Corporate Social Responsibility as a Determinant of Sustainability of Small Medium Enterprises (SMEs)

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Abstract: In the pursuit of profit maximization as a major objective of business organizations, several firms forfeit their social and economic responsibility whilst focusing on activities that are deemed to solely profit the firm, without taking into cognizance the effect of their operations on the society in which they operate. Business analysts have however, realized the determinant role of social responsibility in corporate performance, such that firms that are able to imbibe corporate social responsibility in their core business operations may be able to take advantage of the social reputation gained across their several stakeholders. Small and medium enterprises operating in highly competitive markets are also advised to leverage on this reputation gained from being socially responsible, if they seek ways to remain relevant in the same markets dominated by multinational corporations. Adapting a case study approach, this study highlights the advantages (such as employee and customer loyalty) gained by House of Tara, a small business operating in the beauty and make-up industry in Nigeria, resulting from the firm’s commitment to advancing the society in which it operates through several social responsibility activities. It is observed that although competing with major makeup brands such as MAC, Maybelline, Dior, Mary Kay and others, House of Tara has been able to not only thrive, but gain a sizeable market in the Nigerian makeup industry, because several consumers purchase their products not solely because
of the quality or price of their product, but because they perceive themselves as buying into the firm’s CSR vision. This study therefore recommends that small and medium enterprises that may lack adequate resources (manpower, technology, capital) needed to successfully compete with multinationals, can harness the potentials in the reputation and loyalty gained from adequate investment in corporate social responsibility.

**Keywords**—Corporate Social Responsibility, sustainability, small and medium enterprises, House of Tara.

### 1.0 Introduction

The continuous move from the socialist system to capitalism where countries’ trade and industry are controlled by business organizations has brought about an increasing debate on the private sector’s responsibility for its economic, social and environmental impacts on the society in which it operates [1]. It has thus become increasingly imperative to analyze the relationship between businesses and the societies in which they operate, this analysis is able to find direct bearing in the term corporate social responsibility. [2] defined corporate social responsibility as a business organization’s economic, legal, moral, social and environmental responsibility to the society. Similarly, [3] defined CSR as the obligation of business corporations towards emboldening societal growth and development and willingly abolishing practices that are not in harmony with public interest.

However, the belief that business organizations have a responsibility that goes beyond profit making undoubtedly, has not been fully accepted by all scholars and business managers. Consequently, creating a debate on the need or otherwise for corporate social responsibility. The debate on corporate social responsibility (CSR) is intersected at the point where one hand of the spectrum analyze that the numero uno objective of a business organization is to maximize profit and primarily the wealth of the shareholders, thus managers should focus singularly on this objective and ignore any diverting activities such as CSR activities which may hinder managers from advancing the primacy of its shareholders [4], [5], [6], [7]. On the supporting side of the debate on corporate social responsibility, other researchers have analyzed that the firm’s objective should not be exclusively economic but the social effect of their operations be taken into perception, such that the greater good of the society is placed above that of the business organization [8], [9]. It is believed that it is in the firm’s self interest for it to be socially responsible, if it wants to continue operating in the long run under a favorable climate, as firms are entities that are largely influenced by their business environment, such that society’s perception of the firm will to a very large extent affect the sustainability of the firm. [10] attests that corporate social responsibility activities can foster the firm’s profit maximization objective, through its ability to serve as a strategic tool for gaining competitive advantage, as measured through the stakeholders perception of the organization, which is reflected through loyalty from customers, employees, government and society, resulting from the firm’s involvement in corporate social responsibility practices, especially in a highly competitive business environment.

It is further observed that small and medium enterprises are dealt a harder
blow in competitive markets in comparison to the multinational corporations which they compete with, due to their inability to gain access to reduced interest loans, technology, and resources in general needed for the growth and sustainability of their businesses. However, some small businesses have instead leveraged on their close relationship with the society in which they operate, through socially responsible practices, to gain a competitive edge in sustaining their businesses. Through a case study approach, this study aims at investigating the role corporate social responsibility plays in enhancing the corporate performance of small and medium enterprises that face intense competition from multinational corporations operating in the same industry.

