

Study on Realization Mechanism of CSR in SME

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Abstract—As the development of economy, environment problem is facing the whole society, and more and more people are focusing on corporate social responsibility (CSR). And nowadays, small and medium enterprise (SME) plays a significant role in Chinese economic development, so SMEs should take its social responsibility. The purpose of this paper is to study on realization mechanism of CSR for Chinese SMEs. Firstly, this paper examines the significance of SMEs to take social responsibility. And then this paper constructs the realization mechanism of CSR for SMEs. The CSR realization mechanism built by this paper contains an internal realization mechanism and external realization mechanism. Thirdly, this paper constructs a mathematical model for CSR realization mechanism for SMEs in China. At last, this paper gives some advice to maintain a sustainable realization mechanism, and this paper expresses an idea for future research.

Keywords—SME; Social responsibility; Realization mechanism; the Chinese economy

I. INTRODUCTION

A. Background

Nowadays, China was the second-largest economy in the world with GDP (current US\$) 11199145157649.20 in 2016. Even in recent years, to reform Chinese economic structure, Chinese central government is paying less attention than ten years before to GDP and GDP growth, and Chinese GDP growth (annual %) is still 6.69% in 2016. And as the world second-largest economy, China plays a vital role in world development and has made significant contributions to the whole world, especially as the relation between China and the world is closer and closer. To study China economics not only benefits for China, but also is helpful to the whole world. This paper wants to explore the realization mechanism of CSR for SMEs in China to provide a reference for Chinese SMEs and other countries' SMEs to take on social responsibility.

B. Definition of SME

Small and medium-sized enterprises (SMEs, also small and medium enterprises) or small and medium-sized businesses (SMBs) are businesses whose personnel numbers fall below certain limits (Wikipedia). The definition of SME is widely different around the world. In European countries, they use the description from European Union, which goes like The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro (European Commission, 2005). Even in Asian countries, the definition of SME is also mostly various. In a Malaysian study, an SME has been defined to

employ less than 50 employees (Ghosh et al., 1993). Different sources provide different figures, partly because there is no authoritative definition of SME in China (Elliott et al., 2015). Although there are still several standards accepted by the public as a description of SME.

The SME definition in China is quite complicated. Such as the specific criteria about the total assets of enterprises in the industrial sector, including mining, manufacturing, electric power, gas, water production, and supply and construction. However, in industries like transportation, wholesale and retail business, and hotels and restaurants, there is no assets requirement (Ukessays, 2017). This paper uses three criteria to select SME, which are the number of employees, operation revenue, and assets. All the details of number of employees, operating revenue and assets of SMEs in different sectors are shown in figure 11.

The Chinese economy is more complicated, and each industry contains so many corporates, so it is harder to use one criterion to define SME. Nowadays, there are three types of a standard to define SME in different industries or sectors, as seen in figure 1. However, there is no industry in Chinese using all the three criteria to select SME. For Agriculture, Forestry, Animal Husbandry, and Fishery and others only use one approach. If one corporate, belonged to Agriculture, Forestry, Animal Husbandry and Fishery, with operating revenue less than or equal to 200 million Chinese Yuan, is one SME. For the rest industries, we need two of the three criteria to select SME, and however, for one corporate, if it meets one of the two standards, it is one SME. For instance, for industry, if the number of employees is less than or equal to 1000, or the operating revenue is less than or equal to 400 million Chinese Yuan, it is one SME.

JEL codes: G18, D04.

