The Relationship between Corporate Social Responsibility and Competitiveness in Mexican SMEs

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Abstract: Our society is changing the way of making business; it is changing the competitiveness rules among the organizations and it is demanding a bigger involvement of the companies in the ethical aspects of businesses. Thus, the concept of Corporate Social Responsibility has become important as an approaching strategy between firms and society. For this reason, this paper attempts to analyze the effects of Corporate Social Responsibility at the level of competitiveness in Mexican small and medium-sized enterprises. The empirical analysis was carried with a sample of 397 enterprises. The results obtained show that Corporate Social Responsibility has positive effects at the small and meduim-sized enterprises competitiveness level.

Key words: corporate social responsibility; competitiveness; small and medium-sized enterprises

JEL codes: M14

1. Introduction

The development of the concept Corporate Social Responsibility (CSR) started in the 1950s when the literature focused for the first time in the responsibility of businessmen from the most important U.S. firms (Bowen, 1953). Then, in the 1980s, it made an emphasis in the theory of the stakeholders (Freeman, 1984); by the 1990s most of the studies were analyzing the relationship between CSR and the financial development of the organizations (Roman et al., 1999). Finally, in the first decade of the new century, it centered its attention in the analysis and discussion of the CSR in small and medium-sized enterprises (SMEs), mostly in developing countries and Europe (Nielsen & Thomsen, 2009).

Thus, the debate and discussion of CSR have increased considerably in the literature in recent years (Crawford & Scaletta, 2005), with satisfactory results (Williams, 2005). It has become important for researchers and academics (Ogrizek, 2002; Knox et al., 2005), and for the agenda of most governments and public authorities (Nielsen & Thomsen, 2009), which are pressing that most of the SMEs adopt the CSR as part of their business strategies in order to improve the ethical codes and the behavior of the firms (Luetkenhorst, 2004).

On one hand, the fast development of business in developed and developing countries is demanding from the

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firms a more precise knowledge about the importance of the implementation of CSR (both inside the organization and among the stakeholders), in a way that allows firms to increase their participation in the market and obtain a better financial results (Williamson et al., 2006; Cornelissen, 2008). Therefore, concepts such as stakeholder's management, reputation management, supply chain management and competitiveness are relatively essential when discussing CSR (Nielsen & Thomsen, 2009). Both, large enterprises and SMEs will have to take into consideration these concepts when increasing their activities by use of the CSR (Sarbutts, 2003; Perrini & Tencati, 2006; Vaaland & Heide, 2007; Sweeney, 2007; Gugler & Shi, 2008; Nielsen & Thomsen, 2009).

On the other hand, there are other ways to define CSR in the literature. Nevertheless, there is a general agreement that any firm must give a certain value to society that is beyond its economic function (Bowen, 1953). As a consequence, enterprises that carry out actions in favor of their social atmosphere and have a positive behavior are socially responsible; they are an important source of sustainable and competitive advantages (Porter & Kramer, 2002). Similarly, Aguilera et al. (2007) considers that the CSR is made of a series of organizational responses in a legal, technical and economic aspect that affect directly the creation of social benefits, whereas Carroll (1991) and Carroll and Buchholtz (2002) consider that the CSR is a group of legal, ethical, economic and philanthropic contributions that somehow have an impact in the community.

Thus, the main contribution of this empirical paper is the analysis of the existing relationship between CSR and competitiveness in SMEs in an emerging country, as it is the case of Mexico. A second contribution is the methodology that has been used in this research paper since it will apply a structural equations modeling of second order to analyze the proposed theoretical model as a whole, which will allow a deeper examination of the relationships between this selected variables.

2. Literature Review

One of the most important factors that have contributed to the ambiguity of the concept of CSR is the lack of general consensus among the researchers about its meaning (Carroll, 1979; Panapanaan et al., 2003). Even when the term has been greatly analyzed, discussed and is now part of the current business language, it still causes controversy and debate when attempting to define and measure it (Roberts, 2003; Hopkins, 2003). It has been considered a concept that is ambiguous (Fischer, 2004), subjective (Frederick, 1986), uncertain (McWilliams, 2001), amorphous (Margolis & Walsh, 2001), intangible (Cramer et al., 2004), complex (McGuire, 1963) and with an arguable legitimacy (Lantos, 2001).

The beliefs and attitudes about the nature of the CSR are changing constantly in the literature (Hill et al., 2003), especially in recent definitions that describe it through the theory of the stakeholders (Vos, 2003; Jones, 2005), because such theory has been accepted by the researchers as a more practical and comprehensible abstract idea of the CSR (Hopkins, 2003; Vos, 2003). Likewise, different researches and academics suggest that, with the influence of a definition accepted by most of the researchers of this area, the easiest way to understand and apply the CSR in large enterprises and SMEs is by means of the relationships between the enterprises and their stakeholders (Sweeney, 2007).

By contrast, this theory proposes that each organization has an impact in society and the atmosphere in which it is present. This happens, on one hand, through its different operations, products and services given to society and, on the other hand, through constant interaction with its stakeholders, which makes the CSR important in every firm (Roche, 2002; Hopkins, 2003; Williams, 2005). However, literature has emphasized the analysis and

discussion of the CSR in large enterprises instead of paying attention to the CSR in SMEs (Vyakarnam et al., 1997; Spence et al., 2000; Schaper & Savery, 2004; Perrini et al., 2006). For this reason, special attention has been given to the research of the CSR in SMEs since 1990 from researches, academics and professionals of the marketing field (Hornsby & Kuratko, 1994; Spence et al., 2003).

On one hand, SMEs carry out their social contribution by creating a high number of employments in the communities in which they settle. They can improve their impact by giving the right conditions for the integral development of their employees and contribute to the creation of an organizational culture that respects values and social interests. Thus, the biggest motivation to implement CSR actions in SMEs comes from the personal assuredness of the owners and CEO and less from a firm's strategy (Spence, 2000; Jenkins, 2004). It is also important the influence of supply chains which develop integration dynamics for group strategies as well as strategies for the enterprise (Friedman, 1970).

On the other hand, the incorporation of CSR in SMEs has positive effects in the competitiveness because they can be more important than the ones obtained by the large firms, since the latter ones are perceived as foreign and impersonal. Nevertheless, the need to increase the competitiveness level asks for the creation of sustainable advantages around an efficient social responsibility (in a wide sense) and to look for a continuous contact with society, to invest in the development of skills, knowledge and improvements in processes, to innovate, to use natural resources wisely, to reduce pollution and to promote the respect for people and the laws (Spence, 2007).

Thus, the literature considers the CSR has positive effects in SMEs competitiveness level, it must be integrated in the value chain and consider it as a key element in order to articulate the economic profitability as well as the impact in the environment according to the expectations related to its operation. However, as it is a wide concept, the main question can be focused to how SMEs can incorporate the CSR in their daily routine. To do this, the organizations' planning must include actions to improve their external and internal image, invest in "*clean*" technology, establish an efficient communication with the different social actors, optimize culture and company values, match the identity of human resources with the interests of the firm, improve the working environment, and contribute economically to charity campaigns, among others (Muñoz, 2010).

Within this context, there are different attempts to classify and measure the CSR in SMEs. For example, the National Corporate Responsibility Index (Muñoz, 2010) establishes three dimensions. *Internal Dimension* includes practices of ethical management and human development. *External Dimension* refers to comply with the legislation, the contribution to social goals and the interest of the client. *Environmental Management Dimension* includes the respect to the environmental legislation, the development and use of non-pollutant technology and the rational use of resources.

Another widely accepted classification is the one provided by the *Green Paper* from the European Union (2001) that establishes two dimensions. *Internal Dimension* includes the management of human resources, the safety and health of employees, change adaptation, management of environmental impact and care of the natural resources. *External Dimension* includes the support to local communities, associates, suppliers and customers where the firm is established, the respect of human rights and the global environment. This classification is very similar to the one proposed by the International Labor Organization which also establishes two dimensions. The *internal dimension* refers to the responses and actions of the firm towards its employees, and the *external dimension* that implies the fulfillment of social responsibility with the other participants (Porro, 2008).

Finally, the most popular and accepted classification provided the scientific community proposes the one by Elkington (1997), who establishes three dimensions. *Social Dimension* includes the relationships with the

stakeholders and the ethical behavior in businesses. *Environmental Dimension* comprises the impact of the company's activities in the environment in terms of responsible use of the natural resources. *Economic Dimension* entails the economic expectations of the suppliers and a responsible trade.

