



CORPORATE SOCIAL RESPONSIBILITY AND BUSINESS PERFORMANCE: THE ROLE OF MEXICAN SMES



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ABSTRACT

The new millennium brings a new uncertain environment in business, besides a strong pressure in companies to improve and establish new company strategies that allow, not only to increase its market participation and to obtain a major level of company performance, but to survive in a market every time more globalized and competitive. Therefore, in the current literature various researchers and academics consider Corporate Social Responsibility (CSR) as one of the current company strategies, overall for Small and Medium Enterprises (SMEs) that adopt this type of activities, to obtain greater performance. Therefore, the central objective of this empirical study is to analyse and discuss the existing relationship between CSR and business performance, using for that a sample of 397 SMEs. The results obtained shown the existence of a positive and significant relationship between CSR and business performance.

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Keywords: Corporate social responsibility, Performance, SMEs.

Contribution/ Originality

This paper main contribution is an advanced understanding of the relationship between corporate social responsibility and business performance in the context of small and medium enterprises. As evidence suggests that research focused on investigating the relationship between corporate social responsibility and business performance is limited.

1. INTRODUCTION

The Corporate Social Responsibility (CSR) is a topic that generates a lot controversy, more when it is analysed and discussed in relation to Small and Medium Enterprises (SMEs), which has generated in the current literature and interest and attention from researchers and academics (Lech, 2013). Therefore, it can be considered that CSR follows a number of voluntary obligations both for directors and workers, as well as consumers, suppliers and society where companies are located, such as various social, economical and environmental activities (Witkowska, 2008). Thus, the adoption and implementation of CSR suggest a strong compromise in SMEs through the development of social activities, like respect human rights and support to education and culture activities, also, economical activities, for instance, to improve standard life of workers; and environmental, such as, reduction of emissions and materials recycling (Balabanis *et al.*, 1998).

In this sense, the CSR has generated a wide debate between researchers and academics in the current literature in enterprise sciences and management, focusing such debate basically on the importance of CSR in companies from

developed countries, even though also some researches and academics have analysed CSR in SMEs from countries of emergent economies and those under development (Taiwo and Adeniran, 2014). Consequently, during the last three decades there have been published a numerous theoretical and empirical research that analyse and discuss the existing relationship between CSR and company performance (Griffin and Mahon, 1997; Waddock and Graves, 1997; Roman *et al.*, 1999; Olitzky *et al.*, 2003; Demetriades and Auret, 2014; Taiwo and Adeniran, 2014; Oh and Park, 2015).

Additionally, there are increasingly more managers, researchers and academics that are interested in identifying both main benefits such as costs generated by the adoption and implementation of CSR activities (Taiwo and Adeniran, 2014) as currently in various developed countries and in some countries of emergent economy and under development, such as Mexico, there is an increase of government regulations in relation to environmental and social areas (Taiwo and Adeniran, 2014). Similarly, Gustafson (2002) consider that various governments from several countries in the world are raising the level of regulations in relation to business operations, and private companies are those with more pressure to significantly improve its social, economical and environmental activities, that is to say its CSR activities.

For that reason, many researchers and academics consider that it is quite important to increase theoretical and empirical research in order to analyse and discuss the existing relationship between CSR and business performance, mainly of SMEs (Fagenson, 1993; Teal and Carroll, 1999; Brenkert, 2002; Solymossy and Masters, 2002; Fassin, 2005) because a high level of percentage in studies published in the current literature are focused on the existing relationship between CSR and big companies performance, but only few studies have orientated its analysis to SMEs' CSR and its effects on business performance (Fagenson, 1993; Goffee and Scase, 1995; Teal and Carroll, 1999; Brenkert, 2002; Solymossy and Masters, 2002; Moore and Spence, 2006; Perrini, 2006; Kusky and Lozano, 2007; Mishra and Modi, 2013). Therefore, following recommendations of these authors, the main contribution of this empirical research is the analysis and discussion of CSR in SMEs and its possible relationship with business performance.

