

Corporate Social Responsibility (CSR) Priorities in the Small and Medium Enterprises (SMEs) of the Industrial Sector of Sialkot, Pakistan

Awan Usama, Khattak Amira, Kraslawski Andrzej

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Author	Family Name	Awan
	Particle	
	Given Name	Usama
	Prefix	
	Suffix	
	Role	
	Division	School of Business and Management
	Organization	Lappeenranta University of Technology (LUT)
	Address	Lappeenranta, Finland
	Division	Management Science Department
	Organization	COMSATS Institute of Information Technology
	Address	Vehari, Pakistan
	Email	usama.awan@lut.fi
Corresponding Author	Family Name	Khattak
	Particle	
	Given Name	Amira
	Prefix	
	Suffix	
	Role	
	Division	College of Business Administration
	Organization	Prince Sultan University
	Address	Riyadh, Saudi Arabia
	Email	akhattak@psu.edu.sa
Author	Family Name	Kraslawski
	Particle	
	Given Name	Andrzej
	Prefix	
	Suffix	
	Role	
	Division	Industrial Engineering and Management
	Organization	Lappeenranta University of Technology
	Address	Lappeenranta, Finland
	Division	Department of Process and Environmental Engineering
	Organization	Lodz University of Technology
	Address	Lodz, Poland

Abstract

The purpose of this research is to explore and understand corporate social responsibility (CSR) priorities in the small and medium enterprises (SMEs) of the industrial sector of Sialkot in Pakistan. The industrial sector of Sialkot is mainly involved in the production and supplying of sports, leather and surgical products for global companies. We used a qualitative approach to explore CSR priorities among SMEs. Informants were identified using purposive sampling. In-depth interviews were conducted with the senior managers, owners and executives of SMEs in the Sialkot industrial sector of Pakistan in three main industries namely, sports, surgical and leather. The findings of the study suggest philanthropy as a key ethical and social priority and CSR dimension supported by SMEs. Main dimensions of CSR in the context of Sialkot industrial sector SMEs were social (philanthropy), economic, legal and environment. In terms of CSR dimensions priorities, differences exist due to the nature of the specific industry and its protocols as data were collected from three different sub industrial sectors within the Sialkot industrial sector.

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Usama Awan, Amira Khattak and Andrzej Kraslawski

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U. Awan
School of Business and Management, Lappeenranta University of Technology (LUT),
Lappeenranta, Finland
e-mail: usama.awan@lut.fi

U. Awan
Management Science Department, COMSATS Institute of Information Technology, Vehari,
Pakistan

A. Khattak (✉)
College of Business Administration, Prince Sultan University, Riyadh, Saudi Arabia
e-mail: akhattak@psu.edu.sa

A. Kraslawski
Industrial Engineering and Management, Lappeenranta University of Technology, Lappeenranta,
Finland
e-mail: Andrzej.Kraslawski@lut.fi

A. Kraslawski
Department of Process and Environmental Engineering, Lodz University of Technology, Lodz,
Poland

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1

1 Introduction

Corporate Social Responsibility (CSR) has gained prominence in the academic research in recent years. According to Business for Social Responsibility (2003), CSR is defined as “achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment”. No doubt CSR is not only becoming a popular trend among large and multinational corporations but also among Small and Medium Enterprises (SMEs) as well. SMEs are critical component and resource for modern days economic activity. SMEs are vital for creating resources for the community including employment opportunities to the community. Similarly, SMEs in the Sialkot industrial sector of Pakistan are contributing to exports, foreign exchange earnings and employment (Khattak and Stringer 2017). SME is defined in the study as a business which varies in flexibility and volatility (Deakins and Freel 1998; Duan et al. 2001); having between 20 and 250 employees and an annual turnover of between Rs.¹ 75 and 400 million (State Bank of Pakistan 2013). Most of the SMEs in Pakistan are very small with limited employment and growth potentials, primary concern being economic survival only. Moreover, most of the firms are owner-managed and supported by family members, lacking the capabilities and resources to deal with the business and social issues (Awan et al. 2017).

