The influence of potential outcomes of corporate social responsibility engagement factors on SME competitiveness

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While SMEs are globally recognised for their importance in the social and economic development of many economies, their survival and competitiveness has remained a cause for concern. More than half of SMEs in Uganda fail during their first year. Analytical and empirical research on appropriate strategies for SMEs' competitiveness in Uganda is limited. The potential outcomes of CSR engagement such as employee satisfaction, business reputation, and customer loyalty have been found to be positively related to the competitiveness of SMEs. The primary objective of this article is to identify and empirically test the factors that influence the competitiveness of SMEs in Uganda. A structured self-administered questionnaire was distributed to 750 potential SME respondents. The respondents were identified using purposive sampling technique, and the data were collected from 383 usable questionnaires. An exploratory factor analysis was conducted, and Cronbach-alpha coefficients calculated to determine the discriminant validity and reliability of the measuring instrument. Correlations were analysed using Structural Equation Modeling. The empirical results of this study indicate that *Employee satisfaction, Business reputation, Customer loyalty* and *Stakeholder trust* significantly impact the *competitiveness* of SMEs.

Introduction

There is a growing recognition of the important role small and medium enterprises (SMEs) play in economic development globally (Kongolo, 2010: 2288; Muhammad, Char, Yasoa & Hassan, 2010: 66). SMEs are often described as efficient and productive job creators, wealth creators, and engines of economic growth (Abor & Quartey, 2010: 218; Amin & Banerjee, 2007: 59). In Africa, where the private sector in general is not well developed, SMEs could play a critical role in stimulating economic development and alleviating poverty (Beyene, 2002: 1).

While the contributions of SMEs to social and economic development are generally acknowledged, they face many obstacles that limit their long-term survival (Okpara & Wynn, 2007: 195). Their competitiveness is largely constrained by a number of factors, such as a lack of access to appropriate technology; limited access to international markets; weak institutional capacity; lack of management skills and training; lack of a professional and competent workforce; lack of a substantial orientation towards the domestic market; and lack of finance (Abor & Quartey, 2010: 218; Saleh & Ndubisi, 2006: 10; Okpara & Wynn, 2007: 195). As such, the high failure rate among SMEs has remained a cause for concern in developing countries, especially in Uganda (Harorimana, 2009: 71; Hatega, 2007: 4; Tushabomwe-Kazooba, 2006: 2). Analytical and practical case studies on appropriate strategies that can aid the competitiveness of SMEs in Uganda are also limited. Even though SMEs tend to attract motivated managers, they can

hardly compete with larger firms (Abor & Quartey, 2010: 224).

Globalization of markets and the turbulent business environment have increased the level of competitiveness, which is increasingly putting greater pressure on SMEs to acquire and increase their competitive advantages (Guzmán, Gutiérrez, Cortes & Ramírez, 2012: 9). However, owing to global competition, technological advances and changing needs of consumers, competitive paradigms are continuously changing. To remain competitive, businesses need to be able to adapt to new demands from the market and society in which they operate. As such, corporate social responsibility (CSR) can be used as strategic tool to enhance the competitiveness of SMEs (Szabo, 2008: 17).

CSR can positively influence the competitiveness of SMEs through improved products resulting in better customer satisfaction and loyalty, higher motivation and loyalty of employees, and better networking with business partners and access to public funds due to a better business image (Mandl, 2009: 11; Szabo, 2008: 18). The motivation of employees is one of the key factors that affect the progress and success of a business, by keeping employees satisfied on the job (Kishore, Majumdar & Kiran, 2012: 4). A good business reputation, on the other hand, can benefit SMEs by attracting potential customers, saving the time for establishing business relationship with customers, reducing the transaction cost and creating premium revenue (Zhang, 2009: 33). Creating loyal customers has also become more important due to significant increase in competition and concentrated markets. In this turbulent competitive

environment, research suggests that building long-term relations with the customers is imperative for SME managers (Rehman & Afsar, 2012: 183). For the purpose of this study, *small and medium sized enterprises* are considered as businesses which employ more than 5 but fewer than 100 persons, while *competitiveness* refers to a business's ability to sustain its long-term performance better than its competitors in the market, as indicated by profitability, market share, sales and growth rate.

