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The Impact of Corporate Social Responsibility on Small and Medium Enterprises Performance in Zimbabwe

By

¹Dr Kajongwe, Collen, ²Chinyena, Earlmeth, ³Mambo, Ropafadzo & ⁴Mashavira Nhamo

¹, Midlands State University, Box 9055, Gweru

Email: codzakajongwe@gmail.com

Phone number: +263 77 4198 231

²University of Pretoria, Private Bag X20, Harfield, 0028, Republic of South Africa

³, Midlands State University, Box 9055, Gweru

⁴, Great Zimbabwe University

Abstract

Despite the importance of SMEs stimulating economic growth, there has been inadequate attention to and discussion of determinants in the adoption of corporate social responsibility (CSR) and SMEs performance in Zimbabwe. The SMEs sector has been recognized as the conduit through which the growth objectives of emerging economies can be achieved (UNDP, 2015). The current body of knowledge lacks empirical insights on determinants in the adoption of (CSR) and SMEs performance. Five hundred 500 respondents in Zimbabwean Mashonaland West Province were used as research subjects. The study adopted a mixed method approach rooted in the pragmatist paradigm. A cross sectional survey research design was used and the sample was randomly selected from the population. Interviews and questionnaires were data collection instruments used in this study. Data was analysed using non parametric Chi-square test of independence through SPSS. The determinants of the adoption of CSR on SMEs performance varied from industry to industry. The study also revealed that there is a significant correlation between CSR and SMEs performance. The results also indicate that SMEs active involvement in CSR has a significant contribution to productivity and service delivery than the non-CSR compliant firms. However, the data suggest that practical implications of CSR activities when adequately managed and implemented contribute for better SMEs performance and corporate image. Since there is limited research on determinants of CSR on SMEs performance especially in developing countries, the present study provides vital evidence. As such the findings of this research have implications for managers and future researchers.

Key words: Corporate Social Responsibility, Small and Medium Enterprises, Performance, Zimbabwe

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Introduction

Corporate social responsibility (CSR) has become increasingly important to the competitiveness of Small and Medium Enterprises (SMEs) (Salciuviene, Hopeniene, & Dovaliene, 2016). SMEs make up over 90 per cent of businesses worldwide and account for between 50 and 60 per cent of employment (Hodinková & Sadovský, 2016). Across the literature, various definitions of CSR have been proposed by different authors and institutions (Antosova & Csikosova, 2016, Wickert, 2016 and Herrera Madueno, Larran Jorge, Martinez Conesa & Martinez-Martinez, 2016). In this study CSR is a process that is concerned with the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large (Hodinková & Sadovský, 2016). In line with existing literature SMEs encompasses a broad range of definitions. Over time, countries and multilateral institutions have in fact adopted different definitions of SMEs based on the number of employees, size of annual turnover, value of assets, formal or informal status of the enterprise and ownership structure (Hodinková & Sadovský, 2016). This study presents the definition adopted by the European Commission (2015) as a framework of reference. Accordingly, the category of SMEs is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and or an annual balance sheet total not exceeding 43 million euro. Antosova & Csikosova (2016) advance that SMEs performance refers to a business's ability to sustain its long-term objectives better than its competitors in the market, as indicated by profitability, market share, sales and growth rate. As global competitiveness continues to follow momentous trends, CSR is proposed as an effective strategy for boosting the operations and competitiveness of SMEs (Johnson, 2015). Although CSR has been discussed mainly in the context of larger enterprises in developed nations, it is also a strategic tool for enhancing the competitiveness of SMEs in developing countries (Pletnev & Barkhatov, 2016). Musa & Chinniah (2016) avers that there are basic CSR issues that all businesses, irrespective of their size, have to respond to, such as the creation of a good working environment where diversity is encouraged, fair distribution of wealth in a community, protection of the environment, market innovations and ethical practices.

Despite the widespread practical and academic interest in CSR and its impact on the competitiveness of SMEs, few theoretical and empirical contributions exist (Musa & Chinniah, 2016). Empirically, researches from various studies have examined the relationship between CSR and SMEs performance and their results are rather inconclusive (Margolis & Walsh, 2003, Orlitzky, Schmidt & Rynes, 2003). Pletnev & Barkhatov (2016) argue that the broad view of the business case for CSR suggest that the relationship between CSR and SMEs performance is better depicted when the role of mediating variables and situational contingencies are accounted for. Ensuring that CSR supports, and does not undermine, SME development in developing countries is crucial to meeting its goal of improving the impact of business on society.

