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THE RELATIONSHIP BETWEEN BUSINESS STRATEGY AND SMES' PERFORMANCE: DOES CSR MATTER? EVIDENCE FROM AN EMERGING MARKET

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Abstract. This study aims to measure the relationship between business strategy and SMEs' performance in the Kingdom of Saudi Arabia (KSA). In addition, we examine the moderating role of corporate social responsibility (CSR) on this relationship, focusing on prospector and defender strategies. Data was collected depending on questionnaires handed to SMEs in KSA with a response rate was 73.6% (184 of 250 questionnaires were received). Data was analyzed using descriptive and multivariate analysis. Results revealed a significant positive effect of business strategy on SMEs' performance. CSR has a significant positive effect on SMEs' performance. In addition, we found that CSR has a significant positive effect on the relationship between prospector strategy and SMEs' performance. However, CSR has a significant negative effect on the relationship between defender strategy and SMEs' performance. Additional analysis ensures that integrating CSR towards environmental, customers' and employees' perspectives with prospector firms enhances financial performance of SMEs. Integrating CSR towards customers with defender firms enhances SMEs' performance. However, integrating CSR towards society, environment, and employees mitigates the positive effect of defender firms on SMEs' performance. This study enriches literature in the field of business strategy and CSR in SMEs by focusing on the importance of integrating business strategy and CSR to enhance SMEs' performance.

Keywords: Business strategy; CSR; financial performance; SMEs; KSA

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1. Introduction

Corporate performance is an important factor in maintaining success and long-term market survival. This view is dependent on several factors, the most important of which are the type of business strategy implemented, the level of human resource efficiency, and the effectiveness of financial management (Salamah, 2023). Companies seek to improve their performance by enhancing their business strategies. These strategies are related to managing the company's operations, activities and services extended to internal and external stakeholders, such as consumers, suppliers, and competitors (Visedsun & Terdpaopong, 2021). In this study, we depend on Miles

and Snow's (1978) typology of business strategies as prospectors and defenders. Prospectors rely on continuous change in their product mix and actively exploring environmental changes in search of new opportunities to become market leaders. In doing so, they should prioritize research and development, with less emphasis on exploitation and capital intensity (Maury, 2022). In other words, prospectors are characterized by a strong innovation orientation, requiring a high degree of dynamism in organizational design, structure, and processes that embrace continuous change (Moses et al., 2026). In contrast, defenders target a specific, stable market to achieve maximum operational efficiency. Hence, they are expected to have a narrow market reach, make limited efforts to develop new products and explore new markets. Moreover, these companies maintain cost-effective technologies to establish a market position that offers customers limited product choices (Osorio-Londono et al., 2020).

In today's dynamic business environment, examining the relationship between business strategies and financial performance is of great importance (Ghamizadeh & Eghbali-Zarsh, 2024). Many researchers indicate the existence of a significant effect of business strategy on market share and firms' financial performance (Hambrick, 1983; Dess & Davis, 1984; Thornhill & White, 2007; Banker et al., 2014; Ghaemi-Zadeh & Eghbali-Zarch, 2024). However, how business strategies contribute to enhancing a SMEs' financial performance is insufficiently explored in the literature, especially within emerging markets such as the Kingdom of Saudi Arabia (KSA). Therefore, it is essential to accurately evaluate financial performance considering small and medium-sized enterprises' (SMEs) business strategies (Nurunnabi, 2017, 2020; Nurunnabi et al., 2022).

Furthermore, CSR has recently become a key factor in business strategies (Meng et al., 2024). Nowadays, companies face increasing pressures related to social, environmental, and legal aspects, requiring them to focus on their social responsibilities alongside maximizing their profits (Wang et al., 2025). Many large companies adopt several initiatives and goals within the framework of social responsibility, such as the Global Reporting Initiative (GRI) and the United Nations Sustainable Development Goals (SDGs) (Qasim et al., 2024). However, effective strategic management and engagement in social activities should also be perceived as a critical component of SMEs' success, especially those operating in emerging economies (Nguyen et al., 2023). Globally, SMEs are considered the backbone of the economy in many developed and developing countries, such as the USA, the UK, Germany, and Asian countries, accounting for around 90% of all companies and providing up to 70% of available jobs (Garrido-Ruso et al., 2024). That is to say, SMEs contribute significantly to economic growth, competitiveness, GDP, and job creation (Mahboub & Zaidi, 2024). Considering the value of effective strategic management in the success of SMEs in emerging economies as well as the increased interest in sustainable development, it has become imperative for companies to go beyond profitability goals and integrate social responsibility initiatives into their strategies to enhance their sustainable performance (Choi et al., 2018; Dzomonda, 2022; Nguyen et al., 2023). Against this background, we seek to examine the association between SMEs' business strategies and financial performance and how CSR might affect such a relationship.

We focus on the SMEs' sector because they have a set of unique characteristics that motivated us to conduct this study. Although SMEs represent the largest part of the private sector and play a pivotal role in improving the national product and creating job opportunities, there are some challenges and difficulties that hinder their adoption of sustainable development practices such as CSR (Lam et al., 2025). This limitation restricts their ability to develop sustainable policies and practices that improve their financial performance (Boakye et al., 2020). This is due to several reasons, including the lack of resources and incentives for companies to implement effective environmental and social initiatives (Garrido-Ruso et al., 2024; Choi et al., 2018). In addition, these companies face limited pressure from stakeholders and society (Lam et al., 2025). They also face significant difficulties in preparing appropriate environmental and social reports due to the lack of knowledge, experience, and necessary skills among these companies compared to large companies, which pushes them to participate in "voluntary social and environmental initiatives" (Lam et al., 2025). Hence, decisions regarding SMEs' social and environmental policies are likely to be largely influenced by the beliefs and personal characteristics of their owners and managers (Choi et al., 2018), which may diminish active engagements in such policies.

