



# *The Impact of Implementing Corporate Social Responsibility in SMEs on Sustainable Development: The Moderating Role of Government Efforts A Case Study of SMEs in the Provinces of Constantine and Skikda, Algeria*

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## Abstract

*This study aims to know the impact of applying social responsibility in small and medium enterprises in achieving sustainable development in the presence of government efforts as a modified variable, and in order to achieve this, the descriptive analytical approach supported by the case study method was used. The questionnaire was also used as a main tool for collecting information, as we distributed 65 questionnaires The managers and frameworks of the institutions under study, and the small PLS program was relied upon.*

*To analyze the results, and one of the most important findings we have reached is that the application of social responsibility in small and medium enterprises operating in the states of Constantine and Skikda affects the achievement of sustainable development in the presence of the government's efforts as a modified variable, and the study also recommended the need for small and medium enterprises to instill a culture of social responsibility as a main criterion for excellence and excellence.*

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## **Keyword:**

- ✓ Corporate social responsibility
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## **1. Introduction**

Small and medium-sized enterprises (SMEs) are the backbone of most national economies, and although the footprint of any single small firm is modest, their collective social and environmental impact is considerable. As the international community has moved from the Brundtland formulation of sustainable development (World Commission on Environment and Development, 1987) to the concrete targets of the 2030 Agenda (United Nations, 2015), attention has widened from multinational corporations to the many small firms whose everyday decisions how they treat employees and customers, how they engage with their neighbourhoods, and how they use natural resources determine whether sustainable development materialises at the local level (Soundararajan et al., 2018).

Corporate social responsibility (CSR), broadly understood as the integration of social and environmental concerns into business operations and stakeholder relations (Dahlsrud, 2008; European Commission, 2011), is the main managerial channel through which firms contribute to sustainable development. CSR scholarship and policy long centred on large, listed companies, but research on small firms has expanded rapidly since the mid2000s (Jenkins, 2006; Murillo & Lozano, 2006; Spence, 2016). Recent reviews call for more context- and size-aware studies (Soundararajan et al., 2018) and for more work in developing economy settings, and they note that the Arab region has only recently begun to attract systematic attention (Fatima & Elbanna, 2022). Moreover, much of the recent SME-level empirical work relates CSR to firm performance (Cheffi et al., 2021; Le et al., 2021), whereas, to our knowledge, evidence on its relationship with sustainable development as a multidimensional outcome is scarcer.

A second gap concerns the institutional context. Whether and how SMEs engage in CSR depends on the public policy environment on whether governments leave CSR to voluntary initiative or back it with mandatory requirements (Gatti et al., 2019; Steurer, 2010). SMEs are particularly sensitive to this choice because they lack the slack resources, specialised staff and formal systems of large firms (Baumann-Pauly et al., 2013; Fassin, 2008). Yet quantitative tests of whether the form of government intervention changes the strength of the CSR sustainability link remain, to our knowledge, rare, especially in developing countries where regulatory enforcement is uneven (Jamali & Karam, 2018).

Algeria offers an instructive setting. The country has promoted SME development through successive legal frameworks, the most recent being Law No. 17-02 of 10 January 2017 on the development of SMEs, and earlier evidence suggests that the social and environmental commitment of Algerian SMEs is motivated primarily by regulatory concerns (Dadene et al., 2013), which makes the role of government particularly salient. The data for this study were collected in late 2020, when the COVID-19 pandemic had made both the social role of business and the vulnerability of small firms highly visible.

## Research Problem:

Against this background, the problem addressed by this study can be stated as follows: **what is the effect of the implementation of corporate social responsibility by small and medium-sized enterprises operating in the wilayas of Constantine and Skikda on the achievement of sustainable development, in the presence of government efforts as a moderating variable?**

This problem gives rise to two sub-questions:

- to what extent do the small and medium-sized enterprises under study implement corporate social responsibility?
- is there a relationship between the corporate social responsibility of the enterprises under study and the achievement of sustainable development?

