

## Internal Corporate Social Responsibility: A key tool for Competitiveness in the Retail Small to Medium Enterprise (SME) sector in Masvingo, Zimbabwe.

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### Abstract

*This research paper sought to establish the extent to which Small to Medium Enterprises engage Internal Corporate Social Responsibility as a strategic tool for competitiveness. This undertaking has emerged as a result of the realization that there has been less commitment toward this key tool for competitiveness in this sector. The research therefore aimed to highlight to the SME sector the validity of meeting and or exceeding the needs and expectations of the internal customer (employee) as this has a bearing on the organization's successful implementation of the broader External Corporate Social Responsibility (ECSR). A descriptive survey design was adopted and total of one hundred (25 from each sector) research subjects was targeted from the selected SME retail sectors namely Supermarkets, Micro Finance, Fast Foods and Clothing. A drop and pick survey method was used to gather data from the subjects and the results were analyzed using descriptive statistics. The key findings were that while some sections of this sector understand the relevance and essence of Internal Corporate Social Responsibility (ICSR) as an imperative for competitiveness, much needs to be done as some executives and owner-managers still view this perspective as a cost rather than as the basis for a firm's reputation and growth in a highly competitive business environment. It is therefore important for SMEs executives and or owner-managers to realize that indeed ICSR is the pillar upon which the overall CSR for all stakeholders balances for an organization's competitiveness.*

**Key words:** Corporate Social Responsibility, Internal Responsibility, Small to Medium Enterprise, Competitiveness.

The concept of Corporate Social Responsibility (CSR) has spanned over decades now (Crawford and Scaletta, 2005, Sweeney, 2007), with large commercial entities taking proactive stance towards this undertaking in a bid to enhance the reputation and competitiveness for their businesses. Despite this move by many large commercial concerns, Small to Medium Enterprises (SMEs) have paid little attention to the strategic relevance of embracing Corporate Social Responsibility as a business's strategic imperative for success. In general today's business culture is being shaped by the desire for companies to want to build a reputation for their brands as this situation suits adaptive and learning organizations regardless of their sizes, in an increasingly dynamic business environment. Many SME businesses are believed to have undertaken corporate social responsibility initiatives unknowingly. To an extent the adoption of CSR in this sector has been largely influenced by individual feelings and understanding of owner managers (Sweeney, 2007).

Sound Corporate Social Responsibility for large commercial concerns has successfully rested on undertaking fully fledged activities for both the internal and external stakeholders and this has created opportunities for their vast business operations. The major benefits that large firms realize in carrying CSR activities are that it allows them to gain new business ideas and to deepen their market scope, allows for improved product and service quality which will translate to customer satisfaction and ultimate customer

loyalty and above all the internal customer satisfaction which results in employee motivation, creativity and innovativeness on the job. The European Competitiveness Report (2008) further asserts that, with CSR firms tend to benefit through better publicity which may be obtained through positive word of mouth, better image on the labor market, cost savings and enhanced profitability due to the ability to effectively deploy material, human and financial resources and the better chance of accessing funds from financial publics and potential investors. Despite a protracted growth in the interest towards CSR in the SME sector, many studies still reflect that CSR strategies are dominantly employed in large commercial business entities as the later are still lagging behind in this undertaking (Hernaes et al 2012).

Besides, many previous researches in this area have focused on externally oriented and image building CSR strategies at the cost of Internal Corporate Social Responsibility aimed at worker oriented responsibility (Vogel, 2005; Kuhn and Deetz, 2008). It is therefore against this background that the research seeks to explore the extent to which SMEs in selected Retail sectors in Masvingo, Zimbabwe execute Internal Corporate Social Responsibility as a strategic business imperative for competitiveness, considering that a satisfied internal customer (employee) brings in value to the firm's stockholders and to other key stakeholders in a highly competitive business environment.

### Research Objectives

The main purpose of this research was to examine the extent to which Small to Medium Enterprises (SMEs) in the retail sector implement the Internal Corporate Social Responsibility strategies as a vehicle for competitiveness in a highly competitive business environment. The primary objective was explored through the following key secondary objectives:

1. To determine the extent to which SMEs in the retail sector encourage employee training and personal development.
2. To find out if these sectors allow for employee involvement and participation in key decision making (industrial democracy).

3. To assess the extent to which organizations in this sector consider workforce diversity.
4. To examine the extent to which remuneration and other employee rewards are fair, commensurate with effort expended and benchmarked against the industry standards.
5. To evaluate the extent to which SMEs management regard health and safety, other job security and social welfare concern of employees.

## Literature Review

### Small to Medium Enterprise

The definition of an SME has failed to conjure universal understanding amongst a number of scholars, states, recognized donor communities and international institutions. Despite all these constituencies defining an SME on the basis of statistical orientations, such as yearly sales return, capital and the employee numbers, there has been a realization that what constitute an SME is country specific (Saungweme, Naicker and Chuma 2010, Gustafsson, Klefsjo, Berggren and Ulrika, 2001) as this is determined by the country's level of socio-economic development. The European Commission (2003) defines an SME as "any entity involved in an economic activity, despite its legal nature which engages fewer than 250 people with annual sales revenue of not surpassing Euro 50 million and or annual balance sheet total not exceeding Euro 43 million". In Vietnam an SME is registered business entity with an employee establishment of at least five up to two hundred and ninety-nine (Jippesen, Kothuis and Ngoc Tran 2010), while in Dubai what constitutes an SME is also measured in terms of employee establishment (of 250 workers and less) as well as in terms of annual turnover (of 250 million UAE dirhams), OECD (2004). In developing countries such as Zimbabwe, a small firm employs between 1 and 50 workers and a medium enterprise has an establishment of between 50 and 100 workers (Zimbabwe Government, 2002). SMEs are fast growing business sectors around the globe with large contributions to national economies. In Dubai SMEs constitute 95% of the businesses and absorb about 42% of the country's labor force, with a contribution of 40% to the national economy (Dubai SME Report). A study by (Mahmood, 2006) reveals that SMEs in developed economies boast of a 60% employment establishment and contribute immensely to individual countries' gross domestic products. The study also indicates that SMEs in Asian countries such Thailand, Philippines, and Bangladesh contribute 65%, 45%, and 82% employment and 47%, 18% and 50% GDP respectively to their national economies. Such key contributions by SMEs are a clear testimony of how critical and important this sector is and the need for those running these organizations to proactively engage strategies that will enhance their competitiveness.

### Corporate Social Responsibility

Traditionally, businesses have regarded Corporate Social Responsibility from a mean and self-oriented perspective in which the thrust was on making money and enhancing stockholder value thereby providing goods and services meeting basic needs of the targeted markets. However this economic orientation by advocates like Friedman

has steadily lost grip in the past decade as corporate social responsibility has become a broader and all embracing phenomenon with a focus on the environment, communities, work place, the market place, the government and the shareholders. Despite having a myriad of academic researches undertaken on this concept for many years (Carroll, 1999), the field had been dominated by players from the large well established American firms and although the academic research extended its tentacles in the field in the 1950s (Carroll, 1999); there was still no common ground as to what CSR entails, its benefits and how it should be driven (Welford, 2004). A significant number of definitions of Corporate Social Responsibility have however been coined although the bulk of them reflect this concept as "transparent business practices that are based on ethical values, compliance with legal requirements, and respect for people, communities, and the environment," Baird, Krammer and Wafford (2002). Raynard and Forstater (2002) have a similar concept of CSR with the World Business Council For Sustainable Development as they regard it as "the continued commitment by firms to act ethically and to positively contribute to their economic wellbeing while improving the quality of life of their internal stakeholders (employees), customers, competitors, as well as of the local community, government and society at large." The European Commission (2001) views CSR as "a deliberate and voluntary undertaking by firms to integrate social and environmental concerns in their business operations and in their interaction with their key stakeholders". From a more broader and open perspective Corporate Social Responsibility (CSR) has also been defined as the way in which firms voluntarily respond to the expectations of their key stakeholders in relation to legal, social, ethical and environmental compliance obligations. In other words CSR is balanced on four key pillars which are mainly economic, legal, social and philanthropic responsibilities. Bateman et al (2007) look at the four pillars of CSR with different managerial orientations. Thus the obstructionist perspective contends that a firm is socially responsible if it produces goods and services that satisfy societal needs and wants at prices that offer attractive returns to the stockholder. The defensive perspective is premised on the conviction that being socially responsible entails observing municipal by-laws, national and international laws. The accommodative managerial orientation to CSR is hinged upon the ability by firms to go beyond the dictates of law by meeting other internal (employee) and societal expectations. The all embracing view of CSR takes a proactive approach in which organizational executives show the way by demonstrating concern for all key stakeholders by utilizing the firm's resources to identify and respond to social problems affecting both the internal and the external stakeholders. CSR has become a strategic opportunity by which SMEs can augment their market positions as well as a tool for enhancing their growth and sustainability. It is based on the noble perspective of creating a "win-win" scenario for all key stakeholders and it is premised on undertaking activities that benefit employees, stockholders, publics, customers, communities, the environment and meeting legal expectations of a state.

## Internal Corporate Social Responsibility

The realization of the strategic role of internal corporate social responsibility has brought significant improvements to the entire business fraternity, regardless of size (Ali, Nasruddin and Lin, 2010). Internal Corporate Social Responsibility, better known as internal marketing in service related businesses concerns the activities undertaken by a corporate towards its diverse workforce. Gronroos (1981) refers to Internal Corporate Social Responsibility as an orientation which views employees as internal customers whose interests and concerns need to be influenced positively by executives so that this will transcend to the external customers (Stershic, (1994) This is embedded in the practices undertaken by executives and or owner- managers towards the employees with the aim of meeting the immediate needs and wants of the workers as these have a bearing on the needs and wants of external customer. This concept is therefore premised on the understanding that “if a firm’s management is keen to do the best for the ultimate customer, it must then do this first the internal customer (the employee),” (George, 1990). Such internal responsibilities revolve around health safety issues, equal opportunities for all at the work place, personal development (training), participation and involvement (industrial democracy), balancing work-family relationships, rewards commensurate with extra effort expended and fair and just remuneration. If properly executed, Internal Corporate Social Responsibility results in the attraction of a competent workforce, ready to spend its productive work life with the organization. This therefore has a bearing on the company’s overall cost structure as it will tend to experience economies of low cost production.

### Key Elements of Internal Corporate Social Responsibility

#### Training (Personal Development)

Bach (2005), categorizes training as formal and informal, the former being done through the acquisition of skills and the later through involvement and participation. Training is a critical element for employee personal development and has become the lynchpin for a firm’s competitiveness. This is so because a trained employee is energized and feels empowered to do the job. Blunkett, (2000) asserts that employee knowledge and skills induce productivity, innovation and profitability which allow for firms to compete effectively. In addition Gratton, (2000) points to the strategic relevance of focusing on developing the employee as he prefers to call this paradigm shift by firms from being technologically oriented in the mid 1900s to being employee- centered as taking, “earthquake proportions”. This shift has been necessitated by the realization that good corporate social responsibility starts by being internally responsible.

#### Involvement and Participation

Employee involvement and participation commonly referred to as “industrial democracy” by Hammond and Swift, (2005) is an attempt by management to allow workers affiliate, participate and get involved in key issues concerning the running of a business. Besterfield et al (2006) consider employee involvement as a panacea to improving quality and productivity for the organization as has been witnessed in the Japanese firms.

They argue that while this may not be a substitute to executive managers or owner- managers, it is an avenue to explore in order to meet organizational objectives. Empowerment entails “investing authority into workers which will boost their confidence, morale and commitment to take responsibility and ownership to improve the processes and to initiate the necessary steps to satisfy customer requirements within well defined boundaries in order to achieve organizational objectives, (Besterfield et al 2006).

