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External and Internal Factors Influencing Socially Responsible Behaviour of SMEs: Evidence from Singapore

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***Abstract* — Previous literature proves that different factors play particular but impactful roles on firms' CSR engagement. However, literature has seldom investigated the responsiveness of firms under the context of different influences. The purpose of this research is to investigate the influence of external factors and internal factors on firms' CSR engagement from the perspective of companies in Singapore. The study finds that interest in CSR is motivated by government regulation for local firms. Limited access to resources is not a constraint factor for small firms to engage in CSR. However, their forms of engaging in CSR differ from large companies. The empirical results indicate that the negative relationship between resource access and CSR responsiveness is not supported. A positive relationship is suggested, which implies that small businesses have a high level of awareness of localised engagement. Small firms are particularly dependent on the goodwill and approval of the local community resulting in more direct communication with local communities and small firms. Communication may have a strong influence on the resource access of small firms. Therefore, developing a localised CSR strategy is a better choice for small companies to enhance such communication. A rational small firm would perceive the benefit from CSR engagement in ensuring resource access.**

***Index Terms*—CSR, MNE, SMEs, Singapore, Emerging Markets**

I. Introduction

Corporate social responsibility has been proven to have a significant relationship with firm performance [1]. Therefore, it is necessary for a company to recognize the value of corporate social responsibility. The diverse motivation base could generate various CSR strategies [1]. However, such choice of strategies could be explained that it is aimed at committing to the current business context [2]. Previous literature indicated that the various CSR strategies could be attributed to diverse context [3].

Government regulation could be viewed as one of the most important external factors. It is possible to moderate the choice of firm's CSR strategies directly through definite guidelines and strict implementation [4]. In this context, companies seem to have no choice but to fulfill government regulations. However, companies still have an opportunity to benefit from CSR engagement because various CSR activities are regulatory. To make an appropriate CSR strategy might thus be an important issue.

Firm size could relate to resource access which could be the determined factor of the operate scale of CSR activities. A lack of financial resources was argued to be the most essential barrier for SMEs to choose their CSR strategy [5]. SMEs might prefer to invest their limited financial resources in new business fields rather than CSR activities because survival should be the primary goal of a company.

In summary, previous literature has researched the influence of government regulation and firm resources on the choice of CSR, engagement in the view of influence factors. However, seldom has literature mentioned the strategy of companies under such influence e.g. [1] and [4]. Therefore, discussing the choice of CSR engagement from a company perspective is necessary.

The purpose of this study is therefore to investigate the influence of government regulation and firm resources on CSR engagement.

II. Literature Review

[1] indicated that a firm's access to resources was one of the most essential characteristics that could impact many decisions. Small size firms usually face the problem of constrained or inadequate resources, which may decrease their wiliness to engage CSR initiatives [1]. Firms are not

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able to respond to the demand of stakeholders with lower cash flow. However, CSR engagement could also help small firm gain more access to resources. It is crucial for small-size firm approach CSR as a strategy to achieve competitive advantage [1].

[5] argues that the expenditure of CSR participation would finally result in financial burden and thus lead to competitive disadvantage. In addition, small firms also have few opportunities to reap the benefit of CSR activities [5]. Furthermore, the CSR efforts of small-size companies were perceived to have lower visibility in society due to their small size. It decreased the wiliness of small firm to engage in CSR.

[6] found that small firms had a high awareness of internal CSR issues despite the paucity of resources. Their result suggested that small-size firms showed interest in CSR activities as long as it was relevant to their daily business activities and firm-internal processes. Furthermore, another existing barrier that small firms have is limited resources for the continuous generation of special knowledge to respond to increasingly complex CSR issues.

[7] reported that some common standard might be unsuitable for small organizations compared to larger firms. Practical issues such as return on investment and human resources should be considered more carefully when small firms engage in CSR due to the severity of short-term implications if results turn out negative. Despite the financial burden, the small amount of employees and lack of experts is another burden for small firms.

