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# Does it pay to be social responsible? Portuguese SMEs feedback

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***Abstract***

***Purpose:*** The research on corporate social responsibility has been focused mainly on Anglo-Saxon countries and big companies. Most scholars agree there is a positive relationship between companies social and economic performance, however, this is not unanimous. Moreover, during economic downturns, companies struggle for survival and might consider corporate social responsibility efforts should be postponed. This research investigates if there is a positive relationship between social performance and key business results using a large sample of small and medium Portuguese companies over an extended period of time.

***Design/methodology:*** The investigation is made by using survey responses from a sample of 2.222 small and medium companies (SMEs) over a 10 year period, from the Portuguese IAPMEI – Public Agency for Competitiveness and Innovation Benchmarking and Good Practices database. The hypothesis that there is a positive relationship between social and key business results performance was tested with correlation analysis and was complemented with semi-structured interviews of key Portuguese Sustainability Managers.

***Findings:*** The research results support the existence of valid positive relationships between companies' social performance and key business results, confirming it does pay to invest in corporate social responsibility even in less favorable economic scenarios and for small and medium companies across all business sectors.

***Research limitations/implications:*** It was not possible to use more powerful statistical methods such as Partial Least Squares (PLS) or Structural Equation Modelling (SEM) due to data constraints and more qualitative research should be done to triangulate the results and better understating of the cause and effect relationships.

***Practical implications:*** Both managers and academics should be aware of the relevance of corporate social responsibility to assure companies enduring success and create benefits for stakeholders and society at large.

***Originality/value:*** This research makes contributions for the social and economic relationship body of knowledge with a particular emphasis on small and medium companies in Portugal and a potential application to other similar European countries, by using a large sample basis over an extended period of time.

***Keywords:*** Corporate social responsibility, Social performance, Key business results, SMEs, Portugal

***Jel Codes:*** D21, L21, M14

## *1. Introduction*

Many companies presently face a highly competitive environment and a growing economic and financial interdependence due to globalization.

The global nature of some environmental and social issues, their worldwide interdependence and the need for corporations to act socially responsibly have been emphasized by instruments such as institutions such as the United Nations and the European Commission.

Also, from the scholars and practitioners field it has been stressed the importance of sustainability and corporate social responsibility (CSR) for companies enduring success although most CSR literature is related to Anglo-Saxon countries and there is a lack of research in other cultural contexts.

One of the main topics of CSR investigation has been the possible relationship between Social and Economic performance (Does it pay to be good?). However, the recent economic downturn led many companies to cut costs focusing more on short term survival than in enduring success, so the question arises: Does it still pays to invest in CSR?

The aim of this research is to use a large sample, collected over an extended period of time, to avoid possible time limitations and respondent bias, and investigate if there is indeed a positive correlation between social performance and key business results.

By using the inputs of Portuguese Small and Medium Enterprises (SMEs) participants of the Benchmarking and Good Practices database from the Portuguese IAPMEI – Public Agency for Competitiveness and Innovation, with data from 2002 to 2012, a quantitative analysis (complemented with Sustainability Managers semi- structured interviews) is performed to research if there is a relationship between companies Social Performance and Key Business Results. By carrying this study in Portugal, a European country with a Gross domestic product (GDP) per capita in Purchasing Power Standards (PPS) similar to other European countries, this research brings new knowledge to the CSR body of knowledge in Europe.

## *2. Literature Review and Hypothesis*

The United Nations Conference on Sustainable Development in Rio (2012) called for a set of sustainable development goals emphasizing the central role of equality and sustainability in the global development effort. According to the United Nations (2014) "Vulnerabilities are increasingly global in their origin and impact and equitable and sustainable progress can only be achieved by global efforts to ensure that globalization advances and protects human development". As an example, Climate change remains a growing potential to undermine progress in human development and no country anywhere will be immune to the long-term effects of climate change. Climate change affects all since Earth atmosphere doesn't distinguish gasses emissions by country. Continuing failure to slow the pace of global warming could jeopardize poverty eradication, because the world's poorest communities are the most vulnerable to rising temperatures and seas and to other consequences of climate change (e.g., less agriculture outputs, lack of water supplies, increase of the ocean levels, impacts on biodiversity). Environmental degradation and climate change threaten the long-term survival of humanity.

