Stakeholder salience and social responsibility: Study of small businesses in Malaysia

Completed Research Paper

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Abstract

This study empirically examined the role of stakeholders' influence on social responsibility practices of small businesses in Malaysia, and analysed the importance and current attention of small firms to these stakeholder groups using the Importance-Performance Matrix Analysis (IPMA). Findings of this study revealed that community's influence and customers' influence had significant positive impact on the social responsibility practices of small firms. Moreover, the results of IPMA for the social responsibility construct indicated that community's influence had the highest importance for small businesses and was given the highest level of attention by the firms. In contrast, customer's influence was given lower attention by small firms despite its high level of importance for social responsibility practices of the firm.

Keywords: *Social responsibility, Stakeholder relations, Small business, Importance-Performance Matrix Analysis (IPMA), Malaysia.*

1. Introduction

Following McWilliams and Siegel (2001), corporate social responsibility (CSR) is defined as actions undertaken by the firm which advance some social good, beyond the immediate interests of the firm and its shareholders and beyond what is required by law. The CSR journey that started centuries ago is still growing at an unprecedented pace with no sign of slowing down (Nejati, Quazi, & Amran, 2015). The increasing attention to CSR has been partly caused by the growing level of awareness and salience on the social responsibilities of organizations. While over 50 definitions of stakeholder have been offered since 1963 (Friedman & Miles, 2006), it often refers to "any group or individual who can affect or is affected by the achievement of the organization objectives" (Freeman, 1984, p. 46).

According to stakeholder theory, stakeholders can influence social practices of a firm. Moreover, based on institutional theory firms are surrounded by formal and informal institutions (North, 1990). The formal institutions comprise of national legislation and government regulation, whereas the informal institutions consist of cognitive issues (e.g., norms, conventions and shared beliefs). As a result of these formal and informal institutions, small firms are come under various social and cultural pressures to comply with their institutional environments for achieving legitimacy and social fitness (Scott, 1995). Therefore, small firms should respond to these pressures and adequately embed in the local society to ensure their business sustainability and continued growth. This can be achieved through accommodating the demands of key stakeholders.

Earlier studies have investigated the role of stakeholders on CSR (Perez-Batres, Doh, Miller, & Pisani, 2012). However, the individual role of each stakeholder group on social responsibility practices of small firms has rarely been investigated (Nejati, Amran, & Hazlina Ahmad, 2014; Park & Ghauri, 2014). Furthermore, according to Bourne (2009), a balanced view of success for organizations requires a balanced combination of delivering value, managing relationships and managing risks. This highlights the necessity of managing key stakeholders and commitment to firm's social responsibilities to minimize and manage risks. Thus, this study aims to elucidate the role of stakeholder salience on social responsibility of small firms by answering the following question: Does stakeholder salience influence social responsibility practices of small firms?

The stakeholder salience will be measured by the influence of each stakeholder group on small firms toward practicing social and environmental behaviours. It is also of paramount importance for organizations to accurately determine the relevance of each stakeholder group (Henriques & Sadorsky, 1999; Perez-Batres, Miller, & Pisani, 2010). Thus, we will examine the importance-performance index for the social responsibility practices and identify the most important and influential stakeholder groups for small businesses in Malaysia, while determining the current performance of the firms in addressing their demands.

According to Small and Medium Industries Development Corporation (SMIDEC), Malaysian small businesses account for 27.3 percent of total manufacturing output, 25.8 percent of value-added production, and 27.6 percent of fixed assets in the country. In addition, value-added products from small and medium-sized enterprises (SMEs) are expected to be worth RM 120 billion - or 50 percent of total production - in the manufacturing sector by 2020 (Saleh & Ndubisi, 2006; SMIDEC., 2002). Besides, in the service sector, according to the Department of Statistics (DOS) by the year 2006 in Malaysia, there were 192,527 establishments in the services sector, and 186,728 (or 96.7 percent) of these were made up of small firms. Given the significant scale of small businesses in Malaysian economy, their aggregate achievements have a major impact on the country's success. Moreover, their operations, in total, have great impacts on society and environment.

