Corporate Social Responsibility in Small and Medium Enterprises (SME) in Sri Lanka

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Abstract
Corporate social responsibility (CSR) remains a broad, complex and continually evolving concept that encompasses a variety of ideas and practices. Practice has so far primarily been concentrated on the large multinational enterprises, but its wider application in SMEs is of central importance, concerning their contribution to the economy and employment performance and to contribute to the economic development of the society. Concerning the growing importance of the SME sector in Sri Lanka, this study mainly focus on gaining an initial insight to the nature, perception and the extent of the application of the CSR concept in the small and medium enterprises. The concept was measured through four dimensions of stakeholder theory derived from the literature namely environment protection, employee care, Community care and employee concern. Fifty number of semi structured questionnaires were collected from owner/managers of small and medium sized firms operating in Western province, spanning a variety of industries and the data was analyzed using non parametric statistics. Results revealed that majority of firms believe that they should pay attention to their social and environmental responsibilities. The familiarity with the term CSR, involvement and the regularity of CSR activities undertaken were high in medium size firms than in smaller ones. The community was the most cited stakeholder, followed by the environment. Customers and employees in their definition of CSR. All industries in the sample indicates that the motivation factor for adapting CSR is to improve firm’s reputation, employee motivation and to improve economic performance while ethical and moral reason reserves the least importance as a motivating factor for CSR. The main barriers were lack of freedom and attitude of no benefit in short run.

Keywords: corporate responsibility, SME, reporting practices, social responsibility, ethical practices

INTRODUCTION
There has been a significant increase in interest in Corporate Social Responsibility (CSR) in recent years (Young and Thyil, 2009; Park and Lee, 2009; Gulyas, 2009; McGehee, 2009) and it is now regarded to be at its most prevalent. (Renneboog, 2008) representing an important topic for research (Burton and Goldsby, 2009). Recent corporate scandals have attracted public attention and highlighted once more the importance of CSR (Annelids, 2008; Evans and Davis, 2008). It has been noted that research on CSR in SMEs is quite scant in developing countries (Burton and Gold by, 2009; Gilberti et.al, 2008). Small and medium enterprises (SMEs) have been identified as an important strategic sector for promoting growth and social development of countries. Over the years, SMEs have gained wide recognition as a major source of employment, income generation, poverty alleviation and regional development. SME sector in Sri Lanka has received the attention of the government as an important sector in the development of the country. Sri Lanka-Mahinda Chintana Plan (2006-2016), the current framework for macroeconomic policy, strives for the development of a competitive, innovative and technologically strong SME sector, capable of meeting the increasing demands of globalization and intensifying competition. Policy initiatives has been designed to develop the SME sector and further entrepreneurship development, promotional measures on enterprise support services, enhancement of competitiveness, and development of micro enterprises have been emphasized.(Central Bank of Sri Lanka Annual Report,2009).

More importantly, CSR is considered as a mean to corporate sustainability. Hence the purpose of the study is to ensure whether the SME sector in Sri Lanka is aware of and currently practising the CSR concept for their sustainability. In spite of the growing importance of the SME sector in Sri Lanka, there is a lack of understanding concerning CSR in SMEs and hence this study aims in enriching the existing body of knowledge by answering the following research questions.

• How SMEs in Sri Lanka define the concept of Corporate Social Responsibility?
• What are the nature, type and extent of CSR among SMEs?
• What are the barriers for adapting CSR practices of SMEs?
LITERATURE REVIEW
SMEs are generally believed to heavily emphasise economic imperatives rather than social goals, mainly because of their survival strategy and their relatively limited financial base. However, CSR participation of SMEs is reflected in their willingness and financial capability to play a significant role in discharging their social responsibility. According to the studies done by Mankelow (2007), empirically exploring the motivational factors for small and medium size enterprises to engage in corporate social responsibility practices in the context of regional Australia. In particular managerial perceptions of CSR participation and the driving forces shaping the status of SMEs in terms of their actual behaviour in regard to their community involvement suggested that SME managers are motivated towards CSR for the profit viability and growth of their businesses whilst also caring for customers and the community. Study by Caroli (1999) suggests that SMEs can successfully implement CSR policies and this directly affects their competitiveness. SMEs have a similar (Jenkins, 2006) and stronger (Perrini, 2006) stakeholder relationship in comparison to large companies. That means SMEs have stakeholders in the common range with large companies and the purpose of stakeholder management is similar, namely to reduce the risk by managing stakeholders (Jenkins, 2006) and SMEs are used to be very close to their stakeholders like community and employees (Perrini, 2006). SMEs do plays a significant role in the local community with a high-degree of interaction and acting as benefactors by support to the local economy by creating job opportunities.

