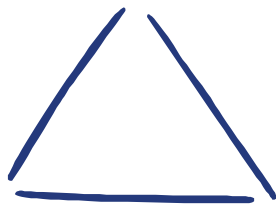# Doughty Centre

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SMALL IS SUSTAINABLE (AND BEAUTIFUL!) ENCOURAGING EUROPEAN SMALLER ENTERPRISES TO BE SUSTAINABLE

by
David Grayson CBE and Tom Dodd

A Doughty Centre for Corporate Responsibility Occasional Paper

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SMALL IS SUSTAINABLE (AND BEAUTIFUL!) – ENCOURAGING EUROPEAN SMALLER ENTERPRISES TO BE SUSTAINABLE

David Grayson and Tom Dodd

Introduction

This paper takes stock of the some of the significant progress made and lessons learned in supporting the uptake of corporate social responsibility (CSR) amongst small and medium-sized enterprises (SMEs). It then identifies a number of issues that we think merit further attention as this important work continues.

Our key messages are:

- In some countries, the language of "sustainability" may be more attractive to smaller businesses than that of "responsibility".

- Messengers, as well as messages, matter.

- "Horses for courses" – promotion, information and training about sustainability need to be targeted.

- Facilitating peer-to-peer engagement and learning seems to offer particular opportunities.

- Supply chain pressures for sustainability are increasing and are likely to intensify.

Our target audience is mainly policy-makers and practitioners from SME "intermediaries" – that is to say from organisations that support or represent SMEs in a variety of different ways. We also hope it will be relevant to business-led CSR organisations, such as the national partners of CSR Europe, and to large businesses seeking to engage SMEs in CSR, either through supply-chain initiatives or through leadership initiatives such as the European CSR Alliance. This paper is not an academic paper as such, although it draws on the work of a number of academics active in this field. In turn we hope that the paper may inspire new avenues of academic research.

With the recent growth in concern about climate change it is conceivable that there will be more publicly-funded programmes to help SMEs become environmentally sustainable. As far as possible, such programmes ought to seek to keep a balance between the strictly environmental aspects of sustainability and social and economic aspects. Even if such initiatives do not come in the guise of initiatives to "promote CSR", it is important that they build on and take account of the many lessons learned from initiatives that have sought to support the uptake of CSR amongst small businesses. This paper aims to be a contribution in that context also.

1. CSR is increasingly important to business, including SMEs

The questions that underlie CSR – "What is the wider role of my business in society?", "How is my business expected to behave?" – have grown in legitimacy in recent years. Whether or not the actual term CSR survives may be a moot point, and it does seem increasingly inadequate for describing the value-creating, innovation-driven CSR of some leading companies. But the questions that the term CSR seeks to describe show every sign of becoming more rather than less important.

The growing strategic importance of sustainable and responsible business is well documented.[1] Climate change, natural resource constraints, population growth, poverty, inequality and human rights issues are increasingly part of the accepted agenda of large global companies. The evolving expectations of consumers, citizens, governments, non-governmental organisations and financial institutions are fundamentally changing the environment in which businesses operate.[2] According to a recent report by McKinsey, "95% [of CEOs surveyed] agreed that society has greater expectations for business to take on public responsibilities than it had 5 years ago."[3] Ironically, these heightened expectations come at a time when trust in large, global businesses is low and probably decreasing.[4]

Most analyses of the importance of CSR and sustainability for business focus on large companies. This is understandable: it is above all large global companies that have become more powerful in recent years, and it is above all they that are under pressure to assume responsibilities commensurate with their growing power. Societal problems are increasingly global in nature and it is, therefore, only to be expected that global enterprises will be concerned by them and will sometimes be looked to as a source of solutions.

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[1] See for example: "Shaping the New Rules of Competition: UN Global Compact Participant Mirror", McKinsey and Company, July 2007
http://www.unglobalcompact.org/docs/summit2007/mckinsey_embargoed_until020707.pdf ; (accessed date: 26 November 2007)
"Raising our Game: Can we sustain globalisation", SustainAbility, 2007
http://www.sustainability.com/raising%2Dour%2Dgame/ ; (accessed date: 26 November 2007)
"Tomorrow's Global Company: challenges and Choices", Tomorrow's Company, 2007.

[2] Since their launch in 2006, the UN Principles for Responsible Investment (PRI) have gained the support of more than 190 signatories representing over US$9 trillion assets under management. See http://www.unpri.org/ The growing seriousness with which the investor community is looking at the CSR and sustainability agenda is also illustrated by the publication of Goldman Sachs' GS SUSTAIN analysis: http://www.unglobalcompact.org/docs/summit2007/gs_esg_embargoed_until030707pdf.pdf ; (accessed date: 26 November 2007).

[3] "Shaping the New Rules of Competition: UN Global Compact Participant Mirror", McKinsey and Company, July 2007.

[4] See Globescan research http://www.globescan.com/index.htm#, (accessed date: 26 November 2007) Also the 2006 Annual Edelman Trust Barometer http://edelman.com/image/insights/content/FullSupplement.pdf : (accessed date: 26 November 2007).

Some aspects of the CSR/sustainability agenda are, however, shaping the market in ways that are at least as relevant to SMEs as they are to larger enterprises:

- **Social and environmental supply-chain requirements**. The introduction of social and environmental supply chain requirements is not in itself a new phenomenon. There are indications, however, that the scale of these requirements is about to change significantly. Driven mainly, but not only, by concerns about CO_2 emissions, a number of large enterprises have recently set far bolder plans than in the past for the greening of their supply-chains. This will have inevitable knock-on effects for SME suppliers, both in terms of the number and kind of requirements to be met, and also, as requirements move beyond first tier and even second tier suppliers, in terms of the number of SMEs that are affected. It also, of course, opens up opportunities for entrepreneurial businesses of all sizes who have products and productive processes that meet or exceed buyer requirements.

- **The values of young people and young entrepreneurs**. Some recent findings from the UK would suggest that young people and young entrepreneurs are more socially and environmentally committed than older generations. According to research published by the UK branch of the Global Entrepreneurship Monitor, levels of social entrepreneurship are higher in the 18-24 age-group than in any other age category.[5] In a recent survey by Forum for the Future in the UK, 79% of school-leavers said that having an interesting job would be very important for their personal happiness in the next ten years, while only 33% said the same about having a job that pays well. A further 46% said that environmental considerations would be important when deciding what organisation to work for.[6] A survey of young entrepreneurs by London School of Economics, supported by Shell-Livewire, found that many interviewees specifically mentioned Innocent, a maker of smoothie fruit drinks, as a company that "clearly summed up for them the right balance of success, commitment to cool, having a worthy and good product, an ideal corporate culture, and an independence marked by staying true to their original personality."[7] All of this is neatly encapsulated by some young start-up entrepreneurs who speak of running "not-just-for-profit businesses." These findings have implications for existing SMEs in terms of recruiting young people – and may also tell us something about the nature and values of future start-ups.

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[5] Social Entrepreneurs Specialist Summary, Dr. Rebecca Harding, published by Global Entrepreneurship Monitor, 2006 http://www.london.edu/assets/documents/PDF/GEM_UK_specialist_summary_-_Social_Entrepreneurship_2006.pdf : (accessed date: 26 November 2007)

[6] Forum for the Future "Future Leaders" survey, http://www.forumforthefuture.org.uk/node/865 (accessed 27 November 2007). See also a widely quoted report from British Telecom: http://www.personneltoday.com/Articles/2007/08/02/41767/corporate-social-responsibility-is-more-important-than-salary-when-choosing-a-job.html : (accessed date: 26 November 2007).

[7] "The Changing Face of UK Entrepreneurism", Don Slater, published by Shell-Livewire and London School of Economics   http://shell-livewire.org/store/1182423367.128.pdf : (accessed date: 26 November 2007).

- **The competition for skilled workers**. A recent report from Estonia concludes that many SME managers see CSR as a way of retaining qualified employees in a tight labour market – a major economic issue in Estonia and in many other EU member states.[8] As the knowledge-based economy puts a greater premium on human capital, attracting and retaining the right employees becomes an increasingly important factor in a company's ability to survive and compete. It has been argued that for this reason the employee-related aspects of CSR are especially important to enterprises in knowledge intensive sectors such as IT.[9] SMEs in any case probably have to fight harder than blue-chip companies to attract the most talented workers, which may mean that offering job fulfilment, good working conditions and a good work-life balance are relatively more important for SMEs than for large companies.