## Research Hypotheses:

In order to answer the problem statement and the sub-questions, the study is built on the following hypotheses.

- **Main Hypotheses:** states that there is no statistically significant effect, at the 0.05 significance level, of the corporate social responsibility of the enterprises under study on sustainable development, in the presence of government efforts as a moderating variable.
- **Sub-Hypotheses:** Two sub-hypotheses fall under this main hypothesis:

**H1** states that the small and medium-sized enterprises under study do not implement corporate social responsibility,

**H2** states that there is no statistically significant relationship, at the 0.05 significance level, between the corporate social responsibility of the enterprises under study and sustainable development.

## Research Importance:

The importance of the study can be drawn from two points. First, it derives its importance from the growing attention given to this topic within the world of small and medium-sized enterprises, which is expected to encourage these enterprises to make a greater effort with respect to their social responsibilities. Second, it derives its importance from establishing, both theoretically and empirically, the logical link between the corporate social responsibility of small and medium-sized enterprises and sustainable development.

## Research Objectives:

The study aims to establish the basic concepts of corporate social responsibility and to raise the awareness of small and medium-sized enterprises of the importance of adopting and implementing

it, given its contribution to community development and to addressing community problems, and hence to the achievement of sustainable development.

## **2. Theoretical background**

### **2.1 CSR in small and medium-sized enterprises**

CSR has been defined in many ways (Dahlsrud, 2008). Most definitions converge on the integration of social and environmental concerns into business operations and stakeholder interaction. The European Commission (2011), for instance, defines CSR as the responsibility of enterprises for their impacts on society. In this paper, CSR denotes the actions, whether voluntary or regulated, through which SMEs address the interests of four stakeholder groups: employees, customers, the local community and the natural environment.

There is no universal definition of an SME. The European Commission classifies as SMEs enterprises with fewer than 250 employees and an annual turnover not exceeding EUR 50 million or a balance-sheet total not exceeding EUR 43 million (Commission Recommendation 2003/361/EC). In Algeria, Law No. 17-02 of 10 January 2017 defines an SME as an enterprise producing goods and/or services that employs between 1 and 250 persons, has an annual turnover not exceeding DZD 4 billion or total assets not exceeding DZD 1 billion, and satisfies an independence criterion.

SMEs are not little big firms. Their CSR tends to be informal, driven by owner-managers' values, embedded in local relationships and often not labelled as CSR at all (Jenkins, 2006; Murillo & Lozano, 2006; Spence, 2016). Baumann-Pauly et al. (2013) show that small firms typically organise CSR through informal, culturally embedded practices, whereas large firms rely on formalised structures. Small firms also tend to prioritise proximate stakeholders such as employees, customers and the local community (Murillo & Lozano, 2006; Spence, 2016). Available evidence associates CSR in SMEs with better performance, reputation and customer loyalty (Cheffi et al., 2021; Le et al., 2021). Nevertheless, costs and capability constraints mean that these benefits are not automatic (Fassin, 2008; Soundararajan et al., 2018).

### **2.2 Sustainable development and its dimenss**

The concept entered mainstream policy through the Brundtland Report's definition of development that meets the needs of the present without compromising the ability of future generations to meet their own (WCED, 1987). Sustainable development is commonly operationalised through three interdependent pillars—economic, social and environmental (Elkington, 1997)—which are now translated into the 17 Sustainable Development Goals of the 2030 Agenda (United Nations, 2015).

The environmental pillar concerns the management of natural resources, whose depletion is incompatible with sustainability. The social pillar refers to people's right to a healthy environment, to a fair share of natural resources and of environmental and social services, and to the satisfaction of basic and complementary needs without reducing the opportunities of future generations. The

economic pillar reflects the fact that the environment is the base of development, so that pollution and resource depletion erode future development prospects and a long-term economic perspective is required. At the firm level, business contributes to sustainable development when it internalises these three dimensions, the logic of the triple bottom line (Elkington, 1997).

### ***2.3 CSR and sustainable development in SMEs***

Stakeholder theory (Freeman, 1984) holds that firms create value by managing relationships with those who affect or are affected by their operations. In SMEs, stakeholder relations are typically close, personal and local, so responsibility towards employees and customers is a more immediate and visible part of doing business than responsibility towards the community and the environment (Murillo & Lozano, 2006). The environmental dimension is frequently the weakest: small firms often regard their individual environmental impact as negligible, lack the knowledge and resources for environmental management, and see few incentives to act, even though their aggregate impact is substantial (Soundararajan et al., 2018). We therefore expect SMEs in the study area to practise CSR towards their stakeholders, and we examine the relative emphasis they give to each stakeholder group.

The link between CSR and sustainable development is conceptually direct. Responsibility towards employees (decent work, health and safety, training), customers (quality, fair dealing), the community (local development, philanthropy) and the environment (resource efficiency, waste management) corresponds, respectively, to the social, economic and environmental pillars of sustainability. Empirically, studies of SMEs in emerging economies report that CSR practices are positively related to performance, reputation, customer retention and business continuity (Cheffi et al., 2021; Le et al., 2021). On this basis we propose:

### ***2.4 The Role of Government Intervention in Promoting Corporate Social Responsibility among SMEs and Supporting Sustainable Development***

Governments influence CSR through legal, economic, informational and partnering instruments (Steurer, 2010). Appropriate government action includes creating a climate in which firms can operate and face competition, setting an example through transparent disclosure and good governance in public bodies, promoting public–private partnership, granting time-limited tax incentives and public-procurement advantages linked to specific social goals, and awarding financial and moral prizes to firms that contribute actively to CSR programmes (Steurer, 2010). The choice between voluntary and mandatory approaches is contested. Advocates of voluntarism stress flexibility and firm-specific innovation, whereas advocates of regulation argue that purely voluntary approaches fail to generate broad uptake (Steurer, 2010). More recent scholarship sees CSR moving towards hybrid forms of co-regulation that combine soft and hard law, as illustrated by India's Companies Act 2013 (Gatti et al., 2019).

Evidence on the effects of mandates is mixed. China's 2008 mandatory CSR disclosure rule was followed by lower profitability among the firms concerned but also by reduced industrial wastewater and SO<sub>2</sub> emissions in the most affected cities (Chen et al., 2018). For SMEs specifically,

formal requirements may impose disproportionate organisational costs and sit uneasily with informal, values-based practice (Fassin, 2008; Baumann-Pauly et al., 2013).

From an institutional perspective (DiMaggio & Powell, 1983; Campbell, 2007), mandatory programmes exert coercive pressure and reduce uncertainty about what is expected. They make CSR investment less discretionary and more uniform, which may help translate CSR effort into tangible social, economic and environmental outcomes, particularly where SMEs would otherwise under-invest because of limited resources, informal management and weak market pressure (Baumann-Pauly et al., 2013). Evidence from South Africa shows that coercive pressures significantly influence SMEs' sustainable-development practices on all three dimensions (Masocha & Fatoki, 2018), and evidence from Algeria suggests that regulatory considerations are the primary motive for SMEs' socio-environmental commitment (Dadene et al., 2013). By contrast, voluntary programmes rely on normative and mimetic pressures and on managers' own values; they may fit the informal CSR of small firms (Jenkins, 2006; Murillo & Lozano, 2006) but, without enforcement or incentives, their effect on outcomes may be more uneven. Given these competing arguments, we expect the form of government effort to matter for how strongly CSR translates into sustainable development, without specifying *ex ante* which form is more effective.