In Saudi Arabia, the SMEs sector plays a pivotal role in achieving the goals of their Vision 2030, which seeks to create more job opportunities and achieve comprehensive economic development. Monshaat—the General Authority for Small and Medium Enterprises in KSA — revealed a 3.1% increase in SMEs in the country by

the end of 2023, reaching a total of 1.3 million establishments, most of which are concentrated in Riyadh (43.7%) and Makkah (18.1%). Regarding the economic effect of SMEs in KSA, the Saudi Arabian Monetary Authority (SAMA) has recently reported that the total facilities provided to financing companies reached SAR 307.4 billion by the end of the second quarter of 2024, a 17% increase compared to the same period in 2023. Further, the financial resources provided by the banking sector to these entities amounted to SAR 289.8 billion (Driss & Jaballah, 2025).

The current study is based on the stakeholder theory and a natural resource perspective (NRBV), which links the company's ability to use its resources effectively and adopt sustainable social and environmental practices to explain the study findings (Boakye et al., 2020). By analyzing the data collected through the survey instrument, the findings of this study indicate that CSR, as a tool for enhancing reputation and building trust with stakeholders, positively impacts SMEs' financial performance. Further, we found that the interaction between prospector strategy and CSR has a significant positive effect on financial performance. However, the interaction between defender strategy and CSR has a significant negative effect on financial performance.

The study contributes to literature in some respects. It examines the social responsibility-financial performance relationship in SMEs. This examination is vital because most of the literature focuses on large companies (e.g., Alodat & Hao, 2025; Dwibedi et al., 2025; Agnese et al., 2025). SMEs are worthy of special examination because they have recently shown a growing interest in implementing social, environmental, and governance (ESG) practices, which call for examining the impact of such societal activities on corporate performance (Vu et al., 2021; Dasanayaka et al., 2022). Additionally, the current study presents an integrated framework that demonstrates the effect of integrating competitive strategies with CSR on financial sustainability. Finally, this study contributes to knowledge by exploring a Saudi economic environment undergoing rapid transformations under Vision 2030, as an example of emerging markets. By doing so, this study provides practical guidance for entrepreneurs and decision-makers on the importance of integrating social and environmental practices and policies into business strategies, alongside economic objectives, to enhance the competitiveness of SMEs, particularly in emerging economies.

The remainder of the study is structured as follows. Section 2 provides literature review and develops the study hypotheses. Sections 3 and 4 summarize the study methodology and sample. Section 5 shows findings and discussions. Finally, section 6 concludes the study.

2. Literature review and hypothesis development

From the stakeholder theory perspective, firms are required to align their activities and practices in line with various stakeholders, including the surrounding community, the environment and the regulatory authority (Dunham et al., 2006; Zheng et al., 2014; Zhang & Liu, 2023). CSR is one of such mechanisms that can enhance companies' social and environmental performance. Therefore, firms' engagements in CSR activities are anticipated to send important and positive signals to various stakeholders about corporate performance and behavior (Zerbini, 2017; Zhang & Liu, 2023). Such signals may eventually be translated into better firm performance (Rini et al., 2017). Supporting this view, many studies noted that better CSR performance is likely to be associated with enhanced financial transparency, improved market reputation and lower levels of corporate risk (Nejati et al., 2017; Driss & Jaballah, 2025; Saleh et al., 2025).

In this context, it is beneficial to incorporate stakeholder requirements while setting and applying corporate strategies as well as companies' social activities, such as CSR, to attain the anticipated benefits of applying them (Dzomonda, 2022). In other words, it is crucial to combine CSR with business strategies to enhance firm competitiveness in line with stakeholder expectations (Marín et al., 2012). In other words, CSR should be perceived more as a strategic technique—not only as a philanthropic activity — to advance corporate performance and sustainability (Maccarrone & Contri, 2021). In this way, adopting CSR can help transform the existing social challenges into strategic opportunities, where stakeholder groups are anticipated to play a vital role in this regard.

2.1 The effect of business strategy on firm performance

Adopting the appropriate business strategy can be regarded as a means of enhancing corporate performance. This is because business strategies can play a part in how firms compete in the market and achieve their long-term business objective, which may influence their future performance (Park et al., 2019). Therefore, comprehending the business strategy-firm performance link can assist companies in aligning their strategic decisions with financial aims. Generally, previous research supports a positive association between well-designed firm strategies and corporate financial performance (Handoyo et al., 2023; Ghaemi-Zadeh & Eghbali-Zarch, 2024). Yet, some studies indicate that such a relationship is likely to be context-dependent—that is, economic and societal conditions may significantly affect the corporate strategy–financial performance link.

For instance, by focusing on Omani’s nonfinancial companies, Dalwai & Salehi (2021) revealed a negative association between the analyzer-type of business strategy and financial performance, as represented by return on equity (ROE). However, they reported a positive link between defender strategy and financial performance. Focusing on Indonesian firms, Ricardianto et al. (2023) reported a direct influence of business strategy on financial performance. In the same context, Handoyo et al. (2023) found that business strategy is positively related to manufacturing performance. In particular, proactive business strategy firms were found to perform better than defenders and reactors, i.e., defensive strategy firms. Focusing on Tehran, Ghaemi-Zadeh and Eghbali-Zarch (2024) supported the positive impact of analyzed business strategy for the concerned beneficiaries, i.e., investors, loan-holders, and stockholders.