Objectives

The primary objective of this paper is to identify and empirically test the potential outcomes of CSR engagement factors such as employee satisfaction, business reputation, and customer loyalty that influence the competitiveness of SMEs. Based on the findings, recommendations will be made to assist SMEs to effectively manage activities inside their businesses, which could result in increased competitiveness. This study adds to what is currently known about factors that influence the competitiveness of SMEs. It is hoped that by identifying these factors and testing them among SMEs in a developing country, SMEs can use these as possible mechanisms to enhance their competitiveness.

Determinants of SME competitiveness

While the research on competitiveness has been increasing in popularity amongst scholars, less is known about the competitiveness of SMEs (Szerb & Ulbert, 2009: 1). In today's globalised economy, SMEs are facing ever increasing competitive pressures (Mohammad *et al.*, 2010: 68; Whittaker, Burns & Beveren, 2003: 1). They need to gain new market information and knowledge to remain competitive. As such, a common strategy is to develop social networks with other SMEs (Whittaker *et al.*, 2003: 2). Furthermore, the potential outcomes of CSR engagement such as employee satisfaction, business reputation, and customer loyalty have been found to be positively related to the competitiveness of SMEs (Rehman, 2012: 183; Turyakira, 2012: 184).

SMEs can adopt CSR activities to address consumers' social and environmental concerns, create a favourable corporate image, and develop a positive relationship with consumers and other stakeholders (Liu & Zhou, 2009: 4), thereby enhancing their competitiveness. Hence, this study focuses on *Employee satisfaction, Business reputation* and *Customer loyalty* which constitute the independent variables. Employee satisfaction is an important factor for business success and to achieve greater competitiveness. If a business wants to function optimally and gain profit, it should have educated, motivated, and therefore satisfied staff, because the success of a business lies in its human resources (Kovačević, Gajić & Penić, 2012: 224). In this highly competitive environment, business reputation should be considered as an asset and wealth that gives the business a competitive advantage because the business will be regarded as reliable. Once a business achieves a favourable reputation in the eyes of its customers, it will stand out among its

competitors to reap benefits, which would in turn further improve its reputation (Awang, 2011: 31). Furthermore, for businesses to succeed in this competitive environment, they must find suitable ways for creating and adding value for their customers. SMEs must understand their customers if they are to create competitive advantage and benefit from the loyalty of their customers (Papulova & Papulova, 2006: 1). These factors can individually or collectively determine the competitiveness of SMEs in the long-term in terms of increased sales volume, growth rate, market share and profitability. The proposed hypothesised model, illustrated in Figure 1, illustrates the relationships between the selected factors as independent variables and *Increased competitiveness* as the dependent variable.
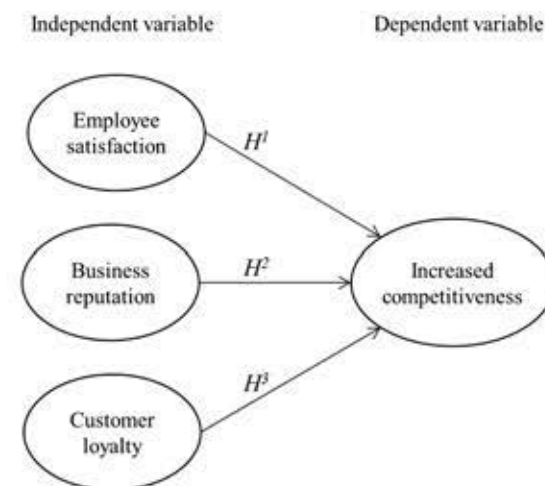

Figure 1: Determinants of increased competitiveness of SMEs

In Figure 1 above (the hypothesised model), *Employee satisfaction, Business reputation* and *Customer loyalty* (independent variables) impact on the *Increased competitiveness* of SMEs (dependent variable), which could be measured by sales volume, growth rate, market share and profitability. These factors will now be discussed in the following paragraphs.