- **The importance of trust**, **reputation and relationships in the networked economy**. The networked economy puts a greater premium on the trust, reputation and relationships of an enterprise. New value creation is increasingly a collaborative exercise, requiring closer interaction with customers and other enterprises. In these circumstances too, responsible business behaviour may contribute to a company's ability to survive and compete. Entrepreneurship academics Ted Fuller and Yumiao Tian have written "In a global economy where prices will always be difficult to beat, technological innovations highly specialised and an ever greater need for collaboration, new forms of social and symbolic capital generated through responsible behaviour […] may be features of new firms in Western society."[10]

- **The evolving regulatory environment**. The report of the SME Round-Table of the EU Multistakeholder Forum on CSR noted that one of the drivers of CSR in SMEs was likely to be "Anticipating future legislation / getting practical experience of compliance in ways that help business." [11] If that is correct, then CSR takes on added importance given the probability of new regulatory frameworks at national and international level to promote sustainability and in particular to deal with climate change. New regulatory frameworks will also create opportunities for innovative enterprises, most obviously in the environmental technology sector.

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[8] "Mainstreaming CSR in Baltic States: Quantitative Research Estonia", PW Partners AS, April 2007 http://www.csr.ee/orb.aw/class=file/action=preview/id=4117/CSR+in+Estonian+SMEs+Quant_Research_Report.pdf ; (accessed date: 26 November 2007).

[9] See for example the comments of Marc Halévy at the Responsible Entrepreneurship Exchange, Brussels, May 2007: "Attracting, mobilising and keeping talent and skill (in industries relying on brain power) can only be secured by meeting social responsibility considerations." http://ec.europa.eu/enterprise/csr/conference_3_may_2007/r_e_exchange_quotes.htm ; (accessed date: 26 November 2007).

[10] Fuller, Ted and Tian, Yumiao. 2006. "Social and Symbolic Capital and Responsible Entrepreneurship: an empirical investigation of SME narratives". *Journal of Business Ethics*. (2006) 67: 287-304.

[11] http://ec.europa.eu/enterprise/csr/documents/smes_rt_final_report.pdf ; (accessed date: 26 November 2007).

- **Rise of ethical and green consumerism**. The significant growth in green and ethical consumerism in recent years is as applicable to small enterprises as it is to large brands. In fact, smaller producers may have an advantage amongst certain consumer groups due to the very fact that they are not large brands and that they can convey a more local and ethical image.

To the extent that these trends exert a growing influence on the competitive environment in which SMEs operate, they should in theory create a context more favourable to encouraging a more responsible business amongst SMEs. In any case, SMEs will not be helpless victims of these and other trends. They will be agents of change as much as they are affected by it, in the same way that change will bring opportunities as well as challenges.

2. There are more initiatives to support CSR amongst SMEs

There is a growing recognition that CSR is not the exclusive domain of the large companies that actively know and use the term themselves. At the same time, there is a growing understanding that CSR in smaller business is not the same as CSR in larger enterprises. Generally speaking, most parties now avoid the extreme reactions of either "SMEs don't understand CSR and don't or can't do it", or "the CSR agenda of large companies can be shrunk and applied directly to small businesses."

Although they are not universally enthusiastic, many SME representative organisations do now see CSR as a legitimate area of interest, provided it is addressed in a reasonable and appropriate way. UNIZO, for example, the association for independent entrepreneurs in Flanders, has appointed a business ethics advisor and provides sessions on CSR as part of its training services for SMEs. EUROCHAMBRES, the European association of chambers of commerce and industry, has run training courses on CSR for chamber business advisors. [12]

Building on attempts to promote environmental awareness amongst SMEs, and following early pioneering work by CSR organisations such as CSR Europe and Business in the Community, there are now many more initiatives to support and encourage CSR amongst SMEs. These are not restricted to specialist CSR organisations, but also involve mainstream SME support organisations, public authorities, and networks and brokers acting at the interface of business and society. Some initiatives have now reached a reasonable level of maturity and sophistication. The European Commission is currently supporting 16 projects across the EU that address CSR in SMEs. [13]

It is impossible to have a complete overview of all activity in this field. Many initiatives are small in scale and undertaken, quite appropriately, at a local level. Many more work with SMEs on specific aspects of the CSR agenda without

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[12] http://www.eurochambres.eu/activities/CAESAR.htm ; (accessed date: 26 November 2007).

[13] Information about the 16 projects supported by the EC under the "Mainstreaming CSR Among SMEs" programme is available here: http://ec.europa.eu/enterprise/csr/ms_sme_projects.htm ; (accessed date: 26 November 2007).

overtly considering themselves to be CSR initiatives at all. These initiatives can often be ascribed to a growing trend of attempts by public authorities and others to engage enterprises in partnerships to address practical problems at a local and regional level.

Some of the more emblematic and high profile CSR-and-SME initiatives include:

- Xertatu: a well-established programme supported by the Basque regional government, the Bilbao Chamber of Commerce and other academic and non-governmental stakeholders.[14]

- Fabrica Etica: an initiative of the Tuscany Region to promote CSR amongst small businesses in the leather-goods cluster.[15]

- People and Profit: a Danish programme to promote CSR as a means of enhancing the competitiveness of Danish SMEs, including the aim to train 12,000 SME managers and staff.[16] In terms of budget and ambition, this is currently the most important European initiative of its kind, with a budget of €2 million from the European Social Fund and the Danish Government.

- Small Business Journey: a web-based guide for SMEs supported by a wide consortium of UK organisations.[17]

- Vaderegio network: a network of European regional authorities active in the promotion of CSR.[18]

- Unioncamere (the Italian association of chambers of commerce of industry) and the Italian Ministry of Welfare have established a network of CSR "information desks" to develop CSR information and training services in local and regional chambers of commerce.

- "Unternehmen: Partner der Jugend" (UPJ): a network in Germany that not only promotes CSR amongst businesses but also experiments in building cross-sector partnerships to enable businesses to contribute to solving some societal problems, such as youth unemployment.

Actions carried out by these and other initiatives include: surveys on attitudes to, and practice of, CSR in SMEs; collection of case studies; training for SMEs; development of CSR guides and management systems for SMEs; training material and capacity-building for SME "intermediaries"; and analysis of supply-

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[14] Spanish: http://www.xertatu.net/ca_index.asp ; (accessed date: 26 November 2007). English: http://www.xertatu.net/in_plantilla.asp?idMenu=25 ; (accessed date: 26 November 2007).

[15] http://www2.fabricaethica.it/

[16] Danish: http://www.overskudmedomtanke.dk/ ; (accessed date: 26 November 2007). English: http://www.virk.dk/VirkPortal/site/VidenOgVaerktoej/Oekonomi/TemaOverskudOmtanke/English.aspx ; (accessed date: 26 November 2007).

[17] http://www.smallbusinessjourney.com/page1.asp ; (accessed date: 26 November 2007).

[18] http://www.csrvaderegio.net/en/homepage/index_en.asp ; (accessed date: 26 November 2007).

chain issues. CSR award schemes with SME categories are increasingly common. The European Commission runs an award for public authorities and business organisations that promote responsible entrepreneurship.[19]

It is noticeable that a number of the most significant initiatives are driven by regional authorities, including Tuscany, the Basque Country and North-West England. The Vaderegio network helps to support the development of pro-CSR policies by public authorities at a regional level.

The focus of this paper is on Europe, but Europe is not alone in seeking to work with SMEs on CSR-related issues. The United Nations Industrial Development Organisation (UNIDO) is examining how CSR can be supported amongst SMEs in developing countries, and has worked with the UN Global Compact to explore how SMEs can be more involved in the Global Compact. Already 700 European SMEs have signed up for the United Nations Global Compact – between 20% and 25% of all active business signatories. The Global Reporting Initiative has undertaken a number of projects, for instance in Chile and in South Africa, to support sustainability reporting amongst small businesses.[20] Examples of other actions include: a CSR code for SMEs established by Indonesia Business Links; a survey of CSR in SMEs in Latin America published by the Inter-American Development Bank; and a joint project to support CSR amongst Indian SMEs involving the Bombay Chamber of Commerce and Business in the Community UK.