[8] indicated that the attitude of small firms toward CSR plays a salient role in CSR activities. Small firms are characterized by the lack of awareness on external CSR issues. Compared to economic benefit, small firms consider that they have no reason to involve themselves in external CSR issues sustainably.

[9] argued that the relationship between CSR engagement and SMEs could be crucially developed when SME recognized the relevance of CSR issues in business. SMEs involved in a high level of employee improvement not only create value for employees but also improvements in the firm's business performance.

[10] explained that the benefit of CSR could only be reaped in the long-term future, which potentially would prevent SMEs with limited cash from such an investment. Therefore, SMEs might fall in a vicious cycle that they could not be able to obtain the resources to support long-term growth because they did not have enough resources to develop external CSR stakeholders [10].

[11] found that CSR involvement toward firm's employees positively associate with firm's financial performance. Firms often have close contact with employees who could inspire the satisfaction and motivation of staff. Therefore, employees could develop a more positive attitude to serve their customers. The increasing level of customers' satisfaction would benefit the firm. SMEs could therefore gain a competitive advantage by engaging internal stakeholder issues.

[12] indicated that many SMEs considered CSR not to be an easy task but representing a new threat against their interest. Furthermore, they also doubted the value of investment in CSR because of the difficulty to estimate return on investment and thought it was not good idea. SMEs feared that their efforts might be negligible to meet the social requirement even if they had tried their best.

[13] found that SMEs would develop their personal concepts of CSR when being involved in CSR activities. The local community was emphasized as an essential stakeholder rather than global stakeholders. Moreover, SMEs are motivated by firm reputation, which often lies with the local community [13].

[2] argued that there were four kinds of firms' attitudes toward CSR engagement, which were obstructionist, defensive, accommodative, and proactive. Under different pressures of configuration of institution and stakeholders, firms would regulate their CSR engagement depending on particular circumstances. The regulation came from formal institutions and shaped firms' CSR participation intensively through guidelines, acts and institutional recognition through e.g. awards and certificates.

[4] investigated the influence of formal government regulation on firm's CSR engagement through the Indian Companies Act of 2013. This act requires eligible companies to construct particular CSR activities with detailed sections. Some companies reported that they were faced with financial burdens when they implemented some mandatory charity donations. Generally, this act shows fewer negative relationships with firm's performance and dramatically improved the quality of CSR participation. Those companies, it was claimed, which suffered a financial burden would benefit from CSR engagement in the long term.

[3] proposed a view from informal government pressure. This informal pressure was considered as another kind of tax by South Korean companies. There was a short term orientation among South Korean companies because they were involved in CSR actives based generally on charity donations. Companies needed to pay political donations and prepare CSR budgets in order to allocate donations. Such involvement required companies to quickly respond to new government pressure.

[14] introduced the role of government policies on corporate social responsibility. The policy with correct orientation would impact CSR practices in a long term. The relationship among CSR and great political practices should be separated. The government should recognize that to promote a wider approach to construct new relationships between governments, companies and society.

[14] also argued that companies were more likely to become involved in CSR when government regulation was powerful and well enforced to ensure such engagement. The efficiency of regulation would be enhanced if it was

developed based on negation and consensus among companies, government and societies.

[15] indicated that the CSR motivation of companies was formed by legal requirements and government evaluations, i.e. push factors. Companies should prove that they have responded to all the standard of CSR requirement through compliance processes or certifications. The conduct of companies could also be influenced by current concentration of government institutions in a specific area. The firm's wealth creation would be inseparably adhered to government expectations. In order to ensure profitability, companies need to understand those stakeholders whose interests the government represents, and therefore act proactively.

[16] suggested a defensive or obstructionist attitude toward an insufficient government regulation. If the regulation did not identify the social demand, CSR policies were ineffective in leading companies to fulfill their corporate social responsibility, resulting in a wastage of resources. Companies would thus not focus and generate their CSR strategies at the core of company's strategy.

