Corporate Social Responsibility in Small and Medium Enterprises to Achieve Organizational Benefits

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Abstract:
In this paper the implications of CSR and its linkages with SME sector have been discussed. Unlike large scale organizations, SMEs have many constraints e.g. financial limitations, less government support and lack of knowledge. So they are not much familiar with the concept of CSR and its advantages. This paper examines how SMEs can make their financial performance better by properly engaging in CSR practices. CSR helps the SMEs to achieve many organizational benefits like reputation, trust, motivation, attracting better employees, cost reduction and increased revenues etc. A conceptual framework has been drawn to clearly understand different organizational benefits. Various studies, articles and research papers have been discussed in order to draw the conclusion.

Key words:
CSR (Corporate Social Responsibility), SMEs (Small and Medium Enterprises), Organizational benefits, Conceptual Framework, CSRs Advantages.

1 INTRODUCTION:

In recent years, Corporate Social Responsibility (CSR) has been increased significantly [1], [2], [3], [4] and it is now viewed as at its most predominant [5] representing an important topic for research [6]. Current corporate scandals have attracted the attention of public and highlighted once more the importance of CSR [7]. In developing countries research on CSR in SMEs is quite meager [8]. Small and medium enterprises (SMEs) have been identified as an important strategic sector for promoting growth and social development of countries. Over the years, SMEs have gained a great reputation as a main source of employment, income generation, poverty alleviation and regional development. Small and medium-sized enterprises (SMEs) consist of more than 90% of enterprises and 50-60% of employment worldwide. SMEs' involvement in national and regional economic development and GDP growth is highly acknowledged [9]. Participation of CSR in SMEs in developing as well as developed countries has been seen as more ad hoc in nature without any involvement of particular CSR departments and environmental and social sustainability reports generation as expected in large firms.

2 LITERATURE REVIEW:

2.1 CSR:

CSR is the behavioral response of any business that besides the attainment of its economic goals also contribute towards improvement in the quality of life at the workplace, benefits local communities and the society in its totality [10]. The social responsibility is set of ethical, legal and socio-economic expectations of society towards the business organizations operating within its premises [11]. In other words it can be said that CSR analyses interdependent relationship that links business firm with the societies within which it operates. Even includes the worker welfare programs as part of corporate social responsibility. Responsible Business Initiative (RBI) classifies CSR dimensions in to the following:

- Practicing Fair Trade
- Human Rights protection and promotion
- Strict devotion to the business ethics and community contribution
- Civilized labor practices
• respect for employees’ rights
• Ensuring operational safety and security at the Work place
• Occupational health
• Good governance and good practices
• Quality management
• Compliance to the laws

CSR is its own kind of business engagement of businesses in the direction of its interest holders that the company will continue to act ethically and morally in his pursuit business objectives. During the process of marching to its corporate ends company would continue to improve the quality of life in the workplace, workers, their families, and the community around [12].

2.2 SMEs:

The SME sector is often perceived as homo-genius, the defining characteristic explaining its behavior being size [13]. SMEs are the backbone of developing economies, especially in terms of employment and development impacts; Contribution of SMEs in businesses worldwide is over 90 per cent and account for between 50 and 60 per cent of employment [14]. The labor intensity in the SMEs is estimated to be almost four times higher than the large enterprises [15]. Different countries have to some extent different criteria for assessing SMEs, which sometimes creates confusion. In US criteria for SME are less than 500 workers. SMEs are important in globalization and its successful relation between different countries. It is also quoted referring Europe that if there are less than 250 employees called SME whereas, it is also defined only small companies, having 10-49 worker is called smaller, medium with 49-249 workers and micro under 10 workers.

2.3 SME Sector in Pakistan:

According to definition of SMEDA for SME in Pakistan, having less than 250 employees with capital not more than 25 million Pakistani rupees and not above transaction of 250 million Pakistani rupees.