3. We know more than we did about CSR and SMEs

The 2004 report of the SME Roundtable of the European Multistakeholder Forum on CSR noted that "<u>we know relatively little about the scale and impact of CSR amongst SMEs</u> – and much better baseline data is required" (emphasis in original). It went on to suggest a number of areas where more information was required in order to develop the most effective interventions to help SMEs:

- Best practice examples of SMEs already integrating CSR – by business sector, type, geography etc.

- Quantity and quality of CSR in SMEs already

- How this varies by size, sector, location and type of business

- What is the long-term business case for CSR and sustainability for SMEs?

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[19] The European Enterprise Awards do not recognise responsible entrepreneurs or SMEs as such, but rather initiatives to promote entrepreneurship, including responsible entrepreneurship: http://ec.europa.eu/enterprise/entrepreneurship/smes/awards/awards/index_en.htm ; (accessed date: 26 November 2007). Examples of CSR award schemes that include SME categories are: Chambers Ireland and Business in the Community Ireland annual CSR awards, Business in the Community (UK) annual awards, the Netherlands Care and Profit Prize, and the Italian "City of Rovigo" prize.

[20] See http://www.globalreporting.org/CurrentPriorities/SmallerEnterprises/ ; (accessed date: 26 November 2007) and http://www.globalreporting.org/CurrentPriorities/SupplyChain/ ; (accessed date: 26 November 2007).

- What are the most compelling arguments for SMEs in different circumstances?

- The most effective routes to market for the arguments (awareness-raising) and support (expertise-transfer)?

- What is the impact of CSR initiatives in SMEs on business and society?

Three years after the publication of the SME Roundtable report, we certainly know more about most of these issues, with the notable exception of the last one (impact of CSR in SMEs on business and society). This increase in knowledge has come in the form of both academic research and practitioner-based experience and observation.

On the academic side, a leading group of institutions including the European Academy of Business in Society (EABIS), Durham Business School, Copenhagen Business School, ESADE and SDA Bocconi School of Management have provided platforms for research into CSR in SMEs and opportunities for networking between researchers, and have sought to map gaps in current knowledge.[21] A group of large companies – IBM, Microsoft, Shell, Johnson & Johnson, and Unilever – has had the foresight to provide financial support to facilitate some of this work. On the practitioner side, the European Commission has recently published the report of the European Expert Group on CSR and SMEs, which seeks to distil the lessons learned from relevant European initiatives.[22]

At the risk of over-simplification, some of the findings most relevant to the question of how best to support the uptake of CSR amongst SMEs, are:

- SMEs do many things that could be called CSR, although they tend not to be familiar with the term themselves. Many people in France draw the parallel with Monsieur Jourdain, Molière's Bourgeois Gentilhomme, who was delighted to discover that he had been talking "prose" all his life.

- The single most important area of CSR-related activity for most SMEs is how they treat their employees, although this is by no means an exclusive focus and they often address other issues too.

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[21] In December 2005 Durham Business School hosted a conference entitled "Small and Medium Sized Enterprises and Corporate Social Responsibility: Identifying the knowledge gaps". This resulted in a special issue of Journal of Business Ethics:
http://springerlink.metapress.com/content/l661u0454507/?p=555678049a614b86af0f3ce70eb46e71&pi=0 ; (accessed date: 26 November 2007). Further academic papers were collected for the EABIS 2006 colloquium hosted by SDA Bocconi http://www.eabis.org/csrplatform/colloquium/2006/2006proceedings/2006workshop5 ; (accessed date: 26 November 2007), and for a conference organised by Copenhagen Business School in October 2006 http://www.cbs.dk/forskning_viden/konferencer/csr_in_smes/menu/accepted_papers ; (accessed date: 26 November 2007).

[22] "Opportunity and Responsibility: how to help more small businesses to integrate social and environmental issues into what they do", Report of the European Expert Group on CSR and SMES, published by the European Commission http://ec.europa.eu/enterprise/csr/sme_expert_group.htm ; (accessed date: 26 November 2007). See also this summary of recent discussions with key persons involved in relevant EU funded projects: http://ec.europa.eu/enterprise/csr/ereb/mutual_learning_meeting_2_may.pdf ; (accessed date: 26 November 2007).

- Personal or ethical values are usually the most important motivation for CSR in SMEs, including a commitment to employee welfare and a desire to contribute something additional to the community or region where they operate. Some SMEs who are engaged in CSR primarily for ethical reasons are justifiably offended by outsiders asking them what the business benefit is. Various surveys suggest that the smaller the enterprise, the greater the importance of personal and ethical values as a driver for CSR.

- There is, however, a significant proportion of SMEs for whom the real or perceived business benefits are an important driver of CSR. In reality, CSR in SMEs is often driven by a combination of personal values and potential business benefits.

- Few SMEs can quantify the actual business benefits of their CSR, but the following are frequently cited as perceived benefits: recruiting and retaining staff; customer loyalty; and, energy savings.

- The links between CSR and innovation, and between CSR and the development of social capital, are two interesting areas of emerging research with regard to the "business case" of CSR for SMEs. The potential links with innovation are highlighted by a Danish study in 2006 which found that 26% of SMEs believed they had developed products or services that help to remedy public problems.[23] The links between CSR and innovation in SMEs have been explored in a project led by the University of Girona,[24] and the Danish Companies and Commerce Agency is now launching a new initiative on CSR-driven innovation in SMEs.[25]

- CSR in SMEs is usually informal in nature, rather than an explicit part of any documented "strategy". As Professor Mette Morsing of the Copenhagen Business School writes: "[SMEs] talk about 'organisational culture', 'traditions' and 'treating each other decently' in explaining their motives for CSR activities. CSR is a norm rather than a corporate strategy."[26]

- The most commonly cited constraints to the further development of CSR in SMEs are: the perceived cost in terms of time and resources, combined with having other pressing business priorities; uncertainty about the business case; and a lack of know-how (lack of access to guides, best practices, examples from other SMEs).

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[23] Gallup Survey on behalf of the Danish Commerce and Company Agency, 2005 http://ec.europa.eu/enterprise/csr/documents/mainstreaming/ms_sme_topic2_gadegaard.pdf ; (accessed date: 26 November 2007).

[24] http://www3.udg.edu/cid/response/ ; (accessed date: 26 November 2007).

[25] http://www.csrinnovation.dk/

[26] "Drivers of Corporate Responsibility in SMEs", Mette Morsing, paper published at Copenhagen Business School conference 2006 http://www.cbs.dk/forskning_viden/konferencer/csr_in_smes/menu/accepted_papers ; (accessed date: 26 November 2007).

- The term "Corporate Social Responsibility" is unattractive and off-putting for many SMEs. The scale of this problem varies from country to country and language to language.

- As well as the problem of terminology, the very concept of CSR can be difficult. In particular its all-encompassing nature, covering a potentially huge array of social and environmental issues, can appear overwhelming from an SME point of view.

- Not many SMEs communicate publicly about their CSR. Sometimes this is because the owner or manager feels that it is wrong to seek public relations benefit for CSR. In other cases this may be for fear of attracting unwanted and even potentially negative attention from the press or regulators.