[17] suggested that the government regulation had shown great facilitating function to improve CSR in a stakeholder theory perspective. However, companies showed their preference that they would be satisfied internal stakeholder initially rather than external stakeholder when government play a weakness role in enforcement. The disclosure and transparency would lose their function if there were less independent stakeholders engaged.

[18] proposed several problem that generate by government regulation in Indonesia. First, companies did not recognize their social responsibility and what they should do because government did not clarify the meaning of CSR. Second, the responsibilities among companies, central government and local government were also not clear. Finally, there should be a monitoring institution to enhance transparency, visibility and social involvement. However, such mechanism was not established yet in Indonesia.

III. Theoretical Framework and Hypothesis Development

The previous literature has discussed the relationship between firm size and CSR engagement. The term of firm resource access refer to financial resource, human resource and like, which demonstrated that it might be fundamental factor of small size firms' engagement. On the one hand, the current limited resource might develop a hesitated attitude of small firms. On the other hand, the greater incoming benefit was also attractive. However, previous literature focused on the influence of objective side of resource limited. What might small business consider are less discuss

Hypothesis 1: Resource access has a negative relationship with small-sized companies' CSR engagement.

For example, although small firm recognize the potential value of related internal stakeholders, they perceive that they have to make a hard choice between stakeholder and a more immediate need business. Furthermore, small firms clearly state that they have never considered investing in external CSR issues. They perceive that their best efforts on extant issues have lower visibility under the shadow of large firms [5]. The previous literature about government regulation indicated that such particular regulation strongly shaped the conduct or tendency of companies' CSR engagement through formal or informal pressure. However, companies are still involved in CSR with diverse strategies. It shows potential that companies would try to gain balance between government requirement and their own goal. Since business is self interest which is common, it is less possible that companies invest their CSR without planning return on investment. Such motivation might determine which particular area is listed on the regulation which they should be involved in. However, this aspect was discussed less by previous literature.

Hypothesis 2: In the context of government regulation, the increasing return on CSR investment has a positive relation with companies' CSR engagement.

For example, the Indian Companies Act of 2013 provides several aspects of social responsibility that Indian companies should involve in. However, the act did not require that companies should involve in particular aspects or all aspect, which allow companies to make a decision. In fact, the companies showed diverse choices. Some top-ranked companies preferred the issues of education sponsorship and employees development programs. Some second-ranked companies focused more on issues of human rights. Even in particular aspects like employee development, more companies prefer to invest on current employee rather than creating new position [4]. Therefore, it is potentially implied that companies develop their CSR engagement with an investment view with returns. They generally believe that the CSR engagement could benefit the company.

IV. Methodology

A. Sample and Data Collection

Regarding the context of this research, the targeted respondents focus on small business owners or managers and employees who are responsible for CSR in their companies, who are either Singaporean or working in Singapore. Data was collected in between November 2016 and February 2017. As Singapore is a member of the Global Compact Network, the practices of CSR were also emphasized in Singapore. The targeted respondents would be able to provide the particular experience and knowledge which is focus of this research.

A structured questionnaire was distributed in several business districts of Singapore. The respondents were requested to answer the question on five point scales (1 is lowest and 5 is highest). A total of 86 valid questionnaires was received. The sampling method for this questionnaire was judgmental sampling due to expert opinions required.

B. *Measure*

The research used the responsiveness of companies as the dependent variable, which was developed from [2]'s study. The indicators of dependent variable contain the motivation of CSR engagement [3], [6], [11]. These indicators were used to measure the attitude of the firm towards CSR. Market share, firm reputation and financial performance represented the economic and social motivation which companies desired. However, the financial performance also aimed to investigate the importance of resource access to companies. Therefore, these indicators related to companies' representativeness and are consequently more suitable in this study. The indicators of independent variable were developed form previous research [1], [4], [12]. These indicators were used to measure the motivation of firms by previous literatures.

