Chapter 4

Research Methodology

This chapter focuses on the approach and methodology of the research. An attempt has been made here to provide an insight on the procedure adopted explain how research work has been conducted, various steps, methods and assumptions used in the study by throwing light on the problem, objective of the study, state hypotheses justify the, need of the study research design, etc. The methodology employed in the study is mainly of two types: desk research and field research. The effort has been made by the researcher to take all related aspects in understanding the attitude of CSR among SMEs.

On the basis of investigation, this research work has been classified as survey research or field investigation because the researcher picked up the data from the dynamic real world field conditions, so that the findings are realistic. The advantage is obvious. However it has been an uphill task to take great care of accuracy in the selection of the population and to ensure control over the variables and other forces that work in the field. With the help of the interview technique and filling up of the questionnaire, the researcher tried to carry out research in a functional area of management.
So, it is very clear from the literature review that at national as well as international level businesses are expected to cater to social needs. As per Maslow’s theory of motivation, doing CSR is like satisfying the self-esteem need of businesses. A lot can be done for creating an attitude of CSR among SMEs as they are contributing in a very significant way to the economic development of several countries around the world.

4.1 Need for Study

There is significant research done on large businesses in India and around the world about CSR practices undertaken by them and impact they are creating on the society. However, academic work on social responsibility in small firms is limited, (Spence 1999; Thompson et al., 1991).

SMEs cannot be expected to adopt initiatives of large companies such as sustainability reports, stakeholder partnership programs and participation in international CSR networks (Vyakarnam et al., 1997; Sarbutts 2003; Spence et al. 2003).

There is a need for specific SME knowledge on CSR engagement, that can contribute to the development of understanding how to effectively promote CSR among SMEs, and to develop relevant programs and policies, and, hence, to benefit from the huge potential for CSR development, (Morsing, 2006).

There is a clear direction for future research in CSR: to provide SMEs with guidance and tools that enable them to implement and report on their corporate social responsibility policies, processes and performances in an effective manner (Castka, 2004).

After going through literature of CSR practices from various countries, the researcher felt a need to undertake a research to study the attitude of entrepreneur who owns SMEs in
India as they cannot adapt to the model followed by big business organisations. The need was felt to do study how SMEs manage and carry out CSR activities.

4.2 Significance / Benefit of the Study

The study is unique in a number of ways. Firstly, it focuses on the type of CSR practices which is prevalent among the SMEs. Secondly, it determines the relationship between the turnover and profit of the enterprise, with the amount they spend on CSR activities. Thirdly, it examines if age of the entrepreneur has some influence while selecting CSR activities. The study analyses motives behind SMEs undertaking CSR activities and what are the perceived advantage they get out of serving the society. Also it tries to find out how SMEs would like to carry out their CSR activities on their own or by tying up with professional NGO for carrying out their CSR activities and understand how they manage activities undertaken by them. This study also tries to find the preference of SMEs for CSR activities i.e. whether they prefer Internal CSR, External CSR or Environmental CSR and if the type of SMEs i.e. polluting or non-polluting will have bearing in deciding upon the type of CSR activities undertaken. As SMEs have direct impact on the society in terms of employment generation, it is of vital importance to develop an attitude of CSR among entrepreneurs and for that we need to first understand the attitude of the entrepreneur and how they go about managing CSR activities in the first place.

This research seeks to understand the attitude towards CSR, of SMEs and the entrepreneurs who run that SMEs towards CSR. It also recommends initiatives which will enhance CSR activities and also make it more effective.
4.3 Contribution to Research

This research will contribute in a significant way to the existing literature available on CSR in India as well as CSR literature around the world. There is an in-depth analysis done to understand the attitude of the SMEs which is an upcoming sector having direct impact on people and contributing in a great way to the GDP as well as employment generation in India. The finding from this research will help to understand management of CSR activities undertaken by the SME sector and it throws light on increasing motivation of SMEs to undertake more socially significant projects for the benefit of society. It will also help ascertain what are the perceived benefits that an entrepreneur is looking for while undertaking CSR activities. These are expected to lead to framing of incentives and policy frameworks which will create a positive environment for undertaking CSR activities by entrepreneurs who undertake SMEs.
4.4 Objectives of the Study

The purpose of this research is to understand the CSR activities among SMEs in India. This research will help to understand the most common CSR practices undertaken by SMEs. This research also tries to analyze if there is any relationship between the turnover and type of SMEs in the CSR activities undertaken by them. The objectives of the study are as follows:

1. To study the CSR activities practiced by the SMEs in India and ways in which SMEs carry out their CSR activities.

   To study what are the different types of CSR practices which are prevalent among SMEs in India and how it has been carried out by SMEs.