2. Social Responsibility and Small Firms

Although the issue of corporate social responsibility has been mainly associated with large firms, there has been a shift in perception towards the social responsibilities of small businesses caused by the recognition of their growing significance (Azmat & Samaratunge, 2009). Recognition of the growing significance of the small firms (Fuller, 2003) has resulted in an emphasis on their social and environmental impacts. Apart from their significant contributions towards job creation and economic prosperity of their country, small businesses are thought to have considerable environmental impacts by accounting for 60% of all carbon dioxide emissions and 70% of all pollution (Parker, Redmond, & Simpson, 2009).

Beliefs and attitudes regarding the nature of CSR have varied over time (Hill, Stephens, & Smith, 2003) with most recent definitions describing CSR through the lens of stakeholder theory (Jones, 2005; Sweeney, 2007; Vos, 2003). Bowmann-Larsen and Wiggen (2004) defined stakeholders as all those individuals and groups with a 'critical eye' on corporate actors. Stakeholder theory offers a new way to organize thinking about the responsibilities of a firm (Jamali, 2008). Since stakeholders hold the power over the resources required by small businesses, it is crucial for firms to get the approval of stakeholders and adjust their activities to ensure that such an approval is obtained (Zain, 2009). Gadenne, Kennedy, and McKeiver (2009) examined the influence of various stakeholders on the awareness and attitudes of SME owners and its relation to actions taken within the businesses to reduce the environmental impact of their operations. They found that supplier and legislation had significant influences, whereas customer influence was not significant.

Earlier studies have indicated that small businesses experience more difficulty to engage in social responsibility initiatives. As Hitchens, Thankappan, Trainor, Clausen, and De Marchi (2005) discussed, many small business owners/managers have never thought about CSR or even believed that their social and environmental impacts are negligible. Besides, several small business managers argue that they do not have time or resources to dedicate to social responsibility (BITC, 2002; Observatory of European SMEs, 2002).

It is argued that majority of small businesses are simply content to survive (Baker, 2003). Since social responsibility is increasingly seen as a vital factor in the long-term survival of companies (Khan, Halabi, & Samy, 2009), small businesses can involve in responsible business behaviours to establish a better relationship with their key stakeholders and ensure their survival. This is crucial to small businesses since relationships with stakeholders mean everything to them (Fuller & Lewis, 2002). Murillo and Lozano (2006) supported the use of stakeholder theory as a helpful theoretical framework within which small businesses are able to make sense of their activities. This selection is grounded in the belief that the relationship between firm and stakeholders is an essential asset that managers must manage (Post, Preston, & Sachs, 2002). Stakeholders encourage firms to practice social responsibility (Nejati & Amran, 2009), and responsible behaviours towards stakeholders can lead to establishing trust links between firm and the stakeholders (Battaglia, Bianchi, Frey, & Iraldo, 2010). Therefore, in line with stakeholder theory, small businesses are expected to engage in social responsibility practices as a way to respond to their stakeholder demands. To this end, the salience level of stakeholders and the perceived importance of each stakeholder group are likely to influence firm's social responsibility. Thus, we hypothesize that stakeholders' influence positively influences social responsibility practices of small firms.

3. Methods

The data for this study was collected using surveys distributed among small businesses in Malaysia, randomly selected from the directory of small businesses in Malaysia (SMEinfo). From the 350 distributed questionnaires, 148 responses were collected representing 42% response rate. Participating firms were mainly from manufacturing, construction, logistics, retail, and information technology sector. This study used the definition of SMEs given by SME Corp (2012), which defines SMEs as firms with less than 150 employees in manufacturing sector and less than 50 employees in the service sector, which is consistent with other definitions of SMEs in different contexts (Australian Bureau of Statistics, 2002). Stakeholders' influence was measured using items adapted from the study by Gadenne et al. (2009), whereas social responsibility was measured from the construct by Spiller (2000).

This study applied Partial Least Squares (PLS) Structural Equation Modelling to analyse the data, due to having a formative construct (i.e. social responsibility) in the study. Moreover, PLS is able to accommodate smaller sample size better than Covariance Based-SEM (Chin & Newsted, 1999; Hsu, Chen, & Hsieh, 2006) in terms of its ability to generate predictive accuracy. This study performed Harman's single factor test (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003) to assess the presence of common method bias, and it did not appear to be a pervasive problem in the current study. Additionally, the sample size adequacy was confirmed through using G*Power 3.1.3 software (Faul, Erdfelder, Lang, & Buchner, 2007).

