

# Leveraging Dimensions of CSR to Enhance Competitiveness of Small and Medium Enterprises

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**Abstract**—Small and Medium Enterprises (SMEs) play a significant role in economy in terms of turnover and employment figures. While SMEs are not familiar with some of the concepts such as sustainable development, they do understand the broad principles underlying business responsibility, and also understand how it can enhance the competitiveness of business. This study attempts to investigate the dimensions of Corporate Social Responsibility (CSR) in Noida region in the context of SMEs. In addition, this research analyses the main impact of internal and external dimensions of CSR on employee satisfaction, Customer loyalty and finally on Competitiveness of SMEs of Noida. For this purpose, Factor analysis with was used to assess the dimensionality and uniqueness of the variable and multiple regression analysis is used to analyse the relationship between independent and dependent variables. Results showed that most of the SME's of Noida are inclined towards internal dimensions of CSR and are in the process of adopting external dimensions.

**Keywords**-Corporate Social Responsibility, Competitiveness, Internal and External dimension of CS, Small and Medium Enterprises.

## I. INTRODUCTION

THE contribution of the Small and medium enterprises (SME's) to the economic growth of a nation is well recognized. This segment is actually instrumental in bringing about inclusive economic and social growth. In developing countries, as some authors [1] argue the contribution of SME's towards employment generation is significant because they

- tend to use more labour 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.

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 [2], [3]. CSR can positively influence SMEs'

competitiveness in many ways such as: improved products and/or production processes, resulting in a better customer satisfaction and loyalty; higher motivation and loyalty of employees; better publicity due to the award of prizes and/or enhanced word-of-the-mouth; better access to public funds due to a better corporate image; cost savings and increased profitability due to a more efficient deployment of human and production resources; and increased turnover/sales due to a competitive advantage gained [2],[3]. Since many of the SME's are at a stage where they are struggling to establish themselves and do not have the manpower or resources to address these issues, they tend to ignore them [4].

It is against this background that this research paper seeks to investigate the dimensions of CSR in SMEs, and its impact on competitiveness in Noida. The paper empirically examines the existing dimensions of CSR and its relation with stakeholders. The outcomes of CSR activities can help a great deal in improving the survival rate of SMEs and may offer great opportunities for business competitiveness, locally and globally.

## II. LITERATURE REVIEW

CSR is a concept that every corporate member of a community and society should practice. CSR is of increasing relevance and concern to small and medium enterprises (SMEs), both as suppliers to international companies, as recipients of donor funds and support, and as critical backbones of economic health and vitality in developed and developing countries [5]. [6] believe that the word "corporate" should be understood on a larger scale allowing it to incorporate all businesses in all industries, with different structures, sizes, and ownership. [7] have replaced the word corporate with business arguing that the former represents only one category of business and can thus not be the defining factor of social responsibility trends.

CSR involves working in partnership with local communities, socially sensitive investment, developing relationships with employees, customers and their families, and involvement in activities for environmental conservation and sustainability [8]. There is no doubt that "doing the right thing" such as servicing customers, looking after staff morale, nurturing suppliers, being a good neighbour and protecting the environment, can make good business sense. To remain competitive, businesses need to be able to adapt to these new

demands from the market and the society in which they operate [9].

CSR is a different issue when applied to SMEs, because of the intrinsic differences between large firms and SMEs. In other words, it is not the CSR that differs between large firms and SMEs, but the fact that SMEs are not ‘‘little big firms’’ [10]. In terms of specific characteristics, SMEs tend to be independent, multitasking, cash-limited, and based on personal relationships and informality [11], as well as actively managed by the owners, highly personalised, largely local in their area of operation, and largely dependent on internal sources to finance growth[12][13].

III. CONCEPTUAL FRAMEWORK AND HYPOTHESIS

**Dimensions of Corporate Social Responsibility**

Dividing CSR framework into two dimensions, as was already proposed by the European Union in the document ‘‘Promoting a European framework for corporate social responsibility’’ in 2001, is helping better understand the different elements of CSR. Based on this approach, the following conceptual model is proposed and is depicted in figure 1 below:

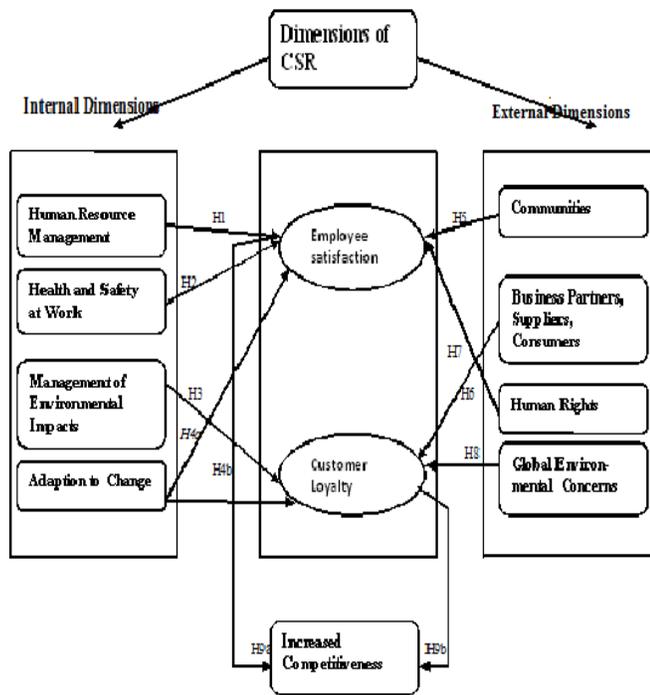


Figure 1: Proposed Conceptual Model of CSR Dimensions

Figure 1 illustrates how the CSR dimensions impact the mediating variables, namely employee satisfaction and customer loyalty. These in turn impact on increased competitiveness of SME’s. The subsequent sections briefly discuss the operationalisation of the variables in relation to the research hypotheses within the context of SMEs.

**Internal Dimension of Corporate Social Responsibility**

Internal dimension of CSR, i.e. socially responsible

practices within the company, primarily involve employees and relate to issues such as investing in human capital, health and safety, and managing change, while environmentally responsible practices relate mainly to the management of natural resources used in the production. These practices open a way of managing change and reconciling social development with improved competitiveness.

**1 Human Resources Management**

The implementation of CSR, successfully, in any organization can be done through proper management of its own work force. Majority of the efforts of SME sector in relation to the internal CSR activities are concentrated in this field. Some of the initiatives taken by them include Interest free loans to workers, fair & timely payment of wages, gifts/bonus on festivals, fixed work timings, payment of leave encashment & overtime etc.

H1: There is a positive relationship between the existence of CSR initiatives for HRM and the satisfaction of SMEs’ employees.

**2 Health and Safety at Work**

Today companies, governments and sector organisations are increasingly looking at additional ways of promoting health and safety, by using them as criteria in procuring products and services from other companies and as a marketing element for promoting their products or services. These voluntary schemes can be seen as complementary to legislation and control activities by public authorities as they similarly aim at promoting a preventive culture, i.e. higher levels of occupational safety and health.[14]

H2: There is a positive relationship between the existence of CSR initiatives for Health and Safety and the satisfaction of SMEs’ employees.

**3 Management of Environmental Impacts**

In general, reducing the consumption of resources or reducing polluting emissions and waste can reduce environmental impact. It can also be good for the business by reducing energy and waste disposal bills and lowering input and de-pollution costs. Individual enterprises have found that less use can lead to increased profitability and competitiveness and compliance with CSR practices.

H3: There is a positive relationship between the existence of CSR initiatives for Management of environmental impact and the customer loyalty.

**4 Adaptation to Change**

In current dynamic business scenario, the process of mergers and acquisitions can’t be ruled out to consolidated and expand the business. According to the[15] ‘‘Restructuring in a socially responsible manner means to balance and take into consideration the interests and concerns of all those who are affected by the changes and decisions. In practice the process is often as important as the substance to the success of restructuring. In particular this involves seeking the participation and involvement of those affected through open

information and consultation.

*H4a: There is a positive relationship between the existence of CSR initiatives for adaption to change and the satisfaction of SMEs' employees.*

*H4b: There is a positive relationship between the existence of CSR initiatives for adaption to change and customer loyalty.*

#### **External Dimensions:**

External Dimensions relates to the practices concerning the external stakeholders of the company viz. consumers, suppliers, community, government etc. With the development of international standards for business practices due to globalisation, these dimensions have acquired a new importance as a strategic tool.

##### **1 Communities**

The first external sub-dimension relates to communities as CSR is also about the integration of enterprises in their local settings.. This is more relevant for the SME sector because of the availability of cheaper labour from the local communities and it also results into lesser labour problems. Companies would find it in their interest to substitute capital substitution with labour and reap the cost benefits.

