

## Corporate social responsibility for SMEs: A proposed hypothesised model

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### ABSTRACT

In a competitive, globalised world, corporate social responsibility (CSR) is proposed as a strategy to invigorate the competitiveness of small- and medium-sized enterprises (SMEs). The primary objective of this paper is to identify CSR factors that influence the competitiveness of SMEs and to develop a hypothesised model that can be tested on SMEs. Although SMEs in Uganda are increasingly becoming the backbone of the economy, their rate of survival and competitiveness are a cause for concern. The outcomes of CSR activities can help to improve the survival rate of SMEs, and may offer great opportunities for business competitiveness, locally and globally.

**Key words:** Business ethics, competitiveness, corporate social responsibility, small-and medium-sized enterprises

### INTRODUCTION

Small-and medium-sized enterprises (SMEs) are universally acknowledged as effective instruments for generation of employment and economic growth. Even in countries with large corporations like the United States of America, SMEs contribute substantially to employment opportunities, and they supply goods and services to consumers and large businesses. The rapid transformation of high-performing Asian countries such as India, Malaysia, Indonesia, Taiwan and Hong Kong also provides evidence that SMEs are major catalysts in economic development (COzigbo and Ezeaku, 2009: 2). In Africa, where the private sector, in general, is not yet well developed, SMEs could play a critical role in stimulating economic development and alleviating poverty (Beyene, 2002: 1).

Although SMEs are increasingly becoming the backbone of the economy, their rate of survival and competitiveness are a cause for concern. For instance, it is reported that one-third of the business startups in Uganda do not see their "first birthday" (Tushabomwe-Kazooba, 2006: 2). Analytical and practical case studies on appropriate strategies for the competitiveness of SMEs in developing counties such as Uganda are also limited. Owing to global competition, technological advances and changing needs

of consumers, competitive paradigms are continuously changing. These changes are driving businesses to compete on dimensions such as design and development of product, manufacturing, distribution, communication and marketing (Singh, Garg and Deshmukh, 2008: 3).

As global competitiveness continues to be a momentous trend, the notion of corporate social responsibility (CSR) is proposed as an impressive strategy to invigorate the operations and competitiveness of SMEs. CSR is viewed as a vital concept that businesses of all types and sizes need to understand and address. There exists a positive relationship between CSR activities of SMEs and their enhanced competitiveness, at least if a long-term perspective is considered (Mandl and Dorr, 2007: 2). Although CSR has been mainly discussed in the context of larger businesses, there is compelling evidence that it can also be used as a strategic tool to enhance the competitiveness of SMEs (Mandl, 2009; Szabo, 2008: 17). CSR can positively influence the competitiveness of SMEs in many ways, such as improved products and/or production processes, resulting in an improved customer satisfaction and loyalty, higher motivation and loyalty of employees, better publicity due to awards received and/or enhanced word-of-mouth references, better access to public funds due

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to a better corporate image and increased turnover/sales due to the competitive advantage gained (Mandl, 2009: 11; Szabo, 2008: 18). Hence, CSR is seen as an effective strategy for businesses to enhance competitive strength, financial performance and intangible assets.

Businesses undertake CSR, not necessarily out of a need to act benevolently, but more for survival in a globally competitive and legally complex modern environment (Moeti, 2000: 1). Mandl and Dorr (2007: 50) demonstrate that an enhanced image, improved customer loyalty and better employee-employer relationships are the most important intermediate effects contributing to increased competitiveness.

Although there is a great deal of optimism regarding the role that SMEs can play in improving responsibility in business, most researchers such as Silberhorn and Warren (2007: 5) have focussed their research efforts on large businesses, and continue to do so. Most initiatives tend to take the tried-and-tested 'business case' developed in large businesses and 'shrink' it to fit SMEs (Jenkins, 2007: 2). Despite the widespread practical and academic interest in CSR and its impact on the competitiveness of SMEs, theoretical and empirical studies are limited. Conclusions resulting from quantitative and qualitative research studies with respect to CSR in SMEs in Africa are few.

The primary objective of this paper is to identify CSR factors influencing the competitiveness of SMEs and to develop a hypothesised model that can be tested on SMEs. The paper is mainly a culmination of a synthesis of recent studies from the literature done on CSR, both in developed and developing countries, with conclusions compared to the Ugandan situation. The outcomes of CSR activities can help a great deal in improving the survival rate of SMEs, and may offer great opportunities for competitiveness in business, locally and globally. It is noted, however, that it is a challenge to incorporate CSR activities simultaneously with other business priorities of SMEs in a balanced and motivating manner. This is especially problematic in developing countries where there are limited financial resources, weak institutions and poor governance (Beyene, 2002: 15; Okpara and Wynn, 2007: 2). The paper also contributes to a better understanding of the concept of CSR within a framework of different stakeholders.

## DEFINITIONS OF CONCEPTS

As this research paper focuses on CSR and the competitiveness of SMEs in Uganda, it is imperative to present clear definitions of key concepts.

### CORPORATE SOCIAL RESPONSIBILITY

CSR is an evolving concept that currently does not have a universally accepted definition. In some studies, CSR refers

to the integration of social and environmental concerns into the business operations, and to the interaction of the organisation with its stakeholders on a voluntary basis, that is, going beyond compliance with legal obligations (Mandl, 2009: 4; Zsolnai, 2006: 6). According to Aaronson (2003: 310), CSR refers to open and transparent business practices that are based on ethical values and respect for employees, communities and the environment, designed to deliver sustainable value to society at large, as well as to shareholders. It is a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment (European Commission, 2001: 5). CSR is also viewed as the commitment of businesses to behave ethically and to contribute to sustainable economic development by working with employees, their families, the local community, and society at large to improve their quality of life in ways that are good for business and sustainable development (World Bank, 2004: 11). According to the United Nations Industrial Development Organisation (UNIDO) (2008: 10), CSR refers to a concept prevalent in today's business practices, where companies commit to be sensitive to the demands of all stakeholders in the scope of its business operations, beyond what is being regulated and expected by the community, and beyond the industry norm.

