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Is CSR a Luxury that SMEs in Africa Cannot Afford?

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Abstract

Corporate Social Responsibility (CSR) is a subject that divides academic opinion. The current literature on the subject provides a dichotomy of views from the perspective of supporters who argue that businesses do well by doing good. Critics, from mainly the free enterprise movement, argue that CSR is 'just a fad' and that by diverting valuable resources into activities that have no direct bearing on a company's bottom-line is unscrupulous and unprincipled. There is also the argument that CSR engagement place undue burden on SMEs in Africa that can ill afford them while protecting foreign companies.

The cost associated with the phenomenon is one of the key reasons for the current position which is also not helped by the lack of scientific measurement of the impact of CSR engagement on a company's performance. However, there is evidence from CSR literature which supports the view that there are long-run benefits for companies adopting CSR strategies including enhanced reputation, enhanced staff loyalty and cost savings.

This paper argues that there is a strong business case for CSR engagement by SMEs in developing countries in spite of the associated costs and concludes that CSR engagement enhances SMEs in developing countries' social, environmental and financial performance.

Keywords: Small and Medium Scale Enterprise (SME); Corporate social responsibility; Stakeholders; Organisational responsibility; Philanthropic responsibilities; Shareholder value; Corporate citizenship; Transnational corporations

Introduction

Corporate social responsibility (CSR) is difficult to pin down in terms of a clear definition, because there are different facets to its meaning and application. According to Fisman, Heal and Nair (n. d.) there is a lack of well-defined analytical framework which generates difficulties in the study of corporate social responsibility (CSR) since the term seems to have different connotations to different audiences. Raynard and Forstater [1] quote from various literature and provide the following definitions:

CSR is "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." (World Business Council for Sustainable Development)

"Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment and relations with stakeholders." (The European Commission)

CSR means "operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business."

Visser [2], defines CSR as "the way in which business consistently creates shared value in society through economic development, good governance, stakeholder responsiveness and environmental improvement" (p. 7). The simplest and probably the best definition that seems to capture the various aspects of CSR is the one that defines the concept as 'businesses doing well by doing good''. From the literature on the subject, I find this simple definition to encapsulate the spirit as well as the essence of CSR as it implies that as businesses carry out their activities in the interest of the wider stakeholders, the primary goal of investors is also facilitated.

CSR involves the transformation of businesses from mere profit motivated machinery into corporate citizens who are actively promoting moral principles and responsible practices which engender sustainable operations and transparent entities in their dealings with both internal and external stakeholders [3]. Many corporations including Enron, WorldCom, Tyco, Adlephia have been affected by 'doubts and distrust' by the investing public as a direct results of poor and unethical business practices leading to their demise (p. 1).

The shift from profit maximisation to ethical and responsible practices is captured clearly in Carroll's pyramid of CSR, [4]. As illustrated in Figure 1 below, Carroll argues that business concerns may be arranged in a hierarchical order with the most important concerns at the bottom of the pyramid. It therefore follows that there is a linear development of organisational responsibility which suggests that firms will prioritise their objectives ranging from economic responsibilities to philanthropic responsibilities.

The pyramid (Figure 1) is a clear illustration of the transformation of business motivation from 'the business of business is business,' argued by the neo-classical economists, to corporations as members of the global community, with responsibility and accountability to states and civil society. The change in emphasis means shifting from treating pollution etc. as 'externalities' to including all costs to environment, community etc. in market transactions. The concept of corporate citizenship has gathered momentum due to its mutual benefit to both society and businesses. According to Lenssen et al. [5], innovative companies are moving from building 'shareholder value' to 'shared

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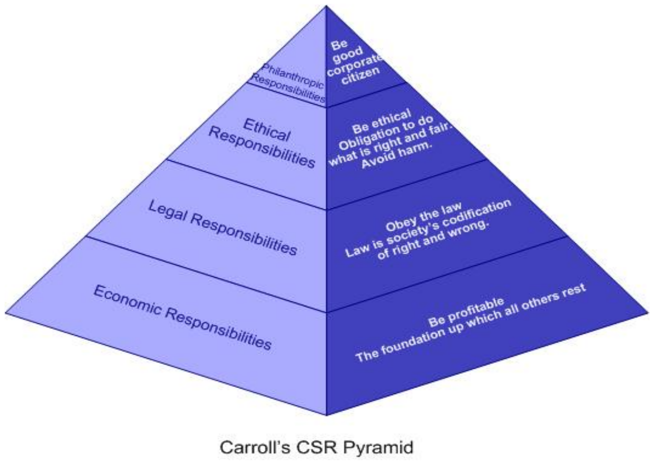

Figure 1: Carroll's CSR Pyramid and its applications to small and medium sized businesses.

value' for all stakeholders; from 'quarterly capitalism' to 'long-term capitalism'. They are also providing resources, open access systems and capital to entrepreneurs and communities to support technology and knowledge transfers. Companies that integrate future development concerns into their business model will be ideally placed to secure long-term licenses to operate, develop loyal new consumer bases, and innovate in new market segments.