1. Data is from the World Bank. Website: <https://data.worldbank.org/country/china?view=chart>

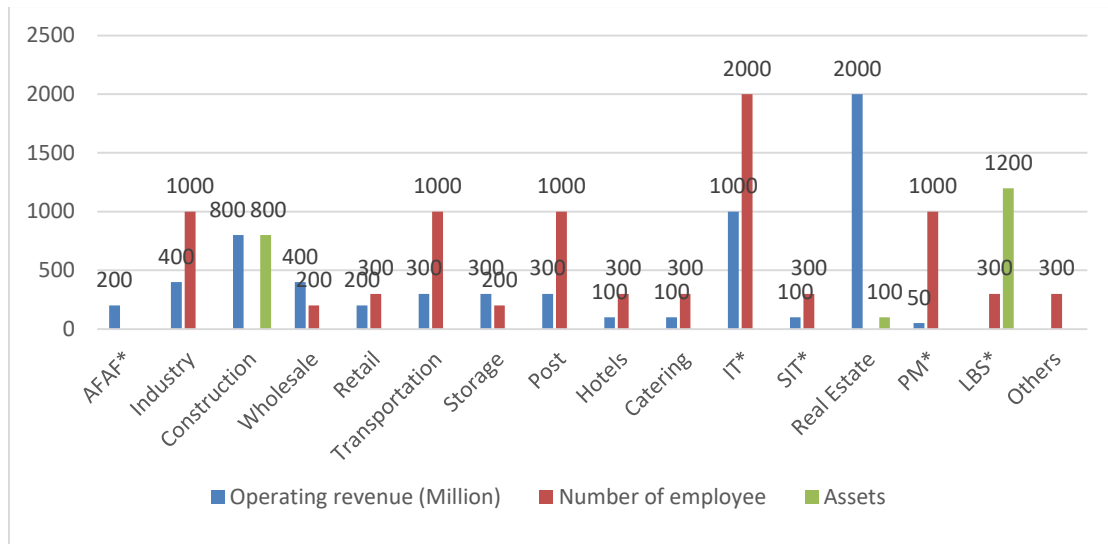


Fig. 1 The criterions of SME in China³

*AFAF: Agriculture, Forestry, Animal Husbandry, and Fishery
 IT: Information Transmission
 SIT: Software and Information Technology
 PM: Property Management
 LBS: Leasing and Business Services

C. Definition of CSR

Many explanations for CSR are developed by the scholars (Rahman, S. 2011); however, there is still no generally agreed definition of CSR in the region, and different organizations in various countries offer diverse explanations (Schmidheiny, S. 2006). And CSR has been described as charitable giving, strategic philanthropy, community involvement or cause-related marketing (Blomqvist, K. H., & Posner, S. 2004). The definition given by European Commission (2018) is that corporate social responsibility (CSR) refers to companies taking responsibility for their impact on society. Babu, S., etc. (2017) consider that CSR is a contested concept, internally complex, with open rules for application, an overlapping term with multiple synonyms, a conception of business-society-relations and a dynamic phenomenon. Li (2016) gives a definition of CSR that corporate needs to put its resources not only to profitable sectors but also to some non-profitable industries which are related to the public interest and sustainable development, such as environment, community, workplace and market place as shown in figure 2.

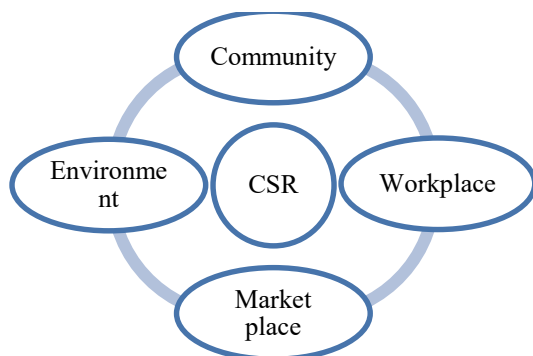


Fig. 2 Definition of CSR

2 Definition of SME is involved, however, in order to study SME in China, this paper makes a criteria from employee, assets, and revenue to define SME according to a file issued by Ministry of Industry and Information Technology of the People's Republic of China. Site: http://www.gov.cn/zwglk/2011-07/04/content_1898747.htm.

3 The criteria of SME in China in figure 1 is from "The standard of small and medium-sized enterprises (关于印发中小企业划型标准规定的通知)" issued by Ministry of Industry and Information Technology of PRC, National Bureau of Statistics of PRC, National Development and Reform Commission and Ministry of Finance of PRC. Source: http://www.gov.cn/zwglk/2011-07/04/content_1898747.htm.

D. Importance of CSR realization mechanism for SME-Significance of SMEs in world economics

All the world knows the influence of SMEs in world economic development. Small and Medium Enterprises (SMEs) are the backbone of Europe's economy (Elliott et al., 2015). As the development of Chinese economy, small and medium enterprise plays a more and more important role in Chinese market economics, through their contribution to the creation of wealth, employment and income generation (Vasa et al., 2014). It has become an unreplaceable part of Chinese market economics, and it has been the critical power to develop the local economy in China. In recent years, SME also brings back much of foreign exchange for the Chinese market. SME is the supporter and product material provider for Chinese super enterprise.

1) Internationalization of Chinese SMEs

The internationalization of SMEs has a significant impact on the economic development of nations, industries, and productivity (Menziez, S. 2017), and the internationalization of Chinese SMEs is one of the key ways to grow and develop by themselves (He, 2002). Therefore, the internationalization of SMEs is also the requirement of the integration of the world economy to Chinese SMEs (Cai, N., Yang, X. 2002). However, compared to their sizable state-owned counterparts, Chinese small and medium-sized enterprises (SMEs) are facing a more stringent institutional environment, which leads to regulative institutional fragility and significantly influences internationalization of Chinese SMEs (Zhang, S., & Deng, P. 2017). Therefore, it is even much harder for Chinese SMEs to take CSR under this international background by the individual.

There is something in common between European and Chinese SEMs. For instance, 68% of Chinese export is from corporates employing no more than 2000 people, and 70% of

Germany trading are from SME (Shi, Y., & Chen, X. 2013). And the significance and role of SMEs in national economics are also similar in Europe and China (Sun, Y. 2000). So to research CSR realization mechanism for Chinese SMEs is beneficial to European SMEs. Especially more and more European SMEs want to invest in the Chinese market since the entrance of China into WTO in 2001 because the long-term and sustainable profitability depends not only on the better corporate management but also on the abiding by Chinese basic law principles and keep their social responsibilities to China. For European SMEs, the weak capitalization and low tax payment capacity of start-up SMEs are two of the reasons for which budgetary expenses exceeded budget revenues (Lentner, C. 2017), so it is also essential for European SMEs to take social responsibility through CSR realization mechanism.

2) *The hardness of SMEs to take CSR*

In recent years, some problems are becoming more and more severe in China, such as environment protection, food

safety, public health, etc. At last scholars and the public begin to focus on corporate social responsibility. The European Commission believes that CSR is essential for the sustainability, competitiveness, and innovation of EU enterprises and the EU economy, and it brings benefits for risk management, cost savings, access to capital, customer relationships, and human resource management (European Commission, 2018). SME, as a critical role in the market economy, should take its social responsibility in the solving of all the social problems. So enterprises should be not only practical tools but also be responsible citizenships (Tai et al., 2014). Many organizations in the developing world typically shelved corporate Social Responsibility (CSR) as a notion until the recent recession, which has finally awakened the leaders from their procrastination and traditional way of thinking and gave rise to responsible business leadership (Suliman et al., 2016). However, it is harder for SME to fulfill its social responsibility by itself. This paper is to study on realization mechanism to help SME to take its social responsibility.

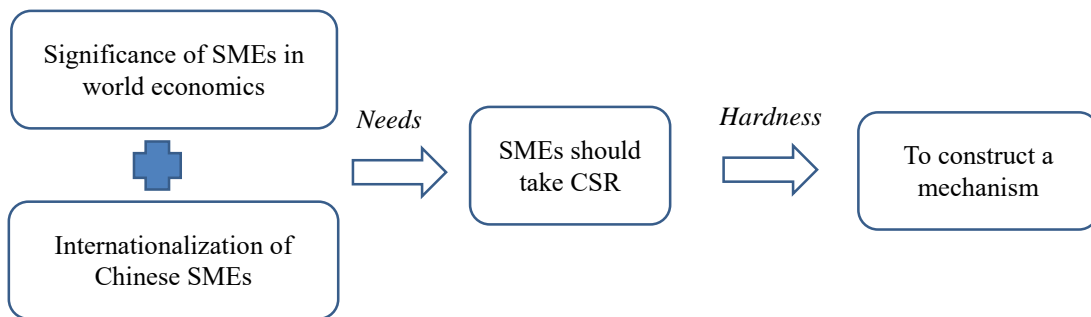


Fig. 3 Importance of CSR realization mechanism for SMEs

As summarized in figure3, because of the significance of SMEs in world economics and the internationalization of Chinese SMEs, SEMs need to take their social responsibilities not only for China but also for the world. Nowadays, most of Chinese SMEs want to enter the European market to invest and sell their products, and social responsibility will continue to play the same role with competitiveness, technology, and human resource. But it is harder for SMEs to take social responsibilities individually, so to construct a CSR realization mechanism for SMEs is the best choice.

II. RESEARCH METHODOLOGY

The research aims to produce information that can be shared and applied beyond the study setting (Malterud, 2001). And research methodology is taught as a supporting subject in several ways in many academic disciplines such as health, education, psychology, social work, nursing, public health, library studies, and marketing research (Kumar, 2014). In this paper, to study the realization mechanism of CSR in SME, the following methodologies are used.

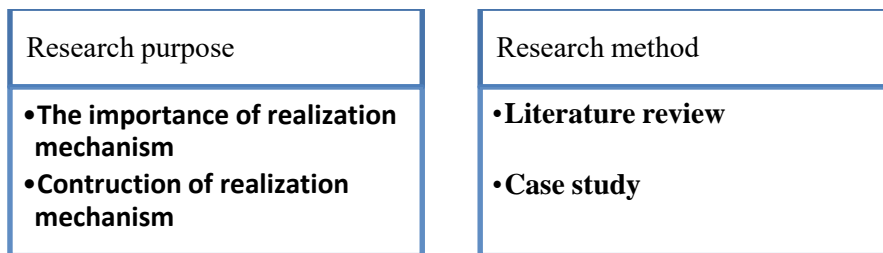


Fig. 4 The research method used in this paper

Literature review beings by selecting and identifying a research interest for inquiry (Machi and McEvoy, 2016). This paper uses a literature review to find the importance to construct a realization mechanism of CSR for SME. From a large amount of literature review, this paper finds it is essential

to build a realization mechanism for SME with all most four reasons.

Although case study methods remain a controversial approach to data collection, they are widely recognized in many social science studies, especially when in-depth

explanations of social behavior are sought after (Zainal, 2017). And a case study is an increasingly popular approach among qualitative researchers (Hyett, 2014). This paper uses Chinese SME as a research sample, through reviewing the problems SME facing when they want to take social responsibility, this paper at last construct a realization mechanism for SME to take social responsibility.

III. THE IMPORTANCE OF REALIZATION MECHANISM FOR SME

A. To supervise SME to take its social responsibility

For most SMEs in China, they do not realize that they should take social responsibility. Even for some SMEs, they still thought that to protect the environment, to make sure food safes are the government's issues or the issues of huge enterprises. Most of SMEs hold the view that their ability is limited, and there is no role to play for them in the realization of CSR. So the realization mechanism built by this paper is not only to supervise SMEs to perform their functions seriously but also to help them to realize the importance of their roles in the realization of CSR.

B. To meet the need of SME to take CSR

As more and more people realize the importance of environment protection, the importance of health, and sanitation knowledge is widely spread, SME also begins to recognize its position in the realization of CSR. So most of SMEs want to take their social responsibility, but because of small enterprise size, little enterprise assets, they have no idea about how to realize or take their social responsibility. This paper is to build a realization mechanism for SME to help to meet SME's need to take social responsibility.

C. To reduce the cost for SME to take social responsibility

To take social responsibility is a type of economic cost for SME. For some enterprises with a larger size, they can spare

some money to take social responsibility. But for SME, its asset is too limited to take social responsibility. The realization mechanism built by this paper is to help SMEs to become one unit. During the realization of social responsibility, all SMEs will cooperate as one huger enterprise to reduce the cost of social responsibility.

D. To make a role for SMEs in the realization of CSR

As the attention paid to social responsibility by the whole society is increasing, the intention of people to social responsibility is also increased, so SME hopes to take its social responsibility to attract more attention from the public. But the study on social responsibility in China is very late, and there is no regulation or institution on social responsibility, so there are still many problems for SME to take its social responsibility. Even for some SMEs, they want to make their social responsibility which is treated by the whole society as a profitable action. This paper intends to build a realization mechanism for SMEs to help them to play a role in the progress of CSR realization.

IV. REALIZATION MECHANISM OF CSR IN SME

As shown in figure 5, this paper considers that realization mechanism of CSR in SME should contain two parts: internal realization mechanism and external realization mechanism. Internal realization mechanism is the essential realization mechanism, and also the underlying realization mechanism which provides consciousness, strategy, and ability. External realization mechanism is divided into regulation, assessment, motivation, and supervision. (ERM*: External realization mechanism)

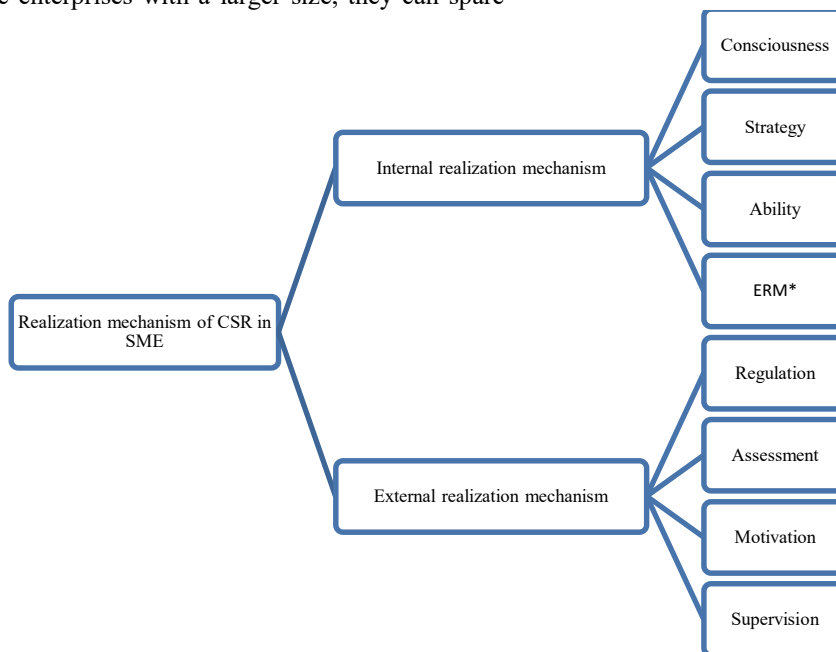


Fig. 5 Realization mechanism of CSR in SME

A. Internal realization mechanism

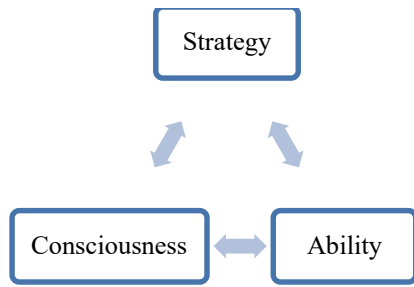


Fig. 6 Internal realization mechanism

As we can see in picture 6, internal realization mechanism in this paper contains consciousness, strategy, and ability.

1) Ability

The sizes and types of SMEs in China are different, so their skills to take social responsibility are not the same. So this realization mechanism is not to let all SMEs burden the equal social responsibility, and they can make social responsibility according to their abilities which are determined by the size and location of SMEs.

2) Strategy

In the past, many SMEs consider the money they spend on social responsibility is their burden or expense; however, this realization mechanism requires SMEs to combine the expenditure on CSR and the long-term target of SMEs. To treat social responsibility as part of SMEs' strategy, and to the couple, social responsibility into SMEs' strategic objective can strengthen social responsibility sense of SMEs which is the base for sustainable development of CSR.

3) Consciousness

“Consciousness” requires SMEs to be aware of their social responsibility sense. For SMEs, they should realize not only the importance of social responsibility in social development but also their functions in the realization of CSR.