4. Are SMEs more responsible by nature?

In the context of discussing CSR and SMEs, Professor Allan Gibb, a doyen of the small business and entrepreneurship academics, highlights a number of particularly significant features which frequently characterise SMEs, such as:

- The owner is the business – their image and behaviour is perceived substantially as that of the firm.
- The majority of SMEs are based in one location for their entire life.
- There is no divorce of ownership from management and therefore no narrow goal to meet shareholders' needs. The owner's job is not on the line to maximise shareholder value.
- Many are family businesses with motives substantially influenced by family considerations.
- The family tenure can be 30 to 100 years and may go through generations.
- The entrepreneur and his family will live and work in the same community for life.
- As such they are embedded in the environment – their children grow up in local schools, they go to local pubs, clubs, churches etc.
- Their status is tied closely to their local social status.
- They have a well documented tendency to regard their employees as extended family.
- They are the owners and the decisions they make and their objectives are not driven by the same motives as managers in large companies. It is doubtful from the evidence that the vast majority pursue profit maximisation as a goal.
- Their values in many ways are radically different from those of the population at large and probably of managers of large firms.
- A much higher volume of their stakeholder relationship and transactional activity is based upon trust rather than formal contract. Networks of local know who are critical.[27]

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[27] Gibb, Allan. 2006. *Social Responsibility and the Owner-Managed firm.* An unpublished briefing note to one of the authors September 2006.

A number of characteristics in this list suggest that small businesses may, by their very nature, have a certain predisposition towards responsible behaviour. Consider in particular the fact that owner-managed SMEs often show a strong commitment to their employees, are deeply embedded in their local environment, do not necessarily pursue profit maximisation as a goal, and rely on trust and reputation for many of their business transactions.

Some academic studies on CSR in SMEs would seem to reinforce this conclusion. David Murillo and Josep M. Lozano argue that CSR is built into the core activities of SMEs: "Social practice among SMEs seems to start in those activities that are more associated with the core business of the company"; and again "CSR […] is set within the daily discourse of the company's habitual business practices".[28] Frank Mass has reached a similar conclusion: "For SMEs, corporate citizenship and profit growth are not conflicting goals. On the contrary, corporate citizenship [in SMEs] is in most cases not seen as an optional attachment to business core activities or philanthropy, but as an important part of the management philosophy and the business strategy of the involved enterprises." Ted Fuller and Yumiao Tian write that "They [SMEs] act responsibly because their legitimacy with immediate stakeholders […] is at stake in a far more direct and personal way than it is with major corporations." [29]

Not all studies agree with these conclusions. David Williamson and colleagues write that "SMEs will not exceed regulatory standards because their market-based decision-making frames are incompatible with beyond compliance behaviour."[30] Jan Lepoutre and Aimé Henne suggest that evidence about the impact of company size on CSR is contradictory but that "small businesses in general will experience more difficulties than their larger counterparts when engaging in socially responsible action."[31]

This intriguing question deserves more research and debate. One reason for the contradictory evidence is no doubt that SMEs are not a homogeneous group and any generalisation is dangerous. Some SMEs will certainly have no ambitions higher than legal compliance, and often find even that difficult. On the other hand, SMEs that do consciously recognise the CSR/sustainability agenda are, compared to larger enterprises, likely to be able to integrate it faster into their business. They may also be better able to make the link between personal and ethical values and the creation of business value; and to respond more quickly to market-place pressures and new opportunities.

If SMEs, or some kinds of SMEs, are by their nature likely to be particularly responsible,   then   they   may   indeed   be   in   a   position   of   strength   if

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[28] Murillo, David and Lozano, Josep. 2006 "SMEs and CSR: An Approach to CSR in their Own Words". *Journal of Business Ethics* (2006) 67:227-240

[29] Fuller, Ted and Tian, Yumino. 2006. "Social and Symbolic Capital and Responsible Entrepreneurship". *Journal of Business Ethics.* (2006) 67:287-304

[30] Williamson, David, Lynch-Wood, Gary and Ramsay, John. 2006. "Drivers of Environmental Behaviour in manufacturing SMEs and implications for CSR". *Journal of Business Ethics.* (2006) 67:317-330

[31] Lepoutre, Jan and Heene, Aimé. 2006. "Investigating the Impact of Firm Size on Small Business Social Responsibility: a critical review". *Journal of Business Ethics.* (2006) 67:257-273

CSR/sustainability becomes an even more important factor of competitiveness. A recent Tomorrow's Company report predicts that successful (global) companies will need to redefine success "in terms of lasting positive impacts for the business, society and the environment".[32] Similarly, a report by the Tomorrow's Leaders group of the World Business Council for Sustainable Development says: "We see shareholder value as a measure of how successfully we deliver value to society, rather than as an end in itself."[33] Arguably, this is how many SMEs already measure their own success and, if so, they may to some extent be ahead of the game.

5. CSR is not alien to SMEs, but SMEs often think it is. Why?

The SME Roundtable of the European Multistakeholder Forum on CSR identified the following obstacles to the greater adoption of CSR amongst SMEs:

- perceived and/or actual costs (e.g. for verification of big business customers' codes of conduct);
- lack of awareness of business benefits;
- conflicting time and other resource pressures;
- more immediate pressures from the daily struggle to survive commercially (some SMEs living below the poverty line);
- lack of know-how and know-who (e.g. to relate CSR as a mainstream issue; to make the business case; and where to find technical support),
- being reluctant and too slow to seek external help for their business generally – including, therefore, for help on CSR.

These same obstacles are cited repeatedly in the context of almost every initiative that tries to work with SMEs on CSR. In essence, the first four bullets boil down to one single message from small businesses: "We have other priorities."

It is especially interesting to see, however, that many of the fears that SMEs have about CSR (the costs, the time, the lack of obvious benefits) are not borne out by those SMEs that do consciously engage in CSR. This was a conclusion of one of the first major surveys of SME attitudes towards CSR, carried out in the UK in 2002.[34] Similar conclusions were found when working with SMEs in the North-West of England, where the "the key issues were not so much that SME staff are unwilling or unable to allocate time and resources to CR, but that they lacked the expertise required to prioritise key elements of CR management for their business and to make an accurate assessment of the time and resources required. When people are busy and planning horizons are short, they tend not

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[32] "Tomorrow's Global Company: Challenges and Choices", Tomorrow's Company, 2007.

[33] "From Challenge to Opportunity: the role of business in tomorrow's society", Tomorrow's Leaders Group of the World Business Council for Sustainable Development, 2006 http://www.wbcsd.org/DocRoot/4lcRHbx7NPrVWlwpGxaL/tomorrows-leaders.pdf ; (accessed date: 26 November 2007).

[34] "Engaging SMEs in Community and Social Issues", 2002, a consortium research study on behalf of the UK Department of Trade and Industry, led by Business in the Community, with British Chambers of Commerce, the Institute of Directors and AccountAbility.

to address issues where the risk:reward ratio is difficult to calculate or where the way forward is not clear."[35]

There is a paradox here: on the one hand when "told" about CSR, most SMEs see it as something which is not a priority, something for which they do not have the time and resources; and on the other hand many SMEs are by their nature likely to be responsible enterprises, and those that do consciously engage in CSR find that the investment in terms of time and resources is acceptable or even highly advantageous.

One reason for this paradox is that CSR is, in the words of David Murillo and Josep M. Lozano, seen "sometimes as the imposition of a context that is external and often even alien to their circumstances."[36] This is well illustrated by a quote from the manager of a Danish SME responding to a question about CSR: "When I look at our strategic plan for the next three years, it doesn't really include much of that sort of thing. It focuses more on finance, strengths and weaknesses, SWOT-analysis, other analyses and market development is what it is about. **The other stuff is sort of something which belongs in another organisation.**" (emphasis added).

In spite of our best efforts, it would seem that we (and the authors count ourselves as guilty as any other party!) probably still continue to project an external concept of CSR on to SMEs. We do our best to adapt CSR to the realities and constraints of SMEs, but it nevertheless remains a concept that is not fully grounded in what we know about the nature of SMEs. This inevitably has an impact on the way in which we communicate with SMEs about CSR and on the success of attempts to get more SMEs to engage in CSR.

6. Some new and not-so-new things to think about

6.1 Terminology

In North-East England in the 1980s, government skills and enterprise promotion agencies were encouraging the local unemployed to "be your own boss" and to "start your own business!" Market research later found that many in the target audience for these campaigns did not identify with these messages. On the contrary, many people thought that they would be betraying their own values if they joined the "bosses" and started their own business. On the other hand, phrases like "make your own job" were much better received. The target audience could identify with "make your own job" but not with "be your own boss!"

