CORPORATE SOCIAL RESPONSIBILITY: A COMPETITIVE STRATEGY FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN UGANDA

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CORPORATE SOCIAL RESPONSIBILITY: A COMPETITIVE STRATEGY FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN UGANDA

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Thesis submitted in fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

in the

Faculty of Business and Economic Sciences

at the

Nelson Mandela Metropolitan University

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Port Elizabeth
March 2012
DEDICATION

This thesis is dedicated to my wife, (Prossy Tusasibwe Turyakira), and my children (Trevor Turyakira, Evan Turyakira and Timon Turyakira).

I also dedicate this work to my late parents, Deo Karyarugokwe and Jane Kahimakazi, for giving me wisdom and courage.
ACKNOWLEDGEMENTS AND DECLARATION

I would like to thank the following people and institutions for their invaluable contributions to this study:

- My promoter, Professor Elmarie Venter, for her support, insights, encouragement and mentorship.

- My co-promoter, Professor Elroy Eugene Smith, for his useful guidance, insightful comments and advice.

- The Directorate of Research and Graduate Training, at Makerere University, for financing the research component of this thesis.

- The Principal and my colleagues in the College of Business and Management Sciences (CoBAMs) at Makerere University, for their encouragement.

- All the SMEs in Kampala District (respondents) who participated in this study, for their valuable contributions.

- Beverley Gray, for his assistance with the translation of the questionnaire.

- Dr. Aaron Mushengyezi, for his assistance with language editing of the thesis.

- Dr. Grace Kibanja, for her guidance on statistical data analysis and interpretation.

- My wife and children, for their love, prayers, patience, understanding, and for allowing me to spend most of the time on this thesis.

- My brother, Dr. Frank Byamugisha, and his family, for their financial and moral support.

- Above all, I thank the Almighty God, for the blessings and wisdom bestowed upon me, and for giving me the exceptional abilities that have enabled me to complete this doctoral project.

I hereby declare that this thesis submitted is my own independent work and that it has not been previously submitted by me for any degree award at any other university.

Peter K. Turyakira
PORT ELIZABETH
March 2012
ABSTRACT

In view of the important role small and medium-sized enterprises (SMEs) universally play as the backbone of national economies and the survival and competitiveness challenges that they face, the purpose of this study was to develop specific models of corporate social responsibility (CSR) for SMEs in Uganda as an avenue to enhance their competitiveness and foster economic development. The primary objective was to gain insight into the deployment of CSR in SMEs, including investigating CSR factors and their potential impact on competitiveness.

This study integrates previous findings and theories on CSR activities and SMEs’ competitiveness into a comprehensive hypothesised model. A comprehensive literature study revealed potential factors that could influence the Increased competitiveness of SMEs in Uganda. Four independent variables (Workforce-oriented, Society-oriented, Market-oriented and Environmental-oriented CSR activities) and three mediating variables (Employee satisfaction, Business reputation and Customer loyalty) were identified as variables influencing the Increased competitiveness (dependent variable) of SMEs. Independent variables were categorised as CSR factors while mediating and dependent variables were categorised as outcomes factors. Furthermore, hypotheses were formulated for possible relationships between the independent, mediating and dependent variables.

All the variables in the study were clearly defined and operationalised. Reliable and valid items sourced from various measuring instruments used in other similar studies, were used in the operationalisation of these variables. Furthermore, several items were generated from secondary sources. A structured self-administered questionnaire was made available to respondents identified using the stratified and purposive sampling techniques, and the data collected from 383 usable questionnaires was subjected to several statistical analyses. The validity and reliability of the measuring instrument was ascertained using an exploratory factor analysis and Cronbach-alpha coefficients respectively.
An exploratory factor analysis using SPSS 18 for Windows was conducted to identify the unique factors available in the data before applying structural equation modelling (SEM). The data were categorised into models of independent variables (CSR factors) and the mediating variables (Outcomes factors). The items measuring Market-oriented CSR activities and Workforce-oriented CSR activities loaded as expected. The items measuring Environmental-oriented CSR activities loaded onto two separate factors which were renamed Environmental-oriented CSR activities and Regulated CSR activities. One of the items originally expected to measure the construct Society-oriented CSR activities loaded onto Environmental-oriented CSR activities, leaving three items which loaded together onto the Society-oriented CSR activities factor. Four factors constituted the outcomes submodel, namely Customer loyalty, Stakeholder trust, Business reputation, and Employee satisfaction.

In this study, SEM was the main statistical procedure used to test the significance of the relationships hypothesised between the various independent and dependent variables. Owing to the sample size limitations, the hypothesised model could not be subjected to SEM as a whole. Consequently, six sub-models were identified and subjected to further analysis.

The following independent variables were identified as influencing the dependent variables in this study:

- Workforce-oriented CSR activities
- Society-oriented CSR activities
- Market-oriented CSR activities
- Environmental-oriented CSR activities
- Regulated CSR activities

To establish the influence of the various demographic variables on the mediating and dependent variables, an Analysis of Variance (ANOVA) and Multiple Linear Regression (MLR) analysis were conducted. The respondent’s position/title in the business, form of
enterprise, branch/sector of business, level of education, and the size of business were found to have an influence on the mediating and dependent variables of this study.

This study has therefore added to the underdeveloped body of business research in Uganda by investigating a particularly limited segment of the literature, namely SMEs. The study has also identified and developed various models that explain the most significant CSR factors that influence the competitiveness of SMEs. Consequently, this study has put forward several recommendations and suggestions that can enhance the competitiveness of SMEs locally and globally.

Further research is encouraged on action-oriented areas such as: the success of different policies and techniques to increase the uptake of CSR amongst SMEs; the economic, social and environmental impact of CSR at sector level; and a typology of SMEs with regard to their engagement in CSR.

**KEY WORDS:**

Corporate social responsibility, ethics, small and medium-sized enterprises, competitiveness
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CHAPTER 1

INTRODUCTION, PROBLEM STATEMENT AND DEMARCATION OF THE STUDY

1.1 INTRODUCTION AND BACKGROUND TO THE STUDY

Small and medium-sized enterprises (SMEs) are universally acknowledged as effective vehicles for employment generation and economic growth (Basil, 2005: 4). Even in countries with large corporations like the United States of America, SMEs contribute substantially to employment opportunities and supply goods and services to consumers and large organisations. In Africa, where the private sector in general is not well developed, SMEs could play a critical role in stimulating economic development and alleviating poverty (Beyene, 2002: 1).

In Uganda, SMEs are increasingly becoming the backbone of the economy. They play a crucial role in creating job opportunities that make the attainment of equitable and sustainable growth and development possible. It is estimated that there are over 1,069,848 SMEs in Uganda, providing employment and income generation opportunities to low income earners of the economy (Hatega, 2007: 3; Uganda Ministry of Finance, Planning and Economic Development July, 2011). For example, SMEs constitute over 90 percent of businesses operating in the private sector, they contribute to 75 percent of GDP and employ approximately 2.5 million people (Hatega, 2007: 4). However, more than half of SMEs in Uganda fail during their first year (Harorimana, 2009: 71; Tushabomwe-Kazooba, 2006: 2). Despite their growing importance, their high failure rate is thus a cause for concern.

Analytical and practical case studies on appropriate strategies that can aid the competitiveness of SMEs’ in Uganda are limited. Owing to global competition, technological advances and changing needs of consumers, competitive paradigms are continuously changing. These changes are driving businesses into stiff competition in
areas such as design and development of products, manufacturing, distribution, communication and marketing (Singh, Garg and Deshmukh, 2008: 527).

As global competitiveness continues to take momentous trends, the notion of Corporate Social Responsibility (CSR) is proposed as an effective strategy to invigorate the operations and competitiveness of SMEs. CSR is viewed as a vital concept that businesses of all types and sizes need to understand and address. CSR is the continuous commitment required of a business to behave ethically and contribute to economic development, while improving the quality of life of the workforce and their families, as well as the local community and society at large (World Business Council for Sustainable Development WBCSD, 2000: 2). CSR is also a strategy businesses can use to manage their activities to produce an overall positive impact on society through economic, environmental and social actions (D’Amato, Henderson and Florence, 2009: 8). For a business to be successful in the long-term, it has to create value, not only for its shareholders but also for society.

A positive relationship between the CSR activities of SMEs and their enhanced competitiveness exists, at least if a long-term perspective is considered (European Competitiveness Report, 2008: 1; Mandl and Dorr, 2007: 2). To remain competitive, businesses need to be able to adapt to new demands from the market and society in which they operate. Although CSR has been mainly discussed in the context of larger enterprises, it is also a strategic tool to enhance the competitiveness of SMEs (Szabo, 2008: 17). Hence, this study seeks to evaluate the application of CSR as a competitive strategy for SMEs in Uganda.

Previous research indicates that CSR can positively influence the competitiveness of SMEs in many ways as indicated below (Mandl, 2009: 11, Szabo, 2008: 18). These include the following:

- Improved products and/or production processes, resulting in better customer satisfaction and loyalty;
Higher motivation and loyalty of employees, resulting in higher creativity and innovativeness;
Better publicity due to the awarding of prizes to the community and/or enhanced word-of-the-mouth among customers;
Better position in the labour market and better networking with business partners and authorities including better access to public funds due to a better business image;
Cost savings and increased profitability due to a more efficient deployment of human and production resources; and
Increased turnover/sales due to a competitive advantage derived from the above.

Businesses undertake CSR, not necessarily out of a need to act benevolently, but for survival in a globally competitive and legally complex modern environment (Moeti, 2000: 280). Thus, CSR is understood as a strategic management tool to enhance the competitiveness of SMEs.

CSR is important to all businesses, large and small (Hopkins, 2003: 2). There are basic CSR issues that all businesses, irrespective of their size, have to respond to, such as creation of a good working environment where diversity is encouraged; fair distribution of wealth in a community; protection of the environment; market innovations and ethical practices (Jenkins, 2006: 2; European Competitiveness Report, 2008: 119). However, SMEs are unaware that they can often achieve their objectives without spending large amounts of money and that the returns, in terms of cost savings, can be quite significant. Although the reward for CSR might sometimes not be immediate, the reputation a business acquires might be long-lasting and could bring in new customers. In some instances, consumers are more willing to buy from a socially responsible business compared to one that is socially irresponsible (Asongu, 2007: 7).

In spite of the continual public pronouncements about their assumed importance as instruments of development, SMEs in many African countries, including Uganda, still lack effective knowledge of modern competitiveness techniques such as CSR. Yet CSR
has been identified as a potential tool of competitiveness among businesses. It is against this background that this study attempts to investigate how SMEs can utilise CSR as a strategy for increased competitiveness.

1.2 PROBLEM STATEMENT

The question arises as to why private or public businesses – particularly SMEs which are often characterised by limited human and financial resources compared to larger enterprises – should engage in CSR activities. There should be a justification, other than humanitarian considerations, for SMEs to invest time and money in issues often not directly related to their business objectives. Succeeding in showing the relationship between the engagement in CSR and economically positive outcomes for the business can, therefore, be seen as an important factor for SMEs to engage in CSR (Mandl and Dorr, 2007: 45).

Although SMEs represent the backbone of local economies in most developing countries, they often face great constraints in their operations. These small entrepreneurs operate against many odds and even small changes in the external environment could affect them greatly. They are confronted with fierce local and international competition and they often lack general skills in management and marketing. These constraints substantially limit the productive capacity and efficiency of SMEs in Uganda in particular and their ability to be competitive within the context of a globalised world (Ocici, 2003: 1).

While there is a great deal of optimism for the role that SMEs can play in improving business responsibility, most researchers such as Silberhorn and Warren (2007: 5) have focused their research efforts on large businesses. Most initiatives tend to take the tried and tested ‘business models’ developed in large businesses and shrink them to fit SMEs (Jenkins, 2006: 2). Despite the widespread practical and academic interest in CSR and its impact on the competitiveness of SMEs, few theoretical and empirical contributions exist. Conclusions resulting from quantitative and qualitative research with respect to CSR in SMEs are limited in Africa and in Uganda in particular. In light of the perceived
effects of CSR practices on SMEs, a closer examination of the relationship between CSR and the competitiveness of SMEs in Uganda is therefore necessary. Thus, this study will analyse and document the CSR-related factors affecting the competitiveness of SMEs and identify possible mechanisms of enhancing their competitiveness within the framework of CSR.

1.3 PURPOSE OF THE STUDY

The purpose of this study is to develop frameworks of CSR for SMEs in Uganda as an avenue to enhance their competitiveness and foster economic development. Furthermore, the study intends to develop scales and an instrument for measuring the factors influencing the competitiveness of SMEs in Uganda. In the past, the subject of CSR has mainly been focused on multinational corporations. Research regarding SMEs and CSR has been lacking, particularly in developing countries. This study will put forward several recommendations that can help in enhancing the competitiveness of SMEs locally and globally. The study will also add to the body of knowledge of CSR activities locally and globally.

1.4 RESEARCH OBJECTIVES

1.4.1 Primary research objective

The primary objective of this research is to gain insight into the use of CSR activities in SMEs and their potential impact on competitiveness.

1.4.2 Secondary research objectives

To address these primary objectives, the following secondary objectives have been formulated:

i. To undertake a detailed theoretical investigation into the various CSR activities that could influence the performance of SMEs in Uganda.
ii. To develop a hypothesised model, suggest appropriate hypotheses, and construct a path diagram of the relationships between the independent variables (CSR activities) and their influence on the competitiveness of SMEs (dependent variable).

iii. To develop a measuring instrument that will empirically test the relationships as described in the hypothesised model.

iv. To empirically test the proposed model and to investigate the possible relationships between CSR factors, mediating factors, and increased competitiveness.

v. To recommend mechanisms at a more conceptual level that can significantly increase SMEs’ competitiveness in Uganda.

1.5 PROPOSED HYPOTHESESISED MODEL

The initial literature study has revealed a number of CSR factors that could influence the competitiveness of SMEs. Based on such factors, the following hypothesised model is proposed (see Figure 1.1 below).
Figure 1.1: Hypothesised model of CSR activities and their influence on competitiveness

Influences

- Workforce-oriented
- Society-oriented
- Market-oriented
- Environmental-oriented

Outcomes

- Employee satisfaction
- Business reputation
- Customer loyalty
- Increased competitiveness

Source: Researcher’s own construction based on literature review

Figure 1.1 illustrates how the independent variables (Workforce-oriented, Society-oriented, Market-oriented and Environment-oriented CSR activities) impact on the moderating variables, namely Employee satisfaction, Business reputation and Customer loyalty. These in turn impact on Increased competitiveness (dependent variable), which is measured by profitability, market share, sales and growth rate of a business.
1.6 RESEARCH QUESTIONS AND HYPOTHESES

Based on the objectives of the study and the hypothesised model, the study was guided by a number of research questions and hypotheses:

1.6.1 Research questions

i. What is the influence of Workforce-oriented, Society-oriented, Market-oriented and Environmental-oriented CSR activities on Increased competitiveness of SMEs?

ii. What is the influence of Workforce-oriented CSR activities on Employee satisfaction and Reputation of SMEs?

iii. What is the influence of Society-oriented CSR activities on Business reputation and Customer loyalty?

iv. What is the influence of Market-oriented CSR activities on Business reputation and Customer loyalty?

v. What is the influence of Environmental-oriented CSR activities on Business reputation and Customer loyalty?

vi. What is the influence of Employee satisfaction, Business reputation and Customer loyalty on Increased competitiveness of SMEs?

1.6.2 Research hypotheses

The following are hypotheses that were formulated to test the relationships proposed in the hypothesised model:

\( H^{1a} \): There is a positive relationship between the existence of Workforce-oriented CSR activities and Satisfaction of SMEs’ employees.

\( H^{1b} \): There is a positive relationship between the existence of Workforce-oriented CSR activities and the Business reputation of SMEs.

\( H^{1c} \): There is a positive relationship between the existence of Workforce-oriented CSR activities and Increased competitiveness of SMEs.
$H^2_a$: There is a positive relationship between the existence of *Society-oriented CSR activities* and the *Business reputation* of SMEs.

$H^2_b$: There is a positive relationship between the existence of *Society-oriented CSR activities* and *Customer loyalty*.

$H^2_c$: There is a positive relationship between the existence of *Society-oriented CSR activities* and *Increased competitiveness* of SMEs.

$H^3_a$: There is a positive relationship between the existence of *Market-oriented CSR activities* and the *Business reputation* of SMEs.

$H^3_b$: There is a positive relationship between the existence of *Market-oriented CSR activities* and *Customer loyalty*.

$H^3_c$: There is a positive relationship between the existence of *Market-oriented CSR activities* and *Increased competitiveness* of SMEs.

$H^4_a$: There is a positive relationship between the existence of *Environmental-oriented CSR activities* and the *Business reputation* of SMEs.

$H^4_b$: There is a positive relationship between the existence of *Environmental-oriented CSR activities* and *Customer loyalty*.

$H^4_c$: There is a positive relationship between the existence of *Environment-oriented CSR activities* and *Increased competitiveness* of SMEs.

$H^5$: There is a positive relationship between achieving *Employee satisfaction* and *Increased competitiveness* of SMEs.

$H^6$: There is a positive relationship between the *Business reputation* of SMEs and the *Increased competitiveness*.

$H^7$: There is a positive relationship between achieving *Customer loyalty* and *Increased competitiveness* of SMEs.

**1.7 RESEARCH METHODOLOGY**

The study sought to identify CSR activities that impact on the competitiveness of SMEs in Uganda. This was achieved by surveying owners and/or managers of SMEs, particularly in Kampala District. Primary and secondary research was undertaken to achieve the objectives of this research.
1.7.1 Secondary research

A thorough literature search was conducted in order to identify as many factors as possible that could influence the competitiveness of SMEs in Uganda. International and national data searches were carried out at libraries of Nelson Mandela Metropolitan University and Makerere University. The searches include: Google searches, Yahoo searches, and leading journals such as the Business Ethics Review Theory and Practice and Entrepreneurship theory and Practice. Secondary data was also sourced from CSR and SMEs literature. The proposed hypothesised model depicted in Figure 1.1 is therefore derived from and based on an analysis of relevant secondary sources.

1.7.2 Primary research

The primary research of this investigation involved three aspects: identifying the most appropriate research paradigm; identifying the sample and collecting the data; and analysing the data collected. For each of the facets, a brief introduction is provided in the subsequent paragraphs. A more detailed discussion on these elements is presented in Chapter 6.

1.7.2.1 Research paradigm

A positivistic research paradigm was adopted for this study. The positivistic paradigm is alternatively known as the quantitative, objectivist, scientific, experimentalist or traditionalist research paradigm (Collis & Hussey 2003: 53; Han, 2006: 29). Furthermore, the methodological assumption underlying research is concerned with the research process. As such, positivists usually apply a deductive reasoning process, looking for relationships, and their research is deemed to be accurate and reliable, through validity and reliability (Berg, 2001: 10).
In view of the nature of the problem statement and the research objectives in this study, the positivistic approach seems most appropriate to gauge the opinions of respondents of the factors influencing the Increased competitiveness of SMEs. The model depicted in Figure 1.1 indicates these relationships between the various independent variables, mediating variables and the dependent variable. The positivistic paradigm requires the use of a large sample (Nwokah, Kiabel and Briggs, 2009: 436), so that the findings from a representative sample may be taken to be true for the entire population so that the envisioned statistical analysis may be undertaken (Berg, 2001: 10).

1.7.2.2 Data collection

Stratified sampling was used in this study to categorise small and medium-sized businesses into industrial sectors. Purposive sampling, particularly judgmental sampling, was used to select respondents from different industrial sectors in the Kampala District, whose workforce ranged from 5-100 employees (Uganda Bureau of Statistics- UBOS 2006/2007 Business Register Update). The business associations of industrial sectors assisted in identifying the individual businesses and members from whom data were collected. Each factor identified in the literature study was clearly defined and then operationalised. The operationalisation was conducted with the use of reliable and valid items sourced from tested measuring instruments used in previous studies, as well as several self-generated items based on secondary sources. Consequently, a measuring instrument was compiled to measure the dependent, mediating and independent variables in this study. The items in the measuring instrument were presented together with a 7-point Likert-type scale. The final questionnaire was self-administered to SME owners and/or managers identified through the purposive sampling technique.

A detailed explanation of the sampling frame, final sample size, response rate, the primary data collection method, operationalisation of the variables, the structure of the measuring instrument, and the strategies followed in administering the measuring instrument, is presented in Chapter 6.
1.7.2.3 Data analysis

Data analysis was conducted in phases. Firstly, an exploratory factor analysis was performed on all of the items in the measuring instrument. Factor analysis enables the researcher to identify those unique factors in the data. The software programme SPSS 18 for Windows was used to assess the discriminant validity of the instrument used to measure the constructs incorporated in the hypothesised model. Secondly, the reliability (internal consistency) of the research instrument was assessed by means of Cronbach-alpha reliability coefficients. Thirdly, a multiple linear regression analysis was used to assess the impact of the independent and mediating variables on the dependent variable. Finally, Structural equation modeling (SEM) was used to evaluate the relationships among the set of variables used in the model proposed in the study. SEM is a multivariate technique combining aspects of Multiple Regression and factor analysis, to estimate a series of interrelated dependence relationships simultaneously. Activities in terms of these phases are presented in detail in Chapter 6.

1.8 SCOPE AND DEMARCATION OF THE STUDY

The amount of empirical research on CSR activities in SMEs remains relatively small (Perrini, Russo and Tencati, 2007: 1; Lepoutre and Heene, 2006: 1; and Morsing, 2006: 2), especially compared to other management issues such as total quality management, benchmarking, relationship marketing and cost efficiency. A few studies on SMEs in Uganda have addressed questions and problems concerning financing, product and process technologies, policy framework and institutional environment. There have hardly been any studies on problems related to strategic competitiveness in Uganda. A few studies have concentrated on supply chains, business strategy and performance of SMEs.

This study focuses on CSR and the competitiveness of SMEs in Uganda, and particularly those located in the Kampala District, the Capital City of Uganda. This is because Uganda is private sector-led economy and SMEs constitute more than 90 percent of this sector. SMEs also significantly contribute to socio-economic development of the country.
Size is an important control variable for this study since larger firms seem to adopt CSR principles more often than SMEs.

1.9 CONTRIBUTION OF THE STUDY

CSR is a relatively new concept in Uganda and up to now no systematic research has been conducted pertaining thereto. The literature on CSR in Africa, and particularly in Uganda, is fairly underdeveloped. Therefore, this research on CSR in SMEs is important because it will fill both academic and strategic research gaps.

There are increasing demands on businesses in developing economies exporting to Europe and other Western countries to document adherence to high ethical standards in order to be competitive. These include requirements of non-use of child labour; and adherence to workers’ health, safety protection and minimum wage pay requirements. This study will therefore document the extent to which Ugandan SMEs are aware of these requirements and have deliberately included them in their business strategy postures.

The expected outcomes of this study indicate a practical model that describes the nature of the relationship between CSR and the competitiveness of SMEs through the definition of best practice tools and methods. The model can be extensively used by SMEs in Uganda and elsewhere in the world as an integral part of the overall strategy to enhance their competitiveness.

The potential of SMEs in promoting economic growth in developed and developing countries is widely accepted and documented by scholars and policy makers. This study offers great opportunities for proper management of SMEs in Uganda, with a view of enhancing their competitiveness locally and globally. Appropriate CSR activities (as identified in this study), within the Ugandan context could serve as a strategic tool to improve the competitiveness of SMEs. This could in turn improve the survival rate of these SMEs, thus significantly contributing to the socio-economic development of Uganda.
1.10 DEFINITION OF CONCEPTS

This research focuses on the impact of CSR on the competitiveness of SMEs in Uganda. Clear definitions of these terms are presented next.

1.10.1 CORPORATE SOCIAL RESPONSIBILITY (CSR)

Corporate Social Responsibility (CSR) is an evolving concept that currently does not have a universally accepted definition. To some studies, CSR refers to the integration of social and environmental concerns into the business operations and in their interaction with their stakeholders on a voluntary basis, i.e. going beyond compliance with legal obligations (Zsolnai, 2006: 6, Mandl, 2009: 4). According to Kok, Weile, McKenna and Brown (2001: 288), CSR is defined as “the obligation of the business to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large and improving welfare of society at large independent of direct gains of the business”.

CSR is also viewed as the commitment of businesses to behave ethically and to contribute to sustainable economic development by working with employees, their families, local community and society at large to improve their quality of life in ways that are good for business and sustainable development (World Bank, 2004: 11). Voluntarily adaptation of CSR contributes to the success and sustainability of the business and society as a whole (Jenkins, 2006: 14). Recent studies (e.g., Smith, 2011: 10) have defined CSR as a business system that enables the production and distribution of wealth for the betterment of its stakeholders through the implementation and integration of ethical systems and sustainable management practices. Hence, businesses view CSR as a strategic management tool to enhance their competitiveness. For the purpose of this study, focus is set on CSR activities that impact on the SMEs’ workforce, the society/community, the market (i.e. customers, suppliers, business partners etc.) and the physical environment to enhance their competitiveness.
1.10.2 SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)

There is no universally accepted definition of SMEs in Africa and other continents (Beyene, 2002: 4). Therefore, identifying a common definition of SMEs in developing countries is more challenging, as economies tend to vary considerably in their socio-economic and political factors (Hannun, 2004: 5). For developing countries, the term “small-scale” is generally used to refer to businesses with less than 50 workers and medium-size enterprises would usually mean those that employ between 50 and 99 workers (Hannun, 2004: 6). The South African SME Act, on the other hand, defines SMEs as having between 100-200 employees or a turnover of five million Rand (US$ 833,000), while micro enterprises have up to five employees (Gordon, 2003: 2; Beyene, 2000). In Uganda, a small scale enterprise is defined as a business employing more than five but with a maximum of fifty (50) employees, the value of its assets, excluding land, buildings and working capital of should be less than Uganda Shillings 50 million (US$ 30,000), and it should have an annual income turnover of between Uganda Shillings 10 to 50 million (US$ 6,000-30,000). A medium-size enterprise is regarded as a business, which employs between 50 and 100 workers. Other characteristics have not been fully developed (Hannun, 2004: 6).

Given the above definitions of SMEs and bearing in mind the nature and magnitude of this study, the criterion that will be used for definition purposes is the number of full-time employees. Therefore, small and medium-sized enterprises are considered as businesses which employ more than 5 but fewer than 100 persons.

1.10.3 COMPETITIVENESS

Competitiveness has become a central preoccupation of both advanced and developing countries in an increasingly open and integrated world economy. Despite its acknowledged importance, the concept of competitiveness is often controversial and misunderstood. As such, there is no accepted definition of competitiveness and no
generally accepted theory to explain it (Li-Hua, 2007: 7; Notta, Vlachvei and Samathrakis, 2010: 1). Competitiveness is much debated by both economists and policymakers. However, nearly every study on the topic of competitiveness adopts a different definition of the term (Thorne, 2005: 2). At the business level, for example, profitability, costs, productivity and market share are all indicators of competitiveness (Thorne, 2005: 3). Generally, competitiveness is considered synonymous with success. In very simple terms, success can be intended as achievement of business objectives (Depperu and Cerrato, 2005: 5; Bibu, Sala, Pantea and Bizoi, 2008: 3). On the other hand, the level of competitiveness of a business would mean that it should be able to retain the customer base, enhance its market share, demonstrate growth, and ensures continuous improvement in productivity (Khader, 2001: 3).

Pitts and Lagnevik (1998: 17) argue that “a competitive business is one that possesses the sustained ability to profitably gain and maintain market share in domestic and/or foreign markets”. However, short term profit can be forfeited in the pursuit of long term market share gains. Hence, it can be concluded that no one best measure of competitiveness does exist but that market share and profitability provide useful insights into overall competitiveness (Kennedy, Harrison, Kalaitzandonakes, Peterson, and Rindfuss 1997: 6).

Based on various definitions, this study considers the \textit{competitiveness of a business as its ability to sustain its long-term performance better than its competitors in the market, as indicated by profitability, market share, sales and growth rate}.

\textbf{1.10.4 BUSINESS ETHICS}

Business ethics is defined as a set of established rules, standards, or principals for morally right behavioural conduct in specific situations and in specific cultures when applied to business activities and operations (Stajkovic and Luthans, 1997: 1). According to Heisler (2007: 2), business ethics is the ability of the business to pay attention to moral judgments, practices, and commitments in business decisions. Business ethics is also viewed as a process of integrating values such as honesty, trust, transparency and fairness
into its policies, practices and decision making. Hence, business ethics is inherently linked with corporate governance (Mahmood, 2008: 12). For the purpose of this research, *business ethics refers to principles and standards that determine acceptable conduct in business by various stakeholders.*

### 1.11 STRUCTURE OF THE STUDY

The structure of the study is as follows:

Chapter 1 covers the introduction, problem statement and demarcation of the study. It introduces the research by providing a background of the issues under investigation that lead to the problem statement, the purpose of the study, and the research objectives. A hypothesised model is then proposed, which forms the basis for the generation of several research questions and hypotheses. The nature of the secondary and primary research in this study is also introduced in this chapter. Furthermore, the scope and demarcation of the field of study is described, prior research on small and medium-sized enterprises (SMEs) is identified, and the contributions of the study are highlighted. The chapter concludes with definitions of the most important terms used in the study as well as an overview of the structure of the study.

Chapter 2 provides an overview of the nature and importance of small and medium-sized enterprises. In this chapter, SMEs are defined and conceptualised, and their most important contributions are highlighted. Finally, the challenges facing SMEs are discussed.

Chapter 3 discusses corporate social responsibility in small and medium-sized enterprises. It focuses on the role of corporate social responsibility (CSR) in SMEs. It defines and conceptualises CSR and highlights theories and approaches to CSR. Furthermore, the nature of CSR activities in SMEs is described and its impact on stakeholders is discussed. Finally, the importance of CSR for SMEs is highlighted.
Chapter 4 investigates the factors that influence the competitiveness of SMEs. In this chapter, CSR activities relevant for SMEs are described. This is followed by a discussion on the potential outcomes of CSR engagement. The chapter concludes by highlighting the nature of competitiveness and its importance to SMEs.

Chapter 5 proposes a hypothesised model of CSR activities and competitiveness and discusses their impact on competitiveness of a business. The chapter describes the operationalisation of research variables and hypotheses of the study.

Chapter 6 covers the research design and methodology. It explains the research methodology implemented in this study by elaborating on the sample frame, measuring instrument, method of primary data collection, and the strategies that were implemented in administering the measuring instrument. The data analyses and statistical techniques used are also described.

Chapter 7 presents the empirical results. It discusses the reliability and validity of the measuring instrument used in the study. In this chapter, the empirical results are presented by structural equation modelling (SEM) of CSR factors influencing the mediating and dependent variables. Additionally, the influence of selected demographic variables on the mediating and dependent variables is also explained.

Chapter 8 presents the summary, conclusions and recommendations of the research. The contributions and possible shortcomings of this study are also highlighted. Finally, recommendations and directions for future research are made.

1.12 SUMMARY

Chapter 1 provides a comprehensive overview regarding the current research, the motivation and justification, purpose and objectives of the study as well as the research design and methodology. Additionally, the chapter provides a brief discussion of the
existing literature on key thematic areas and the hypothesised model of CSR activities and their influence on the competitiveness of SMEs.
CHAPTER 2

THE NATURE AND IMPORTANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)

2.1 INTRODUCTION

Small and medium-sized enterprises (SMEs) have been acknowledged by governments and development experts as potential engines of economic growth and a major factor in promoting private sector development and partnership (Okongwu, 2001: 3). It is now generally accepted by policy-makers at local, regional and national levels in both developed and developing countries, that SMEs are becoming increasingly important in terms of employment, wealth creation and the development of innovation (Nieman, Hough and Nieuwenhuizen, 2003: 10). In today’s technologically-driven global economy, the development of SMEs constitutes a primary element in the growth strategy of national economies (Okongwu, 2001: 3). In order to appreciate the unique contributions of SMEs, their nature and importance, the characteristics of small and medium-sized enterprises and their importance in society and world economies are discussed in this chapter. Finally, the chapter examines the main challenges faced by SMEs in general.

2.2 CONCEPTUALISING SMALL AND MEDIUM-SIZED ENTERPRISES

There is no single, universally acceptable, definition of SMEs. Various definitions of the concept appear especially in business, commerce, economics and development literature (Mutula and van Brakel, 2006: 2). It is important to note that the definition of SMEs varies from one country to another depending on the country’s level of development. SMEs are defined by a number of factors and criteria, such as location, size, age, structure, organisation, number of employees, sales volume, invested capital, worth of assets, and ownership (Rahman, 2001: 4; Rotimi, 2006: 7).
Most definitions of SMEs relate to the number of people employed (Wilkinson, 1999: 3). Taking the number of employees as the point of reference, definitions of SMEs vary between a few and several hundred employees (Nuno, 2003: 2). However, there is no consensus on how “big” small is and it can range from 50 to 500 employees or more. For example, The American Small Business Administration defines a manufacturing firm as “small” if it employed fewer than 1,500 people (Storey, 1994: 2). According to the European Commission (2005: 5), SMEs are businesses which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million Euro, and/or an annual balance sheet total not exceeding 43 million Euro. Although the definition varies between developing countries, SMEs are usually defined based on the number of employees because the figures are readily available (Wignaraja, 2003: 6).

Since statistical definitions of SMEs vary, it is very difficult to compare size distributions across countries. However, one should not be overly concerned about the lack of consistency since the number of employees viewed in isolation from the size of markets or the economy, may be deceptive (Hallberg, 2000: 1). Hence, other characteristics of the business, such as the degree of informality or the level of technological intricacy, could matter more than the number of employees as a segmentation factor.

SMEs cover a varied set of businesses, ranging from a single artisan to a sophisticated engineering firm selling in overseas markets (Fischer and Reuber, 2003: 41). While size and number of employees are criteria that can be used in the definition of SMEs, there are other internal and external dynamics that explain their behavioural characteristics, such as the psychological characteristics of the entrepreneur or owner-manager (Jenkins, 2006: 4). SMEs tend to have a personalised style of management and lack organisational and formal management structures, which also influences CSR activities undertaken (Aderemi, 2003: 2). These characteristics vary widely depending on individual personalities and differing ownership structures (Jenkins, 2006: 4). According to Spence (1999: 2), the SME manager may be responsible for several business tasks at once, and the awareness of the issues beyond the day-to-day running may be low such as environmental, social and governance issues (Tilley, 2000: 4).
SMEs in Africa are also generally defined by the nature of their production and management arrangements, trading relations, financial practices and internal competence (Okongwu, 2001: 4). In South Africa, the National Small Business Act 102 of 1996, which was amended by the National Small Business Amendment Act 23 of 2003, defines small enterprises as separate and distinct business entities, together with their branches or subsidiaries, if any, in any sector or sub-sector of the economy, and managed by one or more owners (Farrington, 2009: 31). The Act consequently defines a small business as one that is normally owner-managed and employs between five and fifty people; and a medium-sized business as one that is owner/manager-controlled and employees a workforce of up to a maximum of 200 people. Hence, Farrington (2009: 31) concludes that SMEs in South Africa are businesses that are independently owned and managed and employ more than five but fewer than 200 people.

Most SMEs have simple systems and procedures, which allows flexibility, immediate feedback, a shorter decision-making chain, and a better understanding and quicker response to customer needs compared to larger businesses (Singh et al., 2008: 1). This is in agreement with Supyuenyong, Islam and Kulkarni (2009: 5) who group SMEs into five broad categories, namely:

(a) **Ownership and management structure:** Most SME owners act as owner-managers and also play the part of the business's strategic initiator. SMEs are said to have a flatter organisational hierarchy which leads to greater flexibility in work but with less clear division of responsibilities. It should be recognised that in SMEs, communication lines are shorter, which allows for easier and more direct information flow.

(b) **Customers and markets:** SMEs generally depend on small customer bases and focus on local or regional markets, with a few international markets. At the same time, employees of SMEs have close relationships with their customers. Hence, customer satisfaction is one of the main criteria in measuring performance.
(c) **Systems, processes and procedures:** SMEs have simple planning and control systems, and informal rules and procedures. Hence, their processes are more fluid and are adaptable to various situations. It should be noted that SMEs have a narrow scope and mostly focus on operational, rather than strategic, processes.

(d) **Human capital management:** SMEs have less clear employee responsibilities, leading to a lower degree of job specialisation and greater employee versatility.

(e) **Culture and behaviour:** SMEs usually have an informal, organic, and unified culture. Hence, their size makes it easier for workers to focus on the business as an entity instead of looking at single departments or functions.

In the Ugandan context, there is no standard definition of SMEs. According to Uganda Investment Authority (2008: 5), a small enterprise is defined as an enterprise employing a minimum of 5 people, with annual sales/revenue turnover of maximum Ugandan Shillings 360 million (approximately 1 million Rand) and total assets of maximum Ugandan Shillings 360 million. A medium enterprise is defined as an enterprise employing a minimum 50 people, with annual sales/revenue turnover of more than Ugandan Shillings 360 million and total assets of more than Ugandan Shillings 360 million. Like most countries, quantitative parameters such as number of employees and sales/revenue turnover are used to define SMEs.

For the purpose of this study, the criterion that will be used for definition purposes is the number of full-time employees. The definition of small and medium-sized enterprises to be used in this study is, therefore *businesses that are independently owned and managed, and employ more than five but fewer than 100 persons.*

It should be noted that the above discussion has not attempted to accurately define SMEs, but rather clarified the criteria by which businesses are categorised in terms of size, assets, turnover and other functional behavioural attributes. Hence, the definition of SMEs varies from country to country, and even within a country. The lack of a
universally accepted definition in any way does not mean to underrate the role that SMEs have and continue to play in society and world economies. The importance of SMEs will be addressed in the subsequent sections.

2.3 IMPORTANCE OF AND ADVANTAGES ASSOCIATED WITH SMALL AND MEDIUM-SIZED ENTERPRISES

Globally, SMEs are being commended for their key role in promoting grassroots economic growth and equitable sustainable development. SMEs make up more than 90 percent of businesses worldwide and contribute significantly towards employment generation, Gross Domestic Product (GDP) and exports in various countries (Vives, 2005: 1). Oketa (2009: 7) points out that about 95 percent of businesses in Australia are from the SME sector. A recent study (2009) in Malaysia revealed that SMEs accounted for 99.2 percent of the three key economic sectors, namely manufacturing, services and agriculture (Oketa, 2009: 8). The importance of SMEs in selected countries/regions in terms of employment and GDP is presented in Table 2.1 below:

**Table 2.1:** Importance of SMEs in terms of employment and contribution to GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>Employment (%)</th>
<th>GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA and EU Countries</td>
<td>60</td>
<td>40-60</td>
</tr>
<tr>
<td>Asian Tigers/Countries</td>
<td>70-90</td>
<td>40</td>
</tr>
<tr>
<td>Malaysia</td>
<td>65</td>
<td>43.5</td>
</tr>
<tr>
<td>Latin America</td>
<td>40-60</td>
<td>30-50</td>
</tr>
<tr>
<td>High Income Countries</td>
<td>65</td>
<td>55</td>
</tr>
<tr>
<td>Middle Income Countries</td>
<td>95</td>
<td>70</td>
</tr>
<tr>
<td>Low Income Countries</td>
<td>70</td>
<td>60</td>
</tr>
</tbody>
</table>

*Sources:* Fida (2008: 1); Oketa (2009: 7).

The emergence of dynamic SMEs in China is one of the most important outcomes of its entire economic reform process. SMEs are the major growing force behind China's prominent success in terms of their contribution toward the national GDP (accounting for
40%), scale of assets, diversification of products, and the creation of employment (Kanamori, Lim and Yang, 2007: 2).

In Africa, SMEs have been recognised for playing a significant role in driving sustainable economic growth (Mpolokeng, 2009: 1). For instance, in South Africa, Egypt, Nigeria and Kenya, the SME sector is estimated to contribute over 70 percent in employment generation and 30-40 percent contribution to GDP. Southwood (2004: 5) points out that Africa’s economies are often dominated by government and large corporations, but the real engine of economic growth lies within the SME sector. Some African countries such as Morocco, Uganda, Botswana, Zambia and Tanzania have prioritised their investment in SMEs (Gordon, 2003: 5 and Republic of Botswana, 2003: 4). Muuka (2002: 5) notes that the informal sector in Africa is huge due to the large numbers of employees it has absorbed as a consequence of inadequate jobs and opportunities in the formal sector. Muuka (2002: 5) further points out that in many African countries, the informal sector is estimated to employ anywhere from three to six times the number of employees in the formal sector. Indeed SMEs are a vital source of growth and innovation and consequently, they tend to focus on specific activities such as retail businesses while creating employment at the same time (Machacha, 2002: 4).

Within the Southern African Development Community (SADC) member countries (Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe), SME policy initiatives rank higher than ever before on the political agenda of eradicating poverty (Chidzomba, 2002: 2). In 1996, collaborative efforts were initiated by member countries to enhance the SME sector and this culminated in the formation of the Small Enterprise Promotion Advisory Council (SEPAC). This body serves as a regional SME support network for the SADC region.

Bassiri (2007: 3) reports that about 80 percent of private businesses in Sub-Saharan Africa are SMEs and their well-being is crucial to the region's development. According to
Okongwu (2001: 4), the peculiar character of SMEs in Africa and other developing countries endows them with several benefits, amongst which are the following:

- generation of employment;
- poverty alleviation;
- nurturing entrepreneurs;
- a driving force behind interrelated flow of trade, investment and technology;
- contributing to substantial local capital formation;
- generating high levels of productivity and capability;
- being a mechanism for managerial growth;
- increase in competitiveness and export capability;
- a channel for ensuring industrial diversification and dispersal;
- active instruments for rural and social development;
- quick response to market changes and opportunities;
- rapid absorption of technological innovation; and
- immediate end-users of indigenous research findings.

As in many other developed and developing countries, SMEs in Uganda continue to make a significant and growing contribution to economic development. SMEs are estimated at over 1,069,848 operational businesses and constitute over 90 percent of the private sector in Uganda. They are mainly trade, agro-processing and small manufacturing businesses, contributing over 75 percent of GDP (Hatega, 2007: 3). SMEs are still the backbone of the economy in Uganda, providing a prime source of new jobs and playing a crucial role in income generation. This sector offers a range of investment possibilities, covering all sectors from resource-based industries to manufacturing and services. The Ugandan government and the private sector actively promote business linkages between SMEs, large corporate companies and trans-national corporations, and these efforts serve to make SMEs an attractive area for foreign investors (Randall, 2008: 2).

SMEs substantially contribute to the development of communities and the natural environment. By sheer proximity, SMEs are continuously challenged to participate
actively in the development of their environment to act ethically (Sachdeva and Panfil, 2008: 8). In contemporary commerce, SMEs dominate many important industry sectors such as retailing, service, mining and construction (Wang, Rowe and Cripps, 2006: 8).

