a discretionary activity of large corporations to a central requirement of sustainable development, yet the dominant literature remains affected by a persistent size bias and by the decontextualization of emerging-market firms. This integrative review examines CSR innovation in Chinese small and medium-sized enterprises (SMEs) through the combined lenses of institutional theory and stakeholder theory. Following the logical progression of macro-context, organizational practice, constraining mechanisms, theoretical integration, and innovation pathways, the review first traces the evolution of China's CSR environment from administratively assigned social obligations, through market transition and voluntary responsibility diffusion, to the contemporary institutionalization of carbon, sustainability, and environmental, social, and governance expectations. It then synthesizes research on institutional pressures, financing and resource constraints, stakeholder salience, managerial capabilities, and symbolic–substantive decoupling. The review argues that Chinese SME CSR is neither a reduced version of large-firm CSR nor a purely voluntary expression of owner-manager values. It is a contextually embedded response produced by the interaction of government-led institutional signals, relational and resource-dependent stakeholder structures, and severe organizational constraints. This interaction may generate an inverted responsibility pattern in which visible philanthropic or relational activities coexist with incomplete economic, legal, labor, or environmental foundations. Three overlapping barriers—capital scarcity, policy instability and implementation divergence, and managerial capability deficits—frequently shift firms from strategic innovation toward passive response, fragmented implementation, or symbolic compliance. To explain this heterogeneity, the article develops an integrated framework in which institutional pressures shape the field of legitimacy, stakeholders translate those pressures into proximate demands, and resource–capability filters determine whether SMEs adopt minimum-compliance, relational, symbolic-signalling, or strategic-innovation pathways. The review contributes a context-sensitive extension of institutional and stakeholder theories, identifies testable propositions and boundary conditions, and proposes a differentiated policy and managerial agenda for advancing substantive CSR innovation among SMEs in China and other developing economies.

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Keywords: *Chinese SMEs; corporate social responsibility; CSR innovation; institutional theory; stakeholder theory; resource constraints; symbolic compliance; emerging markets*

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Corporate Social Responsibility Innovation in SMEs: Institutional Pressures, Resource Constraints, Stakeholder Demands, and Contextualized Pathways

1. Introduction

Corporate social responsibility has progressively expanded from philanthropy and legal compliance to a broader architecture of sustainable value creation, stakeholder accountability, and organizational legitimacy (Carroll, 1991, 2021; Aguilera et al., 2007; Aguinis & Glavas, 2012). This shift is visible in the convergence of CSR, corporate sustainability, responsible business conduct, and environmental, social, and governance (ESG) agendas. The global sustainability transition has intensified expectations that firms should internalize environmental and social externalities, protect vulnerable stakeholders, and disclose material non-financial risks. In China, these expectations intersect with a distinctive policy environment shaped by the dual-carbon goals, high-quality development, common prosperity, green finance, and the gradual institutionalization of sustainability reporting. The Shanghai and Shenzhen stock exchanges issued sustainability reporting guidelines in 2024, and mandatory disclosure for designated listed companies is being phased in from the 2025 reporting year. Although most SMEs are not directly covered by these exchange rules, they are increasingly affected through supply-chain requirements, bank lending standards, platform governance, government procurement, and the expectations of large corporate customers.

The economic importance of SMEs makes their responsible conduct a systemic rather than marginal issue. Chinese policy documents commonly describe SMEs as contributing more than half of tax revenue, more than 60 percent of gross domestic product, more than 70 percent of technological innovation, more than 80 percent of urban employment, and more than 90 percent of the total number of enterprises (Ministry of Industry and Information Technology et al., 2020). These figures are often used to illustrate the sector’s centrality, but they also expose a fundamental sustainability paradox. The firms that collectively generate a substantial share of employment, production, and innovation usually have the least financial slack, the thinnest managerial structures, the weakest bargaining power, and the greatest vulnerability to regulatory and market shocks. Consequently, an expansion of CSR expectations that is designed around large listed firms may create disproportionate burdens for smaller enterprises.

Research has not fully resolved this paradox. Mainstream CSR theory was largely developed around large, visible, professionally managed corporations with formal governance systems, specialized departments, and the capacity to communicate responsibility through reports and ratings. SMEs differ in ownership concentration, informality, local embeddedness, managerial discretion, resource availability, and the proximity of stakeholder relationships. They often practice responsibility implicitly through employee care, community reciprocity, product quality, supplier relationships, and owner-manager values rather than through formal CSR programs (Jenkins, 2006; Spence, 2016). Treating them as “little big firms” therefore produces both analytical and policy errors (Jenkins, 2004; Morsing & Perrini, 2009; Baumann-Pauly et al., 2013; Vázquez-Carrasco & López-Pérez, 2013).

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This review addresses that problem by focusing on CSR innovation among Chinese SMEs. CSR innovation refers not simply to the amount of CSR expenditure, but to the development of new or reconfigured practices, routines, products, governance arrangements, and stakeholder relationships that improve the substantive environmental or social contribution of a firm while remaining organizationally feasible. The central question is how institutional pressures, resource constraints, and stakeholder demands jointly shape the direction, intensity, and substantive quality of such innovation. The review follows the logical structure of the reference dissertation: it begins with the institutional and historical context, moves to the major streams of prior research, identifies the principal barriers and behavioral patterns, integrates the theoretical perspectives, constructs a conceptual framework, and concludes with innovation pathways, research propositions, and policy implications.

1.1 Problem Statement: Size Bias and Contextual Disembedding

Two gaps organize the analysis. The first is size bias. Reviews of small-business social responsibility consistently show that theories developed for large corporations inadequately represent the informal, personalized, and resource-constrained character of SME responsibility (Perrini, 2006; Soundararajan et al., 2018; Spence, 2016). Large firms face high external visibility and high costs of substantive implementation, but they can often absorb the cost of formal communication. Small firms face lower public visibility, yet the relative cost of codifying, measuring, auditing, and reporting CSR may be much higher (Wickert et al., 2016). This asymmetry means that formal CSR disclosure can understate responsible practices in some SMEs while allowing symbolic claims to overstate actual performance in others.

The second gap is contextual disembedding. Much SME CSR research is grounded in Western settings where market institutions, civil society monitoring, and legal enforcement are assumed to operate with comparatively stable boundaries. Chinese SMEs operate in a more complex configuration. Government agencies can act simultaneously as regulators, resource allocators, purchasers, certifiers, and political stakeholders. Banks and state-influenced financial institutions determine access to scarce credit. Local governments translate national policies into implementation practices that may vary across regions and periods. Large platforms and lead firms exercise quasi-regulatory power through contracts, algorithms, standards, ratings, and access to markets. Relational distance, political connections, guanxi, and local social embeddedness affect whose claims receive managerial attention. These factors change both the sources of CSR pressure and the meaning of compliance.