PLS path modelling was performed in two steps. First, the measurement model was evaluated and confirmed (Figure 1). Then, structural model was evaluated for examining the proposed research paths. Table 1 presents the assessment of the measurement model in terms of convergent validity and reliability.

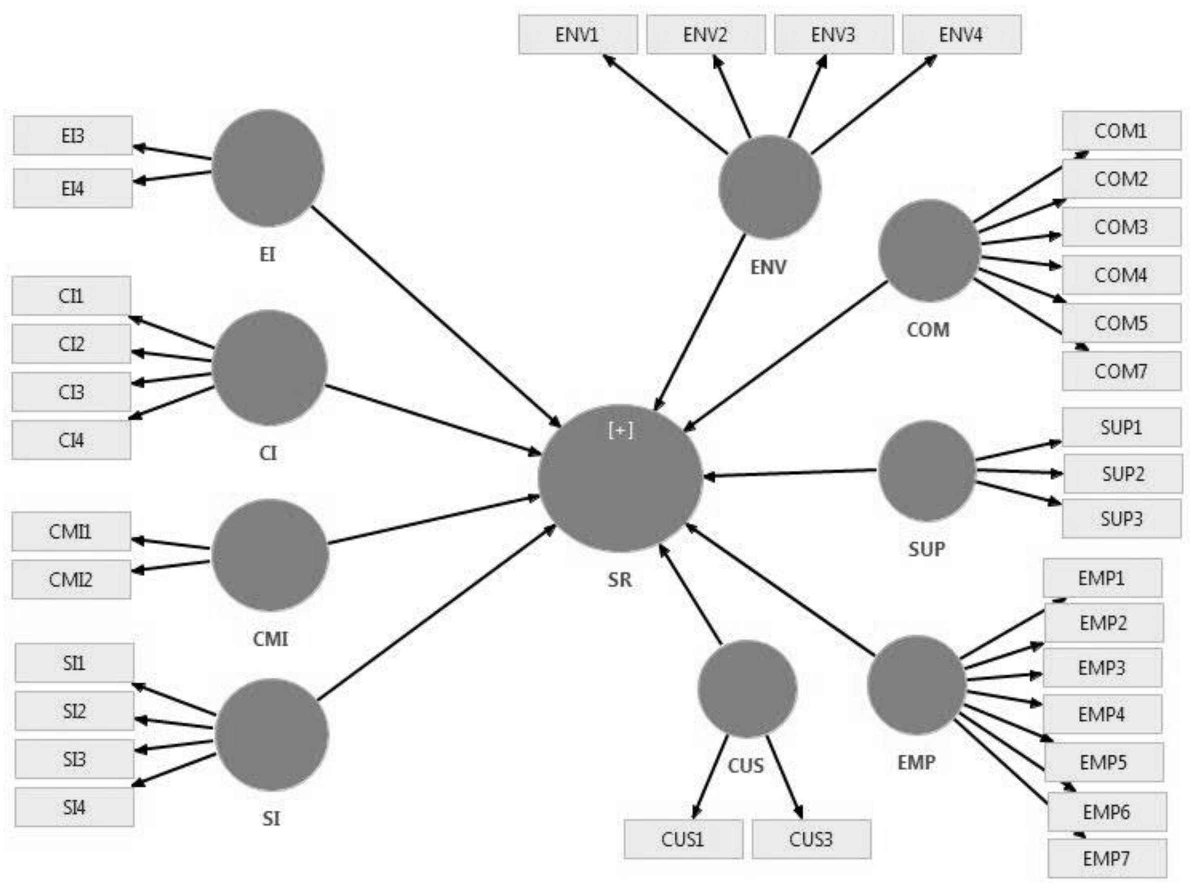

Figure 1: Measurement model in SmartPLS

Table 1: Item loadings, AVE, composite reliability (CR) for reflective constructs and weights, VIF, t-value for the formative construct

Construct Scale	Measurement Model	Item	Loadings	AVE	CR
Employees' Influence (EI)	Reflective	EI3	0.798	0.733	0.845
		EI4	0.910		
Customers' Influence (CI)	Reflective	CI1	0.865	0.831	0.952
		CI2	0.942		
		CI3	0.934		
		CI4	0.903		
Community's Influence (CMI)	Reflective	CMI1	0.960	0.905	0.950
		CMI2	0.943		
Suppliers' Influence (SI)	Reflective	SI1	0.931	0.913	0.977
		SI2	0.959		
		SI3	0.968		

		SI4	0.964		
Responsibility toward Environment (ENV)	Reflective (1st Order)	ENV1	0.757	0.674	0.892
		ENV2	0.815		
		ENV3	0.832		
		ENV4	0.876		
Responsibility toward Community (COM)	Reflective (1st Order)	COM1	0.899	0.597	0.897
		COM2	0.787		
		COM3	0.708		
		COM4	0.801		
		COM5	0.842		
		COM7	0.552		
Responsibility toward Suppliers (SUP)	Reflective (1st Order)	SUP1	0.778	0.670	0.859
		SUP2	0.799		
		SUP3	0.875		
Responsibility toward Employees (EMP)	Reflective (1st Order)	EMP1	0.730	0.586	0.908
		EMP2	0.765		
		EMP3	0.772		
		EMP4	0.789		
		EMP5	0.696		
		EMP6	0.795		
		EMP7	0.806		
Responsibility toward Customers (CUS)	Reflective (1st Order)	CUS1	0.852	0.627	0.770
		CUS3	0.726		
			Weights	VIF	T-Value
Social Responsibility	Formative	ENV	0.258	1.944	9.460**
		COM	0.377	2.438	11.707**
		SUP	0.111	1.262	5.619**
		EMP	0.424	2.555	11.340**
		CUS	0.106	1.857	9.554**

* p<0.05; **p<0.01

The discriminant validity of the measurement model for reflective constructs was confirmed through evaluation of the heterotrait-monotrait ratio of correlations (HTMT) proposed by (Henseler, Ringle, & Sarstedt, 2014). Results of the HTMT approach (Table 2) verified the discriminant validity of the model as all ratio were below the conservative threshold of 0.85 (Clark & Watson, 1995; Kline, 2011).

Table 2: Discriminant validity of reflective constructs

	EI	CI	CMI	SI
EI				
CI	0.78			
CMI	0.57	0.55		
SI	0.20	0.34	-0.04	

4. Findings and Conclusion

This study found that among the four major stakeholder groups investigated (employees, customers, community and suppliers) only community and customers had a significant positive influence on the social practices of the firm (Table 3). Since small firms operate in a small local community, establishing and maintaining a good relationship with key stakeholders plays an important role in ensuring firm's survival. Hence, customers and suppliers are found to have a significant and influential stakeholder group for small firms.

Table 3: Results of path modelling

Relationship	Path Coefficient	t-value	Decision
EI → SR	0.139	1.393	Not Supported
CI → SR	0.230	1.901*	Supported
CMI → SR	0.242	1.584	Not Supported
SI → SR	0.201	2.519**	Supported

* $p<0.05$; **$p<0.01$

To further investigate the results of the structural model, importance-performance matrix analysis of path modelling for social responsibility was carried out. IPMA results indicate the areas which need to be paid attention and improved with management activities (Hock, Ringle, & Sarstedt, 2010). In particular, by measuring the total effect (i.e. importance) and index values of the latent variables (i.e. performance), the latent variables with a relatively high importance and relatively low performance on a particular endogenous latent variable would be identified to provide managerial insights (Hock et al., 2010; Schloderer, Sarstedt, & Ringle, 2014). Accordingly, in this study, importance and performance of the latent exogenous variables (i.e., employees' influence, customers' influence, community's influence and suppliers' influence) on the endogenous variable (i.e. social responsibility) was measured. The results are illustrated in Table 4 and visualized in Figure 2.