SMEs are playing very vital role in development of economies, generating employment, reducing poverty and solving socio economic problems. According to SMEDA, presently 9/10 of businesses in Pakistan are running as small and medium enterprises except crop growing. This also adds in 4/5 of employment generation in country and 2/5 of total gross domestic product of whole national economy. SMEs also contribute large share in economic growth of Pakistan. In this regard it is also mentioned that SME’s support for Pakistan’s economy is found favorable in terms of growth. However, many developing nations and researchers have asked that what SMEs have produced in Pakistan? SMEDA is the authority that is regulating SMEs in Pakistan, has answered brilliantly that Pakistan has dealt with many other socio and economic problems in country by the time which kept SME off the track. In Pakistan SMEs are providing more than 90% employment and contribution in GDP is also about 30%. Pakistan can move ahead and compete in this developing sector undoubtedly with proper resource allocation and government support, if the entrepreneurs use their imminent and full competency in SME sector. In addition, it can be further claimed that due to availability of cheaper and talented man power to SMEs in Pakistan can enhance the movement and competency role of SMEs in Pakistan. So if the entrepreneurs of SMEs are supported and backed by government and are provided with finances and improved technologies then these companies may provide large support to economies.

But the importance of SMEs in economic growth and development process is even more than their strength in number. SMEs are the mainstay of developing economies, particularly in terms of employment and development impacts. In many sectors, their cumulative social and environmental impacts are greater than those of large enterprises. Overall SMEs are found to be helping hand for employment growth, innovation and overall economy of not only in single country but also in international businesses. It is concluded that it’s not possible for developing economies to ignore the role of SMEs. SMEs have proved all over the world by taking its position for economic development. SMEs are particularly important in supporting economic growth and livelihoods in developing countries, as they tend to use more labor-intensive production processes than large enterprises, boosting employment and leading to more equitable income distribution; provide livelihood opportunities through simple, value-adding processing activities in agriculturally-based economies; nurture entrepreneurship; and support the building up of systemic productive capacities and the creation of resilient economic systems,
through linkages between small and large enterprises.

2.4 CSR and SMEs:

Corporate Social Responsibility (CSR) is very vital for Small- and Medium-sized Enterprises: The developments during the last two decades have changed the outlines of what is acceptable to the society in context of International trade [16]. The social responsibility has grown to be a commonly debated issue that has attracted considerable media attention during the last decade [17]. The benefit or harm of products and services, their environmental impact and the producer’s relationship with the workforce and with local communities are open to inspection particularly since last six-seven years [18] . The European Observatory of SMEs states that mostly in a small company implementation of CSR is done on an occasional basis, and not tied to business strategy. And of course, a big step in this approach is making CSR a major part of the core decision-making process at senior levels. In developing countries it has been noted that research on CSR in SMEs is quite meager [6]. People are not much aware of the concept of CSR, even though they have adopted ways and means of being responsible to community and society. As discussed with some executives of SMEs in Pakistan, they are not properly aware of CSR, but they are giving donations to hospitals and schools and also engaged in making their business environment friendly.

As the major motive of every commercial organization is profit making. They want to maximize their profits by engaging all the stakeholders in social and environmental friendly manner.

Figure below shows different areas which can be addressed by effective CSR.

Figure 1

2.5 CSR is an old concept:

CSR is not a new concept even for small organizations. A large percentage of SMEs, even without knowing the name, are already doing things that could today be called “corporate social responsibility”. The new thing is the growing attention of pressure groups; policy-makers, consumers, trade unions and non-governmental organizations, given to CSR. These performers should all give more appreciation to what SMEs already do in this field. As compared to large organizations, CSR is less formal and more intuitive in SMEs, but it does not mean that it is less valued. Now the thing is to bring more SMEs to this ancient concept of CSR.

3 CSR TO ACHIEVE ORGANIZATIONAL BENEFITS:

CSR can bring advantages to SMEs:

CSR can be used in organizations; large scale as well as SMEs, for achieving financial gains, employee retention, customer loyalty and satisfaction, cost reduction and improved production along with social, cultural and environmental betterment.