C. *Reliability*

Table I presents the result of the reliability test. Scale reliability text is mainly the institute development scale for measuring whether relevant variables have stability and consistency. In general, Cronbach's Alpha higher than 0.7 is considered as high reliability. A Cronbach's Alpha equal to 0.5 is considered as the lowest acceptable value.

Since Cronbach's Alpha of all variables is higher than 0.6, all variables can be considered reliable for this research.

TABLE I. RELIABILITY

Variables	Cronbach's alpha
Government regulations (GR)	a = .638
Return on investment	
Long term	
Firm problem	
Internal stakeholder	
Small firm (SF)	a = .614
Lower profit	
Not bringing additional resources	
Internal rather than external	
Responsiveness (RES)	a = .605
Market share	
Reputation	
Financial performance	

D. *Descriptive Statistics*

Table II presents the mean scores and standard deviation of independent and dependent variable.

TABLE II. DESCRIPTIVE STATISTICS

Variables	N	Mean	Std. Deviation
Return on investment ROI	20	3.20	1.240
Long term	20	2.40	1.142
Firm problem	20	2.75	1.164
Internal stakeholder	20	3.30	1.129
Small firm	20	3.30	1.031
Lower profit	20	3.10	1.165
Not bringing additional resources	20	2.85	1.424
Internal rather than external	20	2.80	1.152
Market share	20	2.45	1.317
Reputation	20	3.15	1.348
Financial performance	20	3.05	.999

E. *Correlation*

Tables 3a and 3b present the result of Pearson Correlations. At the 0.05 level, government regulation is significant at 0.046 and small firm is at 0.027. The results suggest that both independent variables are statistically significant.

TABLE III. (A) CORRELATIONS

Variables		RES	GR
RES	Pearson Correlation	1	.450*
	Sig. (2-tailed)		.046
	N	20	20
GR	Pearson Correlation	.450	1
	Sig. (2-tailed)	.046	
	N	20	20

*. Correlation is significant at the 0.05 level (2-tailed).

TABLE III (B). CORRELATIONS

Variables		RES	SF
RES	Pearson Correlation	1	.493*
	Sig. (2-tailed)		.027
	N	20	20
SF	Pearson Correlation	.493*	1
	Sig. (2-tailed)	.027	
	N	20	20

*. Correlation is significant at the 0.05 level (2-tailed).
a. Predictors: (Constant), SF, GR
b. Dependent Variable: RES

F. *Linear Regression*

This research presents a linear regression to examine the relationship between companies' responsiveness and government regulation and small firms. The adjusted R squared value was 0.67. The F statics was 6.585, indicating a good fit of the model. The result shows that the research model is statistically significant ($p < 0.01$).

Hypothesis 1 predicted a negative relationship between resource access of small firm and CSR responsiveness. The positive sign of resources access is not statistically significance (B = 0.269, P > 0.05). Therefore, Hypothesis 1 is not supported.

Hypothesis 2 predicted a positive relationship between government regulation and CSR responsiveness. The result shows that government regulation is positive and statistically significant at 0.05 level (B = 0.420, p < 0.01). Therefore, Hypothesis 2 is supported.

V. Discussion

The empirical result indicates that the negative relationship between resource access and CSR responsiveness is not supported. In contrast, it suggests a positive relationship. This result may support previous findings by e.g. [1] and [9] that small businesses have a high level of awareness of localised engagement. The business location would involve small firms and in particular the local community. This would generate a more direct communication with local communities to small firms. The communication may have a strong influence on the resource access of the local business environment. If small firms could not recognize the value of the local community, it would be less possible for small firms to develop their business. Developing a localised CSR strategy could then be a better choice to enhance such communication. In order to have a long-term sustainability derived from CSR activities, a rational small firm should perceive that they could benefit from CSR engagement. In addition, [6] found that limited resources access was not considered as a significant restraint to start CSR practices in daily business. It might be explained by the tendency of CSR practices of small firms. Small firm are especially sensitive to enhance the positive relation with their immediate stakeholders such as employees, clients and local suppliers [7]. The CSR practices related to above internal stakeholders could develop mutual loyalty and trust and thus reduce risk from uncertainty. The benefit of such practices could be beneficial in both the short and long terms. For example, structured employee development could enhance employees' commitment to the firm in short and could display a competitive advantage when attracting an experienced person in the future [10], [11].