The result is not a simple contrast between responsible and irresponsible firms. SMEs may be economically compliant but environmentally weak; generous to local communities but deficient in labor protection; highly responsive to a core buyer while inattentive to diffuse stakeholders; or active in visible donations while lacking formal risk-control systems. Such combinations motivate the concept of an inverted CSR pyramid: a context-sensitive pattern in which some ethical or philanthropic activities appear before, or coexist with weaknesses in, foundational economic, legal, labor, product, or environmental responsibilities. This review treats the inverted pyramid as a theoretical proposition emerging from fragmented evidence rather than as a universal

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empirical fact. Its value lies in directing attention to the sequencing and internal consistency of responsibility practices.

1.2 Review Objectives and Questions

The review pursues four objectives. First, it reconstructs the evolution of the Chinese CSR institutional environment and clarifies why a government-led logic remains central to SME responsibility. Second, it synthesizes the principal determinants of CSR innovation—especially institutional pressure, resource scarcity, stakeholder salience, and managerial capability. Third, it integrates institutional and stakeholder theories into a framework that explains variation between substantive innovation and symbolic or fragmented responses. Fourth, it derives a differentiated agenda for policy design, managerial practice, and future empirical research.

Four review questions follow. RQ1 asks how the institutional evolution of CSR in China has shaped the expectations imposed on SMEs. RQ2 asks how institutional pressures, resource constraints, and stakeholder demands interact to influence CSR innovation. RQ3 asks why similar pressures generate heterogeneous responses, ranging from minimum compliance to strategic innovation. RQ4 asks which policy and organizational mechanisms can move SMEs from passive, fragmented, or symbolic responsibility toward substantive and sustainable practices.

1.3 Review Scope and Analytical Approach

This article adopts an integrative, theory-building review rather than claiming an exhaustive systematic review of all publications. It synthesizes established CSR and SME scholarship, research on institutional and stakeholder mechanisms, empirical studies from China and other emerging economies, and relevant Chinese policy documents. Priority is given to peer-reviewed work that directly addresses SME responsibility, institutional embeddedness, stakeholder salience, resource and capability constraints, symbolic–substantive decoupling, and the Chinese business environment. The review also uses selected sustainability and digitalization studies where they clarify new responsibility practices or governance channels.

The analytical procedure is sequential. The first stage identifies the historical and institutional layers of Chinese CSR. The second stage classifies prior research into explanatory streams. The third compares these streams to identify recurring mechanisms, tensions, and boundary conditions. The fourth integrates the findings into a multi-level framework that connects macro institutions, stakeholder relationships, organizational filters, response pathways, and outcomes. This approach is appropriate because the literature is theoretically fragmented and uses diverse measures of CSR, ranging from disclosure and donations to environmental performance, employee practices, green innovation, and stakeholder perceptions. A theory-building synthesis can clarify the relationships among these measures without falsely treating them as equivalent.

2. Evolution of the CSR Institutional Environment and SMEs in China

The development of CSR in China is inseparable from the changing relationship between the state, enterprises, markets, and society. A purely Western narrative—from shareholder primacy to voluntary stakeholder management—does not adequately capture this trajectory. Chinese firms inherited administrative and social obligations from the

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planned economy, experienced responsibility externalization and market discipline during reform, and later encountered a renewed institutionalization of social and environmental expectations. For SMEs, each stage created a different combination of duties, incentives, and uncertainties.

2.1 Administrative Mobilization and "Enterprises Running Society"

Before market-oriented reform, state-owned work units and enterprises performed extensive welfare and social functions, including housing, medical care, education, pensions, and community administration. These obligations were not CSR in the contemporary voluntary or stakeholder-oriented sense; they were embedded in administrative allocation and the political organization of production. Private SMEs had a limited formal role, and the boundaries between enterprise responsibility and state welfare were blurred. The legacy of this period remains important because it established an expectation that enterprises can serve national and social objectives under administrative direction.

This historical layer contributes to a distinctive cognitive frame. Corporate responsibility may be understood not only as a voluntary ethical commitment or market strategy but also as participation in state-defined development missions. Such a frame can accelerate mobilization around poverty alleviation, rural revitalization, disaster relief, carbon reduction, or employment stabilization. At the same time, it can weaken the internalization of CSR as an autonomous organizational value. When responsibilities are interpreted as temporary political tasks, firms may prioritize visible compliance with campaigns rather than develop stable management systems.

2.2 Market Transition and the Externalization of Social Responsibilities

Reform and opening-up transformed the institutional basis of enterprise behavior, producing both new sustainability pressures and opportunities for SME experimentation (Yu & Bell, 2007). Market competition, private entrepreneurship, and hard budget constraints gradually separated business operations from many welfare functions. The expansion of township and village enterprises, private firms, export-oriented manufacturers, and service businesses generated employment and growth, but also exposed weaknesses in labor protection, product safety, pollution control, and contractual governance. SMEs often operated under conditions of capital scarcity, weak legal enforcement, intense price competition, and limited managerial professionalization.

During this stage, responsibility was frequently treated as an external cost or a legal minimum, even as longer-term sustainability capabilities gradually emerged in parts of the business sector (Bansal, 2005). The development of environmental, labor, consumer, and company law improved formal requirements, yet implementation varied considerably across localities. Firms learned to navigate a dual environment in which formal rules coexisted with negotiated enforcement and relational governance. This combination is central to later CSR behavior. Where rules were clear and consistently enforced, compliance could become a predictable cost and a foundation for capability building. Where enforcement was selective or campaign-based, firms had incentives to wait, negotiate, or invest in visible signals rather than in long-term systems.

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2.3 Voluntary CSR Diffusion and State-Guided Normalization

From the mid-2000s, CSR gained visibility through international supply chains, stock-exchange guidance, state-owned enterprise policies, industry standards, multinational buyer codes, philanthropy, and the spread of sustainability reporting, combining explicit imported forms with locally embedded responsibility practices (Matten & Moon, 2008). Chinese CSR scholarship increasingly emphasized the interaction of global norms and domestic institutions (Moon & Shen, 2010; Yin & Zhang, 2012). Large state-owned and listed firms became the most visible adopters because they faced political scrutiny, media attention, international stakeholders, and disclosure expectations.

For SMEs, diffusion occurred indirectly. Export manufacturers encountered labor, quality, and environmental audits from foreign buyers. Suppliers to large state-owned or listed firms were required to meet procurement and traceability standards. Local business associations, industrial parks, and certification bodies transmitted norms. At the same time, philanthropic donations and community activities remained more accessible than comprehensive environmental or labor-management systems. This helps explain why visible ethical or philanthropic actions can be present even when foundational systems remain incomplete.

Institutional research on China also revealed the possibility of symbolic implementation. Marquis and Qian (2014) showed that firms' political dependence and monitoring risk influenced whether CSR reporting was symbolic or substantive. The broader implication for SMEs is that government signals do not mechanically produce responsible behavior. Their effects depend on the credibility of monitoring, the availability of implementation resources, and the organization's dependence on political and economic stakeholders.

