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HOW ARE THE SMEs COMMITTED TO THEIR LOCAL COMMUNITIES IN THE TERM OF SUSTAINABILITY?

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Abstract

Research purpose. Local communities play a crucial role in the entrepreneurship ecosystem. The role and massive influence of the local environment raise several questions. This paper aims to answer the following questions: (1) how and why the local communities affect SMEs' sustainability, (2) which pillar of sustainability plays a stronger role in this matter, (3) which internal and external motivators drive a firm's sustainability actions, and (4) whether company and personal characteristics have a significant effect on local patronage.

Design / Methodology / Approach. A representative sample of leaders (n=300) from the Hungarian SME sector was investigated through a validated survey. The survey explored activities, motivations, organizational characteristics, and leadership factors in CSR and sustainability in the SME sector. Both Likert scaled statements and reasonings for open-ended questions were examined using qualitative and quantitative methods.

Findings. SMEs regularly support various organisations, and communities, mainly if those are in the close region of the enterprise. They regularly promoted culture, education, youth, sport, and vulnerable groups in their local area. Moreover, businesses feel an obligation to support the local communities in which they operate. This activity seems to be divided into a conscious and a hidden part. When we asked for the reason for activities, most answerers expressed that donating to healthcare organisations or education institutes is an obvious civic duty (i.e., pressure from society) but in terms of local communities, the motivation is rooted in personal engagement (i.e., an essential part of social sustainability).

Originality / Value / Practical implications. SMEs poorly express their sustainable activities; they adopt more informal strategies in comparison with large companies. SMEs' social sustainability lies in engagement and close links with local communities, where companies are targeted towards supporting charitable projects in their surroundings. Even though these actions are less formalised or strategically planned, that is why this research provides a better understanding of the integration of environmental and social concerns of sustainability reflecting all of those benefits.

Keywords: sustainability and responsibility, entrepreneurship ecosystem model, SME, local environment.

JEL codes: Q01, Q56, M2, L26.

Introduction

According to the Charities Aid Foundation Report, 69% of the public believed that businesses have a strong obligation to support the local communities in which they operate but from the FTSE 100 companies (largest 100 companies in the UK by full market review), only 7 large companies reported

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that they support projects that impact local communities and only Tesco noted that they support local communities directly where Tesco operates (CAF, 2023). Meanwhile, Generali and SDA Bocconi (2021, 2022, 2023) showed that in 2021, an average of 48% of the European SMEs supported local communities. Taken that around 400 million global SMEs are crucial in promoting a sustainable planet and should not be overlooked in terms of environmental responsibility. Small and medium-sized enterprises (SMEs) play a crucial role in regional development and adopting sustainability, which results in benefaction for local communities (Salimzadeh & Courvisanos, 2015). At the same time, there is still a lack of understanding of sustainability and its conscious connection to local communities (Klewitz & Hansen, 2014).

The purpose of this paper is to answer (RQ1) how and why the local communities influence the SMEs' sustainability (RQ2) which pillar of sustainability plays a stronger role in this matter (RQ3) and internal and external motivators drive an SME's sustainability actions. Finally, (RQ4) whether company and personal characteristics have a significant effect on local patronage. Therefore, an extended quantitative analysis on a representative sample, as well as a qualitative analysis were carried out.

Literature Review

An SME's entrepreneurial ecosystem includes several stakeholders, but various theoretical models describe these domains differently (Maleck, 2018). Numerous research indicate that environmental management practices are also influenced by various stakeholders, including legislators, environmental groups, financial institutions, suppliers etc. differently (Saveanu et al., 2021).

It is revealed that each theory includes local communities as a strong domain of stakeholders. Extended observation of local and regional levels is essential, as Tolstykh et al. (2021) emphasized regional sustainable development is concerned with ensuring a sufficient level of quality of life in the region where the firm operates. Only if this is ensured, sustainability can be related to sustainable development goals (SDGs) at the supra-regional (national and global) level. Smith et al. (2022) also underlined that SMEs may be the link between global and individual sustainability, while SMEs view sustainable development as a "neighbourliness" that empowers local communities to address social and environmental needs. Therefore, sustainability may be possible access to the global market for them. It seems to be required in this sector to establish and maintain a more formalised and structured strategy, all for environmental, social, and economic sides (Khan et al., 2023).