Considering the anticipated various impacts of the different kinds of business strategies (i.e., prospector and defender strategies), we believe that the influence of the business strategy on financial performance can vary depending on the type of strategy. While the prospector strategy directs firms towards seeking new market opportunities and product innovation, the defender strategy encourages stable and well-defined markets by ensuring cost control and operational efficiency. Considering the above discussion, we set the first hypothesis as follows:

H1: Business strategy has a significant effect on corporate performance.

H1.1: Prospector strategy has a positive effect on corporate performance.

H1.2: Defender strategy has a negative effect on corporate performance.

2.2 The effect of CSR on financial performance

How CSR influences financial performance has recently gained increasing importance within the business environment and literature (Coelho et al., 2023). CSR can contribute to improved financial performance by reducing risk, increasing profitability, and lowering production costs (Maome & Zondo, 2024). This is because active engagement with CSR activities is noted to yield better satisfaction of various company stakeholders, including customers and employees (Chung et al., 2015). Such an improved satisfaction can result in more sales revenues and higher employee productivity, i.e., an improved financial performance (Nyame-Asiamah & Ghulam, 2020).

However, the existing research on the CSR-financial performance link has reported mixed results. Many studies supported a positive impact of CSR on firm performance (e.g., Rini et al., 2017; Driss & Jaballah, 2025; Tasnia et al., 2025; Saleh et al., 2025; Alodat & Hao, 2025). However, a few studies reported a negative association between CSR and financial performance (e.g., Truong, 2025). Yet, some studies didn’t support an association between CSR and firm performance (e.g., Adamkaite et al., 2022; Garrido-Ruso et al., 2024; Brunella et al., 2024). For instance, Crisotomo et al. (2011) didn’t find a link between social responsibility and Brazilian firms’ financial performance. However, they reported that social responsibility negatively affects firm value. Using UK data, Boakye et al. (2020) reported a nonlinear association between environmental activities and corporate performance.

The above-mentioned mixed evidence indicates the need for further evidence on the CSR-firm performance relationship on the premise that such a relationship is likely to be a context-based relationship influenced by context-specific factors such as the size of the organization and the type of its activities (Dwibedi et al., 2025; Agnese et al., 2025).

Therefore, this study proposed the following hypothesis:

H2: CSR has a positive effect on corporate performance.

2.3 The effect of CSR on the relation between business strategy and financial performance

A wide range of studies points to the importance of integrating CSR activities into corporate strategies, given their role in enhancing financial performance (Martinez-Conesa et al., 2017; DiSegni et al., 2015; Garrido-Ruso et al., 2024). The existing research suggests that prospector companies (i.e., innovation-oriented companies) might better benefit from engaging in CSR practices linked to differentiation and stakeholder co-creation. Yet, defender firms, which compete on efficiency and stabilized markets, can better benefit from CSR practices that minimize operational risk, reduce costs, and improve stakeholders' relationships (see Ho et al., 2022). However, a few existing studies apparently examine the firm strategy-CSR interaction and reveal the varying impact of each type on financial performance. Considering this discussion, we set the last hypothesis as follows:

H3: CSR moderates the relationship between business strategy and firm performance.

H3.1: CSR moderates the relationship between prospector strategy and firm performance.

H3.2: CSR moderates the relationship between defender strategy and firm performance.

3. Sample and data collection

Although several definitions of SMEs exist, the official classification used in KSA has been adopted in this study. According to this classification, medium-sized enterprises are defined as those firms with revenues ranging between 40 and 200 million Saudi riyals, or with 50 to 249 employees. Small enterprises are defined as those firms with annual revenues ranging between 3 and 40 million riyals, or with 6 to 49 employees. Micro-enterprises are classified as those firms with annual revenues less than 3 million riyals and fewer than 5 employees. Investigating the relationship between business strategy, CSR, and SMEs' performance mostly depends on surveys and case studies. Consequently, we depend on the survey method due to the lack of accurate secondary data regarding CSR, business strategy and financial performance (Xiliang et al., 2023; Mehboob and Zaidi, 2024; Lam et al., 2025). We depend on questionnaires designed to measure our variables as mentioned in section 4. The questionnaire was arbitrated by 3 academic professors with experience in the study topic to enhance the study validity and reliability. Questionnaires have been distributed to participants in October 2025, where consent was obtained from them in writing. Participants are requested to scan QR code to complete the survey through an online platform. 250 questionnaires are delivered using a stratified random sampling method. We received 195 complete questionnaires, and the final dataset included responses from 184 Saudi SMEs with a response rate of 73.6%.

4. Variables' measurement and models

Business strategies are usually measured depending on three strategic types—prospector, analyst, and defender, as proposed by Miles and Snow (1978). This study depends on two common strategies: prospector and defender. Prospector is measured using 10 statements in our survey (Q6-Q15). Defender is measured using 9 statements (Q16-24) (see Appendix A). On a five-point Likert scale, from “1” Strongly disagree to “4” Strongly agree, each respondent was asked to identify whether they agreed or disagreed with each statement about their organization. All statements were formulated depending on literature (e.g., Jusoh & Parnell, 2008; Anwar & Shah, 2021). The questions did not use the labels of prospector or defender strategies, so as not to suggest that they inherently reflect good or poor strategies. CSR performance is measured in line with previous research (e.g., Bahta et al., 2021; Ma et al., 2023). The CSR model used in this study comprised twenty-six items that are classified into four groups, as follows: society, environment, customers, and employee. The extent to which firms are involved in CSR is measured depending on a 5-point scale, ranging from strongly agree that equals 5 to strongly disagree that equals 1.

For measuring financial performance, we depend on five performance-related items derived from previous research (e.g., Xiliang et al., 2023; Bahta et al., 2021). SMEs' performance was scored on a Likert scale ranging from 1 to 5, with 1 representing highly unsuccessful performance and 5 representing exceptionally successful performance. There is a lack of objective data regarding SMEs' financial performance as these firms' owners

and managers are unwilling to provide it. Therefore, scales are perceived as a preferable alternative to real figures for measuring the performance of SMEs (Wall et al., 2004).

