“Corporate social responsibility a toolkit for SMEs efficiency in Tshwane, South Africa”

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SECTION 2. Management in firms and organizations

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Corporate social responsibility: a toolkit for SMEs efficiency in Tshwane, South Africa

Abstract

The code of governance presents some fundamental core philosophy that is of significant milestone providing opportunities in shaping the business landscape in South Africa. Tough penalty clauses for non-compliance are designed to create effective leadership through the establishment of many guidelines in terms of procedures, accounting, sustainability and environmental and social responsibility that successful businesses normally follow. With that in mind this paper aims to look at the challenges faced by business owners operating in small medium enterprises (SMEs) in their daily operations and also to establish whether they are creating a meaningful contribution to corporate social responsibility (CSR) in their business environment. The findings revealed that entrepreneurs in Gauteng operating as SMEs still have a long way to go in learning CSR. Reporting to internal and external stakeholders is still a nightmare if many SMEs on questioning indicated that they were concerned with the burdens of compliance and the cost of compliance. Finally it was observed that they were not much focussed on CSR. The study used a quantitative method approach and 200 structured questionnaires were administered purposely and respondents were randomly selected in the three Tshwane Township.

Keywords: King III, SMEs, code of conduct, corporate governance, CSR and South Africa.

JEL Classification: L26.

Introduction

The Apartheid era was one of marked inequalities in terms of education, infrastructure, economic power, and basic services access. Since 1994 the democratic regime has made important efforts in combating those social imbalances through different social programs and various public initiatives. Although the South African Companies Act 61 of 1973 did not oblige companies to engage in CSR projects, the country’s Policy Document and the King II and King III reports explicitly address the need for corporations to acknowledge all stakeholders and to adopt to principles of best practice. King III embraces the idea of good governance and focuses on social environmental and economic concerns that build long term relationships with stakeholders, making meaningful contributions that are sustainable in creating opportunities for South African communities (Florez, 2011).

Thus, business in the 21st century should seek to add value not only to themselves but to society’s welfare and aim at improving conditions of all stakeholders. SMEs are important drivers of economic development and contribute substantially to employment opportunities, as they supply goods and services to consumers and large businesses. They also play a critical stimulus to economic development (Okpara, 2009, p. 1). Evidence is observed in the rapid transformation of high-performing Asian countries such as India, Malaysia, Indonesia, Taiwan and Hong Kong, where SMEs are major catalysts in economic development (Cozigbo and Ezeaku, 2009, p. 2). While in South Africa SMEs contribute 42% of employment in the formal economy and 2 million of informal businesses they also contribute 20% of the annual growth rate (Mashamaite, 2011).

Whereas there is no definition of CSR, Besser and Miller (2001, p. 4) formulate it as a means to enable businesses to produce goods and services that society wants at a price that perpetuates the business. Rashid and Ibrahim (2002), on the contrary, reflect on CSR as providing the ability of businesses to incorporate their responsibility to society to develop solutions for economic and social problems. There is a growing acceptance that the survival of a business is dependent upon its being seen as socially accountable (Mersham, 1995, p. 265). Entrepreneurs should have knowledge of their business and its internal organization, but should also see their business as part of the community and how it impacts on society. The King III guidelines stipulate business legalities and ethical responsibilities which go beyond the law so as avoid harm or social injury. Coldwell (2001) attributes to these guidelines as respecting the rights of the people and doing what is right as well as giving back time and money in a form of voluntary services. The King III report as promulgated in the companies Act of 2011 put emphasis on good governance regardless of the size and nature of business. In its report it provides guidelines and the key drivers of good governance. Though not mandatory in its essence, in as far as achieving transparency, sustainability, managerial drives and leadership to both internal and external stakeholders are concerned, compliance by SME directors is essential.

Cornwell (1998, p. 3) argues that SMEs should not only assist individuals in low income and unemp-

loyed, but rather be seen as part of a holistic system in which they serve as a forceful weapon for change and job creation. That they cannot operate in isolation to the community and need to know that good governance and social involvement go beyond the work performed in their own offices (Florez, 2011). Consequently, they ought to play a role in the social development of the community they strive to serve. Much as they are universally acknowledged as effective instruments for generation of employment and economic growth, they are also increasingly becoming the backbone of the economy, though their rate of survival and competitiveness are a cause for concern (Turyakira and Venter, 2013).