2.0 Corporate Social Responsibility

[11]’s definition of CSR has served as an underpinning for the study on corporate social responsibility. Carroll observed that, a comprehensive definition of CSR, must embrace a full range of responsibilities of the business corporation to the society. It was thus propositioned that the corporate social responsibility of business corporations must incorporate the economic, legal, ethical and discretionary expectancies of the society [12], [13], [14]. [13] propositioned that firms have an obligation that is economic in nature, i.e. primarily business institutions have a fundamental responsibility as an economic unit in the society to produce goods and services that are beneficial to the society at a profit. Just as it is expected of business corporations to make profit, they are also expected to duly obey laws and behave ethically as required by law. And finally, the discretionary responsibility entails voluntary roles and practices that firms assume but for which society does not provide a clear-cut expectation. The discretionary responsibility as the name implies is left to individual managers’ and corporations’ judgment and choice. It is this discretionary responsibility that makes the difference in corporate responsibility, as this is where managers either engage in mere philanthropy or strategic CSR that is inline with core business objectives [15]. Similarly, [16] define corporate social responsibility as the continuing commitment by organizations to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families and the local community and society at large. [17] expedites that corporate social responsibility is concerned with treating the shareholders of a firm ethically or in a socially responsible manner. Commonly agreed, CSR is thus viewed as the relationship between a business organization and the society it operates in (consisting of the organization’s stakeholders).

2.1 Arguments against Corporate Social Responsibility

The argument against corporate social responsibility is dominantly based on the view that a firm’s direct involvement in the operations of the society has a negative impact on both the society and the business. It is argued that firms should maintain profit maximization as their number one objective, and should participate in only activities that bring profit [18]. Accordingly, CSR, which is usually financed from the firm’s profit, violates this objective and thus should be prohibited. A second argument on the opposing side, lies in the negative political power
a firm can gain from its involvement in social good. It is believed that such activities as building roads, donation of food items, provision of water and resources as are the usual CSR practices in developing countries such as Nigeria, enables these corporations to gain much power as regards political matters in the country, thus reiterating [19]’s argument which echoes that government’s job is not business, thus business’ job should not be government. Thus illustrating that social issues are not the concern of business organizations, but that of the free market system, such that if the free market cannot solve its own problems, then the responsibility should fall on the government and not business corporations.

While some of the arguments against corporate social responsibility still holds in the recent developments in CSR literature, a majority of them have been clearly rebuffed.

2.2. Arguments for Corporate Social Responsibility
On the supporting side of the debate on corporate social responsibility, supporters of the close knit relationship between the firm and the society argue that the firm’s objective should not be exclusively economic but the social effect of their operations be taken into perception, such that the greater good of the society is placed above that of the business organization [8], [9]. It is believed that it is in the firm’s self interest to foster a safe and healthy environment around its business, as the firm’s voluntary intervention in the community often results in strengthening the ties with the local economic and social community. [10] attests that corporate social responsibility activities can foster the firm’s profit maximization objective, through its ability to serve as a strategic tool for gaining competitive advantage, as measured through the stakeholders perception of the organization, which is reflected through loyalty from customers, employees, government and society, resulting from the firm’s involvement in corporate social responsibility practices. [21] posits that a firm’s intervention in the community often results in an increase in the firm’s corporate image and reputation, employee moral, lower turnover rates, improved customer loyalty and satisfaction, and increased profit margins. The argument for corporate social responsibility thus suggests that a firm’s commitment to ensuring the wellbeing of its various stakeholders has the potential to ensure business sustainability even in a highly competitive business market.

2.3 The Business Case for Corporate Social Responsibility
In accordance with the benefits of corporate social responsibility on the business organization’s sustainability, there arose in recent CSR literature the need to understand the benefits of CSR on the business organization, often termed ‘the business case for corporate social responsibility’. [22], [23], [24], [25] advocate for the firm’s ability to engage in CSR practices that perform dual purposes of enhancing the society
and creating business/economic value for the firm. The business case for corporate social responsibility is based on a firm’s ability to link corporate social responsibility to increased organizational performance. It is posited that a firm’s engagement in CSR activities such as policies that positively influences its various stakeholders: customers, employees, shareholders, suppliers, government, society, has the potential to increase firm’s performance and sustainability. Thus the business case argument serves as the base for understanding the concept of corporate social responsibility as it applies to enhanced corporate performance in the firm.

