

# Corporate Social Responsibility in Small and Medium Sized Accountancy Firms

Dr Sujana Adapa and Dr Jennifer Rindfleish

**Abstract**—The concept of Corporate Social Responsibility (CSR) has been well researched in the domain of large organisations and has gained greater momentum over the past two decades. While there is an existing rhetoric that Small and Medium Sized Enterprises (SMEs) do not engage in any sort of CSR-based activities, to this point, there has been a limited research directed to gathering evidence on the extent of the application of CSR practices in SMEs. This report presents the findings from 31 qualitative in-depth interviews from accountancy practices in Armidale, Tamworth, Guyra and Uralla as a means to build our understanding of CSR in SMEs. Results obtained indicate that substantial differences exist between small and medium sized accountancy firms in terms of nature of the relationships maintained with various stakeholders and types of CSR-based activities pursued.

**Keywords**—About four key words or phrases in alphabetical order, separated by commas.

## I. INTRODUCTION

**M**ANY business organisations have recognised implicitly that the principles of Corporate Social Responsibility (CSR) are intrinsic to successful management practices [6], [23]. The concept of CSR has been addressed and researched extensively within the context of large corporate-sized organisations. Generally speaking, the concept of CSR is associated with responsible business practice. However, in the existing academic literature, the term CSR suffers from ambiguous definitions and a lack of clarity in terms of the exact meaning. In the literature, CSR is also interchangeably used with terms such as sustainability, corporate responsibility, corporate responsiveness, corporate citizenship, and triple bottom line. CSR has been defined as ‘a concept whereby companies decide to voluntarily to contribute to a better society and a cleaner environment’ [5]. More recently, the concept of CSR was defined as a firm’s commitment to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life [15]. This is a more complex view of CSR whereby firms are encouraged to consider their responsibilities towards various stakeholders in

order to integrate economic, social and environmental concerns into their strategies.

Small and Medium Sized Enterprises (SMEs) are increasingly important in both economic and numeric terms as they account for over 90 per cent of businesses worldwide and contribute between 50 to 60 per cent of employment [24]. SMEs are gaining recognition as important economic drivers to the national economies of countries and the business activities within countries are dominated by SMEs [20]. Extant literature highlights SMEs as a major source of entrepreneurial skills and innovation apart from contributing to economic and social cohesion (CEC 2001). There is no consensus internationally about the definition of an SME [7]. Different perceptions about SMEs relate partly to their heterogeneous nature and partly to the homogeneous image of large or corporate organisations. Typical characteristics of SMEs include the type of ownership, management roles, nature of multitasking, internal relations and communications. For example, SMEs owner-managers perform CSR for altruistic reasons or voluntarily in order to gain benefits of enhanced reputation or increased sales [7]. Similarly SMEs engage in multitasking with decentralized management structure and informal communications between the employer and the employees. The net impact of SMEs on the society in which they operate cannot be overlooked as SMEs are often dynamic, foster the global economy and play a significant role in local communities. According to the Australian Bureau of Statistics (ABS), SMEs are identified as those businesses with 0 to 199 employees. More specifically, small businesses are those with up to 19 employees and medium businesses are those consisting of 20 to 199 employee [1].

Extant literature emphasises that the application of CSR in large corporations cannot be generalized to SMEs due to the specific characteristics associated with SMEs particularly with regard to the size of the firm [20]. The concept of CSR does not just offer a change to the commercial environment in which individual SMEs operate, but also it requires that SMEs concentrate on their net effect on society [19]. CSR offers opportunities for greater market access, cost savings, productivity and innovation to SMEs, as well as broader social benefits such as education and community development. The research undertaken for this study investigates specific CSR-based practices that are followed by SMEs and the similarities/differences between small versus medium-sized regional accountancy firms in the adoption and extent of CSR-based activities. The analysis carried out and the results presented in this study are a preliminary enquiry into the

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extent of CSR-based practices that are currently followed by SMEs.

## II. BACKGROUND OF THE STUDY

According to Jenkins (2004, p.39), the concept of CSR refers to addressing the legal, ethical, commercial and other expectations society has for business, and making decisions that fairly balance the claims of all key stakeholders. However, as mentioned earlier, due to the ambiguity, debatable legitimacy and perceived intangibility of the term, CSR remains a subject of much debate ([12], [23]). Emerging literature has provided several variations to the concept of CSR since its initiation [11]. However, the most recent definitions focus on what is known as 'stakeholder theory' [14]. Based on recent research concerned with how an organisation builds on the relationship between a firm and its stakeholders, the theory adds more practical relevance to the CSR concept [23].