2. To study the reasons for which SMEs undertake or carry out CSR activities.

   To go in-depth and find out the reasons for SMEs to undertake CSR activities.

3. To find out the perceived advantages or benefits of CSR activities derived by SMEs.

   Apart from the reason for which SMEs undertake CSR activities, the researcher would like to understand the perceived benefit which SMEs derive by doing CSR.

4. To find out the amount of money spent on different CSR practices per annum by SMEs.

   One of the objectives of this research is to find out the amount of money spent annually by SMEs on their CSR activities.
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5. To find out whether entrepreneurs of SMEs tie up with a professional NGO or community for carrying out their CSR activities or prefers to do it on their own or with the help of their staff.

This is to find out whether SMEs look out for professionally managed NGOs to carry out their CSR activities or prefer to do it on its own either by entrepreneur himself or by his staff.

6. To study the relationship between CSR activities and the characteristics of SMEs such as location, turnover, profit and, size of the enterprise.

This study will try to find out if there is any relationship between location, size, turnover and profit and the CSR activities carried on by SMEs.

This research is an attempt to add to the existing body of known on Corporate Social Responsibility with special reference to SMEs in India. The research is aimed at understanding the CSR activities undertaken by SMEs and comes out with a model to ensure better and effective participation of SMEs in their CSR activities.

In order to achieve the objectives mentioned above, survey of the literature on CSR practices among SMEs around the world was extensively done while developing hypothesis.

There is a lot of research done internationally about SMEs effectively contributing to CSR. One research has revealed that SMEs can benefit from CSR and improve their business and develop competitive advantage. It was concluded in the study that business
system framework, such as ISO9001:2000, can serve as a vehicle for CSR integration into day-to-day operation of the business, (Castka, 2004).

Support organizations should develop tools specifically for SMEs, not simply adopt ideas designed for larger companies. A study conducted among U.K. SMEs, (Jenkins, 2006).

### 4.5 Hypotheses

All hypothesis tests were done using the 5% level of significance. 5% level of significance is found to be the right tradeoff between Type I Error and Type II error.

**Hypothesis 1:** The most common CSR activity carried out by SMEs is philanthropy work which generally consists of donation for religious purposes.

The objective of the hypothesis is to find out the most famous CSR activities among SMEs. From a theoretical construct, philanthropy which generally consists of donation comes out to be the most common way of giving back to society by SMEs.

**Hypothesis 2:** SMEs carry out CSR activities for the purpose of tax saving, image building, employees' welfare and philosophy of the entrepreneur.

The objective of this hypothesis is to investigate the reasons for which SMEs undertake CSR activities. The probable reason for which entrepreneurs undertake CSR activities could be many fold such as tax savings, image building, employee's welfare and philosophy of the entrepreneur.

**Hypothesis 3:** SMEs carry out CSR activities on their own rather than joining any NGO or community development organizations.
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The objective of this hypothesis is to find out whether entrepreneurs tie-up with NGOs or community organizations to carry out CSR activities or prefer to do it with their own human resources.

**Hypothesis 4:** SMEs which are located in special economic zones (SEZ) are undertaking less initiative for environmental CSR activities.

The objective of this hypothesis is to find out that whether SMEs situated in the special economic zone undertake less environmental related CSR activities compared to others located outside SEZs.

**Hypothesis 5:** SMEs which are of polluting type and located outside SEZs are more in environmental CSR activities.

The objective of this hypothesis is to examine the relationships with SMEs situated outside the special economic zones and are into manufacturing with potential for pollution undertake CSR activities related with environment.

**Hypothesis 6:** SMEs which have higher turnover spend more on CSR activities.

The objective of this hypothesis is to find out if SMEs with higher turnover have a fatter budget allocated for their CSR activities and whether vice –a-versa is also true.

**Hypothesis 7:** The younger entrepreneurs (owners) are more into CSR activities like environmental issues whereas the older entrepreneurs (owners) are more involved in CSR activities which are religious in nature.