#### Remuneration/Rewards

Bloom and Milkovich, (1992) look at remuneration as “a bundle of returns offered in exchange for a cluster of employee contributions”. Klessner, (2001) refers remuneration to the rewards offered to employees at the workplace, which may be intrinsic and or extrinsic. Thus intrinsic rewards are heralded through personal esteem and fulfillment as a result of doing exciting and important tasks at work. Extrinsic rewards assume the form of tangible benefits such as money and other non-monetary rewards such as fair salaries and wages commensurate with effort expended and other benefits-like awards. Business executives and or owner-managers for the SMEs in the retail sector need to understand the dynamics of rewarding employees as individuals and as groups and to be in a position to relate employee needs and wants to the rewards. Gerhart and Rynes (2003), however claim that rewarding employees handsomely is an internal corporate social responsibility facet that enables firms to retain a highly productive workforce which will enable a firm to produce high quality, low cost products and services, a prerequisite for a firm’s competitiveness.

#### Workforce Diversity

Kandola and Fullerton, (1994) contend that the organizations are constituted by a large group of people with diverse backgrounds which are often defined in visible and non- visible aspects. Some of the parameters that define these differences are gender, race and ethnicity, educational level, disability, personality traits and other differentiating attributes. From an internal corporate social responsibility perspective, managing diversity by executives and or owner- managers results in a highly productive work environment in which everyone feels important and contributing to the good of the organization. Kandola and Fullerton (1994), consider some of the key aspects realized by firms which are conscious of diversity in their workforce: giving workers time- off to sort out other issues of a social nature, offering extra facilities for the handicapped, flexible dress requirements, giving workers opportunities to study through taking career breaks. Socially responsible companies embrace the diversity of workers as this enables employees to feel that their employer has concern for everyone’s welfare and hence will be motivated to work hard and be prepared to take life long careers with the firm an aspect that has a bearing on competitiveness. Basically firms that support a diverse workplace have a potential to attract and retain high caliber staff and this will translate into a loyal customer base.

#### Health and Safety Issues

A healthy employee is a very valuable organizational resource and as such health and safety concerns of

employees should be at the heart of every executive and or owner managers. Health and safety issues are premised on the understanding that a healthy employee is motivated to expend more effort and to meet desired production levels. It is therefore imperative for the firms to undertake this element of internal corporate social responsibility through developing an operational framework for health and safety in the organization, carrying periodic health and safety workshops, audits and inspection, offering job security through giving employees permanent positions, offering them other fringe benefits such as medical aid and pension as well Armstrong (2003).

### Competitiveness

The European Competitive Report (2008) gives an economic perspective of the term “competitiveness” at different operational levels. Thus according to the report competitiveness can be measured at firm level, industry, regional and at national level. Competitiveness at firm level is measured by an individual firm’s ability to be perceived by the market as the best in producing high quality goods and services at fair prices better than local and international competitors. From a sectoral perspective competitiveness can be measured in terms of the industry’s ability grow, innovate and produce and services that have an appeal beyond national boundaries. At firm level it can therefore be concluded that competitiveness can be derived if a firm enjoys economies low cost production relative to other players in the same industry locally and in other countries. Francis (1989) is also convinced that competitiveness is also measured by a firm’s ability to meet its financial obligations and to reward employees handsomely. Thus at firm level the ability to balance the internal and external corporate responsibility by executives and or owner managers is a precursor for competitiveness regardless enterprise size.

### Methodology

The main objective of this study was to examine the extent to which Retail Small to Medium enterprises valued internal corporate social responsibility as a strategic business success imperative. The rationale being the fact that internal corporate social responsibility is a vital element for enhancing competitiveness of Small to Medium Enterprises particularly in a highly competitive business environment. The research participants were drawn from four selected Small to Medium Retail business sectors in Masvingo Urban, namely Clothing, Supermarkets, Fast Foods and Micro Finance firms. The study engaged a descriptive survey research design which entails the researcher to observe and describe the behavior of selected respondents without influencing their feelings and ultimate responses (Wilson, 2006). The research adopted a quota sampling technique in order to have proportional sample representation of the population. A total of 100 (25 from each sector) respondents were surveyed and responses were recorded on a semi- structured questionnaire, for easy data analysis (Proctor, 2005). A five point likert scale was employed for the participants to indicate the extent to which they agreed or disagreed on the assertions made about internal social responsibility issues. Before the actual data gathering was initiated, the feasibility of the instrument was tested using 10 randomly selected employees from across the targeted

sectors. Descriptive statistics were used to analyze the results using SPSS version 14.0

### Survey Findings

The overall response rate for the survey had eight nine(89) successfully completed questionnaires with a balance of eleven (11) not having been collected as the targeted research subjects were not available during the follow-up process for the collection of the completed questionnaires to give a response rate of 89%. Below is the breakdown of responses per sector and the discussion of the survey findings per sector.