In a study conducted by Lantos (2001) it is revealed that SMEs should integrate CSR as an impressive business strategy, that increases their financial wellbeing in order to survive in their competitive edge and so as to capitalize on price competition, to meet product demands as well as meeting the expectations of their customers and their employees. Research on CSR has mainly been focused on larger businesses (not the SME sector), with little being directed at the smaller organizations. There is compelling evidence that CSR can also be used as a strategic tool to enhance the competitiveness of SMEs (Mandl, 2009; Szabo, 2008, p. 17). CSR activities can help a great deal in improving the sustainability and survival rate of SMEs, and may offer great opportunities for competitiveness in business, locally and globally. Though, it seems to be a challenge to incorporate CSR activities simultaneously with other business priorities of SMEs in a balanced and motivating manner. Pedersen (2009) argues that CSR are hampered by the limited imagination of small business owners. While Groenewalt (2006) is of the view that it is not easy to convince entrepreneurs about the benefits of CSR, mainly because these benefits are not immediately expressed, or visible, in monetary terms. (Bilankulu, 2012), also is of the view that CSR programs are not seen as a tangible benefit or as a user friendly strategic tool with value benefits and profit boost in Tshwane.

The primary objectives of this paper are:

- To establish whether or not the SMEs accept that compliance with KING III has a role in creating a sustainable business.

1. Background

There are many challenges associated to social needs in South Africa such as education, health care (including HIV/AIDS), and entrepreneurial development (Florez, 2011). Thus, it becomes critical for corporations to launch valuable CSR initiatives that will not only help solve pending social issues, but also empower local individuals to be part of their own communities’ economic growth. Bilankulu (2012, p. 1) agrees with Florez (2011) in that Tshwane townships such as Soshanguve and Mamelodi are impacted with limited financial resources, lack of education, and psychosocial support. The lack of capacity building and poor governance as the majority of businesses are on a small scale such as home-based enterprises, service enterprises, garages workshops were noted as were the existence of small-scale manufacturing and funeral parlours. Nevertheless, the fact is that unemployment levels are estimated at 25.7% (Statistics South Africa, 2011).

As mentioned earlier in that literature there has been significantly more research on CSR in large enterprises while little attention has been directed at SMEs. Gardenne (2009) claims that small business owners have little information on the role of environmental impacts, even though this knowledge might bring benefits to small business owners. In Bilankulu (2011) it is pointed out that lack of resources, education, information further impacts on SMEs in understanding CSR. The study of Bilankulu (2011) revealed that SMEs in Tshwane did not see the benefit of CSR due to the fact that they could not see any returns on investments. Therefore, in order for SMEs to use CSR as a strategic benefit in their business Bilankulu (2012) recommends that SMEs need to enhance their caring image in promoting their social responsibility actions towards their various stakeholders both internally and externally within their communities, but it is not clear where the logic lies. She goes on to say that they also need to use their CSR to secure licences to operate based on societal acceptance by maintaining good relationships with the stakeholders. In the recommendations of the above study, SMEs need to adapt to new demands from society and customer loyalty to be successful, although it will take a long time to fully achieve that due to the social impetus affecting SMEs in Tshwane. Given that the circumstances articulated by Florez (2011) in that many social needs in South Africa still need attention, such as education, health care (HIV/AIDS), entrepreneurial development, it is
difficult to comprehend how SMEs in Tshwane are equipped to address the challenges of compliance by the King III report in managing and ethically conducting businesses according to that new set of rules.

Ahmad (2009) is of the opinion that entrepreneurs have the ability to adapt their leadership style to the needs of the people albeit, they are overwhelmed with issues of day-to-day survival and thus, may not have time to get involved in CSR as they concentrate on the tasks of management itself and functional aspect of running the business. Notably, Spence and Rutherford (2001) say it is imperative that owner managers confront the dilemmas and find space in facilitating the involvement of all employees in CSR programs to minimize limitations and realize opportunities from engaging in CSR initiatives.

Jenkins (2009) also believes that SMEs can play a significant role in social and environmental responsibility and assist to overcome societal problems. Their flaws are entrenched by personal moral convictions rather than business reasons. On the other hand, Jenkins (2009) is of the understanding that there is a trend indicative of growth in SMEs engagement in CSR. This may be a sign on the ground that CSR is a toolkit for efficiency for growth and business sustainability. Furthermore, the CSR should be incorporated in the core business activities of the enterprise in Tshwane and South Africa at large.