In this regard, the days of profit maximization regardless of its social and environmental implications appear to be gone for good and any company that decides to risk societal backlash in the name of profit maximization does so at its own peril.

Historical Development

CSR is not just a recent phenomenon to the business environment. Although Raynard and Forstater [1] are of the view that there has been a radical change in the relationship between the private sector and both state and civil society in the form of CSR engagement and expectations over the past two decades, it is the position of the CSR literature that the principle and idea behind the CSR concept has been around for decades, if not centuries [2,6]. The CSR debate over the relationship between business and society dates back to the late nineteenth century "when the power of corporations was in ascendancy and periods in which society attempted to regulate the growth of corporate power" [6]. During this era, the emergence of large corporations and the 'robber barons' led to the development of the anti-trust movement and society began to look suspiciously at the activities of these large and powerful corporations and their owners. The corporations responded by engaging in philanthropic activities in order to prove that government regulations were unnecessary [6,7] posits that the Great Depression in the 1930s produced a second wave of regulation which led to Roosevelt's New Deal in the US and nationalisation and regulation by the post-war Labour government in the UK. The tension between business and society continued into the 1960s and 1970s as concerns were raised regarding the growing social and environmental impact of transnational corporations (TNCs), leading to a third period of efforts to regulate corporate activities.

Global restructuring and the rise of neoliberalism in the 1980s led to a shift away from state intervention in both developed and developing countries [8]. National policies at the time towards TNCs shifted away from regulations and gave rise to 'intense competition to attract foreign direct investment' which led to the exploitation of state resources as governments became fearful of the TNCs who were prepared to relocate their production facilities to countries with more favourable regimes. Bendell [9] argues that by the 1980s, it was becoming clear that the various multilateral initiatives and agreements that had been introduced in the previous decade were doing little or nothing to address corporate power.

Recent work on CSR began with the work of Keith Davies, a Professor at the University of Arizona who argued that some socially responsible business decisions can be justified by a long, complicated process of reasoning as having a good chance of bringing long-run economic gain to the firm, thus paying it back for its socially responsible outlook. He sets forth his now-famous Iron Law of Responsibility, which held that the social responsibilities of businesspeople needed to be commensurate with their social power (Corporate Social responsibility and related terms, n. d.). There is no doubt that the process of globalisation has also added more impetus to the growing debate on the equitable sharing of the benefits of international investment, trade, growth and development [1]. In regards to this, and in the view of the proponents of CSR, civil societies have become increasingly aware of the social and environmental impact of TNCs activities and are thus demanding that these corporations make a fair contribution to the communities whose lives are impacted on by their activities. In making the business case for CSR engagement, the Boston College Centre for Community Relations (2000) argued that some of the factors that have had significant effect on the increased CSR engagement by business include globalisation and the associated growth in competition, increased size and influence of companies, retrenchment and repositioning of government and its roles, increasing competition for talents and expertise, growth of global civil society activism and increased importance of intangible assets. It therefore appears that CSR engagement is not only expedient for the growth of modern corporations but it now needs to have a strategic focus for both multi-national corporations (MNCs) whose cross border interactions rely on governments and civil societies with considerable understanding of corporate citizenship and high expectations and small and medium enterprises (SMEs) whose activities have significant impact on the development of national economies as well as local communities and the environment. The views of Raynard and Forstater is that companies, especially SMEs in developing countries now recognise that 'improving their own impacts and addressing wider social and environmental problems will be crucial in securing their long-term success' (p. 1). In fact, Willard went on to underscore that 'good environmental and social programmes make good business sense' (p.2) and creates a win/win/win approach for corporations, society and the planet.