For the purposes of this study, some categories of CSR factors, which also apply to SMEs, have been taken to include workforce-oriented CSR factors, society-oriented CSR factors, market-oriented CSR factors, and environmentally oriented CSR factors. These factors can individually or

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collectively lead to the increased competitiveness of SMEs in the long term in terms of increased sales volume, growth rate, market share and profitability. SMEs have quickly recognized the strategic value of being more responsible and are beginning to align products and business relationships, in particular through their supply chains, accordingly (Gomes & Wojahn, 2017). The reputation of a business at its location-its image as an employer and producer, but also as an actor on the local scene influences adoption of CSR by SMEs to enhance its public face and being more responsible (Herrera Madueño, Larrán Jorge, Martínez Conesa, & Martínez-Martínez, 2016). It is further reported that a business which is considered socially responsible can benefit from its enhanced reputation within the public and business community, thereby increasing its ability to attract capital and improve its competitiveness (Spence, 2016). However, Hodinkova & Sadovsky (2016) asserted that stakeholders are central in this aspect since they are the source of society's expectations about CSR; they experience the business's behaviour and they evaluate the business's social performance by comparing their experiences with their prior expectations. Hence, CSR can be equated with the notions of giving back to the community, treating employees fairly and offering quality products and services (Spence, 2016).

SMEs may adopt CSR practices due to the internal motivations of the entrepreneur, for example SMEs can adopt a socially responsible behaviour only for ethical, moral, religious and altruistic reasons (Graafland & Mazereeuw-Van der Duijn Schouten, 2012). A positive relationship between CSR activities of SMEs and their enhanced competitiveness exists, at least if a long-term perspective is adopted (Herrera Madueño *et al*, 2016). It has been acknowledged that stakeholder engagement have a positive impact on SMEs performance (Salciuviene, *et al*, 2016). Musa & Chinniah (2016) argue that the success of CSR initiatives is often connected to stakeholder engagement because such engagements assemble representatives of business, regulatory bodies and public sectors in order to address aspects of CSR most relevant to society and less inimical to SMEs business survival. The management of SMEs relationship with stakeholders can enhance performance since the creation and nurturing of such relationships can help SMEs access external resources (Hodinková & Sadovský, 2016). The lack of resources, including finances, human capital, knowledge, and expertise, has been reported to be a common barrier to CSR implementation by SMEs (Ali, Frynas & Mahmood, 2017).

However, budgets for implementing CSR are often inadequate and outcompeted by other projects which guarantee higher return on investments (Gomes & Wojahn, 2017). In fact, Lins, Lim & Tamayo (2017) found that for effective implementation of CSR in SMEs, large amount of resources is required. Poor monitoring and evaluation systems by the state on CSR activities done by SMES poses basic problem in lack of monitoring specific targets (globally, nationally and at local level), measurement and data to track progress, resulting in a lack of information available to decision-makers (Lins, *et al*, 2017). A closer examination of the relationship between CSR factors and the competitiveness of SMEs is therefore crucial and needs to be established. In spite of the growing importance of the SME sector in Zimbabwe, there is a lack of understanding concerning CSR and SMEs performance and hence this study aims in enriching the existing body of knowledge.

Statement of the Problem

Despite the fact that Small and Medium Enterprises (SMEs) are gaining prominence as a potential solution in stimulating economic growth in both developed and developing economies there has been inadequate attention to assess the impact of corporate social responsibility (CSR) on SMEs performance. However, there is dearth of literature on the competitiveness of SMEs having embarked on CSR in the context of Zimbabwe which this study aims to address.

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Objectives

1. To assess factors contributing to the adoption of Corporate Social Responsibility by SMEs. in Zimbabwe
2. To analyse the influence of Corporate Social Responsibility and SMEs performance in Zimbabwe.
3. To examine hindrances in the adoption of Corporate Social Responsibility by SMEs in Zimbabwe.

