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Corporate Sustainability as a Business Strategy in SMEs - A Literature Review in the Emerging Market Context

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Abstract

Corporate Sustainability is well practiced and communicated in big corporate houses. Also among SMEs in developed European market socially and environmentally responsible behaviour is to some extent evident. However in case of SMEs in emerging markets of Asia, Africa and Latin America the sustainability practices of the companies are totally unorganised and informal. This paper does a comparative literature review on how SMEs in the emerging market are placed in the corporate sustainability realm and lagging behind the developed market of the west in terms of their perception and practices of sustainability, drivers and challenges faced by them in implementing the same. SMEs are the biggest contributors to the economic development for most of the countries. In emerging market context apart from their economic contribution, the level of environment pollution caused by them and also violation of labour practices is significant. It is important for them to take up environment and social practices in a more formal and organised way with a strategic approach. The paper also collates the recommendations given by researchers in order to strengthen and strategise the current mode of informal sustainable practices so as to drive their overall business performance through enhanced sustainability. At the end, the paper theoretically discusses the viability of these suggestions in the Indian scenario.

Keywords: Corporate Social Responsibility, Corporate Sustainability, Small & Medium Enterprises

1. Introduction

Economic liberalization of early nineties, privatization & globalisation of trade had made the companies in India more aware of their brand reputation and their relationship with multilevel stakeholders. As a result the terms like 'Corporate Citizenship', 'Corporate Social Responsibility' and 'Corporate Sustainability' have surfaced. Concept wise all these terms are one and the same and are interchangeably being used in the literature. Corporate Sustainability is a concept that tells how corporations, along with their usual goal of profit maximization need to focus on their involvement in social and environmental improvement to enhance the sustainability of their business operations in long term. This, unlike the earlier concepts of add-on policies of voluntary community engagement, explains company strategies and practices developed around economic, social as well as environmental considerations. It is no longer considered as voluntary but as the vitalities for the very sustenance of the company. Sustainable practices, integrated within the core business strategy, remain less susceptible to cost cutting measures during economic downturns.

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Social and Environmental dimensions of sustainability, have not been focused till very recently when nations and business communities have started realizing their importance in achieving the long term business sustainability. The idea to grow without damaging the prospect of future generation is increasingly becoming the core concept in business philosophies. This was further elaborated by the 'Triple Bottom Line' (TBL) concept, explained by Elkington (1997), that "The business goals are inseparable from the societies and environments within which they operate."

2. Evolution of the Concept of Corporate Sustainability

The essence of all the concepts of sustainability used in literatures stems from the core concept of sustainable development. Mel Wilson (2003) quoted "Mix sustainable development, corporate social responsibility, stakeholder theory and accountability, and you have the four pillars of corporate sustainability"

The concept of sustainability dates back to (Social Watch Report 2011) Industrial Revolution in early 20th century where two opposing factions 'The Conservationists' and 'The Preservationists' emerged to lead environmental movement. The consideration of sustainable development concepts in formulating mainstream business strategy was later on taken forward by the 'World Conservation Strategy (1980)', the 'Brundtland Report (1987)', and the United Nations Conference on 'Environment and Development' in Rio (1992). Four broad concepts like 'Agency Theory or Corporate Accountability', 'Corporate Social Responsibility', 'Stakeholders' Theory' and 'Sustainable Development' have evolved over the decades that contribute to the concept of corporate sustainability.

Agency theory of Corporate Accountability the principal, says that the shareholders, entrust the agent, the managers, with capital and the agent is again held contractually obligated and accountable by the principal, to use that capital in the principal's best interest. Corporate Social Responsibility theory addresses the need of the society along with shareholders' interest. According to stakeholders' theory a stronger relationships, developed on the basis of trust, respect, and cooperation between the organization and its stakeholders, makes it easier for the company to meet their corporate goals. The term "Sustainable Development" was first popularized in the 'Brundtland Commission's Report', '*Our Common Future*', (WCED, 1987). According to this report "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs". Policy makers and regulatory bodies cannot be the sole owner for sustainable development. Corporations, that have always been the agents of economic development of the country and have also caused some of the unsustainable environmental and social conditions, should shoulder the responsibility of social equity and environment protection.

3. Literature Review

Corporate Sustainability is a well researched area for developed nations and for big companies. But the corporate sustainability in small and medium companies is comparatively a less researched area especially in case of emerging market where the concept is relatively new. Literature shows that in case of SMEs in emerging markets of Asia, Africa and Latin America the existing sustainability practices are totally unorganised, informal and are mainly driven by the value system of the entrepreneur.

A close look at the contribution of the SMEs in the overall growth of economy will explain the potential of corporate sustainability as a strategy for growth for SME sector. SMEs play a crucial role in the overall economic growth of the country. SMEs together account for close to 90% of global businesses and create 50-60% of the total employment worldwide.