2. LITERATURE REVIEW

Corporate Social Responsibility (RSE) has been recognized in the current literature of business and management sciences, as one of the main constructs that in a coherent manner supports and strengthens the existing relationship between company and society (Oh and Park, 2015). As a prove of that is that the Organization for Economic Co-operation and Development (OECD) does not only established since mid seventies as a guideline about CSR for multinational companies (OECD, 1976) but also carried out a global convention against bribery, by mid nineties (OECD, 1997). Besides, OECD created an experts group to analyse the behaviour of companies' responsibility, from 2011 to 2014, however results from this are pending.

However, CSR has been analysed and discussed since half century ago, beginning with the research of Bowen (1953) who came to the conclusion that responsibility of entrepreneurs is actually the establishment of policies and decision making that improve conditions of workers life. Later, McGuire (1963) considered that social responsibility includes not only some legal and economic obligations for workers, but social responsibility include the community where the company is located. Moreover, Friedman (1970) argue that social responsibility is not only the appropriate use of resources but the acquisition of a greater margin of profits but it includes that the company follows the current government regulations and social rules.

On the other hand, Moskowitz (1972) was the first to affirm that the social responsibility that some companies have can provide these with better results in business performance than those obtained from conventional companies. At the same time, Fitch (1976) concluded that companies could achieve better social responsibility if they identify and resolve their main social issues closely related to the company, and if managers can make profits gaining as an incentive for workers. Moreover, Carroll (1979) constructed a theoretical framework about social responsibility that

should be considered by companies operations, such as, economical, legal, ethical and discretionary responsibility, in order to achieve CSR attributes.

Similarly, [Grossman and Sharpe \(1986\)](#) analysed the relationship between social responsibility and financial performance using for that several portfolios of its marginal results in stock exchange in New York for a specific period. Also, [Diltz \(1995\)](#) came to the conclusion that ethical responsibility of businesses allow to obtain a better level of business performance, for which investors should improve these aspects in order to obtain better social responsibility. Further, [Teoh et al. \(1999\)](#) analysed the effects of boycott in companies operating in South Africa and concluded that sanctions made by companies have serious implications and social and moral responsibility.

Equally, [Anderson and Cavanagh \(2000\)](#) showed the importance that companies have to the current society, and considered that those have great social responsibility and that it is necessary to implement it without external pressures in the organization. [Porter and Kramer \(2006\)](#) define that social responsibility in companies can be considered as an excellent opportunity to achieve better results in companies; therefore companies have to adopt and implement all those activities that allow these to improve its social responsibility. Moreover, [Bernstein \(2010\)](#) defined that companies need to align its interests on social responsibility, which will allow them to construct long-term relationships with its clients to add a more social aspect in its products.

On the other hand, in the literature of enterprise sciences and management it is possible to find two different perspectives in the existing relationship between CSR and business performance ([Vance, 1975](#); [Cochran and Wood, 1984](#); [Aupperle et al., 1985](#); [Waddock and Graves, 1997](#); [Wright and Ferris, 1997](#); [Welch and Wazzan, 1999](#); [McWilliams and Siegel, 2001](#)). One of the first perspectives is the research that analysed the impact on financial performance when companies carried out CSR activities in a responsible and irresponsible manner. For instance, [Wright and Ferris \(1997\)](#) identified a negative relationship between both constructs, but [Welch and Wazzan \(1999\)](#) obtained no significant results between these two constructs, and [McWilliams and Siegel \(2001\)](#) did not find significant results between CSR and financial performance in the short term.

The second perspective is about the results presenting an analysis of the relationship between CSR and various measurements of business performance in the long term. Thus, research that explored such relationship between CSR and business performance measured it through some accounts and recognized different results, such as [Vance \(1975\)](#) identified a positive relationship between CSR and business performance. [Alexander and Buchrolz \(1978\)](#) analysed CSR and market performance but without significant results; [Cochran and Wood \(1984\)](#) found positive and significant results between CSR and accounting performance; but [Aupperle et al. \(1985\)](#) did not found a significant relationship between CSR and return of investment; whereas [Waddock and Graves \(1997\)](#) found a positive and significant relationship between CSR and business performance measured through the return of investment but [Freeman et al. \(1999\)](#) examined a relationship not significant between constructs.

