Corporate social responsibility: The involvement of small medium enterprises

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Abstract

The purpose of the paper is to study the involvement of corporate social responsibility by small medium enterprises (SMEs) in Malaysia. Based on the sample taken from SMEs listed under Enterprise 50 (E50) over five years, questionnaires were distributed to find out their involvement in CSR and their motivation for engaging in CSR activities. For this purpose Carroll’s Pyramid of CSR was used as the framework. It was found that that majorit of the SMEs involved in ethical responsibility, followed by legal responsibility, economic responsibility and lastly, philanthropic responsibility. It showed that ethical responsibility as the foundation of CSR involvement by Malaysian SMEs and this result is contrary to Carroll’s Pyramid of CSR. The findings also reveal the SMEs were motivated firstly by their own beliefs and values, followed by religious thought and that CSR may enhance the company’s reputation. This motivation is in line with their emphasis on ethical responsibility when engaged in CSR. This study contributes to knowledge about CSR by small medium enterprises, which is still lacking in the literature on CSR, particularly in Malaysia.

Keywords: CSR in SMEs, CSR involvement, CSR motivation, Carroll’s Pyramid of CSR

1.0 INTRODUCTION

In Malaysia, Small Medium Enterprises (SMEs) constitute 99.2% of total business establishments in Malaysia the bulk of which (87%) are engaged in the services sector, while another 7% and 6% respectively are in the manufacturing and agriculture sectors (SME Master Plan 2012-2020). In 2013 SMEs contribute 33% of Gross Domestic Product (GDP), 57% of employment and 17% of exports. Based on SME Master Plan 2012-2020, they are expected to contribute further to the economy to 41% of GDP, 62% of employment and 25% of export. (Dato Hapsah, 2015). Malaysian SMEs need to work hard to increase their contribution to GDP because other SMEs from advanced and high-middle income countries contribute to GDP in their country above 40% share. This is why the SME Master plan (2012 - 2020) is initiated to help the SMEs in Malaysia to enhance their overall productivity and competitiveness and to bring them to be globally competitive SMEs across all sectors that enhance wealth creation and contribute to social wellbeing.

Since SMEs are playing an important role in helping the growth of Malaysian economy, the social and environmental impact of the SMEs should be monitored and evaluated to ensure that they act responsibly in sustaining their business. This should be initiated by various programs at engaging the SMEs in the CSR agenda. Despite the important role of SMEs, studies on CSR in SMEs remain rare (Santos, 2011). Many discussions on CSR remained most exclusively on large company even though SMEs set up the bulk of business worldwide (Coppa & Sriramesh, 2012). The reason behind the lack of discussions on CSR in SMEs is because...
most of the SMEs practices CSR informally and based on their own belief and values (Mehran Nejati & Azlan Amran, 2009). Understanding how the SMEs in every country accepting and practicing CSR is necessary to increase knowledge on CSR in SMEs. Thus, this paper chooses to examine the CSR in SMEs in Malaysia. SMEs in Malaysia will be represented by the winner of Enterprise 50. They will be questioned on their involvement in CSR practices and the motivation. This paper also aims to examine how the SMEs corporate social responsibility activities are being carried out in their business operation whether informally carried out or embedded in their business strategy.

The broad objective of this study is to provide an evidence of involvement of SMEs in CSR. This study focuses on the involvement of Malaysian SMEs that win the E50 from year 2009 to 2013. This study follows the framework of Carroll’s Pyramid of CSR.

2.0 SME IN MALAYSIA

SMEs in Malaysia are divided into five sectors which are service, manufacturing, agriculture, construction and mining and quarrying. As in 2011, there were 645,136 SMEs in Malaysia which were dominated by service sector (90%), followed by manufacturing sector (5.9%), construction sector (3.0%), agriculture (1.0%) and lastly mining and quarrying (0.1%). 77.0% from total SMEs in Malaysia were dominated by micro-sized company, 20.0% by small-sized company and followed by medium-sized company of 3.0%.