Method

This study adopted the cross-sectional survey research design as it attempted to seek the relationship between the factors that influencing SME's to CSR in the context of Zimbabwe in Hurungwe District. Cozby & Bates (2011) posit that surveys are specific type of field study that involves the collection of data from a sample of elements drawn from a well-defined population. In this study, respondents were selected from owners or managers of 500 SMEs located in Hurungwe District in the following sectors; whole selling, transport and service provision. This location was chosen as it consists of urban and suburban to ensure all SMEs were located in different places. For the purpose of this study, stratified random sampling method was employed to provide context for generalizing data. The type of survey used in this study was self-administrated 500 questionnaires in order to provide comfort to the respondents' in answering the questions without the existence of an interviewer. Besides that, through this method, it also able to reduce interview bias and interview cost

Findings

Respondents came from 500 questionnaires distributed to SMEs owners in whole selling, transport and service delivery sectors who acknowledged to be involved in donations, provide support to social welfare programmes and helping need people. In establishing factors contributing to the adoption of CSR by SMEs the following results were obtained, (83%) cited the need to establish market while (16.16%) did not accept the establishment. In addition (96.6%) respondents highlighted the need to succumb to public pressure and on the contrary (3.3%) rejected the notion. Respondents who noted to be pushed by legal factors to incorporate SCR in their SMEs were (66.6%) yet (33; 3%) denied the establishment. The study results also found out that relationship between CSR and SMEs performance was based on the need to increase net profit for those who implemented CSR where (86. 6%) respondents concurred and (13.3 %) respondents did not agree. Respondents who cited that the relationship between CSR and SMEs performance was based on the increase of gross profit by SMEs who implement it were (95.6%) while (4.3%) did not agree. In addition (96.6%) respondents agreed that the relationship between CSR and SMEs performance was based on reduction of labour turnover while (3.3%) did not agree. (99.3%) respondents cited the reason for the increase in market structure and on the contrary (1.5%) respondents did not agree. The study results also indicated that (93%) respondents cited hindrances in the adoption of CSR by SMEs were caused by depletion human and financial resources whereas (6.7%) respondents did not agree. Respondents who cited lack of knowledge or expertise as a hindrance to the adoption of CSR by SMEs were (95%) while (5%) disagree. Legal hindrances were also cited as pervading CSR with response rate of (60%) while (40%) disagree.

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Table 1 Chi-Square test of independence and hypothesis testing of determinants of the adoption of corporate social responsibility on small and medium enterprises performance in Zimbabwe

Variable 1	Variable 2	Chi-square (x ²) Value	DF	P-Value
Establishing markets	SMEs performance	9.462	3	0.000**
Increase in net profit	Job security of employees	5.553	3	0.018**
Increase in gross profit	Productivity and service delivery of SMEs	12.625	3	0.014**
Reduction in labour turnover	Productivity and service delivery of SMEs	3.874	3	0.023**

*Significant at 0.05 level

**Highly significant at 0.01 level

DF=Degrees of Freedom

Source: Field Survey, 2020

Using Chi-Square statistic, the need to establish markets and SME performance was found significant ($X^2 = 9.462$, $DF=3$; $p= 0.000$) at 95% confidence level (refer to Table 1). This is in line with Spence (2016) who asserted that the need to establish avenues for market by SMEs as a determinant for CSR can have a positive impact on SMEs performance by providing better access to valuable resources, attracting and retaining higher quality employees, allowing for better marketing of products and services, creating unforeseen opportunities and contributing towards gaining social legitimacy. Chi-square tests revealed the need to increase net profit as motive for CSR by SMEs is related to job security of employees and was found significant ($X^2 =5.553$, $DF=3$; $p= 0.018$) at 95% confidence level(refer to Table 1). This confirms the study by Khan and Khan (2012) who asserted that increase in net and gross profit is important transmission belt and the financial performances in smaller firms which reduces labour turnover and increase productivity and service delivery.

Table 2 Mean rankings of determinants of adoption of CSR by SMEs

	Mean Rank
Establish markets	(2.65) ³
Regulations	(2.45) ²
Public pressure	(2.31) ¹
To increase net profit	(2.99) ⁴
Increase Gross profit	(3.52) ⁵

Source: Field Survey, 2020

Represents ranking on a scale of 1-5 of determinants of CSR by SMEs whilst the figure in brackets represents the Friedman’s Mean Rank. The lower the rank the higher the importance of the factor.