In order to overcome these problems and take into account the present political, economic, social, technological, environmental and legal frameworks there is a must for a development model that takes into account economic, social and environmental perspectives and considers the adoption of a multi-stakeholder and long term view for achieving sustainable organizational success.

Sustainability as a policy concept can be traced to the WCED (1987), UN World Commission on Environment and Development report (commonly known as the Brundtland Report) that aimed to deal with mankind aspirations of a better life within limitations imposed by nature: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

Following this landmark, Elkington (1994) proposed three dimensions for sustainability (the Triple Bottom Line concept) for the operationalization of corporate social responsibility (CSR): the simultaneous search for profitable economic development (profit), while taking consideration for the environment (planet) and social progress and equity (people).

By 1997, the United Nations Agenda for Development adopted a definition of Sustainability that, building on the Brundtland definition, incorporated the triple bottom line approach: "*Development is a multidimensional undertaking to achieve a higher quality of life for all people. Economic development, social development and environmental protection are interdependent and mutually reinforcing components of sustainable development*".

This implies a multidisciplinary and systemic approach for the creation of value for shareholders, customers, workers and the society at large since the global nature of the issues require that economic actors, governments, public and private organizations and citizens be actors in this process. Researchers have found high correlations and simultaneous relationships between countries social sustainability, innovation and competitiveness superior performances (Fonseca & Lima, 2015).

At corporation level, the concept of CSR has emerged as the answer to the global sustainability challenge and the subject has been addressed by scholars like Carroll (1979, 1991, 1999), Carroll and Schwartz (2003), Moir (2001), McWilliams and Siegel (2001), van Marrejick (2003), Aragón-Correa and Sharma (2003), Orlitzy, Schmidt and Rynes (2003), Margolis and Walsh (2003), Garriga and Melé (2004), Salmones, Crespo and Bosques (2005), Waddock (2008), Sison (2009) and Porter and Kramer (2011).

One of the more relevant models for CSR conceptualization was proposed by Carroll (1979, 1991) by identifying four categories of business social responsibilities placed as a pyramidal model, from bottom to top:

- economic responsibilities;
- legal responsibilities;
- ethical responsibilities and
- discretionary responsibilities.

Contributions by the European Commission's Green Paper on social responsibility (2001) and the Communication concerning social responsibility of companies (2002) and more recently the International Organization for Standardization, ISO 26000:2010 International Standard, Guidance on social responsibility (dropping the Corporate so that social responsibility is applicable to all type of organizations), brought the concept to one of its present more relevant formulation:

- "Social responsibility, is the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that: contributes to sustainable development, including health and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behavior; and is integrated throughout the organization and practiced in its relationships" (ISO 26000:2010).

However, the formulation of social responsibility at organizational level and framing its contributions for sustainability has been contrasted by some academic authors that have presenting alternative definitions of CSR and sustainability, e.g., Parhankaugas, McWilliams and Shrader (2014). These authors consider both CSR and Sustainability are focused on social and ecological good, but with CSR aiming to competitive advantages through marginal improvements, Bottom of Pyramid (BoP) as consumers and focus on current stakeholder needs while sustainability is focused on durable competitive advantages through revolutionary changes, BoP as producers and focus on current, distant and future trends.

So, although there is no consensus concerning the concept of CSR and sustainability most definitions take into consideration economic, social and environmental dimensions. Conceptually, both sustainable development and social responsibility aim for the simultaneous search of economic profitable development with social progress and equity and respect for natural environment, generating value for shareholders, customers, workers, partners and society in general, with sustainability more focused at institutional level and CSR at organization level.