In many aspects SMEs provide a better working environment for employees than is possible in most large firms. Although physical working conditions can sometimes be inferior in SMEs, most people prefer to work in a small group where communication presents fewer problems; the employees in SMEs can easily see the relation between what is being done and the objectives and performance of the business as a whole (Wilkinson, 1999: 3). Where management is more direct and flexible, working rules can be varied to suit the individual. Each employee is also likely to have a more varied role with a chance to participate in several kinds of work (Wilkinson, 1999: 3).

SMEs often have limited product/service lines, implying that they are in the position to cater for niche markets (Supyuenyong et al., 2009: 5). This implies that customer satisfaction is one of the main criteria in measuring performance because SMEs use “word-of-mouth” as their primary mechanism for growth.

SMEs also play an increasingly important role as exporters to international markets because they are the largest group in terms of the number of industrial units, and they make a significant contribution to manufacturing output and employment. Evidence suggests that SMEs are actively participating in the export efforts of developing countries but their contribution to exports varies across countries (Wignaraja, 2003: 2). Much of this contribution is not even recorded in official statistics because it is a form of indirect exporting through sub-contracting for large exporters. A few SMEs have progressed even further into overseas markets by investing in the costly development of their own brands. Thus, with improvements in price, quality and delivery, SMEs could increasingly pose direct competitive threats to large firms on international markets (Wignaraja, 2003: 5).

The other advantages of SMEs include the following (Ahmad, 2009: 4; Luetkenhorst, 2004: 3; MFT, 2001: 4; and Oketa, 2009: 5):
• enhancing regional development and creating more equitable income distribution due to their location and on-going expansion throughout the broader community;
• playing a complementary role in relation to larger firms as suppliers and distributors;
• serving as a training ground for developing the skills of workers and entrepreneurs; and
• curbing the monopoly power of larger firms and providing the structure of the economy with greater flexibility.

The overall importance of SMEs is summarised by Ibielski as follows (Ibielski 1997, quoted in Hashim & Abdullah, 2000: 193):

“SMEs are mighty minnows, reflecting the competitive spirit that a market economy needs for efficiency; they provide an outlet for entrepreneurial talents, a wider range of consumer goods and services, a check to monopoly inefficiency, a source of innovation, and a seedbed for new industries; they allow an economy to be more adaptable to structural change through continuous initiatives embodying new technologies, skills, processes or products”.

Based on the above discussion, SMEs undoubtedly represent a large and important part of the world economy and play a strategic role in economic growth and development in Uganda as well through their contribution to the creation of wealth, employment, and income generation. As such, the long-term survival of SMEs is fundamentally important. Although SMEs are important and offer various advantages, their failure rates are very high due to several challenges which constrain their operations. The challenges facing SMEs will be discussed in the subsequent sections.

2.4 MAIN CHALLENGES FACING SMALL AND MEDIUM-SIZED ENTERPRISES

In Uganda, over 90 percent of the private sector is constituted by SMEs (Hatega, 2007: 3). While the contributions of SMEs to development are generally acknowledged, they
face many obstacles that limit their long-term survival and development both in Uganda and in other parts of the world (Okpara and Wynn, 2007: 1). For example, in the USA, even though there were 627,200 new businesses in 2008, there were even more business closures (595,600) and bankruptcies (43,546). In South Africa, on average, 50 percent of SMEs that are started eventually fail, while in Kenya, past statistics indicate that three out of five SMEs fail within the first few months of operation (Bowen, Morara and Mureithi, 2009: 1). In Uganda, one-third of the SMEs cannot survive more than a year (Tushabomwe-Kazora, 2006: 2). Owing to their size, a minimal management mistake is likely to lead to sure death of an SME, and hence there is no opportunity to learn from its past mistakes (Bowen et al., 2009: 1).

Although informal mechanisms such as use of simple technology create great flexibility in SME operations, they are often on short-term basis, and without appropriate records that enable them to analyse their operational trends (Cooper, Rayson, Botchway and McCafferty, 2005: 5). As such, these mechanisms do not enable SMEs to pay enough attention to their long-term operation of business processes that effectively promote the integration of business environmental factors into efficient business positioning for competitive advantage gain (Cooper et al., 2005: 5).

Access to finance is also acknowledged as a major challenge faced by SMEs. Although most often SME entrepreneurs acquire capital from their savings or from family members, they also resort to traditional banking sources to meet their capital requirements (Beyene, 2002: 15). However, SMEs are regarded as high-risk areas and as such they do not succeed in attracting enough loans. This is attributed to high transactional costs involved and inability of SMEs to provide the collateral that banks require. This is also coupled with the lack of capacity to access appropriate, pertinent, and comprehensible information and advice (Beyene, 2002: 22). Hence, SMEs are beset by numerous impediments that adversely impact their growth and contributions.

Pansiri and Temtime (2008: 3) argue that most problems affecting SMEs are related to managerial incapability. Though it is difficult to determine what constitutes poor
management, all problems of SMEs, be it marketing, operations, finance, personnel or distribution, are all essentially managerial problems. Most SMEs put too much emphasis on operational areas and prepare business plans just for external validation by banks and creditors rather than for coordinating organisational activities. This is in line with Bradley and Cowdery (2004: 7) who group the causes of SME failure into three major categories: marketing, management and financial. A lack of experience in any of these categories can lead to severe failure. In most instances, a lack of knowledge and understanding or a lack of effort are the causes for failures relating to these three categories. Many times, the business owner does not have a sound experience for making the business a success. A small business manager must manage human resources, strategic planning, inventory and all other business operations. The owners must also manage financial decisions such as trade credits, accounting, payroll, working capital and taxes and regulations as well as economic trends. Owners are also responsible for the marketing activities such as advertising, market research, customer feedback, and changes in consumer trends (Bradley and Cowdery, 2004: 7).

Most SMEs lack organisational structure and systems that enable the attraction, recruitment, development and retention of the workforce (Pansiri and Temtime, 2008: 4). The employee-employer relationship in SMEs is often informal, with no precise definition of duties and responsibilities. Appointments and promotions are not always on the basis of objective criteria. Since owners/managers do not often take the time to develop and mentor their subordinates and assistants, the business suffers when a key employee leaves or dies (Pansiri and Temtime, 2008: 4).

The rate of SME failure in developing countries is higher than in the developed world (Arinaitwe, 2006: 2, Bowen et al., 2009: 1). It is also essential to appreciate the problems facing small-business development in African countries because they are significantly different from those facing developed countries. These challenges include (Mahmood, 2008: 1, Okpara and Wynn, 2007: 2, Vos, 2005: 4): poor infrastructure; poor skills by managers/owners in planning for their businesses strategically; and withdrawing too
much cash for personal use; and lack of time and resources to pay attention to CSR (Bergström and Grunewald, 2009: 16).

Most SMEs in Uganda tend to be located in urban and peripheral centres and are usually registered. However, they are unable to employ competent people in financial management because of the salaries such people would demand. In addition, they face financial problems arising from late payments by debtors, and are unable to raise their capital or to access financial services from formal sources (Kasekende and Opondo, 2003: 2). This is associated with poor accounting and financial records. The result is that entrepreneurs are unable to make business decisions on the basis of sound financial records. It also deprives third parties of a vital source of information upon which to evaluate potential relationships with the business (Ocici, 2003: 1).

Some SMEs that employ less than five people, mostly family members, apply simple technology in production and, therefore, the quality of their products is likely to be poor (Kasekende and Opondo, 2003: 3). This category of SMEs usually does not have proper physical structures such as premises from which to operate business and have no access to roads and utilities. They generally lack professionalism in terms of strategic planning procedures, decision-making processes and management in general (Kasekende and Opondo, 2003: 3). The major causes of SME failure in Uganda are therefore the lack of business plans; high taxes; load shedding; lack of capital; poor markets; high rent charges; inadequate control of inventory; poor record keeping and wrong pricing (Tushabomwe-Kazooba, 2006: 5). SMEs in Uganda also lack the awareness of the importance of CSR and the resources to conduct CSR activities and use it as competitive advantage.

Based on the above discussion, the importance of SMEs to the major world economies has long been recognised. They are more responsive to market demands and in particular are perceived as an important means of job creation. However, irrespective of country or continent, SMEs face challenges which hinder their performance and survival rate. These challenges have been discussed in detail in the previous sections.
In effect, SMEs continue to undergo constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale. The challenges are not only in the areas of financing investment and working capital, but also in human resource development, market access, and access to modern technology and information (Kasekende and Opondo, 2003: 4).

2.5 SUMMARY

The main purpose of this chapter was to examine the nature and importance of SMEs. This was accomplished by investigating characteristics, importance, as well as the main challenges faced by SMEs, both globally and nationally. The lack of a universal definition for SMEs is often considered to be an obstacle for business studies. The concept SME covers a wide range of definitions and measures, varying from country to country and between the sources reporting SME statistics. Some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital. For the purpose of this study, SMEs are *businesses that are independently owned and managed, and employ more than five but fewer than 100 persons*.

Today, governments worldwide recognise the importance of SMEs and their contribution to economic growth, social cohesion, employment and local development. In most economies, SMEs are much greater in number.

It is generally recognised that SMEs face unique challenges. One of the main challenges facing SMEs is their inability to engage in CSR activities and to use it as a competitive tool. The nature and importance of CSR will be the focus of Chapter 3.
CHAPTER 3

THE ROLE OF CORPORATE SOCIAL RESPONSIBILITY (CSR) IN SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)

3.1 INTRODUCTION

In Chapter 2, the nature and importance of SMEs were discussed, along with the various challenges they face. One of these challenges is their lack of time and resources to pay attention to CSR, and their long-term investments in CSR are often not of immediate concern (Bergström and Grunewald, 2009: 16). However, Corporate Social Responsibility (CSR) is recognised as an important source of competitive advantage for SMEs internationally (European Commission, 2004: 4; Mandl and Dorr, 2007: 49).

The concept of CSR has been widely recognised in academic literature. CSR has also emerged as a global trend involving a variety of stakeholders including corporations, states, international organisations, and civil society organisations (Sahlin-Anderrson, 2006: 2). However, in the past, the subject of CSR has mainly been focused on multinational corporations (Bergström and Grunewald, 2009: 1; Undén, 2007: 12). Research regarding SMEs and CSR has been lacking, particularly in developing countries. Nevertheless, some studies clearly demonstrate a relationship between CSR activities of SMEs and their enhanced competitiveness (Mandl and Dorr, 2007: 2). In order to appreciate the role of CSR in SMEs, this chapter will discuss the concept, theories, and the nature of CSR activities and their impact on various stakeholder groups. The chapter will conclude by discussing the importance and outcomes of CSR.

3.2 CONCEPTUALISING CSR

While the term Corporate Social Responsibility may appear to be relatively new to the corporate world, the study by Gails and Nowak (2006: 3) reveals that the concept has existed for several decades since 1970s. The fact that the terminology itself has changed
over this time also suggests that the meaning attributed to concepts such as CSR will continue to evolve with changes in the business environment. While CSR definitions reflect local situations, they are also strongly influenced by global trends and changes in international law (Gails and Nowak, 2006: 3). Hence, CSR remains an elusive idea for academics and a disputed issue for business managers and their stakeholders (O’Riordan and Fairbrass, 2008: 7).

In the global competitive environment, businesses are beginning to realise the stake that they have as part of the society. As such, CSR is not a philanthropic activity where a business gives without expecting a return or a benefit, but it is about ethical investment in CSR activities. The new conversation about CSR in business suggests that it is a normative, multi-level concept, whose meaning depends on various perspectives and relationships, and, that it changes in response to social trends (Silberhorn and Warren, 2007: 2).

There is no one universally acceptable definition of the concept of CSR. As such, definitions of CSR present a comprehensive set of activities that are concerned with local and international community (Blombäck and Wigren, 2009: 4). The European Commission (2001: 5) defines CSR as “a concept whereby businesses decide voluntarily to contribute to a better society and a cleaner environment”. According to Baker (2009: 1), CSR is about how businesses manage their activities to produce an overall positive impact on society. The World Business Council for Sustainable Development (WBCSD, 2000) views CSR as “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”. CSR is also viewed as the integration of social and environmental activities into business operations and in their interaction with their stakeholders on a voluntary basis, i.e. going beyond compliance with legal obligations (Mandl, 2009: 4).

According to Ismail (2009: 1), CSR refers to initiatives businesses use to conduct their activities in a way that is ethical, society friendly and beneficial to communities. In
addition, Silberhorn and Warren (2007: 12) define CSR as “a comprehensive sustainable business strategy, based on transparency, accountability and responsiveness, which recognises the business-society interdependence and constantly evolves in interactions between the business and its increasingly global environment”. According to Carroll and Buchholtz (2003: 36), CSR is the economic, legal, ethical, and discretionary expectations that society has of businesses at a given point in time. This implies that businesses have ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law.

Greenberg and Baron, (as cited by Herciu and Ogrean, 2008: 3), define CSR as “business activities that adhere to ethical values that comply with legal requirements that demonstrate respect for individuals, and that promote the betterment of the community at large and the environment. It involves operating a business in a manner that meets or exceeds the ethical, legal and public expectations that society has of business”.

CSR requires businesses to adopt a broader view of its responsibilities that includes not only shareholders, but many other stakeholders as well (Carroll and Buchholtz, 2003: 36; European Commission, 2002: 4; Hopkins, 2004: 1; and Oketch, 2004: 3). CSR is generally understood as initiatives that go beyond legislative requirements and contractual obligations for the benefit of one or several specific target groups of SMEs (mainly employees, customers, suppliers, business partners, the society or the environment) while at the same time not disadvantaging one of the other stakeholder groups. The respective activities do not necessarily need to be initiated solely on humanitarian purposes but may also be implemented having in mind an improvement of the business’s economic competitiveness (Mandl and Dorr, 2007: 55; Panayiotou, Aravossis and Moschou, 2009: 132).

There is a wide consensus that the concept of CSR is about how a business reaches a balance between the interests of all its stakeholders within its strategic planning and operations. As such, many businesses have recognised the need to improve their social and environmental risk management strategies and engage more proactively with their
stakeholders (UNIDO, 2006: 3). However, attempts to understand CSR have led to numerous points of view, ranging from CSR being about capacity building for sustainable livelihoods; or simply giving back to society; to how enterprises manage business processes to produce an overall positive impact on society (Sachdeva, 2006: 3). Therefore, CSR can be used to refer to all societal corporate initiatives that go beyond formal governmental regulations (Kakabadse and Kakabadse, 2007: 1). CSR is also about making sure that in the process of doing business, the environment is taken into account, employees are respected and motivated, and the highest standards of corporate governance are in place. Many of such initiatives go beyond formal legal requirements, since more businesses report, not only their financial performance, but also their social and environmental achievements (Van Dijken, 2007: 6).

The traditional objective of wealth creation is slowly being surpassed by a broader conception of business success. Today, business leaders are increasingly concerned about how their businesses can prosper from addressing social and environmental challenges. One widely accepted guideline is to undertake CSR in a strategic manner by making social and environmental contributions in ways that can also enable tangible business benefits (Heslini and Ochoa, 2008: 1).

There are powerful social, political and environmental forces that encourage businesses to act more responsibly. These include growing consumer demands for responsibly made products, challenges to businesses’ reputations by non-governmental organisations, industry codes of conduct, assessments and rankings of CSR performance, pressure from socially responsible investors through public interest proxy resolutions, as well as the socially conscious values of business managers and employees (Heslini and Ochoa, 2008: 2).

There are a number of CSR concepts such as societal marketing; corporate citizenship; corporate social performance; and corporate philanthropy (Blombäck and Wigren, 2009: 5). Carroll (1999: 17) divides business responsibilities into economic, legal, ethical, and
philanthropic. On the other hand, Lantos (2002: 2) narrows CSR down to ethical, altruistic, and strategic responsibility as indicated in Table 3.1 below:

**Table 3.1: Classifications of corporate social responsibilities**

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. <em>Economic responsibilities</em>: be profitable for shareholders, provide good jobs for employees, and produce quality products for customers.</td>
<td>1. <em>Ethical CSR</em>: morally mandatory fulfillment of a firm’s economic responsibilities, legal responsibilities, and ethical responsibilities.</td>
</tr>
<tr>
<td>2. <em>Legal responsibilities</em>: comply with laws and play by rules of the game.</td>
<td>2. <em>Altruistic CSR</em>: fulfillment of a business’s philanthropic responsibilities, going beyond preventing possible harm (ethical CSR) to helping alleviate public welfare deficiencies, regardless of whether or not this will benefit the business itself.</td>
</tr>
<tr>
<td>3. <em>Ethical responsibilities</em>: conduct business morally, doing what is right, just and fair, and avoiding harm.</td>
<td>3. <em>Strategic CSR</em>: fulfilling those philanthropic responsibilities which will benefit the firm through positive publicity and goodwill.</td>
</tr>
<tr>
<td>4. <em>Philanthropic responsibilities</em>: make voluntary contributions to society, giving time and money to good works.</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Lantos (2002: 2)

In simple terms, CSR can be viewed as actions taken by businesses to benefit their stakeholders such as employees, the local community and the broader environment. Hence, for the purpose of this study, Corporate Social Responsibility is defined as the continuing commitment by a business to behave ethically and contribute to economic development while improving the quality of life of its stakeholders (i.e., the workforce, the society/community, the market and the physical environment) to enhance its competitiveness.
3.3 THEORIES AND APPROACHES TO CSR

There are a number of theories and approaches that underpin the concept of CSR. However, there is no unanimous view about what CSR actually represents. Attempts are made to define the boundaries and responsibilities it is concerned with (Blombäck and Wigren, 2009: 3). Views on CSR are often distinguished between those who with different perspectives. It is possible to have within the same perspective those who are in favour of CSR and those who reject it (Branco and Rodrigues, 2007: 8). Furthermore, the understanding of CSR in different environments can vary significantly. This suggests that there are varying expectations on assessment and acknowledgement of CSR in different businesses. Not only can this result in restraining businesses from engaging in a wide variety of CSR activities, but it also begs the question as to whether it is acceptable to treat groups of businesses differently when it comes to CSR. Therefore, in order to fully understand the phenomenon, it is necessary to adopt the same theoretical perspectives, in large and small businesses (Blombäck and Wigren, 2009: 3).

Various theories have been developed in order to understand the concept of CSR. These include stakeholder theory, classical theory, social contract theory, instrumental theory and legitimacy theory. These theories are commonly used to analyse and explain the nature and purpose of CSR as well as how the concept of CSR came about. Likewise, these theories help to construe the responsibilities of a business in society as well as to justify the need for businesses to use CSR as a strategic management tool to enhance their competitiveness (Dusuki, 2009: 5). Each theory is discussed in detail in the subsequent sections.

3.3.1 Classical theory

The concept of CSR that prevailed in the USA during most of its history was the classical. The classical view held that a society could best determine its needs through the market. If the business is awarded on this ability to respond to the demands of the market, the self-interested pursuit of that reward would result in society getting what it wants.
The emergence of large businesses during the late 1800’s played a major role in hastening movement away from the classical economic view.

The period from the 1950s may be considered the era in which the concept of CSR gained considerable acceptance resulting in broadening of its meaning. Since this period (1950s), the emphasis on CSR has moved from little more than a general awareness of social and moral concerns to a period in which specific issues such as product safety, honesty in advertising, employee rights, affirmative action, environmental sustainability, ethical behaviour and global CSR have been emphasised. Hence, CSR refers to the business’s effort to make positive social change. The main goal of a business is to generate profit but, more than that, the business is searching for ways of survival (Nae and Grigore, 2008: 4).

Friedman (1970: 6) argues that the role of business is to increase profits. As such, socially responsible activities are only for generating profit and not for voluntary activities. Classical theory stresses that the primary goal of a business is to secure its shareholders’ financial goals and to respond to their needs relative to the business (Akgeyik, 2005: 1). Hence, the only role of businesses in society is profit making, focusing on the profit of the shareholders.

According to Friedman, as cited by Dusuki (2008: 4), to extend social responsibilities beyond serving the interests of shareholders is fundamentally a misconception of the character and nature of business in a free economy. In such an economy, the only social responsibility of a business is to use its resources and to engage in activities designed to increase its profit so long as it stays within the rules of the game. Hence, businesses recognise socially responsible activities, if and only if, such activities can be used as an effective way for generating profit and not simply voluntary philanthropic activities (Dusuki, 2009: 4). However, as society grew from the economic structure of small businesses governed primarily by the marketplace to large businesses in which power was more concentrated, questions of responsibility of business to society surfaced (Nae and Grigore, 2008: 3). Contemporary scholars who write on CSR and business ethics do
not recognise Friedman’s position. Managers are advised to be responsive to an elastic list of stakeholders, including among others, customers, employees, suppliers of raw materials, the government, the community, the environment, assorted activist groups, and shareholders (Coelho, McClure and Spry, 2003: 19).

3.3.2 Social contract theory

The background of social contract theory is rooted in the history of political theory, more precisely in the work of some great political thinkers from the seventeenth and eighteenth centuries. Social contract theory is slightly confusing in that completely different and mutually exclusive interpretations have been ventured under the label of a social contract for business (Wempe, 2002: 2). However, recent times have seen a surge in the number of research informed and influenced by the notion of social contracts (Khor, 2009: 2).

The central idea of the social contract theory is the relationship between a business and society (Dusuki, 2009: 1). This theory is based on the idea that society resides on a number of social contracts which are held between different groups in the society (Blombäck and Wigren, 2009: 7). Gray, Owen and Adams, (cited by Moir, 2001: 11) describe society as a series of social contracts between members of society and society itself. In the context of CSR, it is not that a business might act in a responsible manner because it is in its commercial interest, but because it is part of how society implicitly expects businesses to have a license to operate. Hence, businesses which adopt a view of social contracts would describe their involvement in CSR activities as part of societal expectation.

Businesses exist only through the cooperation and commitment of society. According to the social contract paradigm, a business is regarded as a social institution and should join with other social structures like the family, educational system and religious institutions, to help enhance life and meet needs. As such, the corporate social contract theory holds that business and society are equal partners, and each enjoys a set of rights and has
reciprocal responsibilities. Hence, there is direct and indirect mutual obligation between business and society (Dusuki, 2009: 5).

While the business requires continuous support from the society in terms of resources and sales, the society might expect the business to operate in a socially responsible manner since the businesses control huge amounts of economic and productive resources such as technology, finances and labour power, which directly or indirectly may affect the society in which they operate (Lantos, 2001: 7). Hence, there is an implicit corporate social contract between business and society, whereby businesses agree to be good stewards of society’s resources (Lantos, 2002: 3), although businesses have not really kept their side of this deal.

Some moral philosophers, such as Rousseau (1987), are critical of social contract theory. They note that no such contracts actually exist and, as hypothetical contracts, they do not provide for meaningful consent and agreement (Smith, 2000: 17). Indeed, the social contract theory is implicitly applied by some businesses.

3.3.3 Instrumental theory

Instrumental theory is recognised as a means to an end where businesses implement CSR to increase the bottom line and maximise shareholder wealth. As such, instrumental theories understand CSR as a means to achieve profits (Van der Merwe and Wöcke, 2006: 5). The characteristics of instrumental theory include resource allocation and philanthropic investment for increased CSR to gain a competitive advantage. An implication of instrumental theory is that whatever business goal is set, CSR is quantifiable for the sake of shareholders (Rodríguez and LeMaster, 2007: 7).

The proponents of instrumental theory assert that the business may choose to support some social programmes for reasons of good image, competitive advantage or other strategic reasons without jeopardising the interests of its primary stakeholders, namely
the shareholders (Dusuki, 2009: 6; Greenfield, 2004: 2; Johnson, 2003: 3; and Lantos, 2002: 16).

It is argued that maintenance of a good business reputation through CSR initiatives may make businesses profitable in the long-term since market forces provide financial incentives for perceived socially responsible behaviour (Dusuki, 2009: 7). The motivation for a business’s social responsibility actions may also stem from the desire to maintain credibility and legitimacy as a responsible societal actor in a shared environment (Dima, 2007: 4). Hence, instrumental theory can be seen as the connection between how a business manages its stakeholders and the achievement of its goals. Indeed, instrumental theory is relevant to CSR since it focuses on achieving economic objectives through social activities thereby maximizing shareholder value in the long-term.

3.3.4 Legitimacy theory

The idea that legitimacy is essential for businesses is not new. Legitimacy is a phenomenon that constrains change and pressures businesses to conform to their institutional environments. Legitimacy theory emerges out of the interaction of the stakeholders and businesses (Kuznetsov and Kuznetsova, 2008: 6). For a business, the most tangible form of legitimacy probably comes in the form of direct support from its stakeholders. As such, the more businesses attend to these institutional elements, the more likely they are to be seen as conforming to societal norms (Chiu and Sharfman, 2009: 4).

According to Zalka, Downes, Friday, Perry and Russell (as cited by Kuznetsov and Kuznetsova, 2008: 6), legitimacy theory assumes that businesses will make a rational and pragmatic strategic response to stakeholder expectations in order to maintain some sort of social compact with society. Such a response is motivated by the realisation that compliance with societal expectations is necessary to safeguard some space for the freedom of action of business in the pursuit of profit. Hence, the legitimacy theory
suggests the existence of an implicit social contract in which business is accountable to society’s expectations or demands (Kuznetsov and Kuznetsova, 2008: 4).

The legitimacy theory and CSR have an obvious common foundation in acknowledging that for the business to effectively function, it is subjected to social expectations and constraints that under certain circumstances may encourage it to go beyond statutory norms (Kuznetsov and Kuznetsova, 2008: 5). Businesses must go beyond legal compliance and single-minded profit maximisation because they must meet society’s legitimisation criteria to be allowed to exist and prosper. The legitimacy theory acknowledges that CSR is a response to the environmental pressures involving social, political and economic forces (Dusuki, 2009: 7). Suchman, (as cited by Dawkins and Ngunjiri, 2008: 4), views legitimacy as a generalised perception that the actions of a business are desirable, proper, or appropriate within some socially constructed system of norms, values, and beliefs.

Legitimacy theory argues that the perceptions of society towards the businesses are crucial, and they may affect the survival of the business. Businesses must ensure that they operate within the bounds and norms of their respective societies. As such, businesses look for a balance between their actions and how they are perceived by outsiders and what is thought by society to be appropriate (Deegan, 2002: 11). Based on legitimacy theory, businesses are perceived to undertake various actions to legitimise their operations as perceived by societies. Hence, effective businesses react swiftly to changes regarding community concerns and priorities (Khor, 2009: 7).

While there is no generally accepted single theory for explaining CSR practices, legitimacy theory has an advantage over other theories in that it provides disclosing strategies that businesses may adopt to legitimise their existence (Deegan, 2002: 285). Hence, legitimacy theory posits that businesses continually seek to ensure that they operate within the bounds and norms of their respective societies (Guthrie, Cuganesan and Ward, 2006: 4). Businesses that take on this challenge can develop a better relationship with community, boost employee motivation, increase customer loyalty,
reduce operational costs and build a better business reputation, all of which have a direct or indirect influence on a business’s competitiveness (Chiu and Sharifman, 2009: 5). Stakeholder theory and its relevance to CSR is discussed in the next section.

3.3.5 Stakeholder theory

Stakeholder theory encompasses the idea that businesses can be seen as systems whose survival depends on their ability to satisfy a particular set of audiences. These audiences are referred to as stakeholders who can be identified by their ownership, rights, or interests in a business and its activities, past, present, or future (Blombäck and Wigren, 2009: 6). Hence, attention should be paid to the needs and rights of important stakeholders of a business as a useful way of developing socially responsible behaviour by managers (Maigan and Ferrell, 2004: 4).

Stakeholder theory has gained prevalence in the business and society literature in recent years in light of its practicality from the perspective of managers and scholars (Dima, 2007: 1). This theory is based on the notion that beyond shareholders, there are several agents with an interest in the actions and decisions of businesses. Hence, stakeholders are groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions (Branco and Rodrigues, 2007: 5). In addition to shareholders, stakeholders include creditors, employees, customers, suppliers, and communities at large. Stakeholder theory asserts that businesses have a social responsibility that requires them to consider the interests of all parties affected by their actions. Hence, management should not only consider its shareholders in the decision making process, but those important stakeholders who are affected by business decisions (Branco and Rodrigues, 2007: 5).

Although stakeholder theory and CSR literature were developed independently, they complement each other. Stakeholder theory provides a structure that embraces economic, legal, ethical, and philanthropic responsibilities as well as strategies and actions to address these responsibilities (Mankelow and Meredith, 2004: 4). Hence, stakeholder
theory is concerned with groups of people that are not too distant from a business. The theory relies on the idea that bonds exist between a business activities and the stakeholders’ situation, or between the stakeholders’ activities and the business environment (Blombäck and Wigren, 2009: 6).

From the stakeholder approach, it can be argued that if businesses are ‘citizens’, then they also have rights, duties and responsibilities to their stakeholders. CSR activities for businesses are an important way to realise these duties and responsibilities, and offer several benefits to stakeholders (Akgeyik, 2005: 2). While the CSR concept still suffers from a level of generalisation, the stakeholder approach offers a practical alternative for assessing the performance of businesses vis-à-vis key stakeholder groups (Dima, 2007: 16). The next section discusses ethical theories and their relevance to CSR.

### 3.3.6 Ethical theories

The fundamental idea behind CSR is that a business has an obligation to work for social betterment. The call for CSR has been justified by researchers on different grounds using economic, strategic, legalistic and ethical arguments (Smith and Nystad, 2006: 5). Ethical theories consider that the relationship between business and society is embedded within ethical values. Therefore, businesses ought to accept social responsibilities as an ethical obligation above any other consideration such as economic and legal responsibilities (Nielsen and Thomsen, 2007: 2).

Ethical responsibility encompasses activities that are not necessarily codified into law, but nevertheless are expected of business by societal members. These include respecting people, avoiding social harm, and preventing social injustice (Dima, 2007: 3). Ethical CSR also involves fulfilling the business’s ethical duties. Ethical actions must be adhered to even at the expense of foregoing profits (Lantos, 2001: 18). Failure of a business to act ethically or without a sense of social responsibility may result in substantial monetary losses to investors. As in all social responsibility decisions, there are trade-offs, and with ethical CSR, it is often between short-term profitability and moral actions. In the long-
run, good ethics implies good business because moral behaviour builds trust and enhances the business’s reputation, which in turn attracts customers, employees, and suppliers, thereby earning the stakeholders’ goodwill (Lantos, 2001: 18).

There are several ethical theories but Langer (2006: 2) highlights three useful ethical approaches which could be relevant to this study namely: utilitarian, justice and moral rights. The theory of moral rights is concerned with individuals’ moral rights and their duties as well as their responsibilities as moral agents to respect and protect those rights (Lantos, 2002: 6). Each right has a correlative responsibility. Ethical CSR is sometimes framed as a way to respect stakeholders’ rights. As such, it is standard practice to invoke rights in heated disputes about societal issues such as affirmative action, workplace privacy, environmental protection, truth in advertising and product liability. However, because the rights are not always fully understood, both business and government are charged with protecting rights for which perhaps they are not responsible. Most rights theories believe that the individual’s moral rights take precedence over the rights of businesses. Rights apply to community stakeholder groups, for instance, but only in so far as the rights derive from those of each individual member (Lantos, 2002: 7; Parvez, 2000).

On the other hand, justice theories are concerned with fairness and equity in decision-making (Langer, 2006: 2 and Lantos, 2002: 6). What one party might deserve another party has a responsibility to provide. Any denial of something to which someone has a right or claim is an injustice. Thus, the justice theory is duty-based (Lantos, 2002: 12). It should be noted that justice theory does not support altruistic CSR, because it is unfair to take away shareholders’ earnings, which are earned at their risk, or to lower employee pay or raise consumer prices, unless these groups are willing to sacrifice for the cause. Individual businesses do not have the responsibility to make up for the deficiencies of capitalism, which leaves some individuals and groups marginalised. To give businesses such a duty is based on socialistic thinking in which the family model of providing for its members is generalised to the community or society at large (Langer, 2006: 3 and Lantos, 2002: 17).
Utilitarianism theory focuses on the consequences of actions based on the principle of seeking the greatest good for the greatest number of people. Utilitarian-based philosophy judges morality based on the outcomes of actions (Langer, 2006: 2). Ethical CSR mandates that businesses have responsibilities to help solve social problems they created or to prevent social harms they could potentially cause. As such, businesses have special moral obligations to their various stakeholders, who in turn have rights to make certain claims, such as customers insisting on reasonably priced, safe and effective products, and workers expecting safe working conditions and fair pay for a fair day’s work (Lantos, 2002: 6).

Since the ethical framework within which a business operates and the social and environmental problems caused by the business differ, it is hard to pinpoint what aspects a business should focus on (Timo, 2006: 12). However, every business has certain obligations towards society as part of a social contract. The details of this contract are subject to change and differ for every situation, but the basic notion is that businesses gain legitimacy through this social contract. Hence, the different views on the specific role of business in society can be summed up as a moral obligation businesses have towards society and society having certain expectations from businesses (Timo, 2006: 22).

It has been recognised that most ethical arguments are derived from religious principles, philosophical references or prevailing social norms (Branco and Rodrigues, 2007: 9). Such ethical arguments suggest that a business should behave in a socially responsible manner because it is morally correct to do so. Whilst the utilitarian arguments can be associated easily with the classical view of social responsibility and the negative-duty arguments with the instrumental use of stakeholder theory, the positive-duty arguments can be associated with the normative use of stakeholder theory (Branco and Rodrigues, 2007: 9).
It should be noted that there is much overlap between the theories used to explain CSR and justify it in business operations. Businesses cannot practice CSR based on theories and debates alone. Businesses engage in CSR to secure their legitimacy, whereby they are required to meet the interests and demands of the multiple stakeholder groups and honour both the explicit and implicit contracts with various constituents. As a result, a business may develop a reputation, secure a competitive advantage in the market and ultimately gains long-term profitability and viability (Dusuki, 2009: 8). Therefore, businesses, especially SMEs, need workable procedures, regulations, guidelines, benchmarks and practical examples to adopt CSR (Timo, 2006: 26). The nature of CSR activities and how they are executed in SMEs will be discussed in the subsequent sections.

3.4 NATURE OF CSR ACTIVITIES IN SMEs

CSR involves working in partnership with local communities, making socially sensitive investment, developing relationships with employees, customers and their families, and involvement in activities for environmental conservation and sustainability (Maimunah, 2009: 2). CSR activities of SMEs can take on different forms and be directed to numerous beneficiaries (UNIDO, 2008: 3). There is no doubt that “doing the right thing” such as boosting staff morale, nurturing suppliers, and protecting the environment, can make good business sense for SMEs. In recent years, there have been pressures from customers, local communities, regulators, banks, lenders and insurers advocating for responsible entrepreneurship (Nejati and Amran, 2009: 4). To remain competitive, businesses need to be able to adapt new demands from the market and the society in which they operate such as being a good neighbour, protecting the environment and engaging in activities that make good business sense.

There are various forms of CSR activities that businesses, including SMEs, should perform. SMEs’ activities are generally performed closer to the stakeholders, allowing them to be the firsthand recipients of expressed needs. Therefore by sheer proximity, SMEs are continuously confronted to participate actively in the development of their
environment and act ethically (UNIDO, 2008: 3). Many SMEs today have a CSR statement in their annual reports. In other instances, CSR seems to be an integral component of doing business (Ariyabandu and Hulangamuwa, 2002: 10). Charitable activities by the business community in support of various social causes are very important. The main CSR activities, which are also applicable to SMEs, include the following (Ariyabandu and Hulangamuwa, 2002: 29; Nedelea and State, 2009: 2):

- business philanthropy;
- customer satisfaction;
- human rights;
- conditions of work;
- health and safety;
- respect for diverse cultures and disadvantaged peoples;
- continuous programmes such as trust funds for charitable activities;
- individual projects such as developing a selected village, or donations to worthy causes; and
- issue-based projects such as environmental conservation, and support for the arts;
- sponsorships for the needy.

The CSR activities above can be classified into five main categories namely: environmental concerns, involvement in welfare or charity, community involvement, product or services and natural disaster-related issues as listed in Table 3.2 below (Mohamed and Sawandi, 2007: 10):

**Table 3.2: Five main categories of CSR activities of SMEs**

<table>
<thead>
<tr>
<th>Category of CSR Involvement</th>
<th>Activities Involved in by business</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Environmental Concerns</td>
<td>1. Pollution control.</td>
</tr>
<tr>
<td></td>
<td>2. Product complies with environmental regulations.</td>
</tr>
<tr>
<td></td>
<td>3. Recycles the unused components of products that would impact the environment.</td>
</tr>
<tr>
<td></td>
<td>4. Collaborates with government agencies in organising ‘green’ campaigns.</td>
</tr>
<tr>
<td></td>
<td>5. Develops environmental policy to be used at multiple levels of operations.</td>
</tr>
</tbody>
</table>
B. Welfare or Charity

1. Directly contributes some amount of money for the community and business welfare.
2. Involved in developing infrastructure such as buildings, schools, libraries or houses for donation to families.
3. Sponsors the treatment of certain types of chronic diseases.
4. Contributes to selected individuals for personnel development in certain areas that could contribute to the development of the business and industry.
5. Provides counselling and material support to increase motivation amongst the employees.
6. Provides a special bonus plan and reward system to employees to encourage a positive competition amongst them.
7. Establishes a sound placement system for the employee who volunteers to move to another business with valid reasons.

C. Community Involvement

1. Contributes to scholarships and research programmes in the field of market reaction and customer satisfaction.
2. Donates some amount of money to build infrastructure for public use.
4. Contributes to games and sports events.

D. Products or Services

1. Ensures services and products have no unknown reaction to human health.
2. Ensures all registered complaints about products and/or services are treated as important.

E. Natural Disasters

1. Takes action effectively in certain situations by immediately contributing in the form of cash to support the victims.
2. Jointly organises charitable programmes to collect funds for victims of natural disasters.

**Source:** Mohamed and Sawandi (2007)

From Table 3.2, it can be deduced that today, SMEs continue to employ the term CSR to describe a broad range of business activities which do not necessarily directly relate to the pursuit of profit. Such CSR activities might include corporate giving, product and
service donations, volunteerism, partnerships with local government and other businesses, and any other kind of voluntary involvement of the business and its employees with the community or other stakeholders. Hence, a business is expected to be a good corporate citizen by fulfilling its philanthropic responsibility to contribute financial and human resources to the community and to improve the quality of life (Nae and Grigore, 2008: 6).

CSR includes a variety of different activities, resulting in the fact that no single CSR approach exists, and particularly for SMEs, it is rather unrealistic that they would be involved in all of these CSR activities mentioned earlier. Another way of classifying CSR activities is to look at the “target” group of CSR activities, i.e. the beneficiaries of the initiative set by the businesses so that different degrees of “closeness of consideration” can be identified (Mandl and Dorr, 2007:14; Nae and Grigore, 2008: 13).

Based on various studies and the researcher’s experience, some categories of CSR activities, which also apply to SMEs, are highlighted in the sections below (Kramer, Pfitzer, and Lee, 2005: 24; Mandl and Dorr, 2007: 16; and Szabo 2008: 21).

3.4.1 Workforce-oriented CSR activities

These activities refer to business practices such as staff development for all employees and providing employees with a sense of job security. They include particular issues such as:

- the improvement of working conditions and job satisfaction;
- work/life balance;
- equal opportunities and diversity;
- training and staff development;
- communication/information of employees and participation in business decisions;
  and
- responsible and fair remuneration or financial support of employees.
3.4.2 Market-oriented CSR activities

Market-oriented CSR activities refer to the ways in which a business focuses on the needs of its customers. They include:

- activities to improve the quality or safety of products;
- provision of voluntary services to the clients;
- fair pricing;
- ethical advertising;
- paying suppliers or business partners without delay;
- contracting local partners;
- driving standards through the supply chain; and
- supporting the establishment of local or regional business alliances.

3.4.3 Society-oriented CSR activities

These activities are linked to societal and community involvement. They include:

- social and/or labour market integration at community level;
- improvement of the local infrastructure; and
- cash or in-kind donations to local community institutions.

3.4.4 Environment-oriented CSR activities

These activities are related to environmental aspects. They focus on:

- designing environmentally friendly products or production processes;
- an efficient use of resources;
- the reduction of waste and pollution;
- applying an ecological assessment of the suppliers concerning their environmental standards; and
- informing business partners, customers or the society about environmental issues.
The above CSR activities will also comprise the independent variables in the hypothesised model of CSR factors that influence the competitiveness of SMEs, and these will be described in more detail in Chapter 4.

The nature of CSR activities in SMEs can be significantly different from CSR activities in large businesses. For instance, the relationships between SMEs and their key stakeholders, notably employees, customers and suppliers, are qualitatively different from those of large businesses. The relationship between SMEs and their stakeholders are often characterised by a high level of informality. Customer relationships are often based on personal knowledge of the customer’s needs, while employee relationships are more family-like, with greater openness and social integration. Such relationships, by virtue of their closeness, are seen as inherently more important as opposed to the more impersonal relationships associated with large businesses. Thus, SMEs may consider themselves to be responsible businesses even though it may not be formally recognised (Polášek, 2010: 49).

The CSR activities of SMEs, on the one hand, may have effects on the business itself (internal effects) and, on the other hand, on the respective target groups, such as the society, the customers or the environment (external effects). Not all CSR activities need to be characterised by both, but in the majority of cases, internal effects such as higher employee satisfaction will also result in external effects such as higher customer loyalty due to better services (Mandl and Dorr, 2007: 45). CSR activities can also be directed towards working conditions, safety, social development and human rights, ethical conduct in business practice or the environmental impact of business operations. The role of these activities is to improve the business image and increase motivation and loyalty primarily among employees and customers, but also amongst other stakeholders such as suppliers and retailers (Lantos, 2002: 4).

SMEs exert a large impact on the economy through their operations. They are required to pay attention to the social, economic, ethical and environmental dimensions of CSR. By engaging in dialogue with important stakeholders, SMEs can develop a good corporate
image, achieve employee satisfaction and customer loyalty, thereby enhancing their competitiveness. The impact of CSR on important stakeholders is discussed in the subsequent section.

3.5 CSR AND ITS IMPACT ON STAKEHOLDERS

As was mentioned earlier, CSR activities should not only be focused on shareholders, but on all the multiple stakeholders impacted by business behaviour (Fraser, 2005: 1). Stakeholders are the individuals and constituencies that contribute, either voluntarily or involuntarily, to a business wealth-creating capacity and activities, and who are therefore potential beneficiaries and/or risk bearers. Stakeholders also include groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, business actions (Bill, 2007: 2). Stakeholder groups are constantly expanding to include a wide range of parties impacted by business operations such as customers, employees, a host government, the media, local communities, suppliers, partners, activists, advocacy groups, NGOs, competitors, educational institutions, research institutes, and think tanks (Bateman, 2003: 5, Bill, 2007: 2, Fraser, 2005: 1, and Palazzi and Starcher, 2006: 9).

