The implication of CSR on the performance of SMEs in the context of a developing economy

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INFO
Received 18.07.2022
Accepted 10.12.2022
Available on-line 23.01.2023
Responsible Editor: László Várallyai

Keywords:
Small and medium-sized enterprises (SMEs), Corporate social responsibility (CSR), Corporate performance, Developing economy.

ABSTRACT

While corporate social responsibility (CSR) has been extensively explored from the standpoint of large corporations and developed economies, smaller businesses and developing economies have received little attention. Small and medium-sized enterprises (SMEs) continue to be the backbone of most economies, significantly accounting for a major share in economic value creation. This implies that the contribution of SMEs in achieving sustainable development is therefore critical. The study seeks to add to the limited literature by investigating the implication of socially responsible behavior on the performance of SMEs in Nigeria. Corporate reputation, profit maximization and management efficiency are dependent variables used as proxies for performance measurement. A well-structured questionnaire was administered to 63 Nigerian SMEs. The study adopted a structural equation model using SmartPLS for the data analysis. Findings show a significant relationship between corporate social responsibility and the three determinants of firm performance (management efficiency, profit maximization and corporate reputation). This study has implications for owners/managers of SMEs who are keen on improving performance by leveraging on socially responsible behaviour through the development, implementation and communication of a sustainable and acceptable CSR initiative. Recommendations and suggestions for further investigations are made.

1. Introduction

There is an increasing need for businesses to engage in activities referred to as corporate social responsibility (CSR). While some of the responsibilities have legal backing such as environmental regulations, others remain voluntary. However, businesses are urged to go beyond legal requirements and take on social obligations (Curran et al. 2000). The poverty concerns and underdevelopment in many countries have also necessitated the need of involving the private sector in aiding the government to overcome these challenges. These have contributed to an increase in interest in the issue of CSR (Vives 2006). Most CSR concepts and methodologies are developed in the context of larger corporations and developed nations. However, SMEs differ significantly from the larger firms in terms of size, assets, financial turnover, ownership and market share. To avoid generalization, there is a need for more research that is specifically tailored to smaller firms.

Despite an upsurge in CSR research, no commonly accepted definition of CSR exists, as what constitutes CSR varies between regions and from developed to developing nations (Csapóné et al. 2016; Skowron-Grabowska et al. 2016; Campbell 2007). CSR was initially conceived as a company’s responsibility to broaden its economic responsibilities to cover both ethical, social, legal and philanthropies (Bravo et al. 2012). The company’s response to stakeholder pressure began to shape CSR over time. Garriga and Mele (2004) propose CSR should not be viewed as a self-centered response to internal and external pressures, but rather as a proactive and voluntary initiative for the

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Mutual benefit of the company and the wider society (Chondough 2021). The Commission of the European Communities (2001) defined CSR as “the voluntary integration, by companies, of social and environmental concerns in their commercial operations and in their relationships with interested parties”. CSR is based on the idea that businesses and society are intertwined, and as a result, society expects all businesses to behave responsibly, irrespective of the size and nature of business (Idemudia 2009).

Although SMEs rarely attract the attention of the media and may not have a notable impact individually, they remain the backbone of most economies, greatly contributing to global economic growth and development (Spence et al. 2003; Al-Hanakta 2021). CSR research in SMEs is important because SMEs account for most enterprises around the world as they represent over 70% of global jobs and 50% of global GDP (ILO 2020). Being labor-intensive, SMEs tend to have a major impact on employment, and by implication, their CSR practices will significantly impact society. Additionally, they contribute to equal distribution of income, which promotes social cohesion and stability. Similarly, over the last five years, Nigerian small and medium-sized firms have contributed 50% to GDP, 60% to employment, 90% to the total number of businesses, 30% to export and about 90% to the manufacturing activities (PWC 2020; Aruwa 2004). In the European Union, estimations show that SMEs account for 99% of all companies and are responsible for creating over 60% of “total employment and total value added in the EU” (Observatory of European SMEs 2003). In the United States, SMEs account for 50% of employment and contribute greatly to the nation's GDP (Vives 2006). Effective CSR can have a huge positive impact on the lives of Africans, who, for the most part, no longer have confidence in the government to provide them with the necessities of life, but instead, “look up to businesses as beacons of hope” (Adegbite and Nakajima 2011; Amaeshi et al. 2016). This necessitates the need to investigate CSR activities in the context of SMEs.