In this sense, in the current literature there are three types of results derived from the existing relationship between CSR and business performance: a) negatives, b) insignificant and c) positive. Researchers and academics that found a negative relationship between CSR and business performance, have argued that implementation costs of CSR are too high compared with the results obtained ([Oh and Park, 2015](#)). Among these investigations that found this type of results were those from [Vance \(1975\)](#); [Balabanis et al. \(1998\)](#); [Moore \(2001\)](#); [Brammer et al. \(2005\)](#) and [Lopez et al. \(2007\)](#). At the same time, the authors that found non significant results argued that there is no relationship among CSR and business performance, the more illustrative results were from the studies of [Aupperle et al. \(1985\)](#); [Griffin and Mahon \(1997\)](#); [McWilliams and Siegel \(2000\)](#); [Halme and Niskanen \(2001\)](#); [Curran and Moran \(2007\)](#) and [Garcia-Castro et al. \(2010\)](#) who concluded that it is no clear if there is an existing relationship between CSR and business performance.

On the contrary, there is a higher percentage of published research in the literature, where researchers and academics define that the adoption of CSR activities carried out by companies allow these to increase its level of performance. Some of the most representative investigations with this perspective are those from [Cochran and Wood](#)

(1984); Waddock and Graves (1997); Hart and Ahuja (1996); Frooman (1997); Waddock and Graves (1997); Roman *et al.* (1999); Greening and Turban (2000); Hillman and Keim (2001); King and Lenox (2001); Ruf *et al.* (2001); Konar and Cohen (2001); Orlitzky *et al.* (2003); Margolis and Walsh (2003); Annandale *et al.* (2004); Clarkson *et al.* (2004); Filbeck and Gorman (2004); Peterson (2004); Salama (2005); Schnietz and Epstein (2005); Chand (2006); Branco and Rodríguez (2008); Brammer *et al.* (2007); Hill *et al.* (2007); Callan and Thomas (2009); Jang and Choi (2010); Weber *et al.* (2010); Mishra and Suar (2010); and Doh *et al.* (2010).

However, a high percentage of studies, which have found a significant and positive relationship between CSR and business performance, have been orientated to large firms and only a reduced number of studies have been focused on the analysis and discussion of these two constructs in SMEs contexts (Thompson and Smith, 1991; Vyakarnam *et al.*, 1997; Spence, 1999; Spence *et al.*, 2000; Spence and Lozano, 2000; Tilley, 2000; Spence and Rutherford, 2003; Spence and Schmidpeter, 2003; Spence *et al.*, 2003; Grayson, 2004) and it is even more reduced the percentage of published work in the current literature that have analysed CSR and business performance in SMEs in countries of emergent economy, such as Mexico (Raynard and Forstater, 2002; Sustainability, 2002; Centre for Social Markets, 2003; Luken and Stares, 2005).

Moreover, there is theoretical and empirical evidence in the literature on management and enterprises sciences that show the existence of a significant and positive relationship between CSR and business performance in SMEs (Roman *et al.*, 1999; Perrini, 2006; Hull and Rothenberg, 2008; Margolis and Elfenbein, 2008; Doh *et al.*, 2010; Pelozo and Shang, 2011; Mishra and Modi, 2013) but it is not enough to assure the existence of a relationship between CSR and business performance, therefore it is necessary to increase the research made about these variables in SMEs. In consequence, considering the previous information it is possible to formulate the following hypothesis:

H₁: The greater level of CSR, the greater level of business performance

3. METHODOLOGY

The theoretical framework, used in this empirical research to give an answer to this hypothesis, was based on the directory of enterprises information system, which registered 7,662 companies in June 2009. Only companies with a range from 5 to 250 employees were selected from the directory having a total of 1,342 SMEs. However, 400 SMEs was the sample size and it was obtained through random sampling with 95% confidence level and $\pm 4.5\%$ level of error. Surveys were applied to managers in those SMEs through a personal interview, during the months of April and June 2010, having as a result 397 validated surveys and a response rate of 99%.

At the same time, CSR was measured with three factors: the *social* factor was measured with 15 items, the *environmental* factor through 7 items and the *economical* factor with 9 items, these were adapted from the European Union (2001); Bloom and Gundlach (2001); Bigné *et al.* (2005) and Alvarado and Schlesinger (2008). Instead, business performance was measure with the scaled created by Quinn and Rohrbaugh (1983) measured with 12 items. Additionally, all items from the four scales used were measured with a 5 items Likert scale, where 1 = totally disagree and 5 = totally agree, as limits.