*H5: There is a positive relationship between the existence of CSR initiatives for communities and the satisfaction of SMEs' employees.*

##### **2 Business Partners, Suppliers, Consumers, and Other External Stakeholders**

It is an old truth that by working closely with business partners companies can reduce complexity and costs and increase quality of their products or services. Selection of suppliers is not always exclusively through competitive bidding. Relationships with alliance and joint venture partners and with franchisees are equally important. In the long run building relationships may result in fair prices, terms and expectations along with quality and reliable delivery

*H6: There is a positive relationship between the existence of CSR initiatives for Business Partners, suppliers, consumers and customer loyalty.*

##### **3 Human Rights**

According to [16], "Companies operating in countries where human rights are regularly violated may experience a climate of civil instability and corruption that makes for uneasy relations with government officials, employees, local communities and shareholders." The Caux Round Table Principles state that companies have a responsibility to respect human rights and democratic institutions; and promote them wherever practical.

*H7: There is a positive relationship between the existence of CSR initiatives for Human Rights and the satisfaction of SMEs' employees.*

##### **4 Global Environmental Concerns**

Global environmental concerns are last but not least external sub-dimension of CSR. Through the Trans boundary effect of many business-related environmental problems, and steadily increasing consumption of resources from across the world, companies are also actors in the global environment. Enterprises, therefore, have to pursue CSR internationally as well as in their home countries.

*H8: There is a positive relationship between the existence of CSR initiatives for Global Environmental Concerns and customer loyalty.*

##### **Employee Satisfaction**

A survey by [17], established that employees who are satisfied with their business's commitment to social and environmental responsibilities are likely to be more positive, more engaged and more productive than those working for less responsible employers. Similarly, the study of Taiwan's Shipping Industry confirms the positive relationship between employee satisfaction and SMEs' competitive advantage [18].

*H9a: There is a positive relationship between achieving employee satisfaction and the competitiveness of SMEs.*

##### **Customer Loyalty**

The empirical findings from the study of the New Zealand Banking Industry 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 business success. Hence, customer loyalty creates customer retention to improve a business's competitiveness [19].

*H9b: There is a positive relationship between achieving customer loyalty and the competitiveness of SMEs.*

##### **Increased Competitiveness**

One of the specific advantages that CSR could bring for SMEs refers to the enhancement of their competitiveness in the market, considering the fact that SMEs are particularly active in one or more of the following fields of CSR: market, employees, society or environment, all of these fields forming the comprehensive approach on CSR [20]. Measuring competitiveness is a very challenging task. Traditionally, business competitiveness has been indeed measured by using only financial indicators such as profit, market share, sales, and growth rate [21]. [22] measured competitiveness of the 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 direct competitors in term of sales, market share, profit and growth.

#### **IV. RESEARCH METHODOLOGY**

The research is intended to cover an empirical analysis of investigating dimensions of CSR in SME's to enhance their Competitiveness. This study conducted a survey to obtain quantitative data for statistical testing of the hypotheses. The survey was conducted using mail questionnaire directed to the executive managers employed in SMEs of Noida. Mail questionnaire method was employed in this study because of its advantage of covering wide geographical area with less time and cost [23]. The sample size was set to 70 SME's.

##### **Data Analysis and Result**

The respondents were asked to indicate their agreement or disagreement with survey instrument using a five-point Likert scale. The returned questionnaires were statistically analyzed by a statistical program. First, the research instrument was assessed by its reliability and validity. Second, Descriptive

statistics are applied to analyze the respondents' demographic data. Finally, the hypotheses were tested by multiple regression method.

**Descriptive Statistics**

Descriptive statistic analysis using frequency and percentage is described in table 1. It shows the respondents' demographic profiles and their preferences. The majority of the firms are not certified according to ISO or other standards (48%) but are in process of attaining it. But most of the firms do have their own vision and mission (88.8%) which is an essential feature of CSR.