2. Research methodology

A quantitative research approach was followed and according to Leedy and Ormrod (2001), this is regarded as the most appropriate approach for the research, because this type involves acquiring information about a group of people, namely, SMEs owners in the selected Tshwane townships area of South Africa. The aim was to determine the potential effectiveness of SMEs involvement regarding the corporate social responsibility (CSR) and to establish whether CSR is a toolkit for efficiency for growth and business sustainability. Furthermore, the quantitative approach was used for the research in the sense that it evaluates objective data consisting of numbers (Welman et al., 2005, p. 8).

A structured questionnaire was designed and was divided into three sections. Section A was on demographics. Section B was about good governance while section C mainly on Corporate social responsibility. A pilot of survey of 10 questionnaires was distributed amongst colleagues to proof read formulation and to detect vagueness of some questions.

The sample consisted of 200 business owners randomly and purposefully selected from different townships during November 2013 – January 2014. Of the 200 questionnaires, 120 were returned and 9 were discarded while 111 were captured and 60% was the response rate. It was reported that those who did not respond properly were mainly those that showed symptoms of under-resourcefulness and business stress or disorganization. Therefore the responses that were collected had a bias towards the better organized and more established SMEs.

The researcher and two fieldworkers collected data using a structured questionnaire to measure demographic information of the SMEs owners and their involvement regarding participation in CSR. Prior to the field work, the researcher trained the field workers on how to approach the survey. A thorough explanation was given to them in terms of the content of the questionnaire. The researcher and the two fieldworkers explained the purpose of the study, the participants’ rights and assured them that the data obtained will be treated as confidential (Babbie, 2007). Once this major step was done, questionnaires were distributed to the respective SMEs. Physical distribution of questionnaires was preferred since this option would ensure a reasonable response rate from the respondents. The data collected was analyzed through SPSS version 19 to generate descriptive and inferential statistics.

The purpose of this paper was to establish whether small, medium enterprise (SMEs) in Tshwane owners regarding conducting their business according to the principle good governance and CSR. The objectives were: (1) to establish whether CSR is a toolkit for SMEs efficiency in Tshwane; (2) to understand to what extent do Tshwane SMEs prioritize CSR as a marketing tool, (3) and to establish whether or not the women in SMEs accept that compliance with KING III has a role in creating a sustainable business.

3. Findings and discussion

3.1. Sample realization. The researcher together with the two fieldworkers distributed 200 questionnaires. Of these questionnaires, 120 were returned 9 were discarded and which essentially made a response rate of 60%. The average percentage of response rate was as a result of closing down of business due to Festive season and holidays.

It was also important to determine the extent to which the good governance clause as laid down by King III report impacted on the SMEs. Making use of
Cronbach’s alpha coefficient on the ten (10) statements relating to practices and participation of SMEs on good governance and CSR the reliability among constructs was tested. The overall Cronbach’s alpha for all ten statements yielded 0.666 which suggest that the statements as such were said to be reliable. This however, is consistent with what Batholomew, Antonia and Marcia (2000) attest that between 0.80 and 0.60 it is still an acceptable level.

Afterwards, factor analysis utilizing principal component analysis (PCA) with Oblimin rotation was conducted for the purposes of (a) testing construct validity and (b) uncovering the existence of latent variables (or factors) within the data. First, it was instructive to test whether it was possible to proceed with factor analysis (Field, 2009). The factorability statistics were satisfactory (KMO = 0.625; Bartlett’s test of sphericity supports continuance towards analysis such as factor analysis X² = 397.810; df = 45; p < .000). The factorability enabled the researchers to continue with data analysis. The cross tabulation was also used as a statistics method of analysis to establish the attitude of male and female on the concept of good governance in conducting business. This was to establish the response of gender in the role of conducting business according to best practice.

According to Tustin and Martins (2005) cross tabulation are undertaken to indicate how often variables are encountered. In this case, gender frequencies on good governance indicated 71% of males, as opposed to 40% of females in the response rate results. This informs us that males are more active than their counterparts in conducting business according to best practice. On the same understanding of cross tabulation on the concept of good governance creating business opportunities, the males responded similarly to females. Furthermore, it was also important to report gender and corporate social responsibility and the results indicated that the male response rate was 69% as opposed to 40% of females.