Thus, to be socially responsible implies for SMEs more than just fully complying their legal obligations; they also must make an effort and direct more economic resources to invest in human resources, their environments and the relationships with the spokesmen (Correa et al., 2004; Lockett et al., 2007; Correa, 2007). Similarly, it is important to consider that the CSR can become a constant if SMEs remember the interests of all the people involved in the actions of the firm, something that can indicate that responsible trade is a possibility to get new consumers as well as a challenge to access to new markets (Alvarado & Schlesinger, 2008).

Conversely, in order to know the firm competitiveness level it is necessary to know and analyze factors such as the financial performance, costs reduction and the technological adoption (Buckey et al., 1988; Cho et al., 2008) so it is possible to understand its sales capacity, financial return and capacity of reinvestment. Finally, the most tangible benefit that can be achieved by the firms, especially SMEs, is the competitiveness level when implementing the CSR as part of their day-to-day activities (Porter & Kramer, 2002). Thus, the absence of CSR practices in company activities directly affects the marginal profit and the development of the business since there is a direct correlation between the CSR and the enterprises competitiveness level (Zadek, 2006; Murillo & Lozano, 2006; Gugler & Shi, 2008; Nielsen & Thomsen, 2009).

H1: Higher CSR level, higher competitiveness level

3. Methodology

An empirical research in SMEs was carried out in order to validate the established hypotheses in this paper. In order to obtain the reference framework, the procedure consisted in obtaining the directory of the firms that had from 5 to 250 employees, and using the data offered by the Mexican Information Business System for Aguascalientes (Mexico), which had in 30 June, 2009, 1,342 registered SMEs. Similarly, the survey was designed so it could be answered by the managers. It was administered in the format of personal interview to each one of the 400 firms selected based on a random sample with a maximum error of ±4.5% and a level of reliability of 95%, which represents a little above 30% of the total population in the investigation. Similarly, 397 replies were obtained which are 99% of the responses and an error of 4.5%.

Three dimensions were taken into consideration in order to measure the CSR scale: *social dimension*, which was measured in a scale of 15 items; *environmental dimension*, which was measured in a scale of 7 items; and *economic dimension*, which was measured in a scale of 9 items, adapted from the European Union (2001); Bloom and Gundlach (2001); Bigné et al. (2005); and Alvarado and Schlesinger (2008). Similarly, three factors were taken into consideration in order to measure the scale of competitiveness: *financial performance* (made of 6 items), *costs reduction* (made of 6 items) and *the use of technology* (made of 6 items), adapted from Buckley et al. (1988) and Cho et al. (2008). All the items of the six dimensions are on a 5 point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree as limits.

On the other hand, in order to evaluate the reliability and validity of the measurement scales, using the maximum likelihood method with the EQS 6.1 software (Bentler, 2005; Brown, 2006; Byrne, 2006), carried out a Confirmatory Factorial Analysis (CFA). Similarly, the reliability of the proposed measurement scales is evaluated from Cronbach's alpha coefficient and the Composite Reliability Index (CRI) (Bagozzi & Yi, 1988). All the values

from the scale fulfilled the recommended level of 0.7 for Cronbach's alpha as well as the CRI, which provides an evidence of the reliability that justifies the internal reliability of the scales (Nunally & Bernstein, 1994; Hair et al., 1995). Table 1 shows that all the values of Cronbach's alpha and CRI exceeded the recommended level of 0.7 which provides an evidence of reliability (Nunally & Bernstein, 1994; Hair et al., 1995) and suggests that the model offers a good FIT ($S\text{-}BX^2$ = 938.059; df = 448; p = 0.000; NFI = 0.895; NNFI = 0.909; CFI = 0.918; RMSEA = 0.053). All the items of the related factors are significant (p < 0.01), the size of all the factorial loadings are superior to 0.6 (Bagozzi & Yi, 1988) and the Average Variance Extracted (AVE) of each pair of constructs is superior to the 0.50 recommended by Fornell and Larcker (1981).