Independent variables

Employee satisfaction

In this study, *Employee satisfaction* refers to the business having employees who see their role in the business as satisfying and enjoying working together in the business. This implies attracting, developing, motivating and retaining qualified and happy employees who feel that they have achieved something with a view of enhancing a business's competitiveness. There are many factors that influence employee satisfaction such as employee benefits, job content and performance appraisal systems, job safety, improved workplace conditions, and the relationship between managers or other employees (Aydin & Ceylan, 2008: 4). Employee satisfaction represents a component of the success of each business (Diaz-Serrano & Cabral Vieira, 2005: 3), and more satisfied employees are less likely to

leave their employer (Gaziouglu & Tanseel, 2002: 3; Yee, Yeung & Cheng, 2010: 117). A survey of employees in Novi Sad's Tourist Agencies (Kovačević et al., 2012: 221) revealed that better working conditions and interpersonal relationships provide greater employee satisfaction. Not only do employees feel comfortable, but also better working conditions provide better opportunity for improved job performance and success at work. Employees are more satisfied if they perceive that the reward system as fair and provides equal treatment to all employees, and that more is expected from the fair reward system than from the salary itself (Kovačević et al., 2012: 223). This implies that perceived fairness of the reward system is a more important factor than just salary (Karatepe & Kilic, 2007).

Furthermore, a survey by Sirota Survey Intelligence (2007: 1) revealed that employees who are satisfied with a business's commitment to their welfare are likely to be more positive, more engaged and more productive than those working for less responsible employers. Similarly, a survey of Canadian SMEs (Princic & Floyd, 2003: 12) established that good employee relationships are regarded as integral to the success of SMEs. Hence, having loyal employees can be a prerequisite for any successful business. A study in the Taiwan's Shipping Industry established a positive relationship between employee satisfaction and SMEs' competitive advantage (Tsai, Yu & Fu, 2005: 9). SMEs can use employee benefits to increase employee productivity and, in turn, achieve competitive advantage. Based on thi anecdotal and empirical evidence, the following relationship is hypothesised:

> H^1: There is a positive relationship between achieving Employee satisfaction and Increased competitiveness of SMEs.

Business reputation

In this study, *Business reputation* refers to attributes that form stakeholders' perceptions of the extent to which a business is well known, reliable, trustworthy, reputable and believable. According to Awang (2011: 30), businesses can achieve favourable levels of reputation by being reliable, credible, trustworthy and responsible in the market in the eyes of their stakeholders. The reputation of a business is a collective construct which reflects an aggregated view of individual perceptions (Barnett, Jermier & Lafferty, 2006: 33). Business reputation is perceived as the strong relationship between the customers and the business, which is viewed as client relationship-building (Omar, Williams & Lingelbach, 2009: 4). Empirical findings by Helm (2007: 8) among employees showed that commitment to protecting the environment, fair treatment of employees, commitment to charitable and social issues, and qualification of management are the most important business reputation attributes.

A good business reputation can lead to several strategic benefits such as lowering business costs and enabling businesses to charge premium prices; thus increasing its profitability (Walker, 2010: 360). In doing so, a business's competitiveness is likely to increase in the long-run. Customers are more inclined to purchase the products or services from businesses which they perceive as having favourable reputation among their competitors (Nguyen & Leblanc, 2001). Accordingly, business reputation is seen as a potential source of competitive advantage (Davies, Chun & Kamins, 2010: 532). Hence, businesses should focus on building trust and good will to be profitable and competitive.

Business reputation is an important intangible asset that leads to sustainable competitive advantage (Caliskan, Icke & Ayturk, 2011: 71). According to Eberl and Schwaiger (2005: 6), business reputation is an intangible asset that could generate a competitive advantage in the marketplace, and hence, superior financial performance relative to competitors. An empirical study (Omar et al., 2009: 4) among leading US/UK businesses found that those businesses with a more positive reputation appeared to project their core mission and identity in a more systematic and consistent fashion than businesses with lower reputation rankings. Furthermore, Empirical findings by Shamma and Hassan (2009: 334) highlight vision and leadership, emotional appeal and social and environmental responsibility as the important elements that businesses need to focus on as their reputation progresses. These elements are at the highest level of business reputation and represent an important source of long-term sustainability and competitive advantage. Research findings from both autoregressive profit models and proportional hazards regression models (Roberts & Dowling, 2002: 14) consistently suggest that successful businesses have a greater chance of sustaining superior performance over time if they also possess relatively good business reputations. Against this background, the following is hypothesised:

> H^2: There is a positive relationship between Business reputation of SMEs and Increased competitiveness.