3.2. Reports on education. According to GEM 2010 the majority of South African participants who operate small businesses have a grade 12 or less than matric. The findings concur with the report by GEM. In terms of qualification level, Chi-square results indicated that those below matric were 10%, matric 20%, diploma 37%, degree 36% and post graduate were 8%. It is evident that those who fall under the Matric and Matric levels with 10% and 20% respectively have little knowledge and understanding of CSR. Contrary to this, those with degrees (36%) and diplomas (37%) showed a better understanding of the concept of good governance and CSR.

The researcher further conducted descriptive statistics, for the purposes of establishing what perceptions there were in terms of the belief that good governance provides business opportunities to SMEs. The standard deviation score was at 1.584 response for respondents who believed that good governance provides business opportunities for SMEs (n = 111). The positive response was accorded to the educational qualification variable measuring education for diplomas and degree at 1.073. Training programmes for CSR should be encouraged in order to improve the participation of CSR in their core business to sustain their long-term profits. With regard to whether good governance assists SMEs in sustainability of business it was observed from the descriptive statistics mean of 3.11 for education and 2.414 for standard deviation in that most respondents believed good governance does assist the business sustainability. Therefore for this question hypothesis is accepted. The mean is greater than 0.05 for both education and sustainability.

3.3. Discussion at inferential level.

Table 1. Code of good governance provides business opportunities versus education

<table>
<thead>
<tr>
<th>Pearson Chi-square</th>
<th>Value</th>
<th>df</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>X²</td>
<td>24.360</td>
<td>4</td>
<td>.000</td>
</tr>
</tbody>
</table>

Note: significance level *p < 0.05.

The Pearson chi-square is greater than 0 (24.360) therefore null hypothesis is thus rejected. The p-value is .000 which shows highly significant difference in opinions regarding code of good governance in terms of respondents with various qualifications. It can thus be concluded that there is a difference in responses by education regarding the code of conduct even though this variance is small.

| Table 2. Chi-square test statistics on good governance versus education: 16, 17, 19 and 21 |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Chi-square(a) | 34.450 | 66.793 | 24.360 | 57.063 | 84.450 |
| df | 4 | 4 | 4 | 4 | 4 |
| Asymp. sig. | .000 | .000 | .000 | .000 | .000 |

Note: *p < 0.05.
Table 3. Regarding participation on stakeholder engagement in CSR versus education

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-square</td>
<td>64.818</td>
<td>4</td>
<td>.000</td>
</tr>
</tbody>
</table>

Note: *p < 0.05.

Table 4. Chi-square test statistics on CSR versus education on question 23-28

<table>
<thead>
<tr>
<th>Question</th>
<th>3. What is your highest education?</th>
<th>23. I often engage stakeholders of my business</th>
<th>24. I believe in giving back to the community</th>
<th>25. I believe rendering services to the community is important</th>
<th>26. I believe in reducing the carbon footprint of my business</th>
<th>27. I maintain good social relations with the communities</th>
<th>28. The community supports my business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-square</td>
<td>34.450</td>
<td>64.818</td>
<td>194.716</td>
<td>183.706</td>
<td>190.796</td>
<td>200.385</td>
<td>273.495</td>
</tr>
<tr>
<td>Df</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Asymp. sig.</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
</tbody>
</table>

Note: *p ≤ 0.05.

Figure 1 above illustrates that respondents who had diplomas and degree qualification had a better understanding of good governance and CSR in conducting business. Evidence is standard deviation of 1.073 as opposed to mean of 3.11.

Hypothesis H1: good governance provides business opportunities for SMEs in Tshwane. The Pearson chi-square is greater than 0 (24.360) therefore null hypothesis is thus rejected. The p-value is .000 which shows highly significant difference in opinions regarding code of good governance terms of respondents with various qualifications. It can thus be concluded that there is a difference in responses by education regarding the code of conduct even though this variance is small.

Hypothesis H2: SMEs in Tshwane are engaged with stakeholders in CSR programs. The Pearson chi-square is greater than 0 (64.818) therefore the null hypothesis is also rejected. The p-value is .000 which shows a highly significant difference in opinions regarding the CSR and stakeholder engagement in terms of respondents with various qualifications. It can thus be concluded that there is a difference in responses by education regarding the CSR.

Conclusions
Notably, it can be concluded that people with lower qualifications tend to comprehend less the effect of good governance and CSR. Respondents with higher qualifications appear to understand the concept of good governance and corporate social responsibility to a greater extent.

