

## The Relationship between Corporate Social Responsibility and Sustained Entrepreneurial Success: An Investigation Using The Stakeholder Theory

<sup>1</sup>Kenneth Chukwujiok Agbim , <sup>2</sup> Zechariahs Benapugha Owutuamor , <sup>3</sup>Godday Orziengbe Oriarewo,

<sup>1</sup>Business Administration Department, College of Management Sciences, University of Agriculture, Makurdi, Nigeria

<sup>2</sup>Department of Agricultural Economics and Extension, Federal Polytechnic Ekowe, Bayelsa State, Nigeria

<sup>3</sup>Business Administration Department, College of Management Sciences, University of Agriculture, Makurdi, Nigeria

### ABSTRACT

-----This study employed the stakeholder theory to explore the relationship between entrepreneurial success and the dimensions of Corporate Social Responsibility (CSR) – environmental protection, customer care, employee care and community care. Data were generated by means of questionnaires that were administered on the major stakeholders of Small and Medium Enterprises (SMEs) – customers, employees and the community. The data generated were analysed using product moment correlation. It was found that the SMEs showed a high sense of social responsibility to their customers and employees but lacked commitment to environmental protection and community care. The study concluded that the unprecedented increase in the population of Nigeria without a corresponding increase in social/infrastructural development, the dwindling revenue base of the government, the lack of commitment to community development, and the sheer misuse of the environment by SMEs have contributed to the upward trend in the dilapidated/obsolete condition of our infrastructures, unemployment, poverty and heaps of refuse that has dotted our roads. To reverse the trend, SMEs should be sensitized on the need to be committed to environmental protection and community development. In addition, a law that will compel SMEs to be socially responsible to their host community should be enacted.

**KEYWORDS:** Corporate social responsibility, Sustained entrepreneurial success, Small and medium enterprises, Stakeholder theory

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### I. INTRODUCTION

Awareness of Corporate Social Responsibility (CSR) is not a new development. Concern for society and environment can be traced to the beginning of time. According to Genesis 1:28, man was instructed by his creator to “fill the earth and govern it”. Man was later challenged by God: “the Lord God took the man and put him in the garden of Eden to work it and take care of it” (Genesis 2:15). Thus, implying a balanced approach to using natural resources and exercising responsibility (Kaufmann and Olaru, 2012). During the course of history, awareness of social and environmental responsibility developed from individual and environmental concerns to the perception that collectives, such as profit-oriented businesses, need to partake in responsible activities that do necessarily produce profits visible in the short run. Today, CSR exists between enterprises and their customers, employees, suppliers, creditors, management, government and the society as a whole. Thus, any person who shares the environment with the enterprise has a relationship with it. More so, involvement in CSR is more common in larger firms than in small and medium firms (Nwachukwu, 2006; Gulyas, 2009; Kaufmann and Olaru, 2012). However, according to Munasinghe and Malkumari (2012), the application of CSR in SMEs is of central importance. This is owing to their commonplaceness and contribution to the economy, employment generation and the development of the society. More importantly, CSR is considered as a means of corporate sustainability.

Small and Medium Enterprises (SMEs) in Nigeria are beginning to get involved in promoting social responsibilities and community development activities. This is based on the realization that they are part of the society and that their success depends to a large extent on the existence and survival of the society (Onmony, 2011). However, there are increasing demands on SMEs in Nigeria for greater CSR. This is owing to the high level of school enrollments, dilapidated/obsolete condition of our school infrastructures, high rate of unemployment, crime and poverty, high rate of fake products, and the heaps of refuse that have dotted our streets and major roads. This came to be against the backdrop of the unprecedented increase in the population of Nigeria without a corresponding increase in

social/infrastructural development, and the dwindling revenue of government. Hence, the purpose of this study is to examine the impact of the dimensions of CSR on sustained entrepreneurial success.

## **II. LITERATURE REVIEW**

### **2.1 Corporate Social Responsibility (CSR)**

Business enterprises benefit commonly from the communities in terms of patronage, usage of enabling facilities, security and profit making. Therefore, they must contribute to the society by being ethical and behaving in responsible manner. Profit making and the quest for personal achievement should not be the only concern of the entrepreneur but also the general good of the society in areas such as community development, safe environment, job creation, safe products, employees' welfare and decent behaviour towards competitors, suppliers, customers and government (Onmonya, 2011).

CSR is a concept that describes the act whereby companies integrate social and environmental concerns in their interaction with their stakeholders on a voluntary basis (The European Commission, 2011a). However, the European commission altered its 2006 definition of CSR in October 2011 adding that CSR should have in place a process to integrate social, environmental, ethical and human rights concerns into their business operations and core strategy in close collaboration with their stakeholders. This wording replaces the original solely voluntary approach with a weak requirement depicted in the word "should" (The European Commission, 2011b). CSR is not a completely new topic. Increased public awareness regarding CSR started to develop during the late 50's and early 60's of the century. This led to new literature about CSR as well as models for corporate conduct. In this context, one issue that has frequently been addressed is the question, for what and to who are companies actually responsible when pursuing their business goals. Some argue that a company is responsible to all its stakeholders. Therefore, a company should take greater responsibility of the society at large by seeking to solve social and environmental problems in it (Holt and Wigginton, 2002). In other words, this view has expanded the definition of "Stakeholders" beyond merely the investor and shareholders, to include the society as a whole. The Stakeholder theory was described in details by Freeman (1984). Freeman argued that managers should tailor their policies to satisfy the needs of all the stakeholders, not just those of the shareholders. In this approach, CSR became a strategic mandate for business leaders and thus a favourable task also for the top management level.