Finally, as control variables, we depend on firm size, age, CEO attributes (gender, tenure, and expertise), and industry type, which are more likely to affect financial performance (Wagner, 2010; Xiliang et al., 2023). Firm size is measured as the natural logarithm of the number of workers (Bahta et al., 2021). Firm age is measured as the natural logarithm of one plus the years since its foundation (Hamdy et al., 2024; Diab et al., 2025). CEO gender is a dummy variable that equals one if the CEO is female and zero otherwise (Eissa et al., 2024). CEO tenure, age, and expertise are measured depending on a Likert scale as noted in Appendix. Finally, industry type is classified as either industrial, commercial, or service industries.

Accordingly, our dependent variable is financial performance (*FP*), and the independent variables are business strategy (*STG*), measured depending on Miles and Snow's (1978) typology, and CSR. Consequently, we test our hypotheses depending on the following proposed model:

$$\begin{aligned} \text{Performance}_{it} = & \alpha + \beta_1 \text{STG (prospector \& defender)}_{it} + \beta_2 \text{CSR}_{it} + \beta_3 \text{Firm Size}_{it} + \beta_4 \text{Firm Age}_{it} \\ & + \beta_5 \text{CEO Gender}_{it} + \beta_6 \text{CEO Tenure}_{it} + \beta_7 \text{CEO Age}_{it} + \beta_8 \text{CEO Expertise}_{it} \\ & + \beta_9 \text{Industry Effect}_{it} + \varepsilon_{it} \text{ Model 1} \end{aligned}$$

$$\begin{aligned} \text{Performance}_{it} = & \alpha + \beta_1 \text{STG (prospector \& defender)}_{it} + \beta_2 \text{CSR}_{it} + \beta_3 \text{CSR}_{it} * \text{STG}_{it} + \beta_4 \text{Firm Size}_{it} \\ & + \beta_5 \text{Firm Age}_{it} + \beta_6 \text{CEO Gender}_{it} + \beta_7 \text{CEO Tenure}_{it} + \beta_8 \text{CEO Age}_{it} \\ & + \beta_9 \text{CEO Expertise}_{it} + \beta_{10} \text{Industry Effect}_{it} + \varepsilon_{it} \text{ Model 2} \end{aligned}$$

5. Empirical results

5.1 Descriptive analysis

Table 1 shows descriptive statistics. The study sample is distributed across different SMEs' sectors as follows, the industrial sector (15.22%), the commercial sector (45.11%) and the service sector (39.67%). The mean value of Performance is 3.96 with standard deviation 0.86, and it ranges from 2 to 5. This finding reflects the high level of SME's performance in our sample. This outcome is consistent with the notion that these firms operate in one of the largest emerging economies in Asia and one of the richest countries in the Arabian Gulf region that gives significant support for SMEs according to their vision 2030. The mean values of *Prospector* and *Defender* are 3.29, and 3.65 with standard deviations (SD) of 0.53, and 0.64 and ranges from 1.80 to 5 and from 2 to 5, respectively. These results suggest that SMEs have a comparatively stronger orientation towards defender strategy compared to prospector strategy. The mean value of CSR is 4.41 (with SD=0.53), and it ranges from 3 to 5. These results show that SMEs are increasingly interested in CSR and increasingly involved in social activities. They ensure that SMEs receive the necessary support from the state. Thus, SMEs are committed to performing their activities within a framework of social and ethical responsibility.

Table 1. Descriptive statistics

Continuous variables (n=184)	Mean	Median	SD	Minimum	Maximum
Performance	3.96	4.00	0.86	2.00	5.00
Prospector	3.29	3.40	0.53	1.80	5.00
Defender	3.65	3.78	0.64	2.00	5.00
CSR	4.41	4.50	0.53	3.00	5.00
Firm Size	3.58	3.53	1.46	1.79	5.95
Firm Age	2.59	2.64	0.74	0.69	4.43
Dichotomous variables (n=184)	Frequency			%	
CEO Gender	38			20.70%	
CEO Tenure					
≤ 3 years	44			23.91%	
> 3 years up to 6 years	61			33.15%	
> 6 years up to 10 years	31			16.85%	
> 10 years	48			26.09%	

Total	184	100%
CEO Age		
≤ 30 years	25	13.59%
> 30 up to 40 years	39	21.20%
> 40 up to 50 years	94	51.09%
> 50 up to 60 years	11	5.98%
> 60 years	15	8.15%
Total	184	100.0
CEO Expertise		
≤ 3 years	38	20.65%
> 3 up to 6 years	39	21.20%
> 6 up to 10 years	36	19.57%
> 10 years	71	38.59%
Total	184	100.0
Industrial sector	28	15.22%
commercial Sector	83	45.11%
Service Sector	73	39.67%
Total	184	100.0

Table 2 shows Cronbach's alpha test. The alpha scores are 0.929, 0.838, 0.886, and 0.949 for *Performance*, *Prospector*, *Defender*, and *CSR*, respectively. This result reflects high degrees of internal consistency, ensuring the reliability of the research instrument. The overall alpha coefficient is 0.939, which confirms the high reliability of the research instrument.