Stakeholders are defined as 'those groups who can affect or are affected by the achievement of an organisation's purpose' [10]. The stakeholder framework is dynamic as it tends to focus on the inter-stakeholder relationships [17], [18]. Furthermore, certain type of stakeholders and their identity are critical for a firm [8]. The application of stakeholder framework to larger firms has gained attention [21]. However, due to the specific characteristics associated with SMEs, the application of stakeholder theory is questionable [20]. This is because stakeholders often represent the various interest groups that are associated with a business and the complexity involved builds up to a very high level when businesses need to satisfy a majority of these stakeholder groups without compromising their profit motives. For SMEs, a stakeholder framework that focuses on the general aspects of transparency, goodwill and good citizenship would make the most sense as the diversity of organisational types within the category of SMEs does not lend to a "one size fits all" strategic direction for CSR in SMEs [22].

Whilst commercial enterprises need to focus on maximising the profit and wealth of their shareholders [4], [10], stakeholder framework (1991) identified a complex hierarchy of responsibilities such as; economic focusing on shareholders; legal considerations of government and judiciary systems; ethical considerations that do not harm concerned stakeholders; and discretionary that surpasses all of the above activities suggested. Carroll's framework is identified as a sort of formalized CSR framework by many organisations. Strategic value was seen as an added benefit to the companies at the discretionary level. In order to promote free market mechanisms, elements such as trust, loyalty, and fairness were seen as critical whilst carrying out economic transactions [25]. Today more of a compliance approach is gaining popularity, as organisations increasingly tend to adopt some form of CSR without necessarily focusing on the long-term sustainable competitive advantage of the company.

The concept of "social capital" has also emerged as a dimension of CSR. Social capital refers to connections among individuals, the fostering of social networks, norms of reciprocity, trustworthiness and the improvement of the

efficiency of society by facilitating co-ordinated actions [18]. In terms of business sustainability, however, it is important to gauge whether it is economically viable for businesses to focus on enhancing their social capital through fostering networks, building relationships and creating trust with various interest groups specifically in the SME context. Given these considerations, the present research makes an attempt to identify whether or not a stakeholder framework or a social capital framework accounts for the CSR-based activities in SMEs from the personal perspective of practicing professional accountants themselves.

## III. METHODS

With no research work having been done in CSR in regional SMEs previously, we decided that a qualitative approach was most suited to addressing our research questions. In-depth interviews provide rich and comprehensive data, greater flexibility and valuable insights into complex social research problems [2], [3], [23]. Ethics approval to conduct the research was granted by the University and 38 firms were invited to participate (see Appendix A for the consent form and the information sheet for participants). A total of 31 (14 in Tamworth, 13 in Armidale, 3 in Guyra and 1 in Uralla) face-to-face in-depth interviews were conducted with accountants employed in small and medium sized accountancy firms in North West NSW (New South Wales) by the chief researcher. The interviews ranged from 30 to 40 minutes and the chief investigator conducted these interviews in person over an eight-week period in August to September 2011. Respondents were encouraged to discuss the type of stakeholders associated with their firm, the level of importance of each stakeholder to the firm, the nature of relationships and the type of CSR-based activities currently undertaken by the firm. These interviews allowed for an in-depth understanding of the respondent's perspectives about their firm's involvement in CSR-based activities. The interviews were audio recorded, and transcribed manually in order to identify both the macro and micro thematic categories that arose, from the responses.

## IV. RESULTS

The results revealed that irrespective of the size of the firm (whether small or medium) all of the respondents were aware of, had familiarity with and basic knowledge of, the term CSR. However, the respondents attribute a multitude of different meanings to the term CSR, when asked to define it. Notions such as 'socially responsible', 'giving back to the society', 'building fair relationships with key stakeholders', 'fair treatment of the employees', 'creating better working environment to the employees', 'ethical practices', 'payback in some form', 'environmentally conscious', 'fostering better community-based relationships', 'creating trust', 'respecting values', 'reducing footprint', 'enhancing good relations', 'corporate citizenship leads to good social responsibility', 'sustainable practices', 'fostering community engagement', and 'better governance' were used by the respondents in this research to define the term CSR. It appeared that the respondents perceived CSR-based activities as being mainly

focused on the stakeholders of the company and to a certain extent to a broad social capital perspective. Respondents located in small sized firms placed more emphasis on stakeholder relationships that were specifically related firstly, to their employees, then to environmental practices when discussing the term CSR. On the other hand, respondents in medium sized firms placed importance firstly on creating trust and respecting values of the stakeholders of their company, then on employee morale, thirdly on environment conscious practices and lastly on the importance of involvement in community-based events when attributing meaning to the term CSR. When responding to the question about 'How do you define the term CSR?', varied responses were obtained from the accountants working in small and medium sized firms.