The main theoretical framework for CSR is Stakeholder Theory by Freeman (1984), Carroll (1979), McWilliams and Siegel (2001) and Carroll and Schwartz (2003) focusing on the importance of a firm's relationships with critical stakeholders that may lead to better performance, as organizations that integrate business and societal considerations create value for their stakeholders.

Organizations generate economic value whenever there is growth, profitability and shareholder value increase (if applicable). Economic value is created when customers are willing to pay more than the cost to produce and sell the products and services provided by the organization. The profit generated by a business can be considered a reasonable indicator of the economic value generated and can be improved either by increasing revenues or decreasing costs and risks. In a market economy, an organization that doesn´t generate economic value cannot access the resources and capital needed and will end up by going out of the market. But economic value is not enough for organizations long term success. According to stakeholder theory, social value should also be generated by making positive and lasting impacts on society (e.g., new jobs creation, pollution reduction and support to vulnerable people or social and community projects). When this happens, an organization besides generating positive and lasting impacts on society also increases its good will stocks and the society trust on the organization. By generating and distributing economic and social value, an organization satisfies its stakeholders and has access to resources and capabilities it needs to be sustainable (McWilliams & Siegel, 2011; Fonseca, Ramos, Rosa, Braga & Sampaio, 2012).

An important stream of CSR research has focused on the relationship between economic and social performance "Does it pay to be good"? Can ethical behaviors (normative orientation) result in significant competitive advantage (instrumental orientation) as organizations develop relationships of trust and collaboration with stakeholders originating improvement on the competitive performance of the organization?

Authors such as Waddock and Graves (1997), Hilman and Keim (2001), Orlitzky, Schmidt and Rynes (2003), Margolis and Walsh (2003), Bakker, Groenewegen and Hond (2005), Wu (2006), Berrone, Surroca and Tribó (2007), Trudel and Cotte (2008), Kanji and Chopra (2010), Mattingly (2015), have argued that companies that implement social responsibility policies and satisfy the expectations of their stakeholders have higher economic benefits than competitors and achieve positive differentiation.

However, there are also some studies that have found a neutral or even negative relationship between social and economic performance (Aupperle, Carroll & Hatfield, 1985; McGuire, Sundgren & Schneeweis, 1988; Vogel, 2005). Peloza (2009) studied 128 on the social and economic performance relationships and concluded that 59% supported a positive relationship, 27% a neutral relationship and 14% a negative relationship.

In addition, there questions concerning the reliability of some researches due to poor reliability and lack of validation of measures, sampling errors, absence of control variables and no explanations for cause and effect relationships (Ayuso, Rodríguez, García-Castro & Ariño, 2007; Aguinis, Dalton, Bosco, Pierce & Dalton, 2011). There are also authors such as Kashmanian, Wells and Keenan (2011), Nidumolu, Prahalad and Rangaswami (2009), Lubin and Esty (2010) that consider that time is an important variable to be considered in these studies. The rationale is that some benefits can be realized on the short term oriented (e.g. compliance with legislation) while others only on the long term (e.g., company image and reputation). Also, the effect of CSR in the minimization of potential risks in case of negative events was identified in a meta- analysis of 112 studies in the USA over 10 years by Nadkarni and Barr (2008).

As a conclusion, most scholars support the existence of a positive relationship between social and economic performances but the issue is far from settled.

Although there are works covering CSR in European countries (Habish, Jonker, Wegner & Schimpeter, 2005), most CSR literature is related to Anglo-Saxon countries with less investigations of CSR in other cultural contexts and a focus on large companies information disclosure (Branco & Rodrigues, 2008; Duarte, Mouro & Neves, 2010).

Specifically concerning the study of social responsibility in Portugal, several empirical studies have been published mainly on the involvement of companies in CSR (Abreu, David & Crowther, 2005; Pinto, 2004; Santos, 2005; Gago, Cardoso, Campos, Vicente & Santos, 2005; Rego, Leal, Cunha, Faria & Pinho, 2010), on the influence of social responsibility for stakeholder satisfaction (Fonseca at al., 2012), on the relationship between social responsibility and risk (Ferro, 2014) and on the strategic drivers for implementing sustainability programs (Fonseca, 2015). Another relevant contribution to the social responsibility field in Portugal was the publications of the NP 4469-1 and NP 4469-2 Portuguese National Standards on Social responsibility management system (framed within ISO 26000): Part 1- Requirements and guidelines for its usage and Part 2 – Implementation orientation guide.

