Focus on internal stakeholders in Hungarian SMEs

Kornélia Lazányi

Óbuda University, Keleti Faculty of Busiess and Management,
lazanyi.kornelia@kgk.uni-obuda.hu

John Amoah

Tomas Bata University in Zlín, Faculty of Management and Economics,
amoah@utb.cz

Abstract: *Corporate Social Responsibility is a broad concept depicting organisational relation towards internal and external stakeholders; however, most companies emphasize the external market and even the environmental aspect more than their own personnel and their wellbeing. Since SMEs are the backbone of most countries' economy, it is important to analyse their behaviour regarding their internal stakeholders. Present paper introduces the problem of staffing and personnel management of SMEs based on relevant international literature. In addition, it provides a picture about the Hungarian situation on the basis of a sample of 118 SMEs. In line with the data presented in the paper, managers of SMEs also focus on the market environment more than on their colleagues. However, the behaviour strongly depends on the size and characteristics of the company, as well as the features of their leaders.*

Keywords: *internal stakeholders, SME, Hungary, CSR*

1 Introduction

For a company to flourish on the market it is no longer sufficient to offer work and provide employees with income in return. Companies that intend to sustain a profitable operation on a long run have to be aware of the fierce competition on the labour market and act accordingly. Companies must meet the needs of their employees. Issues of responsible employment are becoming an evergreen topic that no company can evade. Companies do not only compete on the market with their products and services, but they are also in a fierce competition with each other on the labour market too (Ivanova, 2019). Creating a motivating and inspiring workplace, a family-friendly approach, creating a healthy and people-centered work environment, supporting people with disabilities, ensuring equal opportunities for women, fostering work-life balance are all features that can make a company win this competition.

Nonetheless, it is not only for business purposes companies introduce such practices, but the ever-increasing importance of social responsibility also dictates companies to change their previous, exploiting practices. In our globalised world, no company can flourish on the market (not even with god quality, low priced products) with constant internal scandals. What is more, undermotivated, uncommitted employees are not striving to increase the efficiency and efficacy of business operations either, hence a long-term improvement of processes cannot take place without them. Employees are very important players (Benedek, Takácsné György, 2016). They represent the company to consumers, and they are the ones to implement corporate decisions and bear the consequences too.

All in all, employees are key resources of modern age companies, who can contribute to the success of their companies greatly but can also create a great impediment of prosperity if not treated fairly (Hvolkova, 2019). Accordingly, a responsible company has to put (at least) the same effort in winning over and retaining good employees as in gaining and retaining costumers (Martinez-Conesa et al, 2017).

It is becoming increasingly clear that the practical dimensions, such as codes of ethics and cooperation agreements, well-structured management systems, and financial incentives are not sufficient. Companies have to think way beyond that to meet the expectations of their (future) employees (Cepel, 2018). They have to think holistically and responsible, striving for a non-zero sum game with all parties concerned in and affected by their operations.

2 Literature review

In the past two decades, corporate responsibility has become an important issue in the global business world. CSR is a well-known abbreviation by now, which stands for Corporate Social Responsibility. The use of the abbreviation CSR is already part of everyday business discussions, however, the debates about its definition are still ongoing (Sahlin-Andersson, 2006). Several definitions have been developed to describe the concept of CSR. In Kotler's and Lee's (2005) interpretation, corporate social responsibility depicts a commitment that a company makes voluntarily for the well-being of its community and that the company is willing to supports with its resources.

According to the European Commission's Green Paper, CSR is a process by which companies, on a voluntary basis, incorporate social and environmental considerations into their business operations and their system of relations with stakeholders (European Commission, 2006). The Green Book discusses the main areas and tools of CSR along two dimensions, distinguishing between the internal and external dimensions. Human resource management, occupational health and safety, adaptation to change, transformation, crisis management, and environmental impact management (exploitation of natural resources, environmental protection) are considered the internal dimensions, while local communities, business partners, suppliers, consumers, and on a greater scale human rights, and global environmental considerations make up the external factors (Kun, 2004).