The research on the implementation of environmental and social practices is gaining prominence (CSR dimensions) in the academic literature, in particular, in the context of developing countries (See for example Khattak et al. 2015, 2017). Many firms in the developing countries, particularly SMEs, adopt CSR practices mainly for the pragmatic or functional reasons and not as the main motivator or with a clear purpose. SMEs perceive that social and environmental certifications will make them attractive to the buyers for orders purposes because buyers prefer to work with firms undertaking CSR activities (Khattak and Stringer 2017). Engaging in CSR activities has been viewed as a central strategy for survival in the ever changing business environment (Laskar et al. 2016) where reputation of a firm is positively related to the firm’s efforts related to CSR activities (Blindheim and Langhelle 2010). Hence, there is a very transactional approach towards engaging in CSR activities by SMEs in the developing countries context where weak legal infrastructure exists regarding social and environmental standards.

A limited number of studies in the developing countries context have been conducted from the CSR perspective, in particular from consumer perspective specifically (see Turyakira 2018) and produced mixed results (Arli and Lasmono 2010). There is a lack of research in developing countries context from CSR perspective and SME perspective (Das and Rangarajan 2017; Hadjimanolis 2017), hence providing researchers with an opportunity to study the CSR from developing countries and SME perspectives. Meaning to explore and understand the CSR activities and priorities in the context of SMEs from developing countries. A number of studies have concentrated on studying the impact of CSR practices on the operations of SMEs and yet very little regard has been given to investigating the relationship between CSR

¹Pakistani currency termed as Rupee plural Rupees.

57 meaning and CSR activities in SMEs in the developing countries' context (Manuere
58 and Phiri 2016). This study attempts to fill a gap in the existing literature and responds
59 to research calls for more insights into firms' s CSR activities from the perspective
60 of managerial employees (Perrini et al. 2007) and from the perspective of SMEs and
61 developing countries' perspectives.

62 The chapter is structured as follows. First, a literature review has been discussed
63 followed by the research methodology. Findings and discussion section summarizes
64 the main findings of the study and explains how findings are linked to other studies in
65 the literature. The chapter concludes with conclusions and future research directions
66 of the study.

67 2 Literature Review

68 According to Carroll (1979, 1991) and Matten and Moon (2008) components of CSR
69 consists of four core activities: economic, legal, ethical and philanthropic responsi-
70 bilities. Whereas, Davies and Crane (2010) and Waddock (2004) identifies ethical,
71 legal and economic as core components of any CSR activity. Dahlsrud (2008) studied
72 37 meanings of CSR and discovered that there are five dimensions of CSR namely,
73 the environmental dimension, the social dimension, the economic dimension, the
74 stakeholder dimension and the voluntariness dimension (Manuere and Phiri 2016).
75 The five dimensions of Dahlsrud (2008) are consistent with the dimensions of CSR
76 given by Carroll (1991) being, economic, legal and ethical because environment
77 falls under both legal in case of obligatory activities and voluntarily (ethical) where
78 actions are not required legally but are results of proactive stance.

79 The economic responsibilities of a firm are defined as to be productive and prof-
80 itable and to meet needs of society. Legal responsibilities of business suggest the need
81 for economic responsibilities to be approached within the written law. The ethical
82 responsibilities of business reflect the unwritten codes, norms and values implicitly
83 derived from society and, as such, go beyond the mere legal frameworks. The philan-
84 thropic responsibilities of business are discretionary in nature and society (Aupperle
85 et al. 1990; Carroll 1979). Philanthropic activities may affect the customers' percep-
86 tions and attitudes and affect the reputation of firms positively bringing more profits.
87 Philanthropy is not a function of profit, but it consists of firms both objectives of profit
88 and social reputations (Shiozawa 1995). Philanthropy is related to cash giving basi-
89 cally but the impulse to contribute is based on religious beliefs of managers/owners
90 of SMEs operating in few countries.