A lot of research has been done on the nature of the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP) [19], [20], [21], [22], [23], [24] with mixed and inconclusive results [25], [26].
There are a lot of studies which have shown that there is a positive relationship between CSR and financial performance of an organization. CSR have positive effect on organizations, externally and internally. External benefits that have been empirically tested include corporate reputation [27], [23] and reducing business risk [28]. Further external advantages that have been explored conceptually include enhancing sales revenue [29], customer goodwill [30] and increasing rivals costs [31], [32].

Some internal benefits have been studied empirically, like learning [27], [23], attracting better employees [33], [34], and workplace attitude [35]. Other internal benefits include that motivation of employees [36], [37], employee morale [36], [38]; commitment, trust [39], [40], and organizational citizenship behaviors [41], [42], [43].

Benefits of CSR can best be understood by this conceptual Framework drawn by studying another model [44]

This figure shows the benefits that can be achieved by using CSR, including tangible benefits like cost reduction, efficiency achievement, low turnover and intangible benefits like commitment, good reputation and better learning.

In this framework we have added the “Trust” which arises from good reputation of SMEs engaging in social responsibility. This trust [39] further leads to motivation of employees, provide them morale support and make them more loyal. On the other hand we can suggest that this trust strengthen the SMEs’ relationship with other stakeholders, customers and suppliers resulting in more tangible benefits.

3.1 Reputation:

SMEs with good reputation as a social responsible attract more people; better employees and strong customer base. Thirty years of empirical research shows that there is strong support to reputation as a mediator of the CSR – financial performance link. Better CSR practices improve the reputation of SMEs among stakeholders, attract better employees and become efficient and productive, and with strong customer base generate more revenue.

3.2 Trust:

CSR in business improves the trust [39], confidence and understanding among its customers, because the responsible companies are always cautious about sales service, which is the best tool to gain customers’ satisfaction for SMEs. On the other hand, employees’ trust on organization results in employees’ retention, less absenteeism and reduced turnover.

3.3 Motivation:

Making its employees happy and satisfied is one of the most difficult jobs for any organization. CSR helps to solve this issue, motivates the employees [37]; they become more loyal towards their organization, performing their task more effectively and efficiently. Recent study shows that Corporate Social Responsibility (CSR) is progressively an important factor in attracting talented and diverse workforce [45]. This leads organization to achieve competitive advantages, reduce production cost and revenues are increased.
3.4 LEARNING:

Learning is basically a process of gaining knowledge, developing new skills, abilities and competences. A socially responsible corporation invests in its employees’ learning. The collected empirical evidence specifies that the CSR – CFP relationship is mediated by managerial knowledge and skills [27], [23], [37]. Socially responsible organizations also have been cited to develop learning mechanisms such as improved analytical capabilities, processes, and information resources and other internal systems that facilitate better the development and adaptation to changes in the environment. CSR can also help organization to increase/stimulate learning and adaptation that are essential to strategy process [38].

3.5 COMMITMENT:

The firms with better CSR practices have more committed employees as compared to those with less or no CSR. Empirical evidence shows that CSR practices in firms will lead to higher organizational commitment in employees [33]. Employees show better goodwill and high OC towards employers with greater CSR and produce improved results [41].

3.6 ATTRACT BETTER EMPLOYEES:

Every employee wants a better and safe workplace and better organizational culture. The corporations engaged in CSR practices have a good repute in society, better relations with employees and an improved workplace management. This better organizational culture attracts the better potential recruiters. There is some empirical support that socially responsible firms attract better employees [33], [42], [43] introduced four separate studies that showed that employees were willing to work for an employer which was commonly supposed to maintain higher moral values at lower rewards. Social responsible firms attract quality employees and generate more revenue with efficient workforce.

3.7 EMPLOYEES RETENTION:

When the employees get safe workplaces, better organizational culture, have trust and strong OC, they are motivated and loyal towards organizational goals; then there is no reason of turnover. Everyone in the organization wants to serve the socially responsible and ethical firms even at lower compensations [43]. They stay with the organization for a long time and work with loyalty. Thus SMEs with better CSR have better retention rate.

