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# The Impact of CSR on the Sustainable Growth of Wholesale and Retail SMEs: The Case of eThekweni Municipal Region

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*Corporate Social Responsibility (CSR) for businesses has been mainly associated with large corporations, Small and Medium Enterprises (SMEs) were insignificant as they regarded CSR a costly unsustainable business initiative. This scenario undermines the importance and critical role that SMEs play in the economy. Therefore, the study aimed at exploring the impact of CSR on the sustainable growth of Wholesale and Retail SMEs in the eThekweni Municipal region. Results were attained through assessing attitude levels of SMEs towards CSR; investigating the practice of CSR by SMEs; exploring barriers undermining the practice of CSR and exploring SME owners' values key to the sustainable growth of their businesses. Stakeholder Theoretical framework guided the study; the philosophical paradigm that guided the research was post-positivist, which subsequently recommends a mixed-method approach, i.e. qualitative and quantitative. Data was obtained using self-administered questionnaires and semi-structured interviews. It emerged that majority of the respondents had a negative attitude towards CSR. CSR stakeholders were not valued the same as required by Stakeholder Theory. SMEs believe CSR is meant for large corporations regarding it as a costly extra-curricular from their core business. As new knowledge, a model based on the Stakeholder Theory titled, "Corporate Social Responsibility: A simplified practical approach" was proposed meant to assist wholesale and retail SMEs to positively embrace CSR in their businesses. The study recommended that local authorities must be proactive in supporting SMEs to practise CSR through revisiting the phrase Corporate Social Responsibility as it is psychologically intimidating to SMEs, hence resistance to the practice of CSR.*

**Keywords:** Corporate Social Responsibility, Small and Medium Enterprises, Sustainable Growth

**JEL Classification:** M14

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## 1. Introduction

Although (CSR) has customarily been linked with large corporations, SME business sector has proved to be a substantial sector in the South African economy. Kechiche (2012) postulated that “SMEs are not merely small versions of big businesses as they contribute meaningfully to the economic growth of a country”. SMEs growth is an indicator of a revived economy and therefore, cannot be undermined. As a consequence of such positive views, there is an emerging fast-growing body of academic work focused on commitment to CSR in the sector (Fay 2012).

While some studies have acknowledged access to finance as a critical success factor, similar studies carried out around the world also highlighted the role of CSR in the sustainable growth of SMEs (Gartner and Brush 2014). However, there is little evidence of any studies undertaken in this regard in the eThekweni Municipal region in South Africa. Delchet-Cochet (2012) alluded that “While articles have been calling for research on CSR in SMEs, the work to date has been limited, and there is a considerable amount of research needed.”

It is imperative to pre-empt the motive and drive behind the investigation of CSR on the sustainable growth of wholesale and retail SMEs in the eThekweni Municipal region. South Africa experiences abundant socio-economic challenges, and the challenges are, however, to a large extent linked to high levels of unemployment. Hall (2009) pointed out that the official unemployment rate is approximately 25 per cent; however, if one were to include those between the ages of 16 to 60 and discouraged work seekers, then the unemployment rate is approximately 36 per cent. Olawale and Garwe (2010) revealed that growth failure rate of SMEs in South Africa is around 75 per cent, one of the highest in the world which conveniently contribute to vast unemployment in the country.

Despite their vital contribution to economic growth, SMEs in the eThekweni Municipal region still face numerous challenges that inhibit growth. This weak growth rate has been predominantly contributed by SMEs failing to embrace growth strategies such as CSR. Most of SME lament cost linked to adoption, implementation and practise of CSR. However, apart from SME funding and access to finance (which is a major reason for high failure rate), the Global Entrepreneurship Monitor (GEM) Reports of 2001-2010 explained that South African SMEs suffer from poor marketing, expertise and management skills which is a result of lack of adequate training and education.

Nevertheless, according to the Stakeholder Theory, by involving all CSR Stakeholders in the business activities, retail SMEs improve their relationship with customers, work in an accommodative business environment, engage motivated workforce, willing community and increased brand loyalty which results in potential growth of the business (Freeman 2010; Urban and Naidoo 2012). Therefore, the motive and drive of the study were to establish clearly whether wholesale and retail SMEs in eThekweni municipal region practice CSR and recommend ways that can improve their perception towards CSR.