CSR is a business commitment to conduct its activities in an economically, socially and environmentally sustainable manner whilst balancing the interests of a diverse range of stakeholders (Siwar and Hossain, 2009: 2). Businesses globally are struggling with a new role of meeting the needs of the present generation without compromising the ability of the next generations to meet their own needs. Businesses are also being challenged to take responsibility for the ways their activities impact society and the natural environment. As such, it is no longer acceptable for a business to experience economic prosperity in isolation from those agents impacted by its actions. Hence, a business must focus its attention on both increasing its profitability and being a good corporate citizen (D’Amato et al., 2009: 3).
Levine (2008: 1) contends that CSR is about the practices and measures taken by businesses to protect their reputations, brand names and goodwill. Hence, businesses must know that they have an obligation to establish a good reputation with their stakeholders (Bateman, 2003: 6). Juholin (2004: 3) concurs that the concept of CSR includes the openness or transparency of businesses, taking into account the will and expectations of their stakeholders. As such, businesses should be active in their relationships with stakeholders and do more than just trying to avoid breaking moral rules. For a business to be sustainable, it must be financially secure and minimise its negative impacts on its stakeholders. Hence, increased competitiveness can only be achieved by demonstrating a business to be a good corporate citizen (Juholin, 2004: 6).

Businesses operate in a society that is structured around moral values. When carrying out its operations, a business has certain responsibilities, which are to provide quality goods and services that will improve its peoples’ living standards. In the long-term, wrong dealings will tarnish the image of the business and have a negative effect on sales. As such, CSR should be understood as a balance of all responsibilities and policies which meet or exceed expectations, values and norms of stakeholders and society at large (Podnar and Golob, 2007: 2).

Businesses with higher sustainability ratings are likely to outperform their counterparts (Fraser, 2005: 2, Hernández-Murillo and Martinek, 2009: 1). Recent studies and actual practice have shown that critical stakeholders, including customers, employees, and socially responsible investors, are actively looking to do business with socially responsible businesses (Fraser, 2005: 2; Hernández-Murillo and Martinek, 2009: 1).

CSR has provided opportunities for businesses to align their activities with broader societal expectations. However, there is still a view that this is window-dressing and it does not go to the heart of the business. There is a need for business to manage its relationship with the wider society, whether for reasons of commercial viability or to add value to society. As the corporate sector increasingly faces the challenges of sustainability, it needs leaders who have the capacity to incorporate strategies for both
sustainability and profitability into their businesses to achieve value maximization in a more holistic way (Bill, 2007: 1).

Businesses today are doing everything possible to reduce their environmental and social impacts, guard against ethical compromises, create governance transparency and become more accountable to their stakeholders. CSR is widely being used to address the relationships between business and society. It is this ability to establish and maintain such relationships with key stakeholders that determines a business long-term survival and success (Bill, 2007: 4, Fraser, 2005: 2). A well-managed CSR strategy supports the objectives of a business and builds relationships with key stakeholders whose impact is critical for maximizing value and effectiveness. The success of a CSR programme rests heavily on a business ability to create a linkage between the CSR activities of a business and its performance to different stakeholders. However, thinking broadly about the impact of CSR often results in a list that is much too long to be of any practical use (Cegarra-Navarro and Martinez-Martinez, 2009: 1).

It should be noted that businesses contribute to their communities, especially to local communities, by providing jobs, wages and benefits, and tax revenues. On the other hand, businesses depend on the health, stability, and prosperity of the communities in which they operate. For instance, they recruit the majority of their employees from the labour markets, and therefore have a direct interest in the local availability of the skills they need. Furthermore, SMEs often also find most of their clients in the local communities. The reputation of a business at its location, its image as an employer and producer, and as an actor in the local scene, certainly influences its competitiveness (European Commission, 2001: 12).

Businesses also regularly interact with the natural environment. Some rely on a clean environment for their products or services such as clean air or water. On the other hand, business can also be responsible for a number of polluting activities such as noise, light, water pollution, air emissions, contamination of soil, and the environmental problems associated with transport and waste disposal. The involvement of businesses in the
natural environmental activities can be an important aspect from which they can capitalise (European Commission, 2001: 13).

Table 3.3: Positive impacts of CSR on selected Stakeholders

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workforce</td>
<td>Likely to be more positive; more engaged; more motivated and productive; better performance; more satisfied with their jobs; more committed to achieving success within the industry; willingness to recommend it as a place to work; greater employee loyalty; and overall satisfaction.</td>
</tr>
<tr>
<td>Market/Customers</td>
<td>Willingness to purchase; willingness to pay a premium price; more satisfied; and greater customer loyalty and retention.</td>
</tr>
<tr>
<td>Society</td>
<td>Charitable contributions; employee volunteer programmes; corporate involvement in community education, employment and homelessness programmes; product safety and quality.</td>
</tr>
<tr>
<td>Environment</td>
<td>Greater material recyclability; waste management; better product durability and functionality; and greater use of renewable resources.</td>
</tr>
</tbody>
</table>

Some of the positive impacts of CSR on selected stakeholders are summarised in Table 3.3 above (Balboni, Bute and Sookram, 2007: 14; Hohnen, 2007: 2; Levine 2008: 3; Verschoor 2001: 1 and Srchová, 2008: 6). Table 3.3 above is applicable to SMEs and presents the categories of stakeholders that will be used later in this study. It is clear that CSR has an impact on various stakeholders and that it can work to the advantage of a business. The importance of CSR for SMEs is discussed in the next section.

3.6 IMPORTANCE OF CSR FOR SMEs

Though businesses have been instrumental in creating employment, wealth and products, they face increasing pressure to play a key role in social issues involving employees, stakeholders, society, the environment and government (Sharma, Sharma and Devi, 2009: 1). Sharma et al. (2009: 2) point out that the businesses around the globe are forced to wake up to the need of being committed to CSR. Over the years, CSR has gained unprecedented momentum in business and public debate and has become a strategic issue across departmental boundaries, and it affects the way in which businesses operate. As a
result, almost all corporate websites/policies/reports talk about their endeavours in CSR. This has become a way of ensuring that the business is fulfilling all the obligations towards society and is thus eligible for the license to operate (Sharma et al., 2009: 1).

CSR is continuously growing in importance in the modern world of globalisation. For various reasons, businesses take the initiative in composing codes of conduct, values, and other means of taking their responsibilities beyond the official legal obligations. Many businesses have now realised their power to contribute to the common good of society at large and to have a positive impact on some of the most serious issues prevailing in the modern world, while at the same time contributing to the overall performance of the business itself (Reeta, 2009: 6).

Businesses globally have integrated CSR issues into all aspects of their operations and explicit commitment to CSR is made in their visions, missions and value statements. Given the intensity of pressures on businesses, including SMEs, they find it increasingly difficult to avoid assuming their CSR activities (Ofori and Hinson, 2007: 2). Hence, a socially responsible business must take steps to adopt business practices and policies that go beyond minimum legal requirements and contribute to the welfare of its key stakeholders (Ofori and Hinson, 2007: 3).

Businesses with good CSR policies are being rewarded by consumers as manifested in their financial position in the long-term. On the other hand, consumers are likely to avoid businesses with a poor CSR reputation (Eweje and Bentley, 2006: 1). By translating the general principles of CSR into business practices, by developing better measures of CSR, and by empowering and engaging employees, businesses are more likely to embrace CSR so that it penetrates all their activities (Eweje and Bentley, 2006: 1).

CSR improves employees’ perceptions of the business. When a business has CSR initiatives, employees are more proud of and committed to the business. This is because their personal identities are partly tied up in the businesses that they work for. Employees’ perceptions of their business’s concern for the community and environment
are linked to their level of commitment. The higher the employees rate their business’s corporate citizenship, the more committed they are to the business (Stawiski, Deal and Gentry, 2010: 2).

More and more businesses understand the value of committing to responsible business practices. As such, a strong strategy and reputation as a responsible business can help build trust with local stakeholders, thereby establishing a local license to operate. In today’s business environment, sustainable business success and shareholder value cannot be achieved solely through maximizing short-term profits, but rather through market-oriented, yet responsible, behaviour. Thus, businesses should be aware that they could contribute to sustainable development by managing their operations in such a way as to enhance economic growth and increase competitiveness whilst ensuring environmental protection (Yilmaz, 2008: 3).

It is not enough for businesses to create and secure jobs, to provide products and services to society, and to pay taxes. More and more consumers show a growing interest in making sure the products they purchase are produced in a socially and environmentally responsible manner (Lai, 2006: 10). This puts businesses under pressure to make responsible and transparent efforts, together with governments and civil society organisations, to create a more sustainable world (Kerby, 2001: 4). Therefore, businesses should recognise that addressing wider social and environmental problems is fundamental in ensuring their long-term success (UNIDO, 2002: 1).

Globally, businesses, including SMEs, have recognised the importance of engaging in CSR activities, not just as a defensive mechanism to retain legitimacy and the right to operate, but as a centrepiece of a business’s on-going mission and reason for its existence (Marcus and Fremeth, 2009: 1). Businesses do not necessarily adopt CSR activities such as green management due to normative obligation, but because it coincides with their economic interest to satisfy key stakeholders and prosper as profitable enterprises. Hence, there is little doubt that for some businesses, green management has created opportunities for competitive advantage (Marcus and Fremeth, 2009: 3).
Traditionally, CSR has been considered a feature of large businesses (Antoldi and Todisco, 2007: 1), and it is sometimes argued that CSR is difficult for SMEs to implement. However, it should be recognised that a socially responsible approach to business is not difficult for SMEs with an interest in long-term profitability and sustainability. The owner/managers of SMEs usually participate in responsible approaches, although they may not describe them as being part of CSR (Polášek, 2010: 48). The flexible and personal nature of many SMEs often allows them to respond quickly to these changes, because they can spot and take advantage of market opportunities more easily than many larger businesses (Nejati and Amran, 2009: 4). If Ugandan SMEs are to reap the full benefits of CSR, it is vital for them to ensure that they are fully engaged in CSR, and that what they do is fully recognised.

CSR is a vital concept for SMEs to integrate in their core business strategies in order to be competitive. Actions businesses take today to incorporate CSR throughout their activities represent a real point of differentiation and competitive market advantage on which their future success is hinged. Successful businesses will be those that are capable of integrating CSR activities into their business strategy and purpose. Internal advantages of CSR to SMEs, may include increased sales, a better business reputation, customer loyalty, employee satisfaction and overall competitiveness, management improvement, easier access to capital, decrease in spending and actions based on the law. Hence, investing in CSR is profitable because profits of businesses used to introduce CSR are working for their competitive advantage (Brdulak, 2006: 7).

It is often argued that SMEs have low profits and limited number of employees, and therefore have limited resources and time to pay attention to CSR. However, SMEs contribute to communities through silent CSR activities because of their relationship with the community. Moreover, SMEs which are more concerned about brand development in the long-term tend to be more conscious about their social responsibility (Mahmood, 2008: 13). Therefore, since SMEs have stakeholders and make an impact on society, the concept of CSR is just as valid for small businesses as it is for large businesses (Kate,
Rebecca, and Leeora, 2007: 5). SMEs in Uganda should adopt appropriate CSR activities in order to increase their competitiveness.

3.7 SUMMARY

The main purpose of this chapter was to investigate the role of CSR in SMEs. This was achieved by examining the concept of CSR, theories and approaches to CSR, its impact on stakeholders, the importance and outcomes of CSR, as well as the nature of CSR activities in SMEs. A lack of official and authoritative definitions of CSR has rendered it a vague concept. Different authors have framed different definitions although there is considerable common ground between them. However, CSR centres on the relationship between business and society and on how businesses behave towards their key stakeholders. For the purpose of this study, CSR therefore refers to the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of its stakeholders (workforce, the society/community, the market and the physical environment) to enhance its competitiveness.

Different theories and approaches to CSR have been discussed, with the focus on stakeholder, classical, social contract, instrumental and legitimacy theories, as well as ethical approaches. The stakeholder theory is emphasised for being more pervasive and overarching. It is generally recognised that the nature of CSR activities for SMEs hinge on employees, market, the local community/society and the physical environment. Such CSR activities could greatly enhance the competitiveness of SMEs.

CSR impact on stakeholders was highlighted, as well as the importance of CSR particularly for SMEs. CSR factors that influence the competitiveness of SMEs, will form the basis of Chapter 4.
CHAPTER 4

CSR FACTORS THAT INFLUENCE THE COMPETITIVENESS OF SMEs

4.1 INTRODUCTION

In this chapter, various CSR factors that influence the competitiveness of SMEs are discussed. These CSR factors will also act as the independent and mediating variables in this study, while the competitiveness of SMEs will be the dependent variable. Each of these factors will be discussed in detail.

In Chapter 3, it became clear that CSR constitutes an important feature for all types of businesses, whether large or small, and for all sectors of the economy. Although it is accepted that CSR is a more common activity in larger businesses, the concept is also of great importance to SMEs. Hence, CSR should be appropriately applied to SMEs since their contribution to economies is well documented.

However, many SMEs have not yet taken advantage of CSR (Mandl and Dorr, 2007: 3). Yet, adopting CSR may open up new opportunities for SMEs and help them stand out from competitors, especially in the current global competitive environment (Princic and Floyd, 2003: 9). The opportunities and benefits that businesses enjoy when they adopt socially responsible management tools are varied. There are many reasons why it pays for businesses to be socially responsible and conscious about the interests of their key stakeholders, as was discussed in Chapter 3. Businesses should appreciate that dealing with the environment and social issues can provide business benefits and sustainable competitiveness. However, the key challenge is to provide products and services ethically and in a socially responsible manner that requires a different mind-set, particularly in developing countries.
4.2 CSR ACTIVITIES

In Chapter 3, it was noted that CSR activities vary considerably among countries and across industries. Many SMEs do not focus on only one domain of CSR, but follow a comprehensive approach that combines various areas. This section focuses on the basic categories of CSR activities relevant for SMEs. These include: workforce-oriented, market-oriented, society-oriented, and environmental-oriented activities (Ararat, 2008: 10; Kramer, et al., 2005: 24; Mandl, 2009: 7; Mandl and Dorr, 2007: 16; and Szabo, 2006: 21). These categories are discussed below.

4.2.1 Workforce-oriented CSR activities

Workforce-oriented CSR activities involve the fair treatment of employees and are often related to the attraction and retention of employees. These activities can also comprise the business as being a compassionate employer, extending to people who are disadvantaged, such as minority groups. It is about giving employees a fair chance to develop and maximise their potential (Ashridge Centre for Business and Society, 2005: 16).

Workforce-oriented CSR activities may also involve the way employers communicate with employees, and how they empower them or allow them to participate in decision-making processes. Hence, the application of the CSR concept in the workplace can lead to an outcome in which the reciprocal relationship between the business and its employees provides a maximum degree of benefit to both parties (Steinerová and Makovski, 2008: 5).

In today's competitive global market, businesses are surrounded by competitors, regardless of industry. To develop a competitive advantage, it is imperative for businesses to consider their workforce as a competitive resource. A strategy for radically improving workforce productivity to drive higher value for the business thus becomes crucial (Wan, 2007: 3). Businesses are devising ways to optimise their workforce through comprehensive development programmes not only to achieve business goals, but also
most importantly, to survive and thrive for years to come. To accomplish this objective, businesses need to invest resources to ensure that employees have the information, skills, and competencies they need to work effectively in a rapidly changing and complex environment (Wan, 2007: 2).

Employees are highly dependent on the business for which they work. The salary they get is usually their only source of income; work is the location where they spend most of their days, and their profession determines the quality of their private and family life as well as the level of their physical well-being (Steinerová and Makovski, 2008: 5). In view of this, to employees CSR extends beyond terms and conditions of the formal contract of employment. Businesses are expected to meet wider expectations that today’s employees have for the quality of their working life. Such prospects may include taking care of the employee’s welfare and safety at work as well as upholding their skills and motivation for the work. Many workers today, especially professional, technical or highly skilled employees, are looking beyond pay cheques and benefits to seek employers whose philosophies and operating practices align with their own beliefs. For example, some businesses have found that having "family-friendly" policies or being identified as an employer of choice have given them a competitive advantage in attracting and retaining employees (Mamun and Ahmed, 2009: 633). Hence, beyond these expectations, a socially responsible business secures a just treatment and equal opportunities for all its employees, regardless of gender, age, race, or religion (Uddin, Hassan and Tarique, 2008: 7).

More SMEs are making their employees significant partners in community activities. In the past, employee investment was limited principally to volunteerism. However, many businesses currently have employee advisory committees on volunteer activities, supplier diversity, and other community investment priorities. In the implementation of these community investment initiatives, there is wide divergence in terms of both target scope and scale (World Bank, 2006: 15).
The workforce-oriented CSR activities, which are also important to SMEs, are discussed by scholars such as Ararat (2008: 10); Kramer et al. (2005: 24); Mandl (2009: 7); Mandl and Dorr (2007: 16); Olejarova (2004: 9); Steinerová and Makovski (2008: 5); and Szabo, 2006: 21) and they include the following:

i. Involvement of employees in business decision-making processes;

ii. Giving/rewarding employees non-monetary benefits;

iii. Ensuring workplace diversity (women, ethnic minorities, handicapped individuals and seniors);

iv. Ensuring employee health and safety;

v. Ensuring employability and skills development;

vi. Establishing fair remuneration;

vii. Giving support to laid-off workers; and

viii. Development and implementation of anti-discrimination measures.

Furthermore, allowing employees to anonymously report on ethical concerns about breaches in business policy or about how colleagues are being treated is an important workforce-oriented activity (Ashridge Centre for Business and Society, 2005: 16). Related to this is the need for the business to observe procedures for obtaining formal consent from individuals about holding and using personal information, and avoiding random monitoring of employees and their communications (Ashridge Centre for Business and Society, 2005: 16; Lantos, 2001: 18; Sookram, 2007: 5).

Workforce-oriented CSR activities for SMEs are mainly in the field of human resources development, improving working conditions, integration of disadvantaged groups in the labour market, and employees’ participation in business decisions. The outcomes to SMEs associated with responsible behaviour in the workplace include, amongst others, (Steinerová and Makovski, 2008: 6):

- becoming the preferred employer;
- maintaining a quality workforce;
- increased motivation, which in turn may lead to increased productivity; and
- ensuring low employee turnover.
Certainly, some SMEs successfully use their commitment to CSR to build advantageous reputation as the preferred employer (European Competitiveness Report, 2008: 2). Hence, CSR activities in general and the workplace dimension of CSR in particular can be an attractive feature of a business’s presentation when recruiting and retaining employees. Market-oriented CSR activities are discussed in the subsequent section.

4.2.2 Market-oriented CSR activities

Customers determine the growth potential of a business. To be successful, businesses must look into the needs of their customers because they are the resource upon which the success of the business depends. Therefore, customer value is considered central to creating a competitive advantage for the business and ensuring its long-term success (Ma, Ding and Hong, 2010: 1). To remain competitive, businesses must be willing to satisfy the desires and needs of their customers because they are the business’s foundation. Customers will only want to do business with those businesses which they are comfortable with and can trust. Therefore, businesses must strive to provide confidence, trust and satisfaction by giving customers the best quality service (Akinnola, 2009: 2) and treating their customers with respect (Uddin et al., 2008: 6).

There is a larger and growing market for the products and services produced by socially responsible businesses. However, businesses are required to do their best to ensure that all information about their products and services is presented in a clear, concise and accurate way (Ashridge Centre for Business and Society, 2005: 12). Businesses should also provide information on product quality in relation to product safety or environmental concerns. This may involve informing customers about the effects of using particular products. Hence, aligning sales and marketing efforts with a positive social cause is very fundamental (Ashridge Centre for Business and Society, 2005: 12).

Previous research on market-oriented CSR activities of SMEs by scholars such as Ararat (2008: 10); Kramer et al. (2005: 24); Mandl (2009: 7); Mandl and Dorr (2007: 16);
Steinerová and Makovski (2008: 5); and Szabo (2006: 21) have identified the following market-oriented CSR activities, which are also importance for SMEs:

i. creating policies guaranteeing adherence to ethical standards with respect to stakeholders;

ii. providing clear and accurate information on products and services;

iii. providing fair pricing;

iv. developing responsible customer relations; and

v. tracking and responding to complaints from customers, suppliers and other business partners.

Market-oriented CSR may on the one hand refer to promoting ecological and ethical consumption, recycling, providing high quality products and specific voluntary services to the customers such as flexible order amendments according to customers’ short-term requirements. Customer-oriented CSR activities may, however, also go beyond the direct buyer-seller relationship by incorporating issues in the interest of the customer, but not strictly relating to the business’s core activities (Mandl and Dorr, 2007: 45). The European Competitiveness Report (2008: 2) supports the same view that market-oriented CSR activities cover the ways in which a business operates in relation to its suppliers, customers and competitors.

According to Steinerová and Makovski (2008: 5), some of the advantages associated with responsible behaviour in the marketplace, which are also applicable to SMEs, include:

i. customer loyalty;

ii. standing out among competitors;

iii. becoming a sought after supplier and partner; and

iv. enhanced business performance.

It should be noted that if a business presents itself as socially responsible, customers increasingly require that the business follow mandatory standards. Customers do not accept to be influenced by the business regarding its products and activities, but demand
good quality products for fair prices without risks and dangers relating to their health and safety when using them (Ebner, 2007: 5).

4.2.3 Society-oriented CSR activities

Society-oriented CSR activities refer to the relations between the business and the citizens and communities that may be affected by its operations (European Competitiveness Report, 2008: 2). In other words, society-oriented CSR activities are related to promoting, in the broadest sense, the health and well-being of the local communities in which a business operates. Community activities are sometimes linked to other parts of the business’s activities. Examples include: supporting community organisations; giving gifts in kind; being a good neighbour; liaising with local communities; promoting social cohesion in the community; and minimising adverse effects of local operations (Ashridge Centre for Business and Society, 2005: 27; Mandl and Dorr; 2007: 19).

CSR is seen as a key driver for engaging the wider society as an important stakeholder in business activities. This implies that businesses should improve the wellbeing of society at large by generating and adding value to their products or services and marketing activities (Lin, 2003: 2). No business can afford to act in opposition to or in isolation from the issues in a society (Matten and Moon, 2005: 3). In this regard, CSR can be understood as a balance of all responsibilities and policies which meet or exceed expectations, values and norms of stakeholders and society at large (Podnar and Golob, 2007: 4).

Businesses depend on the health, stability, and prosperity of the communities in which they operate. The reputation of a business and its location and its image as an employer and producer certainly influence its competitiveness (Uddin et al., 2008: 7). As such, many businesses become involved in community causes, for example, by providing additional vocational training places, recruiting socially excluded people, sponsoring
local sports and cultural events, and through partnerships with communities or donations to charitable activities (Uddin et al., 2008: 7).

As soon as the business starts the operation of its activities, it becomes a part of the local community. A socially responsible business tries to build good-neighbour-type relationships by minimising any negative impact on the local environment and by getting involved in addressing local problems and concerns (Olejarova, 2004: 12). This involvement can reduce possible risks to the business’s operations through goodwill created by the business’s acceptance by the local community. Since a number of SMEs are known and appreciated by the community, their CSR activities are expressed by daily actions, which are considered normal methods of managing relationships with their own stakeholders (Del Baldo, 2006: 8).

Previous research carried out on society-oriented CSR activities by Ararat (2008: 10); Kramer et al. (2005: 24); Mandl (2009: 7); Mandl and Dorr (2007: 16); Steinerová and Makovski (2008: 5); and Szabo (2006: 21) have identified the following society-oriented CSR activities, which are also applicable to SMEs:

i. practicing volunteerism in society/community activities;
ii. consulting and spreading of know-how;
iii. supporting the local quality of life (sports/culture);
iv. developing business relationships with local suppliers;
v. educating the public and collaborating with local schools; and
vi. promoting the business and a non-profit projects.

In addition, the World Bank (2006: 14) highlights several advantages that can result from a business’s investment in community activities. These include:

(a) **Enhanced brand image and reputation**: many businesses find that community investment does not require sacrificing profits and, in fact, can open new markets, reduce local regulatory obstacles, provide access to the local political process, generate positive media coverage and increase business or brand awareness within the community.
(b) **Community investment as a strategic activity**: businesses increasingly are looking at their community investment activities from a strategic perspective, defining themes that are aligned with core business objectives, taking advantage of core competencies, aligning with business brand, and customising areas of focus based on customer desires.

(c) **Community-driven development**: a growing number of businesses are viewing community investment as a way to support communities to be drivers of their own development. Businesses are investing in local capacity-building activities, and contributing to social and economic solutions to problems identified and defined by the communities themselves.

(d) **Creating partnerships**: businesses are taking an increasingly active role in the communities where they operate, forming partnerships with non-profit organizations, government agencies, suppliers, other businesses, and their stakeholders to fulfil a wide variety of community and business needs.

The above presentation and discussion indicates the need for SMEs to partner with charities and community organisations for sustained involvement in social issues, in order to protect their long-term interests and reputation. SMEs can also start businesses in socially deprived communities to have their presence felt, thereby enhancing their competitiveness (Steinerová and Makovski, 2008: 6).

### 4.2.4 Environmental-oriented CSR activities

Environmental-oriented CSR activities involve the measures a business can take to mitigate its negative impact on the environment such as the use of fewer pollutants. It can also refer to goods and services that can actively help improve the environment (European Competitiveness Report, 2008: 2). Previous studies (Ararat, 2008: 10; Kramer et al., 2005: 24; Mandl, 2009: 7; Mandl and Dorr, 2007: 16; Steinerová and Makovski, 2008: 5; and Szabo, 2006: 21) have identified the following environmental-oriented CSR activities, which are also important for SMEs:

i. recycling and using recycled materials;
ii. establishing energy/water saving practices;
iii. establishing pollution and waste management policies;
iv. protecting the natural resources; and
v. ensuring compliance with regulations and standards;

Environmental management requires an understanding of the impacts arising from all areas of a business’s activity. Good practice involves integrating these concerns into strategy and risk management and compliance control systems, through to policy, operational performance and reporting. Environmental activities may naturally be highly related and integrated with other practical CSR activities (Ashridge Centre for Business and Society, 2005: 31).

Environmental concerns and sustainable development is a key pillar of CSR. Environmental and ecological issues have been an important topic of discussion for the past thirty years in the business world, and have received considerable attention compared to the other dimensions of CSR activities. Since many business–related environmental problems go beyond national boundaries, most businesses are thus actors in the global environment (Uddin et al., 2008: 7).

A business that actively cares for the natural environment has a better chance of succeeding in tenders held by large corporations and the public sector and a better chance of acquiring new customers from the ranks of environmentally-conscious consumers (Steinerová and Makovski, 2008: 7). Environmentally-conscious business practices can also help to cut costs. For example, saving energy, preventing pollution, minimising waste and recycling can make the operation of a business more efficient, significantly reducing its costs as well as providing other tangible and intangible benefits. It is however also quite expensive to go green, for example, replacing fixed assets and changing business processes. Nevertheless, by optimising its heating system, amongst others, a business can greatly reduce its negative environmental impact and save substantial amounts of money at the same time (Steinerová and Makovski, 2008: 7).
Environmental product responsibility is critical for SMEs. This is about demonstrating a responsible attitude towards the environment beyond the business’s operations (Ashridge Centre for Business and Society, 2005: 32). Best practices adopt a more holistic view taking into account both upstream impacts (including working with suppliers), and downstream impacts (that is, the impacts from the use and disposal of products). According to Steinerová and Makovski (2008: 7), the benefits associated with a responsible treatment of the environment include new business opportunities; protection of resources; reduction of waste; lower costs; and more efficient operations. Green products often sell at a premium price, making a bit more profits for SMEs.

Although their significance is difficult to measure, it is clear that SMEs are the mainstay of the Uganda’s economy, particularly in terms of employment and overall development impacts. In spite of their small individual environmental impacts, the cumulative impacts of SMEs are highly significant, offering the potential for significant progress towards sustainable. Some SMEs are engaged in industrial sectors with high environmental impacts.

It should be noted that some of the CSR activities already discussed above inevitably overlap in practice. For instance, the environmental dimension of CSR can be of great importance to communities affected by the operations of a business (European Competitiveness Report, 2008: 2). Similarly, transparency and communication about social and environmental performance are critical aspects of CSR that cut across the four areas.

From the foregoing discussion, SMEs are encouraged to incorporate the above CSR dimensions in their operations in order to enhance their competitiveness in terms of improved products and/or production processes; better customer satisfaction and loyalty; higher motivation and loyalty of employees; better publicity; better position at the labour market and better networking with business partners and authorities; cost savings and increased profitability; and increased turnover/sales due to a competitive advantage. Therefore, SMEs should be encouraged and supported to invest in CSR activities if they
are to gain a competitive advantage. The sections that follow will discuss the specific outcomes for SMEs that implement CSR activities.

4.3 POTENTIAL OUTCOMES OF CSR ENGAGEMENT

In this study, the outcomes of CSR engagement are employee satisfaction, business reputation and customer loyalty. These outcomes also serve as the mediating variables in this study. There have been some debates as to whether businesses should engage in CSR activities, particularly SMEs, which are faced with limited human and financial resources compared to their large counterparts (Weber, 2008: 1). Advocates of CSR such as Aravossis, Panayiotou and Tsousi (2006: 2), however, have identified some benefits which a business may derive from its provision.

CSR does not bring benefits only to large businesses, but can also positively contribute to the competitiveness of SMEs (Srchová, 2008: 6). The potential outcomes of CSR, namely employee satisfaction, business reputation, and customer loyalty are discussed in the subsequent sections.

4.3.1 Employee Satisfaction

For CSR activities to succeed, employees play a very significant role. Having a good reputation socially implies that a business’s behaviour towards its people is consistent and is of a particular standard in which they are valued as much as the external stakeholders (Redington, 2005: 15). The concept of employee satisfaction is a multi-dimensional and interdisciplinary concept that has been attracting the attention of researchers and practitioners from different disciplines such as psychology, human resource management, and organisational behaviour. Employee satisfaction or morale may be viewed the employees’ positive response to their job and to their work performed individually and/or as part of a group. Morale frequently has more of a group or organisational connotation than satisfaction. Ignoring employee satisfaction is to risk
some highly negative consequences, such as inability to retain valuable employees or to recruit desired talent (Redington, 2005: 15).

Cranny, Smith, and Stone, as cited by Aydin and Ceylan (2008: 4), define employee satisfaction as the combination of reactions to differential perceptions of what wants to receive compared with what actually receives. Therefore, businesses should try to meet employee expectations in order to achieve employee satisfaction. In addition, the emotional state of employees may also affect their satisfaction, since satisfaction may vary from employee to employee. Having good relationships with colleagues, conducive working conditions, training and education opportunities, career developments or any other benefits may be related with the increase of employee satisfaction (Aydin and Ceylan, 2008: 4). Therefore, employee satisfaction may be defined as how pleased an employee is with his or her position of employment irrespective of the size of business.

While it is believed that employee satisfaction is necessary for high performance, studies in the past though have not supported this belief (Wilson Learning Worldwide, 2008: 2). However, in a business environment that requires employees who are flexible, creative, and willing to take risks, it is necessary to find ways to help employees feel fulfilled and empowered in their work. Businesses have a rare opportunity to gain competitive leverage and differentiation by harnessing their greatest asset: their employees. Employees, in fact, are the most critical point of differentiation for any business in today’s changing environment. This is because satisfied employees are said to create satisfied customers, who in turn, build long-term relationships with the business and spend more money in the business (Marketing Innovators White Paper, 2005: 5).

Since satisfied employees can promote productivity, business managers would want to know whether their workers are satisfied or not, because improving employee satisfaction leads to improved customer satisfaction (An, Liu, Wang and Bai, 2008: 1). This is in line with Wan (2007: 4) who points out that business profitability, productivity, employee retention and customer satisfaction are related to employee satisfaction. Satisfied and motivated employees are likely to create higher customer satisfaction and in turn
positively influence business performance. Employees who perceive their businesses to be ethical are also likely to perceive their organisations as being fair to them. This, in turn, is likely to enhance employee job satisfaction (Koh and Boo, 2004: 10).

Socially and environmentally responsible businesses offer inspiration to their employees and create employee loyalty. Employees take pride in working for a business that affects and creates positive social change (Vivader-Cohen, 2000: 4). Prospective job applicants are also more likely to pursue jobs from socially responsible businesses than from those with poor social performance reputations (Greening and Turban, 2000: 1). CSR can be a good aid in recruitment and retention, especially in competitive labour markets. Potential recruits are increasingly likely to ask about a business’s CSR policy during an interview because having a comprehensive policy can give the business an advantage. Table 4.1 gives a summary of some antecedents of employee satisfaction.

Table 4.1: Antecedents of employee satisfaction

<table>
<thead>
<tr>
<th>Antecedents</th>
<th>Authors</th>
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<tbody>
<tr>
<td>2. Employee engagement, e.g. workplace culture, frequent communication and</td>
<td>Bulgarella (2005)</td>
</tr>
<tr>
<td>managerial styles, trust and respect, leadership, and business reputation.</td>
<td>Lockwood (2007)</td>
</tr>
<tr>
<td>3. Employee empowerment: reduces stress and turnover; and improves</td>
<td>Bulgarella (2005)</td>
</tr>
<tr>
<td>4. Better relationships with management.</td>
<td>Berlowitz, Young, Hikey, Saliba, Czarnowski, Simon, Anderson, Ash,</td>
</tr>
<tr>
<td></td>
<td>Rubenstein, Moskowitz (2003)</td>
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<tr>
<td></td>
<td>An et al. (2008)</td>
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<tr>
<td></td>
<td>Bulgarella (2005)</td>
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<td></td>
<td>Massey (2004)</td>
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</tbody>
</table>

From the above discussion, it should be emphasised that favourable working conditions and the treatment of employees are an important aspect of CSR. SMEs which create
better working environments, including placing greater trust in employees and paying more attention to employee health and well-being, can achieve higher employee satisfaction. This is because satisfied employees are motivated, empowered, they have high energy and willingness to give good service, and have enough emotional resources to show empathy, understanding, respect, and concern (Bulgarella, 2005: 3).

4.3.2 Business Reputation

While interest in the concept of business reputation has gained momentum for some years, a precise and commonly agreed upon definition is still lacking. Even when scholars use the same term, ‘business reputation’, they offer varying definitions, or avoid precise definitions altogether. As a result, most scholars have either paid little attention to defining the concept or have relied on very broad terms in defining and trying to capture this important concept (Barnett, Jermier and Lafferty, 2006: 1). It is also important to note that some constructs and concepts such as identity, image, prestige, and goodwill have been used synonymously with or in very close relationship to business reputation. Depending on the type of business and/or the focal point of the discussion, each of these terms has been offered as either the equivalent of reputation, or an important component within reputation, or a broader term that encompasses reputation (Barnett et al., 2006: 3).

Wartick (1992: 34) defines business reputation as “the aggregation of a single stakeholder’s perceptions of how well business responses are meeting the demands and expectations of many business stakeholders”. Business reputation is also defined in terms of attributes that shape a buyer’s perception of the extent to which a business is well known, reliable, trustworthy, reputable, believable and generally good or bad (Fombrun and van Riel, 2004: 4).

In addition, Awang and Jusoff, (2009: 5) view business reputation as a long-term judgment and evaluation of a business by its stakeholders where a long-lasting and collective assessment rendered over a long period of time is required. In the same manner, Gotsi and Wilson (2001: 7) note that a business reputation is about how
stakeholders evaluate a business over time. This evaluation is based on the stakeholder’s direct experiences with the business, any other form of communication and symbolism that provides information about the business’s actions and a comparison with the actions of other leading rivals (Gotsi and Wilson, 2001: 7). Business reputation represents the feelings of stakeholders about a business based on whatever information (or misinformation) they have on business activities, past performance and future prospects (Fombrun, 2000: 2). Hence, business reputation can be regarded as a collective assessment of a business’s ability to provide valued outcome to a representative group of stakeholders (Fombrun, 2000: 4).

CSR is increasingly viewed as a means to boost the reputation of a business (Fombrun, Gardberg and Sever, 2000: 3 and Tulder and Van der Zwart, 2003: 1). In fact, CSR has become such an integral component of a business’s reputation that the debate over CSR has started to move beyond whether a business should make CSR commitments to protect its reputation, to how best this should be done (Smith, 2003: 5). Awang and Jusoff (2009: 5) stress that CSR is very important as far as reputation of a business is concerned, and the business should not neglect this if it wants to be perceived positively by its stakeholders.

Certainly, CSR is an activity that legitimises business in the eyes of society. It seems to be an obligation for businesses to accomplish their responsibilities towards their internal and external environment if they want to be perceived favourably by stakeholders and differentiate themselves from others. Hence, responsible activities are increasingly valued and demanded by stakeholders and they, in turn, influence business reputation (Vural, 2009: 2).

Socially responsible businesses can enhance their brand image and reputation because consumers are often drawn to brands and businesses with good reputations (Tsoutsoura, 2004: 5). A socially responsible business can also benefit from its reputation within the business community by having increased ability to attract capital and trading partners. Businesses that adopt CSR principles are more transparent and have less risk of bribery
and corruption. In addition, they may implement stricter and more costly quality and environmental controls, but they run less risk of having to recall defective product lines and pay heavy fines for excessive polluting. Such businesses may also have less risk of negative social events which damage their reputation and cost millions of dollars in information and advertising campaigns (Tsoutsoura 2004: 5).

The European Commission (2007: 12) reveals that a socially responsible approach to running a business allows gaining new customers and business partners, enhancing their loyalty and expanding the market. It is also believed that a good business reputation can benefit businesses, including SMEs, by attracting potential customers, saving the time for establishing business relationship with customers, reducing the transaction cost and creating premium revenue (Zhang, 2009: 33).

Businesses could also involve themselves in sponsorships as part of building respect within the local community. In sponsoring a particular group, the owner puts the name of the business in front of the public with whom he or she wishes to communicate; and the business is seen as generous or socially responsible. Such an action can create considerable goodwill, which translates into sales turnover (Seaton and Bennett, 2004: 411). The manner in which businesses are judged by customers, suppliers and the broader community will have an impact on their success. Hence, CSR offers a means by which businesses can manage and influence the attitudes and perceptions of their stakeholders, thereby building their trust and enabling the benefits of positive relationships to deliver business success (Brine, Brown and Hackett, 2004: 4).

Today, business reputation has become a key element of the intangible assets of a business and a source of its long term competitive advantage. Business reputation cannot be changed in a short time, and if it is favourable, it suggests credibility, reliability, trust and responsibility of a business. Once established, business reputation is difficult to copy by the competitors (Djordjević and Djukić, 2008: 3).
4.3.3 Customer Loyalty

As is the case for business reputation, there is no precise, generally accepted definition for the term “customer loyalty”. Different scholars have different views about the concept. Despite the lack of a generally agreed definition, consensus points to customer loyalty as being characterised by the customer's preference to purchase a product or service from a business consistently when the need arises to purchase. The key issues of this characterisation are preference and consistency (McMullan and Gilmore, 2008: 2). Customer loyalty can be defined as “the willingness to make sacrifices and investments to strengthen relationships” (Raţiu and Negricea, 2007: 1). The higher the loyalty a business inspires among its stakeholders, the greater its profit potential. When stakeholders thrive, a business strives (Raţiu and Negricea, 2007: 1).

According to Otim and Grover (2006: 4), the concept of customer loyalty incorporates behavioural and attitudinal measures. As such, customer loyalty is viewed as building and sustaining a trusted relationship with customers that leads to the customers’ repeated purchases of products or services over time (Lam, Shankar, Erramilli, and Murthy, 2004: 3).

Gaining and keeping loyal customers is increasingly recognised as the key to business growth. The growth comes from loyal customers’ increased purchases over time, their willingness to pay premiums, for example, when selling green products and services. With the continued growth of new competitors and the increasingly knowledgeable and demanding consumers, creating and retaining customers represents an absolute imperative for businesses (Raţiu and Negricea, 2007: 1).

Generally, loyal customers are willing to pay a higher price and are more understanding when something goes wrong. In the same manner, Gefen (2002: 27) notes that loyal customers are easier to satisfy because the vendor understands the customers’ expectations better. Loyal customers are also less price sensitive and providers incur lower costs since the expense of pursuing new customers is reduced (Rowley and Dawes,
Hence, the presence of loyal customers provides the business with valuable time to respond to competitors’ actions.

Jacobsen, Fjelkner, Olsson, and Sjövall, (2004: 4) argue that businesses, including SMEs, which develop long-term relationships with customers are likely to be more profitable due to following reasons:

i. The cost of acquiring new customers can be substantial. A higher customer retention rate implies that fewer customers need to be acquired and these can be acquired more cheaply.

ii. Established customers tend to buy more.

iii. Regular customers place frequent, consistent orders and, therefore, usually cost less to serve.

iv. Satisfied customers often refer new customers to the supplier at no cost.

v. Satisfied customers are often willing to pay premium prices for a supplier they know and trust.

vi. Retaining customers makes market entry or share gain difficult for competitors.

The globalisation of competition, saturation of markets and development of information and communication technology have enhanced customer awareness and created a situation where long-term success is no longer achieved through optimised product price and qualities. As such, the increase and retention of loyal customers has become a key factor for a business’s long-term competitiveness, especially SMEs. Hence, the main emphasis in marketing has shifted from winning new customers to the retention of existing ones (Kuusik and Varblane, 2009: 2).

Although creating customer satisfaction is not a prime motivation for instituting CSR programmes, CSR strategies with positive customer outcomes, such as loyalty, can lead to the expectation that these strategies generally have lasting positive effects on customers (McDonald and Rundle-Thiele, 2008: 10). For some businesses, especially those operating at the higher end of the market, CSR can be an integral part of the quality of products and services offered. Conversely, if a business is positioned as a cost-cutter, it
will be less likely to go beyond legal compliance in the social and environmental fields (European Commission, 2008: 11).

However, the extent to which CSR can help to drive customer loyalty and demand remains a matter of considerable debate. Typically, consumers have tended to respond positively when asked if they are willing to pay a price premium for products with good social and environmental credentials (European Competitiveness Report, 2008: 4). According to Tuppen (2004), CSR-related issues are important drivers of corporate image and reputation, which are themselves major determinants of customer satisfaction. CSR can thus contribute to improved customer demand to businesses. Mandl and Dorr (2007: 2) point out that particularly high employee satisfaction and publicity attributed to CSR activities can also have a beneficial outcome in terms of customer loyalty. Certainly, CSR activities can be used to address consumers' social and environmental concerns, create a favourable corporate image, and develop a positive relationship with consumers and other stakeholders (Liu and Zhou, 2009: 4). The nature of competitiveness and its relations to CSR is discussed in the subsequent section.

4.4 THE NATURE OF COMPETITIVENESS AND ITS RELATION TO CSR

The literature on competitiveness provides a wide variety of definitions of the term (Herciu and Ogrean, 2008: 3). As such, competitiveness means different things to different organisations (Rusu, 2003: 1), depending on the situation (Ambastha and Momaya, 2004: 47). Businesses that are able to build new strategic assets faster and cheaper than those of their competitors are likely to create a long-term competitive advantage. Hence, competitiveness of a business will depend on its assets, pressures, constraints, and strategies for selecting competitive priorities and processes as well as its performance (Singh, Garg, and Deshmukh, 2006: 1).