The objective of this hypothesis is to find out if age of the entrepreneur has to do anything with the activities selected for CSR among SMEs.
4.6 Conceptual / Operational Definitions

- **SME**

The word “Corporate” used for this research has a generic meaning, in the sense it is understood in the literature. But as the study pertains to SMEs- the legal form of ownership linked with the word “corporate” is to be ignored.

- **CSR**

“CSR is a commitment to improve community well being through discretionary business practices and contribution of corporate resources” (Kotler, 1981).

- **Internal CSR**

Internal CSR includes socially responsible practices which primarily include employees-related welfare practice like providing medical facility, housing facility, education to employees (Castka, 2004). Internal CSR also includes all welfare activities undertaken by an enterprise for their employees. It also includes some more activities like providing training and development or sponsoring the employee for higher studies etc.

- **External CSR**

CSR extends beyond the doors of the company into the local community and involves a wide range of stakeholders in addition to employees and shareholders such as business partners and a suppliers, customers, public authorities and NGOs representing local communities, as well as the environment (Castka, 2004). External CSR includes activities
like undertaking health camps, sponsoring sports event, working with orphanages, running old age homes, adopting villages when natural calamities strike, and many more.

- **Environmental CSR**

This activity mainly relates to the management of natural resources used in production and undertaking CSR activities, which help to reduce pollution and reverse the effect of global warming (Panel Castka, 2004). Environmental CSR includes undertaking activities like reducing water and air pollution, water harvesting, reducing wastage of water, efficient use of energy, reducing use of harmful chemicals, etc.

- **Philanthropy**

A Greek term which directly translated means "love of mankind." Philanthropy is done to better humanity by donating money to a charity. Lot of businesses are into giving regular donation for either religious purpose or they give it to the orphanages and old age homes and many such organizations and NGOs.

- **Image of the enterprise**

It may be based on a direct perception of an enterprise or indirect sources of information and elaborated by imagination. (Dictionary of Marketing by Wolfgang Koschnich, 1995).

- **Gross Domestic Product**

It is the total monetary value of all final goods produced and services provided for sale by economy over a specified period.
• **Business ethics**

The study of how personal moral norms apply to the activities and goals of commercial enterprises. It is not a separate moral standard, but the study of how the business context poses its own unique problems for the moral person who acts as an agent of this system (Weiss, 2008).

• **Global citizenship**

Generally citizens are concerned about the local interests i.e. family, community and their own country; with the businesses getting global they got to respect a fellow global citizen regardless of his race, religion and the country. Business needs to have universal sympathy beyond the barriers of nationality. *(World Economic Forum)*

• **Corporate citizenship**

Corporate citizenship is about a new contract between business and society, a vision of partnership between different sections of community, which allies profitable companies with healthy communities because what happens to societies happens to business. Improving the state of the world through business’s engagement in partnerships that address key global societal challenges. *(World Economic Forum)*

• **Polluting Industry**

‘Pollute’ meaning contaminating the environment and making it impure (Oxford, 1999). Industry means the sector of an economy that is concerned with manufacturing (Oxford, 1998). Polluting industry means, that industry which by their very nature contaminates the environment. *Industries create water and environmental pollution. By throwing*
poisonous effluents in the river or sea, they may cause water pollution. Environment becomes polluted when industries emit toxic gases in the environment.

- **Turnover**

The total sale revenue of a business is called as turnover (Graham, 2001).

- **Profits**

This study considers net profit for the term 'profit'. Net profit before tax has been defined by Graham as the residual after deduction of all money cost i.e. sales revenue, minus wage, salaries, rent, fuel and raw materials, interest on loans and depreciation (Graham, 2001).

- **Sustainability**

Sustainability is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs (http://www.sustainabilitydictionary.com)

- **Triple bottom line**

It is an addition of social and environmental values to the traditional economic measures of a corporation or organization's success. Triple Bottom Line accounting attempts to describe the social and environmental impact of an organization's activities, in a measurable way, to its economic performance in order to show improvement or to make evaluation more in-depth. There are currently few standards for measuring these other impacts, however. The phrase was coined by John Elkington, co-founder of the business

- **GRI guidelines**

  The Global Reporting Initiative (GRI) is an independent institution whose mission is to develop and disseminate globally applicable sustainability reporting guidelines that help organizations to report on the economic, environmental, and social dimensions of their activities, products, and services. The aim of the GRI Guidelines is to assist reporting organizations and their stakeholders in articulating and understanding contributions of the organization to sustainable development through their reports. (http://www.proveandimprove.org).