### 3. Field Study

In order to address the research problem and empirically test the hypotheses, we conducted a field study involving a sample of small and medium-sized enterprises (SMEs) operating in the Wilaya of Skikda. A questionnaire was used to collect the required data, as follows:

#### 3.1 Study Population and Sample

The study population consists of all small and medium-sized enterprises (SMEs), regardless of their size and sector of activity, operating in the Wilayas of Constantine and Skikda. A random sample of 65 SMEs from different sectors of activity was selected. A questionnaire was distributed to the managers and executives working in these enterprises. The following table presents the distribution of these enterprises according to their size and sector of activity.

**Table 1. Distribution of the sampled SMEs by sector of activity**

| Sector of activity            | Number of SMEs | Share (%)    |
|-------------------------------|----------------|--------------|
| Hotels and restaurants        | 30             | 46.2         |
| Trade and services            | 13             | 20.0         |
| Construction and public works | 7              | 10.8         |
| Transport and communications  | 6              | 9.2          |
| Agriculture                   | 5              | 7.7          |
| Food industry                 | 4              | 6.2          |
| <b>Total</b>                  | <b>65</b>      | <b>100.0</b> |

**Source:** Prepared by the researcher

### 3.2 Presentation and Specification of the Study Instrument

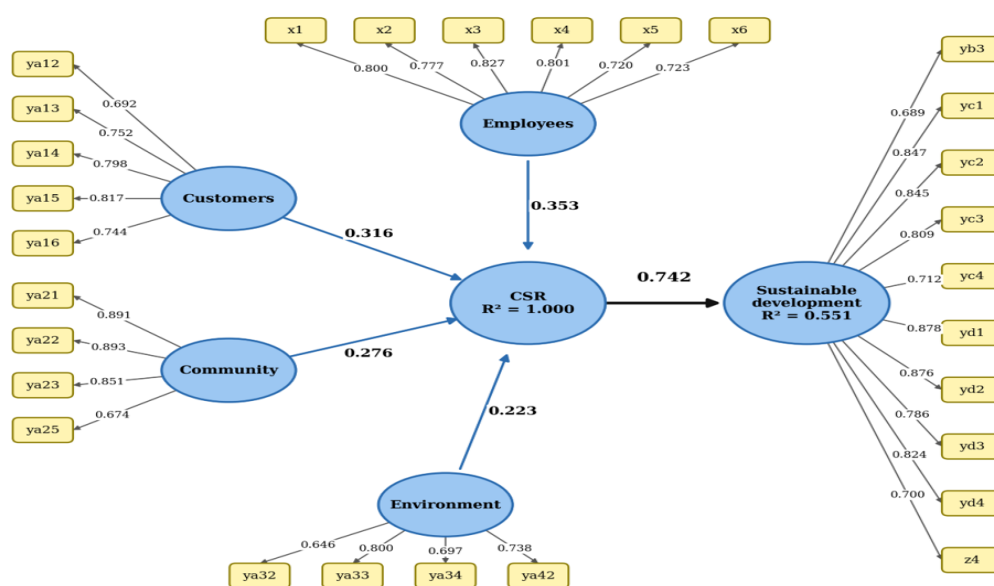
In order to test the relationships between the study variables and develop an econometric model while ensuring its validity, a questionnaire was designed comprising 40 questions, divided into two sections.

The first section addressed the state of Corporate Social Responsibility (CSR) in (SMEs) and was divided into four sub-variables: employees, represented by items 1 to 6; customers, represented by items 7 to 11; the community, represented by items 12 to 15; and the environment, represented by items 16 to 19.

The second section focused on the dimensions of sustainable development, divided into three dimensions: the economic dimension, represented by items 1 to 5; the social dimension, represented by items 6 to 10; and the environmental dimension, represented by items 11 to 14. In addition, government efforts, representing the nominal moderating variable, were classified into voluntary programmes and mandatory programmes.