2.4 Dual-Carbon, Common Prosperity, and ESG Institutionalization

Since 2020, the institutional environment has entered a more intensive phase, anchored by the national action plan for carbon peaking and by the growing formalization of sustainability governance (State Council of the People's Republic of China, 2021). The carbon-peaking and carbon-neutrality goals have linked enterprise responsibility to national climate strategy. Green finance, supply-chain decarbonization, data governance, rural revitalization, and common-prosperity discourse have broadened the scope of expected contribution. In 2024, the Shanghai and Shenzhen stock exchanges issued sustainability reporting guidelines that organize disclosure around governance, strategy, impact and risk management, and indicators and targets (Shanghai Stock Exchange, 2024; Shenzhen Stock Exchange, 2024). The direct mandatory population is limited to designated listed companies, but the indirect effects extend to SMEs through financing, procurement, data requests, customer audits, and platform rules.

This stage creates both opportunities and risks. Digital tools, shared platforms, green technologies, and standardized templates can lower the cost of carbon accounting, traceability, accessibility, and stakeholder communication. Research on Chinese listed firms suggests that digital technology can improve CSR performance by enhancing information processing, internal control, monitoring, and transparency (Kong & Liu, 2023). Yet SMEs can also be excluded by the cost of data systems, certification, professional services, and compliance personnel. A sustainability transition that relies

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heavily on reporting and technological measurement may therefore create a new capability divide.

The contemporary environment is best characterized as institutional layering. Voluntary ethics, state policy, market standards, supply-chain governance, financial incentives, community expectations, and owner-manager values coexist. Their combined effect is not necessarily coherent. An SME may receive strict environmental requirements from a core buyer, weak enforcement from a local regulator, little credit recognition from a bank, and strong expectations for local employment or donations. CSR innovation emerges from the firm's attempt to reconcile these pressures under severe constraints.

3. Previous Studies on the Determinants of SME CSR Innovation

Existing research can be organized around four primary explanatory streams: institutional pressures, resource and financing constraints, stakeholder demands, and managerial capabilities. Each explains part of SME behavior, but none is sufficient alone. Institutional theory clarifies why responsibility becomes legitimate and expected; resource perspectives explain whether firms can act; stakeholder theory identifies whose claims receive priority; and capability research shows how resources and pressures are translated into routines and innovation.

3.1 Institutional Pressures: Coercive, Normative, and Cognitive Mechanisms

Institutional theory explains organizational convergence through coercive, normative, and mimetic mechanisms (DiMaggio & Powell, 1983). CSR research extends this logic by arguing that regulation, industry norms, monitoring organizations, stakeholder dialogue, and shared beliefs condition whether firms behave responsibly (Campbell, 2007). In China, coercive pressure is especially salient because government agencies influence licensing, subsidies, credit access, land, procurement, inspections, and political legitimacy. Normative pressure comes from industry associations, professional communities, large buyers, rating systems, and public expectations. Mimetic pressure arises when firms copy peers or leading enterprises under uncertainty. Cultural-cognitive pressures include beliefs about harmony, reciprocity, developmental responsibility, and the proper relationship between business and the state.

Institutional pressure can produce at least three effects, and its consequences depend on environmental commitment and resource availability (Wang et al., 2018). First, it can establish minimum standards and reduce the competitive disadvantage of responsible firms. Environmental or labor requirements are more likely to generate substantive improvement when rules are clear, enforcement is credible, and firms receive sufficient implementation time. Second, pressure can stimulate innovation by creating demand for cleaner technologies, safer products, inclusive services, and new business models. Berrone et al. (2013), for example, show that institutional pressures can motivate environmental invention. Third, pressure can produce decoupling when firms adopt formal structures or language without changing underlying practice (Meyer & Rowan, 1977; Crilly et al., 2012).

For SMEs, the third outcome is especially likely when institutional demands exceed resources and when evaluation focuses on visible documentation rather than operational results. Campaign-style governance can intensify this problem. Sudden inspections, short

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deadlines, or rapidly changing standards increase uncertainty and encourage temporary compliance. Local implementation divergence further weakens stable expectations. The same national policy may be interpreted differently across cities, industrial parks, or administrative departments, increasing the value of political and relational knowledge. As a result, institutional pressure may have a non-linear effect: too little pressure permits neglect, moderate and predictable pressure supports capability building, but excessive or unstable pressure encourages exit, evasion, or symbolism.

3.2 Resource Scarcity, Financing Constraints, and the Survival Logic

Resource constraints are the most persistent explanation for weak SME CSR. Small firms generally possess less financial slack, fewer specialist employees, weaker information systems, and less bargaining power than large corporations, but their flexible routines can support environmental strategy when scarce resources are deployed coherently (Aragón-Correa et al., 2008). The costs of pollution control, employee benefits, certification, reporting, due diligence, and stakeholder engagement are therefore relatively higher. Resource scarcity also shapes managerial time horizons. When cash flow is uncertain, the immediate survival of the firm and the protection of payroll, orders, and debt service dominate long-term social or environmental investments.

The literature, however, does not support a simple conclusion that scarcity eliminates responsibility. SMEs can use informal routines, personal relationships, employee flexibility, local knowledge, and rapid decision-making to pursue low-cost responsible practices. They may also treat CSR as a strategic signal to obtain legitimacy, customer trust, or finance. Torugsa et al. (2012) show that capabilities and proactive CSR can be associated with better financial outcomes, while Stoian and Gilman (2017) demonstrate that strategically aligned CSR can "pay" for SMEs. The key distinction is not between having and lacking resources, but between practices that require large fixed investments and those that can be embedded in ordinary operations.

Financing constraints create a particularly strong selection effect. Firms prioritize stakeholders who control critical resources. A supplier dependent on one lead buyer may invest in traceability and labor compliance; a platform merchant may emphasize customer protection and ratings; a technology SME seeking government certification may align with green or innovation policy; and a locally embedded service firm may invest in community relationships. Responsibility becomes targeted and strategic rather than comprehensive. This can generate real improvements, but it can also narrow CSR to the claims of powerful resource holders while neglecting less powerful stakeholders.

CSR can both worsen and ease financing constraints. In the short term, responsible investment consumes cash and may appear risky to lenders who do not recognize its value. In the longer term, credible CSR can reduce information asymmetry, enhance reputation, signal management quality, and improve access to supply chains or finance. The direction of the effect depends on whether stakeholders can verify substantive performance and whether financial institutions incorporate it into decision-making. Without credible measurement and reward, SMEs bear the cost while external stakeholders receive much of the benefit.

