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**IMPACT OF CORPORATE SOCIAL RESPONSIBILITY PRACTICES ON MEDIUM SCALE ENTERPRISES**

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**ABSTRACT**

*The study is primarily conducted to assess the impact of CSR practices on the performance of medium scale enterprises (MSEs). The study hypothesized CSR to be multi-dimensional scale comprising local community, employees, suppliers, environment and customers. The data were collected from 84 MSI owners/ managers using snowball sampling, operating in Bari Brahmna, Gangyal and Digiana industrial estates. The three step procedure based on exploratory factor analysis (EFA), item/ reliability analysis and confirmatory factor analysis (CFA) was undertaken to establish the multidimensional CSR scale. The study based on hypotheses testing results confirms CSR to be composite of all the five dimensions. The study concludes with hypothesis results and implications.*

**KEYWORDS**

Corporate social responsibility, Medium scale enterprises, social responsibility, Small and Medium scale enterprises.

**1. INTRODUCTION**

Corporate social responsibility (CSR) is a business concept that is becoming a conventional issue for many firms. Most of the researchers addresses that the majority of the large businesses are involved in CSR activities and there is limited research on the relationship between small- and medium-sized enterprises (SMEs) and CSR (Spence et al., 2003 and Perrini et al., 2007). Specifically, SMEs are characterized by less formal structures and looser control systems, less documentation on transactions and which neither have specialized staff nor time to produce special reports (Spence and Rutherford, 2001). In this context, Jenkins (2009) remarked that SMEs consider CSR as a risk to their reputation. On the other hand, Hemingway and MacLagan (2004) stated that in SMEs CSR can be the result of championing by a few owners/ managers. Hence the CSR philosophy can be considered as equally relevant for SMEs from varied aspects. It is widely acknowledged in the literature that SMEs' owner-managers should recognize the importance of publicising the high quality of their employee relations as part of their strategic approach to promote CSR. Further, Jenkins (2004) find that many SMEs are engaged in socially responsible activities and referred their practices as "sunken CSR" or "silent CSR". Perrini et al. (2007) stated that SMEs play an important role in the economy in terms of number of firms, employment generation, etc. so it is essential to understand the CSR practices performed by the SMEs. Taking aforesaid need into consideration in context to both small and medium enterprises the present study is primarily conducted to conceptualise CSR from the perspective of medium scale enterprises and to determine the impact of CSR practices on the medium scale enterprises operating in Jammu district.

**2. CONCEPTUAL FRAMEWORK**

The CSR concept is considered as a social aspect and includes all societal corporate actions that go beyond formal governmental regulations (Boasson, 2009). The most ideal definition of CSR is given by Carroll (1979) conceptualizing CSR in the context of economic, legal, ethical and discretionary (or philanthropic) responsibilities. Whereas Enderle (2004) considers CSR as responsibility towards society: economic; social; and environmental. Later Robins, (2008) put forth meaning of CSR as twofold. On one hand, it constitutes what is good or desirable business behavior and on the other hand, it shows the responsibility of an organization judged on the basis of ethical or moral behavior. Thereby creating a scope for broad and social behavior rather than narrow behavior European Commission (2001) defines CSR as "a concept whereby companies decide voluntarily to contribute to a better society and cleaner environment and as a process by which companies manage their relationship with stakeholders"

**3. MEDIUM SCALE ENTERPRISES**

In India, medium scale enterprises are those in which the limit in plant and machinery was changed from Rs 10 million (1999) to Rs 5 crores - 10 crores for medium manufacturing enterprises and Rs 2 crore - 5 crores for medium service enterprises in Industrial Policy 2004 (MSME, 2011). In this context, J&K Government offers various incentives to the investors of the SMEs such as fiscal incentives to new industrial units and substantial expansion of existing units, etc for the growth of business and industry ([www.jkonline.in](http://www.jkonline.in)). In spite of attractive fiscal incentives under the State's Industrial Policy (2004-2015), the growth rate of industrial sector is still in developing stage mainly due to the disturbed conditions in the State ([www.jksidco.org](http://www.jksidco.org)).