Table 2. Alpha Cronbach test

	Cronbach's alpha
Performance	0.929
Prospector	0.838
Defender	0.886
CSR	0.949
Overall alpha score for all questions	0.939

In addition, we conducted a factor analysis (FA) for the variables used in the study. Table 3 indicates that all four variables (Financial Performance, Prospector, Defender, and CSR) have high values in the first factor, with a loading value reaching 0.70, indicating a strong relationship between these variables and the common latent factor. The high values indicate that the variables contribute equally to representing the latent dimension measured by the first factor, reflecting a good internal consistency among the different items. This consistency implies that each variable plays an important role in forming the conceptual structure of the scale without losing essential information. Put differently, values > 0.40 are a strong indicator of the validity of the research variables in representing the latent dimension, i.e., these variables are well interrelated and can be confidently used in subsequent statistical analyses. This level of loadings reflects the quality of the research instrument's design and that the selected items are appropriate for measuring the targeted concept.

Table 3. Factor Analysis

Factor Analysis for variables	Component (1)
<i>Performance</i> (Q1-Q5)	0.40 >
<i>Prospector</i> (Q6-Q15)	0.40 >
<i>Defender</i> (Q16-Q24)	0.40 >
<i>CSR</i> (Q25-Q50)	0.40 >

Table 4 below presents the correlation between business strategies, *CSR*, and *performance*. The results show a significant positive relationship between *Prospector* and *Defender* and *Performance* at the 1% level, consistent with H1. This finding indicates that Saudi SMEs, which are more oriented towards prospector or defender strategies, are correlated with higher financial performance. SMEs in KSA are benefiting from exploratory and innovative initiatives, reducing operating costs, and maintaining operational stability. This improvement confirms the importance of adopting one of business strategies (prospector or defender) as an effective tool for enhancing firm performance and achieving sustainable growth in financial results (Lee et al., 2010; Bryan et al., 2013).

In addition, the results reveal a positive relationship between *CSR* and *Performance* at the 1% level, consistent with H2. This result highlights the importance of CSR for SMEs in KSA and stresses its role in enhancing financial performance of these firms. CSR activities can enhance SMEs' mental image among customers and achieve their satisfaction and loyalty, which enhances their financial performance in the long-term (Ansong, 2017; Bahta et al., 2021; Eissa et al., 2024). Consequently, CSR is perceived as an effective tool that enhances SMEs' financial performance and achieves SMEs' sustainable growth.

Table 4. Correlation matrix

	FP	Prospector	Defender	CSR	Firm Size	Firm Age	CEO Gender	CEO Tenure	CEO Age	CEO Expertise
Performance	1	0.555***	0.452** *	0.476** *	0.029	-0.103	-0.027	0.427** *	0.096	0.253***
Prospector	0.575***	1	0.236** *	0.589** *	-0.026	-0.074	-0.133*	0.237** *	0.192** *	0.124*
Defender	0.392***	0.247***	1	0.140*	0.035	-0.128*	0.027	0.161**	0.167**	0.189**
CSR	0.526***	0.587***	0.192** *	1	- 0.320** *	-0.038	-0.074	0.299** *	0.007	0.271***
Firm Size	-0.014	-0.062	-0.031	- 0.320** *	1	0.376***	0.167**	-0.090	0.399** *	0.012
Firm Age	0.008	-0.061	-0.105	-0.053	0.426** *	1	0.098	0.125*	0.393** *	0.083
CEO Gender	-0.048	-0.143*	0.038	-0.089	0.171**	0.094	1	0.034	0.091	0.001
CEO Tenure	0.418***	0.229***	0.134	0.259** *	-0.084	0.162**	0.029	1	0.175**	0.232***
CEO Age	0.142*	0.194***	0.158**	-0.012	0.423** *	0.397***	0.110	0.195** *	1	-0.012
CEO Expertise	0.285***	0.143*	0.197** *	0.238** *	0.007	0.141*	0.002	0.240** *	0.010	1

Where: *, **, *** are significant at 10%, 5%, 1% levels, respectively.

5.2 Testing hypotheses

To test our hypotheses, we run linear regressions for model 1, regressing Performance on Business Strategy and CSR. Table 5 (model 1) indicates that the Prospector and Defender strategies have a positive effect on Performance (coefficients = 0.464, 0.399 $p < 0.01$, respectively). This finding indicates that orientation of SMEs towards a prospector or a defender strategy contributes to improving the SMEs' financial performance, as SMEs' adoption of the methodology of innovation and exploration of new opportunities (Prospector), or the methodology of maintaining stability, reducing costs and enhancing the use of resources while maintaining a certain level of quality (Defender), significantly enhances financial performance, supporting our first hypothesis. This result is consistent with previous research such as Lee et al. (2010), Bryan et al. (2013), and Teeratansirikool et al. (2013).

In addition, consistent with our first hypothesis, the results reveal a positive effect of CSR on Performance (coefficient= 0.346, $p < 0.01$), which means that SMEs' integration of CSR in their activities, in line with the KSA Vision 2030, significantly improves their performance. This outcome is consistent with the noting a positive effect of CSR on the financial performance in SMEs in Ghana (Ansong, 2017) and Eritrea (Bahta et al., 2021). Hence, CSR should not be perceived as just a moral responsibility, but it is a strategic tool that enhances SMEs' performance by improving reputation and increasing stakeholder satisfaction and loyalty, which ultimately improves financial performance. These results are consistent with H2.

Model 2 in Table 5 shows the interaction effect of CSR with business strategies as follows. *Prospector*CSR* has a positive effect on Performance (coefficients = 0.430, $p < 0.05$). This result notes that integrating CSR activities into SMEs that are oriented towards a prospector strategy enhances their performance. This finding is consistent with Ho et al. (2022), who reported that the interaction between prospector strategy and CSR

activities positively affects firms' financial performance. However, the results show that *Defender*CSR* has a negative effect on *Performance* (coefficients = -0.253, $p < 0.05$). This result indicates that integrating CSR activities into SMEs oriented towards a defender strategy mitigates the positive effect of defender on SME's performance. This outcome implies that integrating CSR with defender strategy reduces SMEs' financial performance. This result is consistent with Ho et al. (2022), who showed that the interaction between defender strategy and CSR activities may not be reflected positively on a firm's financial performance. It also echoes Choi et al. (2010) who noted that achieving a positive impact on financial performance depends on effective management of CSR. Further, Porter and Kramer (2007) noticed that there are many CSR issues facing firms, but only a few of them represent real opportunities to make a fundamental change in society and achieve competitive advantages for these firms. Consequently, defender SMEs should reconsider how to integrate CSR with strategy to achieve a positive effect and avoid the negative ones of CSR on financial performance. This issue requires careful planning to avoid increasing costs without a clear financial return. This interaction poses a strategic challenge for SMEs seeking to achieve financial stability while adhering to CSR.