While numerous prior studies, particularly in Africa, have focused on CSR engagement by large/multinational corporations—perhaps because they are the most visible and with a greater impact on the environment and the society—little attention has been given to the significance of CSR activities for SMEs (Jamali et al. 2009). This study will therefore bridge the gap and broaden the scope of the literature by investigating the implication of CSR in Nigerian SMEs. More specifically, the study seeks to:

- Examine the implication of CSR on the management efficiency of SMEs in Nigeria.
- Assess the effect of CSR on the reputation of SMEs in Nigeria.
- Appraise the impact of CSR on the profit maximization objective of SMEs in Nigeria.

2. Literature review

Most existing studies on the impact of CSR on firms’ outcomes indicate that CSR engagement have a positive contribution to the firm's success by improving the firm’s reputation and image, facilitating access to valuable resources, motivating employees and allowing for better market positioning (Cheng et al. 2014; Csapóné et al. 2015; Greening & Turban 2000). While some scholars propose a positive relationship between CSR and corporate performance, others argue that CSR is a complete waste or misallocation of resources that affect earnings and shareholder value (Barnea & Rubin 2010; Friedman 1962). Scholars with opposing views argue that a company should focus on its primary objective, which is to maximize profit because involvement in the operations of the society through CSR engagement will conflict with profit maximization (Blowfield and Murray 2011).

Choongo (2017) surveyed 153 Zambian entrepreneurs to investigate the effect of CSR on the performance of SMEs. Using SmartPLS structural equation modeling, the author found a significant relationship between the two variables. Similarly, Maldonado-Guzman (2016) also found a Significant positive relationship between CSR and performance while analyzing the existing relationship between CSR and corporate performance of 397 Mexican SMEs, which is critical for long-term sustainable
growth and competitive advantage. Furthermore, Stoian and Gilman (2017) found that local community-based CSR activities contribute to the growth of SMEs in the United Kingdom using multinomial logistic analysis and data from a questionnaire-based survey of 211 SMEs. However, environmental-related CSR activities harm the growth of SMEs. They propose that SMEs should concentrate on specific CSR initiatives that are most beneficial to the company's growth and long-term sustainability. Using Pearson Correlation Analysis and Multiple Linear Regressions, Chelliah et al. (2017) investigated the motives behind CSR engagement by owners/managers of SMEs using “profit maximization, philanthropy responsibility, external pressure, and moral responsibility” as independent variables. A survey of 384 respondents indicates that all the variables have a significant correlation with the CSR of SMEs.

Furthermore, Bnouni (2010) assessed the impact of different components of CSR on the financial performance of French SMEs. The author discovered a positive but marginal effect. However, high profitability is a condition for responsible social behavior. According to a review of 52 studies by Cordeiro and Tewari (2015), companies that pay attention to their stakeholders' needs through CSR practices increase their market value and profitability. Hammann et al. (2009) investigated the relationship between the social responsibility of the German SMEs and their value creation. Findings revealed that “socially responsible management practices geared towards employees and customers have a positive impact on the firm and its performance”. Socially responsible behavior is thought to elicit a positive reaction from respective stakeholders and, as a result, have a positive influence on performance. Longo et al. (2005) studied Italian SMEs to identify the most important managerial tools for creating social value. Most SMEs embraced the concept of social responsibility, not only for moral or ethical reasons but also because they believed that it contributes to the growth and creation of value for their businesses. Human intervention through management control systems is critical in communicating the positive impact of CSR initiatives on business performance (Cheffi et al. 2021).