**4. REVIEW OF LITERATURE AND HYPOTHESIS DEVELOPMENT****4.1 LOCAL COMMUNITY**

The important component which has a significant impact on the CSR practices is local community. Scholtens (2009) stated that CSR in the firms is related to the firm's attitude and behaviour towards the society. Further, Rodriguez and LeMaster (2007) remarked that a firm goes beyond the core business and takes on an observable role in the society such as donating time for the community projects, leads to added value for the firm. To implement strong influence on the society, the medium-sized firms can hire local people according to the rules of the state government (Perrini et al., 2007). Furthermore, Spence et al. (2003) put forth that the SMEs can engage in local community activities such as volunteering, sponsoring (Scholtens, 2009), support for housing and education (Dawkins and Ngunjiri (2008), public health and any other community disclosure (Abbott and Monsen, 1979), contributing money to various kinds of social or cultural enterprises (Galbreath, 2008), maintaining community relations through charitable activities and financial support (Wulfson, 2001). Hence the present study hypothesizes the following:

Hypothesis 1: MSEs are significantly involved in the local community activities.

**4.2 EMPLOYEES**

Employees are the important stakeholders of the firm. A key characteristic of SMEs social responsibility is responding to the preferences of the employees such as focus on the maintenance of the livelihoods of employees and managers (Spence, 1999). According to Perrini and Morsing (2009), SMEs have more labour intensive production processes so they have an influence on the labour markets. Further, Barkemeyer (2009) and Grosser (2009) stated that businesses should support and respect the protection of internationally proclaimed human rights, encourage the effective abolition of child labor and support the elimination of discrimination in respect of employment and occupation. The important CSR activities related to the employees include education and training (Dawkins and Ngunjiri, 2008), health and safety (Frankental, 2001) and financial support to the employees (Walton, 1982). Hence, the following hypothesis is proposed:

Hypothesis 2: MSEs are significantly involved in the employee development activities.

**4.3 SUPPLIERS**

The CSR practices of the firms are not associated with the employees, community, environment, etc but also with its suppliers. Perry and Towers (2008) remarked that they are the significant external stakeholder of the firms that provides goods or services used by the customers. In this context, Longo et al. (2005) stated that quality is considered as an important element so possession of quality certifications such as ISO 9001 becomes an important responsibility of the suppliers. Further, the suppliers of SMEs are expected to be honest with their dealings and transparent in their procurement procedures (George, 2007). It is

also observed that SMEs must concentrate its efforts on sharing information regarding firms product as well as CSR matters with suppliers and should also support and aware the suppliers to become socially responsible (Castka et al., 2004). Thus, the study proposes the following hypothesis:

Hypothesis 3: MSEs Concern towards suppliers significantly contributes to CSR practices.

#### 4.4 ENVIRONMENT

Another important component of CSR is environment. According to Barkemeyer (2009) there are basic issues related to the protection of environment that all SMEs have a responsibility for, that is, they must support the use of renewable energy, optimal utilisation of resources, encourage the development of environmental friendly technology and cleaner production processes such as production process must be free from waste. In other words, SMEs should take steps to minimize the environmental pollution and other negative environmental impacts through the sustainable use of natural resources (Boasson, 2009). Williamson et al. (2006) recognize the importance of minimizing contamination through use of clean technology and protecting the biosphere (Dawkins and Ngunjiri, 2008). Furthermore, other related activities may include building awareness about the green environment, to acquire the environmental certification such as ISO 14000 or equivalent and to guarantee the quality of the product (Tihanyi et al., 2004).

Hypothesis 4: MSEs are significantly contributing to the environmental protection.

#### 4.5 CUSTOMERS

Another component of CSR is customers. To build strong customer base, SMEs should perform activities for the customers which include providing them quality product, giving true information about the characteristics of the product, proper handling of complaints and pay attention towards the safety of them (Perry and Towers, 2008). Further, Longo et al. (2005) suggested that the firms must comply with quality standards such as ISO 9000, 14000, etc. In addition, Galbreath (2008) remarked that to achieve superior value, firms must construct offerings that appeal to customers and are more attractive than competitors and that ultimately increase the buying process. Hence, the following hypothesis is proposed:

Hypothesis 5: MSEs are significantly involved in customer related activities.