Regarding the stakeholder theories in CSR (Jamali & Carroll, 2017), local communities can be treated as an essential domain. The interactions between companies and local stakeholders and the importance of local norms/values lead to inherent power dynamics and relationships in future applications of CSV. Although, the authors reflected here on the large companies. In sum, small and medium-sized enterprises (SMEs) are also crucial development agents and economic contributors to local, they contribute to productivity, employment, and support the local communities (Smith et al., 2022). At the same time, they also have significant impacts on the environment and society collectively (Artin, 2022). As for our first research question (RQ1), the international literature lists several ways and reasons, how and why SMEs and local communities are bonded in order to ensure sustainability. Regarding Smith et al. (2022) findings, the best way for SMEs to promote sustainability within local communities is to build a strong engagement with local stakeholders like mayors, residents, civil society, NGOs, or the local population. This engagement includes fields like training on sustainability, networking with local communities and effective collaboration with other stakeholders. Training programs should include materials on general sustainability-oriented issues, such as best practices, and how to implement these issues into management systems.

Networking with trade associations, environmental agencies, local government, and employee organizations can help SMEs identify and tackle their problems, while collaboration with external stakeholders can help SMEs solve common problems mutually and find joint opportunities. But this collaboration hides a so-called back-and-forth effect. SMEs should proceed to encourage sustainable actions in a 'power to' and at the same time in a 'power within' and 'power with' way in order to advance their collective impact on sustainability. Not only the SMEs have an impact on local

communities, but communities also have strong effects (pressure) on SMEs like through legislative regulations.

Consequently, the literature review shows a well-defined interaction between the SMEs and the local communities. Meanwhile, the various pillars of sustainability should be also considered (this session is related to our second research question, RQ2). Literature (Purvis et al., 2018) identifies three main pillars of sustainability, namely economic, environmental, and social. Eikelenboom & de Jong (2019) studied SMEs' ability to three pillars of sustainability and found that SMEs are able to simultaneously address social, environmental, and economic goals, whereby leaders can act as drivers of all three pillars. However, as results showed (Lawrence et al., 2006), most enterprises do not have formal reporting of their social and environmental practices.

Surman and Böcskei (2023) studied which pillar SMEs are currently ranking as most relevant in Hungary. Hungarian SMEs primarily prioritize economic and environmental goals, and social goals appear the least in their operations. They concluded that Hungarian SMEs feel the need to add value to social aspirations only indirectly, through the detection of economic and environmental goals. Carroll (2021) emphasized that global CSR differs from local ones so cultural traditions and local characteristics and events are crucial, that is why researchers' interest in CSR will turn to small and medium enterprises linked with growth in developing countries. This paper might be one of these pioneer studies.

The third research question's (RQ3) purpose is to discover the motivators and drivers of both sides. Even though, as Ernst et al. (2022) found close employees' and communities' pressure reduces controlled corporate sustainability motivation within SMEs. So, the question is given which drivers move SMEs in the direction of strategy-driven, conscious sustainability or whether it remains just a must-do activity or a simple civic duty? Seemingly, the external factors indicate a both-way reaction and reverse pressure between the participants.

However, the drivers of sustainability practices depend on the context of SMEs, such as their sector, region, or the special interests of their stakeholders (Yadav et al. 2018). Gadenne et al. (2008) summarized the influences on environmental awareness and practices for SMEs because the increasing awareness of environmental issues has led to a growing demand for environmentally friendly business practices. The study identified three different processes affecting environmental outcomes in SMEs: legislation, environmental attitudes, and support for environmental organizations. The moderating variables are listed as follows: owner-manager characteristics, environmental information, time, and financial resources. In this paper, the first variable is going to be broadly investigated aligned with our last research question (RQ4).

As a part of this, individual beliefs, attitudes, and environmental principles were also found as relevant, especially the owner's or manager's personal beliefs, attitudes, and moral values are reported as key factors, both preventing, when absent, or favouring, when present, the adoption of sustainability initiatives (Generali & SDA Bocconi, 2023). Strong social identity and deep involvement in local communities are reported as being another strong driver shaping SMEs' attitudes towards stakeholders. They promote positive impacts on society, including employees as part of the social community, and the local environment. Although altruism is not a stable explanation factor as Pinto et al. (2019) stated. They studied motivations for sustainable behaviour and found mixed results regarding pure altruism (cooperation) or competitive altruism (status). De Dominicis et al. (2017) stated that environmental concerns are crucial for sustainable and pro-environmental behaviours based on egoistic or biospheric psychological foundations. The dominant approach in pro-environmental behaviour lies in supporting others or nature, rather than appealing to self-interest. Self-interested individuals behave more pro-environmentally when the behaviour results in personal benefits, while altruistic individuals engage in pro-environmental behaviours when there are environmental benefits rather than personal benefits. Artin's (2022) study reveals that SMEs are more likely to engage with sustainability if their owners/managers create a business culture that promotes environmental and social improvement.