3.8 EFFICIENCY:

By efficiency we mean that how efficiently the resources are utilized and productions have been done. As discussed earlier, SMEs with better CSR practices attract quality and skilled workers; they are competent enough to make efficient utilization of resources. The competencies lead to more efficient procedures and enhancements in productivity [36], [38] and the development of new resources, which in turn also lead to a more efficient use of resources [36].

3.9 REDUCED COST OF PRODUCTION:

When the resources are utilized efficiently, workers are skilled and competent, cost of production decreases. With better CSR, internal efficiency is achieved, turnover is reduced and competent workers are retained. This all saves the operating cost and results in increased revenues. Other study also proves benefits of CSR include cost saving and risk reduction [44].

3.10 INCREASED SALES/REVENUES:

Studies have shown that people prefer the firms with improved social and ethical values and make more purchases with them even at higher rates. A study at Florida International University tried to relate social performance with financial performance and found a significant positive relation between CSR and growth in sales return on assets and so on [45]. That’s why CSR is becoming more popular today; more than 80% of the Fortune 500 companies address CSR issues in their webpage [46]. So we can say that SMEs with improved CSR can generate more revenues/sales in long run as compared to those with less or no CSR.

4 ADVANTAGES OF CSR:

The role of SMEs is very vital in the growth and development of any economy. If CSR properly conveyed and used in SMEs, it can provide remarkable returns to the SMEs. By properly using and giving its awareness to the public, SMEs can
gain many benefits from CSR. As people prefer the ethical and socially responsible organizations and willing to pay even more for their products and services, on the other hand employees love to work in organizations with good social repute and better ethical practices. A company with good reputation attracts more stakeholders, customers, employees, and suppliers. Customers are willing to pay even more for products of a firm with good social and ethical business repute. This reputation builds the trust of employees and they are motivated, work with devotion and are loyal to the firm. The turnover rate is decreased, innovation brings in and cost of production is reduced. This leads to increased revenue, which is the ultimate goal of any SME. In this way CSR helps SMEs to achieve many organizational benefits and making a good move in society. So implementation of CSR is suggested for all SMEs.

In nutshell we can say that CSR if properly used by SMEs, not only lead them to success but also makes a society a better place to live in.

5. Conclusion:

There are clear benefits resulting from the implementation of CSR in SMEs. Some of the benefits are big business related but many exist for the SME sector in particular. The main benefits are associated with image, reputation, brands, costs, risk reduction and opportunities for developing better business. There are many examples of good CSR practices in the region, but this report highlights initiatives that address some of the problems of implementing CSR identified.

Most of the SMEs are not much familiar with the concept of CSR particularly in Pakistan. In developing countries SMEs are not properly engaged in CSR practices. Entrepreneurs are not well educated and trained. That is why they are not using the CSR practices accordingly. Although some of them are spending a portion of their profits for the betterment of their society as well as employees in the name of charity, donations, and welfare fund. These are mostly used in none financial areas and are not properly advertised, that’s why not giving much benefits to firms. So by properly engaging in CSR activities and giving its awareness to the public, SMEs can gain many benefits from CSR. A company with good reputation attracts more stakeholders, customers, employees, and suppliers. Customers are willing to pay even more for products of a firm with good social and ethical business repute. This reputation builds the trust of employees and they are motivated, work with devotion and are loyal to the firm. The turnover rate is decreased, innovation brings in and cost of production is reduced. This leads to increased revenue, which is the ultimate goal of any SME.

So it is suggested to SMEs to engage in CSR practices for the betterment of society as well as themselves. As for single enterprises it is not easy to accumulate huge funds to address properly to CSR. SMEs can make a cluster in order to efficiently implement CSR policies. By making a cluster, they can accumulate funds easily.

A cluster can run a hospital providing free health facilities for their employees as well as local community. A school may be established for providing free/ economical and better education to the children of employees as well as the children of that locality. In order to protect environment, this cluster can work, i.e. removal of wastage, construction of green belts/parks, repairing roads etc. Efficient employees are the assets of the organizations, through CSR these SMEs can improve the skills and competencies of their work force by providing them training and education.

SMEs which are not properly engaged in CSR practices are suggested to implement these practices in order to achieve remarkable organizational benefits.

References:


