CORPORATE SOCIAL RESPONSIBILITY (CSR) AND CREATING SHARED VALUE (CSV) OF SMES IN JAPAN

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ABSTRACT

Over several decades, results of Corporate Social Responsibility (CSR) related studies have been published in large quantities and its concept has also been changing. But during recent years, enterprises begin to change from CSR that increases costs to Creating Shared Value (CSV) that can earn benefits. However, current CSR related researches are mostly aimed at large enterprises. So this article has targeted Small and Medium Enterprises (SMEs) to analyze its recognition toward the new concept of CSV compared with that of large enterprises, as well as the relationship between CSV, CSR and R&D. According to this research, (1) the fact that the recognition rate of CSV is low among all enterprises and even lower in SMEs has been clarified. Also, among all the SMEs, (2) those who are more interest in CSR also have higher CSV intention for the relationship between CSR and CSV; (3) if SMEs have strong R&D Capability, they also have higher CSV intention and better business performance. About the mechanism of how R&D can affect the CSV intention and performance, it would be a research issue in future.

Key words: Corporate Social Responsibility (CSR), Creating Shared Value (CSV), Small and Medium Enterprise (SME), Large enterprise

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1. INTRODUCTION

Corporate Social Responsibility (CSR) research has been carried out using large enterprises as the target in the past. Since large enterprises have been carrying out its business such as production and sales in many countries, if problems such as river pollution or air pollution caused by harmful waste from their factories, the influence will be large and they would undertook serious large responsibility. However, CSR activities became well-known all around the world since 1990s, and most of Multi-
National Companies (MNCs) began to practice CSR activities such as philanthropic activity, reducing the environmental impact, contributing to the local community, etc. Recently, the importance of CSR for Small and Medium Enterprises (SMEs) have also been pointed out since they have become the members of the supply chains of large enterprises (Mullerat 2013).

SMEs account for more than 90% of all businesses worldwide and from 50% to 60% of the employment (UNIDO 2002). In Japan, SMEs make up 99.7% of all enterprises, and 70% of all employees, and 20% of the gross national product in manufacturing industry (JSBRI 2011).

As the figure shows, SMEs are playing an important role in the world economy. However, there are many CSR papers on large enterprises but only a few on SMEs (Center for ethical business cultures 2005). SMEs have different functions and structures compared to large enterprises, and it cannot adapt all the results of research for large enterprises, so the research to clarify the CSR activities of SMEs becomes very important (Jenkins 2004). Thus, the literature review related to CSR as well as the new concept of Creating shared Value (CSV) proposed by Porter and Kramer (2011) was carried out, and the recognition rate to CSV of SMEs and the relationship among CSV (intention), CSR and R&D were analyzed.

2. LITERATURE REVIEW

2.1. Corporate Social Responsibility

The first literature related to CSR published in modern period is the book of Bowen (1953) entitled Social Responsibility of the Businessman, and he is called the “father of CSR” (Carroll 1999). He referred to the definition of CSR as “the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (Bowen 1953). 1950s is the Time of Foundation for CSR, Eells (1956) had noted the relation between business and society, and Selekman (1959) had pointed out the importance to build the moral lines for executive officers and Executives. But they only focused on the social responsibility of businessman with no consideration on the relationship with companies at that time.

From 1960s to 1970s, the environmental destruction caused by air pollution etc. (Rachel Carson’s book Silent Spring pointed out the environmental destruction caused by chemical substances (Carson 1962), and The Limits to Growth published by the Club of Rome (Meadows et al. 1972) predicted the depletion of resources due to economic growth in future) and the raising of consumerism (Kotler 1972) urged people to understand the importance to harmonize the society and enterprises. Sethi (1975) focused on the structure of corporate-social performance and divided it into three layers; social obligation, social responsibility and social responsiveness. The third stage “social responsiveness” means the adaption of corporate behavior to social needs (Carroll 1999). Later, Carroll (1979, 1991) developed the following theoretical CSR model (four layers’ model) known as Carroll’s pyramid.

1. Economic responsibilities -Be profitable
2. Legal responsibilities -Obey the law
3. Ethical responsibilities -Be ethical
4. Discretionary (Carrol 1979) / Philanthropic (Carroll 1991) responsibilities -Be a good corporate citizen
In 1980s, Freeman (1984) defined the range of stakeholders to the corporate to fulfill social responsibilities, and this is known as the stakeholder theory. He defined stakeholders as “any groups or individuals of an organization who can affect or is affected by the achievement of the organization’s objectives” (Freeman 1984). Freeman pointed out that corporate should consider the needs of shareholders as well as other stakeholders including customers, employees, and suppliers etc., and include this concept into the management.