Gender differences might also have a significant impact on this. Graafland (2020) highlighted the importance of the impact of gender diversity on environmental responsibility in SMEs. The findings suggest that increasing women's representation in management leads to more equal opportunities and a

wider societal contribution by improving sustainability. Last, but not least, the literature review established evidence for all research questions, which are empirically studied in the next chapter.

Research Methodology

Survey Analysis

The study aimed to assess the responsibility of SME entrepreneurs concerning sustainability. A modified adapted questionnaire was obtained. A pilot testing phase (involving 8 sample members and 2 experts) allowed us to assess the questionnaire under real survey conditions. The final version was executed using a split-halves design for the two statement sections. Meanwhile, Cronbach's alpha was used to measure reliability and internal consistency. Its value was for the whole survey 0.629 (n = 32 items). This value indicates an acceptable or good reliability. The questionnaire was divided into five parts, including a free word association about responsibility in relation to sustainability, statements and questions on CSR and sustainability activities, motivations, organizational characteristics, management factors in the SME sector, business practices, and a section assessing basic demographic features.

In this paper, the following statements and questions were selected and investigated:

- The regularity of supportive actions in the direction of the local communities.
- The reason, why the firm supports and promotes local communities (open-ended question).
- Two statements, which judge the pillars of sustainability and measure the pressure from local communities. Both statements should be applied to the firm. They were measured on a 7-item scale where 1 means Definitely not … 4 refers to Possibly … 7 reflects Definitely.
  a. There is a serious expectation from local communities to support local social organizations.
  b. There is a strong expectation from local communities to assume responsibility for environmental issues.

The questionnaire was queried by the IPSOS market researcher company via telephone calls with a representative sample of Hungarian SME leaders in May 2023. Stratified random sampling was used, a random sample was taken from identifiable groups (strata) that are homogeneous for three desired characteristics, namely (1) company size based on the number of employees; (2) region; and (3) economic activity classification. So-called strata weights were calculated and applied for economic activities where a subsample was over- or underrepresented. As far as the demographic background of the respondents is concerned: 121 females and 178 males participated (one refused to answer), with an average age of 49.67 years. Representativeness was normally distributed, but items measured on ordinal scales required nonparametric tests to compare measures of central tendency across subsamples.

Expert Interviews

As an essential part of the survey, those participants who regularly support local communities were asked about what motivates them to support local communities regularly. Freely given answers or first associations (n=66) were analysed using the content analysis method. Finally, two Hungarian expert interviews were conducted. The first interview was with a small local flower shop owner (female, 47 years old) whose represented company works in decoration and events, in the local region. The second interview was with a regional CFO of a medium-sized trailer seller company (male, 48 years). His represented company is in trailer sales, international. Both companies operate in the same regional area. Interviewees were asked for the reasoning of local versus global sustainability supports given by their firms. Both texts were automatically translated from Hungarian to English.

Results

Survey Analysis

As for the regularity of supportive activities in the direction to local communities, most companies (n=205) support at least once a year their local communities, and ninety do it annually, or yearly basis (Fig.1). People who rated themselves higher on the environmentally conscious scale tended to support more often, there was a modified relation between the two variables (Pearson's r = 0.119 with p =

0.042). Additionally, the position and regularity of support also showed a significant correlation (nominal by nominal Phi = 0.352 with p = 0.042) whereby owners tend to be more supportive.