## 2. Literature Review

Nejati and Amran (2009) contend that CSR is a business management concept that originated in the early 1930s after the Wall Street crash of 1929 exposed CSR in large organisations. However, in the South African context, the most acknowledged definition was made available in the King Report of 2009 which defines CSR as a well-managed organisation that is aware of and responds to social issues, placing a high priority on ethical standards (Mutti 2012; Pless, Maak and Stahl 2012; Tennyson, Serafin and Venables 2013).

After considering various literature arguments surrounding CSR, can wholesale and retail SMEs in eThekweni Municipal region afford to be socially responsible given challenges such as inadequate funding conditions, poverty, and other growth economic barriers in the country (Schaefer, Pardo and Roloff 2014; Petrenko 2014; Noronha 2013).

Zaharia (2013) do not agree with the statement above but instead subscribe to the notion that though SMEs are at different levels of growth and development, they can practise CSR in their capacity and ability. It is from this background that a challenge exists on whether an attempt to hold SMEs accountable for CSR and social programs as it is now reasonable.

### 2.1. CSR and Sustainable Growth of SMEs

Todd (2014) posit that a sustainable growth rate (SGR) is the maximum growth rate that a company can sustain without having to increase financial leverage. In essence, to find a company's sustainable growth rate is to answer the question: how much can this company grow before it must borrow money? (Snyman 2014).

Shitta-Bey (2014) agreeing through Adebisi (2014), most SME businesses are founded as home-based (Spaza shops in Soweto, Umlazi) with strong community ties and loyal customers. Also noting Ibidunni (2013) through Akeem (2014) contended that CSR is all about making socially sensitive investments; developing relationships with interested stakeholders such as employees and their families, community, customers; and involvement in activities that promote environmental conservation and sustainability.

In contrast to large organisations, eThekweni Municipal region wholesale and retail SMEs perform poorly regarding CSR and business ethics. Their CSR participation is strongly associated with customers, with few initiatives aimed at their employees, local community and the environment.

There are inconsistencies in the results presented by different researchers on the same subject. However, the survival of SMEs is of vital importance in the eThekweni Municipal region if their contribution to the economy is taken seriously. Furthermore, in the region, wholesale and retail SMEs often viewed CSR as an unnecessary burden due to limited resources. Difficulties in attaining access to finance, a lack of time and expertise and the associated additional administrative burdens create a barrier to launching any programs that do not contribute directly to their core functions (Ladzani and Seeletse 2012).

## **2.2. Perception of Wholesale and Retail SMEs towards CSR**

Notably, Idemudia (2014) argued that efforts of wholesale and retail SMEs that started with CSR projects did not receive recognition and market rewards. The Codes of Good Practice of black economic empowerment further exclude SMEs from receiving any rewards for participating in CSR activities. The whole effort by SMEs to initiate and participate effectively in CSR activities has gone unnoticed, which has flushed the steam and spirit of CSR out of the SMEs resulting in a negative attitude.

Ramasobana (2014) considered the persistent challenges faced by SMEs in adopting CSR and concluded that CSR that leads to competitiveness and growth require a supportive social and political climate. Challenges such as unstable economy; lack of credit facilities; crime; xenophobia resulting in lack of belonging, lack of managerial skills; competition (locally and globally) lead wholesale and retail SMEs in eThekweni Municipal region to develop a negative attitude towards CSR and focus more on hand-to-mouth functions to keep the business afloat (Fatoki 2014).

However, both qualitative and quantitative research methodology results are not conclusive on whether SMEs practise CSR. eThekweni Municipal region wholesale and retail SMEs do not have an established model for practising CSR, nor do they have a method to deal with internal Stakeholders about CSR. Therefore, there is a need for a mixed research method that brings together these views into a clear model that can be used by wholesale and retail SMEs to implement and practise CSR.