3.0 Small and medium Enterprises

Of particular interest to this study is the application of CSR by small and medium enterprises in such a way that enhances profitability in very challenging business environments that are dominated by multinational corporations that have access to massive resources such as: capital, manpower, machineries, which are generally needed to remain competitive. Just like the concept of corporate social responsibility, the definition of small and medium enterprise varies across defining boards, agencies and nations. However, three major factors outlined in most definitions globally, incorporate: number of employees, aggregate yearly income, and size of fixed capital and assets. SMEs is defined by the European Union as an enterprise with a staff force of less than 250 people, an annual turnover less than 50 million Euros ($58,132,750) or an annual balance sheet not greater than 43 million Euros ($49,994,165). The United Kingdom classifies micro businesses as those with a staff strength not exceeding 9, small businesses not exceeding 49, medium sized businesses between 50 and 249 and large businesses 250 and beyond [26]. Similarly, the Australian Bureau of Statistics and Australian tax office define SMEs based on the number of employees (less than 20 persons), yearly revenue (a standard yearly revenue below $1 million) and net assets (net assets below $3 million).

In Nigeria, a small and Medium scale enterprise operating in Nigeria is one with fixed capital or asset between N5million and N500 million ($26,932 and $2,693,240), turnover of less than 100 million ($538,648) per annum and labor force between 11 and 300 [27].

3.1 State of SMEs in Nigeria

It is generally posited that SMEs can serve as tools of economic development of any country, as is observed among the BRIC (Brazil, Russia, India and China) nations. In recent times, there has been mimicry of a new set of emerging nations, called the MINT (Malaysia, Indonesia, Nigeria and Thailand) nations. However, it is observed that despite Nigeria’s potential as an emerging economy, the small and medium enterprises operating in the country are usually sidelined by bigger multinational corporations, as the SMEs in Nigeria are currently facing several challenges that hinder their growth and development. It is thus observed that most SMEs either remain small, moribund or shut down within few years of operations [26].

It is observed that due to the small size nature of SMEs, there appears to be a close knit between the business and the society, such that several of these organizations dedicate a major part of their operations to tackling the challenges faced by the communities of their operation. Such challenges as
reducing rural-urban migration, reduction of waste through waste to energy or waste to wealth initiatives, provision of self development and career training for the locals, skills acquisition classes amongst several other forms of socially responsible activities. [28] discuss the presence of an interdependent relationship between corporations and society, and the possible influence (positive and negative) that relationship can have on the organization. [29] suggest that CSR should be considered as a strategic investment of a firm because it is an integral element of a firm’s business and corporate-level differentiation strategy. Even when not directly tied to a product feature or production process, CSR can be viewed as a form of reputation building or maintenance, which is essentially beneficial in building a sustainable business. It is thus important to view the potential benefits SMEs stand to gain through active involvement in social responsibility.

3.2 Potential benefits derived from Social Responsibility

Although various benefits have been tied to a firm’s involvement in corporate social responsibility, this study has selected three that were duly observed in the case study adopted for this study, thus ensuring a correlation between the literature reviewed and the case study adopted. The potential benefits ascribed to CSR, are thus discussed below:

3.2.1 Customer Loyalty arising from a firm’s involvement in CSR

Customer loyalty is ascribed as the result of consistently positive emotional experience, physical attribute-based satisfaction and perceived value of an experience, which includes product or services. It is opined that customers get attached to brands as a result of the personal relationship they believe they have with the firm, this is usually embodied in the customer’s perception of the firm’s operations. Where a firm is seen to be socially responsible, some customers are drawn to the firm’s because they support the CSR activities carried out by the firm, and believe that whatever they spend on purchase from the firm, will still be directed to the society, through the firm’s CSR activities [30].

3.2.2 Employee Satisfaction as a result of Social Capital

Employees are noted to be very essential to the success or otherwise of business organizations. Several scholars emphasize the importance of CSR targeted at the employees, if a firm seeks to be sustainable. These CSR practices, are usually termed internal CSR. Where Internal CSR practices are a business organization’s commitment to improving the lives of its staff, through such practices as talent development, employee rights, diversity management and work safety and health, which are positively linked to emotional and normative commitment of employees, thus influencing their perceptions about the organization and their willingness to be productive, thereby bonding the human resources of an enterprise to form a cohesive workforce, that is, social capital, thus serving as a competitive advantage firms can bench on [31].

Social capital refers to features of social organization that create an environment of mutual benefits and coordination [32]. CSR has been proven to create reliable social networks for organizations and social capacity [33] initiating and facilitating strong work network, relationship and custom, which enhance cooperation and collective
action [34]. Good corporate social capital can serve as a guarantee for high performing workers, thus serving as an indicator of its ability to attract talented employees [35].