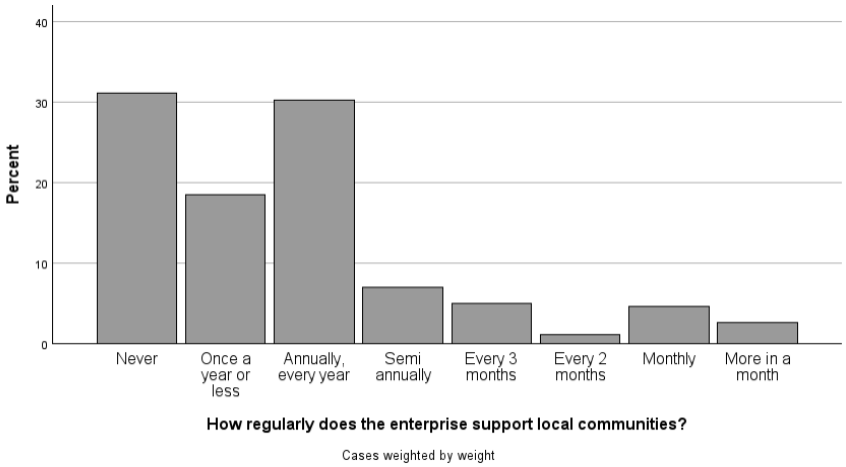


Fig. 1 How Regularly does the Enterprise Support Local Communities? (Source: Own elaboration)

Regarding expectations (i.e., pressure) from local communities, the two statements' descriptive statistics reflect a surprising difference. While the arithmetic means are close to each other (in the case of social organizations, the mean is 3.41 and Std. Dev 1.971, and for environmental issues, the mean was 3.77 and Std. Dev. 2.028), the mode (most frequently picked value) was 1 for the social organizations and 5 for the environmental issues. Seemingly, the environmental pillar matters more than social. That raises the question of whether any of the demographical or company characteristics may cause this difference. By environmental issues, gender showed a significant impact (females' mode is 5 and males' is 4, Mann Whitney U = 9239.00, Asymp. Sig 2-tailed = 0.013).

Seemingly, the larger companies (i.e., middle-sized) feel a stronger pressure from the local communities regarding environmental issues, notably middle-sized companies support rarer local communities in terms of social sustainability but feel a significant pressure from the locals in terms of environmental issues, as Table 1 proves.

Table 1. Opinions Regarding Net Total Revenue (Source: Own elaboration)

Net Total Revenue / Turnover		**How regularly does the enterprise support local communities?**	**There is a serious expectation from local communities that we support local social organizations.**	**There is a strong expectation from local communities to assume responsibility for environmental issues.**
Less than 2 million EUR	Mean	2.97	3.31	3.59
	N	153	152	152
	Std. Deviation	1.958	1.980	2.085
	Median	3.00	3.00	3.00
2-10 million EUR	Mean	2.51	3.24	3.70
	N	89	88	89
	Std. Deviation	1.521	1.893	2.067
	Median	3.00	3.00	4.00
10-50 million EUR	Mean	2.27	3.65	4.05
	N	21	21	21
	Std. Deviation	1.186	2.017	1.623
	Median	2.00	3.57	5.00
Over 50 million EUR	Mean	3.00	4.78	4.80
	N	6	6	6
	Std. Deviation	1.756	1.546	1.249

	Median	3.00	5.00	5.00
NA	Mean	2.18	3.99	4.53
	N	29	28	28
	Std. Deviation	1.536	2.102	1.837
	Median	2.00	4.00	5.00
Total	Mean	2.71	3.41	3.77
	N	298	295	297
	Std. Deviation	1.763	1.971	2.028
	Median	3.00	3.00	4.00

The number of employees also had a significant difference in the two statements (in the first case Mann Whitney U = 4529.5 and Asymp. Sig. = 0.044, and second case Mann Whitney U = 4229 and Asymp. Sig. = 0.029), which means that in both cases, larger firms indicated stronger pressure (Small firms' mode 3 and 4, respectively and Middle firms' mode 4 and 5 respectively). In sum, the size of the company matters in case of the sustainability regarding local communities.

Expert Interviews

The answerers discussed their company's approach to community involvement, focusing on charity, social sensitivity, altruism, local patronage, and personal reasons. Some of them have worked in the social sector for years and believe that is why, their companies support local communities, particularly school nursery communities. The SME leaders also emphasized the importance of personal involvement and the desire to help local interests. They believe that their companies support local organizations for the sustainability of the microenvironment and maintain a good reputation. They also emphasized the importance of taking social responsibility and supporting associations based on friendship and acquaintance. Finally, they believed that the main feature of cooperation in municipalities is joint cooperation. They emphasize the importance of taking social responsibility and the need for people to know them and know what is important. They also underlined the importance of personal connections and the importance of leadership vocation. The importance of good contacts and the importance of supporting local communities were also listed, as they live in a region and are among them. They believe that their company's presence and support are morally important and that their community needs to be supported. The text was also auto-coded, where frequently mentioned expressions (with synonyms) are listed in Table 2.