3.3 Stakeholder Demands, Salience, and Relational Distance

Stakeholder theory shifts attention from abstract social expectations to the actors who affect or are affected by the firm (Freeman, 1984; Dmytriyev et al., 2021). Donaldson and

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Preston (1995) distinguish descriptive, instrumental, and normative dimensions, while Mitchell et al. (1997) explain stakeholder salience through power, legitimacy, and urgency. These concepts are highly relevant to SMEs, but they require contextual extension.

SME stakeholder networks are often local, concentrated, and personal. Employees may interact directly with the owner-manager; customers and suppliers may be connected through repeated relationships; community reputation may be transmitted through informal networks; and a single bank, buyer, platform, or regulator may hold disproportionate power. This proximity can support trust, empathy, reciprocity, and rapid response. It can also create favoritism, selective responsibility, and dependence. Jamali et al. (2009) emphasize the relational strengths of SMEs, while Russo and Perrini (2010) argue that social capital is important for explaining their CSR orientation.

In the Chinese context, stakeholder salience is affected by at least three additional variables. The first is relational distance: claims from stakeholders with close personal, geographic, or network ties may receive more attention than equally legitimate but socially distant claims. The second is political connection: government-related stakeholders may possess both formal power and access to resources. The third is resource dependence: core buyers, platforms, banks, and certifying authorities can translate sustainability expectations into immediate economic consequences. Thus, stakeholder salience is not determined solely by the intrinsic urgency or legitimacy of a claim; it is filtered through the institutional and relational structure of the firm.

This perspective explains why some SMEs respond strongly to government campaigns, buyer audits, or platform rules while paying less attention to diffuse environmental or community harms. It also clarifies the risk of stakeholder substitution. Firms may perform visible actions for salient stakeholders—such as donations, certifications, or disclosures—while postponing less visible investments in worker participation, emissions reduction, product lifecycle responsibility, or grievance systems. Substantive CSR innovation requires mechanisms that increase the voice and verifiability of less powerful stakeholders.

3.4 Managerial Capability, Owner-Manager Centrality, and Professionalization

SME responsibility is unusually dependent on the cognition, values, and capabilities of owner-managers, a pattern also reflected in qualitative research emphasizing how SMEs describe responsibility in their own operational language (Murillo & Lozano, 2006). Centralized authority allows rapid action, but it also concentrates attention and creates vulnerability to managerial bias. Spence (2016) argues that small-business responsibility should be understood through care, proximity, and the moral agency of owner-managers rather than solely through formal corporate systems. This insight is especially useful in family-owned and entrepreneurial firms, where personal identity and organizational identity overlap.

Values alone, however, do not ensure substantive outcomes. Managers must identify material issues, prioritize stakeholders, allocate scarce resources, design routines, collect data, evaluate outcomes, and communicate credibly. These tasks require professional and dynamic capabilities. A firm may sincerely support environmental responsibility but lack the technical knowledge to measure energy use, select equipment, verify suppliers, or calculate returns. It may value employees but lack formal wage, safety, training, or grievance systems. It may

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donate generously but remain unable to integrate responsibility into product design and strategic planning.

Capability deficits therefore mediate the relationship between intention and implementation. They also interact with institutional pressure. Clear guidance, shared services, templates, training, digital tools, and industry collaboration can transform external requirements into learning. By contrast, complex reporting rules and fragmented standarsds can consume managerial attention without improving performance. Professionalization should not mean reproducing the bureaucracy of large corporations. Proportionate non-financial reporting and managerial systems can improve performance when they are linked to operational capabilities rather than adopted as stand-alone documents (Ortiz-Martínez et al., 2023). Effective SME systems need to be proportionate, modular, and aligned with operational decisions.

3.5 Symbolic and Substantive CSR: The Problem of Decoupling

The distinction between symbolic and substantive CSR is central to explaining SME heterogeneity. Symbolic action seeks legitimacy through language, structures, certifications, events, or selective disclosure while substantive action changes resource allocation, routines, incentives, products, or outcomes. Decoupling is not always deliberate deception. Crilly et al. (2012) show that firms may “fake it” or “muddle through” when they face conflicting stakeholder demands and implementation uncertainty. In SMEs, incomplete implementation may reflect learning constraints, ambiguous standards, or the gradual formalization of previously informal practices.

Nevertheless, severe decoupling undermines trust and can redirect resources from real improvement to impression management. Chinese evidence illustrates how political dependence and monitoring affect the substance of CSR reporting (Marquis & Qian, 2014). The broader lesson is that formal adoption becomes substantive when external monitoring is credible, internal values are consistent with the practice, and the organization possesses implementation capability. Recent institutional research similarly calls for bringing values and agency back into CSR analysis rather than treating firms as passive recipients of pressure (Risi et al., 2023).

For SMEs, symbolic behavior may take several forms: copying sustainability language from larger firms; obtaining a certification without changing routines; making highly visible donations while neglecting labor or environmental fundamentals; constructing digital traces that satisfy platform or buyer requirements without improving outcomes; or selectively disclosing positive initiatives. A review framework must therefore assess not only whether a practice exists, but also its materiality, operational integration, stakeholder coverage, continuity, and verified outcomes.

3.6 Moderating Variables and Boundary Conditions

The literature suggests that the effects of institutional, stakeholder, and resource pressures depend on several boundary conditions. Firm size within the SME category matters because microenterprises, small firms, and medium-sized enterprises differ sharply in management layers, financial slack, and formalization. Ownership matters because state-linked, private, family, foreign-invested, and collectively owned firms face different legitimacy and resource structures. Industry matters because pollution intensity, labor

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intensity, consumer visibility, technology content, and supply-chain position alter both responsibility risks and stakeholder monitoring.

Regional institutional quality is another major moderator. Differences in market development, legal enforcement, green infrastructure, digital finance, local fiscal pressure, and administrative capacity shape the costs and rewards of CSR. Policy stability and enforcement consistency may be more important than formal policy stringency. Supply-chain position also matters: upstream SMEs may be invisible to final consumers but highly dependent on lead firms, whereas platform-facing service SMEs are exposed to ratings, data rules, and algorithmic governance.

Managerial characteristics—including education, prior experience, values, political embeddedness, and digital or environmental literacy—condition how pressures are interpreted. Finally, the verifiability of CSR outcomes determines whether responsible behavior produces reputational or financial returns. Where stakeholders cannot distinguish substance from symbolism, firms may rationally underinvest in costly improvements.

3.7 Mediating Mechanisms

Three mediating mechanisms recur across the literature. The first is organizational legitimacy. CSR can reduce the liability of smallness by signaling conformity with social and institutional expectations. Legitimacy may improve access to government support, buyers, employees, finance, and community acceptance. Yet legitimacy-seeking can also motivate symbolism, making the quality of monitoring crucial.

The second mechanism iss stakeholder trust. Responsible treatment of employees, customers, suppliers, and communities can deepen relational capital, lower transaction costs, and stabilize exchanges. In SMEs, where formal contracts and systems may be limited, trust is especially valuable. However, trust is stakeholder-specific and can be undermined when responsibility is selective or inconsistent.