The focus of this research paper is on CSR activities that impact on the workforce of the SMEs, the society/community, the market (i.e., customers, suppliers, business partners, etc.) and the physical environment, to enhance their competitiveness.

### SMALL-AND MEDIUM-SIZED ENTERPRISES

There is no universally accepted definition of SMEs in Africa. Definitions in other countries also lack uniformity, and reflect the relative development of the respective economies (Beyene, 2002: 4). For developing countries, 'small scale' generally means businesses with less than 50 workers, and 'medium-sized enterprises' usually means those that employ between 50 and 99 workers (Hannun, 2004: 6). According to Farrington (2009: 31), SMEs in South Africa are defined as businesses that are independently owned and managed, and employ more than five but less than 200 people. In Uganda, a small-scale enterprise is defined as a business employing more than five but with a maximum of 50 employees, with the value of assets excluding land, buildings and working capital of less than Uganda shillings 50 million (US\$ 30,000), and an annual turnover of between Uganda shillings 10-50 million (US\$ 6000-30,000). A medium-sized enterprise is considered as a business that employs between 50 and 100 workers. Other characteristics have not been fully defined (Hannun, 2004: 6). A number of indexes are traditionally utilised to define SMEs (Harvie, 2004: 5): Number of employees, invested capital, total amount of assets, volume of sales

and production capability. The most commonly used index, however, is the number of employees. For the purpose of this paper, the criterion used for purposes of definition is the number of full-time employees. Hence, the definition of small and medium-sized enterprises used in this paper is: *Businesses that are independently owned and managed, and employ more than five but fewer than 100 persons.*

### Competitiveness

Despite its acknowledged importance, the concept of competitiveness is often controversial and misunderstood (Li-Hua, 2007: 7). The literature on competitiveness provides a wide variety of definitions of the term (Herciu and Ogrea, 2008: 3). As such, competitiveness means different things to different organisations (Rusu, 2003: 1), depending on its context and level (Ambastha and Momaya, 2004: 47). Generally, competitiveness is considered synonymous with success. In simple terms, success can be defined as the achievement of business objectives (Bibu, Sala, Pantea and Bizoi, 2008: 3; Depperu and Cerrato, 2005: 5). To SMEs, competitiveness essentially means the liability and skill for market contention, and the skill to gain position and permanent commitment, all of which are indicated specifically by expansion of the business, market share and profitability (Markovics, 2005: 1). Competitiveness is also viewed as the means by which businesses can improve their performance, which can be measured according to a number of dimensions, including market share, profit, growth and duration. From an entrepreneurial perspective, a competitive business needs to survive in the market and achieve market share and profitability. As such, the success of a competitive business can be measured by objective criteria, which include return on investment, market share, profit, and revenue from sales (Sultan, 2008: 64).

Based on various definitions, this paper considers competitiveness of a business as *its ability to sustain long-term performance better than its competitors in the market, as indicated by profitability, market share, sales and rate of growth.*

### Business ethics

Although ethics in general deals with what is good or right in human interaction, business ethics focuses on what is good and right in economic activity. In other words, it focuses on morally evaluating economic practices and activities (Rossouw, Prozesky, Van Heerden and Van Zyl, 2007: 6). As such, business ethics is defined as a set of established rules, standards or principles for morally right conduct in specific situations and in specific cultures when applied to business activities and operations (Stajkovic and Luthans, 1997: 1). According to Heisler (2007: 2), business ethics is the ability of the business to pay attention to moral judgments, practices and commitments in business decisions. Business ethics is also viewed as a process of an organisation integrating values such as honesty, trust,

transparency and fairness into its policies, practices and decision-making. Hence, business ethics is inherently linked with corporate governance (Mahmood, 2008: 12). For the purpose of this paper, business ethics is considered as *business moral standards, values, norms and practices that over-ride self-interest while pursuing socioeconomic goals.*

### NATURE AND POTENTIAL OUTCOMES OF CSR ACTIVITIES IN SMEs

CSR is a concept that every corporate member of a community and society should practise. Today, it is not enough for businesses to create and secure jobs, provide products and services to society and to pay taxes. More and more consumers are showing a growing interest in ensuring that the products they purchase are produced in a socially and environmentally responsible manner (Lai, 2006: 10). This puts businesses under pressure to make responsible and transparent efforts together with governments and civil society to create a more sustainable world (Kerby, 2001: 4). As such, businesses should recognise that addressing wider social and environmental problems is fundamental in ensuring long-term success (UNIDO, 2002: 1).

CSR involves working in partnership with local communities, practising socially sensitive investment, developing relationships with employees, customers and their families and involvement in activities for environmental conservation and sustainability (Maimunah, 2009: 2). There is no doubt that 'doing the right thing' such as servicing customers, looking after the morale of the staff, nurturing suppliers, being a good neighbour and protecting the environment makes good business sense. To remain competitive, businesses need to be able to adapt to the new demands from the market and the society in which they operate (Nejati and Amran, 2009: 4).

The nature of CSR activities in SMEs can be significantly different from CSR activities in large businesses. For instance, the relationships between SMEs and their key stakeholders, notably employees and customers, are qualitatively different from those of large businesses, and are characterised by a high level of informality. Relationships with customers are often based on personal knowledge of the needs of the customers, whereas relationships with employees are more family-like, with greater openness and social integration. Thus, SMEs may consider themselves to be socially responsible businesses even though it may not be formally recognised (Poláček, 2010: 49).