Consequently, the stakeholder theory was fine-tuned and more systematic research on the different constituents that should be taken into consideration was added. According to Carroll and Buchholts (2003), the stakeholders can be subcategorized into primary stakeholders, consisting of shareholders (owners), employees, customers, business partners, communities, future generations and the natural environment; and secondary stakeholders, made up of the local, state and federal government, regulatory bodies, civic institutions and groups, special interests groups, trade and industry groups, the media and competitors. However, the categorization is rather arbitrary. This is because SMEs were not taken into consideration. Since budgets, personnel and available time for strategic evaluation are usually limited in SMEs, SMEs should channel their CSR only at their identified key stakeholders (Kaufman and Oлару, 2012). Currently, CS is the second most important factor in business enterprise's reputation next to the quality of products. Customers do not evaluate companies based only on the features of their products and services, but also on what business practices they are engaged in, how their products are produced, and the impact the company has made on the society (Hartmann, 2002). Consequently, business enterprises that display responsibility to the stakeholders through CSR are perceived as trustworthy and partners for safe transaction (Donaldson and Preston, 1995). Conversely, business enterprises that are not involved in CSR will not be attractive to customers, employees, suppliers and other stakeholders because of lack of trust. Also, such business enterprises are seen as profit-maximizing organizations with little or no regard for the needs of its business partners or customers and hence unattractive to do business with (Kaufman and Oлару, 2012).

CSR remains a broad, complex and continually evolving concept that encompasses a variety of ideas and practices. Its practice has so far primarily been concentrated on the large multinational enterprises (Munasinghe and Malkumari). This has been evidently revealed by the scanty research in CSR involving SMEs in developing countries (Cilberti et al; 2008; Burton and Golden, 2009). However, this trend is gradually changing owing to the commonplaceness of SMEs in developing countries and the fact that SMEs have been identified as an important strategic sector for promoting growth and social development, major sources of employment, income generation, poverty alleviation and regional development (Munasinghe and Malkumari, 2012).

### **2.2 Sustained Entrepreneurial Success**

Entrepreneurship is the process of actualizing an innovative intention by an individual or group of individuals in either a new or old enterprise through networking to acquire the requisite capabilities that will enhance the success of the venture in the face of environmental uncertainties (Agbim and Oriarewo, 2012). This definition highlights four

dimensions of entrepreneurship development; entrepreneurial intension, entrepreneurial networking, entrepreneurial capabilities and entrepreneurial success. Entrepreneurial success has been defined by Agbim and Oriarewo (2012) as positively affecting the lives of others and making a living through a well managed innovative product and/or service. Sustained entrepreneurial success therefore occurs when the business enterprise adapts to the environmental uncertainties so much so that its capabilities to satisfy the stakeholders and to reap the attendant benefits are not undermined. The success achieved within this period of adaptation and reaping of the attendant benefits is referred to as sustained entrepreneurial success. This therefore suggests that every entrepreneur must keep devising strategies that will assure entrepreneurial success at every point in time, even in the face of environmental uncertainties. One of such strategies is involvement in CSR. Success in SMEs according to Kaufman and Olaru (2012) entails the positive effects in the turn out of the enterprises activities. Most importantly, CSR can help an enterprise to: succeed in business (Olusanya et al, 2012); achieve corporate sustainability (Munasinghe and Makumari, 2012); and avoid the cost associated with not being socially responsible – cost in cash outlay and cost of disruptive action by the community forcing social responsibility on the enterprise (Olusanya et al., 2012).

### 2.3 Dimensions of Corporate Social Responsibility (CSR)

CSR was measured using its dimensions as proposed by Sweeney and Coughlan (2008). The dimensions and items are shown in Table 1.

**Table 1: Dimensions and Items in CSR**

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<b>Dimension</b>	<b>Item</b>
1. Environmental Protection	<ul style="list-style-type: none"><li>• Waste reduction</li><li>• Energy conservation</li><li>• Reduction in water pollution</li></ul>
2. Customer care	<ul style="list-style-type: none"><li>• Timely resolution of customer complaints</li><li>• Commitment to the provision of value to customers</li></ul>
3. Employee care	<ul style="list-style-type: none"><li>• Development of real skills and long-term career</li><li>• Adequate steps to avoid all forms of discrimination</li><li>• Consultation with employees on important issues</li><li>• Commitment to the health and safety of employees</li></ul>
4. Community care	<ul style="list-style-type: none"><li>• Donation to charity</li><li>• Employees involvement as volunteer in charity work on behalf of the organization</li><li>• Involvement in community project</li></ul>

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Source: Sweeney and Coughlan (2008)

SMEs are generally believed to emphasize economic imperative more than social goals. This is because they use it as a survival strategy. Secondly, they have limited financial base. However, SMEs participate in CSR in other to: enhance their profit viability and growth (Mankelov, 2007); improve their competitiveness (Carroll, 1999); and maintain a stronger relationship with their stakeholders (Jenkins, 2006; Perrini, 2006). This implies that SMEs have stakeholders like large companies. Consequent upon this, they can reduce their business risk by managing their stakeholders- the community, customers and employees, than the large companies, they can play a significant role in the local community by initiating/maintaining a high degree of interaction with their customers, acting as benefactors, participating in environmental protection and supporting the local economy by way of creating job opportunities.