It can further be concluded that most of the SMEs operating in Tshwane townships are more informed about the concept of best practise and CSR although most don’t understand that for business sustainability they need to integrate CSR programs in their core strategy and not operate in Isolation of their communities. SMEs need to adapt to new demands from society and customer loyalty to be successful.
although it will take a long time to engage due to social impetus affecting SMEs in Tshwane. The other revelation is that not many respondents are aware of the CSR and good governance implications associated with the compliance requirements which is a clear factor regarding lack of understanding and education.

The other conclusion is that not many respondents are aware of the implications associated with the benefit of integrating CSR as a marketing tool for sustaining long-term profits as well as image building which is a requirement factor regarding a lack of involving both internal and external stakeholders in their business operation.

It is thus finally concluded that SMEs in Tshwane will take a long time for incorporating CSR as a marketing strategy for enabling their business for a long-term strategic toolkit for efficiency in conducting their business.

**Recommendations**

SMEs in Tshwane are still far from incorporating CSR in their core business strategy to increase their business profit and enhance their image towards their stakeholders both internal and external stakeholders.

In order for SMEs to fully participate in CSR programs intensive awareness campaign needs to be put in place to encourage SMEs owners that even though there is no monetary incentive in participating in CSR the long-term effects of CSR are rewarding. The perception of SMEs on good governance seems to be positive only on those respondents who were qualified more than those of matric and less. There is a need for government to streamline efforts to assist with intensive programs that will educate SMEs about the imperatives of CSR in Tshwane South Africa.

Government training programs such as SEDA are critical to create opportunities if information is to be disseminated to reach the people on the ground. Poverty eradication cannot be addressed if those who are already well qualified are not given or do not take the educational (CSR) support that they need. The concern is even worse in the case of those without proper education. SMEs should be encouraged and educated on how to use CSR as marketing tools to increase their market share.

SMEs should not isolate themselves from their communities but strive to harmonize business-customer relationship in the local community in which they operate as well as the conduct of ethical relations.

Gender disparities are indicative that males seem to apply principles of both good governance and CSR in their business more than female counterparts. Thus it is even more important to assist female entrepreneurs in Tshwane in adapting to the new method of conducting business and sustaining it.

**Further study**

- Study on SMEs and CSR should be conducted in Gauteng as a province and then other provinces.
- The reason why the female entrepreneurs were less participating in CSR than their male counterparts should be established. In order that this problem can be effectively addressed.
- Study on Mitigation and adaptability for sustaining business in the long-term using CSR is a necessity for women.
- How to identify and address the challenges that weaken SMEs from participating in CSR in Tshwane.
- Developing a strategy for implementation of CSR programs.
- Establishing the resources that are needed in educating SMEs about the role of CSR.

**Limitations.** The study was conducted in three townships instead of 7 townships. Few SMEs participated and thus the 60% response rate. Field workers did not record any extra information as they interviewed respondents. 40% questionnaires were not returned. This raises the question of finding out what information has been missed from those who did not return the questionnaires. Maybe their comments would have indicated a need to direct increased resources towards assisting those involved. Some questionnaires were not well completed and needed a lot of time for data cleaning when capturing. Furthermore, 200 questionnaire issued does not indicate clearly how many were males or female respondents. Of the 120 returned 9 were being spoiled, it is not reflected how many were males and females respectively. The 111 good returns cross tabulations indicate 71% males participated more than their 40% counterparts.

This disparity between the acceptance and use of CSR among the females in the survey has not been explained. There is also the possibility of a statistical bias in the numbers because it is not clear how many in terms of gender returned spoiled or incomplete questionnaires.

**Managerial implications.** Government should foster training programs and disseminate information about the necessity of making decisions on good governance and CSR as a part of business empowerment.

The policy makers should consider whether they should accumulate more information that might be incorporated into a formal analysis of sustainable development for assisting women in SMEs sector.
Current knowledge of the CSR is concentrated on large business and there is a need for local municipalities to develop strategies that would foster compliance by women or at least to start engaging on matters relating to CSR. Local economic development needs to create awareness about CSR programs in the local communities to encourage women participation. Women should use CSR as a marketing tool for sustaining long-term profits as well as image building. Municipalities will therefore need to plan along these lines and encourage participation by SMEs.

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