METHODS
The term CSR was measured using the following dimensions as proposed in the literature. Measurements used for each dimensions are shown in the table 1.

Table 1: Dimension measures

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Measurements</th>
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<tbody>
<tr>
<td>1. Environmental Protection</td>
<td>Waste reduction, Energy conservation, Reduction of water consumption</td>
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<tr>
<td>2. Customer care</td>
<td>Timely resolving of customer complaints, Commitment to provide value to customers</td>
</tr>
<tr>
<td>3. Employee care</td>
<td>Development of real skill and long term career, Adequate steps to avoid all forms of discrimination, Consultation of employees on their important issues, Commitment to health and safety of employees</td>
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<tr>
<td>4. Community care</td>
<td>Donations to charity, Employees volunteer involvement in charity work on behalf of the organization, Involvement of projects with the community</td>
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(Adopted from L Sweeney 2009)

Sample
The population for this study is SMEs operating in Sri Lanka. The department of Census and Statistics (2008) criteria were used to define the SMEs in Sri Lanka. Small enterprises have between 5 to 29 employees & Medium sized enterprises have between 30 to 149 employees. Hence in this research, it is considered that SMEs are enterprises with 05 to 149 employees. One hundred and twenty structured questionnaires were sent to the owner/manager of SME and responded only by 50. The nature & the extent of current practise of CSR were measured using five points Likert Scale ranged from 1 (Strongly Disagree) to 5 (Strongly agree)

RESULTS AND DISCUSSION
All variables used in this research are categorical, in nature and/or have irregular distributional properties. Therefore, non-parametric/distribution free techniques of statistical analysis were employed exclusively. Therefore the chi –Square independence test was used to determine the level of significance. The study on CSR in SME from Sri Lankan context is analyzed under each objective. Respondent’s familiarity with the term CSR is first analyzed. Attention then turns to their definition and attitude toward the term. Then the hypothesis of the study whether CSR is described through four measures of Environment, Customers, Community and the Employees is tested. Finally motivating factors and the existing barriers are addressed.

Sample Organizations and Respondents.
The largest segment within this sample represent those firms with 5 – 29 employees, (Small sized firms), these represent 68% of the sample. There are 32% medium sized firms in this analysis. Further the sample represents a variety of different industries representing agriculture, Hotels, Construction, Wholesale and retail, Manufacturing. Under the heading “others”, it includes Communication centers, Private Tuition institutes as well as Saloons.

Familiarity with Term CSR
To gain an understanding of CSR in firms operating in Sri Lanka, the first question of the survey aimed to identify respondent’s familiarity with the term CSR.
Half of respondents were familiar with the term in total, 56% answered ‘yes’ to the question “Are you familiar with the term Corporate Social Responsibility?” Great majority were from medium sized firms. The familiarity with the term is more common in medium sized organizations than in smaller ones, the chi square test results indicate the difference is significant. The next section moves from familiarity with the term to an analysis of the definitions of CSR provided by respondents.

**Defining the Term CSR**

In line with literature on the topic (Roberts, 2002; Amaeshi and Adi, 2005), there does not appear to be a universally accepted definition of CSR. An abundance of definitions were provided by respondents of the survey of the 50 usable questionnaires, 8 (16%) respondents provided a definition of CSR. Some definitions were quite vague and failed to identify the specific stakeholder that the firm is responsible to. While few respondents indicated that they used another term to CSR when referring to the social and environmental activities of the firm, alternatives noted include Corporate Responsibility, Community Relations, Environmental Policy, Health & Safety Policy, others provided mixed results.

**Extent of Social Responsibility**

Respondents were asked to state the extent to which they agree with the question “Our firm is a socially responsible firm”. It is clear from the results that most respondents believe their firm is socially responsible. In total, 71.5% of respondents agree with the statement. However, this may not represent the general opinion of firms operating in Sri Lanka as this sample represents those willing to participate in a study on CSR and are likely to represent those more interested/involved in CSR than firms in general. Chi square results indicate an insignificant relationship. Gulyas (2009) similarly found involvement in CSR to be more common in larger firms than small firms.