Table 5. Linear regression results (regressing financial performance on business strategy and CSR)

Variables	Model (1)		Model (2)	
	Dependent "Performance"		Dependent "Performance"	
	B	t	B	t
Constant	-1.473***	-2.770	-1.098*	-1.960
Prospector	0.464***	4.136	0.404***	3.670
Defender	0.399***	5.397	0.489***	6.346
CSR	0.346***	2.858	0.285**	2.360
Prospector*CSR			0.430**	2.471
Defender*CSR			-0.253**	-2.311
Firm Size	0.115***	2.948	0.127***	3.347
Firm Age	-0.151**	-2.079	-0.184**	-2.533
CEO Gender	-0.027	-0.240	-0.070	-0.636
CEO Tenure	0.227***	5.018	0.217***	4.832
CEO Age	-0.077	-1.539	-0.084*	-1.729
CEO Expertise	0.014	0.343	-0.006	-0.144
Industries	Included		Included	
F. Test	19.071***		18.133***	
Adjusted R ²	51.10%		54.9%	
Observations	184		184	
VIF	Less than 4		Less than 4	

Where: *, **, *** are significant at 10%, 5%, 1% levels, respectively.

Besides, we re-estimated models 1 and 2 depending on the industry's adjusted score of financial performance. The results are presented in Table 6, and they are consistent with the previous analysis shown in Table 5.

Table 6. Linear regression results (regressing financial performance on business strategy and CSR)

Variables	Model (1)		Model (2)	
	Dependent "Industry adjusted Performance"		Dependent "Industry adjusted Performance"	
	B	t	B	t
Constant	-5.518***	-10.681	-5.209***	-9.523
Prospector	0.456***	4.066	0.409***	3.710
Defender	0.394***	5.294	0.478***	6.170
CSR	0.370***	3.123	0.311***	2.627
Prospector*CSR			0.373**	2.132
Defender*CSR			-0.257**	-2.329
Firm Size	0.119***	3.123	0.129***	3.453
Firm Age	-0.122*	-1.710	-0.141*	-1.963
CEO Gender	-0.006	-0.054	-0.043	-0.389
CEO Tenure	0.218***	5.019	0.199***	4.549

CEO Age	-0.077	-1.586	-0.079*	-1.653
CEO Expertise	0.022	0.546	0.009	0.217
Industries	No		No	
F. Test	22.09***		20.078***	
Adjusted R ²	50.9%		53.4%	
Observations	184		184	
VIF	Less than 4		Less than 4	
Where: *, **, *** are significant at 10%, 5%, 1% levels, respectively.				

5.3 Additional analyses

We re-run models 1 and 2 after considering the scores of CSR dimensions (i.e., society, environment, customer, employees). Model 1 (column 1) in Table 7 shows that *Society* has a positive effect on *Performance* (coefficient = 0.173, $p < 0.05$). Column 2 reveals that the interaction variable *Prospector*Society* has an insignificant negative effect on *Performance* (coefficients= -0.197, $p > 0.10$). These results suggest that integrating CSR oriented towards society with the prospector strategy is not sufficient to generate a tangible financial effect for SMEs. This may reflect poor management of CSR towards society in prospector firms (Porter and Kramer, 2007; Choi et al., 2010). However, the interaction variable of *Defender*Society* has a significant negative effect on *Performance* (coefficient = -0.259, $p < 0.05$). This result indicates that integrating CSR towards society with the defender strategy negatively affects financial outcomes. This context implies that the costs of implementing CSR in SMEs classified as defender firms outweigh the anticipated financial gains. Consequently, this interaction can be considered a strategic challenge that must be carefully addressed to achieve a balance between financial performance and social sustainability in defender firms.

Column 3 in Table 7 shows that CSR oriented towards the environment (*Environment*) has an insignificant effect on *Performance* (coefficient = 0.029, $p > 0.10$). Column 4 reveals that the interaction variable *Prospector*Environment* has a significant positive effect on *Performance* (coefficient= 0.413, $p < 0.01$). This result explains that SMEs that integrate CSR activities towards the environment with the prospector strategy have better financial performance (Porter and Kramer, 2007; Choi et al., 2010). However, the interaction variable *Defender*Environment* has a significant negative effect on *Performance* (coefficient = -0.204, $p < 0.05$). This result denotes that integrating CSR activities oriented towards the environment with the defender strategy leads to a significant decline in SME's financial performance. Hence, the costs of implementing environmental initiatives in defender SMEs outweigh the financial gains.

Column 5 shows that CSR initiatives focusing on customers (*Customer*) positively affect *Performance* (coefficient= 0.433, $p < 0.01$). Column 6 indicates that the interaction effect of *Prospector*Customer* has a significant positive effect on *Performance* (coefficient= 0.156, $p < 0.01$). Accordingly, prospector firms that introduce CSR initiatives oriented towards customers achieve better financial results. In addition, the results reveal that *Defender*Customer* has a significant positive effect on *Performance* (coefficient= 0.162, $p < 0.05$). This indicates that defender firms that introduce CSR initiatives oriented towards customers benefit from this initiative and achieve better financial performance (Porter & Kramer, 2007; Choi et al., 2010).