The items representing the variables in the study model, which combines latent and measured variables, were then examined to assess the extent to which the questionnaire items adequately represent and measure the underlying constructs. The results showed that some items did not meet the minimum required threshold of 70%. These items were (X6), (Ya45), (Yd2), (Z1), and (Z2) for the first section, and (Ya13), (Ya14), (Ya24), (Ya31), (Ya32), (Ya14), (Ya35), (Ya41), (Ya43), and (Ya45) for the second section. Accordingly, the study model was modified to take the form presented in the following figure.

**Figure 01:** Modified Study Model of the Relationship between Corporate Social Responsibility in Small and Medium-Sized Enterprises and Sustainable Development



Source: Authors' calculation using SmartPLS 3

### 3.3 Testing the Study Model

Evaluating any model using the PLS-SEM methodology requires, first, assessing the measurement model and, second, assessing the structural model in order to determine the nature of the relationships between the latent variables.

#### 3.3.1. Assessment of the Measurement Model

The measurement model will be assessed based on three criteria. Internal consistency reliability will be evaluated using Cronbach's alpha coefficient and the composite reliability (CR). Convergent validity will be assessed using the outer loadings, as indicated in the previous figure, in addition to the average variance extracted (AVE). The following table summarizes these criteria

**Table 2. Reliability and convergent validity of the measurement model**

| Construct               | Cronbach's $\alpha$ | CR    | AVE   |
|-------------------------|---------------------|-------|-------|
| Employees               | 0.867               | 0.900 | 0.602 |
| Customers               | 0.818               | 0.873 | 0.580 |
| Community               | 0.846               | 0.899 | 0.692 |
| Environment             | 0.795               | 0.812 | 0.522 |
| Sustainable development | 0.936               | 0.946 | 0.639 |

**Source:** Authors' calculation using SmartPLS 3.

The table above shows that the composite reliability (CR) values exceeded the threshold of 0.70 for all latent variables. Similarly, all Cronbach's alpha coefficients were greater than 0.70, indicating good reliability of the measurement model and confirming an acceptable level of internal consistency. The results for the average variance extracted (AVE) also show values above 0.50, indicating an adequate measurement model and satisfactory convergent validity.

With regard to discriminant validity, it was assessed using the Fornell–Larcker criterion, which requires the square root of the average variance extracted (AVE) for each latent variable to be greater than its correlations with the other latent variables. This criterion is used to assess whether the measurement instrument adequately distinguishes the construct being measured from other constructs. The following table presents the results:

**Table 3. Discriminant validity (Fornell–Larcker criterion)**

| Construct                   | (1)          | (2)          | (3)          | (4)          | (5)          | (6)          |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| (1) Employees               | <b>0.775</b> |              |              |              |              |              |
| (2) Customers               | 0.671        | <b>0.761</b> |              |              |              |              |
| (3) Community               | 0.507        | 0.702        | <b>0.846</b> |              |              |              |
| (4) Environment             | 0.569        | 0.680        | 0.762        | <b>0.723</b> |              |              |
| (5) CSR                     | 0.831        | 0.898        | 0.832        | 0.848        | <b>0.858</b> |              |
| (6) Sustainable development | 0.548        | 0.671        | 0.631        | 0.699        | 0.742        | <b>0.799</b> |

**Source:** Authors' calculation using SmartPLS 3.

The table above shows that the square root of the average variance extracted (AVE), represented by the diagonal values of the matrix, is greater than the correlations between the latent variables. This indicates that the latent variables are sufficiently distinct from one another and, consequently, confirms the discriminant validity of the first-order latent variables.

