
Social and Environmental Responsibility in Small and Medium Enterprises in Latin America

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The survey reported in this study (which covered over 1,300 firms, included more than 60 questions and was carried out in eight countries) finds that a good number of small and medium enterprises (SMEs) have implemented responsible practices. While those practices are rather traditional in nature and do not spring from the recent concepts of corporate social responsibility, they are nevertheless of similar nature. The survey analyses internal (human resources and the working environment), external (community involvement) and environmental practices (reduction of environmental impact, such as reduction of resource consumption and waste, recycling and the like) and finds that internal practices are the most common. External responsibility activities are less frequent as is concern for environmental issues. Medium-sized firms tend to be more involved in socially responsible activities than smaller firms. Major motivations are religion/ethics, the desire to have a motivated workforce, build relationships and increase profits. To a lesser extent, regulations also play a role. The main obstacles to involvement in external and environmental issues were lack of resources, lack of knowledge and the perception that there is no environmental impact. Many of these results are explained by the characteristics of SMEs, which are discussed in this paper, which concludes with a strategy to foster their involvement.

- Corporate social responsibility practices
- Small and medium enterprises
- Latin America
- Survey of practices
- CSR policies
- Internal responsibility
- External responsibility
- Environmental responsibility

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Corporate social responsibility in small and medium enterprises

SMALL AND MEDIUM ENTERPRISES (SMEs) MAKE UP MORE THAN 90% OF businesses worldwide and account for between 50% and 60% of employment. In Latin America, 95% of firms are SMEs, and account for between 40% and 60% of jobs, depending on the country, and contribute 30–50% of GDP. In the European Union, it is estimated that, as of 2003, more than 20 million SMEs (with up to 250 employees) accounted for over 80 million jobs. In the United States (where small firms are defined as those having fewer than 500 employees), 99.7% of all firms fall into the ‘small business’ category, account for half the nation’s jobs and contribute more than 50% of non-farm GDP.

Because these firms tend to be more labour-intensive than large enterprises, they have a significant impact on employment and, as a result, their corporate social responsibility (CSR) practices have a significant impact on society as a whole, even if their contribution to the overall production of goods and services is not as large. In addition, they tend to contribute more to the equitable distribution of income and, because they provide employment and income to the less well-off, they help to provide social cohesion and stability. Together, these reasons make promoting socially responsible SMEs a topic of rising importance.

However, it is first necessary that we understand the special characteristics of small and medium enterprises. SMEs are very different from the larger businesses for which most of the concepts and methodologies of CSR have been developed. SMEs have very different stakeholders. In particular, many are family-owned firms, or are privately held by a small group of shareholders, particularly in emerging economies. This close relationship between management and ownership makes it easier to align the objectives of both. Thus, SME activities may reflect the values, character, attitudes, education, background and the like of the owner/entrepreneur. This will have a direct impact on the firm’s corporate responsibility.

The generalised assumption that maximising profits is the main objective of larger firms may not be true for SMEs. Given the assumption of profit maximisation, CSR practices in larger corporations are promoted by appealing to the bottom line (either currently or in the future, tangibly or intangibly). Yet many SMEs may not operate as profit-maximising firms and may, in fact, also have other objectives. This is not to say that SMEs are not concerned with profits. It means that they may be willing to forgo some profits (knowingly or unknowingly) to achieve other objectives, such as producing products that the owners/managers find satisfying to make, giving back to society, helping others who are less fortunate, and other such goals. The point is that ‘satisfactory’ profits (rather than ‘maximum’ profits) may be sufficient, and they may be willing to trade off some profit for other goals.¹ This has implications for the strategies used to promote CSR practices in SMEs: the business case may be important, but it may not be critical, as they will also react to enlightened self-interest, to social conscience stimuli and altruistic reasons (Quinn 1997). Also, given the resource constraints (time, money and qualified personnel) faced by SMEs, they are more vulnerable to economic conditions and their CSR activities will shift with the economic cycle.

Most SMEs tend to serve local markets and are not exposed to international pressures or incentives. In addition, civil-society organisations will not be very concerned with their actions, preferring to devote their limited resources to the ‘big fish’: that is, the larger corporations that have a greater impact. Nevertheless, some SMEs sell their products and services internationally and to larger corporations, many of which are concerned about the extent to which their suppliers are socially responsible.

¹ These results are highlighted in recent studies carried out by the Inter-American Development Bank (see Kantis *et al.* 2002, 2004).

In general, SMEs by their very nature are local institutions whose owners/managers, customers and workers come from the same community. Because SMEs have relatively few employees, many of them are known to the managers and owners, leading to a more tangible concern for their well-being. It should be natural for these firms to be concerned with community development, the local environment and social issues, although for lack of knowledge, economic reasons or fear of regulations they may not be as involved as would be expected.

SMEs normally struggle to survive under adverse economic conditions and, as a result, regulations tend to be more burdensome for them than for larger corporations. The implications of social and environmental concerns and regulations are likely to make SME owners and managers quite anxious because they will perceive them as an additional burden (unless the business case is made in a language and form that they can understand). As with larger enterprises, SMEs must be shown that CSR can be a tool to increase competitiveness. However, while the reasons might be similar, the emphasis will be very different. It will be less a matter of education and more an issue of awareness and changing perceptions over the implications of CSR for the enterprise.

Small and medium enterprises in Latin America

The productive structure of Latin American SMEs is heavily polarised. Some larger enterprises (mostly those in the natural resources and extractive industries) enjoy international exposure, while a very large number of SMEs are mostly concerned with local markets, at best supplying large international firms. In general, the middle sector is much less developed than is the case for SMEs in developed economies. Similarly, productivity is much lower than that of the larger firms. The productivity of SMEs in developed economies, however, is much closer to that of large enterprises. Latin American SMEs are less specialised, and generally function as lower-capacity suppliers to larger firms that have a high value added. Furthermore, as a result of there being fewer start-ups, their being less innovative and technologically advanced, and geared more towards commerce than manufacture, SMEs in Latin America tend to be 'older' than in other regions.

In general, Latin American SMEs, and particularly smaller firms, are also characterised by low capital intensity. In addition, owners, partners and their families tend to participate as part of the labour force. This makes them extremely dependent on the owners/managers, and on a relatively low-skilled workforce, low levels of investment in innovation, lack of access to finance and dependence on larger enterprises (either as suppliers or as clients). These characteristics influence the extent to which they can become socially and environmentally active and responsible. In particular, this will be affected by the motivations of the owners/managers, their background, and the reasons why they went into the business (for instance, to make a living, to apply their entrepreneurial skills, to become rich, etc.).

Nevertheless, a new generation of entrepreneurs is developing within this general characterisation. According to a recent study, this new generation is young, comes from the middle and upper-middle classes, is well educated, belongs to a family of businesspersons or professionals, and is driven more by the desire for self-realisation than by the profit motive. These firms are still behind their European and Asian counterparts but have a different profile from that of the traditional Latin American SMEs. They are more oriented towards international markets; they are part of the value chain; their products are more likely to be differentiated, making use of technology, and as a result they show better performance in terms of employment and sales growth (Kantis *et al.* 2004). This new generation of SMEs is even more sensitive to community problems and has a

more modern vision of business, in which environmental sustainability, concern for employees and wealth redistribution provide both ethical and economic returns.

Social and environmental responsibility in small and medium enterprises in Latin America

The survey²

This section reports on a comprehensive survey of 1,330 SMEs in eight Latin American countries. Approximately 150–215 firms were contacted in each country, the sample roughly consisting of two-thirds small firms (1–49 employees) and one-third medium firms (50–250 employees).³ The countries covered were Argentina, Brazil, Chile, Colombia, El Salvador, Mexico, Peru and Venezuela, which implies a broad geographical coverage and, to some extent, different levels of development. Most are middle-income countries where business owners and managers can be assumed to be somewhat familiar with CSR practices. The survey can be considered representative because it covers a large number of small and medium firms in each country. It may be argued that the number of employees used to define a medium firm in this survey is rather large for less developed countries. Nevertheless, the objective was to use the same definition of medium firms as in other studies to enhance comparability. Whenever the results differ between small and medium enterprises, they will be highlighted. The survey covers three types of firm: manufacture, commerce and services, with at least 50 firms of each type in each country. Regarding sectors of activity, care was taken in the selection of firms to avoid concentration on any one sector.

The results of the survey can be considered to be quite representative of the firms studied, although, as there are variations between countries, they may not apply to the rest of Latin America, especially the lower-income countries. Another factor to take into consideration is that most firms surveyed were located in the capital city, thus results have an urban bias and they may not be representative of the situation in other geographical areas.

The survey was mainly conducted by means of personal interviews (in person or by phone); however, in some cases the questionnaire was sent electronically or by regular mail. The questionnaire used closed questions: that is, answers were not open-ended or of the essay type. There was a total of 60 questions, each with multiple and very specific options. Only owners and/or managers were interviewed. In this regard, the responses represent their opinions, and as such they may be biased, a fact that must be kept in mind when interpreting results. It is not a survey of stakeholders or a measurement of the actual activities of SMEs.⁴

2 The survey was carried out in 2004 by the Spanish consulting firm IKEI and eight partners in Latin America (seven universities and one consulting firm) for the Inter-American Development Bank. For the full results of the survey, see Vives *et al.* 2005.

3 Needless to say, this is a very rough indicator of firm size and was used for the purposes of uniformity, as each country has its 'official' definition. Dollar revenue had the problems of comparability between countries and confidentiality of information.

4 The group of firms responding to our survey was fairly large but it may be sample-biased and its size was not set looking for statistical significance of results. Furthermore, it is based on managers'/owners' responses, and was not verified independently. Based on these considerations and because its purpose was not to analyse differences between types of firm or countries, but to have an overall assessment of the situation in each country and its policy implications for fostering CSR, we have refrained from conducting statistical tests.

Components of corporate social responsibility in SMEs

While the definition of corporate social responsibility differs by country, by CSR-promoting organisation, and even by individual firms, which will have their own interpretation, the survey asked very specific questions and avoided generalisations. This, combined with the closed nature of the questions, makes the results robust, regardless of the CSR definition. The questions were directed to assess activities regarding the welfare of employees, firm governance, community support, and concern for the environment and the use of natural resources. The survey classified those practices as internal, external or environmental.

Internal responsibility refers to socially and environmentally responsible behaviour as it relates to workers and suppliers. It is expressed in concern for the health and well-being of workers, their training and participation in the business, equality of opportunities, work–family relationship, and some corporate governance practices (independent audits, CSR in suppliers, internal control of corruption practices). **External responsibility** is defined as support for social and cultural community activities, as well as community development and other related issues. **Environmental responsibility** covers activities geared towards the reduction of the environmental impact of their operations, including such things as reducing waste and the consumption of natural resources, recycling, putting in place environmental management systems and the like.

Results of the survey

Overall results

Firms were asked general questions about their commitment to the activities reported (specific questions in the survey will be detailed later). A **high-level commitment** indicates that activities are part of the firm's strategy and are conducted on a routine basis. A **medium-level commitment** means that activities are routine, but they are not part of an overall strategy. A **low-level commitment** means that CSR activities are carried out only occasionally and on an ad hoc basis and are unrelated to the firm's strategy. Based on this rather coarse classification, the relative importance of the type of activity can be assessed by size and type of firm. Figure 1 shows that most firms carry out internal activities, while external and environmental efforts are less common. Because internal activities include a wide range of sometimes common actions, their ranking in the survey is not surprising. The low ranking of environmental activities is also unsurprising given that they are issues of relatively recent concern. The level of commitment to external activities is rather low, possibly indicating their non-essential nature, as perceived by smaller firms, since they tend to be conducted only when needed or if the economic situation is favourable.