CSR includes a variety of different activities, and there is no one single approach to CSR, particularly for SMEs. However, to make the vague concept of CSR more tangible, it is vital to describe the conceivable CSR activities in more detail by classifying them into different categories (Mandl and Dorr, 2007:14). SMEs can be classified by the 'target group' of

CSR activities, that is, the beneficiaries of the initiative set by the businesses so that different degrees of 'closeness of consideration' can be identified (Mandl and Dorr, 2007:14; Nae and Grigore, 2008: 13).

A survey of Australian SMEs by Suprawan, DeBussy and Dickinson (2009: 4) reveals that SMEs primarily understand CSR in terms of stakeholder issues, specifically local communities, employees and customers. CSR is equated with the notions of 'giving back' to the community, treating employees fairly and providing quality products and services. Common CSR activities include sponsorship programmes, providing career development and training to employees, recycling of waste and being part of the activities of the community.

Related to this, Ararat (2008: 10), Kramer, Pfitzer, and Lee (2005: 24), Mandl and Dorr (2007: 16), Mandl (2009: 7) and Szabo (2006: 21) demonstrate that SMEs are particularly active in workforce-orientated, market-orientated, society-orientated, and environment-orientated CSR activities. Such activities are categorised in accordance with their contents (European Commission, 2005: 5), as indicated in Table 1.

It is also acknowledged (Mandl and Dorr, 2007: 45) that CSR activities of SMEs, on the one hand, may have effects

**Table 1: Categorisation of CSR activities of SMEs**

Category	Content
Workforce-orientated CSR activities	This is about fair treatment of employees by the business and is often related to attraction and retention of employees, the improvement of working conditions and job satisfaction, work-life balance, equal opportunities and diversity, training and development of staff, participation in business decisions and fair remuneration or financial support of employees
Market-orientated CSR activities	This relates to issues of relevance to the markets in which the business operates. It entails activities to improve the quality or safety of products, fair pricing, ethical advertising, paying suppliers or business partners without delay and supporting the establishment of local or regional business alliances
Society-orientated CSR activities	This is about promoting social solidarity in the broadest sense in the local communities in which the business operates. It involves social and/or labour market integration at community level, improvement of the local infrastructure and cash or in-kind donations to local community institutions
Environment-orientated CSR activities	This is about policies, operational management and reporting in relation to the environmental impact of all activities of the business. It entails designing environmentally friendly products or production processes, efficient use of resources, reduction of waste and pollution, and informing business partners, customers and society on environmental issues

CSR: Corporate social responsibility, SME: Small and medium-sized enterprises

on the business itself (internal effects) and, on the other hand, on the respective target groups, such as society, customers or the environment (external effects). However, not all CSR activities need to be characterised by both, but in the majority of cases, internal effects, such as higher employee satisfaction, will also result in external effects, such as improved customer loyalty due to better service (Mandl and Dorr, 2007: 45). CSR activities for SMEs can also be directed towards working conditions, safety, social development and human rights, ethical conduct in business practices or the environmental impact of business operations (Lantos, 2002: 4).

Previous studies, for example, by Del Baldo (2006: 6), reveal that the practice of CSR entails a blend of specific tools, technical skills, and resources. These are aimed at responsibly orientating the business, rendering the process measurable and communicating the same to the stakeholders, so as to reinforce the commitment towards this formal practice. The opportunities and benefits that businesses enjoy when they adopt CSR activities include: Improvement of business reputation and customer loyalty, greater capacity to attract resources, improvement of the internal climate, enhanced rapport between the business, institutions and the local communities, and a reduction of costs related to environmental efficiency (Lantos, 2002: 4). Although the attractiveness of CSR practices are relatively clear to large businesses, which are able to evaluate the costs and benefits, SMEs have been much slower in realising these benefits (Del Baldo, 2006: 6).

Although CSR has traditionally been associated with large business, recognition of the growing significance of the SME sector has led to an emphasis on their social and environmental impact as well (Fuller, 2003: 1). Whereas SMEs rarely attract the attention of the national media and may not individually have a significant impact, like large businesses, they constitute a significant part of the global economy and society (Spence, Schmidpeter and Habisch, 2003: 3). SMEs account for about 90% of businesses worldwide and are responsible for 50-60% of employment (Kate, Rebecca and Leora, 2007: 4). As such, they play a fundamental role in society, and can potentially have a significant impact on social welfare. It is noted that the majority of SMEs believe that businesses like themselves should pay significant attention to their social and environmental responsibilities (Southwell, 2004: 1). It is argued that as they are smaller with a flatter hierarchy, SMEs maybe better placed than large businesses to take advantage of the changing needs of society (Perez-Sanchez, 2003: 1; Sarbutts, 2003: 1).

Some studies, such as the one conducted by Mandl (2009: 1) confirm the positive impacts of SMEs that implement CSR. The impact can include: Higher productivity and decreased operating costs, better enterprise publicity, improved

networking, new business opportunities, attracting new skilled and talented employees and a greater competitive advantage. Given their presence in local communities, SMEs are strongly connected with the community. With such personal interactions, SMEs can build trust in their communities (Mahmood, 2008: 13).

Although businesses derive many benefits from implementing CSR activities, SMEs in African countries still face several challenges that hinder such implementation. These obstacles include a lack of financial resources, a lack of experience in management, weak institutions, poor governance, poor infrastructure, poor skills in strategically reflecting upon the business, low demand for products and services, poverty, withdrawing too much cash for personal use, insufficient profits and lack of market research (Okpara and Wynn, 2007: 2; Vos, 2005: 4). Likewise, SMEs in Uganda are faced with limited capital, poor corporate governance, weak institutions, limited skills of management, lack of an incentive regime, low productivity and fierce competition (Hatega, 2007: 4; Ocici, 2003: 1). Regardless of these obstacles, SMEs do contribute to communities through conducting activities for the benefit of both the business and local community because of their relationship with the community. Moreover, SMEs that are more concerned about development of brands in the long term tend to be more conscious about their social responsibility (Mahmood, 2008: 13). As SMEs have stakeholders and an impact on society, the concept of CSR is just as valid for small businesses as it is for large ones (Kate et al., 2007: 5).