However, the debate of the value of social responsibility and the relationships between social and economic performance has not been addressed with a study of a large period of time. Also the economic downturn in Portugal represented a challenge to many companies short term survival: 2013 Gross Intern Product per capita (at 2011 constant prices) is 3% lower than in 2001 (source: http://www.pordata.pt/Portugal); there was a 444.4% increase on the number of companies filing for bankruptcy comparing 1st trimesters of 2007 and 2013 (source: http://www.dgpj.mj.pt/sections/siej_pt/destaques4485/estatisticas-trimestrais9118/downloadFile/file/Insolvencias_trimestral_20131009.pdf?nocache=1381481602.36).

The purpose of this investigation is to contribute to the social and economic relationship body of knowledge with a particular emphasis on small and medium companies in Portugal and a potential application to other similar European countries, by using a large sample basis over an extended period of time.

Following the conclusions of the literature review, this research aims to test the following hypothesis:

> *H1: There is a positive linear satisfaction between companies Social Performance (SP) and Key Business Results (KBR)?*

### *3. Methods (sample, scale, validity)*

The population of this research consisted of Portuguese small and medium companies from the Portuguese IAPMEI – Public Agency for Competitiveness and Innovation Benchmarking and Good Practices database. This data was accessed via a protocol between IAPMEI and UAL for a Doctoral Thesis research at UAL-Lisbon Autonomous University.

Considering the objective of this research, from a total of 9 sections with 34 questions of the IAPMEI Benchmarking and Good Practices database, sections 8 – Social Performance and 9 – Key Business Results of the IAPMEI database were used. The data was collected by a survey designed by IAPMEI including explanatory and user friendly information. The validation of the respondents was also made by IAPMEI.

A total of 2,220 companies, across all business sectors, fulfilled the protocol for a period between 2002 and 2012. For each company, the oldest input was considered (only one input per company).

The sample information is summarized in Table 1 below:

| | |
|---|---|
| **Sample Size** | 2,220 |
| **Mean Nº of employees** | 48.54 |
| **Maximum/ Minimum Nº of employees** | 886/1 |

Table 1. Sample description

The annual sales volume of the surveyed companies presented a very high variation, ranging from a few thousand euros to 759 million euros.

Each variable for this investigation was operationalized by the mean of 3 questions with a 4 point Likert scale (1 minimum; 4 maximum) in the IAPMEI Benchmarking Survey, as shown in Table 2:

| Variable | | Questions |
|---|---|---|
| **Social Performance (SP)** | The level of performance that the company is achieving in relation to its local, national and international community, as appropriate (this result may include the performance as a "responsible citizen" and the impact of the company on their community, environment, etc.) | 8.1 What measures are used to assess your performance in relation to society?<br>8.2 Trends: What is your performance concerning the measures identified in question 8.1?<br>8.3 How would you compare the performance trend in question 8.2 with your own targets / budgets and with other organizations? |
| **Key Business Results (KBR)** | The level of performance that the company is achieving in relation to its planned objectives. This will normally include the financial results and others who key performance results not addressed ion other sections of this survey. | 9.1 What measures are used to assess your financial results and other key business results?<br>9.2 Trends: What is your performance concerning the measures identified in question 9.1?<br>9.3 How would you compare the performance trend in question 9.2 with your own targets / budgets and with other organizations? |

Table 2. Variables description

SPSS software – Statistical Package for Social Sciences (v.21) was used for data treatment. Concerning descriptive statistics, mean, standard deviation, maximum, minimum, mean rank, asymmetries and kurtosis were calculated.