The third mechanism is capability development. Engagement with CSR can generate routines for data collection, risk identification, supplier coordination, employee participation, product innovation, and strategic learning. This mechanism explains how responsibility may shift from cost to competitive capability. It also explains why supportive institutions matter: subsidies or standards produce lasting effects only when they help firms build transferable capabilities rather than merely complete one-time projects (Table 1).

Table 1. Research Streams in SME CSR Innovation

Research stream	Core mechanism	Primary contribution	Persistent limitation	Representative sources
Institutional pressures	Regulation, norms, peer imitation, cognitive frames	Explains legitimacy and convergence	Often assumes pressure produces adoption; under-specifies capability and local implementation	Campbell (2007); DiMaggio & Powell (1983); Yin & Zhang (2012)
Resource and	Financial slack,	Explains survival	Can understate	Torugsa et al.

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Research stream	Core mechanism	Primary contribution	Persistent limitation	Representative sources
financing constraints	credit access, managerial time, fixed compliance costs	logic and selective investment	low-cost innovation, relational resources, and strategic signalling	(2012); Stoian & Gilman (2017); Wickert et al. (2016)
Stakeholder demands	Power, legitimacy, urgency, proximity, dependence	Explains prioritization of claims and relational CSR	Conventional salience models insufficiently capture political and relational context	Donaldson & Preston (1995); Mitchell et al. (1997); Russo & Perrini (2010)
Managerial capabilities and values	Owner-manager cognition, professionalizatio n, dynamic capabilities	Explains interpretation and implementation quality	Values may be conflated with outcomes; capability development is rarely longitudinal	Jenkins (2006); Spence (2016); Soundararajan et al. (2018)
Symbolic–substantive decoupling	Formal structures, disclosure, certification, operational change	Explains heterogeneity in quality and credibility	Measurement often relies on disclosure rather than verified impacts	Crilly et al. (2012); Marquis & Qian (2014); Risi et al. (2023)

Note: The streams are complementary; the integrated framework treats institutional pressures as distal forces, stakeholders as proximate translators, and resources and capabilities as conversion filters.

4. Core Barriers and the Overlapping Constraint Structure

The synthesis identifies three core barriers that repeatedly constrain CSR innovation among Chinese SMEs. These barriers are mutually reinforcing and should be analyzed as an overlapping constraint structure rather than as isolated variables.

4.1 Capital Scarcity and Narrow Financing Channels

Capital scarcity restricts both the scale and the time horizon of responsible investment. SMEs often rely on retained earnings, short-term bank credit, owner guarantees, and trade credit. Investments in cleaner equipment, employee development, safety systems, traceability, accessibility, and professional reporting compete directly with working capital. Where lenders focus on collateral and short-term financial indicators, the future value of CSR is not recognized.

This constraint changes the composition of CSR. Firms prefer low-cost, visible, and quickly rewarded activities. They may choose donations, employee events, customer guarantees, or certifications over infrastructure-intensive environmental and labor improvements. They may also concentrate on the stakeholder most likely to provide orders, finance, or policy recognition. The problem is therefore not only insufficient spending but distorted allocation.

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4.2 Policy Uncertainty and Institutional Implementation Divergence

Uncertainty weakens the business case for long-term responsibility. When standards, subsidies, inspection priorities, or disclosure expectations change frequently, firms cannot forecast compliance costs or returns. Divergent implementation across local governments and agencies further reduces confidence. Selective enforcement creates an uneven playing field: firms that invest early may face higher costs than competitors that delay or rely on relationships.

Campaign-style governance can generate rapid mobilization but weak institutional learning. It encourages enterprises to solve the immediate inspection problem rather than redesign routines. Policy inconsistency also makes managers skeptical of voluntary initiatives because they cannot know whether current investments will be recognized in future regulation, financing, or procurement. Institutional stability is therefore a productive resource, not merely an administrative preference.

4.3 Managerial Capability Deficits and Professional Talent Shortages

Most SMEs cannot maintain specialized CSR, ESG, environmental, legal, human-resource, and data teams. Responsibility is distributed across owners, finance staff, production managers, and administrative personnel. This arrangement can be efficient for simple issues but becomes inadequate when firms must interpret multiple standards, measure emissions, audit suppliers, assess human-rights risks, or respond to data-governance requirements.

Talent shortages intensify regional and industry disparities. High-growth technology clusters may access professional services and digital tools, while traditional manufacturing or inland firms may depend on limited local expertise. Small firms also fear that formal systems will increase costs or expose problems without providing corresponding benefits. Capacity-building interventions must therefore combine knowledge, tools, incentives, and trusted intermediaries.

4.4 From Overlapping Constraints to Passive, Fragmented, and Symbolic Responses

When capital scarcity, institutional uncertainty, and capability deficits coincide, CSR becomes passive and fragmented. Firms wait for explicit government or buyer requirements, implement only the most visible components, and separate responsibility activities from core strategy. The response may be rational from the viewpoint of survival, but it produces weak social outcomes and low organizational learning.

The overlapping structure also explains why stronger pressure alone may fail. A new mandate increases compliance costs; uncertain implementation discourages long-term investment; capability deficits make interpretation difficult; and limited finance prevents upgrading. Managers then select symbolic or temporary solutions. Effective policy must break more than one constraint simultaneously. For example, a disclosure requirement should be accompanied by simplified metrics, stable transition periods, shared technical services, financing recognition, and proportional assurance.

5. Theory and Related Framework

Theoretical integration is necessary because institutional theory and stakeholder theory operate at different but complemesntary levels. Institutional theory explains the macro-

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level production of legitimacy and conformity. Stakeholder theory explains how specific actors transmit, prioritize, and negotiate demands. Resource and capability constraints determine whether those demands become substantive routines. The integrated framework therefore follows a sequence of institutional field, stakeholder translation, organizational interpretation, resource–capability filtering, response pathway, and feedback.

5.1 Institutional Theory: Legitimacy, Isomorphism, and Strategic Response

Institutional theory views organizations as embedded in systems of rules, norms, beliefs, and taken-for-granted expectations. DiMaggio and Powell's (1983) isomorphism framework explains convergence, while Scott's institutional pillars distinguish regulative, normative, and cultural-cognitive foundations. Suchman (1995) conceptualizes legitimacy as the generalized perception that organizational actions are desirable or appropriate. Oliver (1991) adds agency by showing that firms can acquiesce, compromise, avoid, defy, or manipulate institutional pressures.

These ideas are essential for Chinese SME CSR. Government directives and enforcement create regulative pressure; industry standards and professional expectations create normative pressure; and developmental, relational, and cultural beliefs create cognitive pressure. SMEs do not simply comply. They interpret the credibility, consistency, and resource implications of each pressure. Their responses range from substantive adoption to negotiation, selective implementation, and symbolic compliance.

Institutional theory also explains why CSR innovation can reshape the field. SMEs may collectively develop industry standards, shared service platforms, local green clusters, or new inclusive products. Through associations, supply chains, and demonstrations, they can institutionalize practices that later become expected. This reciprocal process is important because recent reviews criticize the tendency to study only how institutions shape firms, not how actors transform institutions (Galleli & Amaral, 2026).

5.2 Stakeholder Theory: Salience, Proximity, and Resource Dependence

Stakeholder theory provides the proximate mechanism. Institutions define broad expectations, but stakeholders make them concrete through contracts, inspections, financing decisions, employment relationships, purchasing, ratings, and public evaluation. Donaldson and Preston's (1995) descriptive, instrumental, and normative dimensions clarify that stakeholder management is simultaneously an account of actual behavior, a strategy for performance, and an ethical obligation.

For Chinese SMEs, stakeholder salience should be extended beyond power, legitimacy, and urgency to include relational distance, political embeddedness, and resource dependence. A local official, platform, bank, or lead buyer may be highly salient because it controls essential resources. Employees and communities may be salient because of proximity and repeated interaction. Future generations and diffuse environmental stakeholders may possess high legitimacy but low immediate power. The resulting priority structure can produce selective responsibility.

The normative dimension remains indispensable. If salience is defined only by power, CSR becomes a strategy for satisfying resource holders rather than a responsibility to

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affected parties. Integrating normative legitimacy with contextual salience prevents the framework from treating unequal stakeholder power as ethically self-justifying.

5.3 Integrated Logic: Institutions as Distal Forces and Stakeholders as Proximate Translators

Lee (2011) argues that institutional and stakeholder pressures can be integrated because institutions shape macro-level incentives and legitimacy, while stakeholders amplify or buffer those forces through proximate relationships. This logic is particularly suitable for Chinese SMEs. A national carbon policy does not directly change a small supplier's routines. It becomes actionable when a local regulator sets a standard, a core buyer requests emissions data, a bank offers green credit, a platform changes its rules, or an association provides training.

The firm then interprets the demand through managerial cognition and filters it through available resources and capabilities. Where pressure is coherent, support is available, outcomes are verifiable, and management values are aligned, substantive innovation becomes more likely. Where demands conflict, implementation is unstable, and resources are scarce, firms compromise or decouple. The integrated framework therefore explains not only whether CSR occurs but what form it takes.

5.4 Special Embeddedness in the Chinese Context

Four contextual features extend the integrated framework. First, government is a multi-role stakeholder. It regulates, finances, certifies, purchases, allocates resources, and defines developmental legitimacy. This concentration increases the effectiveness of clear policy signals but also magnifies the consequences of uncertainty and loscal divergence.

Second, the financial architecture shapes responsibility through credit allocation and collateral requirements. SMEs with weak access to formal finance depend more heavily on core buyers, platforms, local networks, and government support. CSR priorities therefore follow resource dependence.

Third, relationship-based governance affects stakeholder salience and enforcement. Guanxi can facilitate trust and information exchange, but it can also encourage selective compliance and unequal access. Relational distance should be treated as a contextual variable rather than as a uniformly positive form of social capital.

Fourth, regional and structural heterogeneity is steep. Eastern coastal clusters, inland manufacturing regions, rural enterprises, technology startups, family firms, platform merchants, and specialized "little giant" enterprises operate under different infrastructure, labor markets, and institutional capacities. A single national CSR model is therefore unlikely to be effective.

5.5 Theoretical Innovation Points

The review offers four theoretical extensions. The first is the replacement of large-firm universalism with a size-sensitive model. Organizational cost, informality, owner-manager centrality, and stakeholder proximity are not peripheral controls; they are constitutive features of SME CSR.

The second is a contextualized stakeholder-salience model. Power, legitimacy, and urgency are supplemented by relational distance, political connections, and resource

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dependence. This extension explains why formally weak stakeholders can become salient through proximity and why politically or economically powerful actors can dominate responsibility priorities.

The third is the overlapping constraint mechanism. Capital scarcity, institutional uncertainty, and capability deficits interact to generate passive response, fragmentation, and symbolism. This mechanism explains why isolated policy tools often fail.

The fourth is the inverted-pyramid proposition. Rather than assuming that economic and legal responsibilities are always completed before ethical and philanthropic ones, the framework allows non-linear sequencing. Visible donations, community reciprocity, or employee care may coexist with incomplete legal, environmental, or governance systems. The proposition directs research toward configurations of responsibility rather than aggregate CSR scores.

6. Conceptual Framework and Research Propositions

Figure 1 presents the integrated framework. Institutional and stakeholder pressures enter the organization through stakeholder salience and managerial interpretation. Resource–capability filters and contextual moderators determine which response pathway emerges. Outcomes then feed back into legitimacy, access to resources, stakeholder trust, and the institutionalization of practices.

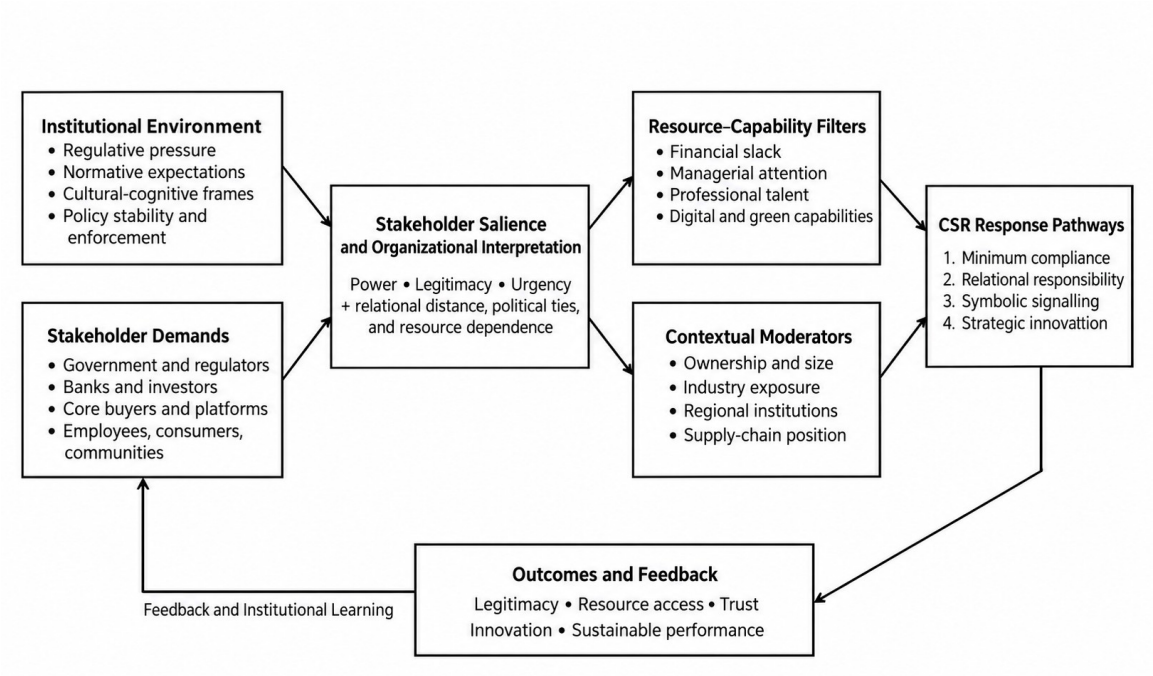


Figure 1. CSR Innovation Framework for Chinese SMEs

Note: The framework extends conventional stakeholder salience by incorporating relational distance, political embeddedness, and resource dependence, and it distinguishes four response pathways rather than treating CSR adoption as a binary outcome.

