

Kano-Based CSR Prioritization Approach for Small Businesses

Mehran Nejati

School of Management, Universiti Sains Malaysia (USM), Penang, Malaysia

Email: Mehran.Nejati@gmail.com

Abstract

With the growing global interest in corporate social responsibility (CSR) and identification of the important role of small and medium-sized enterprises (SMEs) in the social and economic arena, small businesses are encouraged to demonstrate socially responsible behaviors. However, SMEs often struggle with limited financial resources and cannot invest in social responsibility to the same level of large companies and require to be more cautious about the return of their practices to ensure the survival of their firms. This study proposes an innovative approach for assessing and prioritizing CSR activities, based on Kano model, which can assist SME owners/managers to communicate with their stakeholders and prioritize their social needs. The approach can also be used for larger corporations after necessary modifications.

Keywords: Corporate Social Responsibility, Kano Model, Small and Medium-sized Enterprises, CSR Prioritization, CSR Approach

Introduction

Given the indications from government, public authorities, societal institutions and non-governmental organizations (NGOs), companies worldwide are gaining increasing interest to respond to stakeholders' issues and engage in responsible business behaviors. Much of this emphasis has, though, been put on large corporations as they seemingly are the ones which significantly impact the economic and social arena. That's why small businesses have been largely ignored in studies of corporate social responsibility and few previous studies took the effort to investigate social responsibility in the context of small businesses (e.g. Spence & Schmidpeter, 2003, Moore & Spence, 2006, Perrini, 2006, Perrini et al., 2007, Nejati & Amran, 2009; Russo & Tencati, 2009). As Morsing and Perrini (2009) assert, although it is very complex

to identify, investigate and communicate corporate social responsibility in small businesses, it is an area which deserves more consideration because of its potential impact on the global economy. While SMEs are way smaller in size, as compared to multinational and large companies, the collective impact of small businesses on society and economy is huge and cannot be ignored. Indeed, SMEs are dominant in their contribution to GDP and innovation and are responsible for a huge job creation in many countries. Besides, it has been argued that they can contribute to equal distribution of income and promotion of higher social stability, while setting the foundation for the long-term growth (Luetkenhorst, 2004).

Despite the relevance and importance of social responsibility for small businesses, there are several attributes and challenges of small firms which might impede their engagement in responsible behaviours. Literature discusses access to information (Lepoutre & Heene, 2006; Roberts et al., 2006; Zutshi & Sohal, 2002), time and cost factors (Biondi et al., 2000; Hillary, 1999; Lepoutre & Heene, 2006; Roberts et al., 2006; Tilley, 1999), the difficulty of making the link between CSR and economic profitability (Fernández et al., 2007), and owner/manager personal characteristics such as age and education (e.g. Petts et al., 1998; Schaper, 2002) as the major barriers in practicing CSR. More specifically, in the context of SMEs, limited financial resources has been argued as an important constraint in practicing responsible business behaviors (Sarbutts, 2003; Vives, 2006). Thence, to resolve this problem and avoid putting the business at risk by having to invest hugely on CSR initiatives, small businesses need to prioritize their social responsibility activities. This study offers an innovative model and tool based on Kano Model to prioritize the social responsibility activities of small businesses. While this tool can also be applied to large companies, it is initially developed and suggested for small businesses which are more challenged with limited financial resources and thus more into prioritizing their CSR activities.

Kano-Based CSR Approach

Kano is a model which helps to identify and classify customers' needs into three main clusters, namely basic needs (must have), performance needs (more/faster/easier is better), and excitement needs (unexpected). Basic needs are those demands that are expected by

customers to be met in a product or service. Even once these needs are met, they do not manage to satisfy customers; but if they are not met, they cause dissatisfaction among customers. Performance needs, on the other hand, are those that create increased satisfaction among customers depending on their level of achievement. Finally, excitement needs, which are labeled as latent ones, are those needs that are not in customer's awareness. Thus, if they are not met, there will be no response from customers. However, if they are met, the customer gets something unexpected and would be delighted. Figure 1 shows Kano model.