In Figure 2, which shows aggregate data by firm size, we see that smaller firms have a lower level of aggregate commitment (index based on the three areas) than medium-sized firms (14.4% of small firms show a high level of commitment compared with 28% of medium-sized firms). By sector, the figure shows that those firms involved in commerce show a lower level of aggregate commitment to socially responsible practices than those in manufacturing and services (where one in six firms appears to be highly committed to CSR practices), presumably because of the lower visibility and impact of those practices. This will be seen in more detail below when results by type of activity are analysed. Almost all firms, regardless of size and sector, report some activity in one of the areas of responsibility (less than 3% report no activity at all). An additional analysis was performed to compare firms that export their products with those that do not. As expected, exporters show a higher level of commitment to CSR practices, although the

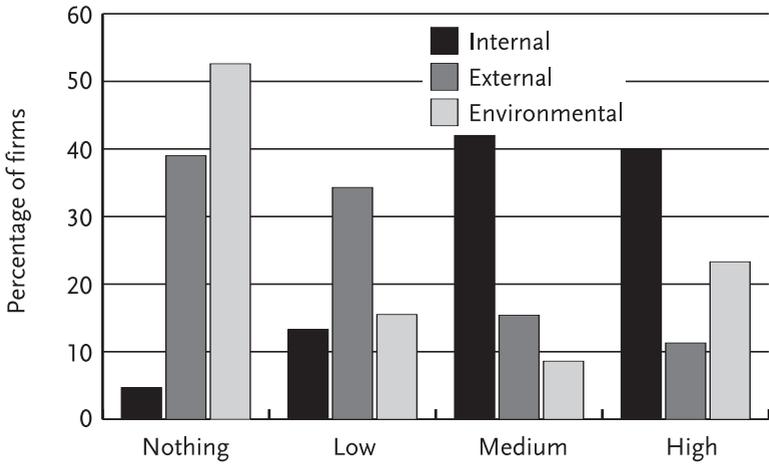


Figure 1 LEVEL OF COMMITMENT BY AREA OF RESPONSIBILITY

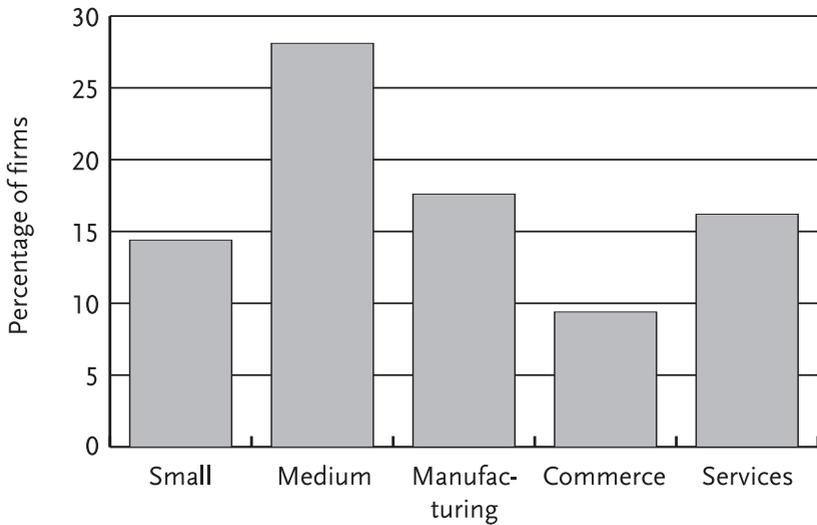


Figure 2 HIGH LEVEL OF COMMITMENT BY SIZE AND SECTOR

difference is most obvious in the case of medium and high levels of commitment. It is likely that exporters are more exposed to CSR practices and that this accounts for their higher level of commitment.

Figure 3 shows the high level of commitment by area of responsibility. Both small and medium-sized firms show the greatest level of commitment to internal CSR practices, while environmental practices take second place and external practices take third place. In all cases, medium-sized firms are more committed to all three types of CSR practice, especially in the case of external responsibility, which appears to be twice that of small firms.