Also, in Uganda SMEs do collectively exert a large impact on the economy through their operations. As such, they are required to pay attention to social, ethical and environmental issues. By engaging in dialogue with important stakeholders, SMEs can develop a good business

image and achieve employee satisfaction and customer loyalty, thus enhancing their competitiveness.

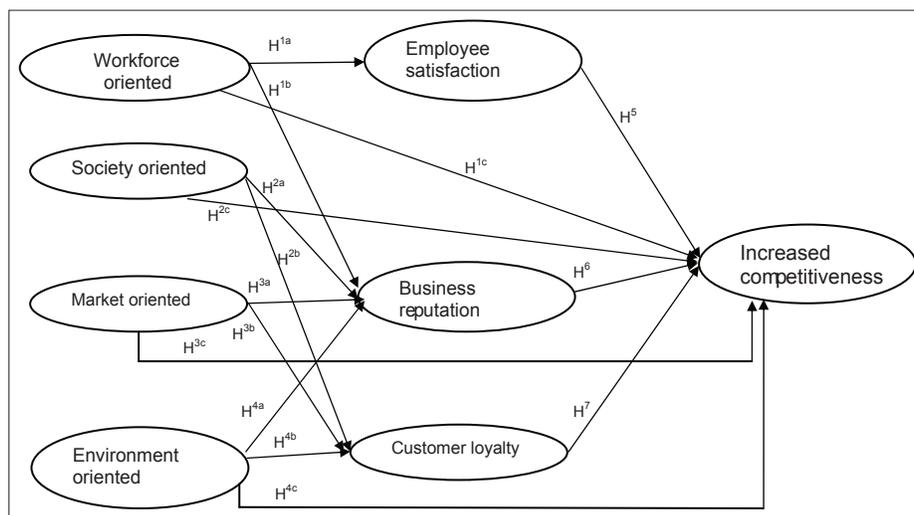
It is evident from the above that both theoretical and empirical research often point to a positive relationship between CSR activities and competitiveness of the business (Weber, 2008: 1). The available literature also shows that higher employee satisfaction leads to better publicity, as well as improved customer loyalty as important beneficial outcomes of socially responsible conduct (Mandl, 2007: 1). The subsequent section discusses the proposed hypothesised model of CSR activities and competitiveness of SMEs, and the operationalisation of research hypotheses.

**PROPOSED HYPOTHESISED MODEL**

A study of the literature revealed a number of CSR variables that influence the competitiveness of SMEs. Based on these factors, the following hypothesised model is proposed [Figure 1].

Figure 1 illustrates how the independent variables (workforce-orientated, society-orientated, market-orientated and environment-orientated CSR activities) impact the mediating variables, namely, employee satisfaction, reputation of the business and customer loyalty. These, in turn, lead to increased competitiveness (dependent variable), which is measured by profitability, market share, sales and growth rate. The various relationships hypothesised between the independent, mediating and dependent variables are summarised below:

- H<sup>1a</sup>: There is a positive relationship between workforce-orientated CSR activities and the satisfaction of employees of SMEs.*
- H<sup>1b</sup>: There is a positive relationship between workforce-orientated CSR activities and the reputation of SMEs.*



**Figure 1: Proposed hypothesised model of corporate social responsibility activities and competitiveness independent variables mediating variables dependent variable**

*H<sup>1c</sup>: There is a positive relationship between workforce-orientated CSR activities and the competitiveness of SMEs.*

*H<sup>2a</sup>: There is a positive relationship between society-orientated CSR activities and the reputation of SMEs.*

*H<sup>2b</sup>: There is a positive relationship between society-orientated CSR activities and customer loyalty.*

*H<sup>2c</sup>: There is a positive relationship between society-orientated CSR activities and the competitiveness of SMEs.*

*H<sup>3a</sup>: There is a positive relationship between market-orientated CSR activities and the reputation of SMEs.*

*H<sup>3b</sup>: There is a positive relationship between market-orientated CSR initiatives and customer loyalty.*

*H<sup>3c</sup>: There is a positive relationship between market-orientated CSR activities and the competitiveness of SMEs.*

*H<sup>4a</sup>: There is a positive relationship between environment-orientated CSR activities and the reputation of SMEs.*

*H<sup>4b</sup>: There is a positive relationship between environment-orientated CSR activities and customer loyalty.*

*H<sup>4c</sup>: There is a positive relationship between environment-orientated CSR activities and the competitiveness of SMEs.*

*H<sup>5</sup>: There is a positive relationship between achieving employee satisfaction and the competitiveness of SMEs.*

*H<sup>6</sup>: There is a positive relationship between the reputation of SMEs and their competitiveness.*

*H<sup>7</sup>: There is a positive relationship between achieving customer loyalty and the competitiveness of SMEs.*

## DISCUSSION

From the review of the literature, a conceptual model of CSR was developed. The model is divided into three parts, namely independent, mediating and dependent variables. The subsequent sections briefly discuss the operationalisation of the variables in relation to the research hypotheses within the context of SMEs.

### Workforce-orientated CSR activities

In this paper, workforce-orientated CSR activities refer to those activities aimed at improving the working conditions, work-life balance, job fulfilment, equal opportunities and diversity, training and development of staff, providing information to employees, participation in business decisions and fair remuneration. This is in line with a survey of Czech SMEs, which showed the highest engagement in workforce-orientated CSR activities (Polášek, 2010: 100), namely, sufficient health and safety arrangements at the workplace, motivation of employees and education systems, possibility of flexible working hours for employees, contributions of the business to pension insurance and/or life insurance of employees, and the top management consulting with employees on important matters.