- **SEZ (Special Economic Zone)**

  SEZs are proposed to be specially delineated duty - free enclaves for the purpose of trade, operations, duty and tariffs. These zones are self-contained and integrated having their own infrastructure and support services. (http://www.sezindiainvest.com)

### 4.7 Independent Variables

- **Location of the enterprise**

  Location of the enterprise has been taken as independent variable as the researcher would like to find out whether the location of enterprise in SEZ or non SEZ makes any difference to the selection of the CSR activities undertaken by the enterprise. The premise here is if enterprise is located in industrial zone would be undertaking less environmental CSR than enterprise not situated in SEZ.
• **Turnover of the enterprise**

Another independent variable being turnover as this research would like to find out any correlation between turnover of the SMEs and the amount they spent on CSR activities.

• **Age of the entrepreneur**

As this research tries to find out if there is any preference in types of activity according to the age of entrepreneur. For example, if younger entrepreneurs undertakes more environmental related projects and older entrepreneurs undertake a religious projects. That is the reason to take age as an independent variable.

• **Educational qualification of an entrepreneur**

Another independent variable is education qualification, as the research wanted to find out if qualification has any effect on the amount spent and type of CSR activities undertaken by the enterprise. The education qualification was divided into 4 categories viz., undergraduate, graduate, post graduate and double graduate.

• **Type of industry: Polluting, Non Polluting**

Polluting and non-polluting industry also become independent variables in this research as, one of the objectives of this study was to find out whether the location of the enterprise has any effect on the CSR activities undertaken by the enterprise.
4.8 Dependent Variables

- Type of CSR activities and program undertaken

The type of CSR activities undertaken by the enterprise depends on various factors such as the location of the enterprise, age and educational qualification of the entrepreneur, turnover of the enterprise and profit of the enterprise. For these reasons, the type of CSR activities and programs undertaken becomes a dependent variable in this research.

- Money spent on CSR activities undertaken by an enterprise

As budget allocated for CSR activities depends upon the turnover of the enterprise and profits of the enterprise, it is taken as dependent variable in the research.
4.9 Research Design

The research design may be broadly classified into exploratory or conclusive; the insight gained from exploratory research might be verified or quantified by conclusive research.
4.9.1 Exploratory Research Design

The objective of the exploratory research is to provide insights and understanding of the research topic. Exploratory research is used in cases when the research must define the problem more precisely, identify relevant courses of action or gain additional insights before an approach can be developed (Malhotra, 2004).

An Exploratory Research Design was followed to obtain background information on the enterprises which are undertaking CSR activities, to analyze their attitudes towards the CSR activities, to prove the objectives and hypotheses of this study. Methods for conducting exploratory research are given below:

4.9.1.1 Interview with Entrepreneurs:

Wherever possible, along with filling up of questionnaires, personal interviews of some entrepreneurs were also taken for understanding their attitude towards CSR.

4.9.1.2 Secondary Data analysis:

Here the source of information was library, reports, magazines, research papers, government notifications, special report, newsletters, books, Internet bulletins, etc. Data research is basically the collection of information from documentary sources, published or unpublished and the research for these sources, whereas the field research is collecting the information primarily from SMEs, who were practising CSR. Desk research lays the foundation for field research. The researcher, therefore, has made the maximum use of desk research to reduce the time and money utilized in the field research.
4.9.2 Conclusive Research Design

Conclusive Research is more formal and structured than exploratory research. It is based on large, representative samples and data obtained and subjected to quantitative analysis. The finding from this research is considered to be conclusive in nature in that they are used as input into the decision making, (Malhotra, 2004). The researcher has used a large sample size of 300 and conducted statistical analysis to test various hypotheses.

4.9.3 Descriptive Research

A type of conclusive research that has as its major objective the description of something that is usually market characteristics or functions is called descriptive research., (Malhotra, 2004). This research studies the characteristic of the entrepreneur who started the SME and also the way he contributes to the society and carry out their social responsibility.

4.9.4 Cross-Sectional Design

A type of research design involving the collection of information from any given sample of population elements only once, (Malhotra, 2004). For this research, filled in questionnaires were collected from 300 SMEs in the states of Maharashtra and Gujarat only once.

4.9.5 Multiple Cross-Sectional Designs

In multiple cross sectional design, there are two or more samples of respondents and information from each sample is obtained only once. In this research data was collected from SMEs from Gujarat as well as Maharashtra.