Hence, the responsibilities of companies can be manifold. Dahlsrud (2008) compiled several definitions and attempted to make them comparable in some way. His study revealed that the most common aspects were the environment, the economy, and the stakeholders, but the social and voluntary dimensions are also at the core of the collected definitions.

One of the most basic, and still well-structured approaches is the one of Carroll (1991). The bottom layer of the CSR pyramid defined by her is the economic responsibility of the company. Even though we talk about CSR, the main responsibility of a company is to be profitable, to sustain its operations, to be able to benefit society in long-term. The second layer consists of legal aspects of the operations. A responsible company must obey laws and other regulations regarding employment, competition, health, and safety of employees, … This is also a basic prerequisite of a company's long-term operations as legal entities. The third layer is the moral and ethical dimension that already goes beyond the requirements defined by the law. This includes fair treatment of partners and employees. The top of the pyramid is the philanthropic level, where a company strives to give back to society. This is the place of charitable donations or voluntary work.

When addressing the issue of corporate social responsibility, the Stakeholder theory should also be mentioned (Freeman, Velmuri, 2006; Freeman, Moutchnik, 2013). In line with the Green Paper, stakeholders of a company can be divided into two major groups: internal and external stakeholders. Internal stakeholders are the owners, managers, employees. External stakeholders include government, suppliers, competitors, political groups, trade unions, local communities, the natural environment, banks, consumers, consumer advocates. According to another grouping, we can distinguish between market (primary) and non-market (secondary) stakeholders. Market stakeholders are owners, managers, employees, suppliers, consumers, competitors, while trade unions, local communities, the natural environment, and consumer advocates are not market stakeholders.

Unfortunately, most CSR tools are in many cases not adaptable for small and medium-sized enterprises (SMEs). Their funding opportunities, staffing, ownership structure and access to information are significantly different from those of large companies (Angyal, 2008). Nonetheless, there are many small business ventures that strive to operate in a socially and environmentally responsible way, without even knowing the concept of CSR or being aware of its true meaning and the tools of CSR practices (Csáfor, 2009). In line with their number and economic significance, their social and environmental role is by no means negligible (Jain et al, 2017; Moneva, Hernández-Pajares, 2018).

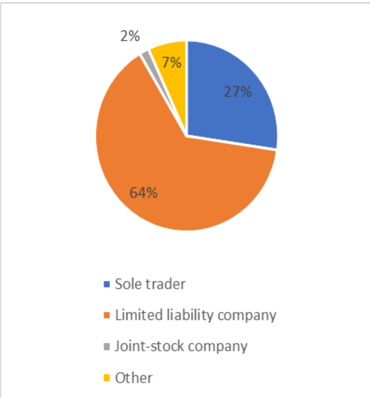
The aim of present paper is to look into the way Hungarian SMEs deal with their employees; to investigate, whether the fierce market competition is taking the managers' attention away from internal stakeholders, and if yes, do they realise it as a threat to their everyday operation.

3 Research method and sample

In a timeframe of 3 months, starting from December 2019 an international research has been carried out with an English questionnaire developed by Tomas Bata University in Zlín, Faculty of Management and Economics. The questionnaire consisted of 77 questions. The first half of the questionnaire collected data about the company and the respondent, the second half about the operations within the business ventures, and the third part about bankruptcy (whether the company has ever been in the situation of bankruptcy, and if yes, what were the measures that had been taken). Present paper will focus on the data of the first two parts, and within them on questions related to the internal stakeholders of the ventures.