### 3.3.2 Assessment of the Structural Model

After confirming the validity of the measurement model, we proceed to assess the adequacy of the structural model established earlier. This assessment is conducted using a set of criteria, as presented in the following table:

**Table 4. Structural model assessment**

| Construct / model       | R <sup>2</sup> | Adjusted R <sup>2</sup> | Q <sup>2</sup> | GoF          |
|-------------------------|----------------|-------------------------|----------------|--------------|
| CSR (second-order)      | 0.999          | 0.999                   | 0.397          | —            |
| Sustainable development | 0.551          | 0.545                   | 0.325          | —            |
| <b>Overall model</b>    | —              | —                       | —              | <b>0.602</b> |

**Source:** Authors' calculation using SmartPLS 3.

The table above shows that the R<sup>2</sup> (R-squared) coefficient is statistically significant and acceptable. The dimensions of Corporate Social Responsibility, namely employees, customers, environment, and community, explain approximately 99.9% of the variance in the endogenous latent construct representing CSR in small and medium-sized enterprises. In turn, CSR, as an exogenous variable, explains 55.1% of the variance in the dimensions of sustainable development.

Furthermore, the adjusted R<sup>2</sup> values are very close to the corresponding R<sup>2</sup> values, which further supports the reliability of the coefficient of determination. Regarding the Q<sup>2</sup> value, it is statistically acceptable because it is greater than zero, indicating that the endogenous latent variables have predictive relevance.

Finally, the Goodness-of-Fit (GoF) index has a value of 0.602, which exceeds the threshold of 0.36, indicating a satisfactory fit and supporting the overall quality of the proposed model.

### 3.4 Hypothesis testing

*To test the first and second sub-hypotheses, the significance of the structural paths was assessed using the Bootstrapping technique, based on the generation of 500 bootstrap subsamples and the T-statistic. The results obtained are presented in the following table:*

#### 3.4.1 Testing the First Sub-Hypothesis

**H<sub>0</sub>:** The small and medium-sized enterprises (SMEs) under study do not implement Corporate Social Responsibility (CSR).

**H<sub>1</sub>:** The small and medium-sized enterprises (SMEs) under study implement or adopt Corporate Social Responsibility (CSR).

**Table 5. Testing the First Hypothesis of the Study**

| Path              | $\beta$ | SD    | t      | p       |
|-------------------|---------|-------|--------|---------|
| Employees → CSR   | 0.352   | 0.028 | 12.368 | < 0.001 |
| Customers → CSR   | 0.316   | 0.026 | 12.077 | < 0.001 |
| Community → CSR   | 0.275   | 0.024 | 11.108 | < 0.001 |
| Environment → CSR | 0.226   | 0.021 | 10.568 | < 0.001 |

**Source:** Authors' calculation using SmartPLS 3

values compared with those of the other dimensions. The relationships are statistically significant at the 5% level ( $p < 0.05$ ), with T-statistic values of 12.368 and 12.077, respectively. This indicates that the SMEs under study place considerable emphasis on implementing CSR towards these stakeholder groups, as satisfying their needs and maintaining positive relationships with them may contribute directly and positively to the achievement of the firms' objectives.

With regard to the community and the environment, the T-statistic values were 11.108 and 10.568, respectively, also with  $p < 0.05$ , indicating statistically significant relationships with CSR. Although the SMEs under study demonstrate attention to community and environmental responsibilities, the relative strength of these dimensions within the CSR construct appears comparatively lower than that of employees and customers.

Based on these results, the null hypothesis ( $H_0$ ) is rejected and the alternative hypothesis ( $H_1$ ) is supported, indicating that CSR is implemented by the small and medium-sized enterprises included in the study.

### 3.4.2 Testing the Second Sub-Hypothesis

**H<sub>0</sub>:** There is no statistically significant relationship, at the 0.05 significance level, between Corporate Social Responsibility (CSR) in the SMEs under study and sustainable development.

**H<sub>1</sub>:** There is a statistically significant relationship, at the 0.05 significance level, between Corporate Social Responsibility (CSR) in the SMEs under study and sustainable development.