In 1990s, especially the Concept of “Sustainable Development” proposed at Earth Summit held in Brazil in 1992 was recognized around the world, and it became an important issue for governments and corporates (Katsoulakos et al. 2004). Five years later in 1997, Greenhouse gas emission reduction goals were determined in “Kyoto Protocol”, which was signed during the COP3 held in Japan. In addition to this, the concept of “Corporate Citizenship” became widely used by the managers of businesses around the world (Center for Ethical Business Cultures 2005). Corporate Citizenship was defined as “the extent to which business meet the economic, legal, ethical and discretionary responsibilities imposed on them by their stakeholders” (Maignan, Ferrell & Hult 1999). In 1990s, the concept of corporate citizenship was also introduced in Japan (The Sasakawa Peace Foundation 1990).

CSR occupies an important place in the business management of global corporates in 2000s. An international standard ISO26000 related to organizational social responsibility was specified by International standard organization (ISO) in 2010. And the rate of Corporate Responsibility reporting among the world largest 100 Companies reached 92% in 2015 (King and Bartels 2015). 69.4% of all the companies listed on the Tokyo Stock Exchange also created CSR reports to the public in Japan in 2013 (Ministry of the Environment 2015).

2.2. Creating Shared Value
In the Harvard Business Review of 2006, Porter and Kramer stated that CSR should not be something like the insurance for companies, and the idea of “Responsive CSR” (Being a good corporate citizenship) in the past should be changed to “Strategic CSR”, which enables the corporate and the society to obtain the shared value by dealing with social issues (global environmental issues, waste disposal issues etc.) related to competitive advantage (Porter and Kramer 2006). Value means economic and societal benefits relative to cost (Porter and Kramer 2011).

In the later article, Porter and Kramer (2011) defined CSV as “Creating economic value in a way that also creates value for society by addressing its needs and challenges”, and argued that “Firms can do this in three distinct ways by (a) reconceiving products and markets, (b) redefining productivity in the value chain, and (c) building supportive industry clusters at the company’s locations”.

Crane et al. (2014) recognized that the strength of CSV of a company should be the evaluated as “CSV elevates social goals to strategic level”, but on the other side, for the weakness of CSV, (1) CSV is unoriginal. (2) CSV ignores the tensions between social and economic goals, (3) CSV is naive about the challenges of business compliance, (4) CSV is based on a shallow conception of the corporation’s role in society.

Although it was criticized by some scholars such as the above, the CSV concept was still accepted not only by researcher, but also by the management level of large enterprises, and many companies began to practice it. In Japan, some large enterprises such as Ricoh company ltd., Hitachi ltd. and Kirin company ltd. also set slogans
related to "CSV management” and "CSV strategy”, and announce their CSV activities on their homepages.

3. HYPOTHESES

Although CSV is set up as a new concept, it is also a social issue including the request of stakeholder just like CSR. Therefore, it can be regarded as an extension of CSR. Also, it can be expected that the increase of number of SMEs taking actions on CSR can also lead to expansion of activities on CSV. In order to clarify the relationship between CSR and CSV, we built up the following hypothesis on the difference of recognition to CSR and CSV by large enterprises and SMEs, the relationship of CSR and CSV activities in SMEs, and relationship between R&D and CSV based on the CSR study results in the past.

Since the managerial resources and the size of target market are different between large enterprises and SMEs, differences between the two parties can be clarified from the perspective of CSR motivation and CSR activities (Jenkins 2004; Spence 2007; Inyang 2013). Many of the existing studies also show that the CSR activities of SMEs are weaker than that of large enterprises. Therefore, the following hypothesis were proposed on the CSR and CSV of Japan companies.

H1: Since SMEs have lower relevance to CSR compared to large enterprises, their recognition rate and interest level are also low.

CSR is a concept considering social issues from the perspective of costs, but CSV is a concept considering social issues as business opportunities on the hand. Companies that are forward-looking in CSR can also be expected to be trying to challenge the conversion from current cost issues to profit-making business. For example, a furniture manufacturer didn't incinerate the surplus wood during the manufacturing process but paid money and made the fertilizer manufacturer to convert wood into fertilizer as its CSR activities. However, beginning of profit-making business that can commercialize surplus wood into chips as heating materials for home or into chopsticks can also be considered after implementing product development. In this way, it can be imagined that a high ratio of SMEs engaging in CSR activities will be considering about transferring to CSV activities. Therefore, the following Hypotheses are proposed.

H2: SMEs engaging actively in CSR activities also put emphasis on CSV and are making efforts on it.