Table 2. Frequently Used Expressions (Source: Own elaboration)

Word	Count	Weighted Percentage (%)	Similar Words
Support	18	4,93	support, supported, supporting, supports
Community	18	4,93	communication, communities, community
Local	18	4,93	local, locally
Important	12	3,29	importance, important
Personal	11	3,01	personal
Help	10	2,74	help, helped, helping
Live	10	2,74	live, living
Social	10	2,74	social
Good	8	2,19	good
Need	7	1,92	need

The answers can be grouped into the following main sections:

- Intrinsic motivation or leaders' personal engagement: „It's more of an individual motivation, my own. We always help people in need. It is more genetic than strategic." "This is the natural" "I just want to help, there is an emotional attachment to them." "The leadership's expression of will. My company supports it because I want to support it." "Management perception and ownership expectation."

- They realized a problem, so they helped: “Because we see the problems local organisations face in becoming more mainstream” “Providing assistance to those in need” “The fact that the state doesn't support these”
- Local patronage or local commitment: „This is their living space and it's obvious that they need to be supported.” „We live here, we belong here”
- Pressure: „This is where we live, this is where our company is, this is where we support those we come into contact with on a daily basis, those in need.” “It's a social expectation.”
- Region as (labour)market or firm’s involvement: „We consider it essential that where we operate, people know us and know what is important.” “Because they look after local interests”
- Personal previous experiences: “I have worked in the social sector for 20 years, so I know what it is like, and I support it.” “There are more teachers among my acquaintances, because of this”
- For the reputation: “To maintain a good reputation” “Local and personal connections”

The highest number of examples in the first section (i.e., intrinsic motivation or leaders’ personal engagement) proves the importance of managers’ personal involvement where best practice seems to be leading by example. The mood and tone of the texts are positive, emotionally we can discover pride and happiness.

It is also interesting how the expression “local” was settled in the area of other expressions (Fig. 2). Local personal networks and strong collaborations with local communities may have an important influence on sustainability. Usually, the expression is connected to an action verb (bring, link, answer).

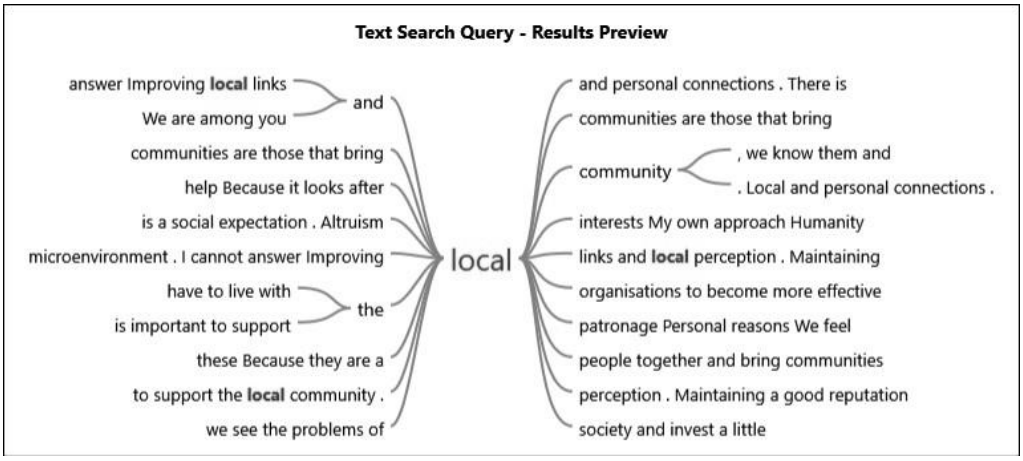


Fig. 2 How the Local as a Word was Connected with Other Expressions? (Source: Own elaboration)

Finally, two interviews were conducted, where a small, local firm’s leader/owner and a medium-sized, international company’s regional CFO reasoned why they support different communities. The first interviewee shared best practices and examples of how routines are going and how a small firm can support local communities and for a sustainable future as a nice example of local patronage. She, as an economist, takes responsibility for her flower store in her village, educating the community about appropriate and sustainable practices. She sells special selections from local artisans and artists, fostering a small community building. The store also welcomed mentally disabled people, who live in a local centre for disabled adults in the village. The firm takes responsibility for the store's selective garbage collection, involving a deaf-mute person who only mimics and as a response, the employees help him out with the math and flowers. Other disabled individuals, like a disabled man who collects selective trash and picks out plastic from paper, are also involved in the process. The firm's approach to addressing the needs of the disabled community is a testament to the importance of community and responsibility in achieving success. The store serves as a beacon of hope and support for the disabled community in the village.