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*"CSR doesn't hurt....in my opinion CSR means creating a better working environment for the employees. As we are only a small business, the concept of CSR is not a high priority as we have only certain amount of opportunity there. As a business, we try to be ethical and encourage being honest."* (Respondent # 14, Small firm)

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*"CSR?...In a business environment, we are often engaging with different types of stakeholders on a day today basis. Recognising and valuing our stakeholders and further creating trust in them is what is important."* (Respondent # 6, Medium firm)

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There were also diverse responses to the question about the key opportunities associated with the CSR concept were as follows; 'better firm profile', 'enhanced firm image', 'increase in firm's reputation', 'increased efficiency', 'builds better firm-based culture', 'better risk mitigation and management strategies', 'creating business opportunities', 'enhanced stakeholder relationships', 'increases employee performance', 'competitive advantage', 'fosters innovation', 'market positioning', 'fosters transparency', and 'increased trust'. Respondents in small sized regional accountancy firms discussed the fact that the CSR and SME relationship would provide opportunities such as improved employee performance, enhanced stakeholder relationships, increased efficiency and enhanced firm image. Respondents in medium sized firms said that the opportunities related to trust were most important, followed by employee satisfaction and firm-based characteristics.

While highlighting the opportunities associated with engaging in CSR-based activities, the responses obtained from the practicing accountants in small and medium sized firms include:

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*"It (CSR) is the right thing to do for building fair relationships, with our key stakeholders. Definitely....there exists an opportunity to highlight the image of our firm."* (Respondent # 5, Small firm)

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*"CSR is an integrated way of managing business and further foster community engagement that increases firm's image, reputation and transparency in the eyes of general public."* (Respondent # 1, Medium firm)

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The respondents see the following issues as key challenges for SMEs in terms of implementing the CSR agenda; 'financial constraints', 'human resources constraints',

'physical constraints' and 'other priorities'. Respondents in small sized regional accountancy firms identified economies of scale and lack of sufficient human resources as the two major constraints impeding them from introducing CSR-based activities and strategies in a formalized manner. Whereas, respondents in medium sized regional accountancy firms said that in addition to the aforementioned constraints, lack of physical resources and the need to privatize other more critical business activities would hinder them from introducing formal CSR-based activities and strategies. When responding to the challenges associated with their engagement in CSR-based activities, respondents from small and medium sized firms responded with:

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*"CSR is a responsible way of conducting business. We want to engage more with the broader community except that we do not have enough money and staff."* (Respondent # 24, Small firm)

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*"CSR for us means creating trust for our clients in the first place. Then we look at the fair treatment of our employees. Then we think about the community. As a business we are aware that there exists an opportunity to differentiate with CSR-based activities apart from paying back to the community in some form.*

*However, we are time poor, resource poor and above all we do have other priorities."* (Respondent # 18, Medium firm)

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When responding to the questions about who their stakeholders are and what level of importance do they assign to their stakeholders, respondents from small and medium sized accountancy firms responded with:

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*"Employees are at the heart of our business! We take great care in recruiting our employees. We advertise when the need arises. We advertise through the local newspapers and seldom with the recruitment agencies. We provide ongoing training to our employees to keep up with the changing business context. Our employees are offered flexible working conditions (based on their needs). We concentrate on frequent performance reviews to retain our staff with us.*

*We try to be a paperless office (refers to tax office focusing on more paper work). All of our paper is confidentially shredded. Additionally we recycle our paper."* (Respondent # 31, Small firm)

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*"Our clients and suppliers are important to us. We value them and develop trust-based relationships with them. We recruit our employees through formal advertising and we are aware of the equal employment opportunities and we have culturally diverse staff. We conduct regular staff meetings and all of the information is communicated internally with our staff. We focus on salary rise and bonuses to keep our employees satisfied.*

*We have installed solar panels and our office is well insulated. We maintain all of our information in electronic documents. We sponsor school games and community events. We have Mufti days and we support flood and bush fire appeals."* (Respondent # 1, Medium firm)

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When responding to the questions based on the type of CSR-based activities that the firms are currently engaged in, respondents from small and medium sized firms provided incredibly varied responses:

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*“Recruitment is through local advertisements and word-of-mouth communication. Often we take individuals who come through known referrals. Even though we take trainees, we encourage them to up-skill their qualifications. We sponsor our employees to take up CPA programs (have sponsored two of their employees so far). We encourage our employees to attend short training courses and motivate them constantly by providing with interesting work. We also conduct regular performance and salary reviews.*