Despite the positive performance of SMEs nowadays, they also face several challenges. SME Masterplan 2012-2020 (2012) listed several challenges faced by SMEs in Malaysia. The challenges are difficult to obtain fund, lack of educated human capital, facing high level of international competition, poor technology uptake and low in Research and Development (R&D) activity. In order to enhance the SMEs capability and encourage their engagement in CSR, the government and its agencies have initiated many programs to help the SMEs to face the challenges.

SME Corporation implemented various development programs for SMEs in Malaysia. The development programs aim to improve performance of SMEs in Malaysia in many aspects. SME Competitiveness Rating for Enhancement (SCORE) and Enterprise 50 (E50) are some example of development programs offered by SME Corporation. SCORE is a tool used to rate and help to enhance SMEs competitiveness based on their performance and capabilities. Assistance given will be different following their star rating, zero to five star. SMEs that rated four star and more will be eligible to participate in E50. Enterprise 50 (E50) started in 1996 and was organized in order to appreciate and highlight the achievements of SMEs in Malaysia that are well positioned for the future.

2.1 Corporate Social Responsibility in SMEs

Studies on CSR in SMEs are increasing in trend. Available studies investigated the sample from Italy, Latin America, Portugal, Australia as well as Malaysia. These studies commonly examined CSR and the business dimension, language and terminology, theoretical framework and drivers, barriers and consequences (Vázquez-Carrasco & López-Pérez, 2013). In Malaysia, to date there is little attention on CSR practices by SMEs. Those studies are less comprehensive since they use small sample of SMEs and also the research focused on one variable only. For example, Mehran Nejati and Azlan Amran (2009) conducted an exploratory study on only ten SMEs in Malaysia using semi-structured interviews. They merely investigated single variable of motivations that lead the SMEs involvement in CSR activities. The findings cannot be generalized since they examined small sample of Malaysian SMEs. A recent study by Lim Andy and Mazlina Mustapha (2013) examined the CSR practices of Malaysian SMEs in the areas of marketplace, workplace, community and environment. These areas were based on Bursa Malaysia framework. However, it is not appropriate for the researchers to use Bursa Malaysia framework as a bases to examine CSR practices of Malaysian SMEs, since CSR framework is applicable to Malaysian Public Listed Companies (PLCs). The framework is a set of guidelines for Malaysian PLCs to define their CSR priorities, implementation and reporting (Bursa Malaysia, 2006). Lim Andy and Mazlina Mustapha (2013) also examined the motivations that lead Malaysian SMEs to practices CSR in their business operation.

Based on many academic research on CSR in large companies, technical terminology used in large companies is incomprehensible and inaccessible to SMEs management. Language used by large companies is more academic, complex and formal than the more direct and relaxed register of SMEs supervisors (Vázquez-Carrasco & López-Pérez, 2013). According to Chamhuri Siwar and Siti Haslina Md Harizan (2007), due to the unclear terminology of CSR itself, SMEs might have been doing CSR unconsciously in an informal way. SMEs may choose to
informally practice CSR due to the lacking of expertise or skilful employees to be assigned to handle CSR activities (Vo, 2011). SME faces various challenges in undertaking CSR activities in terms of financial, time and human capital (Chamhuri Siwar & Siti Haslina Md Harizan, 2007), and hence CSR is not the priority of SMEs in doing business. Yet, there are still SMEs that are concerned about involvement in CSR in order to sustain their business into the future. Accordingly, studies on CSR in SMEs have been lacking as well until the more recent years. According to Vázquez-Carrasco and López-Pérez (2013), the oldest study about the CSR in SMEs is dated to 2006 while 65% of all of the references are dated to 2009 or later.

Russo and Perrini (2010) found that due to the different nature of SMEs compared to large company, the analysis on the differences from the CSR perspective will reveal two different strategic orientations and approaches to responsible behaviours by both large company and SMEs. The Italian SMEs evidenced that to have a specific department of handling CSR is rare because they are involved in CSR activities informally.