A survey of Danish SMEs (Granerud and Boesby, 2009: 11) reveals that managers and employees in SMEs see a positive

relation between CSR activities and the environment of work, mainly related to psychosocial conditions. This is more dominant in service-orientated businesses. CSR activities seem particularly appropriate to impact the soft side of the environment of work, which is also the most difficult to regulate through legislation. Empirical studies (see European Competitiveness Report, 2008) demonstrate the positive impacts of CSR from a perspective of human resources. Businesses that run employee volunteer programmes report that such programmes can improve morale of the employees and help participants to acquire and develop new skills.

Furthermore, a study conducted on Czech SMEs (Polášek, 2010: 165) confirms the major benefits of implementing socially responsible and ethical behaviour towards employees as: Improved job satisfaction of employees, increased loyalty of current employees, reduced staff turnover and recruitment of new, qualified employees. Similarly, a survey of SMEs in Estonia found that many SME managers see CSR as a way of retaining qualified employees in a competitive labour market (PW Partners, 2007: 8). Hence, fulfilment in the job, pleasant working conditions, and a good work-life balance are more important in SMEs than in large businesses. Indeed, some SMEs successfully use their commitment to CSR to build an advantageous reputation as the preferred local employer (European Competitiveness Report, 2008: 4). Empirical findings (Shamma and Hassan, 2009: 15) highlight a pleasant working environment for employees and investment in training and motivation as the most important components of the reputation of a business. Employees have an important role in developing and maintaining the reputation of a business. Employees contribute to word-of-mouth communications about a business, and they contribute significantly to supporting and communicating the reputation of a business.

A survey of Danish SMEs (European Commission, 2005: 11) shows that businesses that had implemented workforce-related CSR activities experienced a positive financial impact. Apart from the direct financial impact, these businesses indicated that workforce-orientated CSR activities have had a positive impact on their reputation and their ability to attract and retain qualified employees. Such effects of CSR activities have a positive influence on the long-term competitiveness of SMEs. Indeed, the evidence suggests an important positive relationship between CSR and competitiveness of SMEs in terms of human resource management (European Competitiveness Report, 2008: 8).

Furthermore, results from a survey of Malaysian SMEs (Jamaludin and Hasun 2007: 12) show that training of staff is important in increasing the value of human capital. Training results in a high level of loyalty and productivity of the staff. Skilled employees are likely to be more efficient in performing their responsibilities, which results in an output

of good quality and reduction of waste. This will directly increase the sales, market share, profit, growth, customer loyalty and demand of the business. Thus, a well-skilled and trained workforce is a key tool for effective competitiveness. The knowledge and experience of the employees are unique, intangible businesses assets (Brdulak, 2006: 7). Against this background, the following are hypothesised:

*H<sup>1a</sup>: There is a positive relationship between workforce-orientated CSR activities and the satisfaction of the employees of SMEs.*

*H<sup>1b</sup>: There is a positive relationship between workforce-orientated CSR activities and the reputation of SMEs.*

*H<sup>1c</sup>: There is a positive relationship between workforce-orientated CSR activities and the competitiveness of SMEs.*

### Society-orientated CSR activities

Society-orientated CSR activities are defined as support for social and cultural community activities, as well as development of the community and other related issues. Such activities include cultural activities, sports, health and well-being, education, assistance to low-income groups and participation of the community (Vives, 2005: 12). In this paper, society-orientated CSR activities refer to the relations between the business and the citizens and communities that maybe affected by its operations. They include issues such as human rights, dialogue and partnerships with potentially affected communities, and an active contribution to the well-being of the community.

To become a good neighbour, a business can engage in such varied initiatives as providing financial and material support for local activities and projects, and making the time and the professional knowledge of its employees available to the local community (Polášek, 2010: 140). Sporting, cultural and health/welfare activities are the most common community activities in European countries. Supporting sporting activities is the preferred activity amongst SMEs in nearly all European countries (European Commission, 2002: 13). In Latin America, SMEs seem to be the most active in supporting sports, health and cultural activities (Vives, 2005: 12).

Polášek (2010: 140) provides a list of examples of society-orientated CSR activities for Czech SMEs, which include financial and in-kind (material) donations, business volunteerism, free consulting and sharing of know-how, support for social integration, education of the public, support of local activities (e.g., sports, culture, etc.), building alliances with other local businesses to provide co-ordinated support to the local community, collaboration with local schools, authorities and various organisations, as well as joint marketing activities promoting the business and nonprofit projects.

According to a survey of Czech SMEs (Polášek, 2010: 140), the benefits associated with society-orientated CSR

activities include improvement of the reputation and image of the business, loyal employees and customers, simplified access to local resources, lower costs of security due to lower crime and vandalism, and new business opportunities. Businesses contribute to their communities, especially local ones, by providing jobs, wages, benefits and tax revenue. On the other hand, businesses depend on the health, stability and prosperity of the communities in which they operate. The reputation of a business at its location and its image as an employer and producer, but also as an actor in the local scene, certainly influence its competitiveness (Polášek, 2010: 56). Based on this discussion, the following are hypothesised:

*H<sup>2a</sup>: There is a positive relationship between society-orientated CSR activities and the reputation of SMEs.*

*H<sup>2b</sup>: There is a positive relationship between society-orientated CSR activities and customer loyalty.*

*H<sup>2c</sup>: There is a positive relationship between society-orientated CSR activities and the competitiveness of SMEs.*

### Market-orientated CSR activities

In this paper, market-orientated CSR activities refer to the ways a business operates in relation to its customers, suppliers and competitors. It entails issues such as responsible advertising, dealing with customer complaints and ethical practices (European Competitiveness Report, 2008: 2).