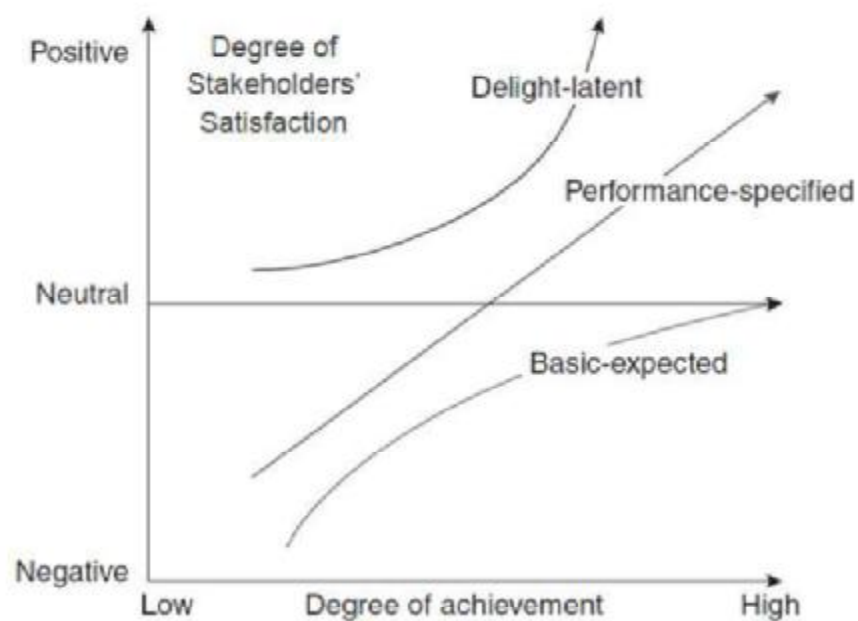


Figure 1: Kano Model (Adapted from Truscott, 2003)

The approach in Kano model can be applied in the context of CSR to develop a tool for assessing and prioritizing stakeholders' needs/demands. To this end, several steps must be undertaken which are shown in Figure 2 and are explained as the following.



Figure 2: Kano-Based CSR Prioritization Approach

1. Identify firm's key stakeholders

This step involves identifying main stakeholders of the company. Stakeholders are individuals or groups who are affected by and can affect decisions made by the firm (Freeman, 1984). Managers in a firm must identify the importance of various stakeholder groups which can affect or be affected by the actions of the firm. Stakeholders can withhold participation with the firm which may reduce efficiency and profitability; and firms that effectively manage stakeholder interests have the potential to enjoy a competitive advantage over other firms (Hillman & Keim, 2001).

2. Communicate with stakeholders and inquire about their demands by using Kano-based CSR tool

This step includes holding two-way discussions with stakeholders or their representatives and inquiring about their demands. In order to assess and prioritize

stakeholders' demands, a Kano-based CSR tool will be applied. This tool comprises of several items which are common practices of CSR and are extracted from relevant literature (e.g. Spiller, 2000; Papasolomou-Doukakis et al., 2005). Company owners/managers may edit this list by including some other CSR activities which better suits the nature of their business and/or community. A list of the proposed items is available in the appendix. These items are categorized based on several key stakeholder groups and should only be addressed to that group while communicating with various stakeholders. In order to differentiate among basic, performance and excitement needs, two simple questions are devised to elicit from a stakeholder, as whether or not he/she considers a need to be basic, performance related or excitement. To this end, two kinds of questions about a particular need, characteristic or feature are to be asked, as the following:

Question 1: How do you feel if some activity (a sample CSR activity) is not practiced by the firm?

Question 2: How do you feel if some activity (a sample CSR activity) is practiced by the firm?

Stakeholders are supposed to answer question 1 with either 'bad' or 'neutral', and answer question 2 with either 'neutral', 'good' or 'it depends'. For prioritizing the needs based on Kano model, firms should follow this approach:

- If the answer to Q1 is 'bad' and to Q2 'neutral', it is a basic need.
- If the answer to Q1 is 'neutral' and to Q2 'it depends', it is a performance need.
- If the answer to Q1 is 'neutral' and to Q2 'good', it is a delight need.