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6.1 Four CSR Response Pathways

The first pathway is survival-oriented minimum compliance. Firms meet immediate legal or buyer requirements with the least feasible resource commitment. This pathway can protect basic legitimacy but creates little learning and remains vulnerable to regulatory change.

The second pathway is relational responsibility. Firms invest in employees, local communities, suppliers, or customers through personalized and informal practices. These activities may be substantively valuable and closely aligned with SME strengths, but their coverage can be selective and their continuity dependent on the owner-manager.

The third pathway is symbolic signalling. Firms emphasize reports, certifications, campaigns, donations, or digital traces that communicate conformity without proportional operational change. Symbolism is most likely when monitoring is weak, demands are unstable, and formal signals are cheaper than substantive implementation.

The fourth pathway is capability-enabled strategic innovation. CSR is integrated into products, processes, supply chains, and business models. Firms use responsibility to reduce risk, improve resource efficiency, access high-quality markets, strengthen trust, and create social or environmental value. This pathway requires coherent incentives, managerial capability, and mechanisms that allow the firm to capture part of the value created (Table 2).

Table 2. CSR Response Pathways

Pathway	Dominant stakeholder logic	Resource commitment	Capability accumulation	Principal risk
Minimum compliance	Immediate legal or buyer requirements	Low	Weak unless standards remain stable	Regulatory shock, repeated remediation
Relational responsibility	Employees, local community, repeated partners	Low to medium	Moderate but owner-dependent	Selective coverage, paternalism
Symbolic signalling	Government, financiers, buyers, public audiences	Low substantive / high communicative	Low	Decoupling, trust loss
Strategic innovation	Multiple material stakeholders	Medium to high, often collaborative	High	Capability and finance requirements

6.2 Propositions

Proposition 1: The relationship between institutional pressure and substantive CSR innovation in SMEs is contingent and potentially inverted U-shaped. Predictable and proportionate pressure promotes learning, whereas excessive or unstable pressure increases symbolic compliance, evasion, or exit.

Proposition 2: Financing constraints shift CSR investment toward stakeholders who control immediate resources. This increases targeted responsibility but may reduce attention to diffuse, long-term, or weakly represented stakeholders.

Proposition 3: Stakeholder salience in Chinese SMEs is jointly determined by power, legitimacy, urgency, relational distance, political embeddedness, and resource

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dependence. These contextual attributes explain variation that conventional salience models leave unresolved.

Proposition 4: Policy stability and implementation consistency positively moderate the conversion of institutional pressure into substantive CSR innovation by improving expected returns and reducing the value of wait-and-see behavior.

Proposition 5: Managerial and professional capabilities mediate the relationship between resources and substantive CSR outcomes. Financial support without capability development generates temporary projects, whereas capability support increases organizational learning and continuity.

Proposition 6: The alignment of stakeholder monitoring, internal values, and operational incentives reduces symbolic–substantive decoupling. Misalignment among these elements increases selective disclosure and fragmented implementation.

Proposition 7: Collaborative governance by government, financial institutions, lead firms, platforms, associations, and service providers weakens the overlapping constraint structure when it combines standards, resources, capability transfer, and credible rewards.

Proposition 8: The inverted CSR pyramid is more likely under high external visibility, low operational capability, strong relational or philanthropic norms, and weak enforcement of foundational responsibilities. It is less likely when legal enforcement, stakeholder verification, and process capabilities are jointly strong.

7. Innovation Pathways and Practical Implications

The framework implies that SME CSR policy should not simply transfer large-company reporting and governance systems downward. Effective intervention must be differentiated, proportionate, and designed around the overlapping constraints.

7.1 Fiscal, Tax, and Financial Support

Financial tools should reduce the fixed costs of substantive improvement rather than reward disclosure alone. Possible mechanisms include tax deductions or accelerated depreciation for verified green and safety investments; credit guarantees for responsible upgrading; small-ticket green loans; insurance products linked to environmental or labor risk; and procurement preferences for verified SME performance. Banks and platforms should recognize operational indicators that SMEs can credibly provide, avoiding data requirements that merely favor firms with sophisticated reporting teams.

Public support should be conditional on measurable milestones and continuity. One-time subsidies can stimulate equipment purchases but may not generate maintenance, training, or process redesign. Combining finance with technical assistance and follow-up evaluation increases the likelihood of capability accumulation.

7.2 Institutional Stability and Proportionate Regulation

Policy design should prioritize stable expectations, clear transition periods, harmonized definitions, and coordinated enforcement. SMEs need to know which standards will remain relevant, how compliance will be evaluated, and whether responsible investment will be recognized across agencies. Proportionate regulation can use tiered requirements based on size, industry risk, and supply-chain role.

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Simplification does not mean weaker protection. High-risk labor, product, environmental, and data issues require strong minimum standards. Proportionality concerns the complexity of evidence, reporting frequency, and the availability of templates and shared tools. Regulators should evaluate outcomes and risk reduction rather than the volume of documentation.

7.3 Capacity Building and Shared Responsibility Infrastructure

Shared services can overcome the indivisibility of professional capability. Industrial parks, associations, universities, accounting firms, technology providers, and lead firms can offer pooled carbon accounting, environmental testing, legal guidance, supplier audits, employee training, and digital traceability. Standardized modules allow SMEs to adopt practices progressively.

Lead firms and platforms should not simply transfer responsibility and compliance costs downstream. They can provide longer contracts, technical support, data interoperability, fair audit processes, and co-investment. A collaborative model recognizes that supply-chain sustainability is a joint governance problem. Without cost sharing and capability transfer, stringent buyer standards may exclude smaller suppliers or encourage falsification.

7.4 Reputation Incentives and Verifiable Recognition

Reputation incentives can convert responsible behavior into market value, but they must distinguish substance from symbolism. Public databases, procurement records, platform ratings, certifications, and financial assessments should emphasize verified performance and improvement trajectories. Recognition systems should avoid a binary "responsible–irresponsible" label that disadvantages firms at early stages.