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The results in the table are a reflection of the responses from the 19 employees from the supermarket sector and the mean values on training and development, diversity

(treatment of employees as individuals and different), employment basis (permanent and full time), as well as on health and safety were 2.95, 2.74, 2.95 and 2.74 respectively. These results are indicative of the fact that the average responses from this sector to a greater extent disagreed and were somewhat neutral about their management's commitment to the mentioned internal corporate social responsibility variables to their workers. As for participation and involvement, fair remuneration, extra rewards, equal opportunities for all employees (based on merit), and freedom of association, the results still reflect that generally the employers in this sector are

a bit intolerant in that direction as shown by many mean values falling in the lower 3<sup>rd</sup> range with only a single value of 3.84(extra rewards) falling in the upper range. Such results are attributable to the fact that there are a few medium sized supermarket operations such as OK, T M and Spar in the town, whose management may understand the relevance of internal corporate social responsibility. The bulk supermarkets are relatively small and are run by individual owner- managers who view internal responsibility as a cost rather than an investment for competitiveness.

**Table 1: Responses from the SME Supermarket sector.**

ICSR Variable	N	Min	Max	Mean	Std. Deviation	Variance
Training and development	19	1	4	2.95	1.026	1.053
Participation and involvement	19	1	5	3.16	1.119	1.251
Fair remuneration	19	1	5	3.21	1.182	1.398
Extra rewards	19	1	5	3.84	1.302	1.696
discrimination	19	2	4	3.11	.875	.766
Individual and different	19	1	4	2.74	1.098	1.205
Permanent and fulltime	19	1	5	2.95	1.177	1.386
Health and safety	19	1	4	2.74	.933	.871
Association and affiliation	19	1	5	3.37	1.065	1.135
Equal opportunities	19	1	5	3.21	1.398	1.953

**Table 2: Responses from the SME Retail Micro Finance Sector**

ICSR Variable	N	Min	Max	Mean	Std. Deviation	Variance
Training and development	21	2	5	3.48	1.030	1.062
Participation and involvement	21	1	5	3.10	1.044	1.090
Fair remuneration	21	2	5	3.62	.973	.948
Extra rewards	21	1	5	2.86	1.153	1.329
discrimination	21	2	5	4.00	.894	.800
Individual and different	21	2	5	3.24	.944	.890
Permanent and fulltime	21	2	5	3.10	1.091	1.190
Health and safety	21	1	5	3.33	.913	.833
Association and affiliation	21	2	5	3.67	.856	.733
Equal opportunities	21	2	5	3.52	1.123	1.262

The overall results from this demonstrate that executives and or owner-managers in this sector are cognizant of the validity of internal corporate social responsibility as shown by most employees' responses falling between the 3to 4 mean range which indicate that to an extent the workers agreed that their employers afford them opportunities for training and advancement(3.48), participation and involvement(3.10), fair remuneration (3.62) commensurate with effort expended, employee diversity(4.00 &3.24), equal opportunities(3.52) and freedom of association(3.67) as well as health and safety(3.33) for the workforce. Such positive results may be due to the fact most businesses in this sector operate as strategic business units(SBUs) of well established businesses in the financial services sector and as such management's concern for internal corporate social responsibility is benchmarked against

their mainstream financial businesses such as commercial banks. However results on extra rewards (2.86) indicate that workers in this sector are not paid extra rewards even if they surpass target levels. This in itself will discourage employees from being eager to do more for the organization.