#### 4.6 CSR AND FIRM PERFORMANCE

Jenkins, (2009) states that firm's performance depends upon the discrete activities it performs in designing, producing, marketing, delivering and supporting its product. When firms perform such activities they earn some good reputation which is an invaluable asset. Although such firms may bear some initial costs arising from their involvement in CSR, but they also obtain higher sales and profits due to the reputation that is enhanced through corporate social responsibility involvements or programs, as well as a reduction of long run costs and increased socially responsible demands. Vyakarnam et al. (1997) remarked that SMEs' social involvement result in an enhanced reputation, a professional image and an increase in confidence and loyalty. The extant literature reveals marginally significant association between CSR and financial performance (Cochran and Wood, 1984). Muller and Kolb (2009) and Steurer et al. (2005) observed the positive relationship between CSR and financial performance. The literature thus led to the development of following hypothesis:

Hypothesis 6: There exists positive relationship between CSR and firm performance.

### 5. METHODOLOGY

**Data Collection:** The data were collected in two phases that is, pre testing and final survey. The final sample size of the study comprised of 84 medium scale enterprises operating in Bari Brahmana, Gangyal and Digiana industrial estates of Jammu. The distributive and personal contact approached with 3-5 revisits helped in collecting 84 complete questionnaires with 100% response rate.

#### 5.1 VALIDITY ANALYSIS

**Convergent Validity :** As the dimensions of CSR have shown significant factor loading values (more than 0.50) in EFA and critical ratio values (more than 1.96) and standardised regression weight (more than 0.50) in CFA which established the convergent validity of the scale. In addition, convergent validity was also established by examining the average variance extracted (AVE) of each dimension of CSR. The AVE of the four dimensions that is, business performance (0.52), suppliers (0.49), customers (0.48) and local community (0.43) were found to be marginal while employees (0.25) and environment (0.30) showed low values for AVE.

#### 5.2 DESCRIPTIVE STATISTICS

The descriptive analysis was undertaken to explore the data for normal distribution characteristics using skewness, kurtosis and histogram. After deleting the non-normal items, outliers were identified and deleted for proceeding for exploratory factor analysis. The items with skewness and kurtosis values greater than <5 were considered for deletion. 27 items were deleted in which 6 items belonged to local community, 14 items were from employees, 2 items belonged to suppliers and 5 items each belonged to environment and customers.

#### 5.3 EXPLORATORY FACTOR ANALYSIS (EFA)

On application of EFA data was purified and the CSR dimensions that is, local community and employees resulted in two factors while suppliers, environment and customers dimensions showed one factor respectively. The EFA results are shown in Table 1

TABLE 1: EXPLORATORY FACTOR ANALYSIS FOR MSIs

CSR Constructs		F L	CV	KMO%	of
					variance
<b>LOCAL COMMUNITY</b>					
<b>FACTOR1=</b>	Education Facility	0.69	0.61		
	Motivation for welfare programmes	0.65	0.63		
	Promote community welfare(Partnership)	0.73	0.71		
<b>COMMUNITY DEVELOPMENT</b>	Maintain business relationship	0.69	0.58		
	Assessing impact of business activities	0.69	0.52		
	Educative Campaigns	0.73	0.60	37.38	
	Participation in community project	0.77	0.70	0.88	
	Charity & Donations	0.76	0.64		
	Scholarships on merit basis	0.82	0.71		
	Easy Workers	0.75	0.67		
<b>FACTOR2=</b>	Women Employment	0.74	0.65	29.22	
	Employing Older & Disabled people	0.83	0.79		
	Award schemes	0.84	0.82		
	Promotes Sports	0.79	0.67		