**Table 6. Testing the Second Hypothesis of the Study**

| Path                          | $\beta$ | SD    | t      | p       |
|-------------------------------|---------|-------|--------|---------|
| CSR → Sustainable development | 0.7425  | 0.054 | 13.614 | < 0.001 |

**Source:** Authors' calculation using SmartPLS 3

The table above shows a statistically significant relationship between Corporate Social Responsibility (CSR) in small and medium-sized enterprises (SMEs) and the dimensions of sustainable development, with a T-statistic value of 13.614 and a p-value below 0.05. Accordingly,

the null hypothesis ( $H_0$ ) is rejected and the alternative hypothesis ( $H_1$ ) is supported. Therefore, there is a statistically significant relationship, at the 0.05 significance level, between CSR in the SMEs under study and sustainable development.

### 3.4.3 Testing the Main Hypothesis

To test the main hypothesis, Multi-Group Analysis (MGA) was employed to determine whether statistically significant differences exist between the two groups, namely voluntary programmes and mandatory programmes. According to this approach, a statistically significant difference between the groups is established when the p-value for the difference in path coefficients is below the 0.05 significance level.

**Table 7. Testing the Main Hypothesis of the Study**

| Path                                                           | $\beta$ (voluntary programmes) | $\beta$ (mandatory programmes) | $\Delta\beta$ | p     |
|----------------------------------------------------------------|--------------------------------|--------------------------------|---------------|-------|
| CSR → Sustainable development, by type of government programme | 0.392                          | 0.728                          | 0.368         | 0.010 |

**Source:** Authors' calculation using SmartPLS 3

The results of the Multi-Group Analysis (MGA) indicate a statistically significant difference between the two groups in the path coefficients, with a p-value of 0.010, which is below the 0.05 significance level. Accordingly, the results indicate that government intervention moderates the relationship between Corporate Social Responsibility (CSR) in small and medium-sized enterprises (SMEs) and sustainable development.

## 5. CONCLUSION

Through our attempt to identify the impact of implementing social responsibility in small and medium-sized enterprises (SMEs) operating in the wilayas of Constantine and Skikda on the achievement of sustainable development, with government efforts as a moderating variable, we arrived at a set of findings and recommendations presented as follows:

### Research Findings :

- The study results showed that the SMEs under study apply social responsibility toward the various stakeholders related to their activities, with their attention centered on customers and employees as partners in improving financial performance, whereas the results confirmed that launching environmental initiatives and community participation do not reach the required level;
- The study results revealed a strong positive correlation between the implementation of social responsibility in SMEs and sustainable development, which is attributable to the efforts made by the government and the initiatives it has undertaken;

- The study results confirmed the moderating role of government efforts in influencing the relationship between social responsibility in SMEs and sustainable development, which indicates that the relationship between the two variables differs according to the nature of the programs applied (mandatory and voluntary);
- The study results showed the significance of the model used to determine the relationship between the social responsibility of SMEs (as independent variables), government efforts (as a moderating variable), and sustainable development (as the dependent variable), which demonstrates that the dimensions of social responsibility, taken together, have a significant effect on achieving sustainable development through government efforts. The model also succeeded in explaining 74.25% of the variations occurring in the dependent variable.

### **Recommendations:**

Based on the findings reached in this study, a set of recommendations and suggestions can be presented regarding the study, as follows:

- The need for the SMEs under study to instill a culture of social responsibility as a key criterion for distinction and excellence;
- The need to draw the attention of the management of the SMEs under study to focusing on solving social problems and contributing to the well-being of society;
- Encouraging the SMEs under study to participate in social activities and volunteer work, such as making donations to various organizations, sponsoring forums, seminars, and workshops, and interacting with the community;
- The need for the government to enact regulations and laws and to develop work systems and mechanisms that would monitor the extent to which SMEs comply with environmental and health standards, as well as occupational safety and health standards;
- The need to disseminate, activate, and deepen the practice of social responsibility in SMEs in Algeria, through the government enacting and designing public policies of a mandatory and voluntary nature in order to spread this concept

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