The overall results from the 24 respondents fell in the upper 2<sup>nd</sup> and lower 3<sup>rd</sup> mean (average) ranges which give an impression that indeed the Fast Food SME sector is least practicing internal corporate social responsibility. The responses from the employees mostly fell in the disagree (2.00) to the neutral (3.00) range. Such results are a reflection of this sector as most of these small business are owner-managed with little influence and consideration of workers in the running of the business. However there are only a few key medium sized firms in

this sector, namely Chicken Inn, Wimpy and Food Express which may be actively participating in the corporate social responsibility activities directed towards meeting and or exceeding the expectations of a firm's diverse workforce as a panacea to competitiveness.

The results in the table above reflect that retail clothing sector fairly remunerates (3.60) its employees and that those employees are allowed to affiliate (3.64) and belong to unions of their choices. However responses on employee training and development(2.96), participation and involvement(2.88), discrimination and extra rewards (3.16), diversity(2.64), permanent employment(2.56), health and safety(3.28) and equal opportunities(3.40), all fall between the mean response of disagree (2) and

lower neutral average range of 3.40. These results reflect the nature of this sector which consists of well established clothing retailers such as Edgars, Topics, Truworths and Meikles with many other small fragmented individual owned retail clothing businesses which constitute the major segment of this sector. Most research subjects have been drawn from this segment where businesses are owner-managed and little efforts have been directed towards internal corporate social responsibility as employers in this segment view CSR for workers from an obstructionist managerial perspective (Bateson et al (2007) in which the purpose of a business` existence is to maximize value for the stockholder and not for any other stakeholders.

**Table 3: Responses from the SME Retail Fast Foods Sector.**

ICSR Variable	N	Min	Max	Mean	Std. Deviation	Variance
Training and development	24	1	5	3.17	1.090	1.188
Participation and involvement	24	1	5	3.13	1.262	1.592
Fair remuneration	24	1	4	2.83	1.090	1.188
Extra rewards	24	1	5	2.83	1.308	1.710
discrimination	24	1	5	2.88	1.076	1.158
Individual and different	24	1	5	2.88	1.361	1.853
Permanent and fulltime	24	1	5	3.25	1.260	1.587
Health and safety	24	1	5	3.00	1.103	1.217
Association and affiliation	24	1	5	3.17	1.129	1.275
Equal opportunities	24	1	5	3.08	1.139	1.297

**Table 4: Responses from the SME Retail Clothing Sector.**

ICSR Variable	N	Min	Max	Mean	Std. Deviation	Variance
Training and development	25	1	5	2.96	1.172	1.373
Participation and involvement	25	1	5	2.88	1.013	1.027
Fair remuneration	25	2	5	3.60	.816	.667
Extra rewards	25	1	5	3.16	1.179	1.390
discrimination	25	2	5	3.16	.987	.973
Individual and different	25	1	5	2.64	1.150	1.323
Permanent and fulltime	25	1	5	2.56	.917	.840
Health and safety	25	1	5	3.28	1.242	1.543
Association and affiliation	25	2	5	3.64	1.150	1.323
Equal opportunities	25	1	5	3.40	1.225	1.500

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#### **Managerial Implications**

Most if not all well established commercial entities from different industrial sectors have actively engaged

corporate social responsibility for their various key stakeholders namely employees, customers, suppliers, competitors, communities environment. This has provided fruitful as these firm`s have realized growth financially and though market share coupled with creation of a good reputation`s and a formidable images in the eyes of the public. While it may be costly and too demanding for executives and owner-managers running SME enterprises it is worthwhile to realize that the concept of corporate social responsibility can bear fruits and enhance competitiveness even for small businesses if and only if executives and or owner manager realize the strategic value of seriously executing internal corporate social responsibility. Being socially responsible to the employee entails meeting the needs and wants of the workers through giving them opportunities for personal development, offering them competitive remuneration, allowing them to participate in key organizational decisions, giving them safe and health working environments as well as engaging them on full time basis. Executives that can meet and or exceed employee expectations are bound to have a highly motivated internal customer (employee) base which will be highly productive and willing to drive the organization to become highly competitive regardless of its size and the number of other players in the industry. Thus the success of external social responsibility begins with internal responsibility.

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