	EMPLOYEES				
FACTOR1=	Simple policy frame work	0.68	0.61		
EMPLOYEE	Nominal support & gratification	0.73	0.75	40.28	
DEVELOPMENT	Social activities for staff	0.70	0.73		
	Mentoring	0.74	0.75	0.84	
	Promotes Social Equity	0.75	0.67		
	Balance between work-life & social life	0.82	0.75		
	Adoption of formal procedures	0.63	0.62		
	Health & Safety	0.89	0.82		
	Recognition to dignity of employees	0.77	0.63		
	Design for encouraging	0.55	0.52		
FACTOR2=	Preference for local people	0.89	0.83	29.46	
RECRUITMENT	Public criteria for promotion	0.83	0.71		
ANDPROMOTION					
SUPPLIERS	Social and Environment responsibility		0.79		
	Information sharing on product		0.75		
	Encouragement for becoming socially responsible		0.81	0.72	70.78
	Implementing effective programmes		0.63		
	Quality Certification		0.56		
ENVIRONMENT	Partnerships with environmental firms				
	Environmental reporting		0.62		
	Awareness about green environmental		0.71	0.89	74.80
	Environmental ISO Certification		0.83		
	Pollution Control		0.75		
	Energy conservation		0.73		
CUSTOMERS	Environmental friendly products		0.73		
	Optimal energy utilization		0.82	0.70	75.49
	Accurate information sharing		0.74		
	Compliance with ISO standards		0.73		
BUSINESS	Distribution of wealth		0.72		
PERFORMANCE	Implementation of growth strategies		0.78	0.72	74.67
	Social and environmental performance		0.74		

#### 5.4 RELIABILITY ANALYSIS

Reliability values are examined from both overall as well as dimension-wise as under:

##### i) LOCAL COMMUNITY

The alpha value for the overall dimension came to be 0.93. The SMC values ranged between 0.54 to 0.78 and item to total correlation lies between 0.61 to 0.78. Further, the two factors were analysed individually which resulted in alpha value above 0.9. The item to total correlation for „community development’ lies between 0.68 to 0.81 and ‘motivation’ from 0.72 to 0.84. The SMC values also ranged between 0.57 to 0.73.

##### ii) EMPLOYEES

The items in this dimension resulted in alpha value 0.73. The SMC values ranged between 0.09 to 0.60 and item to total correlation is above 0.2. The items showed little variations among scale mean and scale variance. The application of reliability analysis on individual factors indicated alpha value as 0.91 and 0.83 respectively. The SMC and inter item total correlation values ranged between 0.63 to 0.82. All the items retained possessed low degree of variation indicating good internal consistency.

##### iii) SUPPLIERS

As only one component was extracted, reliability analysis was performed on its five items. The dimension shows alpha value 0.893. The SMC values ranged between 0.35 to 0.69 and item to total correlation lies between 0.58 to 0.89 respectively. Further, there exist little variation among scale mean and scale variance.

##### iv) ENVIRONMENT

The environment dimension indicated alpha value 0.91. The item to total values was above 0.64 and SMC values ranged between 0.42 to 0.70.

##### v) CUSTOMERS

The inter item analysis was performed on 4 items the alpha value arrives at 0.88. The item to total correlation was above 0.70 and SMC values range between 0.49 to 0.66.

##### vi) BUSINESS PERFORMANCE

The scale item analysis showed alpha value 0.86. The SMC values were above 0.50 and the respective item to total correlation was 0.75, 0.71 and 0.75.

### 5.6 CONFIRMATORY FACTOR ANALYSIS

The various CSR dimension after applying EFA and reliability analysis were examined through CFA. The CFA was run on measurement and structural models (zero factor/one factor/ two factor) (Figure 2) to establish the item- construct relationship and model fitness. The dimension –wise analysis is discussed as under:

#### i) LOCAL COMMUNITY

The dimension (two factor structure model) comprised of two factors „community development’ and „motivation’ and the items were significantly contributing towards both the factors. The chi-square, CMIN/df, CFI, RMSEA and NFI came to be 75.4, 1.48, 0.963, 0.076 and 0.897 respectively. Community development: The community development sub-dimension consisted of seven items which were significantly contributing to the local community dimension as all the values of critical ratio were above 1.96. The SRW values ranged between 0.66 to 0.80 and SMC values lie between 0.44 to 0.86.

Motivation: The five items of this factor were significantly contributing towards the local community dimension. The SRW and SMC values ranged between 0.66 to 0.93 and 0.44 to 0.86 respectively. All the critical ratio values were above the acceptable criteria i.e. 1.96.