3. Prioritize the CSR activities

Results of the previous step show the categorization of different CSR activities under three main groups of basic, performance and delight needs. Thus, firms' owners/managers can decide how much they plan to invest in their social responsibilities. Overall, priority should be given to basic needs, followed by performance needs. And lastly, if firms intend to differentiate themselves from other firms and establish a better and distinguished image among stakeholders, they can go for delight needs of stakeholders. It is important to note that

small businesses can follow a flexible strategy for various stakeholders, by deciding which types of needs they want to cover for each specific stakeholder group.

Conclusion

While the innovative approach for prioritizing and selecting CSR initiatives proposed in this study has been initially developed for small businesses, it can also be adapted and applied for larger companies. The problem with majority of companies practicing CSR is in their approach. While CSR is expected to meet the demands and expectations of stakeholders, it is sometimes a mere adoption of some common practices applied by other companies. In other words, some firms merely imitate similar practices by other companies, without identifying their stakeholders and communicating with them to identify their demands. In this interim, the proposed approach helps to feel this gap by motivating companies to engage in a two-way discussion and communication with their stakeholders and engage in CSR initiatives which are the voice of their stakeholders, and not merely the voice of company!

Finally, it is worth noticing that the Kano model is a dynamic rather than static one. With time 'excitement needs' turn into 'performance needs' and ultimately possibly into 'basic needs'. For example, disclosing full details about a product's materials might have initially created excitement 50 years ago, but it is now looked upon as commonplace.

Acknowledgement

Author would like to acknowledge the support of Universiti Sains Malaysia (USM) through providing Vice-Chancellor Award.

References

- Biondi, V., Frey, M., & Iraldo, F. (2000). Environmental Management Systems and SMEs. *Greener Management International*, Spring, 55-79.
- Fernández, J. L. F., Delgado, J. B., & García, N. V. (2007). Bodega Jiménez-Landi and Javier Benjumea Chair: the collaborative creation of a strategic stakeholder management approach in a small Spanish enterprise. *Corporate Governance*. 7(4), 524-533.

- Freeman, R.E. (1984). *Strategic Management: A Stakeholder Approach*. Englewood Cliffs, NJ: Prentice Hall.
- Hillary, R. (1999). Evaluation of study reports on the barriers, opportunities and drivers for small and medium sized enterprises in the adoption of environmental management systems, *Crown Copyright*.
- Hillman, A.M.Y.J., & Keim, G.D. (2001). Shareholder value, stakeholder management, and social issues: What's the bottom line? *Strategic Management Journal*, 22(2), 125-139.
- Lepoutre, J., & Heene, A. (2006). Investigating the Impact of Firm Size on Small Business Social Responsibility: A Critical Review. *Journal of Business Ethics*, 67(3), 257-273.
- Luetkenhorst, W. (2004). Corporate social responsibility and the development agenda: the case for actively involving small and medium enterprises. *Intereconomics*, 39(3), 157-166.
- Moore, G., & Spence, L. (2006). Responsibility and small business: editorial. *Journal of Business Ethics*, 67(3), 219-226.
- Morsing, M., & Perrini, F. (2009). CSR in SMEs: do SMEs matter for the CSR agenda? *Business Ethics: A European Review*, 18(1), 1-6.
- Nejati, M., & Amran, A. (2009). Corporate social responsibility and SMEs: exploratory study on motivations from a Malaysian perspective. *Business Strategy Series*, 10(5), 259-265.
- Papasolomou-Doukakis, I., Krambia-Kapardis, M., & Katsioloudes, M. (2005). Corporate Social Responsibility: The Way Forward? Maybe Not! *European Business Review*, 17(3), 263-279.
- Perrini, F. (2006). SMEs and CSR theory: evidence and implications from an Italian perspective. *Journal of Business Ethics*, 67(3), 305-316.
- Perrini, F., Russo, A., & Tencati, A. (2007). CSR strategies of SMEs and large firms. Evidence from Italy. *Journal of Business Ethics*, 74(3), 285-300.
- Petts, J., Herd, A., & O'hEocha, M. (1998). Environmental Responsiveness, Individuals and Organizational Learning: SME Experience. *Journal of Environmental Planning and Management*, 41(6), 711-731.
- Roberts, S., Lawson, R., & Nicholls, J. (2006). Generating Regional-Scale Improvements in SME Corporate Responsibility Performance: Lessons from Responsibility Northwest. *Journal of Business Ethics*, 67(3), 275-286.