From the viewpoint of Resource Based View (RBV) of the firm in the strategic management field, R&D capability is one of the important resources of not only large enterprises but also SMEs (Barney 1991). In CSR studies, the research result indicating that the intangible asset R&D capability (expenditure) and the activity level of CSR have positive correlations (McWilliams and Siegel 2000; Waldman et al. 2004; Padgett et al. 2010). By improving the R&D capabilities as a resource, companies will become able to create inimitable product compatible to the demand of the society, and along with the improvement of flexibility to CSR as well as their profits, the following hypothesis related to CSV can be proposed.

H3: SMEs who can make R&D as their strength have more positive consciousness in CSV activities compared to other companies who cannot.
4. METHODOLOGY
Self-administered questionnaire was created for people above the manager from both SMEs and large enterprises from the manufacturing industry. In accordance with the definition of Small and Medium-sized Enterprise Basic Act of Japan, companies with 300 employees or less are SME and other companies with more than 301 employees are deemed as large enterprise during the manufacturing industry. The Online Survey was carried out during August 2013, and 200 votes are from large enterprises and 200 votes are from SMEs.

Proxy indicator of the CSV intention is the following question (Q1) and the choices of answers used 5-point Likert scale. The choices of answers for other questions are also the same.

Q1: Our CEO has a strong interest in the commercialization of social problems

(1= Strong agree, 2= Agree, 3= Neither agree nor disagree, 4 =Disagree, 5= Strong disagree)

Also, the following two questions (Q2 and Q3) were set for changes of corporate performance.

Q2: Did your company's sales stretch in the last five years?

(1 = downtrend, 2 = generally downward trend, 3 = generally flat trend, 4 = generally increasing trend, 5 = increasing trend)

Q3: Did your company's profits stretch in the last five years?

(The same with Q2)

With the collected data, chi-square test, t-test, multiple regression analysis, etc. were carried out using Statistical Package for social Science (SPSS). Each hypothesis is verified in below.

5. RESULTS AND DISCUSSION
First of all, the difference between large enterprises and SMEs related to the degree of involvement in CSR is analyzed by comparing the two parties (see Table 1). It was found out that the degree of involvement to CSR of SMEs was lower than that of large enterprises no matter in management philosophy, organization, or philanthropy in Japanese companies. This is the same result compared to that of the existing studies, which proved the accuracy of sampling.

Table1: Degree of involvement in CSR

<table>
<thead>
<tr>
<th></th>
<th>LEs (N=200)</th>
<th>SMEs (N=200)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M</td>
<td>SD</td>
</tr>
<tr>
<td>Having a CSR-related corporate philosophy</td>
<td>4.06</td>
<td>.828</td>
</tr>
<tr>
<td>Having a CSR-related department</td>
<td>3.62</td>
<td>1.078</td>
</tr>
<tr>
<td>Positive philanthropic activity</td>
<td>3.67</td>
<td>.875</td>
</tr>
</tbody>
</table>

With regard to the recognition degree of CSV, 75.5% of the SMEs and 67.5% of large enterprises answered that they even never heard that term (see Table 2). People knowing the term of CSV and furthermore understanding the meaning only constitute 3% of the SMEs and 9% of large enterprises. Statistically, since significant difference
between SMEs and large enterprises was found at the 5% level ($\chi^2 = 7.073$, df = 2, $p = .029$), Hypothesis 1 was supported. It is estimated that it will take several years for the CSV concept to get widely known not only by large enterprises but also by all the SMEs.

Table 2: Recognition degree of CSV

<table>
<thead>
<tr>
<th></th>
<th>SMEs</th>
<th>Large enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have never heard of CSV.</td>
<td>75.5%</td>
<td>67.5%</td>
</tr>
<tr>
<td>I have heard CSV, but I don’t know the meaning.</td>
<td>21.5%</td>
<td>23.5%</td>
</tr>
<tr>
<td>I have heard CSV and I know the meaning.</td>
<td>3.0%</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

$\chi^2 = 7.073$, $p = .029$

The multiple regression analysis was implemented while setting the level of CSV intention as dependent variable and the presence or absence of CSR-related management philosophy, the presence or absence of CSR-related department, and the agree to philanthropic activity as the independent variables (see Table 3). Each variance of inflation factor (VIF) of the independent variables is under 2.0, so it can be said that multicollinearity problem did not exist. The result of this regression analysis showed that the three independent variables explained 22.8% of variance in CSV intention ($F = 20.62$, $p < .001$). When a company has contained the CSR concept in its management philosophy, possesses a CSR department and highly agrees to philanthropic activities, this means that this is a company with high CSV intention. Thus, Hypothesis 2 is supported.