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[35] Roberts, Sarah. Lawson, Rob and Nicholls, Jeremy. 2006. "Generating Regional-Scale Improvements in SME Corporate Responsibility performance: Lessons from Responsibility Northwest". *Journal of Business Ethics.* (2006) 67:275-286

[36] "CSR and SMEs: perceptions on the relation of CSR and competitiveness", David Murillo and Josep M. Lozano, Draft Paper for the EABIS 5th Annual Colloquium: http://www.eabis.org/csrplatform/colloquium/2006/2006proceedings/2006workshop5 ; (accessed date: 26 November 2007).

This story helps to illustrate the fact that how a message is packaged will have a crucial influence on how it is received. In his book *The Tipping Point*, Malcolm Gladwell writes: "There is a simple way to package information that, under the right circumstances, makes it irresistible. All you have to do is find it." In this respect, "Corporate Social Responsibility" is not the term one would create if starting from scratch and trying to package information in a way that would resonate with the staff and owners/managers of small businesses. Rather than sounding "irresistible", it can sound complex, earnest and dull. All parts of it are potentially off-putting for small businesses: "corporate" tends to suggest big businesses; "social" tends to raise suspicions of more legislation (and of course fails to capture the fact that we are talking about environmental and economic issues too); and "responsibility" fails to reflect that we are also talking about opportunities. For SMEs, the term tends to reinforce the impression that CSR is an alien concept, not applicable to their context.

This problem would appear to exist to a greater or lesser degree in most European countries. A straw poll of persons active in the field of CSR and SMEs in different EU member states found only one case (Estonia) where the national term for CSR was considered to be attractive and appropriate for SMEs. And it is probably no coincidence that in Estonia an advisory group has agreed on two national terms for CSR, one of which translates as "responsible entrepreneurship", and it is this term that is mainly used when communicating with SMEs. A little over half of the other respondents felt their national term was acceptable but not ideal for SMEs, and a little under half found their national term unattractive and off-putting for SMEs. However, only a minority appear to be actively using an alternative term to communicate with SMEs[37].

In an English-speaking context at least, we would suggest that when talking with SMEs it may be better to avoid the term CSR as much as possible. This is not a new suggestion, and many organisations have experimented with alternative terms such as "responsible business" or "responsible entrepreneurship." Sustainability Northwest (UK) and partner organisations have developed an approach based on "risks and opportunities", so avoiding, at least during initial contact with SMEs, any mention at all of CSR or an equivalent term.

We would suggest that in an English-speaking context, a good alternative might be "sustainable business" or "sustainable enterprise". Potentially this could mean enterprises that aim to survive in the long term, so meaning something to survival-challenged SMEs. As such it can also be broadened to cover the "social" issues (employees, relations with community etc.) which are also part of surviving as a business over the long term. Finally, it captures and builds on the growing awareness of climate change and sustainability issues, rather than competing with them.

David Williams, the founder and owner-manager of Impact Training and Development Group, now a medium-sized business, has defined sustainable enterprise as "about creating and innovating new business strategies and activities that accelerate positive social change, protect and preserve environmental integrity, whilst enhancing business performance." It is tempting

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[37] http://ec.europa.eu/enterprise/csr/ereb/survey_results_csr_terminology.pdf (accessed date: 11 December 2007)

to wonder whether he would have offered such a dynamic definition if asked to define "corporate social responsibility." A change in terminology might therefore allow for a change in tone and pitch when addressing SMEs about CSR. It might make it easier to communicate the opportunity-creating nature of CSR, both in terms of business benefits and opportunities to live out personal and ethical values. In any case, it would be very useful to have some market research to test the reaction of SMEs to "responsible business", "sustainable business, "sustainable enterprise" and other possible terms.

Clearly, if alternative terms are required they will need to be developed on a country-by-country basis. It has been pointed out to us, for example, that in Germany the word "nachhaltig" (sustainable) has been used excessively, to the point that it has begun to lose its meaning, and that it would not be a better option for engaging SMEs than terminology based on "Verantwortung" (responsibility).

Changing terminology comes with risks. It could confuse still further the issue for organisations that may be beginning to get some traction with the term "CSR". Also, the use of "sustainable business" or "sustainable enterprise" might be seen as implying the loss of the balanced social-and-environmental concept that CSR aspires to embody, in favour of just the environmental (read "climate change") issues. At a workshop held at the Doughty Centre at Cranfield University in July 2007 there was some debate about whether increased interest in climate change would raise awareness amongst business people of all aspects (social and environmental) of sustainability, or whether it would crowd out other aspects entirely, to the detriment of a more balanced approach. We propose the terms "sustainable business" or "sustainable enterprise" on the assumption that it is possible to ensure that they refer to a range of economic, social and environmental issues, not just to environmental sustainability.

6.2 Better targeting

If we know one thing about SMEs, it is that they are an extremely heterogeneous group of organisations. Inevitably they will deal with CSR in very different ways and to different extents. That means that no one single approach or message will be appropriate for engaging all SMEs. Trying to encourage the uptake of CSR amongst SMEs without distinguishing between SMEs is a bit like trying to market a single make of car to all groups of people, whether they be young males who want something that accelerates fast, young females who want something colourful, or stressed out parents who want something that will transport the kids – and we know even these stereotypes have plenty of exceptions! It is necessary to unpick the market and then develop messages, arguments and examples for different kinds of SME. In so doing, it should be possible to make CSR seem a less alien concept to each individual SME.

Another important reason for better targeting is that current resources do not allow for a blanket approach to all SMEs. To get an idea of the scale of the challenge, consider the Danish project, People and Profit. It is probably the most ambitious initiative of its kind in Europe so far, aiming to train 12,000 SME managers and employees on CSR issues. While that is significant, it still only represents about 2% of the workforce in Danish private companies. What is

more, the cost of scaling that up to cover all of Europe's 25 million SMEs would be several billion euros, and clearly budgets of that size are not about to materialise. In short, priorities will have to be set and particular groups or kinds of SME will need to be targeted.

One relevant distinction to be made is between so-called lifestyle businesses and "gazelles". The lifestyle businesses are those that are content to be working for themselves, independent and able to make personal trade-offs between work, income, and other aspects of their lives. Such SMEs have little aspiration – and often little potential either – to grow.[38] At the other end of the spectrum are the SMEs with the aspiration and potential to grow – the most significant of which are sometimes referred to as "gazelles."

The impact of a gazelle that engages in CSR is likely to be much greater than the impact of a lifestyle business:

- The scale of their operations is usually bigger, so they have more substantial impacts (positive or negative).

- They will be more powerful and credible role-models.

- They have higher survival rates and, therefore, typically have a longer time to have impacts and to act as role-models.

- If they "get it", they will do more of the work themselves to embed CSR.

- They have stronger networks with other high growth firms.

- They will be more likely to make the link between entrepreneurial mindset and CSR to find business opportunities which also address sustainability / CSR dimensions – in a survey by Gallup for the People and Profit programme in Denmark, 26% of SMEs embedding CSR claimed to have developed sustainability-related products and services as a result.

Lifestyle businesses and gazelles are likely to address CSR in different ways. In each group there will be businesses that have a higher degree of skill and/or will for CSR, and those with lower levels of skill and/or will. Based on anecdotal evidence and experience of working with individual SMEs, some of the potential differences to approaching CSR between lifestyle businesses and those with aspiration and potential to grow – depending on their propensity for CSR – might include the following:

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[38] Lifestyle businesses are also likely to have a local outlook. In the UK, Lloyds TSB Small Business Banking suggests that 70% of SMEs serve markets within 10 miles of their base.

LIFESTYLE AND GROWTH SMEs: DIFFERENT APPROACHES TO CSR

	LIFESTYLE	GROWTH
HIGH SKILL / WILL FOR CSR	One-off Passions e.g. fair-trade or environment	Look for corporate social opportunities Business to business learning and networking Integrated Venture philanthropy
LOW SKILL/WILL FOR CSR	Little or no activity	Pragmatic Do specifics if business benefits

Different messages and arguments regarding CSR are needed when engaging with businesses from different quadrants in this diagram. A typical challenge is how to engage with those owner-managers from the top-left of the diagram, the lifestylists with an inclination towards CSR who will probably believe that trying to be responsible is simply "the right way to run my business". Advice on CSR can be useful for such SMEs, enabling them to expand the scope of their responsible behaviour. But equally, such SMEs are often offended by suggestions that they are doing CSR for business benefit or that possible business benefits will be their prime motivation for doing more. Part of the answer in such cases might be to underline the importance of being a role-model for other less committed or less convinced SMEs. Heledd Jenkins has proposed that some exemplary SMEs could become CSR "champions", giving their time and support to disseminate CSR knowledge to other companies – in the case of this diagram probably to those from the bottom left.[39] Also, it may be possible to build on the personal and values motivation by suggesting new CSR actions that the SME may not previously have considered: "You care about the values of your business – have you thought of doing this…?"