Construct reliability was tested using Cronbach alpha which assess reliability through the internal consistency of each construct and using the criteria recommended by Hair et al. yielding the results presented in Table 3:

| Variable | Number of itens | Conbrach Alpha | Criteria |
|---|---|---|---|
| **SP** | 3 | 0.82 | Satisfactory |
| **KBR** | 3 | 0.78 | Satisfactory |

Table 3. Variables Conbrach Alpha

### *4. Results and Discussion*

These results demonstrate a satisfactory internal consistency validating the use of the IAMPEI survey (convenience sampling).

As supported by Maroco and Bispo (2003) due to the high dimension of the sample by applying Central Limit Theorem, normal distributions were assumed. Correlation coefficient Pearson (r) was applied to measure the intensity of the relationship between ordinal variables with significance test at ($p<.001$) (2-tailed). Pestana and Gageiro (2008) recommendation was used as criteria to evaluate the research hypothesis: if Pearson coefficient is between 0.2 and 0.69 the linear association between the two variables is moderate and if it is between 0.7 and 0.89 is high.

Descriptive statistical results are presented in Table 4 for the 2 studied variables:

| | n | Mean | Std Dev. | Skewness | Kurtosis |
|---|---|---|---|---|---|
| **SP** | 2,215 | 1.84 | 0.73 | 0.60 | -0.34 |
| **KBR** | 2,216 | 2.26 | 0.74 | 0.19 | -0.65 |

Table 4. Variables descriptive statistics

In order to further validate the assumption of normal distributions, the histograms distributions for the two variables are presented in Figures 1 and 2. SP is less symmetrical than KPR as there are a considerable number of companies with value 1 (lower level of social performance).

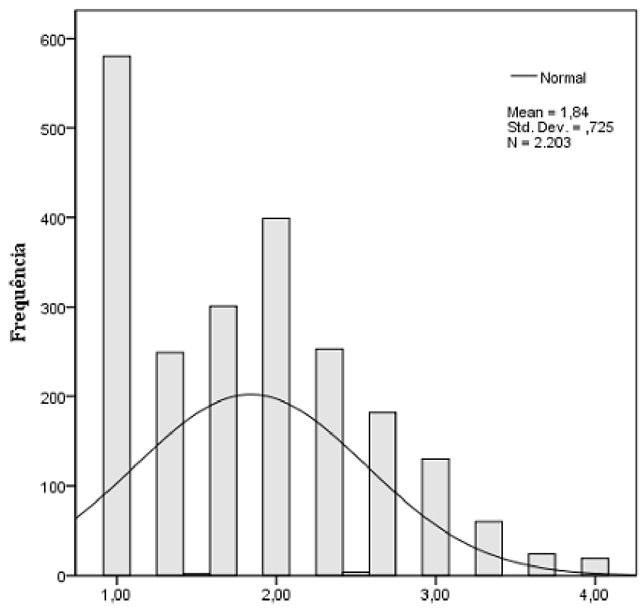


Figure 1. Histogram Distribution of Variable SP

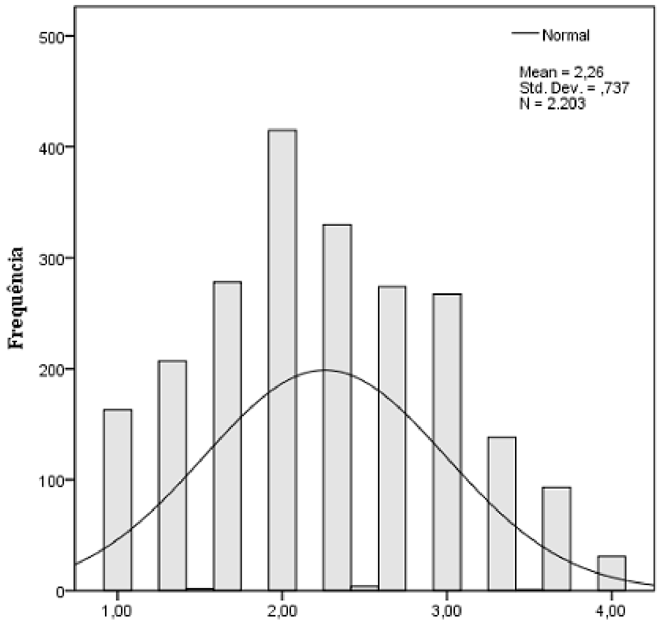


Figure 2. Histogram Distribution of Variable KBR

Tests to detect the presence of outliers were made with SPSS confirming there were no outliers present so there was no need to eliminate extreme cases that could be a source for bias and error as shown in Figure 3 and 4:

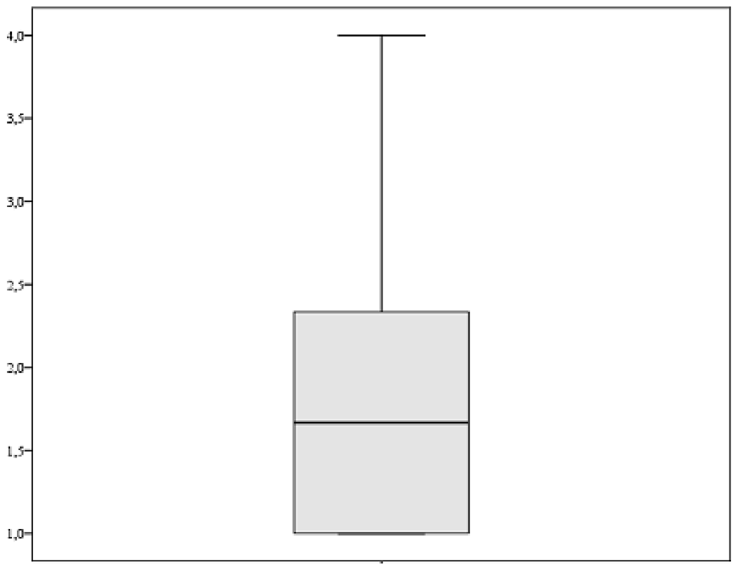


Figure 3. Box Plot Chart for variable SP

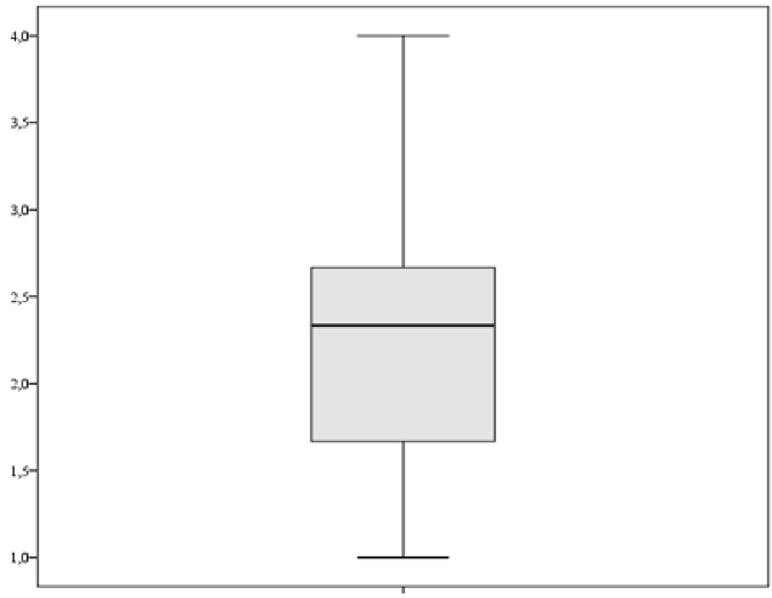


Figure 4. Box Plot Chart for variable KPR

Concerning the Person (r) correlation coefficients the results are presented in Table 5 below:

| | DE |
|---|---|
| **DS** | 0.58** |

**Pearson correlation is significant at (p<.001) (2-tailed)

Table 5. Variables Correlation Coefficients

As is illustrated in Table 5 the results show a positive medium to a high correlation between the analyzed variables since the correlation is significant at (p<.001) (2-tailed).