The Benefits to SMEs in Developing Economies for CSR Engagement

In answering the question as to whether the SMEs in developing countries should engage in CSR activities, it is essential to discuss what is in it for them. What do they stand to gain by taking on additional commitments that some may argue do not directly add value to their core business? Before going into the details of the importance of CSR to SMEs it is necessary to emphasise the significance of SMEs in developing economies, especially those of the sub-Saharan African region. The point is made that it is the activities of SMEs that will drag citizens of these nations out of poverty [1]. For this to materialise, access to international markets will be crucial. This is where CSR engagement becomes imperative as it provides a link to TNCs who are increasingly making it a condition for doing business with those SMEs in developing economies.

It must be noted that as more and more TNCs rely on supplies from SMEs in developing nations, their reputation and the brand image is intrinsically linked together. The activities of the SMEs that are deemed unethical tarnish the reputation of the parent companies in the developed economies where there is the expectation of adherence to higher social responsibilities. Many companies have suffered the consequences of the actions of their supplier chain businesses in developing countries. These include recent cases of Primark and the collapse of the Rana Plaza factory in Bangladesh where over 11000 people lost their lives. Nike has been shamed by its sweatshop outsourcing factories which has tarnished the image of the company and is still struggling to restore its reputation [10].

To avoid these embarrassments, TNCs make CSR engagement a condition for doing business with SMEs in developing countries. Raynard and Forstater, asserted that increasingly, TNCs are including social and environmental criteria alongside the more traditional considerations of quality and price. In recent years, there has been a flurry of activities relating to codes of conducts for sub-contractors concerning environmental and labour standards ensuring that these companies in countries with limited CSR expectations live up to international standards to meet society's call for higher moral and ethical practices.

Another benefit of the TNCs and SMEs interface with regards to CSR engagement is the rising acknowledgement that "forming trading links and development partnerships, which help SMEs gain access to markets, finance, training, physical infrastructure and business support services can be one of the key ways that they can have a positive impact on poverty" (p.41). At the recent annual general meeting of the African Development Bank (AfDB) held in Arusha, Tanzania, the AfDB's President Donald Kaberuka, announced the official launch of the African Guarantee Fund (AGF), a market-friendly guarantee scheme which aims at easing access to finance for African small SMEs. This was funded and supported by the governments of Denmark and Spain to "provide financial guarantees to financial institutions to stimulate financing to SMEs and unlock their potential to deliver inclusive growth in the region" [11]. These partnerships support the activities of respective SMEs and enhance their performance especially by increasing their bottom-line in the process.

Table 1 below also summarises how the Japanese government supports SMEs in sub-Saharan Africa through the One Village, One Product (OVOP) programme which is expected to alleviate constraints on the development of SMEs [12]. The first column lists the market failures and constraints which confront SMEs, and the second column indicates whether OVOP addresses these constraints. The other columns identify examples of OVOP support and complementary actions by local governments. The last column suggests additional/alternative sources of donor assistance.

There are also long-run benefits for companies adopting CSR strategies. Some of these benefits include:

- Cost- savings – Waste and energy consumption adds significantly to SMEs operational costs. By adopting policies to control these, SMEs are likely to cut down significantly on such avoidable expenses, thereby impacting positively on efficiency and profitability. A university in Ghana was recently able to cut down on its electricity bill by almost a third as a result of installing solar panels in place of the traditional energy supply.

- **Enhanced staff loyalty:** Companies with advanced human resource development programmes (e.g. high investment in training, family-friendly policies, incentives and reward schemes) enjoy higher levels of loyalty and lower levels of absenteeism, and will also find it easier to recruit, develop and retain staff. I recently conducted a simple experiment in my classroom by asking 125 A' level students who are about to enter university whether the reputation of an organisation will be one of their considerations when looking for a job in the future. I was astonished to find that 85 out of the 125 indicated that they will refuse to work for a company with poor CSR reputation, even in this difficult and competitive job market. Although this is not a precise science, yet it goes a long way to indicate employment trends with future generations.

- TNCs are able to use their strong influence on governments to establish/encourage decisions and policies that support ethical standards and human resource policies that ultimately improve business performance. The actions of TNCs are influencing governments in developing countries to adopt more positive environmental and ethically friendly policies likely to favour organisations that align their strategic policies with favourable socially responsible practices.