Additionally, Pham and Tran (2020) investigated the mediating role of corporate reputation on the relationship between CSR and firm performance. The findings show that CSR disclosure improves a company's reputation, which has a significant effect on financial performance. Corporate reputation remains a key intangible asset that can be enhanced or ruined by the company’s decisions or actions regarding CSR activities and disclosure (Shim and Yang 2016). CSR has a significant impact on stakeholder perceptions, which improves corporate reputation (Unerman 2008). Companies that can leverage the reputation advantage through CSR initiatives may boost sales and profits by expanding their consumer base through strong relationships, which is the primary goal of public relations (Aksak et al. 2016). Further studies also show a positive relationship between CSR and corporate reputation (Husted & Allen 2007; Bayoud & Kavanagh 2012; Melo & Galan 2011; Park et al. 2014). CSR engagement and disclosure increase consumer awareness, which leads to a positive attitude towards purchasing the company's products/services. As a result, the company's reputation improves as well as its financial performance (Feldman & Vasquez-Parraga 2013). Firms that have social values and conduct business in a manner that causes little or no environmental harm are less likely to suffer reputational damage (Minor 2011).

In contrast, Liu and Fong (2010) found no significant positive relationship between a firm's CSR activities and its performance in their study of Chinese SMEs' environmental and social responsibility. From the perspective of various stakeholder groups, most literature in developed economies and large corporations demonstrates that CSR activities can result in positive corporate outcomes. Meeting stakeholders' expectations enables businesses to maximize both short and long-term value. Value maximization can be measured in a variety of ways, not just from a financial standpoint. This study, therefore, uses profitability, corporate reputation and management efficiency to assess if CSR has any significant effect on the performance of SMEs. The analysis on the impact of CSR on corporate performance still lacks attention from a developing economy and a small business perspective. Similarly, only a few studies on SMEs have provided empirical evidence on CSR and corporate performance (Torugsa et al. 2012; Toms 2002).
Based on the review of the past studies, the following hypotheses are developed in a null form to test the implication of CSR engagement on Nigerian SMEs.

**Ho₁:** CSR engagement has no significant effect on management efficiency.

**Ho₂:** CSR engagement has no significant effect on profit maximization.

**Ho₃:** CSR engagement has no significant effect on corporate reputation.

### 3. Methodology

This study employed a survey design to investigate the nexus between the predictor variable (corporate social responsibility) and endogenous variables (management efficiency, profit maximization and SMEs reputation). A random sample of 63 Nigerian SMEs was selected. Data were generated from primary sources through well-structured questionnaires adapted from (Musa et al. 2013; Choongo 2017) and administered electronically to owners/managers of SMEs in Nigeria. A “structural equation model (PLS-SEM)” was employed, and the data was analyzed with the aid of SmartPLS 3 professional version. The reliability and validity of the instruments are tested using the measurement model, while the structural models were used to examine the relationships between the study's variables.

#### 3.1. Reliability of Instrument

Cronbach's alpha coefficient which assesses the internal consistency or tool reliability was used to test the reliability of all the variables under study. Acceptable reliability is defined as a reliability coefficient (alpha) greater than or equal to 0.7 (Hair et al. 2017). The reliability test proves that all items in the pilot questionnaire are highly reliable, as indicated by the test scores of over 0.7, as shown in table 1 below. As a result, the answers provided for all variables used in this study were highly reliable for data analysis.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>corporate social responsibility</td>
<td>0.910</td>
<td>5</td>
</tr>
<tr>
<td>profit maximization</td>
<td>0.831</td>
<td>2</td>
</tr>
<tr>
<td>firm reputation</td>
<td>0.927</td>
<td>2</td>
</tr>
<tr>
<td>management efficiency</td>
<td>0.853</td>
<td>3</td>
</tr>
<tr>
<td><strong>Overall on Average</strong></td>
<td><strong>0.880</strong></td>
<td><strong>3</strong></td>
</tr>
</tbody>
</table>

#### 3.2. Validity of Construct

The average variance that is retrieved may also be seen as another representation of the convergent validity of the reflective structures (AVE). The convergent validity of the reflective structures evaluated in table 2 demonstrates the mean major score for each construct (the mean square factor loading of the elements within each construct) is greater than 0.50, which indicates that each of these constructs explains more than fifty percent of the variance in the relevant indicators as proposed by Hair et al. (2013). Conversely, to evaluate the “discriminative validity” of “reflective constructs”, the square root of any AVE variable must be higher than the correlations of that variable with any other construct (Fornell & Larcker 1981). It has been established that the square root of AVE has a higher connection with each construct than does any reflective variable, as can be seen in Table 3. This confirms how distinct each of these structures are and are further demonstrated in figure 1.
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Figure 1. Measurement model