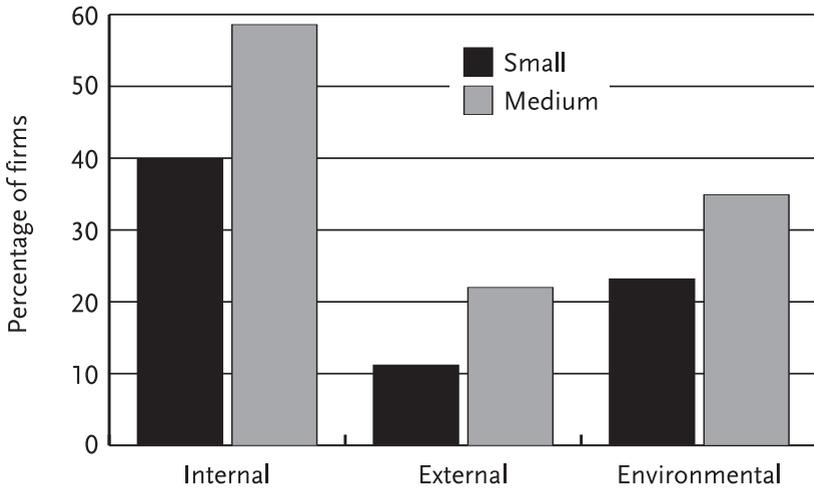


Figure 3 HIGH LEVEL OF COMMITMENT BY SIZE AND TYPE

In terms of level of implementation by country, Figure 4 shows the percentage of firms that fall into the high/medium aggregate level of CSR activities. The figure shows that SMEs in Chile and Argentina have the highest level of CSR activity, while those in Brazil and El Salvador present the lowest. While the study did not attempt to analyse the reasons behind these differences, our assumption is that they are related to the relative openness of the respective economies (since, as noted earlier, firms that engage in exporting tend to implement more CSR practices), the level of development and, most importantly, cultural factors.

The survey included questions about the priority given to different CSR activities. While many firms appear to carry out socially and environmentally responsible activities, less than one-third of them considered those activities to be a priority and less than

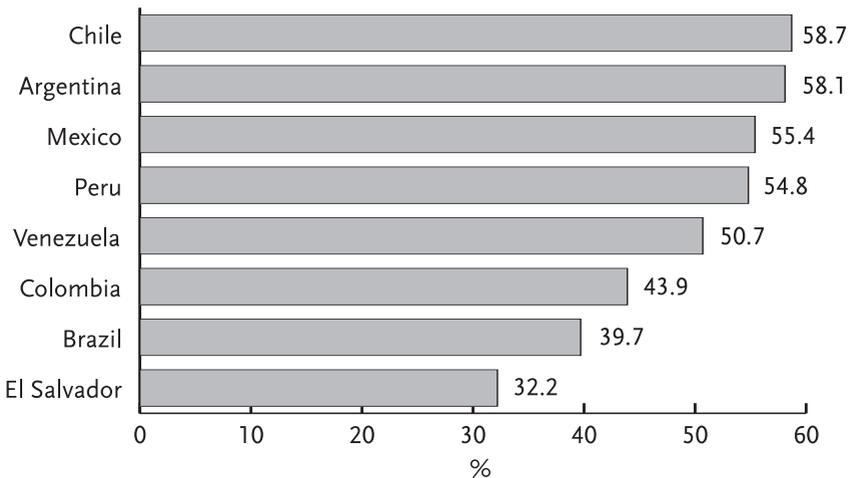


Figure 4 LEVEL OF ACTIVITY BY COUNTRY (PERCENTAGE OF FIRMS WITH HIGH AND MEDIUM LEVELS)

one in eight thought that enough was being done. This seems to imply that, while SMEs see the need for instituting CSR practices, they have not yet translated that into their corporate strategies in a systematic manner. We assume that the reason for this is that there is not enough understanding of the potential long-term benefits of these practices. Needless to say, this varies by size and type of firm, with exporters, manufacturers and medium-sized firms giving CSR practices and activities a higher priority.

A very interesting result, and one that bodes well for the future, is that almost three-quarters of the firms believe that society in general is demanding more and more responsible behaviour. Nevertheless, they do not perceive much pressure from their immediate stakeholders: workers, clients and suppliers. These results are almost uniform in all countries for internal and external activities, but are moderate for environmental ones. Even these only reach a maximum of 20% of respondents in Brazil and Venezuela reporting some pressure.

Internal responsibility

This area of corporate social responsibility was the most broadly defined and included the highest number of related questions in the survey; as a result, we anticipated some level of involvement in this category. Moreover, some level of activity in this area is expected because most SMEs will naturally be concerned about matters internal to the firm. Less than 5% of the firms reported that they do not engage in any internal CSR activities, while more than 40% of them showed a high level of involvement. As if to prove that activity in this area is almost a natural occurrence, but that many do it without conviction, more than 40% also reported a low level of implementation. Among medium-sized firms we found a higher degree of implementation, but there was no noticeable difference by sector (manufacturing, commerce and services) or by orientation (slightly higher for exporters than non-exporters). Argentina, Chile and Venezuela are the countries with the highest level of implementation, and Brazil and El Salvador present the lowest.