3.2.3 CSR and Product Differentiation
Corporate social responsibility also provides the firm the opportunity to imbibe “social” features into their products, such social and/or environmental features that are of benefit to the environment and the end user of their products. [36] posited that a firm that can promote enhanced social or environmental value in its products and services as a form of corporate social responsibility initiatives could gain increased customer satisfaction. In the same study, it was observed that consumers demonstrated willingness to reward companies with environmental or social product and service innovation by paying 5 to 8% more for their products.

Through the inclusion of special “social” features in products, small and medium enterprises are able to leverage on differentiation, which can strengthen or maintain the organization’s reputation, thereby adding value to the firm, in addition to allowing the firm meet a particular market demand [37].

4.0. Methodology
This study adopted a case study approach in investigating the relationship between corporate social responsibility and sustainability in small medium enterprises operating in Nigeria. Of particular interest to the study is House of Tara, a makeup business operating in the beauty and makeup industry in Nigeria, which despite huge competition from international brands such as MAC, Maybelline, Mary Kay, Dior and many others, is able to carve a special niche for itself. The study analyzed how the organization is able to survive competition in an international brand dominated market and gain recognition in the industry as the “brand of the people” through engagement in CSR activities.

4.1 Background to case study: House of Tara
House of Tara International is the leading beauty and make up company primarily in Nigeria and other Western countries in Africa. Set up in 1998, the organization has three main streams: a makeup studio, a makeup academy and a makeup product line. In the well developed makeup industry in Nigeria, with international products such as MAC; MaryKay; Maybelline, House of Tara has been able to distinguish itself, upgrading to the status of a market leader through its ability to participate in CSR activities focused on empowering women and raising young entrepreneurs in the beauty industry. Today, House of Tara has grown from a makeup company to a women development brand.

4.2 CSR activities engaged in by House of Tara
In its mission statement, House of Tara carefully outlines its commitment to touching as many lives as possible, which has been embedded in the very core of the organization’s culture. The organization’s CSR activities are targeted at building and supporting women across Africa, starting from Nigeria. Some of the CSR projects carried by House of Tara include:
- Breast cancer awareness: Partnerships with Genevieve Pink Ball Foundation through provision of increased funding for quality breast cancer research.
• Scholarship into the house of Tara make-up schools for budding makeup artists.
• Beauty Business on the Go (BBOG): In partnership with First City Monument Bank, Nigeria, House of Tara has dedicated a platform to groom women that have passion to become beauty representatives.
• 100 voices: An initiative to create awareness and support their make-up artists who decide to build their own businesses [38].

4.3 Strategic Benefits of House of Tara’s CSR activities
House of Tara has in its eighteen years of existence established its brand as both a makeup brand and a “society responsible” brand, one that is very interested in the development of women across Africa, thus Nigerians have gotten attached to the brand not solely because of the quality or price of the product, in comparison to other international brands that operate in same market, but consumers get the satisfaction that for every purchase they make, the organization is able to further develop the society through its various CSR activities, thus increasing the organization’s reputation among its various stakeholders [39], [40].

Also, House of Tara heavily invests in training its workers, providing them with an avenue to collaborate with the organization should any of their workers decide to start their own beauty firm, thus creating a body of employees that are very passionate about the brand and the success of the organization. The first international recognition of the brand in Africa’s SMME awards in South Africa in 2007 was a result of the brand’s social responsible activities, which further created brand awareness, thus serving as a source of advertisement. However, it is essential to note that while House of Tara actively participates in CSR activities, the CSR activities have been strategically linked with the organization’s mission of empowering women through beauty and makeup entrepreneurship.

5.0 Conclusions and Recommendation
Corporate social responsibility, if strategically implemented has the ability to serve as a strategic tool for ensuring sustainability in a highly competitive business environment, especially for small and medium enterprises that generally lack the resources needed to successfully compete with multinational corporations. A small and medium enterprise that engages in strategic corporate social responsibility is able to meet the needs of its various stakeholders in such a way that its bigger counterparts are unable to, due to its close relationship with its society. It was observed in the case of House of Tara, that the organization established itself as a market leader in its industry, effectively competing and staying profitable even in a market that is saturated with international makeup brands, by fully engaging in CSR activities that helped build and nurture an army of committed employees and customers. It becomes imperative for small and medium enterprises to leverage on their close relationship with the society to attract customers, quality employees and good standing with their various stakeholders, thereby gaining business sustainability.
References


[40] Fidelity SME forum (n.d.) Interview with Tara of House of Tara International. Audio