Customer loyalty

In this study, *Customer loyalty* refers to a business having loyal and satisfied customers that are willing to support it by recommending its products and are committed to buying its products/services in the future. In an era of intense competitive pressures, many businesses are focusing their efforts on maintaining a loyal customer base. Loyal customers are more likely to engage in repeat purchases from a business or increase their share of purchases from a particular business (Cengiz, Ayyildiz & Er, 2007: 63). As markets become more competitive, businesses are more likely to attempt to maintain their market share by focusing on retaining current customers (Lee, Lee, & Feick, 2001: 2). Building customer loyalty should be a business strategy that businesses can use to increase and maximise their share of customers. Customer loyalty does not only help in generating revenues and profits but it also helps achieve other benefits such as advocating the process in which loyal customers become the advocates of the business's goods and

services (Rehman & Afsar, 2012: 185). According to Brimpong (2008: 60), important indicators of customer loyalty are length or duration of stay of customers; the willingness to recommend the product or institution to friends; and repurchasing products.

Empirical research (Gable, Fiorito and Topol, 2008: 14) indicates that customer loyalty is key to business success and retaining existing customers costs far less than acquiring new ones. Customer loyalty creates customer retention to improve a business's competitiveness (Gan, Cohen, Clemes & Chong, 2006: 14). A study of Pakistani bank account holders (Rehman & Afsar, 2012: 183) revealed that long-term success and sustainable reputation of a business depends on customer loyalty. Furthermore, results from the survey of the Bangladeshi Mobile Phone Operator Industry (Islam, 2008: 10) stressed customer retention rate as a good indicator of customer loyalty. As such, increases in customer retention rates can have a significant positive effect on market share and a business's net operating cash flow and profit. Based on these anecdotal and empirical evidence, the following relationship is hypothesised:

> H^3: There is a positive relationship between achieving Customer loyalty and Increased competitiveness of SMEs.

Competitiveness

In this study, the dependent variable is the *Increased competitiveness* of SMEs, which refers to a business's ability to sustain its long-term performance better than its competitors in the market, as indicated by profitability, market share, sales and growth rate. Business competitiveness can be measured using only financial indicators such as profit, market share, sales, and growth rate (Singh, Garg & Deshmukh, 2008: 12, Man, Lau & Chan, 2002: 125). However, there are many other indicators of competitiveness, depending on the nature of the study, industry and the size of the business, such as net worth and sales volume (Segal, Borgia & Schoenfeld, 2010: 5). In a survey of independent Greek SMEs, business competitiveness was measured using profitability, sales growth, sales volume and market share as indicators of business success (Salavou & Avlonitis, 2008: 7). Similarly, Jamaludin & Hasun (2007: 6) measured competitiveness of the business by comparing the actual performance of the business sales, market share, profit, growth, demand and customer loyalty with the forecast.

In a survey of Chinese banking industry (Li & Wang, 2007: 2), business competitiveness was measured using eight business criteria: return on total assets, return on net assets, return on sales, asset-liability ratio, total asset turnover, price-cost ratio, loan losses, and return on equity. An empirical study of furniture SMEs in Spain (Guzmán *et al.*, 2012: 14) concluded that competitiveness of SMEs can be measured by return on investment, increase in sales, profits, and market share. Recognising the limitations of relying solely on either the financial or non-financial measures, a survey of five owners-managers of SMEs established that most owners-managers of the modern SMEs use a hybrid approach in measuring competitiveness due to their concerns on meeting the financial as well as non-financial returns. Such a combination is used to measure competitiveness against predetermined goals and time. Financial measures include profits and sales turnover while non-financial measures are the long-term growth rate and market share of the business (Chong, 2008: 7). Based on these anecdotal and empirical evidence, it can be concluded that most SMEs use profitability, market share, sales and growth rate as measures of competitiveness.

Methodology

The purpose of this section is to explain the research design and methodology that were used to address the objectives of this study.

Scale development

The factors under investigation were operationalised using reliable and valid items sourced from measuring instruments validated in previous empirical studies as indicated in Table 1 below. However, where adequate items were not obtainable, additional questions were self-generated based on thorough analysis of secondary sources to ensure that every variable in the measuring instrument was represented by sufficient items. Where necessary, the items were rephrased to make them more relevant for this study. The measuring instrument consisted of two sections. Section A consisted of 24 statements (items) related to potential outcomes of CSR engagement, using a seven-point Likert-type interval scale (1= strongly *disagree* and 7= *strongly agree*). Section B of the questionnaire sought demographic information relating to both the respondents and the SMEs in which they operate and consists of seven variables using a nominal scale.