### III. METHODOLOGY

Data for the study were collected from the major stakeholders of the 38 selected SMEs. The stakeholders are; the employees and customers of the different SMEs, and members of the community. The data were collected using questionnaire. The questionnaire majorly contained CSR and entrepreneurial success items. CSR was measured using the dimension (environmental protection, employee care, community care and customer care) as proposed by Sweeney and Coughlan (2008), while entrepreneurial success was measured using the satisfaction level of the key stakeholders (Customers, employees and the community). The questionnaire adopted a 5-point Likert scale whose degree of agreement ranged from strongly disagree (1) to strongly agree (5). A total of 351 questionnaire were sent out. This

comprised: 117 copies (3 copies per enterprise) for the employees of the 38 selected enterprises that participated in the study; 117 copies (3 copies per enterprise) for the customers of the 38 enterprises; and 117 copies for the members of the community. Out of the questionnaire returned, only 322 were properly filled. Product moment correlation was employed to investigate the relationship between sustained entrepreneurial success and the dimensions of CSR. Data analysis was done with the aid of SPSS (Version 18.0)

#### IV. RESULTS

The reliability of the constructs used in the study was tested using internal consistency test. Table 2 showed the reliability analysis and indicates that the Cronbach's alpha coefficient for all constructs surpassed the threshold of 0.70 as suggested by Nunnally and Bernstein (1994). This implies that all the constructs are reliable.

**Table 2: Reliability Analysis**

Construct	Cronbach's alpha
Environmental protection	0.779
Customer care	0.806
Employee care	0.745
Community care	0.795
Customers' level of satisfaction	0.724
Employees' level of satisfaction	0.799
Community members' level of satisfaction	0.752

The correlation between the measures of sustained entrepreneurial success and the dimensions of Corporate Social Responsibility (CSR) is shown in Table 3. The correlation analysis generated 12 coefficients and 6 are significant at 0.05 and 0.01 level of significance. Table 3 showed that environmental protection and community care are not related to any of the measures of sustained entrepreneurial success. Table 3 further revealed that customer care and employee care are related to all the measures of sustained entrepreneurial success.

**Table 3: Correlation Analysis**

S/No.	Measures of sustained entrepreneurial success	Dimensions of CSR			
		Environmental protection	Customer care	Employee care	Community care
1.	Customers' level of satisfaction	-0.423	0.246**	0.184**	-0.276
2.	Employees' level of satisfaction	-0.814	0.158*	0.285**	-0.156
3.	Community members' level of satisfaction	-1.650	0.273*	0.192*	-0.238

\* Significant at P<0.05

\*\* Significant at P<0.01

#### V. DISCUSSION OF RESULTS AND CONCLUSION

There is increasing agitation by various business stakeholders for SMEs to be socially responsible to their respective plight and interest. A number of SMEs are responding positively to this agitation and contributing to the economic and social development of their host communities from the point of view of enlightened self-interest. Firm's objectives of engaging in social responsibility programmes ranged from the highest altruism to the most calculating self-interest (Cole, 2002; Onmonya, 2011). However, the result of this study revealed that SMEs show high sense of social responsibility to their customers and employees but lacked commitment to environmental protection and community care. This explains why with the unprecedented increase in the population of Nigeria without a corresponding increase in social/infrastructural development, and the dwindling revenue base of the government, the dilapidated/obsolete condition of our school infrastructures, unemployment rate, crime rate, poverty rate, fake products and heaps of refuse that have dotted our roads have maintained an upward trend.

This lack of commitment to community development and sheer misuse of the environment by SMEs have brought untold consequences on the stakeholders, the society at large and by extension poses a threat to the sustained entrepreneurial success of the SMEs. Thus, according to Cole (2002) the state laws should play an important role in regulating the relationship between firms and their various stakeholders. This implies that government should employ enabling laws to compel SMEs to begin to contribute to the development and environmental protection of their host community. According to Ogundele (2005) the use of coercion is a new dimension in Nigeria. It entails the forceful and physical occupation of the premises of the enterprise by the members of the community where the enterprise is located. The community members employ this dimension to compel large or small enterprises to discharge their social

responsibility to the community. In view of this, it is recommended that the government should sensitize owners/managers of SMEs on the need to be actively involved in the environmental protection and development projects in their community of operation. Also, government should make law that will compel SMEs to be involved in environmental protection and community development. Further empirical studies should therefore seek to identify the reasons for the lack of commitment to environmental protection and community development by SMEs.

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