From the view of firm development, limited resources should be taken into consideration; however, investing in CSR practices may enhance appreciation for CSR as a long-term driver of sustainability even in small firms. Furthermore, the preference of internal stakeholders also indicated that the external stakeholders were not on the agenda of small firm's practices [8] (Hitchens *et al.*, 2005). Regarding the context of limited resources, this could be a chronic problem when small firms evaluate whether they should invest in CSR or another immediate business. If firms' efforts do not contribute to immediate noticeable improvement, then they may decrease their wiliness to engage in such positive behaviors. Many small firms perceive their impact on social or environmental issues under the shadow of large firms. As firms participate in CSR in order to access more resources, the practices that could not benefit the firm would actually lead to resources burden. This awareness imply that small firms engage less in external CSR issues.

The empirical result supports the hypothesis that increasing return on CSR investment positively associated with firm's CSR engagement in the context of government regulation. [16] indicated that firms would concentrate on the particular sector of CSR which could maximize their profit. Although CSR is identified that companies should construct a better society and environment [15], it does not require that company should respond to what society or environment most need [19]. This could be a special back door for company to create a win-win situation. For instance, improving labour right and reducing poverty both are important human right issues of corporate social responsibility. However, improving labour right might be benefit to firms' performance. [11] suggested that employees are a crucial factor for the success and failure of any firm. Companies could not reject such attractive strategy. Therefore, it also explains the question about why companies prefer internal stakeholder issue rather than external issue. [3] propose that a short term orientation of CSR could not support sustainable firm development. The short term orientation would generate a misunderstanding of the truth of CSR. For instance, if firms consider that better wage and working condition is the goal of its CSR practice, it then would not achieve its competitive advantage of the labour force. From the view of firm development, the goal of employees' development is to obtain the professorial experts. In order to enhance this goal in a long term, a better way could be an education program rather than high paid.

VI. Implications

An unexpected result for this research is that the high positive awareness of small firms. Small firms are not strangers to CSR. However, the chronic paucity of resource is an inextricable predicament for small firms. This research implicate that small firms should strengthen the communication with local community through CSR implement. First, they have particular knowledge and experience to target the demand of the local community and thus to develop a correct CSR strategy. Second, they are more familiar with local people. Their effort would have a localised advantage when competitive with large firms.

This research found that firms are motivated even if only in the context of government regulation. This research is not evaluating whether push factors are positive or negative. We are saying that the greater the ability of the firm through lower resource constraints, the greater the responsibility towards internal and external stakeholders.

Firms and especially large firms or MNCs should not only concentrate on self-interest. As they benefit from better access to resources and are often facilitated through the institutional environment, they should take responsibility to construct a better society and environment.

VII. Conclusion

This research investigated the influence of external and internal factor on firms' CSR engagement. We have made several contributions. First, the research found that limited resource access would has a negative influence on small firms' CSR engagement. Second, the research contributed by finding that increasing return on CSR investment has a positive relationship with firms' CSR engagement in small firms. This research also finds that small firms are better off practicing their CSR policies in local communities and firms' CSR engagement should thus be more concerned with constructing a better society and environment.

This research has several limitations. First, it does not discuss the mindset of firms' owners or managers regarding CSR engagement. Their thinking might have important influence on CSR practices. Nor does this research investigate the actual benefit of internal or external, short term or long term issues. Future research based on empirical data might bring about more results. Finally, the sample of this might not represent the situation from other areas. However, it presents a useful basis for further comparative research.

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