Table 1   Internal Consistence and Convergent Validity Evidence of the Theoretical Model

Variable	Indicator	Factor loadings	Robust t-value	Loading average	Cronbach's alpha	CRI	AVE
Social Dimension	SOD10	0.673***	1.000[a]	0.771	0.884	0.899	0.600
	SOD11	0.695***	9.109				
	SOD12	0.766***	9.905				
	SOD13	0.813***	8.828				
	SOD14	0.882***	11.585				
	SOD15	0.799***	8.620				
Environmental Dimension	END3	0.703***	1.000[a]	0.786	0.886	0.891	0.621
	END4	0.752***	10.188				
	END5	0.819***	11.067				
	END6	0.860***	9.311				
	END7	0.797***	11.572				
Economic Dimension	ECD6	0.658***	1.000[a]	0.730	0.815	0.822	0.539
	ECD7	0.649***	6.897				
	ECD8	0.785***	10.889				
	ECD9	0.828***	8.836				
Financial Performance	FIP1	0.873***	1.000[a]	0.853	0.922	0.913	0.637
	FIP2	0.915***	32.326				
	FIP3	0.921***	26.402				
	FIP4	0.848***	21.816				
	FIP6	0.710***	17.491				
Costs Reduction	PRC1	0.811***	1.000[a]	0.797	0.912	0.913	0.637
	PRC2	0.804***	20.232				
	PRC3	0.802***	19.425				
	PRC4	0.870***	20.062				
	PRC5	0.776***	15.631				
	PRC6	0.719***	14.778				
Use of Technology	TEU1	0.806***	1.000[a]	0.830	0.930	0.930	0.689
	TUS2	0.812***	20.036				
	TUS3	0.884***	25.376				
	TUS4	0.855***	24.081				
	TUS5	0.822***	20.713				
	TUS6	0.799***	16.985				
$S\text{-}BX^2$ (df = 448) = 838.059; (p < 0.000); NFI = 0.895; NNFI = 0.909; CFI = 0.918; RMSEA = 0.053							
[a] = Value parameters in the identification process							
*** = p < 0.01							

Table 2 shows the discriminant validity through two tests. First, with a reliability interval of 95%, none of the individual elements of the factors contain the 1.0 value (Anderson & Gerbing, 1988). Second, the extracted variance between each pair of constructs of the model is superior to their corresponding AVE (Fornell & Larcker, 1981). Therefore, it can be concluded that this research shows sufficient evidence of reliability as well as convergent and discriminant validity.

Table 2 Discriminant Validity Measuring of the Theoretical Model

Variable	1	2	3	4	5	6
1. Social Dimension	**0.600**	0.041	0.082	0.062	0.054	0.048
2. Environmental Dimension	0.142-0.262	**0.621**	0.088	0.051	0.061	0.054
3. Economic Dimension	0.229-0.345	0.244-0.384	**0.539**	0.044	0.051	0.050
4. Financial Performance	0.198-0.298	0.169-0.281	0.151-0.267	**0.734**	0.147	0.080
5. Costs Reduction	0.183-0.283	0.189-0.305	0.164-0.288	0.300-0.468	**0.637**	0.040
6. Use of Technology	0.157-0.281	0.165-0.301	0.147-0.299	0.199-0.367	0.116-0.284	**0.689**
Diagonal represent the average variance extracted, while above the diagonal the shared variance (squared correlations) are represented. Below under the diagonal the 95% confidence interval for the estimated factors correlations is provided.						

4. Results

In order to prove the hypotheses presented in the theoretical model, a structural equations modeling with software EQS 6.1 by means of CFA of second order was applied (Bentler, 2005; Byrne, 2006; Brown, 2006). In it, the nomological validity of the theoretical model was examined through the Chi-square test, which compared the results obtained between the theoretical model and the measurement model. Such results indicate that the differences between both models are not significant which can offer an explanation of the relationships observed among the latent constructs (Anderson & Gerbing, 1988; Hatcher, 1994). Table 3 shows these results in a more detailed way.

Table 3 Structural Equation Modeling Results from the Theoretical Model

Hypothesis	Path	Standardized path coefficients	Robust t-Value
H$_1$: Higher level of CSR, higher level of competitiveness.	CSR → Competitiveness	0.580***	31.038
$S\text{-}BX^2$ = 821.3085; df = 440; p = 0.000; NFI = 0.898; NNFI = 0.909; CFI = 0.920; RMSEA = 0.053			

*** = P < 0.01

Table 3 shows the results obtained from the implementation of the second order structural equations modeling and regarding to the hypothesis **H$_1$**, the obtained results (β = 0.580, p < 0.01), indicate that the CSR have significant positive effects in the SMEs competeveness level. In short, the results show that the three dimensions that make up the CSR and the three dimensions that determine the competitiveness have positive effects in SMEs from, which make us, believe that the implementation of the CSR allows SMEs to improve their competitiveness level.