2.2 Motivation for CSR

Although studies about CSR in SMEs is minimal, the available studies investigation on motivations that trigger SMEs to be involved in CSR activities have been a common theme. According to Quinn (1997), the values of the owner-manager are one of the most important factor in deciding to engage with social or environmental sustainability strategies. According to Murillo and Lozano (2006), the most important motivation is the values of the founder or owner when deciding on social or environmental responsibility. Lebanese SMEs were also motivated by the founder or the owner values with the blend of personal and religious motivations in order to influence social involvement (Jamali et al., 2009). SMEs in Malaysia were motivated by their own beliefs and values because they believe the importance to be good to the societies as they consume the societies resources for their survival (Mehran Nejati & Azlan Amran, 2009). Some of the Malaysian SMEs were also motivated by religious thought as their religion expects them to behave well. Mehran Nejati and Azlan Amran (2009) further found that SMEs in Malaysia were motivated by external pressure such as by customer that require them to be responsible to the environment. Meanwhile, Lim Andy and Mazlina Mustapha (2013) found that size of the company was the main factor that increased the engagement of SMEs in CSR initiatives. They also found that the founder character and stakeholders expectation acted as the motivation for Malaysian SMEs.

Vives (2005) found that SMEs in Latin America were motivated by the ethics and religious values, maintaining employees’ welfare and maintaining good relationship with the community, suppliers and customers. Increasing profit and pressure from civil society and public sectors are considered less important drivers for SMEs in Latin America. A study from Australian Centre for Corporate Social Responsibility (2007) found that the most important motivation that can trigger the involvement of SMEs in CSR activities is eagerness to attract and retain valued employees. This is because a characteristic of small company is that their success is largely dependent on the valued employees. Hence, to avoid rapid turnover of employees make the small company to pay more attention on responsible employees practices. SMEs in Italy evidenced that the main drivers for them are the pressure from peers and the clients, the government, business associations and the consensus-building organizations (Coppaa & Sriramesh, 2012). This is because their dependence on a few large companies is common. The government can be the driver by reducing bureaucracy and providing incentives such as tax shelters and training programs because they have power to control directly or indirectly a wide part of the economy. Business associations able to motivate SMEs to be involved in CSR activities by providing training and sharing of best practices and awards for socially responsible companies. Meanwhile, Williamson et al. (2006) proved that legal requirement such as environmental regulation drives SMEs to better socially responsible behaviours. They argued that, SMEs will only be socially responsible if there is a specific regulation that required them to do so. The reason is, SMEs mostly attempt to improve business performance by satisfying customer needs and reducing cost because they see the direct benefits from the intention of improving business performance rather than the benefits at engaging to wider stakeholders. Thus, legal requirement such as environmental regulation gauge the gap between the firm’s profit-oriented self-interest and the interest of wider stakeholders. Udayasankar (2008) listed the differentiation strategy and access to resources as the motivations that lead SMEs to be involved in CSR activities. Companies with small scale of operations rely on differentiation and that is the reason why small companies were motivated by differentiation strategy to be involved in CSR activities. Limited resources, for example in term of capital financing are one of the challenges faced by SMEs worldwide. It also hinders the SMEs to be involved in CSR activities. Hence, some of SMEs were motivated by increasing visibility in order to have access to resources.
2.3. Carroll’s Pyramid of CSR

In conceptualizing CSR in SMEs, Carroll’s Pyramid of CSR is used (Figure 1), where four categories of responsibilities are laid out. The foundation of the pyramid is economic responsibility; second level is legal responsibility, followed by ethical responsibility and lastly is philanthropic responsibility. Economic responsibility is the foundation of CSR because business organization was created as economic entities to provide goods and services in return for profit to the business organization. Due to the business organization’s role in the society, they were demanded by the society to operate their business according to laws and regulations as formulated by federal, state and local government. However, merely complying with the laws and regulations are not enough. Business organizations were also demanded and expected to comply with ethical norms such as sensitivity of religion, ethical behaviour and values within their location of businesses. Lastly, business organizations were expected to do something good to the society such as contribute to financial resources includes donation and scholarship. This is a voluntary act and society does not regard the unwilling of business organization to contribute some of their financial resources as unethical.