- Finally, and most crucially, developing countries are more likely to be affected by environmental disasters, all things being equal, than developed nations. Western developed nations have the capacity,

Constraint in SMEs	Japanese assistance for OVOP	Examples of OVOP related involvement	Examples of complimentary actions by host Government	Examples of other donor assistance
Low skills	Directly by providing ex-pat skills and training courses in japan	Packaging, Labelling, Accounting Marketing etc.	Training	Limited,GTZ
Lack of technology standard and knowledge	Directly by providing advice and training courses	Quality Control, Kaizen, S5, TQM JIT etc	No	Limited, standards support by the EC UNIDO on standards
Lack of external links such as in value chains	Directly by linking SMEs to Japanese markets	Trade fair in Japan website	Trade fair	e.g. IDRC
Lack of access to credit	Indirectly via government policy	No	Yes, sometimes. cooperatives secretariats	World bank, DFID etc
Weak BDS market	No. OVOP provides BDS itself and does not promote the BDS market	No	No	Donor committee on small enterprise, DFID etc
Infrastructure	No, only small equipments are provided	Cooling tanks for milk plants	No	World Bank, EC
Regulatory framework and governance framework more widely	No, only limited guidance for OVOP framework will be provided	No	Limited	World Bank UNDP UNID DRD etc.

Table 1: Japanese government supports SMEs in sub-Saharan Africa.

technology and resources to recover from environmental catastrophes better than developing countries. Recent 'cries for help to the Western world after earthquakes, famine, diseases and other environmental problems by developing nations are testimonies of how almost helpless developing countries are when it comes to emergency assistance. It is therefore in the interest of these nations to take the responsibility to support any initiative that minimises the chances of such environmental tragedies.

In summary, the conclusions can be drawn to the fact that all parties concerned stand to benefit from a stable environment that is less likely to play havoc with people's daily lives and for that reason, any attempt to protect the environment and adoption of ethical policies is in the interest of citizens of developing nations. SMEs in these parts of the world can make significant contribution to sustainable development by adopting policies that facilitate tackling capacity constraints and building the drivers of responsible business [13]. Baker [14] states it quite emphatically that, there are areas where companies have to do the right thing. The business case for action on climate change is not that you will necessarily get competitive advantage for so doing (although you might if you are clever) but because your business model is fundamentally screwed if we don't have a planet, and every business, every law-maker and every individual citizen has a part to play in that (p. 5).

The case against CSR in developing economies

In spite of the overwhelming evidence supporting the need for SMEs in developing nations to have a more strategic focus in CSR engagement, critics argue that CSR is 'just a fad' and that by diverting valuable resources into activities that have no direct bearing on a company's bottom-line is unscrupulous and unprincipled. Belsky [15] draws from the conclusion of a recent study and assert that "firms that are focused on pursuing a socially responsible agenda are more likely than other businesses to behave in socially irresponsible ways".

The argument from the free enterprise movement can be summed up in a quote by Milton Friedman in a New York Times article thus, any business executives who pursued a goal other than making money were, he said, "unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades." They were guilty of "analytical looseness and lack of rigor." They had even turned themselves into "unelected government officials" who were illegally taxing employers and customers [16].

The free enterprise movement argue that by creating jobs and contributing to the coffers of governments, businesses contribute their fair share to communities and they do not need to accept the pressure of 'do gooders' who expect board of directors to use the legitimate returns on investment to appease society. According to the neoliberal economists, the responsibility of providing for communities lies firmly at the doors of governments. It is also the role of governments to ensure businesses operate within the law and as far as each party is doing their jobs well, there is no need for businesses to take on the role of governments.

Milton Friedman, a neo liberalist economist wrote in the New York Times on September 13, 1970 and said that:

There is one and only one social responsibility of business-to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.

His views were supported by the neoliberal journalist Janet Albrechtsen who, writing in an opinion piece for the Australian newspaper recently wrote:

The fundamental flaw with corporate social responsibility, and why it is a backward step, is the underlying premise that capitalism and companies have something to be embarrassed about, that they must justify their existence by going in search of some higher moral purpose. This shame-faced capitalism is an unfortunate development. The idea pushed by advocates that the pursuit of private profit is inconsistent with public good does not stack up. How quickly we forget that Adam Smith knew a thing or two about human nature ... Smith pointed out that "it is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own self-interest" [17].

According to Baker [14], some of the main arguments raised against CSR include the following:

- Businesses are owned by their shareholders - money spent on CSR by managers is theft of the rightful property of the owners
- The leading companies who report on their social responsibility are basket cases - the most effective business leaders don't waste time with this stuff
- Our company is too busy surviving hard times to do this. We can't afford to take our eye off the ball - we have to focus on core business
- It's the responsibility of the politicians to deal with all this stuff. It's not our role to get involved
- I have no time for this. I've got to get out and sell more to make our profit line.
- Corporations don't really care-they're just out to screw the poor and the environment to make their obscene profits

Karnani, wondered whether companies can do well by doing good and asserts that the idea that companies have a responsibility to act in the public interest and profit from it is fundamentally flawed [18]. He goes further to posit that the whole idea of businesses trumpeting the case for CSR is not only an illusion but potentially a dangerous one. He argues that, in cases where private profits and public interests are aligned, the idea of corporate social responsibility is irrelevant: Companies that simply do everything they can to boost profits will end up increasing social welfare. In circumstances in which profits and social welfare are in direct opposition, an appeal to corporate social responsibility will almost always be ineffective, because executives are unlikely to act voluntarily in the public interest and against shareholder interests (p. 1).