A maturity model is more appropriate. Microenterprises may begin with legal basics, employee protection, product responsibility, and simple resource-efficiency measures. Small firms can add formal policies, data collection, and stakeholder channels. Medium-sized firms can integrate supply-chain due diligence, targets, and public reporting. Such staged development makes responsibility feasible and reduces the temptation to imitate the appearance of advanced systems.

7.5 Managerial Guidance: From Cost Center to Strategic Capability

SME managers should begin with materiality rather than broad CSR branding. The first task is to identify the firm's largest negative impacts, most dependent stakeholders, and most credible opportunities for value creation. Responsibility should then be embedded in operating routines—quality control, energy use, safety, employee retention, customer protection, supplier management, and product design.

Managers should separate visible communication from operational proof. Every claim should be linked to an owner, indicator, process, and evidence source. Small firms do not need lengthy reports, but they do need credible records. Partnerships can supply missing expertise, and digital tools can reduce cost when they are interoperable and proportionate. Finally, owner-managers should institutionalize personal values through policies and routines so that responsibility survives growth, succession, and managerial turnover.

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8. Future Research Agenda

The review identifies several priorities for empirical research. First, the field needs more evidence from unlisted and micro enterprises. Reliance on listed-company databases reproduces the size bias that the SME literature seeks to correct. Surveys, matched administrative data, field experiments, interviews, and longitudinal case studies are required.

Second, research should measure configurations rather than single CSR scores. The inverted-pyramid proposition can be tested by comparing economic, legal, labor, environmental, ethical, and philanthropic dimensions. Latent-class analysis, set-theoretic methods, and sequence analysis can identify distinct responsibility patterns and pathways.

Third, the dynamic relationship between pressure and capability deserves longitudinal study. Researchers should examine whether coercive requirements initially generate symbolism but later stimulate learning, or whether repeated campaigns entrench avoidance. Policy changes and staggered implementation provide opportunities for quasi-experimental designs.

Fourth, stakeholder salience should be contextualized. Measures of relational distance, political embeddedness, dependence on core buyers or platforms, and regional institutional quality can be integrated with power, legitimacy, and urgency. Network analysis would help reveal how multiple stakeholders jointly influence SMEs.

Fifth, researchers should distinguish CSR communication from verified outcomes. Textual disclosure, certifications, and ratings should be combined with environmental, labor, product, employee, and supply-chain data. The gap between talk and action is itself a theoretically meaningful dependent variable.

Sixth, comparative research is necessary. China should be compared with other developing and transitional economies that combine strong states, institutional change, relationship-based governance, and large SME sectors. Such comparison can distinguish China-specific mechanisms from broader emerging-market patterns.

Seventh, digitalization requires critical analysis. Digital tools can lower monitoring and disclosure costs, but they can also create surveillance, exclusion, data-security, and algorithmic-governance risks. Earlier work on green supply-chain measurement demonstrates both the value and the organizational demands of standardized interfirm data practices (Zhu et al., 2008). Research should examine when digital CSR infrastructure empowers SMEs and when it shifts power toward platforms and lead firms.

Finally, future work should study institutional entrepreneurship by SMEs. Small firms are not merely passive rule takers. Through clusters, associations, technology innovation, and collective action, they can create new standards and practices. Understanding this agency will move the field beyond deterministic accounts of institutional pressure.

9. Discussion

The review changes the unit of explanation from isolated CSR activities to the configuration that generates them. Institutional pressures define legitimacy but do not determine outcomes. Stakeholders translate broad norms into concrete rewards and sanctions, but their salience is shaped by power and relationships. Resources and capabilities determine whether firms can respond substantively, while owner-manager

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values influence interpretation and persistence. The interaction among these elements explains why Chinese SMEs may simultaneously display responsibility, irresponsibility, and innovation.

This perspective also clarifies the difference between CSR quantity and CSR quality. A high number of activities or a polished disclosure does not necessarily indicate broad stakeholder coverage, operational integration, or lasting impact. Conversely, informal employee care or community reciprocity may be substantively important even when it is not reported. Evaluation should therefore consider materiality, consistency, verifiability, stakeholder inclusion, and continuity.

The framework does not romanticize SMEs. Proximity and informality can support care and trust, but they can also enable paternalism, weak worker voice, selective compliance, and opaque governance. Resource scarcity is an explanation, not a moral exemption. A context-sensitive approach should preserve minimum rights and environmental standards while designing feasible pathways for compliance and improvement.

The principal theoretical contribution is the linkage of distal institutional forces and proximate stakeholder mechanisms through resource–capability filters. The principal contextual contribution is the inclusion of government multi-role power, relational distance, political embeddedness, financial architecture, and local implementation divergence. The principal practical contribution is the recognition that policy must address overlapping constraints rather than increase pressure in isolation.

10. Conclusion

CSR innovation among Chinese SMEs is a central but under-theorized component of sustainable development. SMEs are not smaller replicas of large corporations. Their responsibility practices are more informal, relational, owner-manager dependent, resource constrained, and locally embedded. At the same time, they operate within a Chinese institutional environment in which government policy, financing structures, local implementation, supply-chain power, platforms, and cultural-cognitive expectations interact.

The review shows that three overlapping barriers—capital scarcity, policy uncertainty and implementation divergence, and managerial capability deficits—frequently push firms toward passive response, fragmented implementation, and symbolic compliance. Yet these outcomes are not inevitable. When institutional expectations are stable, stakeholder rewards are credible, support is proportionate, and capabilities accumulate, SMEs can integrate social and environmental responsibility into products, processes, relationships, and business models.

By combining institutional and stakeholder theories, the article develops a framework in which institutions establish the legitimacy field, stakeholders translate pressures into concrete demands, and resource–capability conditions determine the response pathway. The four resulting pathways—minimum compliance, relational responsibility, symbolic signalling, and strategic innovation—provide a more precise vocabulary for future research and policy. The framework also introduces the inverted CSR pyramid as a testable proposition concerning the uneven sequencing of responsibility dimensions.

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Advancing SME CSR therefore requires more than exhortation or disclosure. It requires a differentiated policy toolkit that combines financial support, institutional stability, capacity building, shared responsibility infrastructure, and verifiable reputation incentives. For managers, the priority is to move from disconnected activities to material, operational, and evidence-based responsibility. For scholars, the task is to replace size bias and contextual disembedding with multi-level, longitudinal, and configuration-sensitive research. Such an agenda can improve understanding of SMEs not only as objects of sustainability regulation but also as potential innovators and institutional actors in the transition toward inclusive and low-carbon development.

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Author Contributions

X.H.L.: Conceptualization, Investigation, Methodology, Formal Analysis, Writing – Original Draft, Visualization. O.K.L.: Supervision, Methodology, Validation, Writing – Review & Editing.

Conflicts of Interest

The authors declare no conflicts of interest.

Generative AI Statement

Generative artificial intelligence was used to assist with language polishing and drafting. The authors reviewed and edited all content and take full responsibility for the integrity of the work.

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