Competitiveness essentially entails the liability and skill for market contention and the skill for position gain and permanent commitment that are indicated especially by expansion of business successfulness, market share and profitability (Markovics, 2005:}
1). Competitiveness is also about a business’s capability to offer goods and services to customers sustainably and adapting to social norms so that customers are willing to pay a premium ensuring more profitability than competition. To SMEs, competitiveness is the ability to provide products and services as or more effectively and efficiently than the competitors (Blunck, 2006: 1).

The Irish National Competitiveness Council (2003) defines the term competitiveness as “the ability to achieve success in markets, leading to better standards of living for all. It stems from a number of factors, notably business level competitiveness and a supportive business environment that encourages innovation and investment, which when combined, lead to strong productivity growth, real income gains and sustainable development”. This definition of competitiveness views it as the ability of a sector, industry or business to compete successfully in order to achieve sustainable growth within the global environment while earning at least the opportunity cost of returns on resources employed. Competitiveness is also simply viewed as the sustained ability of businesses to operate profitably in open markets (McFetridge, 1995: 32). For Akimova (2000: 17), competitiveness is the ability of the business to adjust successfully to environmental changes, create advantages across the marketing mix and show superior performance.

Some scholars (see for example, Akimova, 2000: 3), analyse competitiveness using different conceptual approaches. For example, at the business level, profitability, cost, productivity, and market share are all indicators of competitiveness. At industry level, a business with the highest productivity could be seen as the most competitive. Businesses generally use both financial and non-financial aspects to measures their competitive advantage. Financial aspects include sales turnover and profitability while non-financial aspects include customer satisfaction, customer loyalty sales growth and market share (Chong, 2008: 7; Jamaludin and Hasun 2007: 6; Salavou and Avlonitis, 2008: 7).

According to O’Regan (2002: 2), market share, which is a measure of competitiveness, is often used to describe the position of a business within its industrial sector. The implication is usually that the bigger the market share, the more successful the business.
Market share can be explained as a business’s sales in relation to total industry sales. Generally, it is accepted that increased market share can be equated with success, whereas decreased market share is a manifestation of unfavourable actions/inactions by a business and is usually equated with failure (O’Regan, 2002: 2).

A useful indication of possible improvements in competitiveness can be seen in the annual changes in overall profits. However, a simple increase in pre-tax profits would not necessarily mean improved competitiveness since, to some extent, inflation and business investment increases would need to be met before the remaining profits reflect competitive gains (Simpson, 2009: 2). Although SMEs owners and managers may not be willing to provide detailed financial performance data, they can provide general ideas on business performance.

According to Branco and Rodrigues (2007: 3), the principle means of sustaining and enhancing wealth-creating capacity are the linkages between the business and its multiple stakeholders. Such relationships can improve a business’s reputation, lead to employee satisfaction and corporate trustworthiness of consumers, thus enhancing a business’s competitiveness. Indeed, CSR has become an important business strategy because consumers want to buy products from businesses they trust; suppliers want to form business partnerships with businesses they can rely on; and employees want to work for businesses they respect. Therefore, successful SMEs will be those which prove with their actions that they can be profitable and more competitive by increasing their CSR involvement (Uddin et al., 2008: 10). Generally, CSR activities result in direct internal effects that lead to indirect benefits for the business and its stakeholders. These, in turn influence the business’s competitiveness (Mandl and Dorr, 2007: 50).

It should be noted that sustainable business success and shareholder value cannot be achieved solely through maximising short-term profits, but instead through market-oriented yet responsible behaviour. Thus, businesses should be aware that they can contribute to sustainable development by managing the operations in such a way as to enhance economic growth and increase competitiveness whilst ensuring environmental
protection and promoting social responsibility, including consumer interests (Eraslan and Bulu, 2004: 3).

CSR can move from being a cost or a charitable deed to being a source of opportunity, innovation, competitive advantage and social empowerment. This can lead to an increased market share for businesses, including SMEs, as consumption increases (Njino, 2009: 1). When a business voluntarily engages in socially responsible activity, it does so to advertise its behaviour, differentiate its product, increase market share, and boost profits. Hence, a summary of the positive impacts of CSR on a business includes improved financial performance; lower operating costs; enhanced brand image and reputation; increased sales and customer loyalty; increased market share; increased competitiveness; greater productivity and quality; more ability to attract and retain employees; more sound and transparent business practices; reduced regulatory oversight; access to capital; workforce diversity; product safety; and decreased liability (Balboni et al., 2007: 14; Levine 2008: 3; Srchová, 2008: 6; and Verschoor 2001: 1). These factors can individually or collectively lead to increased competitiveness of SMEs in the long-term.

4.5 SUMMARY

The major purpose of this chapter was to examine the CSR factors that influence the competitiveness of SMEs. This was accomplished by investigating the CSR activities for businesses, including SMEs, which also constitute the independent variables of this study. They include: workforce-oriented, market-oriented, society-oriented and environmental-oriented CSR activities. These factors can enable a business to build a positive reputation, achieve high customer loyalty and high employee satisfaction. CSR activities can also directly lead to increased competitiveness of SMEs.

The chapter further investigated how employee satisfaction, business reputation and customer loyalty could have an impact on a business’s competitiveness. The chapter also investigated the nature of competitiveness and its relation to CSR. All the factors
discussed in this chapter are represented in the hypothesised model, which will be presented in Chapter 5. The subsequent chapter will focus on the proposed hypothesised model of CSR activities and competitiveness, and how these variables are operationalised for the purpose of this study.
CHAPTER 5

HYPOTHESESED MODEL OF CSR ACTIVITIES AND THEIR INFLUENCE ON COMPETITIVENESS

5.1 INTRODUCTION

The focus of this chapter is to operationalise the research variables and formulate hypotheses. Several empirical studies supporting these hypotheses are discussed in the chapter. In Chapter 4, a number of CSR factors that influence the competitiveness of SMEs have been identified and discussed. It has been acknowledged that CSR is a very wide concept and difficult to measure. The proposed hypothesised model, illustrated in Figure 5.1, integrates CSR activities as independent variables and Increased competitiveness as dependent variable. The relationships are mediated by Employee satisfaction, Business reputation and Customer loyalty. The hypothesised model is based on a literature review of the CSR factors that influence the competitiveness of SMEs as discussed in the previous Chapter 4.

5.2 PROPOSED HYPOTHESESED MODEL OF CSR ACTIVITIES AND THEIR INFLUENCE ON COMPETITIVENESS

The proposed hypothesised model is depicted in Figure 5.1 and it illustrates the relationships between independent, mediating and dependent variables of the study. Subsequently, the research variables are operationalised and hypotheses formulated. The proposed hypothesised model of CSR activities and their influence on competitiveness is presented below.
Figure 5.1: Hypothesised Model of CSR Activities and Competitiveness

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Mediating Variables</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workforce - oriented</td>
<td>Employee satisfaction</td>
<td>Increased competitiveness</td>
</tr>
<tr>
<td>Society - oriented</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market - oriented</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental - oriented</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher’s own construction

Figure 5.1 illustrates how the independent variables (Workforce-oriented, Society-oriented, Market-oriented and Environment-oriented CSR activities) impact on the mediating variables, namely Employee satisfaction, Business reputation and Customer loyalty. These in turn impact on Increased competitiveness (dependent variable), which is measured by profitability, market share, sales and growth rate.

5.3 OPERATIONALISATION OF RESEARCH VARIABLES AND STATEMENT OF THE HYPOTHESES

CSR entails a variety of different activities. For a better understanding and definition of CSR’s scope for SMEs, CSR can be broken down into four different areas in terms of
CSR activities as was discussed in Section 4.2 of Chapter 4. These include Workforce-oriented, Market-oriented, Society-oriented and Environmental-oriented CSR activities. A socially responsible business should be active in all the four areas. However, based on its core values and principles, field of business, and the requirements of its stakeholders, the business chooses specific activities in each of these areas on which it is going to focus its efforts (Polášek, 2010: 136). The relationships between the different variables, resulting hypotheses and empirical and anecdotal support for these hypotheses are discussed in the following sub-sections.

5.3.1 Independent Variables

In this study, the independent variables comprise CSR activities which are discussed in the subsequent sub-sections.

5.3.1.1 Workforce-oriented CSR activities

It should be recognised that employees are highly dependent on the business for which they work. Work is the location where they spend most of their days and their profession impacts the quality of their private and family life and their physical well-being (Polášek, 2010: 139). In a complimentary fashion, the long-term ability of the business to thrive and be successful is dependent upon the quality of the workforce managing and working in the business. Therefore, behaving in a socially responsible manner to its most valuable assets, the employees, is critically important. Given these facts, SMEs should pay special attention to workplace areas when deciding on their scope of CSR activities (Polášek, 2010: 139).

In this study, Workforce-oriented CSR activities refer to those activities aimed at improving the working conditions of workers by offering training and staff development, creating equal opportunities and diversity, and helping them to maintain work-life balance. A survey among Czech SMEs (Polášek, 2010: 165) confirmed the major benefits arising from implementing socially responsible and ethical behaviour towards employees as improvement of employees’ job satisfaction; increase of current employees’ loyalty;
reduction of staff turnover; and recruitment of new qualified employees. For Fiori, Di Donato and Izzo (2007: 8), the measures of workforce-oriented CSR activities are based on health and safety systems, systems for employee training and development, equal opportunities policies, systems for good employee relations, and systems for job creation and security.

Furthermore, a study of Polish SMEs (European Commission, 2007: 3) identified a number of workforce-oriented CSR activities important to SMEs, including employee training and development provision (71%), closely followed by measures to promote health and safety at work (70%), equal treatment of employees and applicants (67%), flexible working hours (58%), and equal treatment of physically handicapped employees and applicants (41%). Similarly, a survey of European SMEs (Mandl and Dorr, 2007: 41) indicated that 86% up to 95% of the Austrian businesses in the sample stated that being a role model for employees, equal treatment of employees, a fair salary structure, transparency and honest contracts with employees are important workforce-oriented CSR activities.

Research on Danish SMEs (Granerud and Boesby, 2009: 11) revealed that managers and employees in SMEs see a positive relation between CSR activities and the work environment, mainly related to psycho-social conditions. This was particularly dominant in service oriented businesses. Businesses that run employee volunteering programmes reported that such programmes can improve employee morale and help participants to acquire and develop new skills (European Competitiveness Report, 2008: 3). Similarly, a survey of SMEs in Estonia found that many SME managers see CSR as a way of retaining qualified employees in a tight labour market (PW Partners, 2007: 8). Indeed, some SMEs successfully use their commitment to CSR to build advantageous reputation as the preferred local employer (European Competitiveness Report, 2008: 4).

Employee diversity policies also constitute important aspects of the workforce-oriented CSR activities. For example, a survey of 900 European businesses indicated that a number of businesses were actively engaged in promoting workplace diversity and anti-
discrimination. This is because it helps resolve labour shortages and to recruit and retain high quality staff (European Commission, 2005: 8). A survey of Danish SMEs (European Commission, 2005: 11) also shows that the businesses which had implemented workforce-related CSR activities experienced a positive financial impact. Apart from the direct financial impact, businesses indicated that workforce-oriented CSR activities have a positive impact in relation to their reputation and ability to attract and retain employees. Such effects of CSR activities have a positive influence on the long-term competitiveness of the SMEs.

Furthermore, a survey of Malaysian SMEs (see, for example, Jamaludin and Hasun 2007: 12) indicates that staff training is one of the most important investments made by businesses in order to increase the value of their human capital. This results in high level of staff loyalty and productivity. Skilled employees are likely to be more efficient in performing their responsibilities that result in good quality of output and waste reduction. This will directly increase business sales, market share, profit, growth, customer loyalty and demand. Thus, a well-skilled and trained workforce is a key resource for effective competitiveness since employee’s knowledge and experience are the unique intangible businesses’ assets (Brdulak, 2006: 7).

Against this background, the following are hypothesised:

\[ H^{1a} : \] There is a positive relationship between the existence of Workforce-oriented CSR activities and Satisfaction of SMEs’ employees.

\[ H^{1b} : \] There is a positive relationship between the existence of Workforce-oriented CSR activities and Business reputation of SMEs.

\[ H^{1c} : \] There is a positive relationship between the existence of Workforce-oriented CSR activities and Increased competitiveness of SMEs.
5.3.1.2 Society-oriented CSR activities

In this study, *Society-oriented CSR activities* refer to those activities targeted to culture, sports, health and well-being, education, assistance to low income groups, and community participation. Such activities are viewed as support for social and cultural community activities, as well as community development and other related issues (Vives, 2005: 12). A socially responsible business tries to build good-neighbour-type relationships by minimising any negative impact on the local environment and by getting involved in addressing and dealing with local problems and concerns. The local community is seen as a source of both potential customers and employees for the business.

To become a good corporate citizen, the business can engage itself in such varied initiatives as providing financial and material support for local activities and projects and by making the time and the professional knowledge of its employees available to the local community (Polášek, 2010: 140). Sporting, cultural, health and welfare activities are the most common community activities which businesses support in European countries. Accordingly, support to sporting activities is the preferred activity amongst SMEs in nearly all the countries in Europe (European Commission, 2002: 13). Similarly, SMEs seem to be the most active in supporting sports, health and cultural activities in Latin America (Vives, 2005: 12).

A survey of European SMEs (Mandl and Dorr, 2007: 44) reveals that the Spanish “Gaursa Group”, a medium-sized car business, is actively involved in the promotion of sport activities for local youngsters, especially in the field of cycling. Furthermore, the medium-sized Finnish jewellery producer “Kalevala Koru Oy” donates a share of the profits gained by selling the series “Time of Africa” (*Afrikan aika*) to a project helping girls to gain basic education in Ghana, where families are so poor that this normally is not possible (Mandl and Dorr, 2007: 45).
Research conducted by Polášek (2010: 140) emphasised the following society-oriented CSR activities as important to SMEs, namely: financial and in-kind (material) donations; volunteerism; education of the public; various support for the local quality of life (e.g. sports, culture, etc.); collaboration with local schools, authorities, and various organisations. The same study (Polášek, 2010: 140) highlighted the benefits associated with society-oriented CSR activities which include improvement of the business’s reputation and image; loyal employees and customers; simplified access to local resources; lower costs on security due to lower crime and vandalism; and new business opportunities.

Businesses depend on the health, stability, and prosperity of the communities in which they operate. The reputation of a business at its location, its image as an employer and producer, but also as an actor in the local scene, certainly influences its competitiveness (Polášek, 2010: 56). It is also reported that a business which is considered socially responsible can benefit from its enhanced reputation within the public and business community, thereby increasing its ability to attract capital and improve its competitiveness (Schiebel and Pöchtrager, 2000: 4).

Based on this discussion, the following are hypothesised:

$H^{2a}$: There is a positive relationship between the existence of Society-oriented CSR activities and Business reputation of SMEs.

$H^{2b}$: There is a positive relationship between the existence of Society-oriented CSR activities and Customer loyalty.

$H^{2c}$: There is a positive relationship between the existence of Society-oriented CSR activities and Increased competitiveness of SMEs.

5.3.1.3 Market-oriented CSR activities

In this study, Market-oriented CSR activities refer to the way in which a business focuses on the needs of its customers by responding quickly to consumers’ orders and complaints
about its products and services, is open at convenient times, provides customers with useful information, treats customers fairly, charges fair prices and generates profit without cheating the customers. It also entails issues such as responsible advertising, dealing with customer complaints, and ethical practices.

In today’s market-oriented environment, a socially-responsible business is expected to conduct its activities in a transparent manner and to have positive relationships with its customers. The business’s ability to succeed in the long-term depends on its ability to create lasting and high quality sales networks for its products (Polášek, 2010: 138). Market-oriented CSR activities may, however, also go beyond the direct buyer-seller relationship by incorporating issues in the interest of the client, such as producing environmentally-friendly products.

The direction a business's CSR activities will take depends on market responses to its activities (Pomerling and Dolnicar, 2006 1). According to a survey of Danish SMEs, important market-oriented CSR activities include general ethical business practices; responsible customer relations; product responsibility; and involvement of customers in important decisions on the business’s product (European Commission, 2005: 42). For instance, trade and servicing businesses are significantly more likely to have responsible customer relations and product responsibility, and to use product labelling schemes.

A survey among Czech SMEs (Polášek, 2010: 138) revealed that they had increased customer loyalty and they stood out among competitors as a result of the benefits derived from implementing market-oriented CSR activities. Similarly, retail data from a telecommunications business showed that market-oriented CSR activities are important drivers of business reputation (Tuppen, 2004: 5). The competitive benefits of CSR from a customer perspective appear to be strengthening as a result of a growing demand of CSR activities from consumers (European Competitiveness Report, 2008: 6). Similarly, a survey of Danish SMEs indicated that market-oriented CSR activities had a positive impact on the financial performance of a business (European Commission, 2005: 6).
Businesses today are practicing CSR because customers are demanding more ethical behaviours from them. Market-oriented CSR activities help businesses to attract and retain customers, and this in turn ensures long-term survival of the business. Berger and Drumwright, as cited by Ali, Rehman, Yilmaz, Nazir and Ali (2010: 477), confirm that businesses with sound market-oriented CSR activities develop a positive reputation and enjoy increased customer loyalty, which in turn influences the competitiveness of a business.

Against this background, the following are hypothesised:

\[ H^{3a}: \text{There is a positive relationship between the existence of Market-oriented CSR activities and Business reputation of SMEs.} \]

\[ H^{3b}: \text{There is a positive relationship between the existence of Market-oriented CSR initiatives and Customer loyalty.} \]

\[ H^{3c}: \text{There is a positive relationship between the existence of Market-oriented CSR activities and Increased competitiveness of SMEs.} \]

**5.3.1.4 Environmental-oriented CSR activities**

In this study, *Environmental-oriented CSR activities* refer to the measures a business can take to minimise its negative impact on the natural environment, such as ecological and economic use of natural resources, environmentally friendly packaging, recycling, waste reduction, energy and water conservation, pollution control, and protection of the natural environment. The most important environmental-oriented CSR activities concern the consumption of materials and energy, handling pollution and waste in the most environmentally friendly way possible (European Commission, 2005: 33). This is in line with a survey of European SMEs which revealed that environmental-oriented CSR activities generally are aimed at designing environmentally friendly products or production processes (including the ecologic and economic use of natural resources) or being actively engaging in recycling activities (Mandl and Dorr, 2007: 47).
Businesses that try to minimise the negative environmental impact of their activities can benefit through new business opportunities (Polášek, 2010: 141). For instance, a business that actively cares for the natural environment has a better chance of obtaining tenders held by large businesses and the public sector and a better chance of attracting new customers from the ranks of environmentally-conscious consumers. According to survey results of Polish SMEs (European Commission, 2007: 6), most SMEs stated that they were reducing the consumption of energy and resources (75%) and the use of natural resources (59%), and that they had recycling management in place (56%). Another 56 percent stated that they were developing environmentally friendly products and services and observed environmental standards on their own production sites (46%).

According to survey results of Czech SMEs (Polášek, 2010: 141), there are many benefits associated with environmental-oriented CSR activities. These include: attraction of environmentally-conscious customers; protection of resources; lower costs due to improved energy efficiency and use of resources; and more efficient operations. Consequently, the main reason behind the involvement of SMEs in environmental-oriented CSR activities is the improvement of a positive image and reputation of the business. This evidence suggests that SMEs have some environmental concern to help protect the environment to gain a competitive advantage (Polášek, 2010: 167). This is in line with the results from the survey of Danish SMEs which showed that environmental-oriented CSR activities had a positive impact on business reputation, which in turn influences the competitiveness of SMEs (European Commission, 2005: 35).

Furthermore, it is acknowledged that a positive relationship exists between embracing environmental-oriented CSR activities and increased competitiveness in terms of profitability (Viviers, 2009: 48). It is empirically demonstrated that there is a positive relationship between environmental practices and customer loyalty, which in turn influences business performance. Hence, some competitiveness gains associated with the adoption of environmental practices include cost reductions, resource savings, opportunities for innovation, customer retention and loyalty, and improved employee morale (Kassins and Soteriou, 2003: 13).
Based on this discussion, the following are hypothesised:

\[ H^{4a} : \] There is a positive relationship between the existence *Environmental-oriented CSR activities* and *Business reputation* of SMEs.

\[ H^{4b} : \] There is a positive relationship between the existence *Environmental-oriented CSR activities* and *Customer loyalty*.

\[ H^{4c} : \] There is a positive relationship between the existence *Environmental-oriented CSR activities* and *Increased competitiveness* of SMEs.

### 5.3.2 Mediating Variables

There are three mediating variables of importance to this study which are discussed in the subsequent sub-sections.

#### 5.3.2.1 Employee Satisfaction

As discussed earlier in Section 4.3.1 of Chapter 4, there are many factors that influence employee satisfaction such as employee benefits, job content and performance appraisal systems, job safety, improving the workplace conditions, and the relationship between managers or other employees (Aydin and Ceylan, 2008: 4). Accordingly, employee satisfaction is viewed as the combination of affective reactions to the differential perceptions of what one wants to receive compared with what one actually receives. The emotional state of employees influences their satisfaction since satisfied employees will work more willingly and this contributes to the business’s competitiveness (Aydin and Ceylan, 2008: 4). In this study, *Employee satisfaction* refers to the business having employees who see their role in the business as satisfying and enjoying working together in the business. In other words, employee satisfaction entails attracting, developing, motivating and retaining qualified and happy employees who feel that they have achieved something with a view of enhancing a business’s competitiveness.
A survey by Sirota Survey Intelligence (2007: 1), established that employees who are satisfied with a business’s commitment to their welfare are likely to be more positive, more engaged and more productive than those working for less responsible employers. Similarly, a survey of Canadian SMEs (Princic and Floyd, 2003: 12) revealed that good employee relationships are regarded as integral to the success of SMEs. Accordingly, having loyal and long-term employees is a prerequisite for any successful business.

Furthermore, the study in the Taiwan's Shipping Industry confirmed the positive relationship between employee satisfaction and SMEs’ competitive advantage (Tsai, Yu and Fu, 2005: 9). SMEs can use employee benefits to increase employee productivity and, in turn, achieve competitive advantage. Therefore, investment in employee benefits in SMEs represents not only costs but also profits in the long-run.

Against this background, the following is hypothesised:

\[ H^5: \text{ There is a positive relationship between achieving Employee satisfaction and Increased competitiveness of SMEs.} \]

**5.3.2.2 Business Reputation**

Business reputation is an important measure of business success. It is the most important strategic and valuable asset a business can possess. Shamma and Hassan (2009: 330) argue that reputation is the ultimate asset that businesses strive to achieve. However, it must be appreciated that business reputation is hard to measure. The annual rankings by *Fortunate Magazine* and *Financial Times* of the world’s most respected businesses provide a broad indication of business reputation based on key indicators such as quality of management, financial soundness, social responsibility, and quality of products and services (Money and Gardiner, 2005: 5). Generally speaking, business reputation is perceived as the strong relationship between the customers and the business, which is viewed as client relationship-building (Omar, Williams and Lingelbach, 2009: 4).
Today, businesses increasingly measure their assets in terms of intangibles, such as knowledge, brand visibility and customer loyalty. It is not what a business makes or does anymore, but its perception that matters (Money and Gardiner, 2005: 2). In this study, Business reputation refers to attributes that form stakeholders’ perceptions of the extent to which a business is well known, reliable, trustworthy, reputable and believable. Businesses should focus on building trust and good will to be profitable and competitive.

Empirical findings by Helm (2007: 8) among employees showed that commitment to protecting the environment, fair treatment of employees, commitment to charitable and social issues, and qualification of management are the most important business reputation attributes. Consumers considered quality of products, value for money of products, commitment to protecting the environment, customer orientation, and credibility of advertising, as the most important business reputation attributes.

Theoretical and empirical research often point to a positive relationship between CSR and business competitiveness (Weber, 2008: 1). According to Hunt and Morgan, as cited by Eberl and Schwaiger (2005: 6), business reputation is an intangible asset that could generate a competitive advantage in the marketplace, and hence, superior financial performance relative to competitors. An empirical study by Fombrun and Rindova (as cited by Omar et al., 2009: 4) among leading US/UK businesses found that those businesses with a more positive reputation appeared to project their core mission and identity in a more systematic and consistent fashion than businesses with lower reputation rankings. Consequently, satisfactory business reputation is an important driver of successful business relationships with customers, which in turn influences a business’s performance (Ewing, Caruana and Loy, 1999: 7).

Empirical findings (e.g. Shamma and Hassan, 2009: 334) highlight vision and leadership, emotional appeal and social and environmental responsibility as the important elements that businesses need to focus on as their reputation progresses. These elements are at the highest level of business reputation and represent an important source of long-term sustainability and competitive advantage. Furthermore, empirical results from both
autoregressive profit models and proportional hazards regression models (e.g. Roberts and Dowling 2002: 14) consistently suggest that successful businesses have a greater chance of sustaining superior performance over time if they also possess relatively good business reputations. Business reputation is thus an important strategic asset that contributes to the sustainability of profits by businesses.

Based on this discussion, the following is hypothesised:

\[ H^6: \text{ There is a positive relationship between Business reputation of SMEs and their Increased competitiveness.} \]

5.3.2.3 Customer Loyalty

Developing customer loyalty is recognised as an indispensable issue for any business. As markets become more competitive, businesses are more likely to attempt to maintain their market share by focusing on retaining current customers (Lee, Lee and Feick, 2001: 2). In this study, Customer loyalty refers to a business having loyal and satisfied customers that are willing to support it by recommending its products and are committed to buying its products/services in the future. Indeed, such long-term relationships can enhance the competitiveness of SMEs, and loyal customers can frequently recommend a business to others.

Scholars vary greatly in their measurement of customer loyalty. Although it is assumed that increased customer loyalty is strongly correlated with a high level of satisfaction, customer loyalty sometimes has been operationalised as behaviour and at other times as an attitude. A study of the mobile phone market in France (Lee et al., 2001: 6) confirmed the measures of customer loyalty as repurchase intent; resistance to switching to a competitor’s products; and willingness to recommend a preferred vendor’s product to friends and associates. As such, a customer who has the intention to repurchase and recommend is more likely to remain with the business. This is in line with the empirical findings of Brimpong, (2008: 60) which demonstrated the indicators of customer loyalty
as length or duration of stay of customers; the willingness to recommend the product or institution to friends; and repurchasing products.

A shift in focus from finding customers to keeping customers has become prominent in recent years and this perspective has been adopted by many businesses. Empirical research (e.g., Gable, Fiorito and Topol, 2008: 14) indicates that customer loyalty is key to business success and retaining existing customers costs far less than acquiring new ones.

The empirical findings from the study of the New Zealand banking industry revealed that competitive advantage, customer value and switching barriers, have a significant impact on customer loyalty. As markets become increasingly competitive, customer loyalty plays a greater role in business success. Hence, customer loyalty creates customer retention to improve a business’s competitiveness (Gan, Cohen, Clemes and Chong, 2006: 14). Similarly, results from the survey of the Bangladeshi Mobile Phone Operator Industry (Islam, 2008: 10) stressed customer retention rate as a good indicator of customer loyalty. Increases in customer retention rates can have a significant positive effect on market share and a business’s net operating cash flow and profit. Therefore, to have a strong competitive position in the market, managers should carefully consider these important factors that make the customer loyal and ultimately lead to profitability and growth of their businesses.

Against this background, the following is hypothesised:

\[ H^7: \text{There is a positive relationship between achieving Customer loyalty and Increased competitiveness of SMEs.} \]

### 5.3.3 Dependent Variable

In the following sub-section, the dependent variable of this study, Increased competitiveness, is discussed.
5.3.3.1 Increased Competitiveness

The long-term goal of SMEs should be to stay in business, grow and make profit. To effectively compete in local and global markets, SMEs must be quick and flexible in their response to stakeholders’ needs. Competitiveness can be treated as a dependent, independent, or an intermediary variable, depending on the perspectives from which the issue is approached. Such levels and approaches actually reflect the wide applications of this concept (Man, Lau and Chan, 2002: 125). However, in this study, Increased competitiveness is treated as a dependent variable, and it refers to a business’s ability to sustain its long-term performance better than its competitors in the market, as indicated by profitability, market share, sales and growth rate.

Measuring competitiveness is a challenging task to scholars. Traditionally, business competitiveness has been measured by using only financial indicators such as profit, market share, sales, and growth rate (Singh et al., 2008: 12, Man et al., 2002: 125). There are many other indicators of competitiveness, depending on the nature of the study, industry and the size of the business. For instance, in a study of founder-managed natural food stores in USA, the researchers measured business performance using net worth, profitability, sales revenue, market share and sales volume (Segal, Borgia and Schoenfeld, 2010: 5). Similarly, Mandl and Dorr (2007: 49) found that the competitive advantage indirectly caused by the CSR activities of SMEs leads to a higher level of competitiveness indicated by increased sales volume, market share and profitability. A survey of independent Greek SMEs also measured business competitiveness using profitability, sales growth, sales volume and market share as indicators of business success (Salavou and Avlonitis, 2008: 7). Similarly, Jamaludin and Hasun (2007: 6) measured competitiveness of the business by comparing the actual performance of the business sales, market share, profit, growth, demand and customer loyalty with the forecast.
On the other hand, the competitive advantage of businesses in the Chinese banking industry was measured using eight business criteria: return on total assets, return on net assets, return on sales, asset-liability ratio, total asset turnover, price-cost ratio, loan losses, and return on equity (Li and Wang, 2007: 2). The survey of five owners-managers of SMEs established that most SMEs today use a hybrid approach in measuring competitiveness due to their concerns on meeting the financial as well as non-financial returns. Financial measures include profits and sales turnover while non-financial measures are the long-term growth rate and market share of the business (Chong, 2008: 7).

Based on this discussion, it can be concluded that most SMEs use profitability, market share, sales and growth rate as measures of competitiveness.

5.4 SUMMARY

The major purpose of this chapter was to operationalise the research variables presented in the background and formulation of the hypotheses as illustrated in the hypothesised model. Several empirical studies supporting these hypotheses were discussed. The subsequent chapter will focus on the research design and methodology that will be used to test the stated hypotheses in order to achieve the purpose and objectives of this study.
CHAPTER 6

RESEARCH DESIGN AND METHODOLOGY

6.1 INTRODUCTION

The primary objective of this study is to gain insight into the deployment of CSR in SMEs, as well as the potential impact of these CSR activities on competitiveness. The purpose of this chapter, therefore, is to explain the research design and methodology that were utilised to address the primary objective of this study.

This chapter clarifies how the present research has been conducted, who it was targeted at, how it was analysed and, most importantly, in what way this research contributes to the current knowledge about the use of CSR in SMEs. In this chapter, a brief description of the preliminary assessment that was undertaken of the hypothesised model is provided. This is followed by the research approach, an introduction of the population studied, as well as a description of the sampling unit and sampling techniques that were used. A brief summary of the operationalisation of the independent, moderating and dependent variables is given, as well as an explanation of the way the measuring instrument was developed and administered. The statistical analysis performed to assess the validity and reliability of the results will also be explained. Finally, a brief description of the Structural Equation Modelling (SEM) technique that was applied to confirm the hypothesised model will be presented.

6.2 PRELIMINARY ASSESSMENT OF THE MODEL

After completing the literature review, a hypothesised model of factors impacting the competitiveness of SMEs was constructed. The proposed hypothesised model (Figure 5.1 in Chapter 5) and the factors from which it is built constitute the focus of the empirical survey. Before the development of the measuring instrument, some views were sought from various stakeholders, including academics knowledgeable in the field of CSR and
SMEs, with regard to the proposed hypothesised model. Furthermore, the model was presented at one international academic conference. The subsequent discussions focused on identifying potential limitations to the model, measuring instruments that could be used to measure the constructs, as well as potential challenges inherent in the research methodology. The model was finally subjected to formal testing among SME owners/managers in Kampala District, Uganda.

6.3 RESEARCH DESIGN

Researchers are often overwhelmed by the plethora of research methodologies, making the selection of an appropriate research design for a particular study difficult. Researchers need a grasp of a vast range of research methodologies in order to select the most appropriate design, or a combination of designs, most suitable for a particular study. Furthermore, one needs to make a thorough study of the methodologies chosen to execute good research practice (Groenewald, 2004: 2). The choice of methodology should be driven by the research questions or objectives rather than any preference for a given methodology (Coll and Chapman, 2000: 1; Gerhardt, 2004: 2).

A research design is the blueprint for fulfilling study objectives and answering research questions (Cooper and Schindler, 2008: 711). The function of a research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible (De Vaus, 2001: 9). A number of research designs exist but no simple classification system defines all the variations that must be considered. Given the specific research questions that have been posed, a decision must be taken on whether to adopt an experimental design for the study or a survey design. Further, if a survey design is to be used, a decision must be taken on whether to use a longitudinal design, in which data are collected on a sample at different points of time, or a cross-sectional design, in which data is collected at a single point in time (Ross, 2005: 17). The present study is primarily cross-sectional in nature since it was carried out once (Cooper and Schindler, 2008: 143; Machin and Campbell, 2005: 1; Mann, 2003: 1).
6.4  RESEARCH PARADIGMS

Researchers who use the logical positivism research paradigm employ experimental methods and quantitative measures to test hypothetical generalisations and to emphasise the measurement and analysis of causal relationships between variables (Golafshani, 2003: 1). Positivists discover empirical generalisations through setting up and testing hypotheses in a deductive manner (Prowse, 2007: 2). Another paradigm is qualitative research or social constructivism which views knowledge as socially constructed and may change depending on the circumstances (Golafshani, 2003: 7). Qualitative researchers are mainly concerned with the meanings and interpretations which individuals ascribe to their surroundings, actions and practices. As social constructivists, many qualitative researchers posit that all types of knowledge are constructed within the cognitive framework and theoretical concepts of an individual. Social constructivists mainly believe that the aggregation of values, ideas and beliefs, and their enactment through actions and conduct, leads to the creation of ‘real’ social processes (Prowse, 2007: 3). However, social constructivism is not applicable to this study.

A quantitative research approach was used to collect data in order to establish the relationships between pre-defined variables as per the study hypotheses. Quantitative research clearly and precisely specifies the independent, mediating and the dependent variables under investigation. Quantitative methods also have the ability to use smaller groups of people to make inferences about larger groups that would be prohibitively expensive to study (Holton & Burnett, 1997: 71; Matveev, 2002: 2). Based on the nature of the research objectives, a logical positivistic approach seems most appropriate for this study.
6.5 RESEARCH METHODOLOGY FOR QUANTITATIVE TESTING AND ANALYSIS

6.5.1 Population

Zikmund (2003: 369) defines a population as being any complete group or body of people, or any collection of items under consideration for a research purpose. A population is also viewed as the total collection of elements about which the researcher wishes to make some inferences (Cooper and Schindler, 2008: 374; Enarson, Kennedy and Miller, 2004: 6). Although SMEs are not well defined, this study considered the total population of 1,069,848 SMEs in Uganda as the population used for this study (Hatega, 2007: 3; Uganda Ministry of Finance, Planning and Economic Development July, 2011).

6.5.2 Sampling

For most research it is impossible and impractical to include in the sample every person in the population. Sampling is the part of statistical practice concerned with the selection of individual observations intended to yield some knowledge about a population of concern, especially for purposes of statistical inference (Palit, 2006: 3511). Sampling also refers to the process of selecting some elements from a population to represent that population (Cooper and Schindler, 2008: 711). Sampling provides a means of gaining information about the population without the need to examine the population in its entirety. Collis and Hussey (2003: 121) and Zikmund (2003: 262) define the sampling unit as the case to which the variables under study and the research problem refer, and about which data is collected and analysed.

Stratified sampling, a process by which the sample is constrained to include elements from each of the segments (Cooper and Schindler, 2008: 390), was used to categorise businesses into industrial sectors. Purposive sampling, a non-probability sample that conforms to certain criteria (Cooper and Schindler, 2008: 397), particularly judgmental sampling, was used to select respondents from different industrial sectors in Kampala.
District, whose workforce ranged from 5-100 employees. This data was obtained from Uganda Bureau of Statistics (UBOS 2007) Business Register Update which covered all the sectors of the Ugandan economy except the public sector and it provided an updated list of businesses employing 5 or more persons. The industrial sectors under consideration are depicted in Table 6.1 below.

**Table 6.1: Distribution of Businesses by Employment Size Band (above 1,000) by Industry Sector**

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Total Employment Size Band</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and Social Works</td>
<td>5,341</td>
</tr>
<tr>
<td>Trade</td>
<td>5,269</td>
</tr>
<tr>
<td>Hotels and Restaurants</td>
<td>3,411</td>
</tr>
<tr>
<td>Food Processing and other Manufacturing</td>
<td>3,280</td>
</tr>
<tr>
<td>Education</td>
<td>2,415</td>
</tr>
<tr>
<td>Business Services</td>
<td>1,738</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>1,158</td>
</tr>
</tbody>
</table>

**Source:** The UBOS (2007) Business Register Update

In Table 6.1 above, it is clear that the Health and Social Works sector (general and specialized hospitals and clinics with private consultants) contains most businesses, followed by Trade, and Hotels and Restaurants sectors respectively.

A sample size between 30 and 500 at a 5% confidence level is generally sufficient (Wahid, Rahbar and Shyan (2011: 5). However, to be specific this study adopted Krejcie and Morgan’s simplified heuristics as cited by Sekaran (2000: 295), to determine the sample size. Using the Krejcie and Morgan’s simplified heuristics, the sample size of 383 was determined at a 95% level of certainty and based on the population of 1,069,848 SMEs in Uganda. Hence, 383 SME owners/managers, who are judged to have specific information about their businesses, were identified and selected with the help of business associations for this study.
6.5.3 Data collection

6.5.3.1 Secondary data
A comprehensive literature search was conducted in order to identify appropriate CSR activities and other factors that have an impact on the long-term competitiveness of SMEs. Therefore, several data searches were done at Makerere University and the Nelson Mandela Metropolitan University libraries, using databases such as EBSCO, Emerald searches, Google searches, Yahoo searches, Dissertation Abstracts, and leading CSR and SMEs Journals. The review covered journal articles, online reports and government documents.

6.5.3.2 Primary data
Although the application of the scientific method varies from discipline to discipline, the general principles of the scientific method permit researchers to learn more about the world and observable phenomena. The ultimate goal in conducting primary research is to learn about something new that can be confirmed by others and to eliminate biases in the process (Driscoll, 2011: 3). It should be noted that there are many methods of generating primary data. However, in business research, surveys are the most common method of generating primary data (Zikmund, 2003: 66). This was the method used in this study. A survey can also be defined as a research technique where information is collected from a sample of people by means of a questionnaire (Eybers, 2010: 130). In other words, a survey is a systematic method for gathering information from individuals for the purposes of describing the attributes of the larger population of which the individuals are members.

Information attained through surveys benefits researchers by recording personal behaviours, attitudes, identities, and definitions from a high volume of respondents (Gerhardt, 2004: 27). As such, surveys are useful for gaining information that cannot be calculated by observation, such as risk, fear, religious beliefs, and racial attitude. Surveys indeed provide a method for acquiring information on the same topic from a large group of people in a relatively short period of time (Gerhardt, 2004: 27). Hence, the great
strength of the survey as a primary data collection approach is its versatility (Cooper and Schindler, 2008: 215).

Survey questionnaires vary in several ways, from the way the populations are contacted, to the way each instrument is administered, and to the way the surveys are presented to the respondents. The effect of these variations can have dramatic effects on the data generated from them (Bowling, 2005: 1; Lee, 2009: 2). Questionnaires can be in two forms: self-administered questionnaires or structured interviews. Self-administration of questionnaires can increase respondents’ willingness to disclose sensitive information, compared to face-to-face or telephone interviews. As such, sensitive questions are best asked by more impersonal, self-administration methods as they lead to higher levels of reporting (Bowling, 2005: 7; Koponen, Mäki-Opas and Tolonen, 2011: 5). This study used the survey technique to collect the raw data on the CSR factors that potentially influence the competitiveness of SMEs. According to Collis and Hussey (2003: 66), a self-administered questionnaire is common to a positivistic research paradigm. It is this kind of questionnaire that was found appropriate for this study.

In the sections below, the development of the measuring instrument is explained. The discussion includes identifying the questions that determine whether respondents qualify to participate in the study or not, as well as operationally defining the variables of interest. The process that was followed to develop valid and reliable scales of measure is also described, and the questionnaire-administering process is also summarised.

6.5.4 Questionnaire Design

In this study, the purpose of the measuring instrument was to obtain primary data to test the hypothesised relationships shown in the hypothesised model, and to subsequently identify the CSR factors that influence the competitiveness of SMEs. The measuring instrument for this study (see Annexure A) consisted of a cover letter and two sections. The cover letter furnished details regarding the purpose of the study as well as the type of information being sought. Furthermore, assurances of confidentiality and instructions on
Section A consisted of 60 statements (items) related to CSR factors and mediating variables that influence SMEs’ competitiveness and were randomised to improve the accuracy of answers to sensitive questions. The randomised response technique is a survey method developed to improve the accuracy of answers to sensitive questions. When sensitive topics are studied, respondents often react in ways that negatively affect the validity of the data (Gerty, Lensvelt, Joop and Van Der Heijden, 2005: 1). Table 6.2 below depicts a brief outlay of sections contained in the measuring instrument as well as corresponding number of items generated to test a particular variable in the proposed hypothesised model.

### Table 6.2: Questionnaire Design according to sections and factors

<table>
<thead>
<tr>
<th>Section</th>
<th>Factors</th>
<th>Number of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Workforce-oriented CSR activities</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Society-oriented CSR activities</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Market-oriented CSR activities</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Environmental-oriented CSR activities</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Employee satisfaction</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Business reputation</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Customer loyalty</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Increased competitiveness</td>
<td>5</td>
</tr>
<tr>
<td>B</td>
<td>Gender</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Number of years in business</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Position or title in the business</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Level of education</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Form of enterprise</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Branch/sector</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Size of the business</td>
<td>2</td>
</tr>
</tbody>
</table>

Section B of the questionnaire sought demographic information relating to both the respondents and the SMEs in which they operate. This section requested information on gender, the number of years in the business by the respondent, position/title of respondent in the business, and the level of education of respondent. Furthermore, information was solicited regarding the business itself, namely the form of enterprise, branch/sector of enterprise, the number of full-time employees, and the range of annual turnover. A
nominal scale, which allows inferences on equality or difference, but nothing else, was used to classify the data (Collis and Hussey, 2003: 161).

For measurement purposes, a semantic differential scale was utilised with a possible response continuum from strongly disagree to strongly agree requesting respondents to indicate their extent of agreement with each statement. Items were designed to evaluate the CSR factors and mediating variables that influence the competitiveness of SMEs as perceived by the respondent. A 7-point Likert-type interval scale was used and interpreted as 1 = strongly disagree and 7 = strongly agree. A seven-point scale was selected, because it was considered that such a scale would allow the knowledgeable target population (SME owners/managers) to specify their responses more accurately than if a five-point scale were used (Han, 2006: 104). The choice of an interval scale for the measuring instrument enables the required inferential statistical data analysis to be undertaken (Leedy & Ormrod, 2005: 26-27). Interval scales have the power of nominal and ordinal data and they incorporate the concept of equality of interval (Cooper and Schindler, 2008: 286). The interval scales represent a higher level of measurement than the ordinal scales. They possess the properties of magnitude and equal intervals between adjacent units. Since with an interval scale there are equal amounts of the variable between adjacent units on the scale, equal differences between the numbers on the scale represent equal differences in the magnitude of the variable (Pagano, 2004: 2). In the interval scale, a few statistical algorithms can be applied such as calculating central tendencies using mean, median, mode and dispersion using range, inter quartile range and standard deviation (Pandian, 2009: 6).