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The study results as shown in Table 2 indicate that public pressure has been ranked as a first determinant factor in order of priority in the adoption of CSR by SMEs while the need to adhere to set regulations has been considered the second most important factor enforcing SMEs to adopt CSR. The need to establish markets by SMEs owners has been ranked third while the need to increase net profit has been ranked fourth and finally the need to increase gross profit was considered the least important factor for SMEs to adopt CSR. The study discovered that, CSR is not meant for economic imperatives for SMEs only; rather, SMEs owners or managers also associate it with an ideology of force by the state and the public as well as legal push.

Table 3 Mean rankings of hindrances in adoption of CSR by SMEs

	Mean Rank
Lack of current trend in CSR information	(2.73) ³
Regulations	(2.55) ²
Financial constraints	(2.51) ¹
Political control	(2.56) ⁴
Lack of support from community	(4.51) ⁵

Source: Field Survey, 2020

Represents ranking on a scale of 1-5 of determinants of CSR by SMEs whilst the figure in brackets represents the Friedman's Mean Rank. The lower the rank the higher the importance of the factor.

As indicated in Table 3 financial constraints facing SMEs has been ranked first in order of priority for inhibiting the adoption of CSR. Inference is made to Gomes & Wojahn (2017) who alluded that SMEs are not able to adopt similar CSR agendas as large organizations due to suffering from survival and viability of their business. Regulations as hindrances to the adoption of CSR by SMEs were ranked second while lack of current trend in CSR information was ranked third. On the fourth ranking is political control and finally on the fifth ranking is lack of support from the community (see Table 3). This confirms the study by Gomes & Wojahn (2017) who alluded that SMEs are not able to adopt similar CSR agendas as large organizations due to suffering from survival and viability of their business. From this survey, it emerges that SMEs do not adopt formal tools to accomplish CSR activities, do not report what they realize, are engaged in social action as long as the firm owners care, and build strong relationships with the surrounding community. Policy makers have to take into account this behaviour and design different tools from the more formalized and established ones used by large companies, considering especially that avoiding to report CSR does not necessarily mean avoiding to accomplish social practices

Conclusion

The purpose of the study is to develop an understanding of CSR practices by SMEs in Zimbabwe. Thus, the study looked at factors contributing to the adoption of CSR by SMEs, relationship between CSR and SMEs performance and hindrances in the adoption of CSR by SMEs in Zimbabwean Hurungwe District. Currently the existing literature seems to focus more attention on CSR practices by large companies. However, there is lack of research on CSR practices by SMEs in developing countries, particularly in Zimbabwe. As a limitation SMEs that take part in this preliminary study are very limited in number and we cannot thus consider our results as conclusive.

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An extensive study with a higher number of respondents may provide more insights to better discuss determinants of the adoption of corporate social responsibility on SMEs performance in Zimbabwe. Therefore, this study provides new insights into CSR practices by SMEs in the context of Zimbabwe.

Recommendations

Measurement systems are required to quantify the benefits for implementing CSR. Subsequently, they serve as a useful tool for the evaluation and control of CSR performances, and as a basis for rewards. It is recommended that Zimbabwean government should turn up deeper and assess the socio-economic impacts of developmental projects, rather than the outcome alone. The lack of strategic vision of CSR by SMEs is often attributed to the lack management commitment by SMEs owners. CSR must be led, formalised, and introduced from the top of the organization chart. One way to express commitment towards CSR is by incorporating it into a SMEs mission, vision, objectives, and goals. However, this has not been widely observed in Zimbabwe. There is a need for support or initiation from all government levels to be successful and overcoming hindrances in the adoption of CSR by SMEs. In addition, we need to demonstrate to communities about the benefits of sustainability in Zimbabwe. The research also recommends that strategic alliance could be formed with SMEs who have been implementing CSR that will support venture capitalist strategy and promotion of entrepreneurial involvement with stakeholders for better performance. Zimbabwe needs to co-regulate CSR like India has done to get every company in all sectors involved in addressing persisting social causes. The Zimbabwean CSR Act would have to integrate domestic goals (DGs) into the Act as CSR activities in order to advance the achievement of DGs as India has done. This would also permit companies to self-regulate their own CSR activities that is choose the type of activities that they would engage in. The Zimbabwe CSR would also allow companies to pool their funds with other companies or Non-Governmental-Organizations (NGOs) to carry out these activities. This will pave way for NGOs and social organizations to form partnerships with the corporate sector in overcoming societal challenges.

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