Table 1: Sources of previously validated items used in the measuring instrument

Factors	References
Employee satisfaction	Dua (1994: 62), Eybers (2010: 160), Farrington (2009: 406), Llorente and Macia (2005: 66), and Tanur (1995: 427)
Business Reputation	Fombrun, Gardberg and Sever, (2000) and Lloyd (2007: 55)
Customer loyalty	Bloemer, Ruyter and Wetzels (1999), Donnelly (2009: 289), Ouyang (2010: 6), Ramzi and Mohamed (2010: 5)
Increased competitiveness	Depperu and Cerrato (2005: 10), Konstantinidis, (2009: 2), Salavou and Avlonitis, (2008: 7), Chew, Yan, and Cheah (2008: 7)

Sampling and data collection

In this study, a non-probability sampling technique, namely purposive sampling, particularly judgmental sampling, was used to select respondents from different industrial sectors in Kampala District in Uganda, whose workforce ranged from 5-100 employees. A large number of SMEs in Uganda is located in Kampala District and the selected industrial sectors were judged to be employing a minimum of 5 and not more than 100 persons based on the definition of SMEs in this study. This data was obtained from Uganda Bureau of Statistics (UBOS 2007) Business Register Update which covered all the sectors of the Ugandan economy except the public sector and it provided an updated list of businesses employing 5 but not more than 100 persons. In this study, *SMEs are considered as businesses which employ more than 5 but fewer than 100 persons*. A comprehensive literature search was conducted in order to identify appropriate determinants of long-term competitiveness of SMEs. Several data searches were done at Makerere University and the Nelson Mandela Metropolitan University libraries, using databases such as EBSCO, Emerald searches, Google searches, Yahoo searches, Dissertation Abstracts, and leading CSR and SMEs Journals. The review covered journal articles, online reports and government documents.

Data analysis

Several data analysis techniques were utilised in this study to analyse data obtain from 383 usable questionnaires. An Analysis of Variance (ANOVA) was undertaken to determine the influence of demographic variables with a nominal scale on the dependent variables. An exploratory factor analysis was carried out, and Cronbach-alpha coefficients were calculated to determine the discriminant validity and reliability of the measuring instrument. The correlations were assessed using Structural Equation Modelling (SEM). The software programme SPSS 18 for Windows was used to identify representative variables and to create new variables.

Results and discussion

The results of this study are presented and discussed in the subsequent sections in relation to the study objectives.

Demographic profile of respondents

Substantial majority of respondents were males (63%), and had been in operation between three and five years (72%). A good number of respondents (85%) were employed managers (CEO or functional managers) in areas such as finance or marketing, and had attained a National Certificate or Diploma (60%). The vast majority (67%) were operating private limited companies, employing between 11 and 20 full-time employees (40%). The great majority of the respondents (49%) were unwilling to disclose information regarding their annual turnover. Of those that were willing to disclose information, 26% of respondents indicated that they generated less than UGX 50 million (ZAR 161,290) per

annum. Summaries of sample descriptions are presented in Table 2 below.

Table 2: Demographical profile of respondents

Gender of respondent	Frequency	Percentage
Male	243	63%
Female	140	37%
Number of years in business by respondent	**Frequency**	**Percentage**
Less than three years	0	0
Between three and 5 years	273	72%
Between 6 and 10 years	86	23%
More than 10 years	23	6%
Position or Title in business of respondent	**Frequency**	**Percentage**
Owner (Silent Partner)	25	7%
Owner and active manager in the business	33	9%
Employed manager (CEO or functional manager)	325	85%
Level of education of respondent	**Frequency**	**Percentage**
Ordinary level certificate	3	,8%
Advanced level certificate	12	3%
National certificate or Diploma	229	60%
Bachelors degree	127	33%
Masters degree and higher	11	3%
Other	1	,3%
Form of enterprise	**Frequency**	**Percentage**
Sole trader	53	14%
Partnership	59	15%
Private limited Company	256	67%
Trust	12	3%
Other	2	,5%
Branch/Sector	**Frequency**	**Percentage**
Manufacturing/processing	82	21%
Business services	76	20%
Trade (retailing/wholesaling)	41	11%
Hotels and Restaurants	75	20%
Finance	20	5%
Insurance	6	2%
Education	62	16%
Health and Social works	21	6%
Size of the business (Number of full-time employees)	**Frequency**	**Percentage**
Less than 5	3	,8%
Between 5 and 10	129	34%
Between 11 and 20	150	40%
Between 21 and 50	73	19%
More than 50	24	6%
Size of the business (Range of Annual Turnover)	**Frequency**	**Percentage**
Less than UGX 50 million per annum	100	26%
UGX 51-100 million per annum	61	16%
UGX 101-200 million per annum	19	5%
More than UGX 200 million per annum	14	4%
Not willing to disclose	187	49%