Others argue that CSR has ulterior motives. One study showed that over 80% of corporate CSR decision-makers were very confident in the ability of good CSR practice to deliver branding and employee benefits (Arguments against CSR, n. d.). To take the example of simple corporate philanthropy, when corporations make donations to charity they are giving away their shareholders' money, which they can only do if they see potential profit in it. This may be because they want to improve their image by associating themselves with a cause, to exploit a cheap vehicle for advertising, or to counter the claims of pressure groups, but there is always an underlying financial motive, so the company benefits more than the charity. In other words, CSR is a cheap PR exercise designed to promote the image of an organisation for marketing and other financial purposes. By appealing to customers' consciences and desires, CSR helps companies to build brand loyalty and develop a personal connection with their customers.

In Africa and the developing world the arguments against CSR engagement is often a cynical one. Critics argue that CSR engagement place undue burden on companies that can ill afford them while protecting foreign companies. Even well-meaning governments have expressed the concern that CSR standards are a mechanism for retaining jobs, trade and investment in developed countries at the expense of developing economies, which tend to compete through lower labour costs and less stringent environmental regulations (Raynard and Forstater, [1]. The CSR standards often include the payments of relatively high wages, higher quality standards, and other conditions that may not be particularly relevant in the context of the developing nations. For example, what is often perceived in the Western world as inhumane conditions may actually be the lifeline for a family in those parts of the world and that without those jobs, a family may starve or a child may not go to school. Coming from a Ghanaian background, I remember back in the days when a group of us will work for several hours every Saturday in a foreign owned company, under what one may say 'sweat-shirt' conditions to be able to pay our school fees in the secondary school. Without that labour and 'meagre' wages neither of us could have completed secondary school. It is the conviction of the author that, the argument needs to be balanced and looked at in a holistic context. Although this is not an excuse for businesses to exploit their employees or 'force' them to work under difficult conditions, there ought to be support for the SMEs in developing economies by their upstream supply chain TNCs by way of fair prices for their produce to encourage them to maintain higher standards without jeopardising jobs.

The other costs associated with CSR engagement are the monitoring and auditing costs which are related to the administration and auditing of systems associated with licensing. Raynard and Forstater [1] cite the example of one firm in China which was audited by teams from 40 customers in a single month. Expecting a small company in any part of Africa to bear such costs would be prohibitive and unrealistic leaving such firms to abandon any consideration for engaging in CSR practices, regardless of the long term benefits.

Conclusion

Clearly there is a strong business case for CSR engagement by SMEs in developing countries in spite of the associated costs. The evidence of this could be found in the masses of research linking social, environmental and financial performance which have concluded that doing good can also be good for business. In Africa and the developing world, there is a greater need for the case for businesses and governmental institutions to take responsibility and work towards environmental and humanitarian protections as the consequences of failure could have a more devastating effect on the citizens of developing nations than it would for developed countries for reasons highlighted above. Visser [2] quoted Josiah Charles Stamp as saying that "it is easy to dodge our responsibilities, but we cannot dodge the consequences of dodging our responsibilities" (p. 3). This is very true in the case of CSR engagement by businesses, especially, those in developing countries.

Although there are costs associated with engaging with CSR, a strategic approach backed with higher standards will enable SMEs in developing economies gain access to contracts with TNCs which is likely to secure jobs and enhance a business' bottom-line. A World Bank sponsored conference concluded that SMEs were motivated to be socially responsible by moral values and financial incentives, but face key challenges in implementing CSR. These include a lack of time and resources, a low margin of error, informal status, ad-hoc management styles, family ownership of businesses, and competition with others [19]. These factors are complex and may be country-specific which may require a strategic and coordinated effort. The international community probably led by United Nations Industrial Development Organisation (UNIDO) may need to support in this process to facilitate a comprehensive understanding of the economic, humanitarian and environmental values in CSR engagement by SMEs in developing countries.

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