3.1 The companies

The sample consisted of 117 SMEs. 85 micro, 23 small and 9 medium-sized enterprises responded to the survey call. In most cases (N=96) the owner him/herself filled out the questionnaire, in the remaining cases the manager of the business venture was the one to take the poll. The legal form and the field of operation of the ventures is displayed on the graphs below



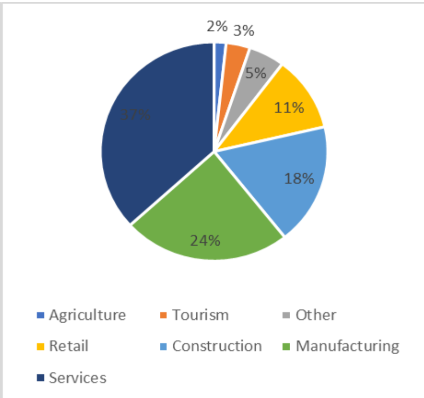


Figure 1
Legal form of SMEs in smaple

Figure 2
Industrial affiliation of SMEs in sample

In line with the small size of the companies in the sample, the export orientation was quite low. Only 25 % of the ventures stated to operate on international as well as on domestic markets, and an additional 3% has it in its strategic plan to join foreign markets. However, the majority claims that the domestic market space is sufficient for them (N=42), or that they do not have the capacity (personnel, technical, financial, etc.) for appearing on foreign markets.

3.2 The respondents

As indicated above, the owners and managers of the business ventures in the sample were the ones to fill out the questionnaire. As we are talking about SMEs, the tag ‘owner’ is a position, where the respondent is not “only” a manager but has his/her own money at the stake, when it comes to business success or failure. For this reason, we have tested whether there is a significant difference between these two groups of respondents.

As the graphs below represent, the respondents were from an older age-group, the majority of them being between 36 and 55 years old. Interestingly, the highest level of education obtained by the respondents displayed a varied picture. 41% of them did not finish any tertiary education. What is more 21% has stated that their field of higher education is unrelated to the area their business is operating in. Hence, it is an interesting question whether the level of education has any significant effect on the company ‘s orientation towards internal stakeholders.

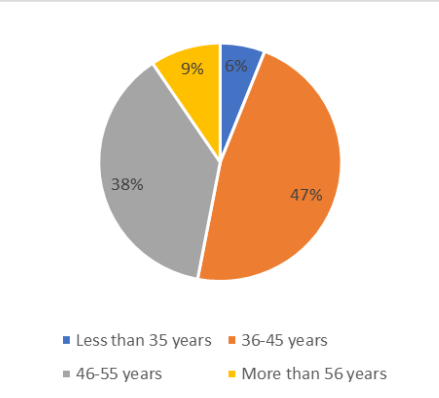


Figure 3
Distribution of respondents by age

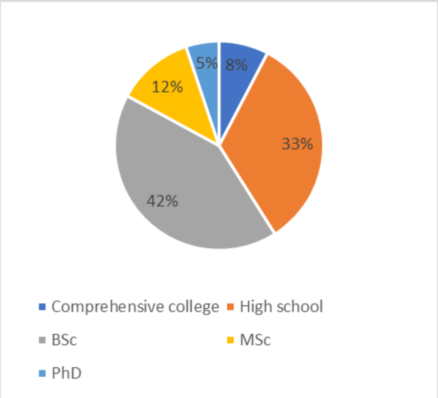


Figure 4
Distribution of respondents by highest education

4 Research results

The research intended to explore the CSR activities and concept of the respondent companies. Hence, companies were requested to identify, which kind of CSR activities they are actively involved in. 2% of the respondents stated to not know about CSR, 38% to know, but not really apply it in their everyday business.

Most business ventures (60%) have stated to the needs of their partners on the market. They stated to conduct business transparently, to have honest relationships with investors, suppliers, customers, to adhere to their code of ethics, to provide clear and truthful information, to be ethical in advertising and to produce products that do not harm the health of the consumers.

Interestingly, half (51%) of the respondents have realised how important their internal stakeholders are and stated to focus on their needs as part of their CSR activities. They indicated that their employees work in a favourable working environment. They also stated to take care of employee development and education, and the health and safety of their employees, to offer various benefits and to help mothers and parents and provide equal opportunities for men and women.

The community was the third most prevalent field of CSR for business ventures in the sample. 38% of the respondents stated to behave in a fair in relation to the community in which they do business, to be aware of the problems of the community in which they operate and take active measures to help them solve them. They even stated to support volunteering and be involved in corporate donations.

A minority of the companies also stated to take active measures to protect their environment (18%). They indicated that their products are environment friendly; to use environment friendly packaging, promote waste recycling, save energy, water, material, paper, etc. to minimise waste and protect natural resources.

In line with this, only a small portion of the companies (11%) stated that CSR is not important for them. Others indicated how important it for various purposes is as displayed in the figure below. In accordance to their main focus of CSR presented above, most companies regard CSR as a way to gain a competitive advantage in the market and higher customer loyalty and to attract satisfied, loyal and motivated employees. Only 17% of the respondents think that CSR is a good tool to gain reputation and new business opportunities.

Figure 5

Perceptions of the advantages of CSR

In order to test, whether the CSR concept is actually applied in practice in regard to internal stakeholders, the following statements have been tested. Each statement was evaluated by the respondents using a five-point Likert scale

- The level of personnel risk in the company is considered adequate and does not harm my business.
- Employee turnover is low and has no negative impact on my business.
- The error rate of employees is low and has no negative impact on my business.
- My employees strive to improve their performance and competition among them prevails.
- Participative management style (involving employees in decision making) is important.
- Human capital is the most important asset of the company.
- A manager should regularly evaluate the performance of their subordinates and motivate them.

Less than half of the respondents stated that 'The error rate of employees is low and has no negative impact on my business.' (46%), 'Employee turnover is low and has no negative impact on my business.' (48%), 'The level of personnel risk in the company is considered adequate and does not harm my business.' (49%) or 'Participative management style (involving employees in decision making) is important.'(50%). 53% stated that 'My employees strive to improve their performance and competition among them prevails.' and 60% that 'Human capital is the most important asset of the company.' This latter statement is in line with the respondents' evaluation of CSR as a mean to improve employee satisfaction. In addition, it is not only in company policy and environment that managers intend to improve the circumstances of their employees, but 85% of the respondents also stated that 'A manager should regularly evaluate the performance of their subordinates and motivate them.'

A more detailed description of the results can be found in the following graph.

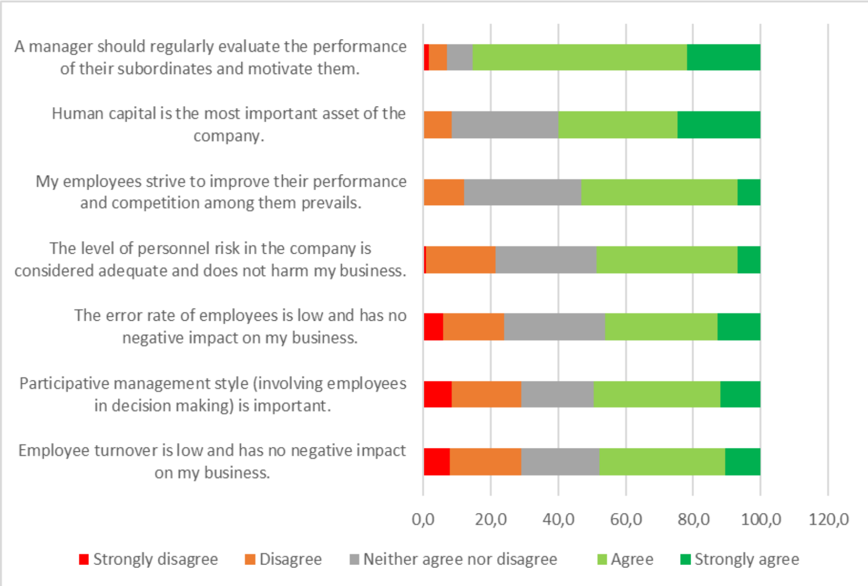


Figure 6

Managers' opinions about and actions towards internal stakeholders

In addition, two yes or no questions also depicted the business venture's relation to its personnel:

- Risks connected to personnel are considered to be one of the most important
- Dishonest actions by employees is one of the most significant risks for my business for the next five years.