**TABLE 1: RESPONDENTS PROFILE**

Respondents Profile	Categories	Frequency	Percent %
<b>Company Age</b>	<1 years	2	2.9
	1-3years	4	5.7
	4-6years	20	28.6
	7-9 years	34	48.6
	>10 years	10	14.3
<b>No. of employees</b>	1-9	4	5.7
	10-19	6	8.6
	20-29	9	12.9
	30-39	24	34.3
	>40	27	38.6
<b>Business Type</b>	Information Technology	21	30.1
	Consultancy	12	17.1
	Advertising Media	16	22.9
	Construction	9	12.9
	Financial Services	8	11.4
	Others	4	5.7
<b>Company certified according to some standards (e.g. ISO 9000, ISO 14000, EMAS etc.)</b>			
	Yes	16	22.9
	No	43	61.4
	In Process	11	15.7
<b>Company has defined strategy in writing (or at least mission and vision for the future)</b>			
	Yes	62	88.6
	No	8	11.4

**Reliability and Validity Assessment**

Goodness of measures was gauged in this study using validity and reliability tests. Factor analysis was used to assess the dimensionality and uniqueness of the variable. The reliability or internal consistency of measures was tested using Cronbach's alpha test. The following subsections illustrate the results of factor and reliability tests. The analysis starts with evaluating the appropriateness of the data or correlation matrix for factor analysis. The KMO measure should be at least 0.6 and Bartlett's test of sphericity should be significant (p<.05) [24].

**Factor Analysis of Dimensions of CSR**

Factor analysis was done on the items of internal and external dimensions of CSR. Principal components analysis with varimax rotation was used to assess the dimensionality and uniqueness of the variable. The data was appropriate for factor analysis since the KMO's value was .705 exceeding the

recommended value of 0.60. The overall significance of correlation among all items was also sufficient with Bartlett's test of sphericity achieving a p-value of less than 0.05. The total variance explained by the factors was 49.5 percent.

**TABLE 2: KMO AND BARTLETT'S TEST**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.705
Bartlett's Test of Approx. Chi-Sphericity	306.590
df	66
Sig.	.000

**Reliability Analysis**

Reliability was measured in this study using Cronbach's alpha coefficients. The calculated alpha was well above 0.75 (see Table 3) for all variables, exceeding the common threshold value recommended by [25]. Thus it can be concluded that the measures have an acceptable level of reliability.

**TABLE 3: RELIABILITY STATISTICS**

Table Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.761	.761	10

**Multiple Regression Analysis**

Multiple regression analysis was used to test the nine research hypotheses. Multicollinearity problem was evaluated by variance inflation factor (VIF). Theoretically, if the VIF value is lower than 10 it means that there is no relationship between the variables [26].

**TABLE 4: FACTORS WHICH HAVE AN IMPACT ON EMPLOYEE SATISFACTION**

Variable	b	beta	t	Sig.	VIF
HRM	.272	.301	2.851	.006*	1.956
Health and Safety	.376	.367	3.526	.001*	1.891
Adaptation to Change	.014	.014	.167	.868	1.245
Communities	.198	.270	2.821	.006*	1.597
Human Rights	.015	.015	.181	.857	1.173

\* P < 0.05 R = 0.796 R<sup>2</sup> = 0.634 F = 22,197 Sig. = 0.000\*

**TABLE 5: FACTORS WHICH HAVE AN IMPACT ON CUSTOMER LOYALTY**

Variable	b	beta	t	Sig.	VIF
Management of Env. Impact	.112	.121	1.120	.267	1.390
Adaptation to Change	.055	.064	.660	.512	1.129
Business Partners	.622	.616	6.532	.000*	1.057
Global Env. Concerns	.093	.077	.730	.468	1.313

\* P < 0.05 R = 0.533 R<sup>2</sup> = 0.306 F = 18.404 Sig. = 0.000\*

Env.=Environment

**TABLE 6: FACTORS WHICH HAVE AN IMPACT ON COMPETITIVENESS**

Variable	b	βeta	t	Sig.	VIF
Employee Satisfaction	.294	.322	3.327	.001*	1.009
Customer Loyalty	.526	.492	5.082	.000*	1.009

\* P < 0.05 R = 0.533 R<sup>2</sup> = 0.306 F = 18.404 Sig. = 0.000\*

The results of the questionnaire survey are presented in Table 4,5,6. From these table it can be analysed that hypothesis H1,H2,H5,H6,H9a,H9b are accepted and hypothesis H3,H4a,H4b,H7,H8 are rejected.

## V. CONCLUSION

After empirical investigation it has been identified that most of the SME's of Noida are inclined towards internal dimensions of CSR. At the same time, it has been found that most of the CSR actions of the Noidian SMEs are directed at employees and customers, because of their positive impact in the short-term. 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 business success, but an investment that can pay off in the longer-term. Implementing CSR can be valuable in terms of staff recruitment, motivation, retention and development; customer loyalty; business reputation; and the overall business competitiveness.

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