## **2.3. The SME Owner's Values Key to the Sustainable Growth of the Business**

Several researchers concluded that socially responsible activities and owner's values collide in that CSR activities are perceived as costs that result in a competitive disadvantage. Simultaneously the smaller size of SMEs provides little space to hide mistakes and therefore, the moral proximity with the community and customers is more valued, and this shape the CSR behaviour of SMEs.

However, researchers failed to establish whether there is a significant link between values and CSR. Researchers reflect different standpoints on the same topic. It is these different viewpoints from different researchers that created a gap basing on the idea that according to Stakeholder Theory, values shown in the light of a business treating all its Stakeholders equally (Asah, Fatoki and Rungani 2015). Therefore, values play an essential role in how the owner values his or her business CSR strategy.

## **2.4. The Extent to which SMEs Practise CSR**

Literature has shown that CSR is fundamentally about personal attitude and that there should be training in responsible entrepreneurship via local chambers of commerce to foster this awareness. Therefore, negative attitudes result in the owner of an SME being passive to CSR issues. Most SMEs, as presented by literature, need to adopt a positive attitude towards CSR to give congruence to economic and social profit that would help businesses embed CSR in their operations. A positive attitude can see the inclusion of CSR as a component of syllabuses in schools to educate future Entrepreneurs. However, there exists a significant commonality in the SME vs CSR relationships across researchers which shows that CSR is not a common practice to SMEs and that SMEs are hesitant to engage in CSR because of the need for survival and global challenges that come with an SME business.

### 3. Research Premises

The research raised the following assumptions to drive conclusions for the study:

- Premise One: Wholesale and Retail SMEs in eThekweni Municipal region have a positive perception towards CSR
- Premise Two: Wholesale and Retail SMEs business owners' ethical values do not influence the business practising CSR

### 4. Methodology

It is against the gaps in the literature caused by different research methods that this study is anchored by Stakeholder theory, which directly feeds into the Research Paradigms, i.e. **Interpretivist** (aligned to a qualitative perspective): promotes self-reflection of Stakeholders and considers that there are multiple realities since all knowledge is relative to the knower. Interpretivist aims to work alongside others as they make sense of, draw meaning from and create their **realities** to understand their viewpoint. While **Positivist** is aligned to a quantitative perspective. Considering stakeholders, the positivist position presumes the social world exists objectively and externally, and that knowledge is valid only if it is based on observations and consideration of this external reality. The two paradigms build-up to a **post-positivist perspective** which is aligned to a Mixed Approach, which generates complementary results to this study (Moriarty 2014).

Therefore, the philosophical paradigm that guided the research was post-positivist, which subsequently recommends a mixed-method approach (qualitative and quantitative). The problem under study required the participants' experiences (qualitative) and their quantitative opinions, which justifies a mixed-method approach. Qualitative research can be defined as any research that produces findings not arrived at by employing statistical procedures or other means of quantification (Creswell 2012). Quantitative research aims to test the predictive and cause-effect hypotheses about social reality, and it encompasses surveys which are often used for descriptive and explanatory resolutions (Bechhofer and Paterson 2012).

As mentioned above, the research was descriptive, which also reinforced the selection of a Case Study research design as a framework for collecting data to answer the research questions. As well, since wholesale and retail SMEs in eThekweni Municipal region is made up of different Stakeholders which is in line with the Stakeholder theory a case study allowed the researcher to use multiple methods (interviews for qualitative, questionnaires for quantitative) to collect data.

#### 4.1. Study Population and Sample

eThekweni business community is made up of membership list of three Pietermaritzburg Chamber of Business (PCB), Durban Chamber of Commerce (DCCI) and the Zululand Chamber of Business (ZCB). According to the 2013 membership lists, the three Chambers under study had a collective membership of 4 474 organisations of all sizes. According to the definition of an SME in this study (i.e. businesses with no fewer than 20 and no more than 200 employees), members on the list who did not meet that standard definition of SMEs did not constitute the target population and were discarded from the list. This preliminary screening process resulted in a sampling frame of 1 092 SMEs consisting of 701 DCCI members, 300 PCB members and 91 ZCB members. Given that the study focused on SME businesses located in the central business district (CBD) Durban. With the use of the actual physical addresses of the SME businesses on the membership list, the target population was 400 active SMEs businesses.

