

# CSR and SME in Korean Market

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## Abstract

**Background/Objectives:** There is an increasing call for a strategic approach to CSR, but small and medium-sized enterprises (SMEs) have often stalled at the awareness-raising and mainstreaming levels of CSR. **Methods/Statistical Analysis:** This study reviews the relevant CSR literature on SMEs and analyzes CSR from SMEs perspective in a Korean context using CSR related stakeholder and social capital theories. I suggest that the major barriers to CSR are the personal characteristics of firm owners, their financial constraints, and technical support issues. **Findings:** The practice of Corporate Social Responsibility is an accepted tool for achieving sustainability. CSR's major drivers are customer satisfaction, higher employee motivation and loyalty, better reputation, better networking with business partners and authorities, and increased sales through competitive advantage. **Improvements/Applications:** This research contributes to motivating CSR in SMEs by investigating how SMEs' understand CSR and communicate with their stakeholders..

**Keywords:** Corporate Social Responsibility (CSR), Small and Medium Sized Enterprises, Shareholder Theory, Social Capital Theory

## 1. Introduction

CSR has been mostly confined to large companies, who wish to support their brand image, profitability, and reputation. Though SMEs represent the most common firm type and constitute 85% of total employment in Korea, most studies on CSR have focused on large listed companies. The results of prior researches have been applied to SMEs, but adoptability to the small company context is very limited. Then, how does it apply to smaller companies' CSR practice and whether they are motivated by different drivers from larger firms. Over the last decade, companies have increasingly come to recognize the importance of CSR to sustainability<sup>1,2</sup>. Social and environmental issues have recently become more important to the sustainability of local and global value chains. Many SMEs are expected by their customers to show that they are socially responsible. SMEs do an essential role

in employment and economic development though they are still defensive doing CSR activities because of the cost. On the other hand, they perform CSR when they ensure that CSR standards are being met within their own supply chain.

CSR is important for both large and small companies. ISO 26000, published in 2011, has served as a voluntary CSR regulation, but many Korean SMEs worry that it may impede their business because CSR has been associated with large listed companies rather than SMEs. The practice of CSR in SMEs differs from the larger companies. Traditionally, SMEs have owner-managements, strong connections with the community and business partners, and lack the financial resources and support for CSR implementation<sup>3</sup>. Most studies on CSR using stakeholder theory have been performed in the United States and Europe and have focused on large companies. Serious consideration of the practice of CSR has arisen

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from SMEs. Researchers are skeptical about the evaluation of CSR activities in SMEs because SMEs are generally different from big companies. Therefore, it is important to find solutions for SMEs' engagement in CSR and to determine the CSR barriers and drivers for SMEs. This paper performs exploratory research to investigate CSR among Korean SMEs and compares the results with those of previous research. I intend to improve the understanding of how SMEs recognize CSR and their plan and do to CSR activities and to provide an in-depth examination of Korean SMEs' CSR in order to determine their barriers and drivers.

Table 1 shows definitions of "SME" vary among countries. In the EU, an SME is an enterprise with fewer than 250 employees and a maximum turnover of 50 million euro and/or maximum total assets of 43 million euro<sup>4</sup>. While Korea, Japan and US have industry specific condition for SMEs. This paper adopts the Korean definition for SME in manufacturing industry. Korea, Japan, and the US have industry-specific definitions of SMEs. This paper adopts the Korean definition applied to the manufacturing industry, whereby an SME is an enterprise with fewer than 300 employees or a maximum of 8 billion won of capital.

Table 2 provides the contribution of big and small companies to economic growth in Korea for the last 35 years. In 2011, there were 3,232,000 SMEs, employ-

ing 12,627,000 people. They accounted for 99.9% of enterprises and 86.9% of total employment which is very significant and fundamental. Even though startups are hard to begin in Korea, SMEs has dramatically increased and it has been reached 364,211 over the previous year. The most common industry is wholesale and retail, which the portion is 27.8% of entire small and medium sized companies. The following industry is lodging and food firms, it takes 20.2%, transportation firms are 10.9%, and manufacturing companies are 10.5%. Manufacturing, wholesale, retail, lodging and food SMEs account for 56.9% of total employment. In spite of the small share of manufacturing industry, it shows 20.2% of total employment. In terms of scale, small companies account for 96.0% (3,106,000) of SMEs and 57.4% of SME employment (8,350,000). Medium enterprises represent 3.9% (125,000) and 29.4% of total employment (4,277,000). Governments increasingly recognize the growing role of SMEs as divers of growth and job creation.

Large Enterprises (LEs) and SMEs differ in how the economic entity is held, operated and managed. An important difference is the business structure and decisions making procedure of the company. Table 3 shows general characteristics and contrasts of small and medium sized company and large company.

SMEs have a smaller personnel so basically segregation of duty is not easy so their organizational hierarchy

**Table 1.** Define of SMEs OECD countries

Countries	Number of Employees	Industry	Asset / Turnover/ Capital/ Investment
United States	500	0	0
Japan	300	0	0
Korea	300	0	0
EU	250	X	0

Source: OECD (2012)

**Table 2.** Contribution by large and small and medium sized companies in manufacturing to economic development

Ratio of Contribution		1980's	1990's	2000's	Average
No. of Firms	SMEs	99.4	102.2	100.6	99.6
	LEs	0.6	Δ2.2	Δ0.6	0.4
No. of Employees	SMEs	81.9	Δ6.8	95.4	78.2
	LEs	18.1	Δ93.2	4.6	21.8
Production	SMEs	45.7	50.3	45.8	46.4
	LEs	54.3	49.7	54.2	53.6
Value added	SMEs	47.7	50.5	45.1	47.3
	LEs	52.3	49.5	54.9	52.7

Source: National Statistics Office

**Table 3.** Business characteristics and contrasts

Characteristic	Small-Medium Enterprise (SME)	Large Enterprise (LE)
Holding Pattern	Commonly privately held or family owned	Generally public corporation, with defined shareholding patterns
Location	Domestic or regional	a multi-national presence
Organization Structure	Small and simple	Large, hierarchical, and matrix
Business Units	No separate business units, or Supply product to large firms	Multiple business units, Supported by individual support divisions

is comparably flat. On the other hand, large enterprises have a set of operational units focusing on specific market segments or business domains. While Large Enterprises might operate domestically and globally, SMEs are generally restricted to limited geographical boundaries and within a particular country. It is not just that CSR differs between large firms and SMEs but that SMEs are not “little big firms”<sup>5</sup>. They tend to be independent, multitasking, capital-limited, and based on personal relationships<sup>6</sup>, they are also managed by their owners, are highly personalized, large local in their area of operation, and dependent on self-resources for growth financing<sup>7</sup>. The structure of SMEs organization is different from the bigger companies. For example, a small manufacturing company might have a head office and a few manufacturing facilities, within the same city, but big company might have regional, local, and international corporate offices. Many big companies have separate business-enabling functions such as finance, administration, HR, sales, and marketing, while small companies combine these functions. Due to these differences, CSR for SMEs should be considered in the institutional context and interaction effects among them.

Most CSR agendas focus on large companies, as the tools and frameworks for responsible activities tend to cater to them, while SMEs are usually involved indirectly, either as suppliers to larger companies or as the beneficiaries of their philanthropic initiatives. This “business linkage” is emerging as a part of the CSR agenda for large companies. Many SMEs are generally included in the supply chains of the larger companies for outsourcing firms or subcontractor. This process can take various forms, including contracts for demand and supply, franchising or licensing agreements, marketing, joint ventures, and informal arrangements such as collaboration in production<sup>8</sup>. Generally, SMEs engage with CSR in two ways—as providers of products and services to large firms, which are upper ranked in the supply chains, and more commonly and formally, to meet LEs’ supply chain requirements. Within supply chains, large companies try to ensure and decrease negative social effects by imposing requirements on their contractors and, sometimes, on their subcontractors. The mechanism conditions the nature of the trading relationships between SMEs and traders and how market power is practiced among them. Most Korean SMEs are

suppliers of large companies or serve the export market. The SMEs facing these supply chain pressures, both from national and international buyers, encounter many challenges, mostly associated to affordability. SME is not a small large company so it has unique contexts and characteristics. Ownership and firm size are very important variables of business literature. Large firms have enough resources available for performing and communication CSR practices. However, SMEs have limited financial and human resource.