Corporate Sustainability as a Business Strategy in SMEs - A Literature Review in the Emerging Market Context

To understand the commonalities and differences of sustainable business behaviour in terms of perception, practices, motivational factors and challenges that SMEs in different geographies around the world are facing we have identified 100 papers in the period between the year 2010 to year 2016. It is seen that while most of the studies are conducted in the European context followed by some studies in the context of Australia, very few studies are done for the emerging markets of the world.

(a) Perception of Corporate Sustainability

Empirical researches across geographies have shown that although the term 'corporate sustainability' is not very familiar among the SMEs the understanding of the concept does exist among them. Good level of awareness on sustainability issues and their strategic importance is seen in SMEs in Australia and in some European countries like UK and Ireland. In emerging market context their limited social and environmental practices lack strategic imperative.

(b) Practices and Communication of Corporate Sustainability

SMEs in emerging market do engage in CSR activities, but they often do not declare these activities under the head of "Corporate Sustainability". Sustainability activities in the form of internal CSR mainly include management of human resource and employee benefits and also management of environmental impacts through recycling of natural resources. External CSRs are mainly concerned with interest of wider stakeholders, local community, business partners, suppliers and customers, philanthropic activities like donation and charity. SMEs in China had set up CSR department, and a positive atmosphere for CSR (Tseng 2010). In Nigeria and Tanzania, SMEs' CSR effort goes beyond philanthropy (Kenneth, 2015)

Reporting of CSR is not a primary focus area for the SMEs. Many of their CSR activities remain unknown to public.

(c) Drivers of Sustainability

Communication and reporting as in MNCs may not be a feasible option for the SMEs, but integrating the CSR practices in their core business operations with extensive employee engagement is possible due to their informal communication style and lesser hierarchy. Flexible organization structure and motivated personnel benefit SMEs in implementing sustainability practices (Hike et al, 2010). SMEs may have an easier time pursuing CSR than large companies because of their smaller base of suppliers and ease of working with internal employees (Milne et al, 2013).

SMEs are a better listener to the local issues and can better understand social problems. Regulatory pressure, public scrutiny, stakeholders demand in most cases act as the driving force behind SMEs resorting to responsible business practices.

Reference	Findings
Pavitra et al, 2015	In Malaysia, Government regulations was found to be positively and significantly influencing green purchasing adoption for SMEs in Malaysia
Soeren et al, 2012	In South Africa and Vietnam factors like having international customers, subcontract with big MNCs and certification have acted both as drivers and facilitators for their improved CSR activities.

Government support, funded awareness programmes, in many cases act as a booster for SMEs taking up CSR activities. Most of the SMEs agree that their CSR activities has positively contributed in their ability to attract and retain high skilled employees, create unique selling propositions and competitive advantages (Francesco Perrini, 2006).

Reference	Findings
Banjo and Doren, 2012	Awareness of and appreciation for environment sustainability activities are the main reason of the environment sustainability orientation in SMEs in Philippines.
Santos, 2014	Sustainability Education is an important pillar in promoting sustainable practices in micro organizations in Brazil

Improved financial performance can act as the strongest driver for sustainability practices but the business outcome of sustainability practices is not very obvious in short term, although it pays in the long run.

(d) Challenges Faced by SMEs in Implementing Sustainability Practices

Challenges faced by the SMEs in sustainability initiatives can be of two types – perception challenge and implementation challenge. Perception challenge includes lack of knowledge of SMEs to perceive and quantify the impact of their business operations on environment and society and identify appropriate actions to address the issues and understanding the alignment of stakeholders’ interest with business interests of the company. Different stakeholders often have different and even contradictory expectations and priorities. Implementation challenge is the cost burden of planning monitoring, evaluation, communication and certification of sustainable practices. Resource constraint, limited capacity, lack of access to technology and environmentally friendly materials, lack of credit availability, insufficient information and training, fear of additional regulatory and bureaucratic burdens, lack of incentives on the part of government can act as barriers to successful implementation of CSR practices for SMEs.

Reference	Findings
Lee et al 2012	Lack of resources is the key barrier to CSRs among SMEs in Singapore.
Haq and Mark 2014	Barriers to implementation include a misalignment between the requirements of western codes of conduct and the socio-economic context for Bangladesh

4. Suggestions and Recommendations

• Partnership and Collaboration

Since the resource constraint poses a big challenge in case of SMEs in implementing the sustainability practices, the best way to realise their sustainability goals is through collaboration and partnership. However alliances and networks can only be leveraged to solve common problems and share best practice CSRs if the SMEs are willing, able and prepared to disclose their information which is the precondition for decreasing information asymmetry in this field (Jozica, 2004).