- Russo, A., & Tencati, A. (2009). Formal vs. informal CSR strategies: evidence from Italian micro, small, medium-sized, and large firms. *Journal of Business Ethics*, 85(2), 339-353.
- Sarbutts, N. (2003). Can SMEs 'do' CSR? A Practitioner's View of the Ways Small and Medium-Sized Enterprises are Able to Manage Reputation through Corporate Social Responsibility, *Journal of Communication Management*, 7(4), 340-347.
- Schaper, M. (2002). Small Firms and Environmental Management: Predictors of Green Purchasing in Western Australian Pharmacies. *International Small Business Journal*, 20(3), 235-251.
- Spence, L.J., & Schmidpeter, R. (2003). SMEs, social capital and the common good. *Journal of Business Ethics*, 45(1-2), 93-108.
- Spiller, R. (2000). Ethical Business and Investment: A Model for Business and Society. *Journal of Business Ethics*, 27(1-2), 149-160.
- Tilley, F. (1999). Small-Firm Environmental Strategy: The UK Experience. *Greener Management International*, Spring, 1-14.
- Truscott, W.T. (2003). *Six Sigma: Continual Improvement for Businesses - A Practical Guide*. Burlington, MA: Butterworth-Heinemann.
- Vives, A. (2006). Social and environmental responsibility in small and medium enterprises in Latin America. *Journal of Corporate Citizenship*, 21, 39-50.
- Zutshi, A., & Sohal, A. (2002). Environmental Management System Adoption by Australasian Organizations: Part 1: Reasons, Benefits and Impediments. *Working Paper 44/02*, Monash University.

Appendix

List of Common Social Responsibility Practices

Responsibility to Environment

- 1) Our firm has participated in activities which aim to protect and improve the quality of the natural environment.
- 2) Our firm has implemented special programs to minimize its negative impact on the natural environment.

- 3) The firm has a waste management system.
- 4) The firm includes environmental criteria in the suppliers' selection.

Responsibility to Community

- 5) Our firm has supported non-governmental organizations working in problematic areas.
- 6) Our firm has contributed to campaigns and projects that promote the well-being of the society.
- 7) Our firm has encouraged its employees to participate in voluntarily activities.
- 8) The firm has engaged in employment diversity by hiring and promoting the physically handicapped.
- 9) The firm has engaged in employment diversity in hiring and promoting ethnic minorities.
- 10) The firm includes social criteria in the suppliers' selection.
- 11) The firm has utilized local suppliers.

Responsibility to Employees

- 12) Our firm policies have encouraged the employees to develop their skills and careers.
- 13) The management of our firm has been primarily concerned with employees' needs and wants.
- 14) Our firm has implemented flexible policies to provide a good work and life balance for its employees.
- 15) The managerial decisions related with the employees have been usually fair.
- 16) Our firm has supported employees who wanted to acquire additional education.
- 17) The firm has provided a healthy and safe work environment for its employees.
- 18) The firm has provided a fair reward and wage system for employees.

Responsibility to Customers

- 19) Our firm has respected customers' rights beyond the legal requirements.
- 20) Our firm has provided full and accurate information about its products to its customers.
- 21) The firm has offered rapid and respectful responses to customer comments/concerns.
- 22) Customer satisfaction is highly important for our firm.

Responsibility to Suppliers

- 23) The firm has paid fair prices and bills to suppliers according to terms agreed upon.
- 24) The firm has developed and maintained long-term purchasing relationships with suppliers.
- 25) The firm has shared its expectations from suppliers clearly.

Responsibility to Shareholders

- 26) The firm has a clear long-term business strategy.
- 27) The firm prepares annual reports which provide a clear picture of company's performance.
- 28) Access to company's directors and senior managers is provided for shareholders.