An ordinal scale arranges objects or alternatives according to their magnitude in an ordered relationship (Zikmund, 2003: 297). Using this scale, the researcher may argue in terms of ‘greater than’ or ‘less than’. This scale allows the researcher to rank-order data, hence the name ‘ordinal’ (Leedy and Ormrod, 2005: 26). An ordinal scale also allows an extension of the range of statistical techniques that can be used for data analysis, such as the median and percentile rank (Han, 2006: 103). The extent of the relationship between two characteristics can also be determined by means of Spearman’s rank order correlation.
which is a non-parametric measure of association based on the rank of the data values (Leedy & Ormrod, 2005: 26). Despite the greater statistical data analysis possibilities associated with ordinal data, its intrinsic limitations make it unsuitable as a measurement scale for this study.

6.5.5 Operationalisation of variables

Research involves investigating and measuring some aspect of behaviour that may be vague or have multiple meanings. This requires the researcher to define concepts and constructs in ways that are precise, measurable, and concrete. Operational definitions of constructs serve two essential purposes: they establish the rules and procedures the investigator will use to measure the key variables of the study, and they provide unambiguous meaning to terms that otherwise might be interpreted in different ways (Fisher and Foreit, 2002: 2). In other words, an operational definition assigns meaning to a variable by specifying what is to be measured and how it is to be measured. Before any variable can be measured, it is necessary first to establish the operational procedures that specify how the measurement will be made and to define the meaning of the variable. Just as it is necessary to define variables operationally, Fisher and Foreit (2002: 5) argue that it is also necessary to operationally define the terms that indicate the nature of the relationship between the variables. If this is not done, confusion about the meaning of concepts can destroy the value of a research study (Cooper & Schindler 2007: 38).

According to Babbie and Mouton (2001: 233), questionnaires represent a common and concrete illustration of the operationalisation process, and the questions themselves serve as the operationalisation of variables. To effectively operationalise the variables in the hypothesised model, literature on CSR activities and their potential outcomes, and factors that influence the competitiveness of SMEs as discussed in Chapters 3 and 4, was used in this study.

The study used some items from existing measuring instruments that have proved to be reliable and valid in previous research studies. However, where sufficient items were not
available, additional questions were formulated based on an intensive analysis of secondary sources to ensure that every variable in the measuring instrument was represented by adequate items. In the present study, a minimum of 5 items were used to measure variables. According to Farrington (2009: 359), new scale development is appropriate when studying something that does not have a rich history of previous research. The various operational definitions of the independent, mediating and dependent variables are discussed in the following paragraphs. These definitions are based on an interpretation of secondary sources and existing empirical studies. An explanation will also be given regarding how the scales were developed to measure the selected variables.

(a) Workforce-oriented CSR activities

In this study, *Workforce-oriented CSR activities* refer to those activities aimed at improving the working conditions of workers, helping them to maintain work-life balance, to create equal opportunities for training and staff development, and to provide employees with a sense of job security. In order to measure the *Workforce-oriented CSR activities* in this study, a nine-item scale was developed. Some of these items were derived from those used by DeVaney and Chen (2003), Eybers (2010: 171), Polášek (2010: 100) and Somyot (2008: 121) in their empirical research. The rest of the items were derived from secondary sources. In most cases, the aforementioned items had to be reworded and positively phrased to make them appropriate for this study.

(b) Society-oriented CSR activities

*Society-oriented CSR activities* in this study refer to those activities targeted to culture, sports, health and well-being, education, assistance to low income groups, and community participation. Society-oriented CSR activities are viewed as support for social and cultural community activities, as well as community development and other related issues (Vives, 2005: 12). In order to measure the *Society-oriented CSR activities* of the present study, an eight-item scale was developed. These items were derived from those

(c) Market-oriented CSR activities

*Market-oriented CSR activities* in this study refer to the way in which a business focuses on the needs of its customers by responding quickly to consumers’ orders and complaints about its products and services; how it is open at convenient times; the way it provides customers with useful information, treats them fairly, charges them fair prices and generates profit without cheating. In order to measure the *Market-oriented CSR activities* in this study, a 10-item scale was designed. Most of the items were from those used by research conducted by Aqueveque and Ravasi (2006: 37), Chen (2009: 5), Herpen et al., (2003: 19), Heyder and Theuvsen (2009), Maignan and Ferrell, (2004), and Somyot (2008: 121). The rest of the items were derived from the existing literature. The aforesaid items were reworded and positively phrased to make them appropriate for this study.

(d) Environmental-oriented CSR activities

In this study, *Environmental-oriented CSR activities* refer to the measures a business can take to minimise its negative impact on the environment such as ecological and economic use of natural resources, environmentally friendly packaging, recycling, waste reduction, energy and water conservation, pollution control, and protection of natural environment. Other initiatives include production of goods and services that actively help improve the environment (European Competitiveness Report, 2008:2). However, most of these environmental rated issues are not critical in Uganda. In this study, *Environmental-oriented CSR activities* were measured by developing an eight-item scale. All the items were derived from those previously used and developed by Chen (2009: 5), Herpen et al., (2003: 19), Maignan and Ferrell, (2004), Núñez (2008: 64), and Timo (2006: 101). As expected, the items were reworded and positively phrased to make them relevant for this study.
(e) Employee satisfaction

*Employee satisfaction* refers to the business having employees who see their role in the business as satisfying and enjoying working together in the business. *Employee satisfaction* entails attracting, developing, motivating and retaining qualified employees with a view to enhancing a business’s competitiveness.

The present study developed an eight-item scale in order to measure *Employee satisfaction*. The items were derived from those used by Dua (1994: 62), Eybers (2010: 160), Farrington (2009: 406), Llorente and Macia (2005: 66), and Tanur (1995: 427). However, items were reworded to make them appropriate for this study.

(f) Business reputation

For the purpose of this study, *Business reputation* refers to attributes that form stakeholders’ perceptions of the extent to which a business is well known, reliable, trustworthy, reputable and believable. It should be noted that *Business reputation* is a concept that is not widely understood, and operationalising it has proved very difficult. Nevertheless, some studies have used different scales to measure business reputation. For the present study, a few items were derived from those used by Fombrun et al., (2000) and Lloyd (2007: 55). For example, Lloyd (2007: 55) used an eight-point Likert-type scale (ranging from “Strongly disagree” = 0 to “Don’t know” = 7) to measure business reputation. The rest of the items were developed after extensively scrutinizing the existing literature. A six-item scale was used to measure *Business reputation* in this study.

(g) Customer loyalty

*Customer loyalty* refers to a business having loyal and satisfied customers that are willing to support it by recommending its products and that are committed to buying its products/services in the future. The present study developed a six-item scale in order to
measure *Customer loyalty*. Some items were derived from those used by Bloemer, Ruyter, and Wetzels (1999), Donnelly (2009: 289), Ouyang (2010: 6), and Ramzi and Mohamed (2010: 5), and where necessary, self-generated items were developed.

(h) **Increased Competitiveness**

For the purpose of this study, *Increased competitiveness* refers to a business’s ability to sustain its long-term performance better than its competitors in the market, in terms of profitability, market share, sales turnover and growth rate. *Increased competitiveness* is also viewed as the ability to increase market share, profit and growth in value added and to stay competitive for a long term. In developing the scale to measure the *Increased competitiveness* of SMEs, the existing literature on the measurement scales for competitiveness was consulted. For example, Depperu and Cerrato (2005: 10) assert that any measure of a business’s competitiveness should take into account the time perspective. As such, a dynamic analysis emphasises the trends of competitiveness indicators over time rather than single-period measures.

Table 6.3 below summarises the operationalisation of variables and scale development of these variables in this study.

<table>
<thead>
<tr>
<th>Operationalisation of factors</th>
<th>Item</th>
<th>Empirical &amp; secondary sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workforce-oriented CSR activities refer to those activities aimed at improving the working conditions of workers, helping them to maintain work-life balance, to create equal opportunities for training and staff development, and to provide employees with a sense of job security.</td>
<td>9</td>
<td>DeVaney and Chen (2003), Eybers (2010: 171), Herpen et al. (2003: 19), Polášek (2010: 100) and Somyot (2008: 121).</td>
</tr>
<tr>
<td>Society-oriented CSR activities refer to those activities targeted to culture, sports, health and well-being, education, assistance to low income groups, and community participation.</td>
<td>8</td>
<td>Chen (2009: 5), Herpen et al., (2003: 19), Szlávik, Pálvölgyi, Csigéné Nagypál and Füle (2006: 21), Timo (2006: 101), and Vives</td>
</tr>
</tbody>
</table>
Market-oriented CSR activities refer to the way in which a business focuses on the needs of its customers by responding quickly to consumers’ orders and complaints about its products and services, is open at convenient times, provides customers with useful information, treats customers fairly, charges fair prices and generates profit without cheating the customers.

Environmental-oriented CSR activities refer to the measures a business can take to minimise its negative impact on the environment such as ecological and economic use of natural resources, environmentally friendly packaging, recycling, waste reduction, energy and water conservation, pollution control, and protection of natural environment.

Employee satisfaction refers to the business having employees who see their role in the business as satisfying and enjoying working together in the business.

Business reputation refers to attributes that form stakeholders’ perceptions of the extent to which a business is well known, reliable, trustworthy, reputable and believable.

Customer loyalty refers to a business having loyal and satisfied customers that are willing to support it by recommending its products and that are committed to buying its products/services in the future.

Increased competitiveness refers to a business’s ability to sustain its long-term performance better than its competitors in the market, in terms of profitability, market share, sales turnover and growth rate.

6.5.6 Administration of questionnaires

The identification of potential SMEs started between the months of June 2010 and April 2011 through stratified and purposive sampling while the researcher was interacting with business association chairpersons or representatives. Through those interactions, the
researcher was able to establish the location of the SMEs that constituted the sampling frame in Kampala District. At the beginning of May 2011, five research assistants were deployed to help reach the targeted SME owners/managers directly and to request them to participate in the study. The questionnaire and cover letter were then directly given to those who agreed to participate and complete the questionnaire. To enhance the perceived credibility of the study and to increase the likelihood that the respondents would complete the questionnaires, all communication with respondents was done on the official letterhead of the Nelson Mandela Metropolitan University. The cover letter clarified the purpose of the study and the type of information being sought, and it also guaranteed the confidentiality and ethical clearance of responses.

Furthermore, in order to foster increased participation in the study, respondents were assured that a summary of the final results would be made available to them. Respondents were telephonically contacted on a weekly basis as a way of requesting and motivating them to complete the questionnaire. In some cases, respondents were telephonically contacted more than once to remind them of the survey and to request them once again to participate. Consequently, 750 questionnaires were made available to potential respondents. As a result of rigorous supervision and monitoring, 383 completed questionnaires were returned within four weeks and were all used in the statistical analysis.

6.5.7 Response rate and sample size

A total of 383 usable questionnaires were received from respondents, resulting in a response rate of 51%. Table 6.4 below presents a further breakdown of the response rate.

<table>
<thead>
<tr>
<th>Questionnaires distributed</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Usable questionnaires received</td>
<td>383</td>
</tr>
<tr>
<td>Response rate</td>
<td>51.07%</td>
</tr>
</tbody>
</table>
6.5.8 Missing data

Each of the returned questionnaires was scrutinised for missing data upon receipt. The questionnaires with missing demographic data (items from Section B of the questionnaire) were very few, and therefore, insignificant. However, a few incomplete items from Section A that were meant to measure the constructs in the model were substituted with the mean score for that variable. This was done in order to facilitate data processing without distorting the results. As Acock (2005: 5) argued, the use of the mean substitution option may be based on the fact that the mean is a reasonable guess of a value for a randomly selected observation from a normal distribution. The mean substitution method, which was deployed in this study, is thus one of the most commonly practiced approaches because it replaces missing values on a variable with the mean value of the observed values (Peng, Harwel, Liou and Ehman, 2006: 16; Rubin, Witkiewitz, Andre and Reilly, 2007: 3).

6.5.9 Demographic profile of respondents

Section B of each questionnaire comprised different questions regarding the demographical profile of the respondent and the business. A summary of all of the demographic information gathered from the 383 usable questionnaires is presented in the tables and paragraphs to follow. Additional details can be found in Annexure B.

Table 6.5 below summarises the demographical profiles of respondents in this study.

<table>
<thead>
<tr>
<th>Gender of respondent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>243</td>
<td>63.4%</td>
</tr>
<tr>
<td>Female</td>
<td>140</td>
<td>36.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of years in business by respondent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than three years</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Between three and 5 years</td>
<td>273</td>
<td>71.5%</td>
</tr>
<tr>
<td>Between 6 and 10 years</td>
<td>86</td>
<td>22.5%</td>
</tr>
<tr>
<td>More than 10 years</td>
<td>23</td>
<td>6.0%</td>
</tr>
<tr>
<td>Position or Title in business of respondent</td>
<td>Frequency</td>
<td>Percentage</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-----------</td>
<td>------------</td>
</tr>
<tr>
<td>Owner (Silent Partner)</td>
<td>25</td>
<td>6.5%</td>
</tr>
<tr>
<td>Owner and active manager in the business</td>
<td>33</td>
<td>8.6%</td>
</tr>
<tr>
<td>Employed manager (CEO or functional manager)</td>
<td>325</td>
<td>84.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Level of education of respondent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary level certificate</td>
<td>3</td>
<td>.8%</td>
</tr>
<tr>
<td>Advanced level certificate</td>
<td>12</td>
<td>3.1%</td>
</tr>
<tr>
<td>National certificate or Diploma</td>
<td>229</td>
<td>59.8%</td>
</tr>
<tr>
<td>Bachelors degree</td>
<td>127</td>
<td>33.2%</td>
</tr>
<tr>
<td>Masters degree and higher</td>
<td>11</td>
<td>2.9%</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>.3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Form of enterprise</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole trader</td>
<td>53</td>
<td>13.9%</td>
</tr>
<tr>
<td>Partnership</td>
<td>59</td>
<td>15.4%</td>
</tr>
<tr>
<td>Private limited Company</td>
<td>256</td>
<td>67.0%</td>
</tr>
<tr>
<td>Trust</td>
<td>12</td>
<td>3.1%</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Branch/Sector</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing/processing</td>
<td>82</td>
<td>21.4%</td>
</tr>
<tr>
<td>Business services</td>
<td>76</td>
<td>19.8%</td>
</tr>
<tr>
<td>Trade (retailing/wholesaling)</td>
<td>41</td>
<td>10.7%</td>
</tr>
<tr>
<td>Hotels and Restaurants</td>
<td>75</td>
<td>19.6%</td>
</tr>
<tr>
<td>Finance</td>
<td>20</td>
<td>5.2%</td>
</tr>
<tr>
<td>Insurance</td>
<td>6</td>
<td>1.6%</td>
</tr>
<tr>
<td>Education</td>
<td>62</td>
<td>16.2%</td>
</tr>
<tr>
<td>Health and Social works</td>
<td>21</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Size of the business ( Number of full-time employees)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5</td>
<td>3</td>
<td>.8%</td>
</tr>
<tr>
<td>Between 5 and 10</td>
<td>129</td>
<td>34.0%</td>
</tr>
<tr>
<td>Between 11 and 20</td>
<td>150</td>
<td>39.6%</td>
</tr>
<tr>
<td>Between 21 and 50</td>
<td>73</td>
<td>19.3%</td>
</tr>
<tr>
<td>More than 50</td>
<td>24</td>
<td>6.3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Size of the business ( Range of Annual Turnover)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than UGX 50 million per annum</td>
<td>100</td>
<td>26.2%</td>
</tr>
<tr>
<td>UGX 51-100 million per annum</td>
<td>61</td>
<td>16.0%</td>
</tr>
<tr>
<td>UGX 101-200 million per annum</td>
<td>19</td>
<td>5.0%</td>
</tr>
<tr>
<td>More than UGX 200 million per annum</td>
<td>14</td>
<td>3.7%</td>
</tr>
<tr>
<td>Not willing to disclose</td>
<td>187</td>
<td>49.1%</td>
</tr>
</tbody>
</table>

**Note:** ZAR 1 = UGX 350

It can be seen from Table 6.5 above that the majority of respondents in the present study were male (63.4%). The overwhelming majority of respondents (71.5%) had been in operation between three and five years while only a few of the respondents (6.0%) had
been in operation for more than 10 years. Furthermore, the overwhelming majority of respondents (84.9%) were employed managers (CEO or functional manager) in areas such as Financial or Marketing and only a few of the respondents were owner/active managers (8.6%) and owner/silent partners (6.5%). The possible explanation for many respondents being employed as managers is that they had the relevant managerial competencies. Most respondents (59.8%) had attained a National Certificate or Diploma and only a few of the respondents (2.9%) had a Masters Degree and higher.

Regarding the form of enterprise, the great majority (67.0%) were private limited company followed by partnerships (15.4%) respectively. Manufacturing/Processing constituted the majority of the industrial sectors (21.4%), followed by Business services (19.8%), Hotels and Restaurants (19.6%), Education (16.2%) and Trade (10.7%).

Regarding the number of full-time employees, the majority of the respondents employ between 11 and 20 employees (39.6%), followed by those employing between five and 10 (34.0%), and between 21 and 50 (19.3%) employees respectively. As expected, very few businesses (6.3%) had more than 50 full-time employees. Finally, with regard to the annual turnover, the majority of the respondents (49.1%) were unwilling to disclose this information. This is typical of many SMEs in developing countries. Of those that were willing to disclose information, 26.2% of respondents indicated that they generated less than UGX 50 million (ZAR 143,000) per annum and 16.0% of respondents generated UGX 51-100 million per annum. Only a few businesses (3.7%) generated more than UGX 200 million (ZAR 572,000) per annum.

6.5.10 Data Analysis

To analyse the data, a researcher needs to understand what the study aims to accomplish. Measurement tools can be judged on two merits, namely practical issues and technical characteristics (reliability and validity). As Cooper and Schindler (2008: 296) have argued, sound measurement must meet the tests of validity, reliability, and practicality. Practicality is defined as economy, convenience and interpretability (Kappiantari, 2009: 32). Reliability refers to the degree to which an instrument consistently measures
whatever it intends to measure. In other words, it is the statistical measure of the reproducibility or stability of the data gathered by a survey. On the other hand, the validity of a measurement is the degree to which an instrument measures what it is supposed to measure (Whichard, 2006: 2).

Testing an instrument for reliability and validity can help assess if the instrument is “good” or “bad” and ultimately indicates if the interpretation of the data is accurate or misleading. For this study, a description of the statistical techniques used to assess the reliability and validity of the results is presented in the subsequent sections.

Several data analysis techniques have been utilised in this study. An Analysis of Variance (ANOVA) was undertaken to determine the influence of demographic variables with a nominal scale on the mediating and the dependent variables. Multiple Linear Regression (MLR) analysis was carried out to determine the influence that the demographic variables measured on an ordinal scale had on the mediating and dependent variables. Based on the objectives and the hypothesised model of this study, Structural Equation Modelling (SEM) was applied to test and prospectively corroborate the factors identified as influencing the Increased competitiveness of SMEs. The techniques will be discussed in more detail in the following subsections.

6.5.10.1 Reliability of the measuring instrument

A measure is reliable to the degree that it supplies consistent results. Although reliability is a necessary contributor to validity, it is not a sufficient condition for validity (Cooper and Schindler, 2008: 292). Reliability is one of the most important issues of measurement quality and it should be well thought through before a measure is proposed and used, and before data is gathered and results analysed. Reliability refers to a measure which is reliable to the extent that independent, but comparable measures of the same trait or construct of a given object agree. It depends on how much variation in scores is attributable to random or chance errors (Zhu and Han, 2011: 1). Reliability may also be viewed as the consistency of a number of measurements taken using the same
measurement method on the same subject, and as an instrument’s relative lack of error (Javali, Gudaganavar and Raj, 2011: 2; Suhr and Shay, 2009: 1; Whichard, 2006: 2). The more consistent the results achieved by the same participants in the same repeated measurements, the higher the reliability of the measuring procedure.

One of the measures of internal consistency that is the most frequently preferred is calculating Cronbach-alpha coefficients (Javali et al., 2011: 3). Traditionally, a reliability coefficient of greater than 0.80 has been considered as an appropriate cut off for high stakes assessments (Joshi, 2007: 8). Although reliability levels of 0.85 are desirable and are sometimes achieved in practice (McGrath, Pogge and Stokes, 2005: 3), acceptable levels of reliability depend on the purpose of the instrument. Hence, acceptable reliability of instruments developed for research purposes can be as low as 0.60 (Suhr and Shay, 2009: 3). Cronbach-alpha coefficients were, therefore, used to measure the degree of reliability of the measuring instrument in this study and were used to determine which items would be incorporated as measures of particular constructs. The software programme SPSS 18 for Windows was used to calculate the Cronbach-alpha coefficients.

6.5.10.2 Validity of the measuring instrument

Validity, according to Joshi (2007: 8) and Larkey and Knight (2002: 10), refers to the extent to which a test measures what it purports to measure. Validity is also viewed as the extent to which an empirical measure adequately reflects the real meaning of the concept under consideration. Validity is fundamental to an instrument’s credibility because it indicates that the instrument is indeed measuring what it was designed to measure and that it is measuring it accurately (Whichard, 2006: 3). The higher the instrument’s validity is, the higher the likelihood that it is measuring the theoretical constructs for which it is expressly designed.

There are four common procedures for establishing the validity of an instrument: face validity, content validity, criterion validity and construct validity. Face and content validity are qualitative measures of validity and are often employed in survey research
because they are the easiest to ascertain. Face and content validity are secured via a panel of experts who judge the survey’s appearance, relevance and the representativeness of its elements (Burton and Mazerolle, 2011: 3), Vogt, King and King; 2004: 2). The content validity of the measuring scales used in this study was assessed by requesting research experts to scrutinise the questionnaire. These research experts were given the construct definitions of the different factors and asked to judge whether the items in the measuring instrument were deemed relevant, essential, meaningful, and appropriately worded. Based on the feedback received, minor changes and corrections to the original questions were effected before the questionnaire was finalised. The final items were then randomly sequenced, and thereafter the questionnaires were printed and distributed.

In order to establish the authenticity of the measuring instrument used in this study, construct validity was considered. Construct validity is one of the most central concepts in psychology. According to Westen and Rosenthal (2003: 2), construct validity of a measure is established by correlating it with a number of other measures. Construct validity is, therefore, the degree to which an operational measure correlates with the theoretical concept investigated. Construct validity provides the researcher with confidence that a survey actually measures what it is intended to measure (Burton and Mazerolle, 2011: 3; Cooper and Schindler, 2008: 296; Hair, Black, Babin, Anderson, and Tatham, 2006: 776; Zikmund, 2003: 303).

According to Venter (2003: 248), a measuring instrument exhibits construct validity if the scale has both convergent and discriminant validity. Convergent validity is the degree to which scores on one scale correlates with scores on other scales designed to assess the same construct (Cooper and Schindler, 2008: 292; Strauss and Smith, 2009: 6). Discriminant validity, on the other hand, refers to the degree to which scores on a scale do not correlate with scores from scales designed to measure different constructs (Cooper and Schindler, 2008: 292; Farrell, 2009: 1; Farrell and Rudd, 2009: 2; Strauss and Smith, 2009: 6). In this study, the measuring instrument was developed based on constructs identified in theory. Subsequently, assessing the discriminant validity was an attempt to
establish whether the measuring instrument adequately discriminates between the constructs being evaluated.

Some researchers undertake the multivariate technique of exploratory factor analysis to assess the discriminant validity of a relatively large set of variables as well as confirmatory models using SEM to test hypotheses (Cooper and Schindler, 2008: 573; Deshpande and Tanguma, 2006: 4; Richarme, 2002: 4). Exploratory factor analysis (EFA) is a technique for data exploration and it is used to determine the structure of factors to be analysed. It is used to establish dimensionality and convergent validity of the relationship between items and constructs (Abdul-Halim, and Che-Ha, 2009: 15). Exploratory factor analysis can also be useful for refining measures, evaluating construct validity, and in some cases testing hypotheses (Conway and Huffcutt, 2003: 1). If a factor analysis is misinterpreted, and discriminant validity is not established, then measurement scales used in research may not function correctly, and conclusions made regarding relationships between constructs under investigation may be incorrect (Farrell, 2009: 2; Farrell and Rudd, 2009: 2). Therefore, in order to ascertain whether all the scales used in this study have construct validity, EFA was performed on the measurements of constructs. Besides determining the validity of measurements, the objective of doing factor analysis in this study was to identify representative variables and to create new variables, if any to be used in the subsequent analysis. The idea was to obtain the most parsimonious set of variables to be included in the analysis. The software programme SPSS 18 for Windows was used for this analysis.

6.5.11 Effect of demographic variables

The main objective of the present study was to measure the influence of various factors on the Increased competitiveness of SMEs. Furthermore, the influence that selected demographic factors have on Employee satisfaction, Business reputation and Customer loyalty (mediating variables) and the Increased competitiveness (dependent variable) of SMEs, were determined. The software programme SPSS 18 for Windows was used for
this purpose. It was hypothesised that these demographic variables would have no influence (null hypothesis) on the mediating and dependent variables.

In this study, an Analysis of Variance (ANOVA) was undertaken to determine the influence of demographic variables (such as gender of respondent, position/title in the business, form of enterprise and branch/sector of business) with a nominal scale on the mediating and dependent variables. Analysis of Variance (ANOVA) is a statistical method for testing the null hypothesis, namely that the means of several populations are equal. The test statistic for ANOVA is the F ratio. If the null hypothesis is true, there should be no difference between the population means, and the F ratio should be close to 1. If the population means are not equal, the F ratio should be greater than 1 (Cooper and Schindler 2007: 516-517).

To determine the influence that the demographic variables (that is, number of years in business, level of education, size of the business and annual turnover) measured on an ordinal scale have on the mediating and dependent variables, a Multiple Linear Regression analysis was carried out. Multiple Linear Regression analysis is an instrument used to forecast the dependent variable, founded on several independent and explanatory variables (Cooper & Schindler 2007: 575). According to Han (2006: 125), Multiple Linear Regression analysis enables the effects of two or more independent variables on a single dependent variable, to be investigated at the same time.

6.5.12 Structural Equation Modelling

Structural Equation Modelling (SEM) is a general term used to describe a large number of statistical models used to evaluate the validity of substantive theories with empirical data (Farrington, 2009: 370; Lei and Wu, 2007: 1). SEM is a multivariate technique suited for testing proposed relations between variables (Stephenson, Holbert and Zimmerman, 2006: 1). It is a hybrid technique that encompasses aspects of confirmatory factor analysis, path analysis and multiple regressions to estimate a series of interrelated dependence relationships simultaneously (Garson 2006; Grace, 2006: 365; Hair et al.
As such, SEM software can test traditional models, but it also permits the examination of more complex relationships and models, such as confirmatory factor analysis and time series analyses (Cooper & Schindler, 2007: 584; Deleus and Hulle, 2004: 1). SEM has become the prominent multivariate technique and it is widely and increasingly being used as an evaluation technique in most fields of study (Cooper and Schindler, 2007: 583; Hair et al. 2006: 724; Hershberger, 2003: 1).

Structural equation models allow both confirmatory and exploratory modelling, meaning that such models can be used for both theory testing and theory development (Kelly, 2011: 15). According to Farrington (2009: 370) and Tann (2005: 5), SEM has the ability to assess relationships comprehensively and it provides a transition from exploratory to confirmatory analysis. Not only does SEM provide a more systematic and holistic view of the research problem, but it is also based on causal relationships, in which the change in one variable is assumed to result in changes in another variable (Hair et al., 2006: 727). For that reason, SEM encourages confirmatory, rather than exploratory, modelling and it is suited to theory testing rather than theory development (Miura, 2007: 6; Velázquez, Saura and Molina, 2011: 12).

SEM combines factor analysis and multivariate regression models to estimate associations between observable variables and unobservable (latent) variables (Legare, 2009: 10). It is a confirmatory approach in that it allows for the analyses of hypothesised interrelationships between latent constructs. SEM builds on the statistical tools that are based on regression, ANOVA and correlation (Violato and Hecker, 2007: 2). It is particularly valuable in inferential data analysis and hypothesis testing where the pattern among the study constructs are specified a priori and grounded in established theory (Hoe, 2008: 1).

SEM thus has two principal advantages over other multivariate techniques. First, multiple and interrelated dependence relationships can be estimated simultaneously. Consequently, SEM as a general linear model, can simultaneously estimate relationships
between multiple independent, dependent and latent variables (Byarugaba, 2010: 5). Second, SEM has the ability to incorporate latent variables into the analysis and account for measurement error in the estimation process (Cooper & Schindler 2007: 584). Hence, SEM allows the researcher to assess both measurement properties and to test for key theoretical relationships in one technique (Hair et al., 2006: 706; Martens and Haase, 2006: 2). SEM provides a better way of empirically examining a theoretical model than multiple regressions because it involves the measurement model and the structural model in one analysis. The measurement model relates the observed variables to latent variables, while the structural model relates the latent variables amongst themselves (Hair et al., 2006: 843; Martens and Haase, 2006: 2; Legare, 2009: 10). In SEM, specific factor models can be specified and tested (Byrne, 2010: 364). The fit of a model to the data can then be tested and compared to the fit of competing models, thus allowing researchers to see which theoretical notions are supported empirically (Teo & Khine, 2009: 103). Generally, SEM allows researchers to test theoretical propositions regarding how constructs are theoretically linked and the directionality of significant relationships (Schreiber, Stage, King, Nora, and Barlow, 2006: 4). SEM follows certain conditions as described below.

(a) **Basic conditions and assumptions for the application of Structural Equation Modelling**

The application of SEM requires relatively large samples, considerable theoretical and statistical sophistication, and substantial prior empirical evidence (Violato and Hecker, 2007: 9). SEM generally starts with a hypothesis, represents it as a model, operationalises the constructs of interest with a measurement instrument, and tests the model. The basic SEM consists of two parts: the measurement model that specifies the relationships between the latent variables and their constituent indicators, and the structural equation model designating the causal relationships between the latent variables (Toma, McVittie, Hubbard and Stott, 2009: 4). SEM also takes into account both direct and indirect causal relations between constructs. This is especially true in the case of CSR. Therefore, running alternative models and comparing them with the proposed model may provide
additional evidence that the chosen model is the best in representing the reality (Toma et al., 2009: 5).

Given the inherent features of the statistical programme used for structural equation analysis, a theoretical justification of the model under investigation is paramount. The theoretical justification for the model is found by extensively reviewing the literature of the subject under investigation (Farrington, 2009: 372). A theory-based approach is necessary and it provides the rationale for almost all aspects of SEM because it is considered a confirmatory technique, a technique which is useful for testing and potentially confirming theory (Farrington, 2009: 372). Therefore, theory is needed to specify relationships in both the measurement and the structural models (Hair et al., 2006: 720). According to Venter (2003: 250), sound theory is important when developing the manifest variables intended to measure the theoretical constructs of the model under investigation. Furthermore, a sound theoretical model must guide modifications to an estimated model. Hence, sound theory forms the basis for the inclusion or omission of any relationship in the model (Farrington, 2009: 372).

There is no single correct method of applying multivariate techniques (Hair et al., 2006: 732). The application depends on the modelling strategy adopted, which involves the formulation of the objectives to be achieved and the application of the appropriate technique, in the most appropriate manner, to achieve the set objectives (Farrington, 2009: 373). According to Farrington (2009: 373), a confirmatory modelling strategy is the most direct application of SEM. When using this strategy, a single model is specified and SEM is used to assess how well the model fits the data (Hair et al., 2006: 732; Suhr, 2000: 1). With regard to the confirmatory modelling strategy, the theoretical relationships are strictly specified and SEM is used to assess the significance of the modelled relationships (Venter 2003: 251). Based on the objectives of this study, SEM will be applied to test and prospectively corroborate the factors identified as influencing the *Increased competitiveness* of SMEs.
Given that SEM is more of a confirmatory technique (Hays et al., 2005: 4; Schreiber et al., 2006: 2), the model must be specified correctly based on the type of analysis that the modeller is attempting to confirm. Hence, goodness-of-fit tests are used to determine if a model specified by the researcher is consistent with the pattern of variance-covariances in the data. Alternative SEM specifications are typically tested against one another, and several criteria allow the modeller to determine an optimal model out of a set of competing models (Garson, 2006; Golob, 2003: 3). Model fit determines the degree to which the structural equation model fits the sample data (Iacobucci, 2010: 1; Schermelleh-Engel, Moosbrugger and Müller, 2003: 1). A model is said to fit the observed data to the extent that the model-implied covariance matrix is equivalent to the empirical covariance matrix (Barrett, 2007: 2). In SEM, the evaluation of model fit is not as straightforward as it is in statistical approaches based on variables measured without error. Because there is no single statistical significance test that identifies a correct model given the sample data, it is necessary to take multiple criteria into consideration and to evaluate model fit on the basis of various measures simultaneously (Hoe, 2008: 2). For each estimation procedure, a large number of goodness-of-fit indices are provided to judge whether the model is consistent with the empirical data. The choice of the estimation procedure therefore, depends on the type of data included in the model (Schermelleh-Engel et al., 2003: 9).

(b) Steps/Stages in Structural Equation Modelling

The development and testing of a model occurs systematically. Broadly speaking, there are two steps involved in the SEM process: validating the measurement model and fitting the structural model (Farrington 2009: 374; Kopanidis, 2008: 77; Stoelting, 2002: 1). The measurement model is accomplished primarily through confirmatory factor analysis, while the structural model is accomplished primarily through path analysis with latent variables (Garson 2006; Kopanidis, 2008: 77). The steps or stages of SEM as recommended by Hair et al. (2006: 734; Hair, Anderson, Tatham, and Black 1998: 592-616), are presented in Table 6.5. In this table, a comparison is made of how the different stages of SEM, as proposed by Hair et al. (1998; 2006), have changed over time.
Table 6.6: Steps in Structural Equation Modelling

<table>
<thead>
<tr>
<th>Stages</th>
<th>Hair et al. (2006: 734)</th>
<th>Steps</th>
<th>Hair et al. (1998: 592-616)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Defining individual constructs</td>
<td>1</td>
<td>Developing a theoretical model</td>
</tr>
<tr>
<td>2.</td>
<td>Developing and specifying the measurement model</td>
<td>2</td>
<td>Constructing a path diagram of causal relationships.</td>
</tr>
<tr>
<td>3.</td>
<td>Designing a study to produce empirical results</td>
<td>3</td>
<td>Converting the path diagram into a set of structural equations and measurement models.</td>
</tr>
<tr>
<td>4.</td>
<td>Assessing the measurement model validity</td>
<td>4</td>
<td>Choosing the input matrix type (correlation matrix or covariance matrix and estimating proposed model.</td>
</tr>
<tr>
<td>5.</td>
<td>Specifying the structural model</td>
<td>5</td>
<td>Assessing the identification of model equations</td>
</tr>
<tr>
<td>7.</td>
<td>-</td>
<td>7</td>
<td>Making the indicated modifications to the model, if theoretically justified.</td>
</tr>
</tbody>
</table>

Although the two proposed procedures for implementing SEM overlap, the six-stage decision process (Hair et al. 2006) includes broader aspects of research design (stage 3) and measurement development (stage 1) than the original seven-step procedure (Hair et al., 1998). The other stages in the six-stage decision process (stages 2, 4, 5 and 6) clearly overlap with the seven steps originally suggested by Hair et al. (1998). It is also evident that Hair et al. (2006) adopted a different approach for presenting their discussions on SEM. In the present study, stage one (of the 6-stage process) and to a certain extent stage three (of the six-stage decision process) have already been undertaken in Chapter 6. A brief summary of the seven steps of SME is presented in the subsequent paragraphs as well as a description of how each step will be implemented in the present study.

- Developing a theoretical model

A sound model, according to Lei and Wu (2007: 3), is theory based and the first stage of any SEM analysis should consist of developing a thorough understanding of and
justification for the underlying theory or theories that gave rise to the particular model being investigated. A lack of consonance between model and underlying theory will have negative consequences for the entire SEM process. Careful attention to theoretical detail, therefore, cannot be overemphasised (Mueller and Hancock, 2008: 450). The model specification can also be guided by a combination of theory and empirical results from previous research (Hox and Bechger, 1998: 4). Each variable in the model is conceptualised as a latent one which is measured by multiple indicators (Garson, 2006; Lei and Wu, 2007: 3). SEM is based on dependence relationships in which the change in one variable is assumed to result in a change in another variable. In addition, the strength and conviction with which causation between two variables can be assumed lies in the theoretical justification to support the analysis, and not in the analytical methods chosen (Farrington, 2009: 376).

According to Hair et al. (2006: 713), a model is a representation of a theory, and a theory can be thought of as a systematic set of relationships providing a consistent and comprehensive explanation of a phenomena. In Chapter 5, a hypothesised (theoretical) model of factors influencing Increased competitiveness of SMEs was presented for empirical testing. This model was based on the in-depth review of literature as well as previous empirical findings on these factors. Relationships between the various factors (constructs) in the model and their possible influence on the Increased competitiveness of SMEs were hypothesised, based on theoretical justification.

- Constructing a path diagram of dependence relationships

A good aspect of structural equation models is that they can be represented by path diagrams, with which researchers describe their theories about the relationships among variables (Yung, 2008: 1). A path diagram is a pictorial representation of a system of simultaneous equations. It is an extension of multiple regressions, which aims at providing estimates of the magnitude and significance of hypothesised causal connections between sets of variables (Wang, 2007: 17). Path diagrams illustrate relationships and dependencies between variables and distinguish observable, measured variables from the
unobservable, theoretical latent variables. Such diagrams are a fundamental tool of structural equation modelling (Legare, 2009: 5). In constructing a path diagram of dependence relationships, the hypothesised relationships, among the constructs included in the theoretical models under investigation, are portrayed. According to Hair et al. (2006: 714) and Peprah (2000: 1), path diagrams are a convenient way of portraying a model in a visual form. Constructs, referred to as latent variables in SEM, are also known as unobserved variables or factors.

A path diagram contains many symbols such as a rectangle or a square representing an observed variable and a circle or an ellipse representing an unobserved or latent variable. An unenclosed variable represents an unobservable measurement error or disturbance. Straight arrows signify causality or dependence, with letters above the lines denoting regression coefficients. Two-headed arrows signify an association between two variables (Cooper and Schindler, 2007: 584; Cooper & Schindler, 2008: 557; Legare, 2009: 5; Ullman, 2006: 2). The variables of Structural Equation Models are classified as being endogenous or exogenous. An endogenous variable receives at least one unidirectional arrow while an exogenous variable only emits unidirectional arrows (Peprah, 2000: 7). A variable that is not predicted or “caused” by another variable in the model is referred to as an exogenous construct, also known as source, independent or predictor variables. No arrows will point to these constructs from other constructs.

Conversely, a variable that is predicted or “caused” by any other construct in the model is called an endogenous or dependent construct. One or more arrows will point to these constructs (Hair et al., 2006: 715; Hair et al., 1998: 594-596). In other words, endogenous variables are those modelled as dependent on other variables in at least one causal relationship, while the exogenous are variables (constructs) that act only as a predictor or “cause” for other constructs or variables in the model (Jackson, Dezee, Douglas, and Shimeall, 2005: 3; Wang, 2007: 23). Within the context of structural modelling, exogenous variables represent those constructs that exert an influence on other constructs under study and are not influenced by other factors in the quantitative model. Those constructs identified as endogenous are affected by exogenous and other endogenous
variables in the model (Schreiber et al., 2006: 3). There also exists mediating variables, which transmit the effects of another variable. They are synonymous with an “intervening variable”, “mediator”, “mediating variable”, and “intermediate variable” (Wang, 2007: 10). The path diagrams proposed for this study will be presented in Chapter 7.

- Converting the path diagram into a set of structural equations and measurement models

The next step after drawing the path diagram is to convert it into a set of structural models and a measurement model. At this stage, the model is specified in proper terms using sets of equations. The structural model shows each endogenous construct as the dependent variable in a separate equation predicted by other endogenous or exogenous variables in the model. Each equation has a structural coefficient and an error term that is estimated (Bennett, 2001: 124; Hair et al., 2006: 714).

In SEM terminology, a conventional model comprises two components: a measurement model and a structural model (Hair et al., 2006: 714; Skrondal and Rabe-Heskett, 2005: 1). In specifying the measurement model, the construct is defined by indicators derived from theory (Bennett, 2001: 124), whereas specifying the structural model involves assigning relationships between constructs based on the proposed theoretical model (Hair et al., 2006: 754). Once a theory has been proposed, the SEM model is developed. This involves, first of all, specifying the measurement theory and validating it by means of confirmatory factor analysis. Secondly, once the measurement model is deemed sufficiently valid, the researcher can test the structural model (Bennett, 2001: 125; Hair et al., 2006: 848,849).

According to Farrington (2009: 378), a structural theory is a conceptual representation of the relationships between constructs. It can be expressed in terms of a structural model that represent the theory with a set of structural equations and it is usually depicted with a visual diagram (Bennett, 2001: 125; Hair et al., 2006: 845). In the structural model, each hypothesised effect of an independent construct on a dependent construct, or a dependent
construct on another dependent construct, is expressed as an equation. For each equation, a structural coefficient ($b$) is estimated, and an error term ($\varepsilon$) is included to provide for the sum of the effects of specification and random measurement error (Bennett, 2001: 125; Hair et al., 1998: 597; Venter, 2003: 253). In this study, the software programme AMOS 18 was used to convert the path diagrams into structural equations (structural models) and measurement models.

- **Choosing the input matrix type (correlation matrix or covariance matrix) and estimating the proposed model**

In this step, the input matrix type is chosen and the proposed model estimated. Structural equation analysis uses either the variance-covariance or the correlation matrix as its input data type. Based on the recommendations of Hair et al., (2006: 738) and the research question being addressed, the present study used a covariance matrix of all the indicators in the model as the data input type. This is because covariance matrices contain better information content and thus provide the researcher with far more flexibility (Hair et al., 2006: 738).

On the basis of specification of structural and measurement models, as well as the selection of the input data type, estimates of free parameters from the observed data must be obtained (Eybers, 2010: 151). Hence, in this study, the software programme AMOS 18 was utilised for the estimations. Parameter estimation was done by comparing the actual covariance matrices, representing the relationships between variables, and the estimated covariance matrices of the best-fitting model (Farrington, 2009: 382).