## 2. Barriers and Drivers for CSR

This paper investigates whether the different characteristics of large companies and SMEs discuss their different approaches to CSR. Previous studies have examined CSR agendas and the activities of large companies based on stakeholder theory. However, social capital theory is a great tool for understanding SMEs’ CSR approach, as CSR is another matter when enforce to SMEs.

Stakeholders are groups who are impacted by the achievement of an organization’s aims<sup>9</sup>. According to the stakeholder framework, stakeholders can influence how a company exploits opportunities to improve its performance. This view magnifies the importance of stakeholder management. Corporations must act responsibly not only to achieve stakeholder wealth but also to build a better society. Stakeholder theory has opened out among recent business environment. Furthermore, it is very dynamic that stakeholders have been changed as the firm’s context of referential changing<sup>10</sup>.

Social capital is a multi-dimensional concept<sup>11</sup> and it has been examined by several approaches in terms of trust and mutual benefit norms<sup>12–14</sup>. It is related to transparency, goodwill, and good citizenship<sup>15</sup>. Many researchers have applied social capital theory to argue for SMEs’ engagement in CSR. As SMEs depend on the interpersonal relationship networks that affect how they are operated, and they are interested in investing in social capital<sup>16</sup>. From a socio economist’s view, economic decision is inhered in structures of social relationship, and the market is ordered through personal and inter-/intra-firm relationships<sup>17</sup>. Thus, social capital of SMEs occurs through various engagements, networking within/across sectors, and charitable activities<sup>18</sup>.

CSR has been discussed most often in the context of large listed companies but it is also an essential and strategically important tool for enhancing the strength of SMEs. However, CSR's effectiveness often cannot be presented in solid figures or facts. It may take time to bring manifestation. CSR can positively be effected on SMEs' competitiveness in the following ways: improved product processes that enhance customer loyalty and satisfaction, better publicity higher employee motivation, better position in the labor market, better access to public funds, better networking with business partners, through improved firm image, cost reducing and promoted sales through an efficient deployment of human and manufacturing resources, and improved profitability through the competitive advantages.

Some studies on SMEs address the barriers to CSR caused by the personal characteristics of the owners or the organizational characteristics of the firm. The information necessary for CSR implementation may not be readily accessible because of a lack of knowledge and time<sup>6</sup>. According to <sup>7</sup>, the typical small business owner is short of time and specialized knowledge and involved in a wide range of business activities<sup>7</sup>. Owner who is also manager is involved in a wide variety of company activities. The mindset or decision making process of SME managements could represent a significant barrier. Organizational characteristics are sometimes cited as barriers to social responsibility<sup>7,8</sup>. In discussing SMEs' organizational culture, Jenkins states that SMEs may be described as untidy, informal, trusting, overlapping, intuitive, "tactically strategic", personally monitoring, ambiguous, holistic, owner-managed, and customer/ network exposed<sup>19</sup>. These traits imply that SMEs tend to be more casual and owner-centric and are often privately owned and sometimes family owned and operate<sup>20</sup>. Therefore, CSR might not be a priority for SMEs. Small businesses usually lack resources and bargaining power, and financial resource limitations are cited as significant SME constraints<sup>7,19</sup>. Their focus on the short-term can mean that long-term investment in CSR activities are not of urgent or pressing concern. SMEs should prioritize survival over voluntary initiatives that go beyond mere compliance. In addition, their lack of power limits their CSR needs and motivation. This power imbalance makes

it difficult for SMEs to bargain with powerful suppliers and customers when they impose non-CSR-based standards. Other important challenges include embracing a CSR culture in the corporation, measuring and quantifying CSR's pros and cons, dealing with the shortage of information and support, and maintaining business impetus<sup>20</sup>.