Table 2. Convergent validity (n = 63)

<table>
<thead>
<tr>
<th>CONSTRUCT</th>
<th>ITEMS</th>
<th>LOADING</th>
<th>AVE</th>
<th>CR</th>
<th>CA</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR</td>
<td>CSR1</td>
<td>0.626</td>
<td>0.624</td>
<td>0.891</td>
<td>0.848</td>
</tr>
<tr>
<td></td>
<td>CSR2</td>
<td>0.823</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CSR3</td>
<td>0.789</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CSR4</td>
<td>0.824</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CSR5</td>
<td>0.864</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Efficiency</td>
<td>ME1</td>
<td>0.848</td>
<td>0.738</td>
<td>0.894</td>
<td>0.823</td>
</tr>
<tr>
<td></td>
<td>ME2</td>
<td>0.855</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ME3</td>
<td>0.874</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit Maximization</td>
<td>PM1</td>
<td>0.927</td>
<td>0.609</td>
<td>0.749</td>
<td>0.506</td>
</tr>
<tr>
<td></td>
<td>PM2</td>
<td>0.599</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reputation</td>
<td>R1</td>
<td>0.898</td>
<td>0.771</td>
<td>0.870</td>
<td>0.704</td>
</tr>
<tr>
<td></td>
<td>R2</td>
<td>0.858</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

CA; Cronbach Alpha CR; Composite reliability, AVE: Average variance extracted

Table 3. Discriminant validity (n = 63)

<table>
<thead>
<tr>
<th></th>
<th>CSR</th>
<th>Management Efficiency</th>
<th>Profit Maximization</th>
<th>Reputation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR</td>
<td>0.790</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Efficiency</td>
<td>0.528</td>
<td>0.859</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit Maximization</td>
<td>0.469</td>
<td>0.788</td>
<td>0.780</td>
<td></td>
</tr>
<tr>
<td>Reputation</td>
<td>0.458</td>
<td>0.719</td>
<td>0.461</td>
<td>0.878</td>
</tr>
</tbody>
</table>
4. Structure model (internal model)

The next stage is to develop the “structural model” after determining the model fit based on the “measurement model”. The PLS-SEM structural model was evaluated using these four major evaluation criteria that were specified by Hair et al (2013). An analysis is performed to determine the importance of the trajectory coefficients, the coefficient of determination (R2), the effect size (f2), and finally the predictive relevance (Q2). However, to evaluate the direct influence that CSR has on SMEs in Nigeria, some preparatory study is necessary. During the bootstrapping phase, a total of 5000 subsamples were employed. This is a representation of the direct effect as illustrated in figure 2.

![Figure 2. Structure model](image)

4.1. Test of Hypotheses

Using the t-test (also known as t-statistics) and the p-value at a significance level of 5%, the hypotheses were assessed. To accept the null hypothesis, the p-value must be greater than 5% and the t-statistic should be less than 1.96; otherwise, it is rejected. The study will first test three hypotheses to assess the direct relationship between the variables under investigation. Table 4 shows the path coefficients for the “structural model” detailing the beta values, t-statistics, and p-values.

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Relationship</th>
<th>Beta</th>
<th>Std Error</th>
<th>T-value</th>
<th>P Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>CSR -&gt; MANAGEMENT EFFICIENCY</td>
<td>0.528</td>
<td>0.056</td>
<td>9.462</td>
<td>0.000</td>
</tr>
<tr>
<td>H2</td>
<td>CSR -&gt; PROFIT MAXIMIZATION</td>
<td>0.469</td>
<td>0.058</td>
<td>8.030</td>
<td>0.000</td>
</tr>
<tr>
<td>H3</td>
<td>CSR -&gt; REPUTATION</td>
<td>0.478</td>
<td>0.062</td>
<td>7.727</td>
<td>0.000</td>
</tr>
</tbody>
</table>

***P value <0.01, **P value<0.05 *P-value<0.1

**Ho1**: CSR engagement has no significant effect on management efficiency

The regression coefficient linking CSR engagement and impact on management efficiency of SMEs was significant (β=0.528, t-statistics= 9.462, p-value= 0.000). Thus, the null hypothesis was rejected that CSR engagement has no significant effect on management efficiency. By implication, it means that increase in CSR engagement will lead to increase management efficiency. Therefore, CSR engagement has a significant effect on management efficiency. This is consistent with the study of Choongo (2017).