Column 7 shows that CSR initiatives oriented towards employees (*Employees*) have a positive effect on *Performance* (coefficient = 0.430, $p < 0.01$). Column 8 clarifies that *Prospector* Employees* has a significant positive effect on *Performance* (coefficient= 0.197, $p < 0.01$). Accordingly, prospector firms that introduce CSR initiatives oriented towards employees benefit from the employee initiative, achieving better financial results. However, the results reveal that *Defender*Employees* has a significant negative effect on *Performance* (coefficient= -0.170, $p < 0.05$). This result indicates that defender firms with CSR initiatives oriented towards employees are not benefiting from this initiative. Thus, defender SMEs incur additional costs when implementing employee initiatives without immediate financial returns.

Overall, we observe that most CSR efforts in defender SMEs are counterproductive for two main reasons. They pit SMEs against society, when the two are interdependent. SMEs with a defender strategy think of CSR in generic ways, instead of managing and crafting CSR initiatives appropriate to their individual strategies. CSR

should be perceived as more than just a cost, constraint, or charitable deed (Porter and Kramer, 2007). In contrast, prospector SMEs approached CSR strategically, crafting CSR initiatives appropriate to their individual strategies. This context generates opportunities, innovation, and competitive advantage for prospector firms, while solving pressing social problems.

Table 7. Regressing financial performance on business strategy and CSR-Additional analysis

Variables	Model (1)		Model (2)		Model (1)		Model (2)		Model (1)		Model (2)		Model (1)		Model (2)	
	Dependent "Performance"		Dependent "Performance"		Dependent "Performance"		Dependent "Performance"		Dependent "Performance"		Dependent "Performance"		Dependent "Performance"		Dependent "Performance"	
	Column (1)		Column (2)		Column (3)		Column (4)		Column (5)		Column (6)		Column (7)		Column (8)	
	B	t	B	t	B	t	B	t	B	t	B	t	B	t	B	t
Constant	-0.986*	-1.974	-0.351	-0.658	-0.735	-1.472	-0.246	-0.480	0.252	0.641	0.678	1.378	0.160	0.396	0.482	0.960
Prospector	0.595*	6.201	0.582*	6.046	0.631*	5.815	0.567*	5.288	0.272*	3.244	0.308*	3.719	0.228*	2.511	0.321**	3.429
Defender	0.371*	4.888	0.257*	2.955	0.399*	5.268	0.466*	6.108	0.100	1.477	0.039	0.571	0.138*	2.000	0.008	0.097
Society	0.173*	2.080	0.162*	1.982												
Prospector*Society			-0.197	-1.515												
Defender *Society			-0.259*	-2.561												
Environment					0.029	0.336	-0.005	-0.058								
Prospector*Environment							0.413*	2.990								
Defender * Environment							-0.204*	-2.045								
Customer									0.433*	9.876	0.346*	4.801				
Prospector*Customer											0.156*	2.657				
Defender * Customer											0.162*	2.351				
Employees													0.430*	8.919	0.388**	5.881
Prospector* Employees															0.197**	3.021
Defender * Employees															-0.170**	-2.451
Firm Size	0.094*	2.489	0.103*	2.754	0.071*	1.915	0.078*	2.179	0.080*	2.760	0.072*	2.555	0.120*	3.931	0.089**	2.745
Firm Age	-0.185*	-2.362	-0.239*	-3.025	-0.132*	-1.742	-0.174*	-2.305	-0.197*	-3.320	-0.184*	-3.118	-0.146*	-2.389	-0.139**	-2.238
CEO Gender	-0.034	-0.302	-0.044	-0.398	-0.013	-0.112	-0.058	-0.514	-0.090	-0.975	-0.095	-1.047	-0.061	-0.637	-0.032	-0.346
CEO Tenure	0.234*	5.124	0.243*	5.411	0.235*	5.087	0.231*	5.126	0.219*	5.922	0.205*	5.608	0.209*	5.448	0.206**	5.465
CEO Age	-0.080	-1.563	-0.078	-1.563	-0.072	-1.398	-0.083*	-1.665	0.005	0.112	0.004	0.092	-0.018	-0.415	-0.029	-0.680
CEO Expertise	0.033	0.802	0.031	0.755	0.037	0.887	0.007	0.178	-0.035	-1.034	-0.018	-0.535	-0.008	-0.214	0.005	0.159
Industries	Included		Included		Included		Included		Included		Included		Included		Included	
F. Test	18.331***		16.832***		17.519***		16.807***		36.285***		33.014***		32.823***		30.440***	
Adjusted R ²	51%		52.9%		49.80%		52.9%		68%		69.5%		65.7%		67.7%	
Observations	184		184		184		184		184		184		184		184	
VIF	Less than 4		Less than 4		Less than 4		Less than 4		Less than 4		Less than 4		Less than 4		Less than 4	

Where: *, **, *** are significant at 10%, 5%, 1% levels, respectively.

6. Conclusion

In this study, we examined the effect of business strategy on firm performance. In addition, we investigated if CSR could moderate such a relationship by bringing evidence from the SMEs sector in KSA. We depended on the survey instrument in data collection and used the stakeholder theory to interpret our findings. Using

descriptive and multivariate analysis, our results revealed a significant positive effect of business strategies on SMEs' performance. Further, CSR is found to have a significant positive effect on SMEs' performance. Moreover, we found that CSR has a significant positive effect on the relationship between prospector strategy and SMEs' performance. However, CSR has a significant negative effect on the relationship between defender strategy and SMEs' performance. To corroborate our main findings, we conducted an additional analysis to assess the moderating effects of the various CSR dimensions (i.e., society, customers, employees, the environment). The results showed that prospector strategy when combined with the customers, the employees, and the environmental dimensions of CSR yields better financial performance. However, the defender strategy integrated with the society, employees and environmental dimensions of CSR results in lower financial performance. In contrast, the defender strategy integrated with the customer dimension of CSR results in improved financial performance. Overall, the current findings indicate that managers in SMEs should manage and prioritize CSR practices in the light of the adopted type of business strategy in order to attain the best benefit of such practices.