Table 3: Factors influencing CSV intention

<table>
<thead>
<tr>
<th>Variables</th>
<th>B</th>
<th>SE</th>
<th>$\beta$</th>
<th>t</th>
<th>Sig.</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.841</td>
<td>.239</td>
<td></td>
<td>3.513</td>
<td>.001</td>
<td></td>
</tr>
<tr>
<td>Having a CSR-related management philosophy</td>
<td>.123</td>
<td>.059</td>
<td>.140</td>
<td>2.086</td>
<td>.038</td>
<td>1.167</td>
</tr>
<tr>
<td>Having a CSR-related department</td>
<td>.350</td>
<td>.063</td>
<td>.367</td>
<td>5.515</td>
<td>.000</td>
<td>1.142</td>
</tr>
<tr>
<td>Positive philanthropic activity</td>
<td>.133</td>
<td>.064</td>
<td>.136</td>
<td>2.072</td>
<td>.040</td>
<td>1.113</td>
</tr>
</tbody>
</table>

R-square | .240

Adjusted R-square | .228

Note: Dependent variable is the degree of CSV intention.
Table 4: Comparison between two groups (R&D Capability) of SMEs

<table>
<thead>
<tr>
<th></th>
<th>R&amp;D: Strong (N=67)</th>
<th>R&amp;D: Weak (N=133)</th>
<th>t</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M</td>
<td>SD</td>
<td>M</td>
<td>SD</td>
</tr>
<tr>
<td>(1) Changes of sales during last 5 years</td>
<td>2.88</td>
<td>1.052</td>
<td>2.36</td>
<td>.932</td>
</tr>
<tr>
<td>(2) Changes of profits during last 5 years</td>
<td>2.90</td>
<td>1.075</td>
<td>2.39</td>
<td>.928</td>
</tr>
<tr>
<td>(3) Having a CSR-related corporate philosophy</td>
<td>3.64</td>
<td>.883</td>
<td>3.08</td>
<td>1.049</td>
</tr>
<tr>
<td>(4) Having a CSR-related department</td>
<td>2.30</td>
<td>.985</td>
<td>2.04</td>
<td>.916</td>
</tr>
<tr>
<td>(5) Our CEO has a strong interest in the commercialization of social problems</td>
<td>2.67</td>
<td>.944</td>
<td>2.25</td>
<td>.848</td>
</tr>
<tr>
<td>(6) Recognition degree of CSV</td>
<td>1.33</td>
<td>.561</td>
<td>1.25</td>
<td>.483</td>
</tr>
</tbody>
</table>

Note: With regard to R&D, two groups were divided by answering the question (Yes or No) "Is your company’s R&D capability strong?" Answers to (6) have three choices (see Table 1).

SMEs (N=67) using R&D as their strength and those (N=133) who are weak at it are divided into 2 groups, and then the independent samples t-test is implemented (see Table 4). SMEs with strong R&D capability has the following characteristics (factors in which significant difference is found between two groups at the 5% level) compared to those who are week at it.

- Sales is on the increasing trend (t= 3.563, p < .001).
- Profit is on the increasing trend (t= 3.439, p < .01).
- Many companies have contained social responsibilities into their management philosophy (t= 3.795, p < .001)
- They are companies with strong CSV orientation (t= 3.210, p < .001)

SMEs with stronger R&D capabilities have better general performance, and many of them are also interested in CSV activities. Therefore, Hypothesis 3 can be supported.

6. CONCLUSION

Concerning the new concept of CSV, this paper analyzed the recognition degree of SMEs in comparison to large enterprises, its relationship with CSR and philanthropy, as well as its relationship with R&D capability. One of the facts revealed in this study is that the awareness of CSV is as low as 9% even for large enterprises and the ratio of SMEs is 3%, which is even lower. Although the awareness of terms may be low, it seems that many companies have been taking actual actions, so the collection and analysis of successful cases may become necessary in the future. Secondly, for the relationship between CSR and CSV, it was demonstrated that companies with more enthusiasm to CSR also have higher level of CSV intention. SMEs carrying out CSR strategically have also been searching for business chances during CSR activities, which also prove that they have the capability of developing new products and services. Thirdly, SMEs with stronger R&D capability also have higher intention of CSV; their performance is also proved to be better. About the mechanism of how
R&D can affect the CSV intention and performance, it would be necessary to clarified at the next reasonable opportunity.

The CSV concept of Porter & Kramer is novelty, which has changed the conventional idea of regarding CSR as a cost, and proposed the necessity of reconsidering it as a product or service that can help the company to obtain benefits upon its own social problems. Although this is not a fully completed concept, it is expected to become a general concept for SMEs after being refined and popularized later.

REFERENCES


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