- **Assessing the identification of model equations**

Step 5 entails assessment of whether the software programme has produced any meaningless or illogical results in the identification of the structural model (Hair et al., 2006: 791; Hair et al., 1998: 608). To establish this, attention is given to the identification problem, which refers to the inability of the proposed model to generate unique estimates.
Although there are several guidelines available, the simplest of these is the three-measure rule, which asserts that any constructs with 3 or more indicators will always be identified (Eybers, 2010: 151; Farrington 2009: 382). In this study, no single construct has less than 3 indicators, again indicating a reduced risk of model identification problems.

- **Evaluating the results for goodness-of-fit**

Assessing goodness-of-fit is a major part of the analysis in SEM; that is, assessing the fit between the estimated model and the data (Bennett, 2001: 140). When evaluating the goodness-of-fit results, one must assess the extent to which the data and the theoretical models meet the assumptions of SEM. Goodness-of-fit tests are measures of how “good” the actual or observed input correlation or covariance matrix matches (or “fits”) the matrix that is predicted by the theoretical model (Farrington, 2009: 382). Goodness-of-fit tests are also viewed as the statistical procedures that allow the researcher to establish whether an assumed distribution is correct. Goodness-of-fit testing thus provides the mathematical foundation for a rigorous, quantitative evaluation of the compatibility of two data samples, or of a data sample against a reference function (Mascialino, Pfeiffer, Pia, Ribon, and Viarengo, 2007: 1). In other words, goodness-of-fit determines the degree to which the structural equation model fits the sample data (Venter, 2003: 257) or how well the theory fits reality as represented by the data (Hair et al., 2006: 734).

- **Making the indicated modifications to the model if theoretically justified and interpreting the results**

In the final step of the structural equation analysis, the proposed model must be modified in search of a better fit and an understanding of the outcomes (Eybers, 2010: 153). Model respecification usually follows the estimation of a model with indications of poor fit. This is intended to maximise the fit thereby estimating the most likely relationships between variables. According to Cooper and Schindler (2007: 584), the process of respecifying the model necessitates that the researcher fixes previously free parameters or free previously fixed parameters. These modifications should be carefully carried out,
once theoretical justification has been obtained for what is considered empirically significant (Hair et al., 1998: 614).

According to Eybers (2010: 153), a proposed structural model cannot only be supported by good model fit as the individual parameter estimates, representing each hypothesis, must also be examined. A conceptual model is then supported and considered valid to the extent that the parameter estimates are statistically significant and in the forecast direction (Hair et al., 2006: 758,847).

### 6.6 SUMMARY

This chapter has briefly described the activities involved in the research design and methodology chosen for this study. The population studied, as well as the sampling unit and sampling techniques were described. The variables comprising the conceptual model were operationalised with clear and precise definitions, and an explanation was also provided of how the measuring instrument was developed and administered. Furthermore, a summary of the respondents’ demographic information was presented, and the statistical analysis that was undertaken to verify the validity and reliability of the measuring instrument was described. The statistical techniques such as ANOVA and Multiple Regression analysis that was used to measure the influence of demographic variables on the dependent variable were identified and briefly described. Finally, the Structural Equation Modelling (SEM) technique used to confirm the proposed conceptual model was described.

In Chapter 7, the results of the various statistical analyses performed in this study are presented and duly discussed.
CHAPTER 7

EMPIRICAL RESULTS

7.1 INTRODUCTION

An overview of the research design and methodology utilised in this study was provided in Chapter 6. This overview highlighted several important statistical techniques that were used to test the validity and reliability of the measuring instrument, as well as to empirically test the proposed hypothesised model. Hence, Chapter 7 provides a summary of these results.

In Chapter 7, the results of the exploratory factor analyses will be discussed. Exploratory factor analyses have been used to evaluate the discriminant validity of the constructs in the hypothesised model. The Cronbach-alpha coefficients will then be presented, to verify the reliability of the constructs. A review of the hypothesised model proposed in Chapter 5 will then follow, highlighting the constructs that confirmed sufficient evidence of discriminate validity and reliability. Path diagrams will be used to display the relationships between the various constructs. The path diagrams will be converted into a measurement and structural model in order to estimate the path coefficients of the relations. The goodness-of-fit of the hypothesised model to the empirical data will be analysed, and the correlations between the various factors will be considered. The chapter will conclude by testing the relationships between the demographic data and the dependent variables of this study, in order to assess whether the proposed model is actually generic across different demographic groupings.

7.2 VALIDITY AND RELIABILITY OF THE MEASURING INSTRUMENT

For this study, several Exploratory Factor Analyses (EFA) were performed to determine the discriminant validity of the measuring instrument. The software programme SPSS 18 was used to conduct the Exploratory Factor Analyses in this study.
An EFA generates a number of factor loadings which are representative of the correlations between each variable and each factor. Those data items that measure a similar aspect will have high loadings on (correlations with) one specific factor and low loadings on another (Eybers, 2010: 156). Factor loadings of 0.30 and 0.40 are considered significant for sample sizes of 350 and 200 respectively (Hair et al., 2006: 128). In this study, items that display no cross-loadings and have factor loadings of ≥ 0.4 are considered significant, and consequently provide evidence of construct and discriminant validity for the measuring instrument (Mustakallio, Autio and Zahra, 2002: 214).

When employing Structural Equation Modelling (SEM), the measurement model identifies the indicators for each construct and enables the assessment of construct validity (Hair et al., 2006: 709). Although SEM is similar to EFA, it varies because the number of factors and items loading onto each factor must be known and specified before the analysis can be performed (Hair et al., 2006: 772,779). SEM is thus a form of confirmatory factor analysis. It is not possible to conduct a confirmatory factor analysis if a researcher has not specified the number of constructs within the data to be analysed, and the measures that are to be assigned to each of these constructs. However, EFA is performed without knowledge of either of such things (Hair et al., 2006: 834). EFA, using SPSS 18 for Windows, was thus carried out before the implementation of SEM to allow for the specification of the measures of the constructs in the measurement model.

In Chapter 5, four independent variables were identified as influencing the increased competitiveness of SMEs. The mediating and dependent variables were classified as Outcomes. By dividing the numerous variables amongst these two different categories, the model could be split into two submodels, on which the factor analysis could be performed. Hence, two submodels emerged, and were named CSR factors and Outcomes.

The method of factor extraction depends on whether the researcher expects the underlying constructs to be correlated or not (Farrington (2009: 388). Principal Component Analysis with a Varimax Rotation is specified as the extraction and rotation
method for the submodels where it is expected that the constructs will not be correlated. On the other hand, Principal Axis Factoring with an Oblimin Rotation (Oblimin with Kaiser Normalisation) is specified as the extraction and rotation method for those submodels where it is expected that the constructs are correlated. In order to assess the factor-analysability of the data, Bartlett’s Test of Sphericity was used. Eigenvalues, the Percentage of Variance explained and factor loadings were also measured to determine the number of factors (constructs) to extract for each submodel.

The software programme SPSS 18 for Windows includes Bartlett’s Test of Sphericity and the Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) to gauge the factor-analysability of the data. The closer a KMO is to 1, the more factor-analysable the data is (Rennie, 2002). For the purpose of this study, data with KMO’s of greater than 0.7 (p<0.05) is considered factor-analysable. In addition, Eigenvalues of greater than 1 are considered significant and are used to explain the variance captured by a factor. Eigenvalues of less than 1 are considered insignificant and therefore excluded (Chong, Ooi, Lin, and Raman, 2009: 17).

The extraction and rotation method, as well as Bartlett’s Test of Sphericity, are reported for each sub-model in Sections 7.3.1 and 7.3.2 respectively. In the same sections, the Eigenvalues, the Percentage of Variance explained, and the individual factor loadings for each construct in the various sub-models, are explained.

According to Struwig and Stead (2001: 130), reliability refers to the extent to which test scores are accurate, consistent and stable. Reliability relates to the consistency or dependability of a measure. The type of reliability estimate, or coefficient of internal consistency that is implemented to assess the internal consistency of the measuring instrument in this study, is the Cronbach-alpha. The Cronbach-alpha coefficient for each factor identified by means of the exploratory factor analyses was established using the software programme SPSS 18 for Windows. In this study, a Cronbach-alpha coefficient of greater than 0.70 is used to indicate a factor as reliable (Nunnally & Bernstein 1994;
Suhr and Shay, 2009: 3). A summary of Cronbach-alphas for each factor is given in sections 7.3.1 and 7.3.2 respectively.

In the subsequent section, the measures of factor-analysability are reported for the submodels, and subsequent factors identified. The factor structures for submodels are also tabled.

7.2.1 Validity results: Sub-model CSR factors

The relational nature of the CSR factors (Market-oriented CSR activities, Environmental-oriented CSR activities, Workforce-oriented CSR activities, and Society-oriented CSR activities) suggests that the factors in the sub-model CSR factors will be correlated with each other. As a result, Principal Component Analysis with Kaiser-Meyer-Okin Rotation was specified as the extraction and rotation method. Bartlett’s Test of Sphericity reported a KMO of 0.810 (p<0.001), which confirmed that the data was factor analysable.

Exploratory factor analyses were conducted in order to assess the discriminant validity of CSR factors. The factor structure for this submodel is reported in Table 7.1. The initial measuring instrument included 17 items measuring Market-oriented CSR activities, Environmental-oriented CSR activities, Workforce-oriented CSR activities, and Society-oriented CSR activities. The items measuring Market-oriented CSR activities and Workforce-oriented CSR activities loaded as expected. However, the items measuring Environmental-oriented CSR activities loaded onto two separate factors which were renamed Environmental-oriented CSR activities and Regulated CSR activities. In addition, one of the items originally expected to measure the construct Society-oriented CSR activities loaded onto Environmental-oriented CSR activities, leaving three items which loaded together onto the Society-oriented CSR activities factor.
### Table 7.1: Factor structure – CSR Factors

<table>
<thead>
<tr>
<th>Item</th>
<th>Factor 1</th>
<th>Factor 2</th>
<th>Factor 3</th>
<th>Factor 4</th>
<th>Factor 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>MCA7</td>
<td>0.699</td>
<td>0.120</td>
<td>0.174</td>
<td>-0.082</td>
<td>0.040</td>
</tr>
<tr>
<td>MCA1</td>
<td>0.693</td>
<td>0.030</td>
<td>-0.003</td>
<td>0.153</td>
<td>0.079</td>
</tr>
<tr>
<td>MCA5</td>
<td>0.680</td>
<td>0.221</td>
<td>0.123</td>
<td>-0.001</td>
<td>-0.087</td>
</tr>
<tr>
<td>MCA2</td>
<td>0.667</td>
<td>0.200</td>
<td>0.107</td>
<td>0.038</td>
<td>0.054</td>
</tr>
<tr>
<td>MCA3</td>
<td>0.661</td>
<td>-0.012</td>
<td>0.071</td>
<td>0.087</td>
<td>0.161</td>
</tr>
<tr>
<td>MCA4</td>
<td>0.643</td>
<td>-0.014</td>
<td>0.159</td>
<td>0.141</td>
<td>0.082</td>
</tr>
<tr>
<td>MCA10</td>
<td>0.607</td>
<td>0.065</td>
<td>0.074</td>
<td>0.279</td>
<td>0.015</td>
</tr>
<tr>
<td>ECA3</td>
<td>0.119</td>
<td>0.868</td>
<td>-0.015</td>
<td>0.100</td>
<td>0.160</td>
</tr>
<tr>
<td>SCA1</td>
<td>0.070</td>
<td>0.827</td>
<td>-0.034</td>
<td>0.060</td>
<td>0.187</td>
</tr>
<tr>
<td>ECA2</td>
<td>0.206</td>
<td>0.770</td>
<td>-0.051</td>
<td>0.092</td>
<td>0.037</td>
</tr>
<tr>
<td>WCA4</td>
<td>0.074</td>
<td>0.028</td>
<td>0.850</td>
<td>0.087</td>
<td>0.054</td>
</tr>
<tr>
<td>WCA5</td>
<td>0.199</td>
<td>0.017</td>
<td>0.800</td>
<td>-0.065</td>
<td>0.157</td>
</tr>
<tr>
<td>ECA5</td>
<td>0.135</td>
<td>0.086</td>
<td>0.064</td>
<td>0.852</td>
<td>0.122</td>
</tr>
<tr>
<td>ECA4</td>
<td>0.201</td>
<td>0.144</td>
<td>0.084</td>
<td>0.801</td>
<td>0.084</td>
</tr>
<tr>
<td>SCA7</td>
<td>0.052</td>
<td>0.159</td>
<td>-0.003</td>
<td>0.063</td>
<td>0.716</td>
</tr>
<tr>
<td>SCA5</td>
<td>0.075</td>
<td>0.078</td>
<td>0.004</td>
<td>0.081</td>
<td>0.701</td>
</tr>
<tr>
<td>SCA2</td>
<td>0.067</td>
<td>0.068</td>
<td>0.135</td>
<td>0.038</td>
<td>0.628</td>
</tr>
<tr>
<td>Eigen values</td>
<td>4.452</td>
<td>2.160</td>
<td>1.503</td>
<td>1.262</td>
<td>1.061</td>
</tr>
<tr>
<td>% of Variance</td>
<td>24.733</td>
<td>12.002</td>
<td>8.348</td>
<td>7.009</td>
<td>5.896</td>
</tr>
<tr>
<td>Cumulative %</td>
<td>24.733</td>
<td>36.735</td>
<td>45.082</td>
<td>52.091</td>
<td>57.987</td>
</tr>
</tbody>
</table>

7.2.1.1 Market-oriented CSR activities

Ten items were originally utilised to measure the factor *Market-oriented CSR activities* but only seven items (MCA7, MCA1, MCA5, MCA2, MCA3, MAC4 and MCA10) loaded together onto this factor. An Eigenvalue of 4.452 and factor loadings of greater than 0.60 for all of the items are reported in Table 7.2. The factor, *Market-oriented CSR activities*, explains 24.73% of the variance in the data. Therefore, sufficient evidence of discriminant validity is provided for this construct. The Cronbach-alpha coefficient for *Market-oriented CSR activities* is 0.800, suggesting that the measuring instrument used to measure this construct is regarded as reliable.
Table 7.2: Factor 1 – Market-Oriented CSR activities (MCA)

<table>
<thead>
<tr>
<th>Item</th>
<th>Question</th>
<th>Factor loading</th>
<th>Item-total correl.</th>
<th>Cronbach-alpha after deletion</th>
</tr>
</thead>
<tbody>
<tr>
<td>MCA7</td>
<td>Our business is focused on the needs of our customers.</td>
<td>0.699</td>
<td>0.578</td>
<td>0.766</td>
</tr>
<tr>
<td>MCA1</td>
<td>Our business responds quickly to consumers’ orders.</td>
<td>0.693</td>
<td>0.538</td>
<td>0.773</td>
</tr>
<tr>
<td>MCA5</td>
<td>Our business responds quickly to customers’ complaints about our products and services.</td>
<td>0.680</td>
<td>0.514</td>
<td>0.780</td>
</tr>
<tr>
<td>MCA2</td>
<td>Our business makes profit without cheating customers.</td>
<td>0.667</td>
<td>0.561</td>
<td>0.770</td>
</tr>
<tr>
<td>MCA3</td>
<td>Our business treats customers fairly.</td>
<td>0.661</td>
<td>0.542</td>
<td>0.773</td>
</tr>
<tr>
<td>MCA4</td>
<td>Our business charges customers fair prices.</td>
<td>0.643</td>
<td>0.518</td>
<td>0.778</td>
</tr>
<tr>
<td>MCA10</td>
<td>Our business is open at convenient times.</td>
<td>0.607</td>
<td>0.503</td>
<td>0.781</td>
</tr>
</tbody>
</table>

For the purpose of this study, Market-oriented CSR activities refer to the way in which a business focuses on the needs of its customers by responding quickly to consumers’ orders and complaints about its products and services, how it is open at convenient times, how it treats customers fairly, and whether it charges fair prices and makes profit without cheating customers.

7.2.1.2 Environmental-oriented CSR activities

Eight items were originally used to measure the construct Environmental-oriented CSR activities and only two items (ECA3 and ECA2) loaded together onto this construct. Two other items (ECA5 and ECA4) loaded together onto a separate factor which was named Regulated CSR activities. However, one item (SCA1), which was originally expected to measure the construct Society-oriented CSR activities, also loaded onto the Environmental-oriented CSR activities factor. Despite only two of the items originally expected to measure Environmental-oriented CSR activities loading onto this construct, the name for this factor remains unchanged. An Eigenvalue of 2.160 and factor loadings...
of greater than 0.76 for all the items are reported in Table 7.3. The factor, *Environmental-oriented CSR activities*, explains 12.0% of the variance in the data. Therefore, sufficient evidence of discriminant validity is provided for this construct. The Cronbach-alpha coefficient for *Environmental-oriented CSR activities* is 0.804, suggesting that the measuring instrument used to measure this construct is considered reliable.

**Table 7.3: Factor 2 – Environmental-oriented CSR activities (ECA)**

<table>
<thead>
<tr>
<th>Item</th>
<th>Question</th>
<th>Factor loading</th>
<th>Item-total correl.</th>
<th>Cronbach-alpha after deletion</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECA3</td>
<td>Our business supports environmental awareness programmes.</td>
<td>0.868</td>
<td>0.740</td>
<td>0.635</td>
</tr>
<tr>
<td>SCA1</td>
<td>Our business sponsors sporting and cultural events.</td>
<td>0.827</td>
<td>0.649</td>
<td>0.740</td>
</tr>
<tr>
<td>ECA2</td>
<td>Our business strives towards reducing waste.</td>
<td>0.770</td>
<td>0.580</td>
<td>0.804</td>
</tr>
</tbody>
</table>

In this study, *Environmental-oriented CSR activities* refer to the business being involved in supporting environmental awareness programmes and sponsoring sporting and cultural events as well as striving to reduce waste.

**7.2.1.3 Regulated CSR activities**

The two items (ECA5 and ECA4) originally expected to load onto the construct *Environmental-oriented CSR activities*, loaded together onto a separate construct that was named *Regulated CSR activities*. An Eigenvalue of 1.262 and factor loadings of greater than 0.80 are reported for *Regulated CSR activities* in Table 7.4. *Regulated CSR activities* explain 7.01% of the variance in the data, thus providing sufficient evidence of discriminant validity. *Regulated CSR activities* reports a Cronbach-alpha coefficient of 0.713, implying that the measuring instrument used to measure this construct is reliable.
### Table 7.4: Factor 3 – Regulated CSR activities (RCA)

<table>
<thead>
<tr>
<th>Item</th>
<th>Question</th>
<th>Factor loading</th>
<th>Item-total correl.</th>
<th>Cronbach-alpha after deletion</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECA5</td>
<td>Our business takes government regulations about the environment beyond what the law requires.</td>
<td>0.852</td>
<td>0.505</td>
<td>-</td>
</tr>
<tr>
<td>ECA4</td>
<td>Our business uses packaging materials that are environmentally-friendly.</td>
<td>0.801</td>
<td>0.505</td>
<td>-</td>
</tr>
</tbody>
</table>

For the purpose of this study, *Regulated CSR activities* refer to the business taking the government regulations about the environment beyond what the law requires and using packaging materials that are environmentally-friendly. This implies that government focuses on business policies and regulates only the procedural framework and leaves it to the businesses to really take on greener or more social policies.

#### 7.2.1.4 Workforce-oriented CSR activities

Only items (WCA4 and WCA5) out of eight items expected to measure the factor *Workforce-oriented CSR activities* loaded together onto this factor. Nevertheless, the name remains unchanged. An Eigenvalue of 1.503 and factor loadings of greater than 0.80 for all of the items are reported in Table 7.5. The factor, *Workforce-oriented CSR activities*, explains 8.34% of the variance in the data, providing sufficient evidence of discriminant validity for this construct. The Cronbach-alpha coefficient for *Workforce-oriented CSR activities* is 0.713, suggesting that the measuring instrument used can be considered reliable.
Table 7.5:  Factor 4 – Workforce-oriented CSR activities (WCA)

<table>
<thead>
<tr>
<th>Item</th>
<th>Question</th>
<th>Factor loading</th>
<th>Item-total correl.</th>
<th>Cronbach-alpha after deletion</th>
</tr>
</thead>
<tbody>
<tr>
<td>WCA4</td>
<td>Our business believes in staff development for all employees.</td>
<td>0.850</td>
<td>0.555</td>
<td>-</td>
</tr>
<tr>
<td>WCA5</td>
<td>Our business provides employees with a sense of job security.</td>
<td>0.800</td>
<td>0.555</td>
<td>-</td>
</tr>
</tbody>
</table>

For the purpose of this study, *Workforce-oriented CSR activities* refer to the business believing in staff development for all employees and providing them with a sense of job security.

7.2.1.5 Society-oriented CSR activities

Eight items were originally used to measure the construct *Society-oriented CSR activities* but only three (SCA7, SCA5 and SCA2) actually loaded together onto this factor. One item (SCA1) loaded onto the *Environmental-oriented CSR activities* factor. An Eigenvalue of 1.061 and factor loadings of greater than 0.62 for all of the items are reported in Table 7.6. The factor, *Society-oriented CSR activities*, explains 5.90% of the variance in the data. Therefore, sufficient evidence of discriminant validity is provided for this construct. The Cronbach-alpha coefficient for *Society-oriented CSR activities* is 0.758, suggesting that the measuring instrument used to measure this construct is regarded as reliable.
Table 7.6: Factor 5 – Society-oriented CSR activities (SCA)

<table>
<thead>
<tr>
<th>Item</th>
<th>Question</th>
<th>Factor loading</th>
<th>Item-total correl.</th>
<th>Cronbach-alpha after deletion</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCA7</td>
<td>Our business provides community with donations, such as cash and articles that they need.</td>
<td>0.716</td>
<td>0.594</td>
<td>0.291</td>
</tr>
<tr>
<td>SCA5</td>
<td>Our business shares some of its profit with the community.</td>
<td>0.701</td>
<td>0.521</td>
<td>0.366</td>
</tr>
<tr>
<td>SCA2</td>
<td>Our business assists with community projects.</td>
<td>0.628</td>
<td>0.472</td>
<td>0.440</td>
</tr>
</tbody>
</table>

In this study, Society-oriented CSR activities refer to the business providing the community with donations, assisting them with projects and sharing some of its profit with the community.

7.2.2 Validity results: Sub-model Outcomes factors

For the sub-model termed Outcomes, it was expected that the factors within this model would be correlated. As a result, Principal Component Analysis with Kaiser-Meyer-Okin Rotation was specified as the extraction and rotation method. Bartlett’s Test of Sphericity reported a KMO of 0.717 (p<0.001), ascertaining that the data was factor analysable.

The items likely to measure the Outcomes factors (Customer loyalty, Business reputation, and Employee satisfaction) were assessed for discriminant validity by means of an Exploratory factor analysis. Four outcomes factors were obtained from this sub-model, namely Customer loyalty, Stakeholder trust, Business reputation, and Employee satisfaction. The factor structure for this sub-model is reported in Table 7.7 below.
Table 7.7: Factor structure – Outcomes factors

<table>
<thead>
<tr>
<th>Item</th>
<th>Factor 1</th>
<th>Factor 2</th>
<th>Factor 3</th>
<th>Factor 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>CL2</td>
<td>0.832</td>
<td>0.172</td>
<td>0.000</td>
<td>0.058</td>
</tr>
<tr>
<td>CL6</td>
<td>0.828</td>
<td>0.056</td>
<td>0.136</td>
<td>0.016</td>
</tr>
<tr>
<td>CL3</td>
<td>0.627</td>
<td>0.009</td>
<td>0.214</td>
<td>0.147</td>
</tr>
<tr>
<td>CL1</td>
<td>0.581</td>
<td>-0.083</td>
<td>0.128</td>
<td>-0.019</td>
</tr>
<tr>
<td>BR3</td>
<td>0.108</td>
<td>0.812</td>
<td>0.100</td>
<td>-0.004</td>
</tr>
<tr>
<td>BR2</td>
<td>0.248</td>
<td>0.794</td>
<td>0.099</td>
<td>0.056</td>
</tr>
<tr>
<td>BR1</td>
<td>-0.114</td>
<td>0.572</td>
<td>0.218</td>
<td>0.193</td>
</tr>
<tr>
<td>CL5</td>
<td>0.141</td>
<td>0.253</td>
<td>0.722</td>
<td>0.117</td>
</tr>
<tr>
<td>ES2</td>
<td>0.149</td>
<td>0.329</td>
<td>0.620</td>
<td>0.120</td>
</tr>
<tr>
<td>BR4</td>
<td>-0.001</td>
<td>0.117</td>
<td>0.581</td>
<td>0.007</td>
</tr>
<tr>
<td>ES4</td>
<td>0.065</td>
<td>0.034</td>
<td>0.093</td>
<td>0.890</td>
</tr>
<tr>
<td>ES5</td>
<td>0.134</td>
<td>0.156</td>
<td>0.023</td>
<td>0.857</td>
</tr>
<tr>
<td>Eigen values</td>
<td>3.253</td>
<td>1.438</td>
<td>1.381</td>
<td>1.075</td>
</tr>
<tr>
<td>% of Variance</td>
<td>27.107</td>
<td>11.982</td>
<td>11.506</td>
<td>8.958</td>
</tr>
<tr>
<td>Cumulative %</td>
<td>27.107</td>
<td>39.089</td>
<td>50.595</td>
<td>59.554</td>
</tr>
</tbody>
</table>

7.2.2.1 Customer loyalty

Six items were originally used to measure the construct Customer loyalty and only four items (CL2, CL6, CL3 and CL1) loaded together onto this factor. An Eigenvalue of 3.25 and factor loadings of greater than 0.58 are reported for this construct in Table 7.8 below. Customer loyalty explains 27.11% of the variance in the data, implying that the construct demonstrates evidence of discriminant validity. A Cronbach-alpha coefficient of 0.738 is reported, thus suggesting that the scale used to measure this construct is reliable.

For the purpose of this study, Customer loyalty refers to the business having customers that are willing to support it by recommending its products and committed to buying its products/services in the future.
Table 7.8: Factor 1 – Customer loyalty (CL)

<table>
<thead>
<tr>
<th>Item</th>
<th>Question</th>
<th>Factor loading</th>
<th>Item-total correl.</th>
<th>Cronbach-alpha after deletion</th>
</tr>
</thead>
<tbody>
<tr>
<td>CL2</td>
<td>Our business has customers who recommend our products.</td>
<td>0.832</td>
<td>0.630</td>
<td>0.568</td>
</tr>
<tr>
<td>CL6</td>
<td>Our business has customers who come to this business because they want to, not because they have to.</td>
<td>0.828</td>
<td>0.598</td>
<td>0.611</td>
</tr>
<tr>
<td>CL3</td>
<td>Our business has customers who will carry on buying our products/services in the future.</td>
<td>0.627</td>
<td>0.467</td>
<td>0.760</td>
</tr>
<tr>
<td>CL1</td>
<td>Our business has customers who are committed to supporting our business.</td>
<td>0.581</td>
<td>0.225</td>
<td>0.586</td>
</tr>
</tbody>
</table>

Cronbach-alpha : 0.738

7.2.2.2 Business reputation

Six items were originally intended to measure the construct *Business reputation* but only three items (BR3, BR2 and BR1) loaded together onto this factor. Another item (BR4) loaded onto a separate factor that was renamed *Stakeholder trust*. An Eigenvalue of 1.44 and factor loadings of greater than 0.57 are reported in Table 7.9. *Business reputation* explains 11.98% of the variance in the data, providing sufficient evidence of discriminant validity for this construct. A Cronbach-alpha coefficient of 0.738 was reported, thus confirming the measuring instrument as reliable.
Table 7.9: Factor 2 – Business Reputation (BR)

<table>
<thead>
<tr>
<th>Item</th>
<th>Question</th>
<th>Factor loading</th>
<th>Item-total correl.</th>
<th>Cronbach-alpha after deletion</th>
</tr>
</thead>
<tbody>
<tr>
<td>BR2</td>
<td>Our business has stakeholders who have a good opinion of our business.</td>
<td>0.812</td>
<td>0.615</td>
<td>0.588</td>
</tr>
<tr>
<td>BR3</td>
<td>Our business is well-known for making reliable products and/or services.</td>
<td>0.794</td>
<td>0.631</td>
<td>0.567</td>
</tr>
<tr>
<td>BR1</td>
<td>Our business is well-known among our stakeholders.</td>
<td>0.572</td>
<td>0.456</td>
<td>0.768</td>
</tr>
</tbody>
</table>

For the purpose of this study, *Business reputation* refers to the business being well-known among its stakeholders who also have a good opinion about the business. The business is also well known for making reliable products and/or services.

7.2.2.3 Stakeholder trust

One of the items (BR4) originally expected to measure the construct *Business reputation* loaded onto a new factor which was named *Stakeholder trust*. Another item (CL1) originally intended to measure the construct *Customer loyalty* loaded onto *Stakeholder trust* factor. One more item (ES2) originally expected to measure *Employee satisfaction*, also loaded onto the *Stakeholder trust* factor. An Eigenvalue of 1.38 and factor loadings of greater than 0.58 are reported for this construct in Table 7.10 below. *Stakeholder trust* explains 11.51% of the variance in the data, implying that the construct reveals evidence of discriminant validity. A Cronbach-alpha coefficient of 0.717 is reported; confirming that the measuring instrument used to measure this construct is reliable.
Table 7.1:  Factor 3 – Stakeholder trust (ST)

<table>
<thead>
<tr>
<th>Item</th>
<th>Question</th>
<th>Factor loading</th>
<th>Item-total correl.</th>
<th>Cronbach-alpha after deletion</th>
</tr>
</thead>
<tbody>
<tr>
<td>CL5</td>
<td>Our business has customers who will recommend our business to other customers.</td>
<td>0.722</td>
<td>0.472</td>
<td>0.330</td>
</tr>
<tr>
<td>ES2</td>
<td>Our business has employees who enjoy working in this business.</td>
<td>0.620</td>
<td>0.407</td>
<td>0.408</td>
</tr>
<tr>
<td>BR4</td>
<td>Our business has stakeholders who regard the business as trustworthy.</td>
<td>0.581</td>
<td>0.249</td>
<td>0.513</td>
</tr>
</tbody>
</table>

For the purpose of this study, **Stakeholder trust** refers to the business being regarded as trustworthy among stakeholders, having stakeholders who enjoy working in the business, and having customers who are willing to recommend the business to other customers.

7.2.2.4 Employee satisfaction

Although eight items were originally intended to measure the construct **Employee satisfaction**, only two items (ES4 and ES5) actually loaded onto it. One item (ES2) loaded onto the **Stakeholder trust** factor. An Eigenvalue of 1.08 and factor loadings of greater than 0.85 for all of the items are reported in Table 7.11. The factor, **Employee satisfaction**, explains 8.96% of the variance in the data. Therefore, sufficient evidence of discriminant validity is provided for this construct. The Cronbach-alpha coefficient for **Employee satisfaction** is 0.794, suggesting that the measuring instrument used to measure this construct is regarded as reliable.
Table 7.11: Factor 4 – Employee satisfaction (ES)

<table>
<thead>
<tr>
<th>Item</th>
<th>Question</th>
<th>Factor loading</th>
<th>Item-total correl.</th>
<th>Cronbach-alpha after deletion</th>
</tr>
</thead>
<tbody>
<tr>
<td>ES4</td>
<td>Our business has employees who see their part in this business as satisfying.</td>
<td>0.890</td>
<td>0.660</td>
<td>-</td>
</tr>
<tr>
<td>ES5</td>
<td>Our business has employees who enjoy the way they work together in this business.</td>
<td>0.857</td>
<td>0.660</td>
<td>-</td>
</tr>
</tbody>
</table>

For the purpose of this study, **Employee satisfaction** refers to the business having employees who see their part in the business as satisfying, and they enjoy the way they work together in the business.

### 7.3 REVISED HYPOTHESISED MODEL

The findings of the Exploratory Factor Analyses were unable to verify all of the factors that were originally intended in the hypothesised model. A few modifications emerged regarding the CSR and Outcomes models.

Amongst the CSR factors, the two items originally intended to measure **Environmental-oriented CSR activities** loaded onto a separate factor which was named **Regulated CSR activities**. Furthermore, one item which was originally intended to measure the construct **Society-oriented CSR activities** loaded onto the **Environmental-oriented CSR activities** factor.

With regard to the Outcomes factors, one item originally expected to load onto the **Business reputation** factor, loaded onto a separate factor that was named **Stakeholder trust**. Another item originally intended to measure the construct **customer loyalty** loaded onto **Stakeholder trust** factor. One item originally intended to measure **Employee satisfaction** factor also loaded onto the **Stakeholder trust** factor.
In accordance with the results of factor analyses, the original hypothesised model illustrated in Figure 5.1 and the hypotheses defined in Chapter 5, were revised. The revised hypothesised model, depicted in Figure 7.1 and subsequent hypotheses (See Table 7.1) are subjected to further testing in the rest of the study.

**Figure 7.1: Revised Hypothesised Model: Factors influencing the Increased competitiveness of SMEs**

**CSR factors**

- Workforce - oriented
- Society - oriented
- Market - oriented
- Environmental - oriented
- Regulated

**Outcomes**

- Employee Satisfaction
- Business Reputation
- Customer Loyalty
- Stakeholder Trust

**Increased Competitiveness**
Table 7.12: Summary of revised hypotheses to be tested in the structural model

<table>
<thead>
<tr>
<th>Hypotheses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>H^1a:</strong> There is a positive relationship between the existence of Workforce-oriented CSR activities and the Satisfaction of SMEs’ employees.</td>
</tr>
<tr>
<td><strong>H^1b:</strong> There is a positive relationship between the existence of Workforce-oriented CSR activities and the Business reputation of SMEs.</td>
</tr>
<tr>
<td><strong>H^1c:</strong> There is a positive relationship between the existence of Workforce-oriented CSR activities and the Increased competitiveness of SMEs.</td>
</tr>
<tr>
<td><strong>H^2a:</strong> There is a positive relationship between the existence of Society-oriented CSR activities and the Business reputation of SMEs.</td>
</tr>
<tr>
<td><strong>H^2b:</strong> There is a positive relationship between the existence of Society-oriented CSR activities and Customer loyalty.</td>
</tr>
<tr>
<td><strong>H^2c:</strong> There is a positive relationship between the existence of Society-oriented CSR activities and the Increased competitiveness of SMEs.</td>
</tr>
<tr>
<td><strong>H^3a:</strong> There is a positive relationship between the existence of Market-oriented CSR activities and the Business reputation of SMEs.</td>
</tr>
<tr>
<td><strong>H^3b:</strong> There is a positive relationship between the existence of Market-oriented CSR activities and Customer loyalty.</td>
</tr>
<tr>
<td><strong>H^3c:</strong> There is a positive relationship between the existence of Market-oriented CSR activities and the Increased competitiveness of SMEs.</td>
</tr>
<tr>
<td><strong>H^3d:</strong> There is a positive relationship between the existence of Market-oriented CSR activities and Stakeholder trust of SMEs.</td>
</tr>
<tr>
<td><strong>H^4a:</strong> There is a positive relationship between the existence Environmental-oriented CSR activities and the Business reputation of SMEs.</td>
</tr>
<tr>
<td><strong>H^4b:</strong> There is a positive relationship between the existence Environmental-oriented CSR activities and Customer loyalty.</td>
</tr>
<tr>
<td><strong>H^4c:</strong> There is a positive relationship between the existence Environmental-oriented CSR activities and the Increased competitiveness of SMEs.</td>
</tr>
<tr>
<td><strong>H^5a:</strong> There is a positive relationship between Regulated CSR activities and the Business reputation of SMEs.</td>
</tr>
<tr>
<td><strong>H^5b:</strong> There is a positive relationship between Regulated CSR activities and the Stakeholder trust of SMEs.</td>
</tr>
<tr>
<td><strong>H^5c:</strong> There is a positive relationship between Regulated CSR activities and the Increased competitiveness of SMEs.</td>
</tr>
<tr>
<td><strong>H^6:</strong> There is a positive relationship between achieving Employee satisfaction and the Increased competitiveness of SMEs.</td>
</tr>
<tr>
<td><strong>H^7:</strong> There is a positive relationship between achieving Customer loyalty and the Increased competitiveness of SMEs.</td>
</tr>
<tr>
<td><strong>H^8:</strong> There is a positive relationship between achieving Stakeholder trust and the Increased competitiveness of SMEs.</td>
</tr>
</tbody>
</table>
The above hypothesised relationships were tested by means of Structural Equation Modelling (SEM) and the results are discussed in the subsequent sections.

7.4 EMPIRICAL RESULTS OF THE STRUCTURAL EQUATION MODELLING ANALYSES

Structural Equation Modelling (SEM) is a general multivariate statistical analysis technique that includes specialised versions of other analysis techniques such as confirmatory factor analysis, path analysis, and Multiple Regression. Hence, SEM is mainly used for building and testing statistical models (Garson, 2006; Golob, 2003: 4).

Typically, a hypothesised model is tested with a linear equation system through SEM. This method of study investigates the extent to which variations in one variable corresponded to variations in one or more variables based on correlation co-efficient. SEM is usually used because it permits simultaneous measurement of several variables and their interrelationships. It is more versatile than other multivariate techniques because it allows for simultaneous, multiple dependent relationships between variables (Hoe, 2008: 2). Although there is little consensus on the recommended sample size for SEM (Sivo, Fan, Witta and Willsel, 2006), as a rule of thumb, any number above 200 is understood to provide sufficient statistical power for data analysis (Hoe, 2008: 2; Kenny, 2009: 1). Hence, the sample size of the present study (383) was adequate to allow for testing the hypothesised model. The original model of CSR factors influencing the Increased competitiveness of SMEs is divided into six sub-models, and these sub-models are then each subjected to SEM.

In the present study, four mediating variables emerged from the factor analysis, namely Customer loyalty, Business reputation, Stakeholder trust, and Employee satisfaction. These four groups combined with the dependent variable (Increased competitiveness) and resulted in one model (sub-model 1) that was tested using SEM. Furthermore, the five CSR factors (independent variables) identified were divided into five groups, namely Workforce-oriented CSR activities, Society-oriented CSR activities, Market-oriented CSR
activities, Environmental-oriented CSR activities and Regulated CSR activities. These five factors are each individually combined with Business reputation (mediating variable), resulting in sub-model 2 that was subjected to SEM analysis. In addition, three independent variables, namely Society-oriented CSR activities, Market-oriented CSR activities and Environmental-CSR activities are each individually combined with Customer loyalty (mediating variable), constituting sub-model 3 which was tested using SEM. Workforce-oriented CSR activities (independent variable) individually combined with Employee satisfaction (mediating variable), resulting in sub-model 4 that was tested using SEM. Market-oriented CSR activities and Regulated CSR approaches (independent variables) also individually combined with Stakeholder trust (mediating variable), providing sub-model 5 that was tested by means of SEM. Finally, the five CSR factors (independent variables) combined with the dependent variable (Increased competitiveness), constituting another model (sub-model 6) that was tested using SEM. In total, six sub-models were each subjected to SEM, using the software programme AMOS 18 (Analysis of Moment Structures), which is very compatible with SPSS, for the empirical assessment.

The steps of SEM, as discussed in Chapter 6, are applied to each sub-model. The first two steps of SEM were carried out by revising and redefining the theoretical sub-models and the hypothesised relationships were exhibited in the path diagrams. Each hypothesis was reformulated (Table 7.12) after the exploratory factor analyses and it is representative of a theoretically proposed relationship. Furthermore, the third step of SEM involves demonstrating the structural and measurement models for each of the sub-models. A covariance matrix has been utilised as the input matrix for each sub-model in this study. Estimates of the free parameters are obtained from the observed data, for both the measurement and structural model. The measurement model presents support of construct validity, and is used to consider the measurement properties of the scale.

Ultimately, the relationships between the constructs in the structural model of each sub-model are identified. The degree to which the proposed models are representative of an acceptable approximation of the data is also ascertained. The measurement model
estimations have been portrayed together with the structural model and the models portrayed summarise the specifications for both the measurement and structural model.

There are several indicators of goodness-of-fit. According to Hoe (2008: 2), the commonly applied fit indices are NNFI and CFI (>0.90 indicates a good fit), Root Mean Square Error of Approximation- RMSEA (<0.08 indicates an acceptable fit), and commonly used χ2 statistic (χ2/ d.f. ratio of 3 or less). For this study, the indicator loadings for both the measurement and structural models were deemed significant if the p-values related to each loading exceeded the critical value for the 5% (critical value 1.96) significance level, the 1% (critical value 2.58) significance level and the 0.1% (critical value 3.30) significance level. Different fit indices, such as the Satorra-Bentler scaled Chi-square (χ2), the ratio of Chi-square to degrees of freedom (χ2/df), RMSEA, and the 90% confidence interval for RMSEA, were determined to ascertain the degree to which the proposed models were an acceptable approximation of the data. The criteria against which the fit indices for each submodel were evaluated are summarised in Table 7.13.

Table 7.13: Criteria for Goodness-of-fit indices

<table>
<thead>
<tr>
<th>Goodness of-fit measure</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square Value</td>
<td>&lt;2 indicates a good fit</td>
</tr>
<tr>
<td>χ2/df</td>
<td>For a good fit, it should be ranging from 3 – 1 or even less than 1</td>
</tr>
<tr>
<td>df</td>
<td>Df = 0 – identified; will fit any data</td>
</tr>
<tr>
<td></td>
<td>Df &gt;0 – Over identified</td>
</tr>
<tr>
<td></td>
<td>Df &lt; 0 – Under-identified</td>
</tr>
<tr>
<td>p</td>
<td>If p value is significant, then the model is not good fit. Significant means ≤ 0.05</td>
</tr>
<tr>
<td>90% confidence interval for RMSEA</td>
<td>≤ 0.05 indicates a very good/close fit</td>
</tr>
<tr>
<td></td>
<td>≤ 0.05 indicates a good fit</td>
</tr>
<tr>
<td></td>
<td>0.06 – 0.1 indicates a moderate fit</td>
</tr>
<tr>
<td></td>
<td>Above 0.1 indicates an unacceptable fit</td>
</tr>
</tbody>
</table>

Source: Hoe (2008: 2)
To establish whether the measurement and structural models indicated an acceptable approximation of the data, the goodness-of-fit indices for each of the six submodels were examined. The following hypotheses are therefore formulated for this purpose:

\( H^0 \): The data fits the model perfectly.
\( H^1 \): The data does not fit the model perfectly.

In this study, the goodness-of-fit indices of the measurement and structural models are identical for all of the submodels subjected to SEM. The occurrence of similar goodness-of-fit indices is attributed to the existence of a single direct relationship between the constructs (Hair et al., 2006: 847). Hence, to avoid unnecessary duplication, only the goodness-of-fit indices for the structural models have been reported and interpreted in the present study.

Since the focus of this study is on testing relationships and potentially confirming theory (confirmatory analysis), and not on scale development, steps 5 and 7 of SEM, (that is, assessing the identification of model equations and making modifications to the models), were not undertaken. The results of the steps summarised above, as pertaining to each submodel, will be presented in the sections to follow.