B. External realization mechanism

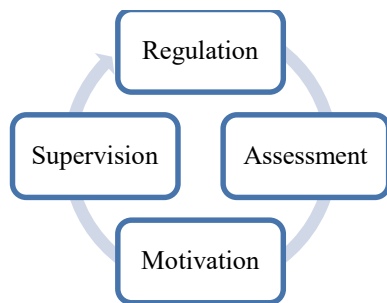


Fig. 7 External realization mechanism

1) Motivation

Motivation means the government needs to give SMEs a proper statement for the contribution of SMEs to CSR and to use various reward methods to motivate SMEs. The reward can be material, such as an amount of cash as a bonus, and the award can also be spiritual. For instance, to give a certificate that record SMEs' contribution to CSR is one of the rewards too. Of course, motivation can be positive and negative. The

award is one of the positive methods, and punishment is such a negative way to make SMEs take their social responsibility. Many methods can be used as a harmful method, such as warning, beautiful, etc. A better-designed realization mechanism of CSR in SME should contain a motivation system that pushes SMEs to take responsibility.

2) Assessment

A fair and open assessment system as one part of realization mechanism can not only assess but also recognize the result of CSR taken by SMEs. An honest assessment system requires that the assessors should treat SMEs equally when they determine SMEs. And all SMEs should face the same assessment standards and should be assessed in the same areas. However, because the size of SMEs is different, so the capacity of SMEs can be used as one of the assessment factors. This means that relatively huge SMEs should take more social responsibility, and for smaller ones can take a little less social trust.

3) Regulation

Chinese state should work harder in the legislation of CSR for SMEs, to make sure SMEs take social responsibility by law. To manage SMEs' social responsibility activities by law is one of the purposes of the mechanism of CSR build by this paper, and this can also make up the gap that there is no law for SMEs to take social responsibility and even for huge companies or enterprises in China. In other words, legislation is to protect the interest of SMEs during the realization of CSR.

4) Supervision

Because of the enormous amount of SMEs, wide distribution in all Chinese provinces and all industries, and deep involvement in various sectors, it is not enough to take on social responsibility by SMEs only depending on legislation by state and consciousness of SMEs. To make sure that SMEs take their social responsibility properly, there should be a mechanism that can guarantee all social sectors will work together to fulfill their role in the realization mechanism of CSR.

C. Mathematical model of CSR realization mechanism for SMEs

Through analysis above, according to the relations among all the elements included in the CSR realization mechanism for SMEs, this paper tries to construct a mathematical model of CSR realization mechanism for SMEs, as shown below. First, as we learned in philosophy, internal factors serve as the basis for the development, while external factors provide a condition for internal factors. In this paper, an inner realization mechanism plays a vital role (F), and external realization mechanism play a role (Y4) through an internal realization mechanism. W_j and w_i are the weights of every element in the realization mechanism, which can be calculated via the AHP (analytic hierarchy process).

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X1: Regulation

X2: Assessment

X3: Motivation

X4: Supervision

Y1: Consciousness

Y2: Strategy

Y3: Ability

Y4: External realization mechanism

F: CSR realization mechanism for SMEs

W & w: Weight of every element

V. CONCLUSION AND DISCUSSION

Social responsibility is not only taken by huge enterprises or companies but also taken by SMEs, which play a key role in the national economy. To build a sound realization mechanism for SME is not only to supervise SMEs to take social responsibility but also to protect the interest and right of SMEs in the realization of CSR. The realization mechanism of CSR for SME not only depends on the consciousness of SME but also depends on the Chinese government to make more regulations, laws, etc. The assessment of SME in the realization process should be justice, open and public, which also needs enough motivation policy to motivate SMEs. At last, supervision is playing a key role in the realization mechanism of CSR for SME.

This paper studies the internationalization of Chinese SMEs and the relation between European SMEs and Chinese SMEs, there are something in stock, but there are still more thing for Chinese SMEs to do if they want to invest and provide products in the European market. That means to learn how to take social responsibility is one crucial lesson for Chinese SMEs, and this CSR realization mechanism can help them to make social responsibilities successfully. And there are so many different corporates in China, so for the near future research, I will focus on CSR of Chinese multinational corporates or listed companies, and will research more on the lessons Chinese corporates learn from European countries and companies.

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