Conversely, care will also be needed not to alienate the growth-oriented SMEs by over-emphasising the values of more idealist, values-driven owner-managers. Examples taken from lifestyle SMEs will probably not be credible with highly pragmatic entrepreneurs looking for a business case. Growth oriented SMEs from the bottom right of the diagram, with a low skill/will for CSR, are more likely to be more impressed by examples of CSR in other growth oriented SMEs. Trying to use examples of CSR in lifestyle SMEs to inspire CSR in growth-oriented SMEs, and vice versa, is unlikely to be successful.

Distinguishing between the motivations of SMEs and differentiating the pitch on that basis is a vital skill for persons and organisations that are trying to work with SMEs on CSR issues. The report of the European Expert Group on CSR and SMEs suggests a list of the skills and competencies that staff of an intermediary organisation might need in order to support CSR amongst SMEs, including: "A sensitivity to the different motivations that SME managers and employees might have for engaging in CSR. Many will be as motivated by personal or ethical

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[39] Jenkins, Heledd. 2006. "Small Business Champions for Corporate Social Responsibility". *Journal of Business Ethics*. (2006) 67:241-256

considerations ("doing the right thing") as they will be by business or profit motivations."[40]

The challenge is neatly summed up by a member of staff from a Polish Chamber of Commerce who had visited an SME to advise on CSR: "The visit proved that chamber-based CSR advice can be interesting for any company and offer some guidance **under condition that the advisor is able to differentiate the way of discussing it and adapt the message to the receiver**" (emphasis added).

Programmes and initiatives to support CSR amongst SMEs will be most effective if they are targeted to specific groups or types of SMEs. This is probably necessary even though a tailored approach for different kinds of enterprise can be more time-consuming. The lifestyle/gazelle and high/low skill/will distinction made above is one way of segmenting the SME market. Starting with that, below is a suggested list of groups of SMEs that might share some of the same motivations for CSR and/or for whom CSR in practice would involve dealing with similar issues:

- "gazelles", with high growth potential

- lifestyle companies

- companies from a particular sector

- companies from a particular locality or region

- companies that are first or second tier suppliers to large companies

- companies from the Business to business (B2B) sector, or conversely from the Business to Consumer (B2C) sector

- companies that source from developing countries

- start-ups

- companies based in rural areas

- family-run businesses

- micro-enterprises

There are no doubt other ways of segmenting the SME market, and we would encourage more research and discussion on the most important ways of doing this and the implications for trying to engage SMEs in CSR. Input from professional marketing firms would be very valuable in this regard. If the funds are not available to finance such input, maybe a marketing firm could be persuaded to allow its employees to work on this pro bono as part of its CSR

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[40] "Opportunity and Responsibility: how to help more small businesses to integrate social and environmental issues into what they do", Report of the European Expert Group on CSR and SMEs, published by the European Commission http://ec.europa.eu/enterprise/csr/documents/ree_report.pdf ; (accessed date: 26 November 2007).

policy, rather like some law firms allow their employees to do volunteer legal work for non-profit organisations.

It would also be useful to have criteria for the selection of target groups of SMEs. One possible criterion might be whether or not the type of SME is likely to be receptive to CSR. It has been argued that enterprises from the IT sector and other knowledge economy sectors are more receptive to CSR, because they have to work harder to differentiate themselves to attract and retain knowledge workers. Their employees expect good treatment, are higher up Maslow's hierarchy of needs and are mobile. It has also been suggested that start-ups are receptive to CSR, at the "dream stage" when the concept of the business is being developed.[41]

Of course the fact that one kind of enterprise is receptive to CSR does not necessarily make it an obvious candidate. It could be argued that such enterprises need *less* support because they are more likely to take action anyway, and that public policy interventions should address the less receptive kinds of company. On the other hand, focussing entirely on the less receptive would be demoralising and probably unsuccessful in the time-frames that external funders are likely to require. In practice there probably needs to be a balance between the two.

Other criteria for selecting target groups of SMEs might be the seriousness of the social and environmental issues faced by a certain kind of company; and the economic and social importance of a given kind of company, in terms of employment, potential for economic growth, etc.

6.3 Who delivers the message?

It matters who delivers the message. Credibility in the eyes of the SME owner-manager is crucial. Governments and politicians are generally not the most credible messengers for SMEs. In fact if CSR is seen as being primarily part of a political agenda imposed from above there is unlikely to be much progress and it may even provoke resentment and negative reactions. In the words of one Italian organisation with experience in supporting CSR amongst small businesses: "Entrepreneurs don't like to spend their money if the proposition comes from a political actor […] We see that if they understand the project and the actor demanding their money are political, there are some difficulties to continue the [awareness-raising]." The situation may often not be much better if the message comes from representatives of large companies, who are also suspect in the eyes of some owner-managers!

Most initiatives that seek to support CSR amongst SMEs have rightly assumed that it is necessary to work with and through organisations that are already known and trusted by SMEs: chambers of commerce, small business advisors,

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[41] Both these are examples were raised by participants in the learning meeting organised by the European Commission with persons involved in EC-funded projects on CSR and SMEs: http://ec.europa.eu/enterprise/csr/ereb/mutual_learning_meeting_2_may.pdf ; (accessed date: 26 November 2007).

trade associations and so on. Banks, lawyers and accountants are also often cited as intermediaries that could serve as credible channels for communication with SMEs on CSR-related issues. There have been some interesting initiatives from the banking sector, but comparably little work with legal and accounting firms.[42]

The best messengers are generally recognised to be other SMEs - "businesses like us". This is one reason why the collecting of SME case studies is so important. It also underlines the positive role that exemplary SMEs can play as CSR "champions", actively cooperating to engage and persuade other SMEs (see point 6.2 above). The 700 European SMEs that have signed the UN Global Compact could provide a core group of enterprises willing to play an active and pioneering role in this regard.

We suggest that more attention should be given to facilitating peer-to-peer learning and networking. Facilitated peer group learning could be both face-to-face and via "communities of practice" established through the rapid growth of on-line social networking sites – especially for younger entrepreneurs.

It could be useful to think in terms of developing a range of "How to" guides and self-help manuals for non-profits, entrepreneurs and others who wish to set up and run local clubs for businesses interested in CSR/sustainability issues or who wish to promote on-line social networking between such businesses. Inspiration might be found in the work of Net Impact, a responsible business network for MBA students in business schools around the world that provides an online guide for how to establish a new chapter of the organisation.[43] Lessons could also be taken from the guidance notes and starter kits that some publishing companies have provided to support individuals who want to set up their own self-organising book clubs.

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[42] Examples from the banking sector include the Cordé initiative run by the French Caisse Nationale des Caisses d'Epargne: http://ec.europa.eu/enterprise/csr/documents/mainstreaming/ms_sme_topic4_dutrieu.pdf ; (accessed date: 26 November 2007) and further afield, HSBC in Hong Kong and Singapore.

[43] http://www.netimpact.org/displaycommon.cfm?an=1&subarticlenbr=17, (accessed date: 26 November 2007).