![Carroll's Pyramid of CSR](image)

Figure 1. Carroll’s pyramid of CSR (Archie B. Carroll, 1991)

For CSR to be accepted by a conscientious business person, it should be framed in such a way that the entire range of business responsibilities is embraced, and hence the four kinds of social responsibilities that constitute the total CSR (Carroll, 1991). As quoted by Crane and Matten (2004), despite the plethora of CSR definitions over the last 50 years, Carroll’s four-part conceptualization has been the most durable and widely cited in the literature (Visser, 2006). He adds that some of the reasons for this could be among others as: 1. The model is simple, easy to understand and has an intuitively appealing logic; 2. Over the 25 years since Carroll first proposed the model, it has been frequently reproduced in top management and CSR journals, mostly by Carroll himself; 3. The model has been empirically tested and largely supported by the findings and 4. The model incorporates and gives top priority to the economic dimension as an aspect of CSR, which may endear business scholars and practitioners. Thus, this framework could be tested on various forms of business organizations including SMEs and is used in this study to explore the involvement of Malaysian SMEs in CSR activities. It is believed that Malaysian SMEs, due to SMEs nature such as owner management, strong connection with business partners and local community, lack of resources and support to implement CSR (Ciliberti, Pontrandolfo & Scozzi, 2006) may not always be profit driven and that they may be fundamentally different from large companies.
3.0 RESEARCH METHODOLOGY

3.1 Sampling and Data Collection

Sample of SMEs are taken from winners of Enterprise 50 (E50) since their eligibility to be E50 reflects their commitment and high performance among the whole Malaysian SMEs. The winners of E50 from year 2009 to 2013 were selected, since according to Vázquez-Carrasco and López-Pérez, (2013) majority of the available study on CSR in SMEs are from 2009 or later, it makes sense to study Malaysian SMEs’ involvement in CSR activities from 2009. Each year, there will be 50 companies that were listed as the winner of E50. Therefore, from 2009 to 2013, the total of 250 companies is the potential respondents. However, the numbers of respondents are decreased because there are 27 companies that were listed as the winner of E50 twice and 9 companies were listed three times. Therefore, the final sample is 205 companies.

This study is based on primary data derived from the survey that are being conducted at managerial level. The questionnaire was developed based on previous studies such as by Ruhaya Atan and Nurul Akma Abdul Halim, (2012); Lim Andy and Mazlina Mustapha, (2013); Santos, (2011). Contents of their questionnaire were modified to suit this study. There are three parts in the questionnaire. The first part asked about the company’s profile. Second part asked about the SMEs involvement in CSR and Part Three asked about the motivation that drive the SMEs to be involved in CSR. The questionnaire was emailed to the respondents. However, some of the respondents’ email addresses were no longer in use, hence, the questionnaires were posted to their company’s addresses.

A total of 205 questionnaires had been distributed to the winners of E50 over the 5 years. However, only 33 had responded and make up response rate of 16.10%. According to Nulty (2008), a non-face-to-face way will result in low response rate compared to face-to-face method such as giving out questionnaire and at the same time administer the respondents while they answer it. Small response rate is due to SMEs were reluctant to give cooperation in answering the questionnaires and the method of distributing the questionnaire.

4.0 DATA ANALYSIS AND FINDINGS

Descriptive analysis is used to interpret the company’s characteristics, their involvement, motivation and strategy of CSR practices. Cronbach Alpha was performed to test the validity and reliability of the questionnaire. The involvement and the motivation of SMEs in CSR in the questionnaire were measured based on a 5-point scale whereby from 1 as ‘strongly disagree’ to 5 as ‘strongly agree’. The result of the analysis is shown in Table 4.1. The Cronbach’s Alpha is 0.743, indicating the acceptable level of internal consistency for questions in Part Two and Part Three in the questionnaire. Since the alpha is at an acceptable level, it means that the questions are valid and reliable (George & Mallery, 2003).