*We focus on electronic documentation and confidential shredding....contributing to the environmental aspect. We do not have enough resources to engage in broader community activities. Individuals do these activities on their own.”*

*(Respondent # 16, Small firm)*

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*“We develop trust and goodwill with all of our stakeholders. We recruit people from culturally diverse areas. Bonuses are paid on the basis of our employees’ performance. We follow sustainable practices (solar panels installation). We engage with our community on a monthly basis and support cause-related activities.” (Respondent # 22, Medium firm)*

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## V. FINDINGS

The practicing accountants interviewed from SMEs tend to think of CSR in an informal way relating to what owner-managers of their organisations believe and on the basis of their own personal individual values and principles. Many of the respondents talked about preferring to use the term ‘social responsibility’ instead of ‘corporate social responsibility’ within the SME context. Though SMEs are not engaged with any externally recognised or formalized CSR agenda, certain parts of the CSR agenda focusing on employee welfare and benefits are included in their policy manuals. SMEs tend to focus more on improving the work-life balance, training and development opportunities of their employees rather than concerning themselves with a recognizable holistic or formal CSR program. For SMEs the concept of CSR is more local and its activities are on a much smaller scale. Also the opportunities associated with the CSR agenda in SMEs are not immediately obvious and are mostly intangible in nature.

Respondents from medium sized regional accountancy firms said their companies enhance their CSR-SME relationship through community engagement as well as their stakeholder relationships and environmentally conscious activities. Most importantly, respondents said that medium sized accountancy firms enhance their visibility within the eyes of the general public by communicating their CSR-based activities that are in place within their firm through their websites. According to the respondents in medium sized accountancy firms, their organisations create goodwill and trust with their key stakeholders and community personnel through increased involvement in cause-related marketing activities. The respondents in small firms said that they concentrated on their employees followed by customers/clients compared to the other stakeholders. Respondents in small firms also felt that their association with their suppliers was only on a moderate level. Furthermore, they stated that the level of association with the local community and society at large was negligible for small firms.

Similarly, respondents in smaller sized firms indicated that they are more focused on their employee recruitment, motivation and retention strategies followed by environment-related themes recycling and efficient water and energy management. Medium sized accountancy firms place more emphasis on their customers/clients, followed by their employees, suppliers, community and society in that order of importance compared to small firms. With regard to CSR-based activities, medium sized firms tend to focus more on their supply chain aspects relating to their customers/clients and suppliers trust, goodwill, norms and values. Other CSR-based activities undertaken by medium sized firms are employee recruitment, motivation and retention strategies; environmental issues focusing on recycling, efficiency and physical installations and community related activities such as sponsorships and cause-related marketing. Theoretically, compared to small accountancy practices, medium sized firms tend to integrate both stakeholder and social capital perspectives into their CSR activities.

## VI. IMPLICATIONS

The results showed that small sized firms were engaged in more informal CSR activities, communication and promotion strategies, and that such activities clearly generate a competitive advantage for small businesses as well as enhancing their reputation and image. Therefore, one broad recommendation would be for small accounting firms to increase their internal and external communication in order to promote the informal CSR-based activities that they are currently practicing. Sometimes it’s as simple as making good work visible to those who are involved and such visibility can be achieved through increased public relations activities that are promoted in local newspapers, magazines and websites.

The effective promotion of informal CSR-based activities that are undertaken by SMEs is critical in order to build better firm reputation and image that would enhance business opportunities, increase the customer/client base, build relationships with key stakeholders and foster financial profits on a long-term basis. If SMEs publicly praise and promote their employees it could have the effect of increasing employee morale, decreasing absenteeism, and increasing employee satisfaction and efficiency. Such a positive change might lead to increased financial gains for the company. Several insights that are important emerge for researchers and practitioners interested in CSR-SME relationship. Evidently owner managers’ act as per their moral responsibility and individual values in SMEs and as such the process of personalization with different stakeholders varied depending on the level of importance that they attribute to the key stakeholders.

Even though the accountants interviewed in small sized firms spoke about their company as being broadly environmentally conscious, they mainly focused on activities related to reduced consumption and decreased pollution. However, if their businesses introduced a comprehensive environmental strategy, which included a holistic program, related to ‘sustainability’ in their CSR activities may prove more efficient and effective. SMEs tend to focus on

developing an integrated approach by taking into consideration both stakeholder and social capital perspectives in order to better understand the term CSR, it's meaning in the SME context and its incorporation into SMEs core business practices.