### 7.4.1 SUB-MODEL 1: OUTCOMES

The various steps of SEM, as applied to the Outcomes sub-model, are summarised in the subsequent sub-sections.

#### 7.4.1.1 Revised hypothesised model and path diagrams

Figure 7.2 portrays the revised hypothesised model and path diagrams for the Outcomes model. It is hypothesised that all the mediating variables, (Customer loyalty, Stakeholder trust, Business reputation and Employee satisfaction), have a positive influence on the dependent variable, Increased competitiveness.
Figure 7.2: Path diagram of structural relationships: Revised model of Outcomes factors and Increased competitiveness

Key: ES (Employee satisfaction), BR (Business reputation), CL (Customer loyalty), ST (Stakeholder trust), IC (Increased competitiveness)

7.4.1.2 Structural and measurement models

The structural and measurement models for the Outcomes model are defined in Table 7.14. The endogenous and exogenous variables, as well as the latent and manifest variables, are also presented in Table 7.14.

Table 7.14: Definition of structural and measurement model

<table>
<thead>
<tr>
<th>Structural model</th>
<th>Exogenous variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Endogenous variables</strong></td>
<td><strong>Exogenous variables</strong></td>
</tr>
<tr>
<td>Increased competitiveness</td>
<td>Employee satisfaction, Business reputation, Customer loyalty, Stakeholder trust</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Measurement model</th>
<th>Manifest variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exogenous variables</strong></td>
<td><strong>Manifest variables</strong></td>
</tr>
<tr>
<td>Employee satisfaction</td>
<td>ES4, ES5</td>
</tr>
<tr>
<td>Business reputation</td>
<td>BR3, BR2, BR1</td>
</tr>
<tr>
<td>Customer loyalty</td>
<td>CL2, CL6, CL3, CL1</td>
</tr>
<tr>
<td>Stakeholder trust</td>
<td>BR4, CL5, ES2</td>
</tr>
</tbody>
</table>

7.4.1.3 Measurement and structural model estimation

The p-values for the indicator loadings exceeded the minimum critical value of 1.96 (p<0.05), providing evidence of their significance. The structural equation model was thus subjected to empirical testing.

The structural model depicted in Figure 7.3 below, illustrates that all the mediating variables, namely Employee satisfaction, Business reputation, Customer loyalty and Stakeholder trust (p<0.000), exerted a significant influence on the dependent variable, Increased competitiveness. The path coefficients (0.19, 0.27, 0.35 and 0.41) for these relationships proved significant as their p-value exceeded the critical value of 2.58 (p<0.01). As a result, hypotheses H6, H7, H8 and H9 are accepted. Therefore, there is a positive relationship in each case.
Figure 7.3: Structural model estimation

Key: Cloyalty (Customer loyalty), Staktrust (Stakeholder trust), Breputan (Business reputation), Empsat (Employee satisfaction), ICompt (Increased competitiveness)
7.4.1.4 Evaluating the goodness-of-fit indices

The goodness-of-fit indices for the structural model portrayed in Figure 7.3 are reported in Table 7.15.

**Table 7.15: Goodness-of-fit indices for the structural model**

<table>
<thead>
<tr>
<th>Goodness-of-fit criteria</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample Size</td>
<td>383</td>
</tr>
<tr>
<td>Degrees of Freedom</td>
<td>115</td>
</tr>
<tr>
<td>Satorra-Bentler Scaled Chi-square ($\chi^2$)</td>
<td>646.215; p=0.00</td>
</tr>
<tr>
<td>$\chi^2$/degrees of freedom</td>
<td>5.619</td>
</tr>
<tr>
<td>Root mean square error of approximation</td>
<td>0.110</td>
</tr>
<tr>
<td>90% confidence interval for RMSEA</td>
<td>0.102; 0.118</td>
</tr>
<tr>
<td>Expected cross-validation</td>
<td>1.980</td>
</tr>
</tbody>
</table>

In the present study, the ratio of $\chi^2$ to degrees of freedom is 5.62, which is considerably higher than the acceptable value of 2. The RMSEA (0.110) is higher than 0.05 and 0.08. The upper limit of the 90% confidence interval for RMSEA (0.118) is greater than 0.08. Overall, the indices show that the data does not fit the model very well. Hence, the null hypothesis that the data fits the model perfectly must be rejected. Nevertheless, although the data does not fit the model very well, the model can be described as having a reasonable fit.

7.4.2 **SUB-MODEL 2: CSR FACTORS AND BUSINESS REPUTATION**

Several steps of SEM have been applied to the submodel CSR factors (independent variables) and Business reputation (mediating variable). The outcomes will be discussed in the subsequent sections.
7.4.2.1 Revised hypothesised model and path diagrams

**Figure 7.4:** Path diagram of structural relationships: Revised model of CSR factors and Business reputation

![Path Diagram](image)

**Key:** WCA (Workforce-oriented CSR activities), SCA (Society-oriented CSR activities), MCA (Market-oriented CSR activities), ECA (Environmental-oriented CSR activities), RCA (Regulated CSR activities) BR (Business reputation).

Figure 7.4 above portrays the revised hypothesised model and path diagrams for the submodel *CSR factors* (Independent variables) and *Business reputation* (mediating variable). It is hypothesised that the CSR variables, namely *Workforce-oriented CSR activities*, *Society-oriented CSR activities*, *Market-oriented CSR activities*, *Environmental-oriented CSR activities*, and *Regulated CSR activities* have a positive influence on *Business reputation.*
7.4.2.2 Structural and measurement models

The structural and measurement models for the submodel CSR factors and Business reputation are explained in Table 7.16 below.

**Table 7.16: Definition of structural and measurement model**

<table>
<thead>
<tr>
<th>Structural model</th>
<th>Exogenous variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Endogenous variables</strong></td>
<td><strong>Exogenous variables</strong></td>
</tr>
<tr>
<td>Business Reputation</td>
<td>Workforce-oriented CSR activities, Society-oriented CSR activities, Market-oriented CSR activities, Environmental-oriented CSR activities, Regulated CSR activities.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Measurement model</th>
<th>Manifest variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exogenous variables</strong></td>
<td><strong>Manifest variables</strong></td>
</tr>
<tr>
<td>Business reputation</td>
<td>BR3, BR2, BR1</td>
</tr>
<tr>
<td>Workforce-oriented CSR activities</td>
<td>WCA4, WCA5</td>
</tr>
<tr>
<td>Society-oriented CSR activities</td>
<td>SCA7, SCA5, SCA2</td>
</tr>
<tr>
<td>Market-oriented CSR activities</td>
<td>MCA7, MCA1, MCA5, MCA2, MCA3, MAC4, MCA10</td>
</tr>
<tr>
<td>Environmental-oriented CSR activities</td>
<td>ECA3, ECA2</td>
</tr>
<tr>
<td>Regulated CSR activities</td>
<td>ECA5, ECA4</td>
</tr>
</tbody>
</table>

7.4.2.3 Measurement and structural model estimation

The p-values of the indicator loadings in the measurement model exceeded the minimum critical value of 1.96 (p<0.05). The measurement model was also proved to have a reasonable fit owing to the goodness-of-fit indices reported. The structural equation model was therefore subjected to empirical testing.

The structural model depicted in Figure 7.5 illustrates that four independent variables (Workforce-oriented CSR activities, Society-oriented CSR activities, Market-oriented CSR activities and Regulated CSR activities) significantly influence the mediating variable, Business reputation. The path coefficients of the relationships between the independent variables, Workforce-oriented CSR activities (0.66), Society-oriented CSR activities (0.20), Market-oriented CSR activities (0.47) and Regulated CSR activities
(0.13) and the mediating variable, *Business reputation*, proved significant, although the p-value for these coefficients are lower than the critical values of 1.96 (p<0.05) and 3.30 (p<0.001) respectively. As a result, hypotheses $H^{1b}$, $H^{2a}$, $H^{3a}$, and $H^{5a}$ are accepted. However, one independent variable *Environmental-oriented CSR activities* (-0.14) has a negative influence on the *Business reputation* of SMEs. Despite *Environmental-oriented CSR activities* having an influence on *Business reputation*, the influence reported is negative, which is contrary to the original hypothesis. Accordingly, hypothesis $H^{4a}$ is rejected. The possible explanation is that SMEs view Environmental-oriented CSR activities as costly to integrate and unlikely to generate immediate returns.
Figure 7.5:  Structural model estimation

Key: Workforce (Workforce-oriented CSR activities), Society (Society-oriented CSR activities), Market (Market-oriented CSR activities), Envnt (Environmental-oriented CSR activities), Regul (Regulated CSR activities), Breputan (Business reputation).
7.4.2.4 Evaluating the goodness-of-fit indices

The goodness-of-fit indices for the structural model portrayed in Figure 7.5 are reported in Table 7.17. The ratio $\chi^2$ to degrees of freedom is 2.385, which is slightly higher than the acceptable value of 2. The RMSEA (0.06) is slightly higher than 0.05, indicating a moderate fit, whereas the upper limit of the 90% confidence interval for RMSEA (0.068) is less than 0.08. Accordingly, the null hypothesis that the data fits the model perfectly must be rejected. Nevertheless, the data can be described as having a close fit.

Table 7.17: Goodness-of-fit indices for the structural model

<table>
<thead>
<tr>
<th>Goodness-of-fit criteria</th>
<th>383</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample Size</td>
<td>165</td>
</tr>
<tr>
<td>Degrees of Freedom</td>
<td></td>
</tr>
<tr>
<td>Satorra-Bentler Scaled Chi-square ($\chi^2$)</td>
<td>393.540; p=0.00</td>
</tr>
<tr>
<td>$\chi^2$/degrees of freedom</td>
<td>2.385</td>
</tr>
<tr>
<td>Root mean square error of approximation</td>
<td>0.060</td>
</tr>
<tr>
<td>90% confidence interval for RMSEA</td>
<td>0.053; 0.068</td>
</tr>
<tr>
<td>Expected cross-validation</td>
<td>1.371</td>
</tr>
</tbody>
</table>

7.4.3 SUB-MODEL 3: CSR FACTORS AND CUSTOMER LOYALTY

The various steps of SEM have been applied to the sub-model Society-oriented CSR activities, Market-oriented CSR activities, and Environmental-oriented CSR activities (independent variables) and Customer loyalty (mediating variable), and the results will be discussed in the sections to follow.

7.4.3.1 Revised hypothesised model and path diagrams

The revised hypothesised model and path diagrams for the submodel CSR factors (independent variables) and Customer loyalty (mediating variable) are depicted in Figure 7.6. It is hypothesised that some CSR variables, namely Society-oriented CSR activities,
Market-oriented CSR activities, and Environmental-oriented CSR activities respectively have a positive influence on the Customer loyalty (mediating variable).

**Figure 7.6:** Path diagram of structural relationships: Revised model of CSR factors and Customer loyalty

Key: SCA (Society-oriented CSR activities), MCA (Market-oriented CSR activities), (ECA Environmental-oriented CSR activities), CL (Customer loyalty)

7.4.3.2 Structural and measurement models

Table 7.18 illustrates the endogenous and exogenous variables forming the specifications for the structural model, as well as the latent and manifest variables which form the specifications for the measurement model.
Table 7.18: Definition of structural and measurement model

<table>
<thead>
<tr>
<th>Structural model</th>
<th>Exogenous variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Endogenous variables</strong></td>
<td><strong>Exogenous variables</strong></td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>Society-oriented CSR activities, Market-oriented CSR activities, Environmental-oriented CSR activities</td>
</tr>
</tbody>
</table>

Measurement model

<table>
<thead>
<tr>
<th>Exogenous variables</th>
<th>Manifest variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer loyalty</td>
<td>CL2, CL6, CL3, CL1</td>
</tr>
<tr>
<td>Society-oriented CSR activities</td>
<td>SCA7, SCA5, SCA2</td>
</tr>
<tr>
<td>Market-oriented CSR activities</td>
<td>MCA7, MCA1, MCA5, MCA2, MCA3, MAC4, MCA10</td>
</tr>
<tr>
<td>Environmental-oriented CSR activities</td>
<td>ECA3, ECA2</td>
</tr>
</tbody>
</table>

7.4.3.3 Measurement and structural model estimation

In the present study, the p-values for the indicator loadings in the measurement model has exceeded the minimum critical value of 1.96 (p<0.05), proving that these loadings are acceptable. The goodness-of-fit indices also provided evidence of a measurement model with a very good or close fit. The structural model was therefore subjected to empirical testing.

Figure 7.7 illustrates that the path coefficients for the hypothesised relationships are significant, although the p-values for these coefficients is slightly higher than the critical value of 1.96 (p<0.05). The independent variables Society-oriented CSR activities (0.29), Market-oriented CSR activities (0.78) and Environmental-oriented CSR activities (0.01) positively influence the Customer loyalty of SMEs. Hypotheses $H^{2b}$, $H^{3b}$ and $H^{4b}$ are therefore accepted despite $H^{4b}$ being weak. A possible explanation for this development is that customers are more interested in quality service and fair treatment than environmental awareness programmes such as waste reduction.
7.4.3.4 Evaluating the goodness-of-fit indices

The goodness-of-fit indices for the structural model illustrated in Figure 7.7 are presented in Table 7.19. The ratio $\chi^2$ to degrees of freedom is 2.318, which is slightly higher than
the acceptable 2. This result indicates a close model fit. The RMSEA (0.059) falls slightly above 0.05, indicating a fit, whilst the upper limit of the 90% confidence interval for RMSEA (0.068) is less than 0.08. These indices provide evidence of a model with a very good or close fit. Consequently, the null hypothesis that the data fits the model perfectly must be rejected, and the model can be described as having a close fit.

Table 7.19: Goodness-of-fit indices for the structural model

<table>
<thead>
<tr>
<th>Goodness-of-fit criteria</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample Size</td>
<td>383</td>
</tr>
<tr>
<td>Degrees of Freedom</td>
<td>116</td>
</tr>
<tr>
<td>Satorra-Bentler Scaled Chi-square ($X^2$)</td>
<td>268.914; p=0.00</td>
</tr>
<tr>
<td>$X^2$/degrees of freedom</td>
<td>2.318</td>
</tr>
<tr>
<td>Root mean square error of approximation</td>
<td>0.059</td>
</tr>
<tr>
<td>90% confidence interval for RMSEA</td>
<td>0.050; 0.068</td>
</tr>
<tr>
<td>Expected cross-validation</td>
<td>0.987</td>
</tr>
</tbody>
</table>

7.4.4 SUB-MODEL 4: WORKFORCE-ORIENTED CSR FACTOR AND EMPLOYEE SATISFACTION

The sub-model Workforce-oriented CSR factor and Employee satisfaction has been subjected to the different steps of SEM, and the outcomes are summarised in the subsequent paragraphs.

7.4.4.1 Revised hypothesised model and path diagrams

The revised hypothesised model and the path diagrams for the sub-model Workforce-oriented CSR factor and Employee satisfaction are illustrated below in Figure 7.8.
Figure 7.8: Path diagram of structural relationships: Revised model of Workforce-oriented CSR factor and Employee satisfaction

![Path diagram]

Key: WCA (Workforce-oriented CSR activities), ES (Employee satisfaction)

It is hypothesised that the independent variable, namely *Workforce-oriented CSR activities*, has a positive influence on the mediating variable, *Employee satisfaction*.

7.4.4.2 Structural and measurement models

The structural and measurement models for the sub-model, *Workforce-oriented CSR activities* and *Employee satisfaction*, is portrayed in Table 7.20 below.

Table 7.20: Definition of structural and measurement model

<table>
<thead>
<tr>
<th>Structural model</th>
<th>Exogenous variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Endogenous variables</strong></td>
<td><strong>Exogenous variables</strong></td>
</tr>
<tr>
<td>Employee satisfaction</td>
<td>Workforce-oriented CSR activities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Measurement model</th>
<th>Manifest variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exogenous variables</strong></td>
<td><strong>Manifest variables</strong></td>
</tr>
<tr>
<td>Employee Satisfaction</td>
<td>ES4, ES5</td>
</tr>
<tr>
<td>Workforce-oriented CSR activities</td>
<td>WCA4, WCA5</td>
</tr>
</tbody>
</table>

7.4.4.3 Measurement and structural model estimation

The p-values for the indicator loadings exceeded the minimum critical value of 1.96 (p<0.05), providing evidence of their significance. The goodness-of-fit indices of the measurement model also prove that the measurement model has a good or very close fit. As a result, the structural equation model was subjected to empirical testing.
In the structural model illustrated in Figure 7.9, it is evident that the independent variable (Workforce-oriented CSR activities) significantly influences the mediating variable. These relationships proved significant as the p-value for their path coefficients are slightly exceeded by the critical values of 1.96 (p<0.05) and/or 3.30 (p<0.001). The independent variable Workforce-oriented CSR activities (0.45), positively influences the Employee satisfaction of SMEs. The hypothesis $H^{la}$ is therefore accepted.

**Figure 7.9: Structural model estimation**

**Key:** Workforce (Workforce-oriented CSR activities), Empsat (Employee satisfaction)

7.4.4.4 Evaluating the goodness-of-fit indices

The goodness-of-fit indices for the structural model illustrated in Figure 7.9 are reported in Table 7.21 below.

**Table 7.21: Goodness-of-fit indices for the structural model**

<table>
<thead>
<tr>
<th>Goodness-of-fit criteria</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample Size</td>
<td>383</td>
</tr>
<tr>
<td>Degrees of Freedom</td>
<td>1</td>
</tr>
<tr>
<td>Satorra-Bentler Scaled Chi-square ($X^2$)</td>
<td>0.925</td>
</tr>
<tr>
<td>X²/d egrees of freedom</td>
<td>0.925</td>
</tr>
<tr>
<td>Root mean square error of approximation</td>
<td>0.000</td>
</tr>
<tr>
<td>90% confidence interval for RMSEA</td>
<td>0.000; 0.133</td>
</tr>
<tr>
<td>Expected cross-validation</td>
<td>0.070</td>
</tr>
</tbody>
</table>
Table 7.2 above reports a ratio $\chi^2$ to degrees of freedom of 0.925, which is lower than the acceptable 2. Values lower than 2 are indicators of a good fit. The RMSEA (0.000) is less than 0.05. The upper limit of the 90% confidence interval for RMSEA (0.133) is higher than 0.08. Thus, the null hypothesis that the data fits the model perfectly must be rejected. Although the data does not fit the model perfectly, it can be described as having a close fit.

7.4.5 SUB-MODEL 5: CSR FACTORS AND STAKEHOLDER TRUST

The various steps of SEM have been applied to the sub-model Market-oriented CSR activities and Regulated CSR activities (independent variables) and Stakeholder trust (mediating variable), and the results will be discussed in the sections to follow.

7.4.5.1 Revised hypothesised model and path diagrams

The revised hypothesised model and path diagrams for the sub-model CSR factors (independent variables) and Stakeholder trust (mediating variable) are depicted in Figure 7.10. It is hypothesised that some CSR variables, namely Market-oriented CSR activities and Regulated CSR activities, altogether have a positive influence on the Stakeholder trust (mediating variable).
Figure 7.10: Path diagram of structural relationships: Revised model of Market-oriented and Regulated CSR factors and Stakeholder trust

![Path diagram of structural relationships](image)

Key: MCA (Market-oriented CSR activities), RCA (Regulated CSR activities), ST (Stakeholder trust)

It is hypothesised that the independent variables, namely Market-oriented CSR activities and Regulated CSR activities, have a positive influence on the mediating variable, Stakeholder trust.

7.4.5.2 Structural and measurement models

Table 7.22 defines the structural and measurement models for the submodel CSR factors and Stakeholder trust.

Table 7.22: Definition of structural and measurement model

<table>
<thead>
<tr>
<th>Structural model</th>
<th>Exogenous variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Endogenous variables</strong></td>
<td><strong>Exogenous variables</strong></td>
</tr>
<tr>
<td>Stakeholder trust</td>
<td>Market-oriented CSR activities, Regulated CSR activities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Measurement model</th>
<th>Manifest variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exogenous variables</strong></td>
<td><strong>Manifest variables</strong></td>
</tr>
<tr>
<td>Stakeholder trust</td>
<td>CL1, ES 2, BR 4</td>
</tr>
<tr>
<td>Market-oriented CSR activities</td>
<td>MCA7, MCA1, MCA5, MCA2, MCA3, MAC4, MCA10</td>
</tr>
<tr>
<td>Regulated CSR activities</td>
<td>ECA5, ECA4</td>
</tr>
</tbody>
</table>
7.4.5.3 Measurement and structural model estimation

The p-values for the indicator loadings are above the minimum critical value of 1.96 (p<0.05), providing evidence of their significance. Hence, the goodness-of-fit indices of the measurement model also prove that the measurement model has a good or very close fit. As a result, the structural equation model was subjected to empirical testing.

In the structural model illustrated in Figure 7.11, it is clear that the independent variables (Market-oriented CSR activities and Regulated CSR activities) positively influence the mediating variable (Stakeholder trust). The independent variables, Market-oriented CSR activities (0.66) and Regulated CSR activities (0.19), positively influence the Stakeholder trust of SMEs. The hypotheses $H^{3d}$ and $H^{5b}$ are therefore accepted, although $H^{5b}$ is weak. Regulated CSR activities are concerned with taking government regulations about the environment beyond what the law requires and using packaging materials that are environmentally-friendly. Such environmental-related initiatives may be less important to stakeholders, especially customers and employees, who are more concerned about superior service and fair treatment.
7.4.5.4 Evaluating the goodness-of-fit indices

The goodness-of-fit indices for the structural model illustrated in Figure 7.11 are reported in Table 7.23 below.
Table 7.23: Goodness-of-fit indices for the structural model

<table>
<thead>
<tr>
<th>Goodness-of-fit criteria</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample Size</td>
<td>383</td>
</tr>
<tr>
<td>Degrees of Freedom</td>
<td>52</td>
</tr>
<tr>
<td>Satorra-Bentler Scaled Chi-square ($\chi^2$)</td>
<td>212.392</td>
</tr>
<tr>
<td>$\chi^2$/degrees of freedom</td>
<td>4.084</td>
</tr>
<tr>
<td>Root mean square error of approximation</td>
<td>0.090</td>
</tr>
<tr>
<td>90% confidence interval for RMSEA</td>
<td>0.077; 0.103</td>
</tr>
<tr>
<td>Expected cross-validation</td>
<td>0.755</td>
</tr>
</tbody>
</table>

Table 7.23 above reports a ratio $\chi^2$ to degrees of freedom of 4.084 which is far higher than the acceptable 2. The RMSEA (0.090) is higher than 0.05. The upper limit of the 90% confidence interval for RMSEA (0.103) is higher than 0.08. Thus, the null hypothesis that the data fits the model perfectly must be rejected. Although the data does not fit the model perfectly, it can be described as having a close fit.

7.4.6 SUB-MODEL 6: CSR FACTORS AND INCREASED COMPETITIVENESS

The various SEM steps have been applied to the sub-model CSR factors (Independent variables) and Increased competitiveness (dependent variable), and the results are discussed in the subsequent paragraphs.

7.4.6.1 Revised hypothesised model and path diagrams

Figure 7.12 illustrates the revised hypothesised model and the path diagrams for the submodel CSR factors and Increased competitiveness. It is hypothesised that the independent CSR variables Market-oriented CSR activities, Society-oriented CSR activities, Workforce-oriented CSR activities, and Regulated CSR activities have a positive influence on the dependent variable, Increased competitiveness. Although it was anticipated that Environmental-oriented CSR activities (Independent variable) has a positive influence on Increased competitiveness, it turned out to be negative. This could be explained by a lack of effective environmental awareness programmes in Uganda.
Figure 7.12: Path diagram of structural relationships: Revised model of CSR factors and Increased competitiveness

Key: WCA (Workforce-oriented CSR activities), SCA (Society-oriented CSR activities), MCA (Market-oriented CSR activities), ECA (Environmental-oriented CSR activities), RCA (Regulated CSR activities), IC (Increased competitiveness)

7.4.6.2 Structural and measurement models

Table 7.24 depicts a summary of the endogenous and exogenous variables forming the specification for the structural model, as well as the latent and manifest variables forming the specification for the measurement model.
Table 7.24: Definition of structural and measurement model

<table>
<thead>
<tr>
<th>Structural model</th>
<th>Exogenous variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Endogenous variables</strong></td>
<td><strong>Exogenous variables</strong></td>
</tr>
<tr>
<td>Increased competitiveness</td>
<td>Workforce-oriented CSR activities, Society-oriented CSR activities, Market-oriented CSR activities, Environmental CSR activities, Regulated CSR activities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Measurement model</th>
<th>Manifest variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exogenous variables</strong></td>
<td><strong>Manifest variables</strong></td>
</tr>
<tr>
<td>Workforce-oriented CSR activities</td>
<td>WCA4, WCA5</td>
</tr>
<tr>
<td>Society-oriented CSR activities</td>
<td>SCA7, SCA5, SCA2</td>
</tr>
<tr>
<td>Market-oriented CSR activities</td>
<td>MCA7, MCA1, MCA5, MCA2, MCA3, MAC4, MCA10</td>
</tr>
<tr>
<td>Environmental-oriented CSR activities</td>
<td>ECA3, ECA2</td>
</tr>
<tr>
<td>Regulated CSR activities</td>
<td>ECA5, ECA4</td>
</tr>
</tbody>
</table>

7.4.6.3 Measurement and structural model estimation

In this study, the p-value of the indicator loadings in the measurement model proved to be acceptable, as the p-values of these loadings exceeded the minimum critical value of 1.96 (p<0.05). The structural model was therefore subjected to further analysis.

In the structural model illustrated in Figure 7.13, the independent variables *Workforce-oriented CSR activities* (0.36), *Society-oriented CSR activities* (0.16), *Market-oriented CSR activities* (0.56) and *Regulated CSR activities* (0.12) significantly influence the dependent variable. These relationships proved significant as the p-value for their path coefficients are slightly exceeded by the critical values of 1.96 (p<0.05) and/or 3.30 (p<0.001). The aforementioned independent variables positively influence the *Increased competitiveness* of SMEs. Hence, the hypotheses H_{1c}, H_{2c}, H_{3c} and H_{5c} are accepted. However, independent variable, *Environmental-oriented CSR activities* (-0.19), negatively influences the dependent variable as previously explained. Accordingly, H_{4c} is rejected. In developing countries like Uganda, Environmental-oriented CSR activities generally tend to be of low priority for SMEs if they are not required to comply with legislation.
Figure 7.13: Structural model estimation

Key: Market (Market-oriented CSR activities), Society (Society-oriented CSR activities), Workfoce (Workforce-oriented CSR activities), Regul (Regulated CSR activities), Envnt (Environmental-oriented CSR activities), ICompt (Increased competitiveness)
7.4.6.4 Evaluating the goodness-of-fit indices

The goodness-of-fit indices for the structural model portrayed in Figure 7.13 are reported in Table 7.25. The ratio χ² to degrees of freedom is 3.013, which is above 2, the acceptable value. The RMSEA (0.073) is above 0.05, indicating a moderate fit, whilst the upper limit of the 90% confidence interval for RMSEA (0.079) is slightly less than 0.08.

Table 7.25: Goodness-of-fit indices for the structural model

<table>
<thead>
<tr>
<th>Goodness-of-fit criteria</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample Size</td>
<td>383</td>
</tr>
<tr>
<td>Degrees of Freedom</td>
<td>204</td>
</tr>
<tr>
<td>Satorra-Bentler Scaled Chi-square (χ²)</td>
<td>614.703</td>
</tr>
<tr>
<td>χ²/degrees of freedom</td>
<td>3.013</td>
</tr>
<tr>
<td>Root mean square error of approximation</td>
<td>0.073</td>
</tr>
<tr>
<td>90% confidence interval for RMSEA</td>
<td>0.066; 0.079</td>
</tr>
<tr>
<td>Expected cross-validation</td>
<td>1.981</td>
</tr>
</tbody>
</table>

Consequently, the null hypothesis that the data fits the model perfectly must be rejected, and the model can be described as having a close fit.

7.5 DISCUSSION OF SIGNIFICANT RELATIONSHIPS IDENTIFIED BY SEM

Several significant relationships emerged between the various independent, mediating and dependent variables in the discussions and models portrayed in Section 7.6. A summary of 18 significant relationships is depicted in Figure 7.14. The significant relationships identified represent only those factors that have a positive influence on the mediating variables (Employee satisfaction, Business reputation, Customer loyalty and Stakeholder trust), as well as on the dependent variable (Increased competitiveness) of the SMEs in this study.
A detailed explanation of these significant relationships, in comparison with the existing empirical and anecdotal evidence, is provided in the subsequent sections.

**Figure 7.14: Summary of significant relationships in the structural models**

![Diagram showing significant relationships between different types of CSR (WCA, SCA, MCA, ECA, RCA) and outcomes (ES, BR, CL, ST, IC)]

- **Key:** WCA (Workforce-oriented CSR activities); SCA (Society-oriented CSR activities); MCA (Market-oriented CSR activities); ECA (Environmental-oriented CSR activities); RCA (Regulated CSR activities); ES (Employee satisfaction); BR (Business Reputation); CL (Customer loyalty); ST (Stakeholder trust); IC (Increased Competitiveness).

It should be noted that Figure 7.14 only presents a summary of the 18 positive relationships identified in the six sub-models, as Figure 7.14 is not a model that has been
subjected to SEM on its own. In this study, only two negative relationships ($H^a$ and $H^c$) emerged and they are not portrayed in Figure 7.14 because they are insignificant.

### 7.5.1 Employee satisfaction, Business reputation, Customer loyalty and Stakeholder trust

From Figure 7.14, it can be seen that all the mediating variables (Employee satisfaction, Business Reputation, Customer loyalty and Stakeholder trust) are positively related to the independent variable (Increased competitiveness). In particular, a significant relationship between Employee satisfaction and Increased competitiveness (path coefficient = 0.19; $p<0.000$) of SMEs is reported. This implies that if a business has employees who see their part in the business as satisfying, and enjoy the way they work together, it is more likely to enhance the competitiveness of the business in the long-run. As a result, hypothesis $H^f$ has been accepted, and satisfactory evidence has been found to support this relationship. This empirical relationship is supported by previous research (e.g. Tsai et al., 2005: 9) which confirms the positive relationship between employee satisfaction and SME competitiveness. Results of this study indicate that Employee satisfaction is in turn influenced by Workforce-oriented CSR activities.

Furthermore, a significant positive relationship emerged between Business reputation and Increased competitiveness, as a path coefficient of 0.27 ($p<0.000$) in the present study is reported. In other words, if a business is well-known for making reliable products and/or services, and is well-known among its stakeholders, it will have a positive influence on its increased competitiveness. As Flatt and Kowalczyk (2006:2) have argued, a business can use its reputation as an intangible asset to create a competitive advantage, by distinguishing itself from others. Empirical findings from Shamma and Hassan (2009: 334) also demonstrated that business reputation is an important source of long-term sustainability and competitive advantage. Furthermore, empirical results from previous research (Roberts and Dowling, 2002: 14) suggested that superior-performing businesses have a greater chance of sustaining superior performance over time if they also possess relatively good business reputation. The reputation of a business at its location, its image
as an employer and producer, but also as an actor on the local scene, certainly influences its competitiveness (Polášek, 2010: 56). Business reputation is, in turn, influenced by Workforce-oriented CSR activities, Society-oriented CSR activities, Market-oriented CSR activities, and Regulated CSR activities.

The results of this study demonstrate a significant positive relationship between Customer loyalty and Increased competitiveness (path coefficient = 0.35; p<0.000) of SMEs (Hypothesis H8). This implies that if a business has customers that are willing to support it by recommending its products and/or services, and who are committed to buying its products/services in the future, it is more likely to gain and sustain a competitive advantage. A customer, who has the intention to purchase again and recommend a particular business to others, is very likely to remain with the business. There exists sufficient evidence to support this relationship. Previous research findings (Gable et al., 2008: 14) showed that customer loyalty is key to business success and retaining existing customers costs far less than acquiring new ones. Customer loyalty creates customer retention, thereby improving a business’s competitiveness (Gan et al., 2006: 14). Furthermore, results from a survey of the Bangladeshi Mobile Phone Operator Industry (Islam, 2008: 10) revealed that increases in customer retention rates can have a significant positive effect on market share and a business’s net operating cash flow and profit. In this study, Customer loyalty is in turn influenced by Market-oriented CSR activities and Society-oriented CSR activities.

Although Stakeholder trust is a new construct that emerged in this study, empirical results revealed a significant positive relationship between Stakeholder trust and Increased competitiveness (path coefficient = 0.41; p<0.000) of SMEs (Hypothesis H9). In other words, if a business is regarded as trustworthy among stakeholders, having stakeholders who enjoy working in the business and has customers who are willing to recommend the business to other customers, it is more likely to gain and sustain a competitive advantage. It should be noted that Stakeholder trust is in turn influenced by Market-oriented CSR activities and Regulated CSR activities.
7.5.2 Workforce-oriented CSR activities

In this study, a positive relationship exists between the *Workforce-oriented CSR activities* of SMEs and *Employee satisfaction* (path coefficient = 0.45; p<0.336). In other words, management which believes in the staff development for all its employees and provides employees with a sense of job security is likely to achieve employee satisfaction. There is thus sufficient evidence to support hypothesis $H_{la}$. The empirical results of this study agree with a survey of small and medium firms in Lahore (Saleem, Shahid and Naseem, 2011: 1) which reveals that employees who are trained regularly are well motivated, well-mannered and have enhanced confidence and self-esteem. At the same time, the training of employees allows them to perform tasks other than what is delegated to them and gives them a sense of importance in the organisation and feelings of security.

Furthermore, the results of this study revealed a positive relationship between *Workforce-oriented CSR activities* and *Business reputation* (path coefficient = 0.66; p<0.000) of SMEs (Hypothesis $H_{lb}$). This implies that management which believes in the staff development for all its employees and provides employees with a sense of job security is likely to build a positive business reputation as the preferred local employer. The empirical results of this study are supported by a survey among Danish SMEs (European Commission, 2005: 11) which showed that workforce-oriented CSR activities had a positive impact on business reputation and the ability of the business to attract and retain employees. Furthermore, a survey of Romanian SMEs (European Commission, 2007: 22) revealed that the business’s public image improved as a result of refining the working atmosphere of their employees.

In the present study, a positive relationship exists between *Workforce-oriented CSR activities* and *Increased competitiveness* (path coefficient = 0.36; p<0.000) of SMEs (Hypothesis $H_{lc}$). In other words, businesses that meet employee expectations such as job security, training and development, are likely to be more competitive than those that ignore the plight of their employees. The empirical results of this study are in line with a survey of Danish SMEs (European Commission, 2005: 11) which showed that the
businesses which had implemented workforce-related CSR activities experienced a positive financial impact, and that such activities have a positive influence on the long-term competitiveness of the SMEs. In addition, a survey of Romanian SMEs (European Commission, 2007: 21) revealed that businesses which showed constant concern for employee training experienced an increase in their profits.

7.5.3 Society-oriented CSR activities

As is evident in Figure 7.14, a positive relationship exists between Society-oriented CSR activities and Business reputation (path coefficient = 0.20; p<0.000) of SMEs (Hypothesis $H^{2a}$). This relationship suggests that the more a business voluntarily participates in local community activities, such as providing the community with donations, assisting them with projects and sharing some of its profit with the community, the more positive its perceived business reputation is likely to be. Sufficient empirical support for this relationship exists in previous research. The European Commission, (2002: 13) reported that support for sporting activities is the preferred activity amongst SMEs in nearly all the countries in Europe.

The results of this study do indicate that there is a positive relationship (path coefficient = 0.29; p<0.000) between Society-oriented CSR activities and Customer loyalty (Hypothesis $H^{2b}$) of SMEs. This implies that businesses which engage in community initiatives, such as assisting with community projects and sharing some of its profit with the community are more likely to attract and retain customers than those which do not engage in community activities. Substantial evidence for this relationship exists in previous research. For example, a survey of the Czech SMEs (Polášek, 2010: 140) reported that those businesses which engage in Society-oriented CSR activities are likely to improve the loyalty of their customers and employees. Furthermore, a survey of Italian SMEs (Longo, et al., 2005: 9) revealed that their customer loyalty was a result of their CSR engagement.
The results of this study further show that a positive relationship exists between *Society-oriented CSR activities* and *Increased competitiveness* (path coefficient = 0.16; p<0.000) of SMEs (Hypothesis $H^{2c}$). This result implies that the more a business engages in local community activities, the more likely it is to become more competitive in the future. The findings of this study are supported by Polášek’s study (2010: 140) who reported a significant positive relationship between Society-oriented CSR activities and Increased competitiveness. Furthermore, a business which invests in socially deprived communities will have its presence felt, thereby enhancing its competitiveness (Steinerová and Makovski, 2008: 6). In addition, a survey of Romanian SMEs (European Commission, 2007: 17) showed that businesses which supported local community projects realised better sales and financial results. Hence, a business that voluntarily participates in local community activities such as providing the community with donations, assisting them with projects and sharing some of its profit with the community is more likely to gain a competitive advantage in the long-term.

### 7.5.4 Market-oriented CSR activities

The present study has revealed empirical support for a positive relationship (path coefficient = 0.47; p<0.000) between *Market-oriented CSR activities* and *Business reputation* (Hypothesis $H^{3a}$). This implies that if a business focuses on the needs of its customers by responding quickly to consumers’ orders and complaints about its products and services, is open at convenient times, treats customers fairly, charges fair prices and makes profit without cheating customers, it is more likely to develop a positive business reputation. Sufficient empirical evidence exists to support this relationship. For instance, a survey of the telecommunications industry in the United Kingdom showed that market-oriented CSR activities are important drivers of business reputation (Tuppen, 2004: 5). Furthermore, a survey of Danish SMEs revealed that market-oriented CSR activities have a positive impact on the reputation and financial performance of a business (European Commission, 2005: 6). Empirical findings by Helm (2007: 8) revealed that consumers consider quality of products, value for money, customer orientation, and credibility of advertising as the most important business reputation attributes. Hence, a business which
adopts market-oriented CSR activities is more likely to be well-known among its stakeholders.

In addition, a significant positive relationship between *Market-oriented CSR activities* and *Customer loyalty* (Hypothesis $H_{3b}$) has been identified as a path coefficient of 0.78 ($p<0.000$) is reported. This means that the more a business conducts market-oriented CSR activities, the more it is likely to attract and retain customers. In their study, Berger and Drumwright, as cited by Ali et al., (2010: 2), confirmed that businesses with sound market-oriented CSR activities develop positive social identity and enjoy increased customer loyalty. Similarly, market-oriented CSR activities help businesses attract and retain customers (European Commission, 2005: 6). Management which implements market-oriented CSR activities is therefore likely to have customers who are committed to buying its products/services in the future.

A significant positive relationship emerged between *Market-oriented CSR activities* and *Increased competitiveness*, as a path coefficient of 0.56 ($p<0.000$) was reported in the present study. This implies that the more a business adopts market-oriented CSR activities, such as treating customers fairly and responding quickly to their orders and complaints about its products and services, the more it is likely to enhance its competitiveness in the long-run. As a result, hypothesis $H_{3c}$ has been accepted, as satisfactory evidence has been found to support this relationship. This empirical relationship is supported by previous research (e.g. European Commission, 2005: 6) which reported that market-oriented CSR activities had a positive impact on sales growth, market share and profitability of a business. Furthermore, treating customers with respect has a direct positive effect on the business’s profits (Uddin et al., 2008: 6). To remain competitive, a business must be willing to satisfy the desires and needs of its customers because they are the business’s foundation. Hence, a business which implements market-oriented CSR activities will gain and sustain a competitive advantage in the long-term.

This study also established a significant positive relationships between *Market-oriented CSR activities* and *Stakeholder trust* (path coefficient = 0.66; $p<0.000$) of SMEs
(Hypothesis $H^{3d}$). In other words, if a business responds quickly to consumers’ orders and complaints about its products and services, and treats its customers fairly by charging fair prices and making profit without cheating them, it is more likely to be regarded as trustworthy, and will have stakeholders who enjoy working with it and are willing to recommend its business to other customers. It should be noted that the Stakeholder trust construct emerged as a new factor during the factor analysis, and empirical support from previous research is limited.

### 7.5.5 Environmental-oriented CSR activities

In this study, a positive relationship between *Environmental-oriented CSR activities* and *Customer loyalty* (path coefficient = 0.01; $p<0.000$) for SMEs (Hypothesis $H^{4b}$) is reported. This implies that if a business takes measures such as supporting environmental awareness programmes, reducing waste, and sponsoring sporting and cultural events to minimise its negative impact on the environment, it is more likely to attract customers that are willing to support the business by recommending its products and/or services and who are committed to buying its products/services in the future. A negative relationship, on the other hand, was reported between *Environmental-oriented CSR activities* and *Business reputation* and *Increased competitiveness* respectively ($H^{4a}$ and $H^{4c}$). The possible explanation is that SMEs, particularly in developing countries like Uganda, lack the experience to integrate environmental aspects into their operations in order to develop a positive business reputation and enhance their competitiveness. Environmental-oriented CSR activities generally tend to be of low priority to SMEs if they are not required to comply with legislation, especially if they view such undertakings as costly to integrate and unlikely to generate immediate returns.

### 7.5.6 Regulated CSR activities

The results of this study show a positive relationship between *Regulated CSR activities* and *Business reputation* (path coefficient = 0.13; $p<0.000$) of SMEs (Hypothesis $H^{5a}$). In other words, if a business takes the government regulations about the environment
beyond what the law requires and uses packaging materials that are environmentally-friendly, it is more likely to be well regarded among its stakeholders, thus developing a positive business reputation. Furthermore, a positive relationship was found between the *Regulated CSR activities* and *Stakeholder trust* (path coefficient = 0. 19; p<0.000). This implies that a business which takes the government regulations about the environment beyond what the law requires and uses packaging materials that are environmentally-friendly is more likely to be regarded as trustworthy, and will have stakeholders who enjoy working with it. Finally, the results of this study show a significant positive relationship between *Regulated CSR activities* and *Increased competitiveness* (path coefficient = 0. 0.12; p<0.000) of SMEs (Hypothesis $H^5c$). This finding implies that if a business takes the government regulations about the environment beyond what the law requires and uses packaging materials that are environmentally-friendly, it is more likely to gain and sustain a competitive advantage in the future.

### 7.6 AN ANALYSIS OF THE INFLUENCE OF DEMOGRAPHIC DATA

Although the primary objective of this study has been to identify the factors that influence the *Increased competitiveness* of SMEs, attention has also been given to the likely influence that the demographic data of these SMEs may have on their success. For the purpose of this study, the outcome variables include *Employee satisfaction*, *Business reputation*, *Customer loyalty* and *Stakeholder trust* as mediating variables; and *Increased competitiveness* as a dependent variable. Thus, a number of null hypotheses ($H^{0i}$) have been formulated:

- $H^{0a}$: There is no relationship between the *Demographic variables* and the *Employee satisfaction* of SMEs.
- $H^{0b}$: There is no relationship between the *Demographic variables* and the *Business reputation* of SMEs.
- $H^{0c}$: There is no relationship between the *Demographic variables* and the *Customer loyalty* of SMEs.
\[ H^0_{d}: \] There is no relationship between the Demographic variables and the Stakeholder trust of SMEs.

\[ H^0_{e}: \] There is no relationship between the Demographic variables and the Increased competitiveness of SMEs.