**Regularity of CSR**

The majority of respondents feel CSR in their organization is carried out on a regular basis with 74% of respondent agree to a medium extent or greater extent with the statement, in comparison to just 22.1% that disagree or strongly disagree with the statement. There is only 47 % respondent have identified that they regularly conduct CSR activities. Other 53% does not agree with the statement. Agreement with the statement is more common in medium sized organizations than in small sized firms. Chi square results indicate that the relationship is statistically insignificant. This is in line with previous research arguing that CSR is more formal and structured in large organizations than in SMEs in which CSR tends to be conducted on an ad hoc basis (Jenkins, 2004a.). It is clear from the questionnaire findings that there are many factors that play an important part in motivating firms to undertake CSR. More than 50% of respondents indicate that “to improve the reputation of the company”, “to improve the employee motivation” and “to improve the economic performance”, and was a motivating factor to a great or quite a large extent. Other important motivators include improving community relations, improving customer loyalty, improving relations with business partners and they do not appear to be very strong motivators for undertaking CSR. Findings indicate that all industries in the sample indicates that they think motivation factor for adapting CSR as to improve firm’s reputation, employee motivation and to improve economic performance. They are not agreeing with the ethical and moral reason much.

**CSR Activities**

In line with current literature (Agle and Mitchell, 2008; Vaaland et al, 2008) and questionnaire findings (Sweeney, 2008), CSR was viewed to be implemented through stakeholder theory and the main stakeholders include; the environment, community, customers and employees. The following section analyses the hypothesis of the study that CSR is described through above four CSR activities and tested through Chi square test.

**Environmental Activities**

The most common environmental activity was waste reduction. 59.1% of respondents indicated that their firms are involved in waste reduction to a great extent or quite a large extent. Equally, majority of respondents indicates their firms are involved in environmentally friendly packaging /containers to a great extent or quite a large extent. Energy conservation appears to be another common environmental activity with 37.42% of respondents. However all organizations have shown above activities to a medium extent. There was significant relationship with recycling and firm size and other any environmental activities within the firms in small size or medium size were insignificant. Environmental friendly packaging and waste reduction indicated great involvement in environmental activities in this study. These and similar findings in this section are in line with research carried out by Cooper et al (2001) and Carlisle and Faulkner (2004).

**Customer Care**

All customer activities received quite a high percentage of firms indicating involvement to a great extent. Indeed, due to the small volume of respondents who indicate a small extent of involvement in CSR activities geared towards customers.
Activities Employee
According to the study it has revealed that all the firms have adapted activities which are benefits to the employees in the organization. Although they have not thoroughly aware of the word CSR but they have adapted some CSR activities in their organization to facilitate their employees. According to the chi square results there were no significant relationship with firm’s size with adapting CSR activities towards employees in their organizations.

Activities Community
As a percentage, 88% of the respondents were agreeing with the donation to charities, hospitals and school activities. 66% agreed with the statement ‘company actively involved in projects with the local community. Chi square results not showed significant relationship with community activities with the firm size. The statement of company has purchasing policies that favor the local communities has significant relationship with the firm size, according to the test results. According to the results, main opportunity for adapting CSR is as flexibility in relationship with stakeholders and capability of direct commitment. The main barrier preventing firms from CSR is lack of money. Other important barriers include lack of management commitment and attitude of no benefits from CSR activities in short run. This is in line with current literature arguing the two most fundamental barriers to adapting CSR experienced by SMEs are time and cost.

CONCLUSION
Study reveals that familiarity with the term, CSR was only marginally high (56%) While familiarity with the term was found to be more common in medium size firms than in smaller ones and the relationship is not statistically significant. The community was the most cited stakeholder, followed by the environment. Customers and employees were also noted by many respondents in their definition of CSR. The majority of respondents feel CSR is undertaken on a regular basis within the firm (55.8%) and more common among medium size firms than small ones. The main barrier preventing firms from CSR is lack of money. This necessitates further empirical studies to identify the reasons for the lack of awareness and commitment to the CSR by SME sector in Sri Lanka and to derive mechanisms to get the benefits of CSR.

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