Through research, it is not necessary to use a sample size larger than 500 units of analysis, no matter what the size of the population. For this study, the target population of 400 wholesale and retail SMEs was consistently chosen as a sample.

*Therefore, Sample size = Target population = 400 wholesale and retail SMEs*

The 400 wholesale and retail SMEs will be made up of 390 SMEs for survey questionnaires (Quantitative) and 10 SMEs for in-depth interviews (Qualitative).

### 5. Analysis and Results

The results from this study were addressed under four critical themes: Perception of SMEs towards CSR; Adoption and implementation of CSR by SMEs; Barriers against the practice of CSR by SMEs and Owners' values key to the success of SME business. The themes were extracted from respondents' feedback to the research questions raised interviews and data collection tools.

### **5.1. Perception of SMEs towards CSR**

Wholesale and Retail SMEs are not supportive of the Stakeholder Theory, which states that all Stakeholders must be treated equally. SME owners hold the idea that they pay salaries; therefore, taking care of employee welfare is never part of their CSR. Regarding community, wholesale and retail SMEs in eThekweni Municipal region understand what CSR entails and more so seem to support the idea of practising responsible business literally. However, wholesale and retail SMEs in the eThekweni Municipal region regrettably distanced themselves from extra-curricular responsibilities, apart from their core business. Concerning the environment, SMEs are aware of the need to take part in protecting and preserving the environment as part of their CSR. However, most of their views point to large corporates as the primary culprits. Once they pay tax, SMEs expect the government to take care of the environment.

Wholesale and retail SMEs presume that government, local authorities and large corporations are solely responsible for caring and rehabilitating the environment. SMEs have a strong belief that since they obey all government laws by paying tax, annual licencing fees, healthy certification and rates to the Municipal region, they expect those funds to be used to maintain the environment. A substantial environmental burden is set on the shoulders of large corporations whom retail and wholesale SMEs believe the impact of their operations harm, exploit and weigh heavily on the environment and hence must face the financial care and payback to the environment. Also, society has little or no expectation of wholesale and retail SMEs taking care of the environment. Therefore, there is pressure to practise environmentally-oriented CSR.

Furthermore, concerning environment-oriented CSR, the wholesale and retail SME owners do not act socially responsible with the assumption that government, Municipal region and the large companies especially in manufacturing who emit gas into the environment should take care of the environment. With respect to the community, most wholesale and retail SMEs in eThekweni Municipal region indicated that they had nothing to do with the community, or rather, they were not prepared to participate in any form in the community as they obey all the relevant laws and pay taxes, which can, in turn, be used to support the needs of communities. Nonetheless, this is against the philosophical approach of the Stakeholder Theory which promotes total consideration of all Stakeholders by the business.

### **5.2. Adoption and Implementation of CSR by SMEs**

Wholesale and retail SMEs in the eThekweni Municipal region are not behaving in a socially responsible manner towards their employees. They are attending to part of employee CSR, but the negativity on most employee-oriented CSR activities outweigh what they are practising. Unlike large corporations, wholesale and retail SMEs are owned privately and therefore experience less pressure from labour regulatory institutes and less risk to brand image or reputation when flouting labour laws and employee well-being. Very few of these private owners take a firm stance in upholding the needs of employees since their major issue will be to make a profit in all circumstances, despite unfashionable labour exploitative methods. Private owners apply a partial approach to employee-oriented CSR where they target revenue generation activities. Any other employee-oriented CSR activity that comes with a cost to their pockets is considered less relevant. The idea with wholesale and retail SMEs is that since they operate in a cash business environment, the strategy is that the lower the use of money in non-revenue generation activities, the higher the revenue for transactions. Hence, 95 per cent of their employees is on short contracts to avoid such cost-intensive employee-oriented activities. If every wholesale and retail SME in eThekweni in South Africa considered employees as number one Stakeholders, then the economy will be filled with a skilled, motivated labour force.