6.4 CSR is a journey: what paths do SMEs take?

CSR is often described as a journey. Some writers have developed convincing 5-stage categories to illustrate how larger enterprises develop their approach to CSR over time. One such categorisation was put forward by Simon Zadek in 2004:

1. defensive: "it's not our fault!"
2. compliant: "we'll only do what we have to do"
3. managerial: "it's the business"
4. strategic: "it gives us a competitive advantage"
5. civil: "we need to make sure everybody does it"[44]

A single linear model of the kind mentioned above, showing a natural progression through an established series of steps, is unlikely to capture the variety of paths that SMEs might take when engaging in CSR. Different SMEs will start in different places, depending on factors such as personal values or their ambitions for growth. In the same way, they will not always pass through the same stages or end up in the same place.
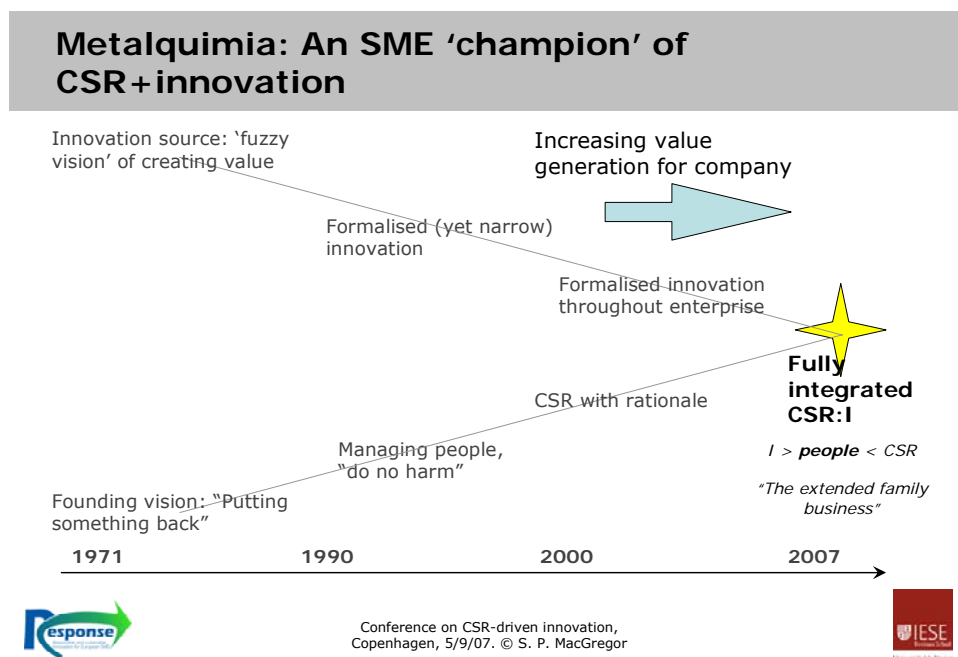
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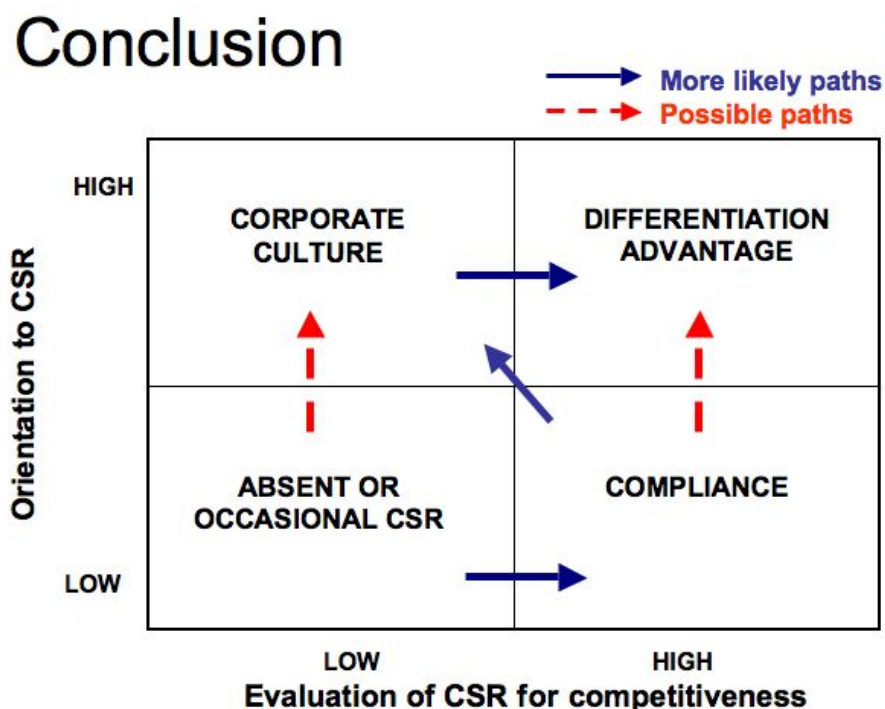
[44]Zadek, Simon. 2004. "The Path to Corporate Social Responsibility". *Harvard Business Review*, December 2004. For other similar models see: "Just Values" by British Telecom in association with Forum for the Future: http://www.btplc.com/Societyandenvironment/Reports/Archivedreports/Onlinedebates/JustValuesdebate/Just_values.pdf ; (accessed date: 26 November 2007); Richard, and Jean-François Vice President for Europe, The World Bank quoted in "The Buck Stops Where?., Davies, Robert and Nelson, Jane. 2003. International Business Leaders Forum, policy paper 2003, no.2 http://www.iblf.org/docs/BuckStopsWhere.pdf, (accessed date: 26 November 2007).

Some academics have begun to look at this question. Mario Molteni and Alessandra Todisco have suggested a matrix for classifying SMEs according to whether or not they have a strong natural orientation to CSR, and whether or not the SME itself sees a strong business case for CSR, giving four possible states for an SME: absent or occasional CSR; corporate culture; compliance; and, differentiation advantage. Interestingly they have then projected on to this matrix some "likely" and "possible" paths of change from one state to another: [45]

Based on the analysis of an innovative Catalan company, Stephen MacGregor has proposed this visual representation of how one enterprise has over time combined separate founding visions of innovation and social responsibility into an integrated vision that combines both commitments: [46]

Metalquimia: An SME 'champion' of CSR+innovation

Innovation source: 'fuzzy vision' of creating value

Increasing value generation for company

Formalised (yet narrow) innovation

Formalised innovation throughout enterprise

Fully integrated CSR:I

CSR with rationale

*I > **people** < CSR*

Managing people, "do no harm"

"The extended family business"

Founding vision: "Putting something back"

1971　　1990　　2000　　2007

Conference on CSR-driven innovation, Copenhagen, 5/9/07. © S. P. MacGregor

To better help SMEs to undertake the CSR/sustainability journey, we need to know more about the ways in which they are likely to progress and how their approach evolves over time. The models mentioned above are illustrative of the kind of thinking that we believe is necessary.

6.5 Supply-chain

The inclusion of social and environmental requirements in procurement contacts is not in itself new. Research carried out in the UK in 2002 found that in the preceding 12 months, 60% of SMEs had been asked by big business customers about their safety policies and practices; 43% had been asked about environmental policies and practices; and 17% about social and community

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[45] Molteni, M. and Todisco, A, 2007 "Towards a CSR based differentiation strategy in SMEs", Working Paper, ALTIS – Università Cattolica del Sacro Cuore, Milano.

[46] MacGregor, Steven P. and Fontrodona, Joan. "Metalquimia: Integrating CSR and innovation for sustainable value creation". IESE Business School case.

issues.[47]   A study by the Copenhagen Centre published in 2006 found that almost 70% of the SMEs questioned faced requirements from buyers on at least one CSR-related issue.[48]

It seems likely, however, that concern about climate change and ongoing negative publicity for major brands regarding labour practices amongst their suppliers, will mean that CSR-related supply-chain requirements will continue to become more common and more demanding. A recent survey of nearly 200 procurement professionals in the US, Europe and Asia found that they were nearly unanimous in their belief that green supply chains will only continue growing.[49]   Mike Barry of Marks and Spencer, a British company that has attracted considerable attention with its ambitious "Plan A" CSR/sustainability programme, has claimed that the "supply-chain is the single biggest challenge in CSR." Indeed of the 100 action points that go to make up Plan A, more than half will require changes in suppliers' practices.

At least six of the world's largest companies, including Procter & Gamble, Unilever, Tesco and Nestlé, have announced the creation of the Supply Chain Leadership Coalition, to press their suppliers to release data about carbon emissions and climate-change mitigation strategies. Wal-Mart, the world's largest retailer and not a company with a long tradition of sympathy towards the CSR agenda, has similarly announced plans to ask suppliers for data on energy efficiency.