Corporate Sustainability as a Business Strategy in SMEs - A Literature Review in the Emerging Market Context

Reference	Findings
Santos, 2014	Challenges like resource constraints can be overcome through collaboration.
Tran and Jepsen, 2016	'MNCs should share the CSR implementation costs with the SMEs in their supply chain. On Government part enforcing labour code is also essential.'

• **External Facilitation and Education**

Role of government through policy regime, issuance of SME specific guidelines and standards, encouraging development of sustainability management tool catering to the specific need of SMEs is important. Facilitation by NGOs or accountancy professionals in a customised way to address the specific requirements of the SMEs is essential.

Reference	Findings
Nimruji, 2012	'Codes of conduct transmitted from TNCs and an active governmental role is necessary for boosting sustainability practices in SMEs in India'
Banjo and Doren, 2012	'Government policies and programs to encourage small firms in Philippines to become sustainable should go beyond financial forms of assistance.'

Having awareness on sustainability management is important for its effective implementation. Training, knowledge build up, incentives and appreciation for sustainable practices among employees should be encouraged. To facilitate environment responsibility in SMEs in Malaysia, administrators and policy makers can educate employees and customers to increase their awareness level (Mehran, 2014).

• **Strategic Management**

From their current mode of informal and unorganised sustainability practices SMEs should make a shift towards a strategic approach for responsible business practices. Dercy et al (2014) suggests a model where the sustainability in terms of human resource practices can be strategized through a maturity development ladder starting from Reactive Stage, through Tinkering Stage, Entrepreneurial Stage and finally to Expertly stage where the company not only focus on operational HR considerations like employee relationship behaviour or people management practices but also focus on a strategic action to maintain well stocked human capital pool. SMEs often lack in communicating their sustainable practices to their stakeholders. Reporting and open communication helps SMEs in developing countries to refrain from unethical practices of showing mock compliance. Government can play a significant role of facilitation by introducing some kind of mandatory obligations of responsible business behavior on the part of SMEs.

5. Future Research Area

Sustainability practices and its importance in driving overall business goals for SMEs in emerging markets especially in India has not been explored much. Studies of sustainable practices in case of Indian SMEs are mainly limited to some funded projects of UNIDO. There remains an

immense scope for SMEs to incorporate their CSR activities under a sustainable company strategy and prove their potential in sustainable development of the country. Also impact of partnership and collaboration within the cluster and also along their value chain, role of Government, NGO and other regulatory bodies in improving the social and environmental conditions is also an area of future research.

Till date a lot of institutes at national and international level have come forward to promote collaborative growth for SMEs. These institutions arrange for fund, training and workshops, tools and platforms to encourage innovations. However the reach of these institutes in the SME map of India and more importantly the perception of SMEs about their effectiveness is an area of future research. For big organizations violation of labour or environmental laws will not allow corporations run any longer. But for SMEs the problem is more intense. Labor law violation, practices of child labor or unpaid overtime are rampant. Moreover in some of the most polluting industries like leather, dye and other chemical manufacturing SME presence is significant.

To bring CSR under the legal obligations for the SMEs the amendment of Companies Act 2013 requiring minimum CSR spending of 2% of three years average profit for companies having met certain financial targets. However taking the advantage of restrictions or any loop holes in the law many highly profitable partnership can escape the boundary of CSR mandates or adopt corrupt practices for mere compliance in name sake. CSR in the form of voluntary actions or legal compliance action, either way aim towards the improved ethical and societal governance. Immense research opportunities exist on exploring the possibilities of making CSR a part of business strategy for SMEs.

6. Conclusion

Increased integration of economies of developing countries with the world economy has exposed almost every industry sector to global competition. Apart from price or quality commitments, considerations for social and environmental norms are also strongly influencing the sourcing decisions of global buyers. Even for MSMEs, lack of responsiveness to this kind of expectations from buyers and consumers pose a serious threat to their business operation, while being responsive opens the path to larger market share.

Moreover failure to recognize CSR as a strategic aid for business development will push the managers transfer the extra cost burden of CSR compliance to the customers which again will undermine the societal goal of quality goods at affordable prices. Again a company solely focused on compliance with current requirements, may fail to recognize emerging trends and fail to plan for future compliance needs. Understanding about stakeholder concerns and the likelihood of those concerns to lead to external policy shifts, can not only improve strategic planning but also manage both legal and reputational risks.

Government and other social organizations have an important role as an enabler to move such a revolution forward, by bringing in the SMEs into the purview of CSR. The idea is further supported by the empirical research finding that the returns from focussing on CSR for big corporations are diminishing and in order to bring about significant improvement in the current standard of health, education, environment the focus has to shift towards the SMEs.

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Corporate Sustainability as a Business Strategy in SMEs - A Literature Review in the Emerging Market Context

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