91 SMEs represent a large part of the world economy (Ketola et al. 2009). SMEs are
92 considered job creating platform providing innovative business practices (Laudal
93 2011). While multinational corporations have contributed formally and are well
94 versed about CSR activities, studies suggest that SMEs tend to be largely unfamiliar
95 with the social responsibility concept and apply CSR practices informally (Jenkins
96 2006). Usually, networks of SMEs help in identification of social problems and
97 possible solutions to a number of social problems for example, through making a

98 cash contribution to the community at large, generating value for the company and
99 responding to the need of the stakeholders (Jenkins 2009a, b).

100 As mentioned earlier, large firms are engaged in more diversified business activ-
101 ities and implementation of the CSR activities in a structured way. In contrast, the
102 employees of SMEs are more familiar with the core business activities. In large firms,
103 CSR activities are carried out by their accounting or marketing department (Ketola
104 et al. 2009). SMEs often lack such departments and their activities are embedded
105 within everyday business activities. These type of differences in structure and man-
106 agement might affect the ways in which CSR activities are conducted (Ketola et al.
107 2009). A small number of studies have been conducted on the SMEs and CSR activ-
108 ities (See Handfield et al. 2006; Worthington et al. 2006), however, still this is not
109 clear which activities are better for the SMEs or beneficial (Jenkins 2006) and also
110 in which activates they engage and prioritize (Manuere and Phiri 2016). Generally,
111 SMEs focus on human misery and intensively engage with local society, for example,
112 sponsoring local events and concern for employees' health and satisfaction (Jenkins
113 2006). SMEs are less interested in social issues in a more integrated or structured
114 way and are not able to identify and manage such issues (Lepoutre and Heene 2006).
115 Employees and owners of SMEs often define CSR broadly, ranging from global to
116 local aspects, like doing business according to the societal ethics, addressing envi-
117 ronmental issues, engaging in local issues, maintaining a good relationship with local
118 societal actors and looking after employees (Ketola et al. 2009).

119 3 Research Methodology

120 Sialkot is famous in the world as a producer of the sports, leather and surgical goods.
121 The industrial sector of Sialkot comprising of sports, surgical and leather is ideal
122 for the proposed study because of its regional and global importance; and critical
123 role in the economic development of Pakistan. Overall the industrial sector of Sialkot
124 contributes to 6% of the total exports. SME sector of Sialkot is at a tenth position of the
125 country's total export revenue, by selling sportswear products, surgical instruments,
126 leather and leather products to 40 international brands and 60 regional and national
127 brands in Europe and elsewhere (Jamal 2017).

128 The population frame of this study consists of the registered list of manufact-
129 urers and exporters with the Sialkot Chamber of Commerce and Industry, being
130 apex industry association of Sialkot (Khattak and Stringer 2017). For this study,
131 the sample population consists of active manufacturers and exporters of Sialkot in
132 three main industrial subsectors namely sports, surgical and leather. Here it is worth
133 mentioning that not all registered manufacturer and exporters are active manufact-
134 urers and exporters. The Sialkot Chamber of Commerce and Industry list contains
135 approximately 8000 registered members.

136 A qualitative approach was used to study the main research objective of the study
137 because qualitative research allows researchers better explore and underrated under
138 researched phenomenon. In qualitative research, the purposive sampling method is

139 prevalent for the selection of units of analysis and collection of information. Purpo-
140 sive sampling is as a process of selecting individuals with similar characteristics to
141 observe similarities and commonalities of patterns (Patton 2002). Through purposive
142 sampling, 80 SMEs were chosen from three industries namely sports, surgical and
143 leather. The sample comprised 51% managers from sportswear firms with 87% from
144 the top management and 13% from the middle level, 32% was from the leather with
145 77% top management and 23% from the middle level managers, 17% was managers
146 from the surgical manufacture firms, with 92% top managers and 8% from middle
147 level management. Selection of firms in terms of numbers was based on the contri-
148 bution of each industrial subsector for example sports sector contributes the most,
149 followed by the surgical and leather sector.

150 Face to face interviews was conducted with the senior managers/executives and
151 owners of SMEs in all the three sub industrial sectors. Most of the SMEs in the
152 industrial sector of Pakistan are family businesses owned and managed by owners.
153 Please refer Appendix at the end of the chapter for the interview questions details.
154 A request letter for scheduling an interview was sent to key informants, requesting
155 them to participate in the interviews. Telephone calls were also made as follow up.
156 With these efforts, only 54 informants agreed to schedule an interview. Out of 54
157 interviewers, 11 managers were not available in their office for the interviews, hence
158 a total of 43 managers were interviewed for this research.

159 The data obtained were analysed using qualitative thematic content analysis,
160 which is a descriptive presentation of qualitative data. Analysis was done manu-
161 ally. We used qualitative thematic content analysis prescribed by Anderson (2007).
162 Themes and concepts were derived inductively from the data. Main themes derived
163 from the data have been mentioned in Table 3 of this chapter. Similar themes were
164 grouped together to form categories (constructs) for example, donating funds to
165 different organisation and investing in a social cause were grouped under philan-
166 thropy/social construct. Whereas conservation of resources, concerns for waste of
167 production and ecological initiative were grouped under environment category.

168 4 Findings and Discussion

169 Findings suggest that philanthropy was the key CSR activity performed by most of
170 the firms. SMEs supported their philanthropic activities and considered their moral
171 and legal responsibilities to provide benefit to the people living and community in
172 surroundings of the firms. Findings reveal that managers were actively involved in
173 the philanthropic activities relating to CSR activities. As expressed by one of the
174 informants:

175 We have set agenda on ethical standards to assist the community in the area where we operate
176 because the community has given us the license and supported us to operate the business.
177 We are responsible for meeting the needs of our community. Our firm is participating in
178 providing training to the youth of the local community and share a specific part of our profit
179 to help needy families.

180 Consistent with the opinions of the other managers in the SME sector, one of the
181 managers expressed his views on philanthropy as follows:

182 We usually provide money in the form of cash to the needy families, so that they could meet
183 their immediate needs, for example, in case of severe health issues, we bear all medical
184 expense of our employee. Our responsibility is to manage a business in such a way where
185 our firm can earn a good profit and solve social problems.

186 Typically, SMEs were particularly interested in providing cash to poor families for
187 dowry (local type of charity) as a form of philanthropy. Dowry refers to the transfer
188 of resources (monetary and nonmonetary) from the family of a bride to a groom or
189 groom's family (Srinivasan and Bedi 2007). Dowry is one of the major serious social
190 issues in the South Asian region and is declared as a "socially endorsed form of
191 violence in Pakistan" (Bano et al. 2018, 25). As mentioned by one of the informants,
192 "We help our employees by providing marriage grant for their children particularly
193 for their daughters' weddings and cash payments to the orphan families."

194 Yet another critical factor was that the small firms rarely kept records of their cash
195 giving or philanthropic activities and details of donation receivers. One of the reasons
196 was that the SMEs did not want to make donations and engage in philanthropic
197 activities as a regular practice due to concerns about their economic survival. The
198 owners and managers of the SMEs perceived that the demand for donations and
199 expectations from them would increase if they make it a regular and formal practice.
200 As mentioned by one of the informants "Our priority is to be profitable, and we lack
201 resources to participate in community development programs actively."

202 Small firms seemed more concerned about their economic survival, whereas
203 medium-sized firms were seen engaged in community development activities more
204 and for their economic surviving at the same time. Small firms faced economic hur-
205 dles and constraints to actively engage in the community development programs.
206 Overall there were mixed perceptions of informants from small firms about either it
207 is appropriate for them to engage in charitable activities or philanthropy.

208 As mentioned by Das and Rangarajan (2017) that the term 'corporate sustainabil-
209 ity' is not very familiar to the SMEs and the understanding of the concept does exist
210 among them.

211 Findings suggest that the main CSR activities of SMEs in the industrial sector of
212 Sialkot fall under four broad dimensions of CSR namely economic, legal, philan-
213 thropy (social/ethical) and environment. Although environmental initiatives usually
214 fall under the legal domain of the CSR (Manuere and Phiri 2016) because of the
215 requirements by the importing countries' law, however, we have placed environment
216 dimension as a separate CSR activity or dimension. The main reason is that the
217 empirical data necessitated it to be placed separately from legal because of its impor-
218 tance to the leather sector. Philanthropy has been placed under the social dimension
219 or ethical domain of CSR which pertains to the relationship between business and
220 society (Manuere and Phiri 2016). The economic dimension of the CSR, based on
221 the empirical data, pertains to socioeconomic activities of the firms in a way that
222 takes into account the legal and social aspects seriously.

223 We have summarized findings in tabular forms to make it more presentable.
 224 Although philanthropy is the major CSR activity which SMEs perform, priorities
 225 of SMEs are different. The priorities of the CSR categories are listed in Table 1. By
 226 priorities we mean which dimensions of CSR SMEs prefer to undertake based on
 227 four major dimensions inductively derived from the data namely economic, environ-
 228 ment, legal and philanthropy (social). Informants' views on priorities areas of CSR
 229 activities are presented in Table 2. Based on the manager's responses, the SMEs
 230 engagement in the CSR practices is categorised in Table 3. Tables are explained in
 231 the following paragraphs.

AO4

232 Table 1 reveals that although philanthropy (irregular, undocumented and simple
 233 cash giving activities) was the main CSR activity performed by all industrial sub-
 234 sectors in the Sialkot, however, sports sector was at the top. Typically, sports firms
 235 were particularly interested in sponsoring the local sports events and provide cash
 236 to poor for dowry (explained above). The primary driver behind the involvement
 237 of SMEs in the local community and CSR activities was to build the reputational
 238 image of the firms and show the concern towards the staff dependents (family and
 239 community) and helping them in uplifting social standards. One of the informant
 240 from the Sportswear industry mentioned.

241 We own responsibility to give back to society as part of our business requirement. We are
 242 concerned with health and education problems in surrounding community, providing help
 243 through free medical camps and providing cash. Our priorities are to provide primary health
 244 facilities to old citizens.

245 Table 2 portrays that all industrial subsectors were undertaking main CSR activities,
 246 but their priorities were different for example, in the sports industry philanthropy
 247 was at the heart of CSR activities whereas in the leather industry environmental
 248 dimension was the main factor. The difference in the priorities could be due to the
 249 nature of industries for example, in the leather industry, the economic survival is

Table 1 Ranking of CSR activities industry wise

Category	Firms
Philanthropy	Sports
Legal	Surgical
Economic	Surgical
Environment	Leather

Source Authors

Table 2 Category ranking of CSR by firm-specific

Sports	Surgical	Leather
Philanthropy	Legal	Environment
Legal	Economic	Philanthropy
Economic	Environment	Legal
Environment	Philanthropy	Economic

Source Authors

Table 3 SMEs involvement in CSR practices

Category CSR practice	Firms	Managers response (%)
Participation in education development	Sports	19
Contribution to sports activities	Sports	35
Contribution in charity	Sports	40
Fair corporate practices	Surgical	63
Equal employment opportunities	Surgical	23
Concerned with poverty problems	Surgical	53
Participation in human right activities	Surgical	13
Contribution in community development	Surgical	35
Concerned with social obligation	Leather	27
Concerned with the waste of production	Leather	36
Concerned with hazardous effect on environment	Leather	29
Contribution to ecological initiative	Leather	22