This study contributes to literature in some respects. It explores a Saudi economic environment undergoing rapid transformations under Vision 2030, as an example of emerging markets which are rarely examined in literature. Further, we focused on the SMEs' sector due to its unique value and significant contribution to the economy of emerging markets. While doing so, we presented an integrated framework that shows the influence of combining distinct types of corporate strategies with CSR activities on SMEs' financial performance. Moreover, the findings of this study provided guidance to regulators and policymakers concerning the extent to which the structure of corporate strategies that combine CSR perspectives can have implications for firm competitiveness and sustainability. Such guidance can help them develop effective policies that support SMEs operating in emerging markets and enhance their contribution to economic and societal development.

Finally, this study is not without limitations. Because we focus on Saudi SMEs, the findings of this study shouldn't be generalized to larger firms working in advanced markets such as the USA and the UK. Future research can examine other developing countries to confirm the reliability of the current findings. Moreover, in this research, we depended on the survey instrument to collect the study data. Hence, we suggest that future research can use other research methods, namely qualitative research methods, to help gain insights into the interrelationships among the variables examined in the current study, i.e., firm strategy, CSR, and firm performance.

Appendix. Survey questions

Background information

1. **Firms name** (Optional)
2. **Firm's age** (Years since its foundation)
3. **Firm's size** (Number of Employees).
4. **CEO's Gender** (Male- Female).
5. **CEO's tenure** (Number of years he has the current position)? (≤ 3 years, more than 3 years and up to 6 years, more than 6 years and up to 10 years, more than 10 years).
6. **CEO's age** (≤ 30 years, more than 30 up to 40 years, more than 40 up to 50 years, more than 50 up to 60, more than 60 years).
7. **CEO's expertise in the industry** (≤ 3 years, more than 3 up to 6 years, more than 6 up to 10 years, more than 10 years).
8. **Industry** (Industrial, commercial, Service industry).
9. **Financial Performance**

1. We achieve better returns on service sales than competitors.

2. We have achieved better profits on investment than competitors int the industry over the past three years.

3. We achieve better asset growth compared to competitors int the industry.

4. We have achieved better revenue growth than competitors int the industry over the past three years.

5. We achieve better net profit growth than competitors int the industry.

10. Strategy survey items

Prospector

6. Considering our products and services, we primarily seek to differentiate our products and services from those of our competitors.

7. If asked about our firm, consider us to be highly innovative.

8. Most current and prospective customers probably see our products and services as considering our products and services to be among the most unique.

9. In the future, we primarily plan to focus on high innovation.

10. One of our goals for the future is to offer products and services that are easily differentiated from those of our competitors.

11. Our firm concentrates most on innovation.

12. We create customer value through services supporting the products.

13. We take advantage of selling products at higher prices than in the market.

14. We create special products or brand images.

15.	We are adapting products to changing needs of customers.
Defender	
16.	Considering our products and services, we primarily seek to provide our products and services at the lowest possible price.
17.	If asked about our firm, most current and prospective customers would consider us to be an efficient producer of goods and services.
18.	Most current and prospective customers probably see our products and services as among the lowest priced ones available.
19.	In the future, we primarily plan to focus on improving our efficiencies.
20.	One of our goals for the future is to offer products and services that are like those of our competitors, but at a lower cost.
21.	Our firm concentrates most on high efficiency.
22.	We work with lowest costs as a result of gaining efficiency in activities.
23.	We try to gain cost advantage in supply of raw material.
24.	We are gaining economies of scale.
11.	CSR performance:
11.1 CSR (Toward society)	
25.	We make sufficient financial contributions to charitable organizations.
26.	We maintain transparent relationships with local authorities.
27.	We are part of the local society, and we are concerned about its development and infrastructure improvement.
28.	We contribute to campaigns and projects that promote society welfare.
29.	We encourage employees to participate in volunteer and charitable work.
30.	We are financially supporting activities (arts, culture, sports) in the societies where we operate.
11.2 CSR (Toward environment)	
31.	We participate in activities that enhance and improve the environment.
32.	We invest in creating a better life for future generations.
33.	We implement programs to mitigate its negative impact on the environment.
34.	We target sustainable growth to consider the future generations.
35.	We consider regulations, laws and government requirements to protect the environment.
36.	We participate in energy conservation efforts.
37.	We implement programs to reduce water consumption.
11.3 CSR (Toward customers)	
38.	We respect consumer rights in compliance with legal requirements.
39.	We provide customers with accurate and complete information about our products.
40.	Customer satisfaction is one of the most important priorities.
41.	We are committed to providing quality that fits the product's price to improve customer satisfaction.
42.	Customer complaints are monitored and analyzed continuously to resolve to achieve customer loyalty.
11.4 CSR (Toward Employees)	
43.	Employees' interests are considered when making decisions.
44.	Current organizational policies encourage developing employees' skills and careers.
45.	Employees' needs and desires are considered as one of the most important priorities for a firm's management.
46.	We implement flexible policies to ensure a good work-life balance.
47.	Management decisions related to employees are usually fair.
48.	We always support employees who wish to pursue further education.
49.	We help employees achieve a balance between their professional and personal lives.
50.	We provide procedures that help ensure employees' health and safety.

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