30% of the responding companies stated that risks connected to personnel are one of the most important for them, and only 10 business ventures (8,5%) stated to have problems stemming from dishonest actions of employees. These results are also in line with the general picture presented so far, namely that SMEs in the sample really take their employees, and their wellbeing seriously, and CSR - especially actions related to internal stakeholders - is not only a façade, but an important part of their everyday operations.

As some of the respondents have been "only managers" while others also owners too, the responses have been tested (with the help of an independent samples' T test) has been prepared for significant differences regarding their approach towards internal stakeholders.

For business owners, it was less important to giver regular feedbacks to employees, than it was for managers. They also considered CSR less important in regard to new business opportunities and employee satisfaction. A more detailed description of the differences can be seen in the following table.

Table 1

		t-test for Equality of Means						
							95% Conf. Interval of Diff.	
		t	df	Sig. (2-tailed)	Mean Diff	Std. Error Diff	Lower	Upper
A manager should regularly evaluate the performance of their subordinates and motivate them.	*	3,622	41,538	,0008	,527	,146	,234	,821
CSR enables our company to gain reputation and new business opportunities.	*	3,293	33,535	,002	,581	,176	,222	,939
CSR enables our company to attract satisfied, loyal and motivated employees.	*	2,470	45,934	,017	,371	,150	,069	,673

* Equal variances not assumed

T-test for differenes of owners and managers

In. order to explore the potentiality of difference between the behaviour and practices of respondents with and without higher than secondary education an independent samples' T test has been prepared.

Respondents with tertiary education evaluated the importance of CSR in gaining a more preferable market position. This better understanding and awareness of how CSR activities influence external stakeholders is surely owing to formal education.

In addition, those with higher than secondary education were more prone to apply participative leadership style higher, however, experienced higher employee turnover and more negative impacts due to personnel issues. The small size of the sample does not enable further conclusions, but this adverse relation might be explained with to past experiences of personnel related issues. Owing to business losses of the past stemming from personnel issues, participative management style might be more important to some of the business ventures, than for others. For further details, see the table below.

Table 2

		t-test for Equality of Means						
		t	df	Sig. (2-tailed)	Mean Diff	Std. Error Diff	95% Conf. Interval of Diff. Lower	Upper
CSR enables our company to gain a competitive advantage in the market and higher customer loyalty.	*	-2,498	93,400	,014	-,346	,138	-,621	-,071
Participative management style (involving employees in decision making) is important.	*	-2,553	100,505	,012	-,547	,214	-,972	-,122
Employee turnover is low and has no negative impact on my business.	*	3,264	105,260	,001	,657	,201	,258	1,056

* Equal variances not assumed;

T-test for differences of respondents by highest level of formal education

Conclusions

On the basis of the data presented in the paper, most SMEs are aware of the meaning and importance of CSR. Almost two third of the respondents regarded CSR as a mean of having better relation with external partners, such as costumers and suppliers, however, half of the business ventures in the sample realised the importance of internal stakeholders as well. They indicated that their employees work in a favourable working environment. They also stated to take care of employee development and education, and the health and safety of their employees, to offer various benefits and to help mothers and parents and provide equal opportunities for men and women. They regard CSR as a tool that is able to help them gain a competitive advantage in the market and higher customer loyalty, attract satisfied, loyal and motivated employees, and gain reputation and new business opportunities.

In line with this, their everyday operation is also employee cantered. They realise the importance of participative management style and regular performance evaluation as a mean of employee motivation. What is more, they regard human capital as the most important asset of their company.

Some interesting differences could be identified between managers and owner-managers, as well as on the basis of the highest finished education of the managers.

For business owners, it was less important to giver regular feedbacks to employees, than it was for managers. They also considered CSR less important in regard to new business opportunities and employee satisfaction. Respondents with tertiary education evaluated the importance of CSR in gaining a more preferable market position and they were more prone to apply participative leadership style higher.