Note: ZAR 1 = UGX 310

Discriminant validity and reliability results

To assess the discriminant validity among the variables, all items in the questionnaire were subjected to exploratory factor analysis using the software programme SPSS 18 for Windows. Based on the relational nature of the variables, principal axis factoring with an oblique (oblimin with Kaiser normalisation) was specified as the extraction and rotation method for sub-models. While ascertaining the constructs to extract, the percentages of variance explained and the individual factor loadings were taken into account.

The exploratory factor analysis was unable to confirm all the latent variables as originally anticipated. Of the eight items intended to measure *Employee satisfaction*, only two items actually loaded onto it. One item loaded onto a separate factor which was renamed *Stakeholder trust*. Furthermore, six items were originally intended to measure the construct *Business reputation* but only three items loaded together onto this factor. Another item loaded onto *Stakeholder trust*,

which refers to the service provider being trustworthy, honest and instils confidence in his stakeholders (Eid, 2011: 93). Accordingly, an additional hypothesis was formulated (see Table 3) to test this relationship. Six items were originally used to measure the construct *Customer loyalty* and only four items loaded together onto this factor.

In scientific research, factor loadings of 0,30 and 0,40 are considered significant for sample sizes of 200 and 350 respectively (Hair, Black, Babin, Anderson & Tatham, 2006: 128). In the present study, factor loadings of $\geq 0,4$ were reported for all items. Accordingly, Cronbach-alpha coefficients of greater than 0,70 (Nunnally & Bernstein 1994; Suhr & Shay, 2009: 3) were obtained for all constructs, confirming the reliability of measuring scales. Table 3 below presents a summary of operational definitions of the factors and the details regarding the validity and reliability of the measuring instrument.

Table 3: Measurement instrument analyses

Operationalisation of factors	Items	Factor loadings	Cronbach-alpha
Employee satisfaction refers to the business having employees who see their part in the business as satisfying, and they enjoy the way they work together in the business.	2	Max: 0,890 Min: 0,857	0,794
Business reputation refers to the business being well-known among its stakeholders who also have a good opinion about the business. The business is also well known for making reliable products and/or services.	3	Max: 0,812 Min: 0,572	0,738
Customer loyalty refers to the business having customers that are willing to support it by recommending its products and committed to buying its products/services in the future.	4	Max: 0,832 Min: 0,581	0,738
Stakeholder trust refers to the business being regarded as trustworthy among stakeholders, having stakeholders who enjoy working in the business, and having customers who are willing to recommend the business to other customers.	3	Max: 0,722 Min: 0,581	0,717

Reformulated hypotheses

Based on the results of the exploratory factor analysis, it was deemed important to modify the original hypotheses, as summarised in Table 4 below:

Table 4: Reformulated hypotheses

H^1:	There is a positive relationship between achieving *Employee satisfaction* and the *Increased competitiveness* of SMEs.
H^2:	There is a positive relationship between the *Business reputation* of SMEs and the *Increased competitiveness* of SMEs.
H^3:	There is a positive relationship between achieving *Customer loyalty* and the *Increased competitiveness* of SMEs.
H^4:	There is a positive relationship between achieving *Stakeholder trust* and the *Increased competitiveness* of SMEs.

Structural Equation Modelling results

To establish the extent to which the proposed model represents an acceptable approximation of the data, various fit indices were utilised. These include the Satorra-Bentler scaled Chi-square ($\chi2$), the ratio of Chi-square to degrees of freedom ($\chi2/df$), RMSEA, and the 90% confidence interval for RMSEA (Hoe, 2008: 2). The indices present proof of a model with a reasonable fit.