The areas of internal CSR with the highest degree of activity are, not surprisingly, work–family issues, equity, health and well-being, and worker participation. Education ranked fourth, and corporate governance last, although some activities in these areas were reported by three-quarters of firms. The CSR practices that appear most developed are respect for working hours (in 83.1% of firms), non-discrimination and the provision of opportunities for dialogue. The least developed areas are verification of CSR practices in suppliers, benefit sharing and formal training programmes (the latter was reported in only 13.4% of firms, even when most of them provide some form of access to training). Again, medium-sized firms tend to be more involved.

External responsibility

Aggregate involvement in this area is the lowest. Only one in five of the medium-sized firms and one in ten of the small firms reported high involvement. Most CSR activities in this area tend to be targeted to cultural activities, sports, health and well-being, education, assistance to low-income groups and community participation. Medium-sized firms seem to be the most active in supporting sports (more than half of the medium-sized firms reportedly do so), health and cultural activities. Smaller firms show a bias towards education and providing assistance to low-income groups. Overall, assistance to low-income groups is the most reported activity. These preferences may be related to the affinity of the smaller firms with the disadvantaged and the fact that medium-sized firms will usually have more resources available for such purposes.

In more than 70% of firms, external support was mainly in the form of donations through third parties (i.e. philanthropy without involvement, in cash and in kind). Management or employee involvement (donating time) is reported in roughly one-third of

the firms. The only noticeable difference by size of firm is in involvement by employees, where the proportion of medium-sized firms is almost twice that of small firms. Cash and in-kind donations are the single most important form of participation in all countries. The reported contribution varies between 0.36% of sales in Chile and 1.64% in Mexico.

Environmental responsibility

To assess environmental responsibility, the survey covered activities related to the impact of the firm's operations on the environment, and covered issues such as impact monitoring, energy and water efficiency, waste reduction, recycling or treatment, taking advantage of by-products, environmental management and verification of suppliers' responsibility.

Environmental responsibility was the area with least activity; indeed, more than half of the firms reported no activity at all in this area. Those firms that reported actively pursuing environmental CSR practices also report a 'higher degree' of implementation than in external and internal responsibility. This is supported by other results that indicate that lack of activity is mostly due to lack of knowledge. Once the firm is aware or it is bound by regulations, it will tend to have a high degree of involvement. Medium-sized manufacturing and exporting firms tend to have a higher degree of participation in environmental activities than smaller firms, firms in other sectors, and those that do not export.

The most practised activity is energy efficiency, followed by reduction, recycling and treatment of waste (both around half of firms). The least practised activities are verification of suppliers' practices and an integrated environmental management system (less than 13% of the firms). Other practices, such as water conservation, monitoring and taking advantage of by-products were reported by one in three of the firms.

Driving factors

Why are firms carrying out these activities? It is generally assumed that the values of owner/managers and how close to or responsible for their employees and communities they feel will determine their level of social responsibility. Some of these assumptions are confirmed by the survey. The single most consistent reasons given for engaging in CSR practices were ethics and religious values (40–50% of the firms for all three categories of responsibility mentioned this motivation).⁵

The welfare of employees was mentioned as the major reason for engaging in internal CSR practices (this may also be related to ethics and religious values and the desire to increase profits) (Fig. 5). Profits were mentioned as an important factor in engaging in internal and environmental (savings on resource consumption) CSR practices, in almost 47% in each case. Compliance with legislation was also reported as important for these two categories (32% and 37%, respectively). Better relationships with the community and the public sector are also a consistent explanatory factor for all categories (mentioned by 26–41% of firms). Finally, the desire to improve relations with clients and suppliers was cited in all three categories, mostly for internal and environmental responsibility (23–39%, not shown in Fig. 5). For medium-sized enterprises, profit, better relations and improving the welfare of employees are clearly stronger motives than for small firms.