Confirmatory Composite Reliability Index (CFI) defined by Bagozzi and Yi (1988). Both values of the scales satisfied the minimum value of 0.7 for alpha Cronbach and CFI as they provide sufficient evidence of reliability and justify internal validity of the two scales (Nunnally and Bernstein, 1994; Hair *et al.*, 1995).

At the same time, a Confirmatory Factor Analysis (CFA) was applied using the software EQS 6.1 in order to verify the validity of the four scales (Bentler, 2005; Brown, 2006; Byrne, 2006) using Cronbach alpha and the Composite Reliability Index (CRI) to measure its reliability (Bagozzi and Yi, 1988) and the Extracted Variance Index (EVI) to measure its validity. Table 1 shows with greater detail the adjustment indexes ($S-BX^2 = 263.723$; $df = 101$; $p = 0.000$; $NFI = 0.830$; $NNFI = 0.836$; $CFI = 0.862$; $RMSEA = 0.074$), as well as the standardized value from all factors, which are higher than 0.6 as suggested (Bagozzi and Yi, 1988). Also, the Cronbach alpha and CFA values,

which are higher than 0.7 as suggested by Fornell and Larcker (1981) showing with that an existence of reliability and validity in the scales used (Nunnally and Bernstein, 1994; Hair *et al.*, 1995).

Table-1. Internal consistency and convergent validity from the CSR theoretical model

Variable	Indicator	Factor Loading	Robust t-value	Cronbach's Alpha	CRI	EVI
Social Responsibility	RSS11	0.679***	1.000 ^a	0.890	0.893	0.628
	RSS12	0.754***	13.927			
	RSS13	0.820***	11.920			
	RSS14	0.889***	12.932			
	RSS15	0.804***	10.407			
Environmental Responsibility	RSA3	0.700***	1.000 ^a	0.886	0.890	0.620
	RSA4	0.753***	10.114			
	RSA5	0.819***	11.061			
	RSA6	0.861***	11.284			
	RSA7	0.795***	11.520			
Economic Responsibility	RSE6	0.672***	1.000 ^a	0.832	0.836	0.563
	RSE7	0.686***	7.175			
	RSE8	0.780***	11.236			
	RSE9	0.848***	9.238			
Performance	REN1	0.737***	1.000 ^a	0.912	0.916	0.521
	REN2	0.737***	11.669			
	REN3	0.699***	12.978			
	REN4	0.706***	11.772			
	REN5	0.719***	9.691			
	REN6	0.730***	9.483			
	RSE7	0.769***	11.294			
	RSE8	0.700***	9.145			
	RSE8	0.719***	11.089			
	RSE10	0.700***	10.360			
$S-BX^2$ (df = 246) = 665.245; $p < 0.000$; NFI = 0.782; NNFI = 0.831; CFI = 0.894; RMSEA = 0.066						

a = Parameters fixed to this value in the identification process

*** = $p < 0.01$

Likewise, two tests were carried out to measure discriminant validity. The first was the test of the confidence interval (Anderson and Gerbing, 1988) which is represented in the values below the diagonal, see table 2. The second is test of extracted variance (Fornell and Larcker, 1981) that is presented above the diagonal in the same table. The results from both tests allow concluding that there is sufficient empirical evidence showing discriminant validity in the four scales presented in this investigation.

Table-2. Discriminant validity of the CSR theoretical model

Variables	Social	Environmental	Economic	Performance
Social	0.628	0.102	0.090	0.036
Environmental	0.259 – 0.379	0.620	0.039	0.027
Economic	0.240 – 0.360	0.146 – 0.250	0.563	0.055
Performance	0.156 – 0.224	0.131 – 0.199	0.192 – 0.276	0.521

The diagonal represents the Extracted Variance Index (EVI) while above diagonal the variance part is shown. Below diagonal is the correlation estimation of factors with a confidence interval of 95%.