Table 4: Total effects and index values

Latent Variable	Social Responsibility	
	Total Effect (Importance)	Index value (Performance)
Employees' Influence	0.139	64.522
Customers' Influence	0.230	64.458
Community's Influence	0.242	82.014
Suppliers' Influence	0.201	65.471

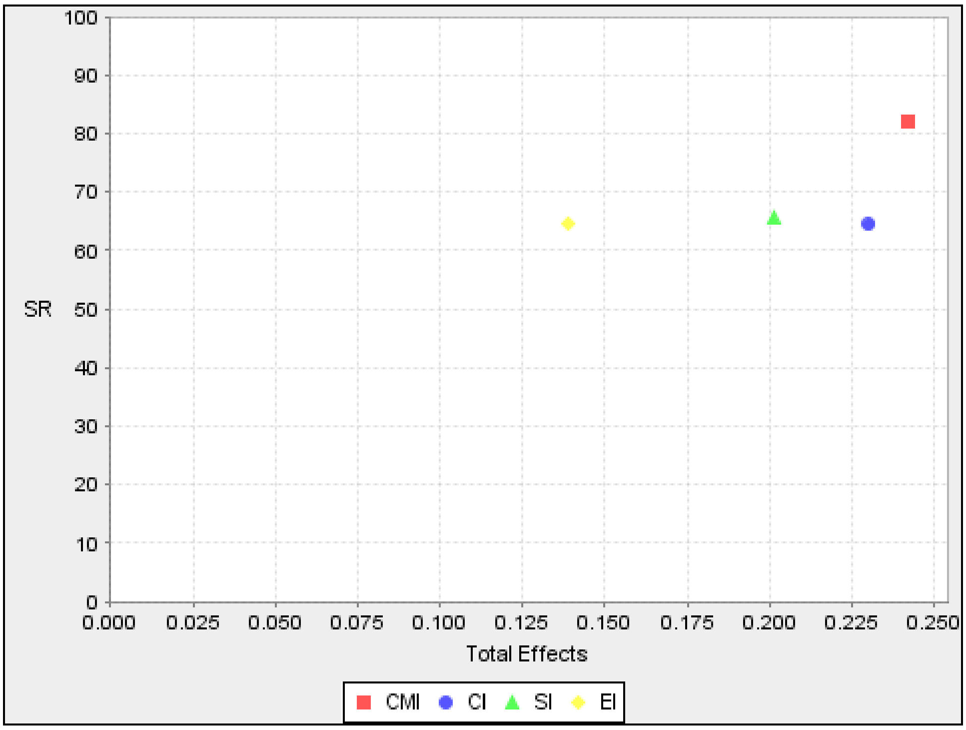

Figure 2: Importance-Performance Matrix Analysis (IPMA) for social responsibility construct

As depicted in the importance-performance matrix analysis map, the highest level of importance belongs to community's influence, followed by customers' influence, suppliers' influence and employees' influence. Besides, among the four antecedents of social responsibility, community's influence has the highest performance which indicates that firms pay their highest attention to the community and their demands in addressing the firm's social responsibilities. However, customers' influence which is the second priority for firms has a relatively low performance and requires more attention by small businesses. These findings provide insights to small businesses in Malaysia to not only focus on community aspect, but also engage their other important stakeholders, specifically customers, in planning and practicing their social responsibilities.

Despite the growing interest in the social responsibility of companies, small firms have been under-researched and no areas of research into CSR and SMEs can be claimed to be well undertaken (Moore & Spence, 2006). Results of this study revealed that stakeholders' influence could predict 33% of variation in the social responsibility practices of small firms (R-Square = 0.33). Findings of this study are in line with the stakeholder theory and corroborated earlier studies which indicated the influence of stakeholders in social responsibility practices of companies (Coppa & Sriramesh, 2013; Figar & Figar, 2011; Morsing, 2006). Results are also consistent with earlier studies which indicate that maintaining a good reputation among neighbours and community is very crucial for small businesses (Fitjar, 2011). Additionally, earlier studies in Malaysia had also shown that employees and customers were among the most important dimensions of social responsibility by Malaysian SMEs (Irawati, Nejati, Amran, & Shafaei, 2012). The current study confirmed the significant role of customers along with suppliers in encouraging responsible practices by small businesses. This can be contributed to the dependence of small businesses to these groups, as well as the necessity of dealing personally with customers and suppliers (Spence, 1999), and thus the need for maintaining good relations with these stakeholder groups.

This study is limited by its sample size. Nonetheless, previous literature states that this is a common phenomenon in SME research and obtaining a large sample size from small businesses is very difficult. Future studies may investigate the impact of responsible practices by small businesses on their relationship with stakeholders.

Acknowledgement
This research was supported by USM Short Term Grant (# 304/PPAMC/6313173).

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