<table>
<thead>
<tr>
<th>Table 4.1: Test of Reliability</th>
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<tbody>
<tr>
<td>Cronbach's Alpha</td>
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<td>.743</td>
</tr>
</tbody>
</table>

4.1 Age of Companies

Table 4.2, the result shows that majority of the sample companies (52%) are between 10 years to 19 years old. 30% of the sample companies were aged of more than 20 years. The remaining of the sample companies (18%) were aged of less than 10 years. Besides that, the older company was incorporated in 1972 and aged 41 years and the youngest company was incorporated in 2009 and aged 4 years. Hence, the results suggested that the majority of the Malaysian SMEs may already be involved in CSR practices but they may informally or formally carry out CSR activities in their business operation. Furthermore, the 6 companies were incorporated less than 10 years and with less experience compared to older companies, showed great performance because they managed to be involved in CSR practices and win the Enterprise 50.

<table>
<thead>
<tr>
<th>Table 4.2: Age of companies</th>
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</thead>
<tbody>
<tr>
<td>Age Of The Sample Companies</td>
</tr>
<tr>
<td>Less than 10 years</td>
</tr>
<tr>
<td>Between 10 years - 19 years</td>
</tr>
<tr>
<td>More than 20 years</td>
</tr>
</tbody>
</table>
4.2 Business Sector

The sample companies were involved in only 3 sectors out of 6 sectors of SMEs. Majority of the respondents (18 companies) are in manufacturing sector, 14 companies in services sector and only 1 company is in construction sector. This result is in line with report by Department Statistics of Malaysia, (2012) that revealed the most sectors that SMEs operated in are services, manufacturing and construction.

4.3 Number of Employees

Number of employees is one of the crucial information in order to determine the size of the SMEs. In this study, 17 companies are hiring between 5 and 50 employees in their business. Meanwhile, 8 companies are hiring between 51 and 100 employees and another 8 companies hiring more than 100 employees.

<table>
<thead>
<tr>
<th></th>
<th>Manufacturing</th>
<th>Services</th>
<th>Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 5 and 50</td>
<td>9</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Between 51 and 100</td>
<td>3</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>More than 100</td>
<td>6</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

Figure 2. Number of Employees

4.3 Annual Sales

Besides the number of employees, annual sales is another alternative that is used to define the particular company whether they are small or medium enterprise. In this study, majority of the respondents gained more than RM10 million sales annually. There are 12 companies that gained between RM1 million and RM5 million, 5 companies were operated in manufacturing sector and 7 companies were operated in services sector. Meanwhile, 5 companies from manufacturing sector and 2 companies from services sector gained between RM6 million and RM10 million. The remaining 8 companies from manufacturing sector gained more than 10 million, another 5 companies from services sector and 1 company from construction sector also gained more than 10 million.

4.4 Analysis of CSR Involvement

Table 4.3 reveals the level of involvement in CSR by SMEs in Malaysia. The result indicated that majority of the SMEs involved in ethical responsibility, followed by legal responsibility, economic responsibility and lastly, philanthropic responsibility. Figure 4.5 illustrates the new order of CSR based on this finding. It showed that ethical responsibility as the foundation of CSR involvement by Malaysian SMEs and this result is contrary to Carroll’s Pyramid of CSR. Carroll (1991) claimed that, a company should be ethical in operating their business even though there are strict rules and regulations in a country because being ethical such as respecting people and preventing social injury will gain more trust by the citizen and other stakeholders, but did not put it as the foundation to companies’ CSR. Meanwhile, according to Mehran Nejati and Azlan Amran (2009) Malaysian SMEs believed that they gain no benefit if they practices CSR in their business, but because of they are consuming society’s resources for their business operations, they need to be ethical or to be good to society. This statement proves why Malaysian SMEs in this study involved more in ethical responsibility.
Malaysian SMEs not only choose to be more ethical towards its stakeholders but also involved in legal responsibility in order to secure their license to operate within the community environment (Perrini et al., 2007).