5. Conclusion and Discussion

The results obtained in this paper show that the managers or owners of SMEs in Aguascalientes (Mexico) normally consider the social, environmental and economic aspects when designing their business strategies. In

other words, a considerable amount of firms do implement the CSR in their daily activities. These results are very similar to the ones obtained in the investigations from Treviño (1986), Quinn (1997), Spence and Rutherfoord (2003), Spence et al. (2003), and Murillo and Lozano (2006). Even when most of the managers of enterprises consider themselves as important businessmen committed to society, they do not normally apply the CSR as such in their firms. They rather implement business strategies in order to get optimal positioning of their products with the consumers as well as to achieve a higher level of competitiveness in the market. Nevertheless, there is also an important number of managers who are committed with the society and the preservation of the environment who really implement the CSR in SMEs, just as it is shown in the obtained results.

As a result, we can conclude that the enterprises that are socially responsible have a better financial performance than those that do not do so. Similarly, SMEs that implement the CSR in their daily activities obtain a higher social recognition and approval. Such approval can label the enterprises as the ones that can be trusted, recommended and easy to work with since a part of their economic benefits are given to the environmental and social improvement of the society where they develop their activities. Thus, the firms that apply the CSR can get a closer relationship with society because such society will perceive a level of comfort by knowing that the company will provide growth and sustainability.

Firstly, SMEs that apply the CSR can create business strategies that allow them to be more competitive and innovative in their market place, which is generally a local or regional market, since they could improve the working conditions, health and safety of their employees. Secondly, they can improve the local infrastructure and make donations (in cash or in kind) to their community. Thirdly, they can produce environmentally friendly products by developing production processes that reduce waste products and pollution. By doing this, SMEs from Aguascalientes (Mexico) could create a higher economic potential in order to adopt the CSR in their daily activities because this kind of enterprises needs the production of economic resources to afford the implementation of their business strategies. Similarly, these enterprises require the encouragement of strong, close relationships with the locals in order to survive in a globalized and highly competitive market.

Regarding the competitiveness level shown nowadays in SMEs in Aguascalientes (Mexico), it is important to notice that the results obtained indicate that the CSR has a significant, positive effect in them, which has enabled these organizations to be competitive in the market place. Similarly, the last researches show that there have been excellent sales levels in SMEs in the last three years, which leads us to believe that reinvestment has been positively used in social causes for workers and other actions that significantly reduce environmental pollution in the community. SMEs need to apply the CSR constantly in all their internal and external activities as a way to keep their level of competitiveness in their market place. Consequently, enterprises have mainly had excellent levels of competitiveness because they have been able to incorporate the CSR as a business strategy, which sets them apart from their competitors. Similarly, SMEs show a better coordination and knowledge in the operative activities with their stakeholders in order to improve their levels of productivity since the organizations also require nowadays ethical and reliable suppliers.

Finally, it is important to mention that any enterprise can improve its competitive level if it can, firstly, adapt its daily activities (both internal and external) to the CSR of the organization. Secondly, to adopt or improve the management controls in the production process in a way that it can offer to customers the certainty that its products do not affect the environment. Thirdly, to have stakeholders that constantly improves their operative activities by adopting or incorporating new technologies, by giving the enterprises raw materials and services, which are environmentally friendly. This can be done if the client-supplier relationship is ethical, reliable, close

and with an excellent communication. Therefore, it is important that enterprises have a healthy, reliable financial activity, always ready for unexpected events because the market conditions are always changing.

Conversely, the participation of government authorities is essential to design public policies and programs that promote the incorporation of social responsibility and sustainability in SMEs' regular activities because this would create a social atmosphere in which managers would value the responsibility they have towards society. It would include employees in the economic benefits produced by the organization as a way to have better life standards and generate social and environmental changes required in the new corporate context. Even when there are many empirical investigations, it would be important to understand the differences and similarities when implementing the CSR in enterprises with different sizes (that is large firms vs. SMEs) or by sectors of economic activities in future researches. Similarly, it would be interesting to find answers to the following questions: what would happen with the SMEs competitive level if they emphasized the social aspects but not the environmental ones? Or, what would happen with the competitive level if SMES only emphasized the economical aspects without the social and environmental ones? These questions may be solved in future researches.

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