In today's market-orientated environment, a socially responsible business is expected to conduct its activities in a transparent manner and to have positive relationships with its investors, customers, suppliers and other business partners. The ability of the business to succeed in the long term depends on its ability to create lasting and high-quality sales networks for its products (Polášek, 2010: 138). Examples of market-orientated CSR activities include business policies guaranteeing adherence to ethical standards, provision of clear and accurate information on products and services, timely settlement of liabilities (payment of invoices), monitoring of and responding to complaints from customers, suppliers and other business partners, collaboration with other businesses on CSR activities and projects and high ethical standards in marketing and advertising.

According to a survey of Danish SMEs (European Commission, 2005: 42), market-orientated CSR activities are targeted at the marketplace and the customers of the business. Specific market-orientated CSR activities include general ethical business practices, responsible customer relations, responsibility for the product, dialogue with and involvement of the customers of the enterprise in important decisions on the work processes and products of the business, and use of product-labelling schemes.

A survey of Czech SMEs (Polášek, 2010: 138) gives a list of benefits of market-orientated CSR activities. These include increased customer loyalty, standing out among competitors, becoming an attractive business partner for socially perceptive business partners and customers, becoming a sought-after supplier and business partner, and enhanced supplier chain performance. Similarly, retail data from a telecommunications business show that market-orientated CSR activities are important drivers of the reputation of a business (Tuppen, 2004: 5). Another competitive benefit of CSR appears to be an increased demand for the products and services of the company by consumers (European Competitiveness Report, 2008: 6). Similarly, a survey of Danish SMEs indicates that market-orientated CSR activities have a positive impact on the financial performance of a business (European Commission, 2005: 6).

Businesses today are practising CSR because customers are demanding more ethical behaviour from them. Market-orientated CSR activities help businesses attract and retain customers, which, in turn, ensure long-term survival of the business. Berger and Drumwright, as cited by Ali, Rehman, Yilmaz, Nazir and Ali (2010: 2), found that businesses with sound market-orientated CSR activities develop a positive social identity and enjoy increased customer loyalty. Market-orientated CSR activities are also often associated with better financial performance of the business. Against this background, the following are hypothesised:

*H<sup>3a</sup>: There is a positive relationship between market-orientated CSR activities and the reputation of SMEs.*

*H<sup>3b</sup>: There is a positive relationship between market-orientated CSR initiatives and customer loyalty.*

*H<sup>3c</sup>: There is a positive relationship between market-orientated CSR activities and the competitiveness of SMEs.*

### Environment-orientated CSR activities

In this paper, environment-orientated CSR activities are measures to minimise the negative impact of a business on the environment. It also means the production of goods and services that actively help improve the environment (European Competitiveness Report, 2008:2). The most important environment-orientated CSR activities concern the consumption of materials and energy, handling pollution and waste in the most environmentally friendly way possible and responsibility for the product (European Commission, 2005: 33).

It has been established (Polášek, 2010: 141) that businesses that try to minimise the negative environmental impact of their activities can benefit through new business opportunities. For instance, a business that actively cares for the natural environment has a better chance of succeeding in tendering to large businesses and the public sector, and a better chance of attracting new customers

from the ranks of environmentally conscious consumers. Examples of environment-orientated CSR activities include environmentally friendly manufacturing, products, services and packaging, environmentally friendly practices of distribution and transportation, recycling, using recycled materials, energy- and water-saving practices, waste reduction practices, compliance with regulations and standards, protection of natural resources and the provision of accurate environmental information on products, services and activities.

The benefits associated with environment-orientated CSR activities include new business opportunities (e.g., attraction of environmentally conscious customers), protection of resources, reduced waste, lower costs due to efficient use of energy and resources and more efficient operations (Polášek, 2010: 141). According to survey results of Czech SMEs, the main reason behind the involvement of SMEs in environment-orientated CSR activities is related to improving the image and reputation of a business. This evidence suggests that SMEs help protect the environment to gain a competitive advantage. This is in line with the results from the survey of Danish SMEs that show that environment-orientated CSR activities have a positive impact on the reputation of a business. Similarly, such activities have a positive impact on the reduction in the consumption of resources (European Commission, 2005: 35).

It is also acknowledged that a positive relationship exists between embracing environment-orientated CSR activities and increased profitability (Viviers, 2008: 18). It has been empirically demonstrated that there is a positive relationship between environmental practices, customer loyalty and performance of the business. Competitiveness gains associated with the adoption of environmental practices are related to reductions in cost, saving of resources, opportunities for innovation, retention and loyalty of customers and improved morale of employees. Improvements in customer satisfaction lead to higher revenues and reduce future costs of transaction through improved customer loyalty (Kassins and Soteriou, 2003: 13). Against this background, it can be hypothesised that:

*H<sup>4a</sup>: There is a positive relationship between environment-orientated CSR activities and the reputation of SMEs.*

*H<sup>4b</sup>: There is a positive relationship between environment-orientated CSR activities and customer loyalty.*

*H<sup>4c</sup>: There is a positive relationship between environment-orientated CSR activities and the competitiveness of SMEs.*

### Employee satisfaction

There are many factors that influence employee satisfaction. These include employee benefits, job satisfaction, the performance appraisal system, job safety, conditions in the workplace, and the relationships between managers and

employees (Aydin and Ceylan, 2008: 2). Cranny, Smith and Stone (in Aydin and Ceylan, 2008: 4) define employee satisfaction as the combination of affective reactions to the differential perceptions of what an employee wants to receive, compared with what he/she actually receives. As such, businesses should try to fulfil the expectations of employees to achieve employee satisfaction. In addition, the emotional state of employees may also affect their satisfaction. This forces managers to create and sustain a positive working environment. The satisfied employee will work more willingly, and this contributes to the competitiveness of the business (Aydin and Ceylan, 2008: 4). For the purpose of this paper, employee satisfaction is viewed as a measure of whether employees are happy and content, and having their desires and needs fulfilled at work. In other words, employee satisfaction entails attracting, developing, motivating and retaining qualified employees with a view to enhancing the competitiveness of a business.