On the contrary, the regional CFO gave a short but compact answer, namely „The bigger the company, the more socially insensitive it is. The manager may personally support local communities, but it is not

part of the company's corporate culture to help out the local butcher and buy him something for 1 million forints. Big companies need hype and publicity." Obviously, the size matters. The larger firms, the more formalized approach to sustainability is adopted. Due to their size, these businesses often have greater financial and human resources to devote to sustainable initiatives. In addition, because of their size, they may face a wider customer base or stricter regulatory scrutiny, which may force them to prioritize sustainability in a different way. Conversely, smaller SMEs, often operating with tighter margins and limited resources, may see sustainability as a secondary consideration. Moreover, SMEs are deeply rooted in their social region.

Discussions

Seemingly, these sustainable actions are not thoughtfully promoted nor purposely carried out. This activity seems to be divided into a conscious and a hidden part. When we asked for the reason for activities, most answerers expressed that donating to healthcare organisations or education institutes is an obvious civic duty (i.e., pressure from society) but in terms of local communities, the motivation is rooted in personal engagement (i.e., an essential part of social sustainability). As a result, sunk sustainability or implicit CSR phenomena are happening, whereas SMEs do more for sustainability than they are aware of (Matten & Moon, 2008). This could lead to the so-called mismatch problem (Chowdhury & Shumon, 2020) when stakeholders' expectations and SMEs' ability to social sustainability do not match due to internal issues (e.g., lack of resources) and external issues (e.g., absence of a tailored institutional support).

However, the lower level of sustainability visibility does not necessarily mean less sustainable and less responsible operations than in the case of large companies. Since SMEs operate along different logic resulting in different stakeholder relationships, responsibility performance and communication. Of course, there are some limitations to our study. The need to comply with scholarly research is a bias that needs to be acknowledged openly. Additionally, there is a need for further research to explore new countries to expand our samples. It is worth examining, what kind of roles other stakeholders play.

SMEs still struggle to integrate sustainability concerns into their business practices due to barriers such as limited awareness, lack of time and resources, and lack of skills and expertise. Journeault et al. (2021) found that stakeholders (local communities among others) play five complementary roles: trainer, analyst, coordinator, specialist, and financial provider. These roles help SMEs overcome different barriers to the integration of sustainability practices by providing critical and essential resources that are not easily available to SMEs. Stakeholders may support SMEs adopt sustainability practices by compensating for a lack of available time, human and financial resources, as well as limited skills and knowledge around the benefits associated with sustainability. Additionally, internal factors like engaging employees, training, and incentives hide great opportunities for fostering sustainable activities (Langwell & Heaton, 2016).

Conclusion

Somehow, SMEs seem to give faster and closer reactions to sustainability-related actions, due to their closer relationship with local communities or local stakeholders compared to the bigger companies. However, SMEs' approach to sustainability is less structured than in the case of large firms. Small companies rarely use the theories or even jargon of CSR (Corporate Social Responsibility) but adopt less formal strategies which may lead to stronger informal cooperation with the local communities where they operate. For example, their employees are from the region, or the targeted clients/buyers live there. Small firms' activities are strongly embedded in the local region resulting in a closer link with the local community. In return, SMEs target supporting and actively promoting sustainable projects in their surrounding areas as a form of reciprocal altruism. Another reason may lie in different motivational and incentive systems. The individual beliefs values, and personal attitudes of leaders (usually, they are also owners at the same time) might be smoother and more in a direct way expressed and implemented into everyday market activities.

Regarding the research questions, it can be observed that (1) the local communities have a strong influence on the SMEs' sustainability both through pressure and their willingness due to the closer connections and roots (2) the environmental pillar of sustainability plays a stronger aware role than social pillar (3) besides the pressure from local stakeholders, the leaders' and managements' personal engagement and values serve as examples for the region (4) the size of the company significantly impacts the connections with local and the gender may have an influence on local patronage, as well.

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