**Ho2**: CSR engagement has no significant effect on profit maximization

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In addition, the coefficient of regression linking CSR engagement and profit maximization of SMEs was significant ($\beta=0.469$, t-statistics $= 8.080$, p-value $= 0.000$). Thus, the null hypothesis that says CSR engagement has no significant effect on profit maximization was rejected. By implication, it means that increase in CSR engagement will lead to an increase in profit maximization. Investing in social responsibility can produce corporate goodwill which may be used to set a firm apart from its rivals, resulting in increased economic gains or profit. This is consistent with the study of Choongo (2017).

**H03**: CSR engagement has no significant effect on corporate reputation

Similarly, the coefficient of regression linking CSR engagement and reputation of SMEs was significant ($\beta=0.478$, t-statistics $= 7.727$, p-value $= 0.000$). Thus, the null hypothesis that says CSR engagement has no significant effect on reputation was rejected. By implication, it means that increase in CSR engagement will lead to an increase in SMEs’ reputation. This is because social engagement activities may help in strengthening the collaborative culture, which will improve the company's reputation. Companies may build an authentic and sustainable presence, as well as a sustainable corporate network, in this approach. This is consistent with the study of Pham and Tran (2020).

<table>
<thead>
<tr>
<th>Construct</th>
<th>R2 included</th>
<th>R2 excluded</th>
<th>F2</th>
<th>Effect size</th>
</tr>
</thead>
<tbody>
<tr>
<td>MANAGEMENT EFFICIENCY</td>
<td>0.279</td>
<td>0.279</td>
<td>0.387</td>
<td>Large</td>
</tr>
<tr>
<td>PROFIT MAXIMIZATION</td>
<td>0.220</td>
<td>0.220</td>
<td>0.282</td>
<td>Large</td>
</tr>
<tr>
<td>REPUTATION</td>
<td>0.228</td>
<td>0.228</td>
<td>0.296</td>
<td>Large</td>
</tr>
</tbody>
</table>

According to the findings, CSR engagement explains 27.9% of management efficiency, 22% of profit maximization, and 22.8 % of SMEs reputation, with effect sizes of 0.387, 0.282, and 0.296, respectively, indicating that CSR engagement has a huge effect on endogenous variables. For predictive relevance, the value of Q2 must be greater than zero, according to the Stone (1974). In the table, Q2 has a value of 0.543, which is above zero.

5. Conclusion and Recommendation

This study adds to the limited literature by investigating the implication of CSR engagement on profit maximization, corporate reputation and management efficiency of the SMEs in Nigeria. The study adopted a survey research design using questionnaires administered to the owners/managers of SMEs. A structural equation model (PLS-SEM) was utilized in carrying out the analysis. The results provide evidence that CSR have a significant effect on all three measures of performance (management efficiency, profit maximization, and corporate reputation). The study, therefore, concludes that CSR engagement is a good determinant of management efficiency, profit maximization, and SMEs reputation. This research has implications for owners/managers who want to improve business performance through CSR initiatives.

Based on the findings, it is recommended that managers/owners of SMEs should focus their efforts on CSR initiatives that aim to increase corporate social performance for the benefit of the company and society at large. SMEs should deploy ways to effectively incorporate CSR into their core business practices. Most existing CSR policies are geared toward larger corporations, so policymakers should develop policies that are tailored to SMEs. Policymakers should facilitate the development of support programs and formal tools specifically designed to aid SMEs in the adoption, implementation, and communication of CSR strategies. CSR activities must be effectively communicated to have a notable impact on corporate performance. CSR initiatives and disclosure that are widely accepted shapes public perceptions of a company, resulting in a better reputation, which aids in gaining a
competitive advantage and, as a result, improves organizational outcomes. SMEs may not have a significant impact individually, but collectively engaging in socially responsible behavior will have a significant impact. The research is limited to a small sample size which may not be a true representation of SMEs in Nigeria. Future research can be conducted similarly on larger sample size, and additional value factors can be included to improve the model’s prediction.

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doi: 10.17700/jai.2022.13.2.663

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