A survey by Sirota Survey Intelligence (2007: 1) established that employees who are satisfied with the commitment of their business to social and environmental responsibilities are likely to be more positive, more engaged and more productive than those working for less responsible employers. Hence, a strong commitment to CSR has an impact on a wide range of attitudes of employees by fostering positive views about their employer in key areas such as its sense of direction, competitiveness, integrity and interest in their well-being. Similarly, a study of the shipping industry in Taiwan (Tsai, Yu and Fu, 2005: 9) confirms the positive relationship between employee satisfaction and the competitive advantage of SMEs. SMEs can use benefits to employees to increase the productivity of employees, and, in turn, achieve a competitive advantage. Therefore, investment in benefits to employees offered by SMEs represents not only costs, but also profits. Against this background, the following is hypothesised:

*H<sup>5</sup>: There is a positive relationship between achieving employee satisfaction and the competitiveness of SMEs.*

### Business reputation

The reputation of a business has long played an important role in its success. It assures the license of a business to operate in the community, and helps to ensure its long-term survival, alongside other factors such as financial stability and product quality. Today, businesses increasingly measure their assets in terms of intangibles, such as knowledge, brand visibility and customer loyalty. It is not what a business makes or does anymore, but how it is perceived, that matters (Money and Gardiner, 2005: 2). In this paper, business reputation is considered to consist of attributes that form the perceptions of stakeholders of the extent to which a business is well known, reliable, trustworthy, reputable and believable, which attributes can collectively enhance the competitiveness of SMEs.

Business reputation is an important measure of the success of a business. It is the most important strategic and valuable asset a business can possess. Business people and scholars agree that a good reputation is the ultimate corporate asset that businesses strive to achieve (Shamma and Hassan, 2009: 4). However, it must be appreciated that business reputation is hard to measure. The annual rankings by Fortune Magazine and the Financial Times of the most respected businesses in the world provide a broad indication of business reputation based on key indicators such as quality of management, financial soundness, social responsibility, and quality of products and services. The fact that the same businesses come out on top year after year is a good indication that, taken together, the various elements of business reputation consistently contribute to the overall success of a business (Money and Gardiner, 2005: 5). Similarly, managers frequently assume a positive relationship between the performance of a business and its reputation. Generally speaking, business reputation is perceived as the strong relationship between the business and its customers (Omar, Williams and Lingelbach, 2009: 4).

Theoretical and empirical research studies often point to a positive relationship between CSR and the competitiveness of a business (Weber, 2008: 1). According to Hunt and Morgan, as cited in Eberl and Schwaiger (2005: 6), business reputation is an intangible asset that could generate a competitive advantage in the marketplace and, hence, superior financial performance. An empirical study by Fombrun and Rindova (as cited in Omar *et al.*, 2009: 4) on leading US and UK businesses found that those businesses with a better reputation appear to project their core mission and identity in a more systematic and consistent fashion than businesses with lower rankings of reputation. According to a UK study, medium-sized enterprises embracing CSR identified an improved business image and reputation, increased market share, and more business as dividends from their CSR engagement (Jenkins, 2006). Hence, a satisfactory business reputation is an important driver of successful business relationships with customers, which can have a significant impact on performance of the business (Ewing, Caruana and Loy, 1999: 7).

Empirical findings (Shamma and Hassan, 2009: 16) highlight vision and leadership, emotional appeal and social and environmental responsibility as the important elements that businesses need to focus on as their reputation progresses. These elements are at the highest level of business reputation and represent an important source of long-term sustainability and competitive advantage. Furthermore, empirical results from both autoregressive profit models and proportional hazard regression models (Roberts and Dowling 2002: 14) consistently suggest that superior-performing businesses have a greater chance of sustaining their performance

over time if they also possess relatively good reputations. These findings complement existing studies on the relationship between reputation and financial performance. Enhancement of the reputation of a business, in turn, makes it easier for it to sustain superior performance. The findings demonstrate empirically that a good business reputation is an important strategic asset that contributes to the sustainability of profits of that business. Hence, a good business reputation is an intangible asset that businesses use to create a competitive advantage, by distinguishing themselves from others (Flatt and Kowalczyk, 2006: 2). Based on this discussion, the following is hypothesised:

*H<sup>6</sup>: There is a positive relationship between the reputation of SMEs and their competitiveness.*

### Customer loyalty

Developing customer loyalty is recognised as an essential concern for businesses. As markets become more competitive, businesses are more likely to attempt to maintain their market share by focussing on retaining current customers (Lee, Lee and Feick, 2001: 2). In this paper, customer loyalty is the ability of the business to build and sustain long-term relationships with stakeholders who have a deeply held commitment to repurchase or repatronise a preferred product or service consistently in the future, despite situational influences and efforts in marketing. Indeed, such long-term relationships can enhance the competitiveness of SMEs, and loyal customers may frequently recommend a business to others.

Scholars vary greatly in their measurement of customer loyalty. Although it is assumed that increased customer loyalty is strongly correlated with a high level of satisfaction, customer loyalty has, at times, been operationalised as a behaviour or an attitude. A study of the mobile phone market in France (Lee *et al.*, 2001: 6) confirmed the measures of customer loyalty as intent to repurchase, resistance to switching to the product of a competitor that is superior to the product of the preferred vendor and willingness to recommend the product of the preferred vendor to friends and associates. A customer who has the intention to repurchase and recommends a product is very likely to remain with the business. This is in line with the empirical findings of Brimpong (2008: 60), which demonstrate the indicators of customer loyalty as length or duration of stay of customers, the willingness to recommend the product or institution to friends, and repurchasing products. Retention of a customer for more than a year is considered quite commendable in a highly competitive business environment.