Table 4.3: Analysis of CSR Involvement

<table>
<thead>
<tr>
<th>Involvement in CSR</th>
<th>Total Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>15.55</td>
</tr>
<tr>
<td>Legal</td>
<td>16.30</td>
</tr>
<tr>
<td>Ethical</td>
<td>17.27</td>
</tr>
<tr>
<td>Philanthropic</td>
<td>15.03</td>
</tr>
</tbody>
</table>

Economic responsibility was chosen as the third level of involvement in CSR. This research findings is in line with prior research which found that SMEs do not take economic responsibility as important as other responsibility because they considered the community as the important stakeholders when defining CSR and lead them to work more ethically and follow laws and regulation instead of focusing on gaining profit as much as they could (Vo, 2011). The least involvement of SMEs CSR was in philanthropic responsibility, perhaps because this required SMEs to work voluntarily by contributing some of their resources such as finance resources, time and energy; which they were mostly lacking.

![Figure 3. Revisited pyramid of CSR](Pyramid of CSR based on this research findings)

4.5 Analysis of CSR Motivation

Table 4.4 reveals the motivations that encouraged Malaysian SMEs to be involved in CSR. Majority of Malaysian SMEs were motivated firstly by their own beliefs and values, followed by religious thought. Malaysian SMEs were also motivated to get involved in CSR because it may enhance the company reputation, to retain customers and to attract investors. External pressure was found to be the last factor that motivate them to be involved in CSR. Similarly, Mehran Nejati and Azlan Amran, (2009) found that majority of SMEs in Malaysia were motivated by their own beliefs and values. This is because the SMEs believed that they need to be good to society. Hence, this explained why ethical responsibility was chosen as the first responsibility that involved the sample SMEs. Murillo and Lozano (2006) also found that the values of the founder or owner are important when deciding on social or environmental responsibility.

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>By own beliefs and values</td>
<td>4.36</td>
</tr>
<tr>
<td>By religious thought</td>
<td>4.15</td>
</tr>
<tr>
<td>To enhance company reputation</td>
<td>4.03</td>
</tr>
<tr>
<td>To retain customers</td>
<td>3.55</td>
</tr>
<tr>
<td>To attract investors</td>
<td>3.42</td>
</tr>
<tr>
<td>By external pressure</td>
<td>3.00</td>
</tr>
</tbody>
</table>
Malaysian SMEs were also found to be highly motivated by religious thought. This is in line with the study by Mehran Nejati and Azlan Amran, (2009) and that by Vives (2005) who found that SMEs in Latin America were motivated by ethics and religious values as they considered the welfare of the employees is a major reason to be involved in internal CSR practices.

Another factor that motivate SMEs was that CSR enhance their company’s reputation. This research finding is in line with prior study whereby it was found that a social responsible company determines either to maintain or increase their social responsible behaviour because they did notice that their involvement in social responsible activities helps them to enhance company’s reputation (Longo et al., 2005). Malaysian SMEs may enhance their company’s reputation by being more ethically responsible such as meet the community’s expectation by getting involved.

5.0 CONCLUSION

This study contributes to the scarce literature about the involvement of Malaysian SMEs in CSR activities and the motivation which encourages them to do so. The study attempts to apply the conceptual model of Carol’s CSR Pyramid to Malaysian SMEs and found that economic responsibility or making profit may not be their top priority in doing business. The findings may be useful to regulating body such as the SME Corp to develop a comprehensive policy that can improve SME business management to incorporate how they perceive their responsibility in doing business as important factor to grow their business in particular and by getting involved in responsible activities Malaysian SMEs can play a better role in contributing towards the economy and the social wellbeing. Studies on SMEs have always been subjected to low response from the respondents and hence it is suggested that a more in depth study such as using case study would provide a richer insights on why and how SMEs actually get involved in CSR activities.

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