To determine the influence exerted on the dependent variables by the demographic variables, an Analysis of Variance (ANOVA) was performed on scales of a nominal nature, and Multiple Linear Regression analysis (MLR) was performed on scales of an ordinal nature. A t-test was not conducted because there were no variations in the mean scores of the demographic variables. The following sections present a discussion of the results, using tables for illustration.

### 7.6.1 RESULTS OF THE ANALYSIS OF VARIANCE (ANOVA)

The influence exerted by the nominally scaled demographic variables on Employee satisfaction, Business reputation, Customer loyalty, Stakeholder trust and Increased competitiveness of SMEs, was established by an Analysis of Variance (ANOVA). The nominally scaled variables included:

- Gender of respondent;
- Position/title in the business of respondent;
- Form of enterprise; and
- Branch/sector of business.

In Table 7.26 the ANOVA results showed that none of the four demographic variables listed above exerted a significant positive influence on Employee satisfaction of the SME respondents in this study.
In Table 7.27, ANOVA results indicate a significant relationship between Branch/sector of business and the Business reputation (p<0.01) of SMEs. Some business sectors such as Finance and Insurance are well-known for making reliable products and/or services. Some stakeholders such as employees and customers would like to associate with well-known businesses. Hence, the branch/sector of business significantly influences the reputation of a business. The demographic variables Gender of respondent, Position/title in the business of respondent and Form of enterprise, on the other hand, did not exert a significant influence on the Business reputation of the SMEs.

Table 7.27: ANOVA results of demographic variables on Business reputation

<table>
<thead>
<tr>
<th>Dependent variable: Business reputation</th>
<th>F-value</th>
<th>Sig.(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender of respondent</td>
<td>1.184</td>
<td>0.179</td>
</tr>
<tr>
<td>Position/title in the business of respondent</td>
<td>0.605</td>
<td>0.547</td>
</tr>
<tr>
<td>Form of enterprise</td>
<td>2.114</td>
<td>0.079</td>
</tr>
<tr>
<td>Branch/sector of business</td>
<td>2.044</td>
<td>0.049*</td>
</tr>
</tbody>
</table>

(*p<0.05; **p<0.01)

With regard to the relationship between the independent variables and Customer loyalty, the ANOVA results revealed significant positive relationships between the demographic variables, namely Position/title in the business of respondent, Form of enterprise, Branch/sector of business and Customer loyalty (p<0.01) of the SMEs (see Table 7.28). Actually, one’s position/title can easily attract customers who are willing to support the business by recommending its products and who are committed to buying its products/services in the future. The form of enterprise (such as sole proprietorship) will determine the degree to which customers are willing to support the business by
recommending its products and committed to buying its products/services in the future. The sector of business may also influence customers’ willingness to continuously support the business.

Table 7.28: ANOVA results of demographic variables on Customer loyalty

<table>
<thead>
<tr>
<th>Dependent variable: Customer loyalty</th>
<th>F-value</th>
<th>Sig.(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender of respondent</td>
<td>0.884</td>
<td>0.348</td>
</tr>
<tr>
<td>Position/title in the business of respondent</td>
<td>6.203</td>
<td>0.002**</td>
</tr>
<tr>
<td>Form of enterprise</td>
<td>4.138</td>
<td>0.003**</td>
</tr>
<tr>
<td>Branch/sector of business</td>
<td>5.689</td>
<td>0.000**</td>
</tr>
</tbody>
</table>

(*p<0.05; **p<0.01)

Table 7.29 reveals the results of the ANOVA between the demographic variables Gender of respondent, Position/title in the business of respondent, Form of enterprise, and Branch/sector of business, and the Stakeholder trust of the SMEs. The demographic variable Position/title in the business of respondent exerted a significant influence on the Stakeholder trust of SMEs (p<0.01). Indeed, one’s position/title in a business can lead to the business being perceived as trustworthy, and stakeholders can enjoy working with the business and recommend it to other customers. However, variables such as Gender of respondent, Form of enterprise, and Branch/sector of business, did not exert a significant influence on the Stakeholder trust of SMEs.

Table 7.29: ANOVA results of demographic variables on Stakeholder trust

<table>
<thead>
<tr>
<th>Dependent variable: Stakeholder trust</th>
<th>F-value</th>
<th>Sig.(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender of respondent</td>
<td>0.722</td>
<td>0.396</td>
</tr>
<tr>
<td>Position/title in the business of respondent</td>
<td>3.087</td>
<td>0.047*</td>
</tr>
<tr>
<td>Form of enterprise</td>
<td>0.156</td>
<td>0.960</td>
</tr>
<tr>
<td>Branch/sector of business</td>
<td>1.467</td>
<td>1.178</td>
</tr>
</tbody>
</table>

(*p<0.05; **p<0.01)

Table 7.30 summarises the results of the ANOVA between the demographic variables Gender of respondent, Position/title in the business of respondent, Form of enterprise, and Branch/sector of business, and the Increased competitiveness of SMEs. The
demographic variables Position/title in the business of respondent and Branch/sector of business exerted a very significant positive influence on the Increased competitiveness of SMEs (p<0.01). The same demographic variables portrayed a positive significant influence on Customer loyalty. Indeed, a person’s position/title in a business can make the business well-known among its stakeholders and attract customers who are willing to continuously support the business. Some branches or sectors of a business can also make the business well-known among its stakeholders and appeal to customers who are willing to recommend the business and its products/services to other customers, thus enhancing its competitiveness. Variables such as Gender of respondent and Form of enterprise, however, did not exert a significant influence on the Increased competitiveness of SMEs.

Table 7.30: ANOVA results of demographic variables on Increased competitiveness

<table>
<thead>
<tr>
<th>Dependent variables: Increased competitiveness</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent variables</td>
<td>F-value</td>
<td>Sig.(p)</td>
</tr>
<tr>
<td>Gender of respondent</td>
<td>0.889</td>
<td>0.346</td>
</tr>
<tr>
<td>Position/title in the business of respondent</td>
<td>6.168</td>
<td>0.002**</td>
</tr>
<tr>
<td>Form of enterprise</td>
<td>1.019</td>
<td>0.396</td>
</tr>
<tr>
<td>Branch/sector of business</td>
<td>3.704</td>
<td>0.001**</td>
</tr>
</tbody>
</table>

(*p<0.05; **p<0.01)

7.6.2 RESULTS OF THE MULTIPLE LINEAR REGRESSION ANALYSIS (MLR)

Multiple Linear Regression analysis (MLR) is used on continuous demographical data that can easily be interpreted through effect test while ANOVA is useful in comparing two, three or more means (categorical demographical data). In MLR, two or more independent variables are used to predict the value of a dependent variable. MLR was carried out to determine if the following ordinally scaled demographic variables had a significant influence on the dependent variable (Increased competitiveness), namely:

- Number of years in business;
- Level of education;
- Size of business; and
- Annual turnover.

The results of the Multiple Linear Regression analysis are presented in the subsequent sections.

**Table 7.31: MLR results of demographic variables on Increased competitiveness**

<table>
<thead>
<tr>
<th>Dependent variable: Increased competitiveness</th>
<th>R-square = 0.046</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent variables</td>
<td>SC.Beta</td>
</tr>
<tr>
<td>Constant</td>
<td>40.726</td>
</tr>
<tr>
<td>Number of years in business</td>
<td>-.089</td>
</tr>
<tr>
<td>Level of education</td>
<td>-.143</td>
</tr>
<tr>
<td>Size of business</td>
<td>.106</td>
</tr>
<tr>
<td>Annual turnover</td>
<td>.064</td>
</tr>
</tbody>
</table>

(*p<0.05; **p<0.01)

Table 7.31 above demonstrates that the Level of education and Size of business exerted a significant positive influence on Increased competitiveness (dependent variable) of SMEs (p<0.01 and p<0.05 respectively). Regarding the size of business, small businesses are flexible and can quickly respond to stakeholder demands. Since small businesses are closer to customers, they clearly understand customer requirements and this can help them create a competitive advantage from the loyalty of their customers. Employees’ level of education can determine the extent to which a business is well-known among its stakeholders since competent employees may provide superior service and could influence the trust and willingness of customers to support a business, thus enhancing its competitiveness. On the other hand, Number of years in business and Annual turnover did not exert a significant influence on the dependent variables of SMEs. Table 7.32 below provides a summary of the relationships between demographic and other variables.
Table 7.32: Summary of relationships between demographic and other variables.

<table>
<thead>
<tr>
<th>Demographic variables</th>
<th>Other variables</th>
<th>(*p&lt;0.05; **p&lt;0.01)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch/sector of business</td>
<td>Business reputation</td>
<td>0.049*</td>
</tr>
<tr>
<td>Branch/sector of business</td>
<td>Customer loyalty</td>
<td>0.000**</td>
</tr>
<tr>
<td>Branch/sector of business</td>
<td>Increased competitiveness</td>
<td>0.001**</td>
</tr>
<tr>
<td>Position/title in the business of respondent</td>
<td>Customer loyalty</td>
<td>0.002**</td>
</tr>
<tr>
<td>Position/title in the business of respondent</td>
<td>Stakeholder trust</td>
<td>0.047*</td>
</tr>
<tr>
<td>Position/title in the business of respondent</td>
<td>Increased competitiveness</td>
<td>0.002**</td>
</tr>
<tr>
<td>Form of enterprise</td>
<td>Customer loyalty</td>
<td>0.003**</td>
</tr>
<tr>
<td>Level of education</td>
<td>Increased competitiveness</td>
<td>0.008**</td>
</tr>
<tr>
<td>Size of business</td>
<td>Increased competitiveness</td>
<td>0.042*</td>
</tr>
</tbody>
</table>

7.7 SUMMARY

The empirical results of this study were presented in Chapter 7. Firstly, the demographic profiles of the respondents were presented and explained. In addition, the validity and reliability of the measuring instrument were assessed and reported on. Five factors that potentially influence the Employee satisfaction, Business reputation, Customer loyalty and Stakeholder trust and Increased competitiveness of SMEs were identified. These factors include: Market-oriented CSR activities, Society-oriented CSR activities, Market-oriented CSR activities, Environmental-oriented CSR activities and Regulated CSR activities.

After testing for the normality of the data, the proposed hypothesised model of factors influencing the competitiveness of SMEs was empirically tested by means of the Structural Equation Modelling (SEM) technique. Specifically, this empirical testing assessed the influence that the factors mentioned above had on Employee satisfaction, Business reputation, Customer loyalty and Stakeholder trust (mediating variables) and Increased competitiveness (dependent variable) of SMEs. To facilitate the empirical testing of these relationships, six sub-models were constructed and subjected to structural equation analysis in order to facilitate the empirical testing of these relationships.
Thereafter, the hypothesised model was revised and the redefined hypothesised relationships were portrayed in path diagrams, for each of the six sub-models subjected to SEM. The structural and measurement models were presented and the relationships in each sub-model identified. Several fit indices were utilised to establish whether the proposed models represented an acceptable approximation of the data, and to what extent. The relationships identified by the empirical results were also assessed against the formulated hypotheses and the results of previous research. Finally, ANOVA and Multiple Linear Regression analysis were conducted to measure the influence of the demographic variables on the mediating and dependent variables.

Chapter 8 provides a conclusion to this study by summarising the empirical results presented in the analysis chapter, and their implications for SMEs. It will also highlight the contributions and limitations of this study, as well as its recommendations for future research.
CHAPTER 8

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

8.1 INTRODUCTION

This final chapter gives an overview of the study as well as the major findings. These findings will be interpreted and the implications for SMEs will be highlighted. Various recommendations, based on the empirical findings of this study, will then be made. Finally, the contributions and limitations of this study will be highlighted, and further areas for research suggested.

8.2 SUMMARY OF THE STUDY

While SMEs are universally acknowledged as the engines of economic growth and largest providers of employment, their survival rate and competitiveness in Uganda have become a cause for concern. Analytical and practical case studies on appropriate strategies for competitiveness of SMEs in Uganda are also limited. Accordingly, the purpose of this study was firstly, to develop specific models/frameworks of CSR for SMEs in Uganda as an avenue to enhance their competitiveness and foster economic development; and secondly, to add to the body of knowledge of SMEs locally and globally.

Against this background, the primary objective was to gain insight into the factors that impact on the competitiveness of SMEs. To address the primary objective, a number of secondary objectives were identified:

i. To undertake a detailed theoretical investigation into CSR and factors impacting its success in SMEs.

ii. To propose a hypothesised model of the CSR factors and their influence on SMEs’ competitiveness.
iii. To empirically test the proposed model and to investigate the possible relationships between CSR factors and the increased competitiveness of SMEs.

iv. To make recommendations to SME owner/managers that could assist them to manage CSR in their businesses so that it will ultimately lead to their increased competitiveness.

v. To recommend CSR factors that can significantly increase SME’s competitiveness in Uganda.

A comprehensive review of literature on the study variables was conducted to identify potential factors that could influence the *Increased competitiveness* of SMEs. Based on secondary literature sources related to this study, anecdotal evidence and the opinions of experts, a hypothesised model portraying these factors was constructed. Independent variables (*Workforce-oriented, Society-oriented, Market-oriented* and *Environmental-oriented CSR activities*) and three mediating variables (*Employee satisfaction, Business reputation* and *Customer loyalty*) were identified as factors potentially influencing the *Increased competitiveness* (dependent variable) of SMEs. Furthermore, hypotheses were formulated for possible relationships between the independent, mediating and dependent variables, thereby accomplishing the first two secondary objectives.

All the variables in the study were clearly defined and operationalised. Reliable and valid items sourced from various measuring instruments used in other similar studies, were used in the operationalisation of these variables. Several items were self-generated from secondary sources. The relationships illustrated in the hypothesised model were subsequently empirically tested using these items.

Given the nature of the problem statement and the research objectives presented in this study, the positivistic research paradigm was adopted. Stratified and purposive sampling techniques were used to identify respondents for the investigation. Questionnaires were then distributed to those individuals who were willing to participate. Overall, 383 usable questionnaires were returned. The data obtained from these questionnaires was then
subjected to a number of statistical techniques for analyses, thus attaining the third secondary objective set out in this study.

An Exploratory Factor Analysis using SPSS 18 for Windows was conducted to identify the unique factors available in the data before applying SEM. To effectively conduct the EFA, the data was divided into two models. The first model related to the independent variables (CSR factors), while the second related to the mediating variables (Outcomes factors). The percentage of variance and the individual factor loadings were considered while identifying the factors (constructs) to extract for each model. The Cronbach-alpha coefficient for each factor identified by means of the Exploratory Factor Analyses was established using the software programme SPSS 18 for Windows. A Cronbach-alpha coefficient of greater than 0.70 was used to indicate a factor as reliable.

The measuring instrument included 17 items measuring Market-oriented CSR activities, Environmental-oriented CSR activities, Workforce-oriented CSR activities, and Society-oriented CSR activities. The items measuring Market-oriented CSR activities and Workforce-oriented CSR activities loaded as expected. However, the items measuring Environmental-oriented CSR activities loaded onto two separate factors which were renamed Environmental-oriented CSR activities and Regulated CSR activities. In addition, one of the items originally expected to measure the construct Society-oriented CSR activities loaded onto Environmental-oriented CSR activities, leaving three items which loaded together onto the Society-oriented CSR activities factor. The items likely to measure the Outcomes factors were also assessed for discriminant validity by means of an exploratory factor analysis. Four outcomes factors were obtained from this sub-model, namely Customer loyalty, Stakeholder trust, Business reputation, and Employee satisfaction.

Structural Equation Modelling was used as the key statistical procedure to test the significance of the relationships hypothesised between the various independent and dependent variables. The significant relationships identified in the study are depicted in Figure 8.1.
Figure 8.1: Summary of significant positive relationships between independent and dependent variables

\[ \begin{align*}
0.36 \, H^{1c} & \quad \rightarrow \\
0.45 \, H^{1a} & \rightarrow \\
0.66 \, H^{1b} & \rightarrow \\
0.20 \, H^{2a} & \rightarrow \\
0.16 \, H^{2c} & \rightarrow \\
0.47 \, H^{3a} & \rightarrow \\
0.56 \, H^{3c} & \rightarrow \\
0.78 \, H^{3b} & \rightarrow \\
0.19 \, H^{6} & \rightarrow \\
0.27 \, H^{7} & \rightarrow \\
0.35 \, H^{8} & \rightarrow \\
0.66 \, H^{3d} & \rightarrow \\
0.41 \, H^{9} & \rightarrow \\
0.12 \, H^{5c} & \rightarrow \\
0.19 \, H^{5b} & \rightarrow \\
0.13 \, H^{5a} & \rightarrow \\
0.01 \, H^{4b} & \rightarrow \\
ES & \quad \rightarrow \\
BR & \quad \rightarrow \\
CL & \quad \rightarrow \\
ST & \quad \rightarrow \\
IC & \quad \rightarrow \\
\end{align*} \]

\( p < 0.000 \) for all the Hypotheses except \( H^{1a} \) where \( p < 0.336 \)

**Key:** WCA (Workforce-oriented CSR activities); SCA (Society-oriented CSR activities); MCA (Market-oriented CSR activities); ECA (Environmental-oriented CSR activities); RCA (Regulated CSR activities); ES (Employee satisfaction); BR (Business Reputation); CL (Customer loyalty); ST (Stakeholder trust); IC (Increased Competitiveness).

In order to assess the influence of the various demographic variables on the dependent variables, an Analysis of Variance (ANOVA) and Multiple Linear Regression analysis were performed. The empirical results of these statistical analyses were presented and
discussed in Chapter 7. Several recommendations, based on the empirical findings of this study, are presented in this chapter.

8.3 INTERPRETATIONS OF THE EMPIRICAL RESULTS AND RECOMMENDATIONS

In the previous chapter, several factors were reported as exerting a significant influence on the Employee satisfaction, Business reputation, Customer loyalty, Stakeholder trust and Increased competitiveness of SMEs (see Figure 8.1). In the subsequent sections, the significant relationships identified will be interpreted, and recommendations for SMEs will be made.

8.3.1 Workforce-oriented CSR activities

Significant positive relationships between Workforce-oriented CSR activities and Employee satisfaction, Business reputation and Increased competitiveness of SMEs were reported. In other words, if a business believes in the staff development of its employees and provides them with a sense of job security, it is more likely to achieve employee satisfaction, improve its image and enhance its competitiveness in the long-run. As such, an SME that is committed to meeting employees’ welfare is more likely to have positive, engaged and more productive employees than those businesses which ignore the plight of their employees. The major benefits arising from implementing socially responsible and ethical behaviour towards employees include improved job satisfaction, increased employee loyalty, reduction of staff turnover and increased productivity. Hence, SMEs can be competitive by attracting and retaining motivated employees through:

- Provision of further training, competence development and/or retraining of its current workforce: For a business to grow, it must continuously improve the skills of its employees. If employees are to perform their duties and make meaningful contributions to the success of a business, they need to acquire the relevant skills and knowledge. Training and development may support the future success of the business and ensure the continued employability of the employees.
• Promoting the well-being of the workforce by providing the employees with a sense of job security: Employees are more unlikely to give their best efforts if they feel insecure on the job. Hence, job security may be an incentive that provides greater motivation to employees.

• Improving the emotional and physical working environment: A safety and conducive working environment is likely to give workers a sense of pride in what they do. This is likely to keep the employees committed to their jobs and loyal to the business.

• Providing equal opportunities and diversity through training programmes, equal opportunity workshops, or support to certain minority groups: This helps improve the workforce quality and performance in terms of diverse skills, creativity, problem-solving and flexibility. Hence, fostering diversity and ensuring equal opportunities is a motivating factor to the employees.

• Providing responsible and fair remuneration, as well as financial support to employees e.g. pension systems and interest-free loans and paying employees fairly: This is likely to improve the morale of employees and make them more productive and committed to the business.

• Providing work-life balance through offering more flexible working hours such as enabling employees to choose a range of part-time or flexible working options.

• Establishing dialogue with and involvement of the workforce in important decisions on the business’s work processes: Businesses should empower their employees to participate in decision making in order to gain a distinct competitive advantage. Empowered employees are more likely to respond quickly to changes, improvements and new customer requirements.

Such workforce-oriented CSR activities are fundamental if SMEs are to attract and retain a motivated workforce.
8.3.2 Society-oriented CSR activities

*Society-oriented CSR activities* exert a significant positive influence on the *Business reputation*, *Customer loyalty*, and *Increased competitiveness* of SMEs in this study. A business which voluntarily participates in local community activities such as providing the community with donations, assisting them with projects and sharing some of its profit with the community, is more likely to develop a positive business reputation, and attract and retain more customers. This will in turn enhance its competitiveness. Therefore, SMEs can sustainably improve their reputation, customer loyalty and competitiveness by doing the following:

- Providing the community with donations, such as cash and goods that they need;
- Assisting the community with general development projects (e.g. education, sports and health care);
- Sharing some of its profit with the community: This can be in a form of giving grants to children with outstanding performance in schools and giving loans below commercial interest rates for community initiatives; and
- Taking an interest in the overall well-being of the community by engaging in local community activities in order to build good community relations.

SMEs can enhance their reputation and gain a competitive advantage if they properly adopt the above society-oriented CSR activities.

8.3.3 Market-oriented CSR activities

Significant positive relationships exist between *Market-oriented CSR activities* and *Business reputation*, *Customer loyalty*, *Stakeholder trust* and *Increased competitiveness* of SMEs. If a business concentrates on the needs of its customers by responding quickly to their orders and complaints, and if it is open at convenient times and treats customers fairly, it is more likely to improve its reputation, attract and retain more customers and will be well-known among its stakeholders. These activities, in turn, will enhance its
competitiveness in the long-term. Hence, SMEs can enhance their reputation, customer loyalty, stakeholder trust and competitiveness by:

- Treating customers fairly through providing customised services, thereby exceeding their expectations;
- Responding quickly to consumers’ orders and complaints about the business’s products and services: This can be achieved by establishing procedures for customers and conducting customer surveys to ensure that customers have appropriate opportunities to provide feedback and complaints to the business;
- Charging customers fair prices by ensuring that products and services are priced fairly and equitably to all customers, and avoiding discriminatory policies in certain markets;
- Making a profit without cheating customers by ensuring that product prices are properly displayed;
- Making a profit through ethical advertising;
- Being open at convenient times and ensuring accessibility to goods and services;
- Delivering quality products/services which offer good value for money; and
- Providing customers with useful information when choosing the right products and/or services. This can be achieved by communicating in a clear and appropriate way.

SMEs that practice the above market-oriented CSR activities can easily attract and retain customers thereby enhancing their competitiveness in the long-term.

**8.3.4 Environmental-oriented CSR activities**

*Environmental-oriented CSR activities* exert a positive influence on *Customer loyalty*. This result implies that if a business takes measures, such as supporting environmental awareness programmes, reducing waste, and sponsoring sporting and cultural events, it is more likely to attract customers that are willing to support the business by recommending its products and/or services and who are committed to buying its products/services in the future. Although it may be costly to invest in environmental-oriented CSR activities,
SMEs can achieve customer loyalty by participating in specific and inexpensive environmental-oriented CSR activities such as:

- Running environmental awareness initiatives for employees on efficient energy and resource use, and informing business partners, customers or the society on environmental issues;
- Waste reduction and pollution management such as end-of-pipe treatment of emissions, effluent and solid waste, managing localised environmental pollution; and establishing environmental management policies; and
- Ensuring environmental product responsibility by producing environmentally-friendly products, certifying and labelling products, and selling organic products (products grown without chemical pesticides and artificial fertiliser).

SMEs that adopt such environmental-oriented CSR activities can improve their image and gain a competitive advantage in the long-term.

### 8.3.5 Regulated CSR activities

In the present study, significant positive relationships were found between Regulated CSR activities and Business reputation, Stakeholder trust and Increased competitiveness of SMEs respectively. In other words, if a business takes the government regulations about the environment beyond what the law requires and uses packaging materials that are environmentally-friendly, it is more likely to be well-known among its stakeholders, develop stakeholder trust and become competitive in the long-run. It is important for SMEs to:

- Consult with government on best CSR initiatives that are beneficial to important stakeholders in particular and the business at large; and
- Focus on use of environmentally friendly packing materials that are cost effective in order to improve their image and increase cost competitiveness.
8.3.6 Employee satisfaction

A significant positive relationship between Employee satisfaction and Increased competitiveness of SMEs is reported in this study. This implies that if a business has employees who see their part in the business as satisfying and enjoy the way they work together, it is more likely to enhance its competitiveness in the long-run. Individuals have several basic intrinsic needs that must be met in the workplace to feel satisfied. Different things motivate people differently, and businesses may need to use multiple strategies to achieve employee satisfaction. Positively influencing staff is one way to develop an environment and culture where people want to do their best and want to stay. To remain competitive, SMEs can gain and sustain employee satisfaction by:

- Ensuring that employees see their part in the business as worthwhile by offering them something that they would not normally expect within their role, such as a bonus cheque;
- Recognising a job well done and showing appreciation to employees on a regular basis by giving them a simple thank you letter that recognises specific employee contributions, is very fundamental to employee satisfaction;
- Ensuring that employees are happy in their jobs by offering them an attractive salary above the generally accepted rate for the job in question;
- Providing and sustaining employee job satisfaction by designing jobs that offer more variety and stimulation, such as job rotation, job enlargement and job enrichment, as well as giving them adequate compensation. Beyond the social benefits, a satisfied employee base directly enhances a business’s competitiveness;
- Giving employees the feeling that they have achieved something, by giving them regular feedback and letting them know that you see the good work they do; and
- Empowering employees to participate in decision-making and motivating them to solve problems.
8.3.7 Business reputation

This study found that a significant positive relationship emerged between *Business reputation* and *Increased competitiveness* of SMEs. If a business is well-known for making reliable products and/or services, and is well-known among its stakeholders, it is more likely to increase its competitiveness. Businesses which work toward the enhancement of their reputation are likely to achieve and sustain a competitive advantage. Indeed, business reputation is an intangible asset businesses use to create a competitive advantage, by distinguishing themselves from others. To manage reputation adequately necessitates a multi-disciplinary approach and allocation of necessary resources. Hence, SMEs can improve their reputation by doing the following:

- Ensuring that the business is well-known for manufacturing and selling reliable products and/or services;
- Ensuring that the business is well-known amongst stakeholders by designing a study among stakeholders to obtain feedback regarding the brand-image of the business among stakeholders;
- Ensuring that the business is well regarded by stakeholders by behaving ethically and providing consistent services;
- By properly developing and managing the relationships between stakeholder groups, such as customers and employees, and considering the interests of each stakeholder group carefully; and
- Being transparent and honest in their business affairs by establishing a pattern of open communication: Transparency is important in business, not only in times of crisis, but also during the course of normal operations.

SMEs that adopt the above practices are likely to improve their image and gain a competitive advantage in the long-term.
8.3.8 Customer loyalty

The results of this study further demonstrate a significant positive relationship between Customer loyalty and Increased competitiveness of SMEs. In other words, if a business has customers that are willing to support it by recommending its products and/or services and who are committed to buying its products/services in the future, it is more likely to gain and sustain a competitive advantage in the long-term. Customer loyalty is key to business success and retaining existing customers costs far less than acquiring new ones. Customer loyalty creates customer retention, thereby improving a business’s competitiveness. Increases in customer retention rates can have a significant positive effect on market share and a business’s net operating cash flow and profit. Hence, SMEs can create a memorable customer experience by:

- Quickly responding to customer orders and requirements. Customer loyalty can be enhanced through higher responsiveness to customer needs and wants;
- Ensuring customer satisfaction with its products/services. If customers are happy with the products and services a business provides, they will certainly go back for more. Going an extra mile to provide outstanding customer service is an important step to build customer loyalty;
- Getting valuable feedback from customers. One of the easiest and most effective strategies of maintaining a relationship with customers is to stay in contact and communicate with them regularly through different media, such as a monthly newsletter, Facebook or maintaining a website;
- Designing flexible service policies and committing to them in writing;
- Making realistic promises. It is far better to promise something in a week and deliver in three days. Delivering more than what customers expect is one of the most powerful ways to gain customer loyalty; and
- Training and empowering employees to participate in decision-making. Training and retraining employees is the best way to retain happy customers. Competent and motivated employees are likely to provide professional and superior services to customers, thereby winning their loyalty.
SMEs must appreciate that customers today are more educated and informed about value for money. Adopting the above strategies can make a business gain a distinct competitive advantage in the long-term.

8.3.9 Stakeholder trust

In this study, a significant positive relationship between Stakeholder trust and Increased competitiveness of SMEs was revealed. If a business is regarded as trustworthy, and has stakeholders who enjoy working with it and are willing to recommend the business to other customers, it is more likely to gain and sustain a competitive advantage. Managers and owners invest a lot of time and energy trying to build trust with various stakeholders (e.g., customers, employees, suppliers and investors). Employees that do not trust their businesses are less loyal, less motivated, and less productive. Customers who perceive a breach of trust are more likely to switch to a competitor. Clearly, managing stakeholder trust is an essential task for SMEs. Hence, SMEs can build and manage stakeholder trust by:

- Establishing themselves as trustworthy through open communication, good listening and honouring their promises;
- Demonstrating a high degree of transparency in their transactions; and
- Demonstrating honesty and integrity towards stakeholders: Integrity must begin at the top and then move down to the rest of the workforce. This means, among other things, that SMEs must always tell the truth, no matter how difficult it might be.

Against this background, SMEs can achieve increased competitiveness without necessarily increasing their actual size, but rather by adapting specific CSR activities. CSR is not a short-cut to business success, but an investment that can pay off in the long-term. Implementing CSR can be valuable in terms of staff recruitment, motivation, retention and development; customer loyalty; business reputation; and overall business competitiveness.
It should be recognised that SMEs from the same sector often face common social and environmental issues. Addressing these issues collectively, through strategic alliances and networks, can reduce the costs and result in improvements that an individual SME acting alone cannot achieve. Furthermore, particular attention should be given to the integration of relevant CSR training for SME managers and staff. Ethical aspects, personal responsibility towards society, and awareness of social and environmental issues can be imparted through the appropriate education system both at secondary and university levels.

Governments also need to create appropriate enabling environments to reward SMEs for more socially and environmentally responsible behaviour. Governments should also create the right policy framework that allows businesses to grow and create more and better jobs. The policy framework should ensure fair competition and reward SMEs that adopt and successfully implement CSR activities.

SMEs should be encouraged to start with small steps. There is no need for a business to try to address all aspects of CSR from the beginning. For example, an initial focus on simple measures to reduce costs, safeguard the environmental, or to give the first priority to the local community during staff recruitment, could be good ways to start CSR activities.

8.4 CONTRIBUTIONS OF THE STUDY

The literature on CSR in Africa in general, and Uganda in particular, has been fairly underdeveloped. This study has filled the current research gaps on CSR by contributing to the body of business research with particular emphasis on small and medium-sized enterprises (SMEs) in Uganda. The application of an advanced multivariate statistical techniques such as Structural Equation Modelling (SEM), and using a relatively large empirical sample size in this study, have also contributed to studies on SMEs that have conventionally been typified by smaller samples and qualitative research.
Furthermore, the study has developed hypothesised models that describe the nature of the relationships between CSR and competitiveness of SMEs. These models can be extensively used by SMEs in Uganda and elsewhere in the world as an integral part of the overall strategy to enhance their competitiveness.

This study has also made a contribution by developing a instrument that is suitable for measuring the CSR-related factors influencing the competitiveness of SMEs in Uganda. With slight modifications to the wording and some contextual additions, this particular instrument could be used to measure the factors influencing the CSR-related factors and their influence on the competitiveness of SMEs in other developing countries.

Finally, this study offers great opportunities for proper management of SMEs in Uganda, with a view to enhancing their competitiveness locally and globally. Hence, this study can help in improving the survival rate of SMEs and significantly contribute to socio-economic development of Uganda.

8.5 LIMITATIONS OF THE STUDY

In this study, all the objectives outlined in Chapter one were met. Likewise, the present study has attempted to make a significant contribution to the body of knowledge on SMEs. However, a few limitations are highlighted and should be considered when making interpretations and conclusions relating to the findings of this study.

- The present study focused exclusively on theoretical-oriented aspects of CSR.
- This study is purely quantitative in nature, yet the integration of quantitative and qualitative research has become increasingly common in recent years.
- The target respondents (SME owners/managers) of this study are a limitation in itself. Given the large number of variables proposed in the hypothesised model, different SME stakeholders could have been investigated.
- The sample size (383) is a limitation of this study since Structural Equation Modelling (SEM) is very sensitive to sample size. Given the large number of
factors proposed in the hypothesised model, the model could not be subjected as a whole to SEM.

Despite the above limitations, this study has added to the empirical body of SMEs research, and provides an important first step in gaining insights into specific CSR activities influencing the competitiveness of SMEs in Uganda. Hence, many opportunities for future investigation into SMEs exist.

8.6 RECOMMENDATIONS FOR FUTURE RESEARCH

To overcome the above limitations in future studies, researchers should consider broadening the target respondents by including other major SME stakeholders such as customers. Additionally, further research should be encouraged on action-oriented areas such as: the success of different policies and techniques to increase the uptake of CSR amongst SMEs; the economic, social and environmental impact of CSR at sector level; and a typology of SMEs with regard to their engagement in CSR.

Furthermore, future research should integrate quantitative and qualitative techniques (methodological triangulation) in order to enhance the credibility and validity of research findings. To overcome the sample size limitation in future studies, researchers should consider either increasing the sample size or lowering the number of factors under investigation.

8.7 CONCLUDING REMARKS

The importance and potential contribution of SMEs in promoting economic growth in both developed and developing countries is widely accepted, documented and supported by theoretical and empirical evidence. Accordingly, this study has put forward several recommendations and suggestions that can enhance the competitiveness of SMEs locally and globally. Strategic adaptation and implementation of these recommendations can make a difference to the survival rate of SMEs.
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ANNEXURE A

QUESTIONNAIRE
3 May 2011

Dear Respondent

RESEARCH PROJECT: CORPORATE SOCIAL RESPONSIBILITY (CSR): A COMPETITIVE STRATEGY FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN UGANDA

Mr PK Turyakira is a registered PhD student in the Department of Business Management at the Nelson Mandela Metropolitan University in Port Elizabeth, South Africa. He is currently busy with an empirical study investigating how corporate social responsibility could be used as a competitive strategy for small and medium-sized enterprises in Uganda.

This research project aims at gaining an insight into the deployment of CSR in small and medium-sized enterprises (SMEs) and its impact on competitiveness. The results of this survey could provide your enterprise with useful insights into CSR and how it could contribute to gaining a competitive advantage. For the purpose of this research, corporate social responsibility (CSR) refers to open and transparent business practices that go beyond legal requirements and could benefit various stakeholders.

All information provided will be treated as strictly confidential and will only be used for research purposes. Thank you very much for your willingness and time to complete this questionnaire.

Prof E Venter and Prof EE Smith
Research Co-ordinators

Mr PK Turyakira
Researcher
QUESTIONNAIRE

SECTION A
PERCEPTIONS REGARDING CORPORATE SOCIAL RESPONSIBILITY (CSR) ACTIVITIES AND THEIR POTENTIAL OUTCOMES

Please indicate the extent to which you agree that these CSR activities are being implemented in your enterprise.

(1 = Strongly disagree; 2 = Disagree; 3 = Somewhat disagree; 4 = Neutral or no opinion; 5 = Somewhat agree; 6 = Agree; and 7 = Strongly agree).

<table>
<thead>
<tr>
<th>Statements Relating to CSR OUR BUSINESS</th>
<th>1</th>
<th>2</th>
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<tbody>
<tr>
<td>A1 Does a good job of giving employees information about what concerns them.</td>
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<td>A2 Has customers who recommend our products and services.</td>
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<td>A3 Has customers who come to this business because they want to, not because they have to.</td>
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<td>A4 Treats customers fairly.</td>
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<td>A5 Assists with general development projects (e.g. education, sports and health care).</td>
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<td>A6 Has customers who will carry on buying our products/services in the future.</td>
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<td>A7 Assists with community projects.</td>
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<td>A8 Uses materials that can be re-used and/or recycled.</td>
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<td>A9 Has shown a consistent increase in employee numbers.</td>
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<td>A10 Makes a profit without cheating customers.</td>
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<td>A11 Sponsors sporting and cultural events.</td>
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<td>A12 Supports environmental awareness programmes.</td>
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<td>A13 Has employees who see their part in this business as worthwhile.</td>
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<td>A14 Strives towards reducing waste.</td>
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<td>A15 Has strategies to cope with problems in the environment.</td>
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<td>A16 Gives employees the feeling that they have achieved something.</td>
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<td>A17 Takes an interest in educating the community.</td>
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<td>A18 Is focused on the needs of our customers.</td>
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<td>A19 Has shown consistent growth in profits over the last five years.</td>
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<td>A20 Has shown consistent growth in sales volume over the last five years.</td>
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<td>A21 Has customers who are loyal and satisfied with our products or services.</td>
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<td>A22 Provides jobs to people from minorities or disadvantaged groups.</td>
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<td>A23 Has employees who see their part in this business as satisfying.</td>
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<td>A24 Has employees who enjoy the way that they work together in this business.</td>
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<td>A25 Responds quickly to customers’ complaints about our products and services.</td>
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<td>A26 Makes changes to products and/or services to customers’ satisfaction.</td>
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<td>A27 Is open at convenient times.</td>
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</table>
**Statements Relating to CSR**

**OUR BUSINESS**

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
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<tbody>
<tr>
<td>A28 Sees to it that employees are healthy and happy.</td>
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<td>A29 Is well-known for making reliable products and or services.</td>
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<td>A30 Has stakeholders who have a good opinion of our business.</td>
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<td>A31 Has shown consistent growth in asset value over the last five years.</td>
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<td>A32 Believes in staff development for all employees.</td>
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<td>A33 Provides employees with a sense of job security.</td>
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<td>A34 Delivers quality products/services which offer good value for money.</td>
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<td>A35 Provides physical working conditions (lighting, safety, cleanliness,</td>
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<td>space) conducive to performing one’s job effectively.</td>
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<td>A36 Provides employees with work-related training.</td>
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<td>A37 Has a diverse workforce comprising different race groups.</td>
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<td>A38 Has employees who are happy in their jobs.</td>
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<td>A39 Shares some of its profit with the community.</td>
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<td>A40 Uses packaging materials that are environment-friendly.</td>
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<td>A41 Takes government regulations about the environment beyond what the</td>
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<td>law requires.</td>
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<td>A42 Responds quickly to consumers’ orders.</td>
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<td>A43 Treats all employees fairly.</td>
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<td>A44 Pays employees market-related salaries/wages.</td>
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<td>A45 Has employees who enjoy working in this business.</td>
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<td>A46 Has customers who will recommend our business to other customers.</td>
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<td>A47 Has shown consistent growth in market share over the last five years.</td>
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<td>A48 Has customers who are committed to supporting our business.</td>
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<td>A49 Is serious about saving water and energy.</td>
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<td>A50 Has a friendly relationship with the local community.</td>
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<td>A51 Provides customers with useful information when choosing the right</td>
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<td>products and/or services.</td>
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<td>A52 Has stakeholders who feel unfriendly towards our business.</td>
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<td>A53 Has employees who find what they expected from their jobs.</td>
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<td>A54 Provides the community with donations, such as cash and articles that</td>
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<td>they need.</td>
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<td>A55 Is well-known among our stakeholders.</td>
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<td>A56 Has stakeholders who regard the business as trustworthy.</td>
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<td>A57 Sells organic products (products grown without using chemical</td>
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<td>pesticides and artificial fertilisers).</td>
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<td>A58 Takes an interest in the overall well-being of the community.</td>
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<td>A59 Has a reliable business reputation among stakeholders.</td>
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<td>A60 Charges customers fair prices.</td>
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**SECTION B: DEMOGRAPHIC INFORMATION**

The following questions provide demographic information about yourself and your business. Please answer all questions and indicate your response by ticking (√) in the appropriate box as requested.
### B1 Gender
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<tr>
<td>Male</td>
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<tr>
<td>Female</td>
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### B2 Number of years in business
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<tr>
<td>Less than three years</td>
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<tr>
<td>Between three and 5 years</td>
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<td>Between 6 and 10 years</td>
<td>3</td>
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<tr>
<td>More than 10 years</td>
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### B3 Position or title in the business
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<td>Owner (silent partner)</td>
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<td>Owner and active manager in the business</td>
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<tr>
<td>Employed manager (CEO or functional manager such as financial, marketing)</td>
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<tr>
<td>Other; please specify below:</td>
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### B4 Level of education
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<tr>
<td>Ordinary level certificate</td>
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<tr>
<td>Advanced level certificate</td>
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<tr>
<td>National certificate or Diploma</td>
<td>3</td>
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<tr>
<td>Bachelors degree</td>
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<tr>
<td>Masters degree and higher</td>
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<td>Other; please specify below:</td>
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### B5 Form of enterprise
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<td>Sole trader</td>
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<td>Partnership</td>
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<td>Private company</td>
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<td>Trust</td>
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<td>Other; please specify below:</td>
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### B6 Branch/sector
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<td>Manufacturing and processing</td>
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<td>Business services</td>
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<tr>
<td>Trade (retailing/wholesaling)</td>
<td>3</td>
</tr>
<tr>
<td>Hotels and Restaurants</td>
<td>4</td>
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<tr>
<td>Finance</td>
<td>5</td>
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<tr>
<td>Insurance</td>
<td>6</td>
</tr>
<tr>
<td>Education</td>
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<tr>
<td>Health and Social works</td>
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<td>Other; please specify below:</td>
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</table>
### B7 Size of the business

#### 7.1 Full-time employees

<table>
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<tr>
<th>Size</th>
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<tr>
<td>Less than 5</td>
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<td>Between 5 and 10</td>
<td>2</td>
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<td>Between 11 and 20</td>
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<td>Between 21 and 50</td>
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<tr>
<td>More than 50</td>
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#### 7.2 Our annual turnover is in the range of (This information is voluntary and will be treated with confidentiality).

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<thead>
<tr>
<th>Turnover Category</th>
<th>Count</th>
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<tbody>
<tr>
<td>Less than UGX 50 million per annum</td>
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</tr>
<tr>
<td>UGX 51-100 million per annum</td>
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<td>UGX 101-200 million per annum</td>
<td>3</td>
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<tr>
<td>More than UGX 200 million per annum</td>
<td>4</td>
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<tr>
<td>Not willing to disclose</td>
<td>5</td>
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</table>

THANK YOU FOR YOUR TIME AND CO-OPERATION
ANNEXURE B: RESPONDENT DEMOGRAPHICS

B1 Gender of respondent.

B2 Number of years in business by respondent.