It seems that corporate social responsibilities for Latin American SMEs are explained mostly by ethical and religious factors, concern for their employees, the desire to

5 While we do not have comparable figures for larger firms, experience would tell us that this reason is very likely to be less important for larger, impersonal firms and it would seem that this is a reason that clearly distinguishes SMEs from large firms regarding responsible behaviour, although, in our survey, it was not different for small and medium-sized firms.

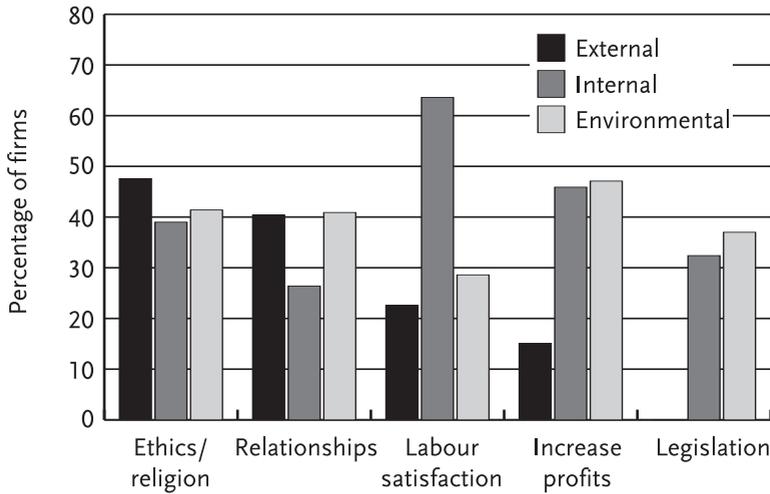


Figure 5 DRIVING FACTORS (PERCENTAGE OF FIRMS REPORTING REASONS)

improve profits and the need to maintain good relations with clients, suppliers and the community. Profits, while important, are one of many drivers, not much more important than other drivers. Pressure from civil society and public-sector incentives do not seem to be as important.

Obstacles to responsibility

Obstacles to a more active participation in external and environmental CSR practices are concentrated on lack of knowledge and resources (see Fig. 6). Lack of knowledge is cited by about 30% of the firms in each category of responsibility, while lack of resources is cited mostly as an obstacle to external responsibility. This is consistent with other results that show this activity as mostly altruistic, philanthropic and unrelated to the business itself, reflecting a lack of knowledge of the potential impact on the welfare of the firm. Additionally, an obstacle to involvement in environmental responsibility is the perceived lack of impact. This perception may also be a reflection of the lack of knowledge, because, while it may be true that some firms may not have a direct measurable impact on the environment, all firms could optimise their resource use and handling of waste. Rather surprisingly, limitations in human resources, time and public support were not reported as obstacles by most firms. All of these results are rather uniform by country, size and type of firm. But one difference was found regarding lack of knowledge, which was cited more often by medium-sized firms (one explanation could be that the smaller firms do not know that they do not know). As most firms are engaged in internal CSR activities, related obstacles were not pursued in the survey.

Future involvement

Regarding expectations of future involvement in CSR practices, the survey revealed relatively good intentions. Forty per cent of firms that have a high degree of involvement (CSR is part of the firm's corporate strategy) stated that they intended to keep the same level of involvement, and about 50% indicated that they would probably increase it. Fifty per cent of firms with a medium level of involvement (consistent with the firm's corporate strategy but not included in it) reported that they would maintain the same level of effort, while about 40% indicated that they would increase it. Even when these are