Though it is a common belief that community loyalty to a business plays a significant role in the sustainable growth of the SME businesses and that in most cases it is community support that props up the business, wholesale and retail SME owners focus on profit-making activities, neglecting non-revenue generating social responsibility like Stakeholder-related activities. Findings revealed that most of the wholesale and retail owners indicated that community-oriented CSR responsibilities did not apply to their respective organisations given that their business relies not only on the community they operate in but collectively on the public. Concerning wholesale businesses, owners believe that 90 per cent of their business transactions is with fellow businesses, and 10 per cent is towards the public. The results also (surprisingly) reveal that there are wholesale and retail SMEs in eThekweni who do not believe that there is a good reason to join hands in fighting crime. The main reason could be that they have never experienced any crime-related cost or drawback. Therefore, it makes no meaning to support a cause that seems not to influence them.

Wholesale and retail SME owners that held higher qualifications knew about global warming and sustainable development and were of the view that business operates in an environment and that the environment, if not preserved, will affect sustainable growth of the business. However, there is a concern based on SMEs viewing themselves as relatively too small to negatively affect the environment hence no need to

invest in Environmental CSR. There is a considerable challenge in the SME business sector that stretches to lack of education in the country where majority of wholesale and retail SME business owners in eThekweni Municipal region possess matric level certificates, professional certificates in some field which may not be even close to running a business, diplomas and a few possess degrees. This condition consistently brings a different level of perception towards such business strategies as CSR.

An encouraging development was noted on SMEs' commitment to uphold Black Economic Empowerment (BEE), Affirmative Action (AA), and Employment Equity (EE). Majority of SME owners confirmed their commitment. However, according to the revised BEE codes which became law in 2007, businesses with a turnover of less than R5 million a year are exempted from having to draw up a BEE scorecard. Given the above, there was a negative difference between SME owners on the willingness to implement changes in line with BEE, AA and EE. Subsequently, about that sudden development, one would find out that most SMEs undoubtedly decreased since the turnover is now pegged at R5 million per year and most wholesale and retail SMEs in eThekweni Municipal region is way less than that value. Given that majority of these SMEs fell away from the BEE criteria, their prospects of engaging in CSR naturally diminished because of them failing to get BEE certified status which comes with some business leverages in South Africa.

### **5.3. Barriers against the Practice of CSR by SMEs**

In order of importance, the most common and frequent barriers hindering wholesale and retail SMEs from further and consistently engaging in CSR are huge costs incurred by the company; lack of time, lack of human resources; and a lack of interest. Wholesale and retail SMEs in eThekweni Municipal region, besides the barriers they come across in practising CSR, see no benefits in engaging in CSR activities. Due to barriers, these SME businesses choose not to consider any of the Stakeholders as spelt out by the Stakeholder theory and stick to the core business.

Wholesale and retail SMEs in eThekweni Municipal region are deterred from practising CSR due to the costs incurred in meeting the requirements and expenses of CSR. Therefore, most of these SMEs businesses expect finance-based assistance to further engage in CSR. Some of the wholesale and retail SMEs are not interested in assistance in the form of advice or guidance on CSR as they always perceive a costly outcome. That is the reason why most SMEs generally fail in effectively practising and implementing CSR as a sustainable growth strategy since the 'know-how' is non-critical to them.

### **5.4. Owners' Values Key to the Success of SME Businesses**

Considering Stakeholder Theory, morals play an essential role in the applicability of the philosophical principles. Most wholesale and retail SME managers in the eThekweni Municipal region see their businesses driven by morals. However, the SME managers indicate that laws that set right or wrong had a strong influence on how they manage their empires. In this regard, most wholesale and retail SME owners were not clear whether their values influenced the way they run their companies. By not considering morals as a significant driving force behind their businesses, wholesale and retail SMEs showed that they did not equally consider all Stakeholders in CSR.

SME owners of wholesale and retail SMEs in eThekweni Municipal region believe that there is slim or no chance of investment opportunities coming their way even if their values as owners are highly maintained. The concern was based on the reason that, because of the nature of their industry which naturally operates in a volatile market with unpredictable clientele tastes, profit margins and competition levels, investors fear that their efforts may go down the drain. Therefore, it never mattered whether to uphold personal values or not because of the wholesale and retail SMEs; it brought no revenue other than just principled staff. In simpler terms, Stakeholder Theory does not apply to their businesses since the values enshrined in responsible business do not bring any investment to their businesses.