## VII. CONCLUSION

As the results of the interviews showed, in reality, SMEs tend to focus more on informal CSR-based activities such as improving the work-life balance of their employees, maintaining sustainable relationships with their stakeholders, extending their arm in community-based activities and focusing on environment protection. However, a focus on an incremental approach in line with the key stakeholders of the firm might be a more appropriate strategy. SMEs need to find that right balance in their engagement with the CSR-based activities as too limited involvement might have an impact on the firm's reputation and too broad involvement might incur financial losses to the firm, in a way focusing on "optimized CSR". Irrespective of the size of the firm, neither small nor medium sized regional accountancy firms are involved in describing their CSR strategy with clearly defined objectives, measurable Key Performance Indicators (KPIs) and reporting to established frameworks.

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# *Sukuk Ijarah vs. Sukuk Musyarakah:* Investigating Post-Crisis Stock Market Reactions

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**Abstract**— The aim of this study is to investigate whether market reacts asymmetrically to the issuance of selected *sukuk* structures (*ijarah* and *musyarakah*) in Malaysia for the period 2008-2011. The estimation periods in this study are from 2004-2006. Data are collected from the Securities Commission Malaysia (SC) and Bloomberg database. The study employs event study methodology using cumulative average abnormal return (CAAR) on symmetric and asymmetric events based on the reaction of the FTSE Kuala Lumpur Composite Index (FTSEKLCI) to the announcement of *sukuk* issuance. The results indicate positive, significant and both symmetric and asymmetric market reactions to *sukuk* issuance. Hence, market reacts positively and asymmetrically to the announcements of *ijarah* and *musyarakah* after the recent crisis. The findings would be useful to issuers, investors and decision-makers to ensure the stability of Islamic capital market and sustainable economic growth.

**Keywords**- *sukuk*, event-study, asymmetric, symmetric, FTSEKLCI, *ijarah*, *musyarakah*

## I. INTRODUCTION

The recent modernization in Islamic finance has changed the dynamics of the Islamic financial industry. The changes have caused the demand of *sukuk* to increase in the last few years and gained universal acceptance as an alternative to conventional financial products. It becomes an increasingly important component of the development of the global Islamic capital market. It has developed as one of the most significant mechanisms to raise finance through Islamic guidelines. Islamic financial instruments provide the possibility of increasing the original asset and the value of *sukuk* themselves will be appealed the conventional investors looking for them. Besides, the original debt in bonds cannot be increased [1]. There has been growing interest in the issuance of *sukuk* by corporations, sovereigns and multinational corporations where the demand exceeds the supply. The global *sukuk* market is denominated in international currencies and is estimated to exceed USD50 billion. *Sukuk* market is experiencing remarkable growth, increasing at an average rate of growth of 40% per annum [2].

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The main contribution of the paper is to examine post-crisis stock market reactions to the issuance of *ijarah* and *musyarakah* which are the most commonly issued *sukuk* structure in Malaysia after 2008 financial crisis. The study is motivated by three key factors affecting *sukuk* market. First, regain market confidence after restructuring of the high profile *sukuk* in Dubai after 2008. Second, investors are avoiding the riskier markets of United States and Europe. Third, positive economic growth and favourable debt dynamics in the two most important *sukuk* issuing regions of the GCC countries and the Asian region, including Malaysia, has attracted investors to the Islamic capital market. This paper adds to the literature since empirical work on the information content of *ijarah* and *musyarakah* issues is relatively few.

The remainder of the paper is organized as follows. Section II discusses the related literature. Section III highlights the research method. Section IV discusses the findings and the final section concludes the paper.

## II. LITERATURE REVIEW

### A. Definition of Sukuk

*Sukuk* is an Arabic name for financial certificates, which in economic terms are akin to conventional bonds. Unlike conventional bonds, *sukuk* need to have an underlying tangible asset transaction either in ownership or in a master lease agreement. It represents ownership of underlying assets, usufructs (benefits), services, or investment. The money that a *sukuk* holder gets represents a share in the profit of the underlying asset. The Securities Commission Malaysia (SC) defines *sukuk* as a financial document or certificate which represents the value of an asset evidencing an undivided pro rata ownership of an underlying asset. Islamic securities are securities issued pursuant to any Shari'ah principles and concepts approved by the SC's Shari'ah Advisory Council (SAC) [3]. The approved Shari'ah concepts and principles for the purpose of structuring, documenting and trading of Islamic securities are described below:

#### i. *Musyarakah Sukuk* (Profit and Loss-Sharing)

A partnership arrangement between two parties or more to finance a business venture, where all parties contribute capital either in the form of cash or in kind for the purpose of financing the business venture. Any profit derived from the venture will be distributed based on a pre-agreed profit-sharing ratio, but a loss will be shared on the basis of equity participation.