As CSR-related supply-chain requirements become more pervasive, it is as important as ever to remain alert to the implications for SMEs and to manage such requirements in a way that has a genuinely positive impact on SME performance. Putting environmental and social issues into big companies' tendering requirements may seem like an easy means of promoting CSR amongst SMEs, but it may backfire if the small firm supplier sees this as the equivalent of yet more bureaucratic regulation, or as an instrument of power-play whereby large corporations simply pass on the costs of CSR to their weaker suppliers, thus rearranging the terms of trade in their favour.

The effect of CSR buyer requirements on the actual social and environmental behaviour of SME suppliers can be positive, but equally it would seem that there is often little or no effect. Certainly, SMEs often view such requirements with a fair degree of scepticism: "Oh, we play the game […] Provided you send the right bit of paper with the right things written on it, you never hear another word. And whether anyone reads it, I'm not sure. I doubt it actually."[50]

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[47] "Engaging SMEs in Community and Social Issues", 2002, a consortium research study on behalf of the UK Department of Trade and Industry, led by Business in the Community, with British Chambers of Commerce, the Institute of Directors and AccountAbility.

[48] "Managing Social and Environmental Requirements in Global Value Chains – Perspectives for Danish Small and Medium-sized Enterprises", The Copenhagen Centre, 2006 http://www.copenhagencentre.org/graphics/CopenhagenCentre/Publications/Events/The%20weak%20link%20in%20the%20chain/Globale_UK_small.pdf ; (accessed 27 November 2007)

[49] http://www.greenbiz.com/news/news_third.cfm?NewsID=35700 ; (accessed date: 26 November 2007).

[50] An SME representative quoted in "Small Business Champions for Corporate Social Responsibility", Jenkins, Heledd , *Journal of Business Ethics* (2006) 67:241-256

The report of the European Expert Group on CSR and SMEs provides an ever so slightly provocative list of how the ideal large company would act if it wants to maximise its positive impact on the behaviour of its SME suppliers. This includes: recognising that both SME suppliers and large company buyers can learn from each other in the field of CSR; giving more recognition to the kind of CSR practices that are common amongst SMEs, such as their role in the local community; and, ensuring the timely payment of SME suppliers.

Many large firms have already developed a considerable body of experience in this field, and there is a lot of good practice around. It involves actions such as: intense and regular explanation to suppliers and their workers of why these issues are important, and of the benefits of adopting higher environmental and social standards; sharing good practice amongst suppliers; allowing suppliers to progress over time rather than demanding compliance from day one; sponsoring innovation clubs with suppliers; and, brokering between suppliers and external sources of funding for environmental and social upgrades.[51] Knowledge and availability of good practice is further enriched with the publication of the results of a study by the Copenhagen Centre, involving SMEs' suppliers to HP. in Central and Eastern Europe.[52] Further material will be available during 2008 as the work of the CSR European Alliance "Supply-Chain Laboratory" progresses.[53]

One welcome trend is towards the harmonisation of requirements between buyers, which has the potential to reduce the administrative burden on companies that supply various clients. Examples include the Business Social Compliance Initiative[54]; the more recently created Global Social Compliance Programme[55]; and, the Suppliers Ethical Data Exchange (SEDEX) which allows suppliers to register their labour practices on-line and make them available to their customers.[56]

As CSR-related buyer requirements extend down the supply-chain, beyond first tier and maybe even beyond second tier suppliers, the question of how SMEs themselves do or do not make such requirements on their own suppliers deserves more attention. The aforementioned study by the Copenhagen Centre examined this issue and found that only a minority of the enterprises that receive requirements from buyers actually pass on these requirements to their own suppliers. The report comments that "this tendency could have far-reaching repercussions. Large corporate customers run the risk that possible failure of their SME suppliers to handle and pass on requirements adequately will return to them like a boomerang, which places their corporate reputation in jeopardy."

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[51] Some good recommendations for buyers and for SME suppliers are proposed in Spence, Laura J. *Supplier relationships in the UK: business ethics and procurement practice.* Institute of Business Ethics

[52] www.copenhagencentre.org/vaerdi-english.pdf ; (accessed 27 November 07)

[53] http://www.csreurope.org/whatwedo/alliance/CompaniesandEUAlliance/Laboratories/supplychain/ ; (accessed date: 26 November 2007).

[54] http://www.bsci-eu.org/content.php ; (accessed date: 26 November 2007).

[55] http://www.ciesnet.com/2-wwedo/2.2-programmes/2.2.gscp.background.asp ; (accessed date: 26 November 2007).

[56] https://www.sedex.org.uk/

6.6 SMEs are people – so consider the implications of behavioural economics

It is often said that SMEs are different in nature, not just size. Professor Allan Gibb, has suggested a number of crucial differences between what corporates are seeking to achieve – and how small businesses are often characterised: [57]

CORPORATES *seek to achieve*	SMALL BUSINESSES *often characterised as*
• Order • Formal • Accountability • Information • Clear demarcation • Planning • Corporate strategy • Control measures	• Untidy • Informal • Trusting • Personal observation • Overlapping • Intuitive • Tactically strategic • I do it my way
• Formal structures • Transparency • Functional expertise • Systems • Formal appraisal	• Personal monitoring • Ambiguous • Holistic • Freely • Customer and network experience

One of the things that immediately emerges from this comparison is that small businesses are much more personal than larger enterprises. Gibb himself says that very often "the owner is the business." If SMEs are in essence people rather than organisations, then some principles from the field of behavioural economics could have significant implications for how best to influence SMEs – including of course on the issue of CSR.

The New Economics Foundation has identified seven principles of behavioural economics that should be of interest for policy-makers:[58]

- Principle 1: Other people's behaviour matters
- Principle 2: Habits are important
- Principle 3: People are motivated to 'do the right thing'
- Principle 4: People's self-expectations influence how they behave
- Principle 5: People are loss-averse
- Principle 6: People are bad at computation
- Principle 7: People need to feel involved and effective to make a change

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[57] Gibb, Allan. 2000. Quoted by Professor Mette Morsing, Copenhagen Business School conference, 2006 http://www.cbs.dk/forskning_viden/konferencer/csr_in_smes/menu/programme ; (accessed date: 26 November 2007).

[58] "Behavioural Economics: seven principles for policy-makers", New Economics Foundation, 2005 http://neweconomics.org/gen/uploads/tfi0ypn1141p45zoi0mrrgf222092005201739.pdf ; (accessed date: 26 November 2007).

All of these would seem to be applicable in one way or another to attempt to encourage SMEs to be more socially and environmentally responsible. Principles 5 (People are loss-averse) and 6 (People are bad at computation) are particularly interesting when one recalls the fact that many of the fears that SMEs have about CSR (the costs, the time, the lack of obvious benefits) are not borne out by those SMEs that do consciously engage in CSR. It would suggest that one of the key challenges is to help SMEs to "increase their planning horizon."[59]

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[59] Jeremy Nichols, communication to authors. (See acknowledgements)

THE AUTHORS

David Grayson has been involved in enterprise promotion and small business development for almost three decades. He was co-founder / director of Project North East - now Britain's longest established enterprise and economic development agency; joint Managing-Director of the Prince's Youth Business Trust; chairman of the UK Government taskforce which set up the national network of Business Link and subsequently chairman of the Business Link Accreditation Board which championed Business Link quality; and chairman of the UK Small Business Consortium. He was rapporteur for the European Commission Multi-stakeholder Forum on CSR on small businesses. He is now Director of the Doughty Centre.

Tom Dodd has been Policy Advisor on CSR at the Directorate-General for Enterprise and Industry, in the European Commission, since May 2004. He has worked on many aspects of the Commission's CSR policy, including a number of initiatives to promote CSR amongst small businesses. He started working for the European Commission in 1995, managing emergency humanitarian assistance to various African countries. He subsequently completed a four year posting in the Commission's Delegation in Central America (Nicaragua). He lives in Brussels with his wife and three daughters. He writes here in a personal capacity.

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