Several theories can be applied to explain why companies in general and SMEs in particular adopt CSR. First, the CSR literature often involves references to institutional theory, frequently used in organizational analysis to explain how organizations are influenced by their institutional environment to adopt certain structures, practices, and value. Spence and Lozano also applied institutional theory to SMEs' CSR and suggest that the institutional environment affected SMEs' environmental behavior<sup>21</sup>. For instance, the Korean government institutes licensing and permit requirements for smaller companies. Trade associations have also assisted Korean companies in various environmental and labor issues by serving as advisors and providers of information. Consequently, the environmental and CSR related policies of Korean SMEs exceed international standards. It is very different in the US, where small companies have received less pressure to pursue environmental strategies. Second, the stakeholder theory used in CSR research focuses on how companies meet the expectations of their stakeholders such as suppliers, investors, creditors, customers, and regulatory agencies and so on. As do large companies, SMEs should concern the needs of important stakeholders. Internal stakeholders such as employees and external stakeholders especially the local community usually receive more attention from SMEs<sup>16,21</sup>. Investing in internal stakeholder could positively influence on employee morale<sup>19,20</sup>. Additionally, SMEs consider their relationship with the local community. For instance, CSR leads to improved reputation, employee retention, fairer treatment by suppliers, and better access to credit from investors and financial institutions who value socially responsible investment. However, frequently commented factor regarding CSR and SMEs is the owners or managers. Owners wield significant control over how they operate their business. Their values and beliefs often translate into practices<sup>15,18,20</sup>. In <sup>22</sup> defines social capital as the "sum

of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social units”<sup>22</sup>. Therefore, social capital can foster greater organizational effectiveness through trust, norms, and networks.

### 3. Conclusion

The CSR of large corporations has been researched, but the necessity to move from theories to performance has brought attention on the CSR practices of SMEs. A few studies have compared CSR concepts between large firms and SMEs, but an obvious representation of the issues concerning the strategic options for both large firms and SMEs has yet to be attempted. Large firms and SMEs differ in many aspects, and a complicated issue such as CSR must embrace those disparities. Moreover, CSR is not an easy and shortcut to successful business but an investment that can pay off in the long term. It can bring advantages, as in staff retention and recruitment, customer loyalty, and reduced expenditure on natural resource. In any case, CSR is not a new concept for SMEs.

I suggest three recommendations for policymakers and managers when planning and implementing activities purposed at enhancing CSR for SMEs. First, CSR should be sensitive to size specificities. Small and family-oriented firms should pursue CSR that is more informal and simple than that pursued in medium firms and should use different tools. Second, CSR should involve both management and workers, which will strengthen the foundation for the development of SMEs and update the firms’ formal CSR practices. Even though certain activities should be common to management and employees, others should cater to the different levels of specific CSR knowledge. Third, CSR should address both internal and external conditions. It contains considering partnerships with other stakeholders with specific roles to perform, whether they are the government, labor unions, customers, suppliers or other related parties. The lack of budget for CSR activity is the primary concerning for SME managers. For instance, many managements have spoken insufficiency of funds for regulatory compliance, certification, and monitoring and complained about difficulties of preparation for CSR reports. Many SMEs, especially manufacturing firms

that assemble multiple orders from different suppliers and multinational companies or buyers, face the added cumbrance of having in accordance with various codes of conduct, which both takes more time and cost. Most of management seemed to be dissatisfied with government support for SMEs. They are also anxious about the rising costs of government-mandated environmental monitoring. Faced with these obstacles, Korean SMEs have made it clear that they need financial support from the government as an incentive to comply with global labor standards and environmental regulations, and they need technical support. Many SME managers want to set up a CSR plan but do not know how to do it and lack the required human resources. Thus, programs that combine technical assistance with effective CSR practices are needed. This paper makes several contributions relevant to SMEs, policymakers, academics, and the broader business community. It suggests new insights into CSR in Korean SMEs. The understanding of SMEs’ CSR approach developed in this research will assist in investigations of the issues associated to SMEs and their socially responsible activities and inspire policymakers. Those suggestions can apply to improve their planning and increase SMEs’ CSR participation.

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