A shift in focus from finding customers to retaining customers has become prominent in recent years, and this perspective has been adopted by many businesses. The analysis of empirical data (Gable, Fiorito and Topol, 2008: 14) shows that customer loyalty is key to the success

of a business, and retaining existing customers costs far less than acquiring new ones. One way to do this is to create customer loyalty programmes that effectively reward potentially important customers.

The empirical findings from a study of the New Zealand banking industry (Gan, Cohen, Clemes and Chong, 2006: 14) show that competitive advantage, customer value and switching barriers have a significant impact on customer loyalty. As markets become increasingly competitive, customer loyalty plays a greater role in the success of a business. Hence, customer loyalty creates customer retention, which improves the competitiveness of a business (Gan, Cohen, Clemes and Chong, 2006: 14). Similarly, results of a survey of the Bangladeshi mobile phone operator industry (Islam, 2008: 10) stress customer retention rate as a good indicator of customer loyalty. Increases in customer retention rates can have a significant, positive effect on market share and the net operating cash flow and profit of a business. Therefore, to have a strong, competitive position in the market, managers should carefully consider the factors that make the customer loyal, and ultimately lead to the profitability and growth of their businesses. Against this background, the following is hypothesised:

*H<sup>7</sup>: There is a positive relationship between achieving customer loyalty and the competitiveness of SMEs.*

### Increased competitiveness

The long-term goal of SMEs should be to stay in business, grow and make a profit. To effectively compete in local and global markets, SMEs must be quick and flexible in their response to the needs of stakeholders. Competitiveness can be treated as a dependent, independent or an intermediary variable, depending on the perspective from which the issue is approached. Such a variety of levels and approaches actually reflect the wide application of this concept (Man, Lau and Chan, 1998: 2). Measuring competitiveness is a very challenging task.

Traditionally, the competitiveness of a business has been measured using only financial indicators such as profit, market share, sales and rate of growth (Singh *et al.*, 2008: 12; Man *et al.*, 2002: 2). It should be noted, however, that financial indicators measure only past performance. There are many indicators of competitiveness that are dependent on the nature of the study, and the industry and the size of the business being studied. For instance, in a study of founder-managed natural food stores in the United States, the researchers measured business performance using net worth, profitability, revenue from sales, market share, and volume of sales (Segal, Borgia and Schoenfeld, 2010: 5). Mandl and Dorr (2007: 49) found that a competitive advantage caused indirectly by CSR activities of SMEs leads to a higher level of competitiveness, indicated by increased volume of sales, market share and profitability.

On the other hand, the competitive advantage of businesses in the Chinese banking industry is measured by eight business criteria: Return on total assets, return on net assets, return on sales, asset-liability ratio, total asset turnover, price-cost ratio, loan losses and return on equity (Li and Wang, 2007: 2). However, the survey of five owner-managers of small and medium-sized enterprises established that most SMEs today use a hybrid approach in measuring competitiveness. Financial measures include profits and sales turnover, while nonfinancial measures are the long-term growth rate and market share of the business (Chong, 2008: 7). A survey of independent Greek SMEs also measured competitiveness of businesses using profitability, growth of sales, volume of sales, and market share as indicators of their success (Salavou and Avlonitis, 2008: 7). Likewise, Jamaludin and Hasun (2007: 6) measured competitiveness of a business by comparing the actual performance of the business sales, market share, profit, growth, demand, and customer loyalty with the forecast. Competitiveness is also measured by how the business perceives its performance compared to that of direct competitors in term of sales, market share, profit, and growth.

## CONCLUSIONS AND RECOMMENDATIONS

It is acknowledged that SMEs provide the foundation on which the economic growth and stability of any country rests. Several benefits that SMEs can gain as a result of properly implementing CSR activities have been highlighted. SMEs can achieve increased competitiveness without necessarily increasing their actual size, but rather by adapting specific CSR activities. As such, CSR is not a shortcut to the success of a business, but an investment that can pay off in the longer term. Implementing CSR can be valuable in terms of recruitment, motivation, retention and development of staff, customer loyalty, business reputation, and overall competitiveness of a business.

The personal and ethical values of SME owners, managers and employees are a strong motivation for a business to pay more attention to social and environmental issues. As such, all stakeholders should be encouraged to view the opportunities that can arise from engaging SMEs in CSR issues. It should be recognised that SMEs from the same sector often face common social and environmental issues. Addressing these issues collectively can reduce costs, and result in improvements that an individual SME acting alone cannot achieve. The forming of strategic alliances and networks in dealing with CSR activities allows SMEs to combine the advantages of smaller scale and greater flexibility with economies of scale and scope (Sultan, 2007: 68). Hence, co-operation across different industrial sectors may be important in addressing local CSR issues.

To convince future business managers, entrepreneurs, and workers that CSR is an investment in society that pays off in the long term, the social and environmental responsibilities of businesses need to be better integrated into all levels of education. As such, particular attention should be given to the integration of CSR into relevant training for the managers and staff of SMEs. Ethical aspects, personal responsibility towards society and awareness of social and environmental issues can be imparted through an appropriate education system.

Governments need to reward SMEs for socially and environmentally responsible behaviour. One cannot call for a greater adoption of CSR amongst SMEs without also drawing attention to the responsibility of the government in terms of creating the right conditions to allow businesses to grow and create more and better jobs. The CSR policy framework of the government should ensure fair competition, and reward SMEs that adopt and successfully implement CSR activities.

SMEs should be encouraged to start with small steps. As CSR covers such a potentially wide number of issues, it can appear overwhelming. There is no need for a business to try to address all aspects of CSR from the beginning. For example, an initial focus just on simple measures to reduce costs and environmental impact, or giving priority to the local community during the recruitment of staff, could be a good start.

Finally, further research should be encouraged on action areas such as the success of different policies and techniques to increase the uptake of CSR amongst SMEs, the economic, social and environmental impact of CSR at sector level, and a typology of SMEs with regard to their engagement in CSR.

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