4. RESULTS

A structural equations model was used in order to respond the formulated hypothesis in this empirical study, mainly using the software EQS 6.1 (Bentler, 2005; Brown, 2006; Byrne, 2006) obtaining adequate adjustment indexes and an standardized coefficient of 0.491, which indicates the acceptance of this formulated hypothesis. Therefore, it is possible to effectively conclude that the adoption of CSR activities can generate a greater level of business performance in SMEs. Table 3 demonstrates with greater detail these results obtained.

Table-3. Results from the structural equations model

Hypothesis	Structural Relationship	Standardized Coefficient	Robust t-value
H1: The greater level of CSR, the greater level of business performance	CSR → Performance	0.491***	13.944
<i>S-BX²</i> (df = 245) = 626.480; p < 0.000; NFI = 0.795; NNFI = 0.845; CFI = 0.863; RMSEA = 0.063			

*** = P < 0.01

5. CONCLUSIONS AND DISCUSSION

According to the results obtained in this empirical investigation, it is possible to conclude two main aspects. First, it is possible to conclude that the social, environmental and economic dimensions are good predictors of social responsibility in enterprises, for that reason if organizations want to adopt and implement activities of social responsibility, then not only should act on benefit of its workers, employees, clients, suppliers and society in general, but also on those activities that take care of the environment surrounding SMEs and its location. Additionally, these should develop economical initiatives to allow quality improvements in terms of workers life and population in which these SMEs are situated.

Second, it is also possible to conclude from this investigation that a greater level of CSR adoption and implementation allow higher levels of business performance. Therefore, because the main goal, of a high percentage of businesses, is to obtain profit margins from investments, then if enterprises, especially SMEs, want achieve this goal and basic objective, these should implement all activities that allow higher levels of social responsibility; mainly because it is social responsibility which significantly and positively impacts business performance.

Moreover, these results have a number of implications for both managers and SMEs itself. Thus, if SMEs managers want to significantly improve its business performance, then it will be necessary to incorporate CSR not only as an elemental strategy in their organizations, but as part of its daily activities of the company, because this type of activities allow both products and services to acquire a better image. Correspondingly, SMEs will have a better image to clients and suppliers, as well as to its current and potential consumers, and in general to its community in which these are located.

In this sense, SMEs managers will have to perform a series of social activities to support the society from the towns in which these are settled, through the support of cultural and religious activities, directly being involved in such activities and donating products and services in kind. All these social activities allow SMEs to respond to society in which these are immersed; this can be recognized by the society preference of its products and/or services above competitors. This generates a significant increment of products sales and services, which will significantly allow improving the level of business performance in SMEs.

At the same time, managers should implement a number of activities aimed at improving the environment of the town or community in which it is located, since this type of activities are widely valued by society as a whole. Therefore, managers will need to optimize the use of raw materials that require for its production process, to acquire those raw materials that are more environmentally friendly, to recycle both industrial waste and sewage generated to

the extent of their economic possibilities, and to support activities that society make to care environment, since this could lead to generate not only the recognition of a socially responsible business but to have greater level of economical performance.

Finally, SMEs managers also have to adopt and implement all the economic activities that allow improving the standard living of their workers, employees and the society in general, and to support, to the extent of its economic and financial potential, cultural and social activities carried out in the community in which SMEs are located. Mainly managers will have to perform a number of philanthropic activities that impact society as a whole, since it will allow them to substantially improve corporate image, its products and services, reaching a broad social recognition as a responsible company by the community, which will generate without a doubt higher levels of business performance.

Additionally, this investigation has a number of limitations. First, the sample size, since it includes only SMEs having between 5 and 250 workers at the time the survey was applied, which in future this can be solved by incorporating SMEs with less than 5 workers. A second limitation is the data collection process, because three dimensions (social, environment, economic) were only considered for CSR, for future research it will be convenient to incorporate other dimensions or a new scale to corroborate this investigation results.

A third limitation is that only SMEs managers operating in Aguascalientes state, Mexico, were interviewed, and it was assumed that they have good knowledge of CSR and business performance of their organization. Thus, in future research it would be interesting to replicate this investigation with a different sample that include suppliers, clients and costumers in order to test their acknowledgment of CSR in SMEs. A fourth limitation can be that a high percentage of SMEs managers consider that the information requested was confidential, then the results obtained will not necessarily represent reality from SMEs in terms of its CSR and business performance.

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