## **6. Discussion and Conclusion**

Conclusions and recommendation were aligned to the themes which are a result of the feedback from the participants: Perception of SMEs towards CSR; Adoption and implementation of CSR by SMEs; Barriers against the practice of CSR by SMEs and Owners' values key to the success of SME business. Premise one (Wholesale and Retail SMEs in EThekweni Municipal region have a positive perception towards CSR) under the section below:

### **6.1. Perception of SMEs towards CSR**

The findings of the research showed that wholesale and retail SMEs in the eThekweni Municipal region have a positive attitude and are sensitive to CSR. However, a positive attitude without practical results in this research will not hold water, given the fact that there is severe unemployment in the South African economy. Findings of the research show that wholesale and retail SMEs in eThekweni Municipal region practise partial CSR towards their employees and do not practise community and environmental oriented CSR. SMEs are sensitive to and have a positive attitude towards the concept but fail to implement it fully in their organisations.

Regarding community or society-oriented CSR, wholesale and retail SMEs in eThekweni Municipal region professed negativity towards such activities such as investing and operating in less deprived areas of the community or getting involved with traditionally marginalised groups (i.e. handicapped, unemployed, homeless). Regrettably, SMEs distanced themselves from extra-curricular responsibilities apart from their core business which goes against the Stakeholder Theory. It is likely that such an attitude is because most SMEs' perception has been built on the belief that they were too small to engage themselves in such responsibilities and point out the fact that such CSR activities are predominantly for Multinational companies (MNCs). Hence authorities such as the Ministry of Small businesses and Chambers of Commerce carry out an awareness campaign on the benefits driven from a socially responsible business.

### **6.2. Adoption and Implementation of CSR by SMEs**

Despite their significance and contribution to economic growth, SMEs in South Africa face numerous challenges that inhibit Entrepreneurial growth. Apart from SME funding and access to finance (which is a significant reason for the high growth failure rate), eThekweni Municipal region SMEs fail to adopt, implement and practise sustainable growth strategies like CSR, which is a result of lack of adequate training and education. Consequently, the high rate of wholesale and retail SME business failures result in business closures and generally high unemployment rates in the economy. The government should initiate training workshops for SME business on CSR to bridge the gap between the business owner's formal education and expectations in business.

Regarding the environment, the findings revealed that most owners for wholesale and retail SMEs in eThekweni Municipal region are not interested in the environmental performance of their businesses, ostensibly because they think that the impact of their operations is not significant and that their operations have less or nothing to do with the environment. Nonetheless, unlike their counterparts in Europe, SME owners are highly concerned about their businesses' environmental performance. Similar research conducted in Europe revealed that wholesale and retail SMEs in developed countries such as the United Kingdom uphold the principles of Stakeholder Theory and are more environmentally responsible in the communities in which they operated than the wholesale and retail SMEs in eThekweni Municipal region (Mullerat 2013).

Premise two: Wholesale and Retail SMEs business owners' ethical values have no influence on the business practising CSR was addressed under:

### **6.3. Owners' Values Key to the Success of a SME Business**

Regrettably, the South African government considers the sustainable growth of SMEs as a critically vital strategy to alleviate and fight the soaring levels of unemployment by progressively empowering previously disadvantaged citizens of the country simultaneously forgetting to enforce mandatory policies for SMEs to commit and engage in CSR fully. Likewise, since the governing authorities in South Africa at all levels are generally shallow-resourced, incapable and inept when it comes to policy enforcement, SMEs are not a priority even if the impact of their operations is more significant. The proof is, in developed countries such as Australia, Japan, Germany, their cultures taught them to be responsible organisations no matter the size, the industry is highly socially responsible, and evidently, unemployment rates are relatively low with crime levels at insignificant levels. Morals and cultural beliefs in any country is easily nurtured from childhood hence the need for the South African government to consider CSR to be incorporated in the Education system especially aligned to business subjects to make CSR part of SME businesses owners' values.

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