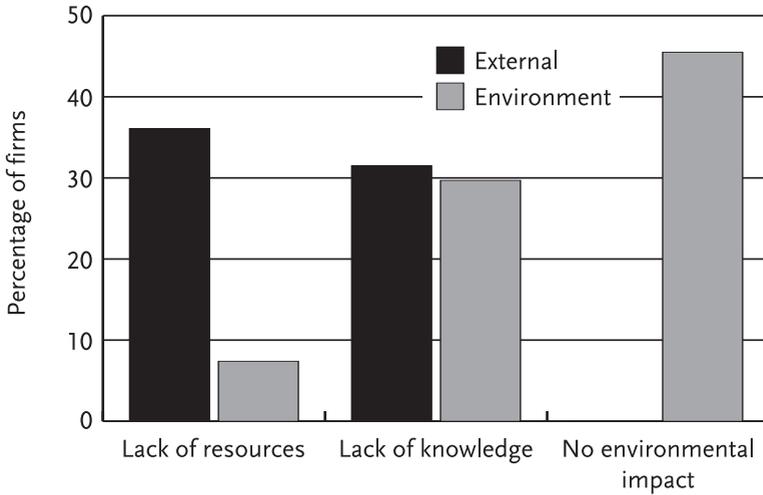


Figure 6 OBSTACLES TO RESPONSIBILITY (PERCENTAGE OF FIRMS REPORTING REASON)

only intentions, and 'intentions for good behaviour' are usually overestimated, there are encouraging signs that responsible practices may expand among Latin American SMEs. These results are consistent with opinions expressed in other parts of the survey, in the sense that SMEs are not doing enough in this regard.

Fostering corporate social responsibility in SMEs

Given the results of this survey and other studies, how can corporate social responsibility be promoted in SMEs? The most important barrier to overcome is the perception by many SME managers that being responsible is expensive, taking time and money. Many may see it simply as an expense, as they associate it with philanthropy and community involvement. Their lack of knowledge makes them unaware of the potential benefits of responsible behaviour in the broader sense of a CSR strategy.

In order to engage SMEs, it may be better to build on what they are already doing, deepening or widening their activities. For SMEs, it may not be a case of integrating CSR into the corporate strategy (in cases where one exists), as is the case for large corporations. Instead, it will require a more piecemeal, gradual approach to CSR issues, taking advantage of the ethical/religious reasons for involvement. As the survey results show, many SMEs are already engaged in what we would call corporate social responsibility, even if they do not call it by that name or are not even aware of the concept, or do not believe that they are explicitly engaged in those types of practice. Their involvement is *informal*, gradual, of the 'one thing at a time' type, and almost unnoticeable. It need not involve large investments or recurring costs. Many of these activities have developed naturally, as a result of employee and community demands. Sometimes the best way to start is by appealing to the altruism of owners/managers and using the 'feelgood' argument. At some point in their careers, many may have been low-level employees themselves and, therefore, understand the importance and value of solidarity.

How should SME involvement be promoted? SMEs are close to the community and dependent on associations with similar businesses. As a result, the most useful sources of influence on them will be local governments, industry and commerce associations,

and large buyers. The preferred method for involving them in CSR practices should be persuasion through encouragement and support. SMEs must be shown the value of involvement, but care must be exercised not to overstate it, as many of the actions taken by these firms may not ultimately have a direct or measurable impact. Another issue is that SMEs' information systems are not well developed and, as a result, they may not be able to establish causality.

SME involvement can be fostered with the use of simple tools. For instance, one of the most effective ways to do so is by disseminating examples of practices employed by their peers. Making guidelines, checklists and examples available to SMEs is also useful, preferably prepared and presented by institutions and individuals that are not attempting to sell them anything but simply share similar views. Because, in some cases, SMEs are not sophisticated and do not have the resources or talent to devote to CSR issues, it is important that the strategy of engagement be as simple as possible, promoting one goal at a time. SMEs may face many barriers to adopting CSR practices, including lack of resources, especially the limited time that owners or managers can devote to these activities, and the knowledge or awareness of the opportunities afforded by these practices. Moreover, involvement in CSR practices should not be regarded as an obligation or regulation if a strong conviction about the long-term benefits of responsibility is to be developed among SMEs.

Concluding remarks

While the survey found that responsible practices are rather common in SMEs, there is still a need to deepen the involvement of those already practising CSR and promote it among those SMEs that are not yet participating in such efforts. SMEs, by their nature, particularly in terms of governance, ownership and goals, are a fertile ground for the development of responsible behaviour.

The traditional tools and methods for involvement were developed mostly for larger firms in developed economies, for which the business case may be the most effective instrument. For smaller firms in developing countries, the promotion of responsible practices must build on the ethical/religious motivation already existing to make the business case, wherever possible, which in turn will help to ensure sustainability of this behaviour as firms evolve and face more competitive pressures. The findings of the survey, which are summarised here, may help determine the areas where actions are most likely to be effective.

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