The empirical results of this study (see Figure 2) reveal that *Employee satisfaction*, *Business reputation*, *Customer loyalty* and *Stakeholder trust* positively influence the *Increased competitiveness* of SMEs. Support is therefore found for hypotheses H^1, H^2, H^3 and H^4.
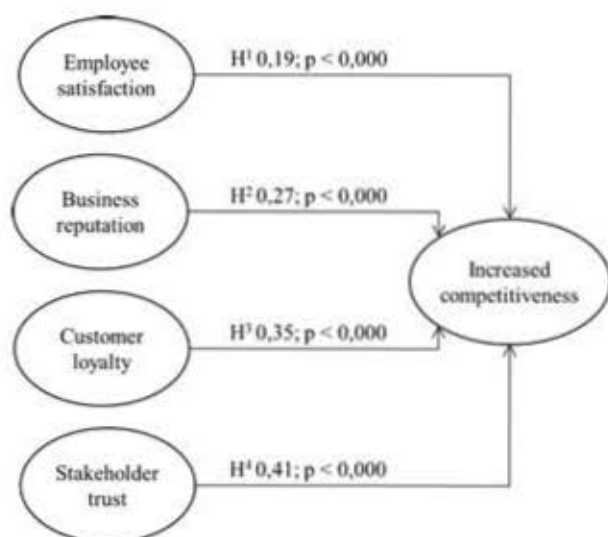
Figure 2: Empirical findings of factors determining the Increased competitiveness of SMEs

From Figure 2 above, it is clear that a positive relationship (path coefficient = 0,19; p < 0.000) exists between *Employee satisfaction* and *Increased competitiveness* (Hypothesis H^1) of SMEs. This implies that SMEs which have employees who see their part in the business as satisfying and enjoy the way they work together, are more likely to enhance their competitiveness in the long-run compared to those businesses that ignore the plight of their employees. The findings of this study are supported by previous research (Tsai *et al.*, 2005: 9) which confirms the positive relationship between employee satisfaction and SME competitiveness. A study of Canadian SMEs (Princic & Floyd, 2003: 12) established that good employee relationships are critical to the success of SMEs.

The present study has revealed a positive relationship between *Business reputation* and *Increased competitiveness* (path coefficient = 0,27; p < 0.000) of SMEs. In other words, the more a business is well-known among its stakeholders for making reliable products and/or services, the more it is likely to enhance its competitiveness. Empirical results from previous research (Roberts & Dowling, 2002: 14) revealed that superior-performing businesses have a greater chance of sustaining superior performance over time if they also possess relatively good business reputation. According to Polášek (2010: 56), the reputation of a business at its location, its image as an employer and producer certainly influences its competitiveness. Hence, Customers are more inclined to purchase the products or services from businesses which they perceive as having favourable reputation among their competitors (Nguyen & Leblanc, 2001).

A significant positive relationship between *Customer loyalty* and *Increased competitiveness* (path coefficient = 0,35; p < 0.000) of SMEs was revealed. This implies that a business which has customers that are willing to support it by recommending its products and/or services, and who are committed to buying its products/services in the future, is

more likely to gain and sustain a competitive advantage. Sufficient evidence has been found to support the relationship. A survey of Pakistani bank account holders (Rehman & Afsar, 2012: 183) revealed that long-term success and sustainable reputation of a business depends on customer loyalty. A survey of the Bangladeshi Mobile Phone Operator Industry (Islam, 2008: 10) revealed that increases in customer retention rates can have a significant positive effect on market share and a business's net operating cash flow and profit.

The results of this study show a significant positive relationship between *Stakeholder trust* and *Increased competitiveness* (path coefficient = 0,41; p < 0.000) of SMEs (Hypothesis H^4). In other words, if a business is regarded as trustworthy among stakeholders, having stakeholders who enjoy working in the business and has customers who are willing to recommend the business to other customers, it is more likely to gain and sustain a competitive advantage. A survey of stakeholder groups from four different businesses in USA (Pirson & Malhotra, 2007: 2) revealed that stakeholder trust was widely recognised as a key enabler of business success, and different antecedents of trust (benevolence, integrity, competence, reliability, transparency, and identification) are indeed relevant for different stakeholder types.