We can therefore statistically validate the hypothesis that there is a positive linear relationship between companies' social performance and key business results.

Qualitative research was done to triangulate these results and confirm the possible direction of this relationship, by interviewing the CSR managers for three Portuguese major companies that are recognized as CSR leader by the operationalization of CSR over its entire value chain:

- Corticeira Amorim, S.A. (http://www.amorim.com/en/);
- EDP - Energias de Portugal, S.A., (http://www.edp.pt/en/Pages/homepage.aspx);
- EFACEC, S.A., (http://www.efacec.pt/presentationLayer/efacec_home_00.aspx?idioma=2).

All of the three companies have Global Report Initiative (GRI) validated Sustainability Reports. Moreover, EDP is included in the Down Jones Sustainability Index. These firms have a significant supply chain network of Portuguese Small and Medium companies (SMEs), are active members of BCSD (Business Council for Sustainable Development) Portugal (http://www.bcsdportugal.org/) and are recognized as sustainability leaders in Portugal.

The qualitative research was supported by semi-structured individual interviews following an interview guide but allowing the interviewee considerable flexibility on how and what to reply. The main focus of these semi-structured interviews was to access if these Sustainability Managers supported the conclusions of the quantitative approach and to gather additional inputs for the research. The conclusions of each interview was summarized and submitted to the three Sustainability Managers for validation.

By consensus, the three Top Sustainability Managers agreed that CSR is indeed relevant for companies enduring success, although variables like time and industry moderate the strength of this relationship. They also acknowledge that the "CSR Business Case" is not always easy to demonstrate, however, there is plenty evidence that the lack of CSR is a result of major value loss for corporations.

These expert contributions support the existence of a positive relationship between social performance and companies key business results and a possible cause and effect relationship between CSR and economic performance.

## *5. Conclusions*

This research makes a contribution clarifying the gaps evidenced during literature research by supporting the existence of valid positive relationships between companies' social performance and key business results. It was found that according to a large sample of managers from Portuguese small and medium enterprises, collected over an extended period of time, the adoption of socially responsible policies is consistent with competitiveness. These results confirm the relevance of social responsibility for companies enduring long term success as highlighted by previous researches of authors such Hilman and Keim (2001), Orlitzky et al. (2003), Margolis and Walsh (2003), Bakker et al. (2005), Berrone et al. (2007), Trudel and Cotte (2008), Kanji and Chopra (2010), Peloza (2009) and Mattingly (2015). In summary, it does pay to invest in CSR even in less favorable economic scenarios and for small and medium companies across all business sectors.

This conclusion was achieved by studying a large sample of Portuguese small and medium companies (SMEs) from relatively stable industries over a 10 year period, complemented with semi structured interviews of Sustainability Managers from companies with large SMEs supply chains. Since the survey had nine sections in all and only two were considered for this research, the respondents were not aware at the time of answer that their responses would be used on this specific research, so the risk of possible respondent bias concerning social performance and key business results was minimized. This approach aimed to overcome some of the methodological concerns raised for other investigations such as the time effects, use of large sample basis and minimization of bias effects.

The results are a contribution to the study of CSR in small and medium companies in Portugal by evidencing that the positive relationship between social performance and key business results remains valid in a European country even during a period of economic downturn and is also applicable to small and medium companies. Therefore, CSR can be supported from simultaneous ethical (“do the right things”) and instrumental (“it is good for the business”) perspective. This brings additional knowledge concerning CSR in a non-Anglo-Saxon Country and in smaller size enterprises.

This is a relevant message both for managers and academics on the importance of CSR and what companies should do to assure enduring success by supporting Freeman Stakeholder Theory.

One of the research limitations of this works is that the data didn´t allow the use of more powerful statistical methods such as Partial Least Squares (PLS) or Structural Equation Modelling (SEM).

More qualitative research should be done to triangulate these results to check for possible bias in IAPMEI survey responses and for better understating of the cause and effect relationships. It might also be useful to replicate the study with Managers from other countries (e.g., cultural dimensions).

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