#### ii) EMPLOYEES

The items of employee factor were divided into two factors „employee development’ and „recruitment and promotion’. The respective chi-square, CMIN/df, CFI, RMSEA and NFI values arrived at 29.5, 1.73, 0.966, 0.094 and 0.926.

Employee development: All the items of the sub-dimension were significant (CR>1.96). The SRW ranged between 0.58 to 0.89 and the SMC values vary between 0.33 to 0.93 respectively.

Recruitment and Promotion: The respective SRW values for the two items were scored as 0.73 and 0.98 indicating positive influence on the sub-dimension. The SMC values were arrived at 0.53 and 0.97 respectively.

#### iii) SUPPLIERS

The supplier dimension (zero factor structure model) contains all the values (Chi-square, CMIN/df, CFI, RMSEA and NFI were arrived at 21.8, 5.44, 0.940, 0.231 and 0.928 respectively) resulted in good fit of the model. All the items are having significant results which resulted in SRW ranged between 0.62 to 0.95 and SMC values lie in between 0.39 to 89.

#### iv) ENVIRONMENT

The chi-square, CMIN/df, CFI, RMSEA and NFI values for the environment dimension (zero factor structure model) came to be 1.8, 1.8, 0.985, 0.095 and 0.966 again showing model fit. The SRW of the items lie between 0.73 to 0.90 while SMC values ranged between 0.57 to 0.82. All the critical ratio values were above the prescribed criteria i.e. above 1.96.

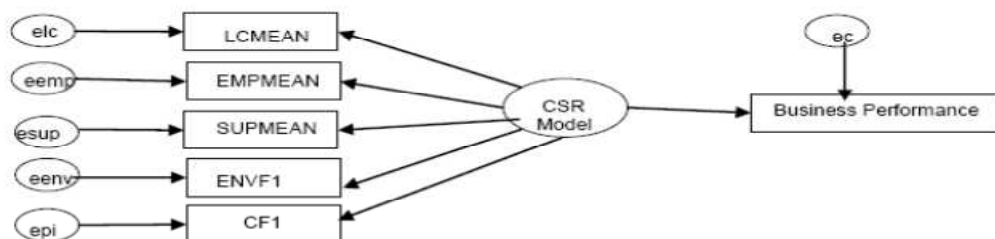
#### v) CUSTOMERS

The application of CFA on customers dimension (zero factor structure model) resulted in good fit of model as chi-square (0.15), CMIN/df (0.15), CFI (1.000), RMSEA (0.000) and NFI (1.000). Hence, the results represent the SRW and SMC values ranging between 0.56 to 0.83 and 0.56 to 0.83.

## 6. HYPOTHESIS RESULTS

The five dimensions local community, employees, suppliers, environment and customers show direct effect .50, .59, .63, .81 and .75 respectively. All the dimensions indicate CR values greater than 6.00 and the SRW range between 0.67 to 0.97. Moderate relationship is predicted regarding construct-wise relationship between CSR dimensions and business performance. Hence hypotheses local community (H1), employees (H2), suppliers (H3), environment (H4) and customers (H5) are accepted which indicate that all retained five dimensions significantly predict business performance of the medium enterprises. Thus, medium scale enterprises are associated with the CSR practices related to the local community, employees, suppliers, environment and customers.

FIGURE 2: COMPREHENSIVE CSR MODEL



Note: LCMEAN, EMPMEAN, SUPMEAN, ENVF1, CF1, Business Performance are explained in enclosure1 elc, eemp, esup, eenv, epi, ec are errors of measurement items.

## 7. CONCLUSION

The study is expected to enable scholars, practitioners, managers and other stakeholders to have more definite understanding of CSR practices. Certain voluntary guidelines can also be framed by the government for improving CSR culture in the SMEs. To help the society in general such as development of a particular village, market, etc. the firms may adopt non- mandatory initiatives which may include voluntary activities such as charity, donations, etc. Such activities, involve comparatively more funds, collaborative efforts with government, non-government organizations etc. which may contribute to CSR objectives. Besides, based on such extra-efforts vis-à-vis to increase such orientation, government can issue awards or rewards to firms which are involved in such affairs.

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