Conclusions and recommendations

The findings of this study confirm positive relationships between *Employee satisfaction*, *Business reputation*, *Customer loyalty* and *Stakeholder trust* (independent variables), and the *Increased competitiveness* (dependent variable) of SMEs.

The study findings reveal a significant positive influence of *Employee satisfaction* on the *Increased competitiveness* of SMEs. This result suggests that a business which has employees that see their part in the business as satisfying and enjoy the way they work together is more likely to enhance its competitiveness in the long-run. It is important for SMEs to note that different things motivate people differently, and therefore, should use multiple strategies to achieve employee satisfaction. To gain and maintain a competitive advantage, SMEs should design jobs that offer more variety and stimulation, give employee regular feedback and empower their employees to participate in decision-making to solve work-related problems.

A significant positive relationship between *Business reputation* and *Increased competitiveness* of SMEs was reported. This implies that a business which is well-known among its stakeholders for making reliable products and/or services is more likely to increase its competitiveness. Business reputation is an intangible asset that businesses can use to create a competitive advantage, by distinguishing themselves from others. SMEs can therefore enhance their competitiveness by selling reliable products and/or services, obtaining periodic feedback regarding the brand-image of the business among stakeholders, properly developing and

managing the relationships between stakeholder groups, such as customers and employees, and establishing a pattern of open communication.

The results of this study show a significant positive relationship between *Customer loyalty* and *Increased competitiveness* of SMEs. This implies that a business which has customers that are willing to support it by recommending its products and/or services and is committed to buying its products/services in the future is more likely to gain and sustain a competitive advantage in the long-term. Increases in customer retention rates can have a significant positive effect on market share and a business's net operating cash flow and profit. Therefore, it is important for SMEs to provide outstanding customer service; stay in contact and communicate with customers regularly through different media, such as a monthly newsletter, facebook or maintaining a website; deliver more than what customers expect; and employ competent and motivated employees who are likely to provide professional and superior services to customers.

The findings of this study confirm that *Stakeholder trust* has a significant positive influence on *Increased competitiveness* of SMEs. This means that a business which is regarded as trustworthy, and has stakeholders who enjoy working with it and are willing to recommend the business to other customers is more likely to gain and sustain a competitive advantage. Building trust with various stakeholders (e.g., customers, employees, suppliers and investors) requires commitment and investment in time, human, and financial resources. Hence, SMEs can build stakeholder trust by demonstrating a high degree of transparency in their transactions, listening and honouring their promises, and demonstrating honesty and integrity towards stakeholders, no matter how difficult it might be.

Table 5 provides some general guidelines for using potential outcomes of CSR engagement that could enhance competitiveness of SMEs.

Table 5: General guidelines for using potential outcomes of CSR engagement to enhance SME competitiveness

	Employee satisfaction guidelines:
1	Have employees who are happy in their jobs.
2	Have employees who enjoy working in this business.
3	Have employees who see their part in this business as worthwhile.
4	Have employees who see their part in this business as satisfying.
5	Have employees who enjoy the way that they work together in this business.
6	Have employees who find what they expected from their jobs.
7	Give employees the feeling that they have achieved something.
8	Give employees information about what concerns them.
	Business reputation guidelines:
1	Be well-known among stakeholders.
2	Be well-known for making reliable products and or services.
3	Have stakeholders who have a good opinion of the business.
4	Have stakeholders who regard the business as trustworthy.
5	Have stakeholders who feel unfriendly towards our business.
6	Have a reliable business reputation among stakeholders.
	Customer loyalty guidelines:
1	Have customers who are committed to supporting our business.
2	Have customers who recommend our products and services.
3	Have customers who will carry on buying our products/services in the future.
4	Have customers who are loyal and satisfied with our products or services.
5	Have customers who will recommend our business to other customers.
6	Have customers who come to this business because they want to, not because they have to.

Limitations and future research

Although the present study has attempted to make a significant contribution to the body of knowledge on SMEs, it is important to identify and consider limitations when making interpretations and conclusions. The proposed hypothesised model focuses on a few selected factors that determine the competitiveness of SMEs. Future studies could investigate various other factors such as customer satisfaction, products quality, and business relations and incorporate them into a more comprehensive model that impacts the competitiveness of SMEs. The target respondents (SME owners/managers) of this study are a limitation in itself. Given the various variables proposed in

the hypothesised model, different SME stakeholders could have been investigated such as customers and employees.

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