References

[1] Angyal Á. (2008): Vállalatok társadalmi felelőssége – zárójelentés (munkaanyag). Versenyben a világgal kutatási programok – Vállalati versenyképesség Kutatási Program Corvinus Egyetem Budapest p. 1-77. Downloaded on 19.06.2020 from: http://unipub.lib.uni-corvinus.hu/186/1/51_Angyal_Ádám_CRS.pdf

[2] Benedek, A., Takácsné György, K. (2016). A felelős vállalatirányítás személyi tényezői: A CSR-központ felelős vállalatvezetők attitűdjének vizsgálata a kis-és középvállalatok körében. Vezetéstudomány-Budapest Management Review, 47(1), 58-67.

[3] Carroll, A. B. (1999): Corporate social responsibility: Evolution of a definitional construct. Business and Society, Vol. 38, No. 3. pp. 268-95.

[4] Cepel, M., Stasiukynas, A., Kotaskova, A., Dvorsky, J. (2018). Business Environment Quality Index in the SME Segment. Journal of Competitiveness, Vol. 10, Issue 1, pp. 21 - 40.

[5] Csáfor H. (2009): Vállalatok társadalmi felelősségvállalása, regionális vizsgálat az Észak-magyarországi Régióban. Doktori értekezés, Budapesti Műszaki és Gazdaságtudományi Egyetem. downloaded on 19.06.2020 from: https://repozitorium.omikk.bme.hu/bitstream/handle/10890/780/ertekezes.pdf?sequenc

[6] Csapóné R. T. (2008): Üzleti etika. Főiskolai jegyzet, Budapesti Gazdasági Főiskola, KVIFK, Budapest.

[7] Dahlsrud, A. (2008): How Corporate Social Responsibility is Defined: an Analysis of 37 Definitions. Corporate Social Responsibility and Environmental Management 2008. pp. 1-13.

[8] European Commission (2006): Green Paper. Commission of the European Communities downoladed on 19.06.2020 from: https://europa.eu/documents/comm/green_papers/pdf/com2006_105_en.pdf

[9] Freeman, E., Moutchnik, A. (2013). Stakeholder management and CSR: questions and answers. Umwelt Wirtschafts Forum, 21(1-2), pp. 5-9.

[10] Freeman, R. E., Velamuri, S. R. (2006). A new approach to CSR: Company stakeholder responsibility. In Corporate social responsibility (pp. 9-23). Palgrave Macmillan, London.

[11] Hvolkova, L., Klement, L., Klementova, V., Kovalova, M. (2019). Barriers Hindering Innovations in Small and Medium-Sized Enterprises. Journal of Competitiveness, 11(2), pp. 51-67.

[12] Ivanova, A. S., Holionko, N. G., Tverdushka, T. B., Olejarz, T., Yakymchuk, A. Y. (2019). The Strategic Management in Terms of an Enterprise's Technological Development. Journal of Competitiveness, 11(4), pp. 40.

[13] Jain, P., Vyas, V., & Roy, A. (2017). Exploring the mediating role of intellectual capital and competitive advantage on the relation between CSR and financial performance in SMEs. Social Responsibility Journal.

[14] Kottler, P., Lee, N. (2005): Doing the most good for You and Your caused, John Wiley and Son, NJ

[15] Kun, A. (2004): A vállalati szociális elkötelezettség tematizálásának alapvonalai az Európai Unióban, http://jesz.ajk.elte.hu/kunl7.html

[16] Martinez-Conesa, I., Soto-Acosta, P., & Palacios-Manzano, M. (2017). Corporate social responsibility and its effect on innovation and firm performance: An empirical research in SMEs. Journal of cleaner production, 142, pp. 2374-2383.

[17] Moneva, J. M., & Hernández-Pajares, J. (2018). Corporate social responsibility performance and sustainability reporting in SMEs: an analysis of owner-managers' perceptions. International Journal of Sustainable Economy, 10(4), pp. 405-420.

[18] Sahlin-Andersson, K. (2006). Corporate social responsibility: a trend and a movement, but of what and for what?. Corporate Governance: The international journal of business in society., 1980, pp. 159-165