Source Authors

250 dependent on compliance with the environmental standards. The polluting nature of
 251 the leather industry requires their main buyers in the west to outsource from firms
 252 complying with the environmental standards as mentioned by one of the informants
 253 “We believe that our existence is because of that we adhere and comply with the ethi-
 254 cal standards set by the buyers [customers mostly companies in developed countries]
 255 and legal aspects”. Here it is worth mentioning that the economic survival is the main
 256 requirement for all SMEs but economic survival itself depends on meeting the legal,
 257 environmental and social (philanthropic activities) standards in surgical, leather and
 258 sports industry respectively. A very recent study supports our findings that firms in
 259 the leather industry in Sialkot undertake environmental initiatives due to the regu-
 260 lations in the buyers’ countries (Wahga et al. 2018). The leather manufacturing is
 261 related to environmental pollution caused by tannery wastes produced during leather
 262 processing processes and as such some countries (major buyers) have devised and
 263 implemented regulations related to production and import of leather products with
 264 regard to the hazardous substance (Dixit et al. 2015). Similarly, Table 2 also por-
 265 trays that for the sports subsector environmental dimension of CSR is least important
 266 which could be due to the reason that the environmental impact of the manufactur-
 267 ing of sporting goods, in particular, football (the main product manufactured in the
 268 sector), is not detrimental. Our findings are supported by a study where a low level
 269 of involvement in the environmental initiatives by the sports firms in Sialkot was
 270 attributed to the low or negligible water consumption and less waste created because
 271 major waste was bought by raw material suppliers and recycled (Khattak and Stringer
 272 2017).

273 Table 3 has been derived from the data in order to capture main CSR activi-
274 ties actually performed by each of the industrial subsector and it clearly shows that
275 philanthropy is the main activity performed by each of the sector in the form of partic-
276 ipation in education development, charity, tackling poverty problems, participation
277 in human right activities contribution in community development etc. However, eco-
278 logical initiatives are at the forefront of the leather industry; and legal concerns in
279 the surgical industry.

280 5 Conclusion

281 Findings in this study highlighted CSR practices perceived essential and genuinely
282 viewed crucial by the managers of SMEs. This study contributes to the CSR literature
283 by identifying philanthropy as a most important CSR activity among SMEs in the
284 industrial sector of Sialkot in Pakistan. Overall generally, findings are in line with the
285 Carroll's (1979) categorisation of CSR dimensions and all dimensions are applicable
286 to the SME sector in Sialkot. However, main dimensions of CSR in the context of
287 Sialkot were social (philanthropy), economic, legal and environment. Furthermore,
288 there is difference in terms of priorities and applicability which is very much depen-
289 dent on the nature of the industry and issues related to the industries. The challenge
290 for the SMEs due to irregular philanthropic activities is developing philanthropic
291 approach that can truly deliver sustainability benefits to society and create value
292 for both society and business. To implement feasible and beneficial CSR practices,
293 managers should understand the social needs of their society and design the CSR
294 activities according to the needs of the local community. As mentioned by Manuere
295 and Phiri (2016) that the meaning of CSR is related to the major CSR activities
296 undertaken by SMEs in a specific context and hence, SMEs that indulge in donating
297 money and goods to needy people will define CSR as donations in cash.

298 6 Future Research

299 Future research can adopt comparative quantitative studies to understand and explain
300 about the key CSR activities by the SMEs in various industrial sectors and in various
301 geographical locations. Future research may also examine the relationship between
302 CSR activities and the internationalisation processes of SMEs. One limitation of
303 the study is that the data were collected from the manufacturing sectors only. Future
304 researchers could extend the findings of the present study to SMEs in service sectors.

Appendix: Interview Questions

- What CSR activities are important for your firm?
- What CSR activities do you prefer as a manger and why?
- Did you have any pre-defined CSR goals?
- Why would you initiate any CSR project?
- Why are you involved in specific CSR activities and which areas you have invested in?
- What are the key CSR activities in which your firm is engaged?
- What CSR practices your firm would prefer to engage in?

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Chapter 15

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