

Responsible practices in Small and Medium Enterprises

Antonio Vives

I. Introduction

A. Meaning of CSR in small and medium enterprises

Is the relative neglect of corporate social responsibility in small and medium enterprises justified? Aren't those firms after all a small part of economic activity? Should we bother about the responsible practices of SMEs? This chapter presents the case for fostering responsible practices in SMEs by describing the characteristics that make these enterprises good candidates, offering suggestion on those practices, suggesting measures to enhance their adoption and presenting the results of several surveys in developed and developing countries to illustrate the extent of those practices and the need for supporting actions.

There are as many definitions of corporate social responsibility as there are authors and we will not add yet another one. In this chapter, in the context of SMEs as opposed to large firms, we prefer the term "responsible practices" as more illustrative and less controversial. By responsible practice, we mean the day to day business practices that avoid harm and try to do good to employees, the environment, the surrounding communities, providers of financial and non-financial inputs and consumers, obeying the laws and regulations of the countries, and where these are considered by managers to be insufficient, go beyond in order to achieve the objective of being considered a good and proud company. Unlike the case of large firms, where the issues of philanthropy on one extreme (give money) and contribution to social and economic development at the other extreme (concern for the advancement of the quality of life), for SMEs we are mostly concerned with what lies mostly but not exclusively between those extremes: practices that do not harm and insofar as possible, contribute to do good. For large firms, the controversy lies normally in the extent of practices within those extremes. Is philanthropy a responsibility? What is their responsibility to contribute to development? We will avoid these controversies, by concentrating the discussion on the core responsible practices. Also, we prefer not to emphasize the term "corporate social responsibility", as the vast majority of SMEs is not familiar with the concept. Their involvement tends to be in some specialized area and rarely do they embrace the overall concept as a strategy. They react better to terms like "responsible business practices". Many of them are not "corporations" and the term "social" is too narrow.

B. SMEs characteristics conducive to responsible practices

For many readers it may come to a surprise that SMEs constitute more than 90 percent of business worldwide and account for between 50 and 60 percent of employment and more than half of GDP. In the case of Latin America over 60 percent are SMEs providing between 40 and 50 percent of jobs. If we include microenterprises, the numbers go to 99

percent and over 70 percent respectively¹. In member countries of the European Union (as of 2007) it is estimated that there are more than 24 million SMEs (with employees up to 250) providing over 90 million jobs. In the United States they provide close to 60 percent of employment with a definition of small firm of up to 500 employees. Regardless of the accuracy of these statistics, it is clear that the vast majority of enterprises in the world are SMEs and have a significant contribution to employment and production.

Even if the impact of SMEs on the amount of goods and services is not as large as that of large firms, SMEs CSR practices can have a larger impact on society as they tend to be more labor intensive than larger enterprises. Furthermore, they tend to contribute more to the equitable distribution of income, as they provide employment and living means for the less well off, they contribute to provide social cohesion and stability. Also, given the relatively local concentration in the sourcing of inputs and the provision of goods and services, they tend to have a bigger impact in the communities where they operate. These are even more reasons to be interested in promoting responsible SMEs.

But to promote these practices, we must realize the special characteristics of these enterprises, which are very different from the larger ones, for which most of the concepts and methodologies on CSR have been developed. While some of the fundamentals of the enterprise may be the same, SMEs are subject to very different stakeholder signals. In particular many will be family owned firms, or at least privately held firms within a small group of shareholders, particularly in emerging economies².

The generalized assumption that larger firms have as one of the major objectives profit maximization may not be true for most SMEs. As a consequence, promotion of CSR practices rely less on the business case, i.e. that CSR is good for the bottom line, either now or later, tangibly or intangibly. While most SMEs would like to have profits as large as possible, they may not have profit maximization as their foremost goal and may have other objectives. This is not to say that SMEs are not concerned with profits, if they are not, they will probably have short lives. It means that besides seeking to make money, they may be willing to forego some of those profits, knowingly or unknowingly, to achieve other objectives, like producing products that owner/managers find satisfying, giving back to society, helping others less fortunate, etc. The point being that they are not driven only by the pursuit of “maximum profits”, and many times are satisfied with “satisfactory profits” and are willing to trade off some profit for other goals. Unlike large enterprises, their “cost-benefit” analysis of responsible practices will tend to be subjective, it will be enough to see that costs and/or benefits go in the right direction, not

¹ These statistics are very hard to aggregate as countries have different definitions and different dates of reporting. For smaller economies it is up to 60 employees, for the middle sized economies it is up to 200 and for some of the largest countries it can go up to 250 employees.

² For the case of Europe, 85% of SMEs describe themselves as owner-managed, 60% as family business, 90% are privately owned or are partnerships, and 74% operate out of one single location (see the 2002 European Business Survey of Grant Thornton, an accountancy firm in the U.K.). It must be kept in mind that in the case of Europe, SMEs include up to 250 employees, although the vast majority of respondents were under 100 employees. If we were to limit the definition to a smaller number, as is the case in emerging economies, all these proportions would probably be larger.

necessarily that they are as favorable as they can be. 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.

In terms of markets, the majority of SMEs tends to serve local markets and is not exposed to international pressure or incentives. Civil society will not be very concerned with their actions, preferring to devote their limited resources to the “big fish”, to the larger corporations that have a greater impact. Nevertheless there are some SMEs that tend to sell to larger corporations, many of which are concerned about the responsible practices of their suppliers.

SMEs by their very nature are, in general, local institutions, which depend on customers that live around the enterprise, the few workers are likely to also live close by and the owners are likely to be involved in the community. SMEs may stay in the same location for a long time. Community development, concern for the environment and for social issues is closer to their nature.

SMEs are normally struggling to survive under adverse economic conditions and any regulations tend to be more burdensome than for larger corporations that have the resources to deal with them. SME managers are very likely to be concerned by the implications of social and environmental issues and regulations. They will perceive them to be an additional burden, unless the business case is made in a language and in a form that can be understood. As in the case of larger enterprises, it must be shown that it can be a competitiveness tool, for the same reasons, but with very different emphasis. 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.

A caveat: While SMEs share of the characteristics described above, there are also significant differences between them. Depending on the country definition, they cover companies from 10 to 100 employees and in some cases up to 250 employees. And what are small companies in one country may be deemed large companies in another. There is a wide diversity in such a group, within a country and much more across countries, particularly between developed and developing countries. Furthermore, SMEs in commerce are very different from those in manufacturing and will react to different drivers. A large part of the discussion that follows is based on generalizations, and they must be taken as such and contrasted and validated with the local reality and needed adjustments made. Below we discuss the different drivers of responsible practices.

II. Drivers of CSR in Small and Medium Enterprises

The business or performance case is as valid for SMEs as it is for large enterprises, although it may not be as critical for their adoption of CSR practices. While many SMEs engage in responsible practices as a natural consequence of their beliefs and intuitions, it is also important to consider the impact that these practices can have in the performance of the enterprise. As we will see later, the financial impact of these practices may not be

the main reason why firms engage in them, as they increasingly face competitive pressure, for the practices to be sustainable in the long run, some benefits, tangible or intangible may need to be shown. To guide these practices it is important that management be aware of what drives them.

While one of the most important drivers for larger enterprises is likely to be the protection and enhancement of reputation or the brand name, for SMEs it may be the desire or need to be a good citizen in the community. Large firms feel the impact of the actions of **consumers** very strongly, particularly those selling in mass markets, where adverse publicity on irresponsible practices can have an immediate, large and lasting impact on revenues. For SMEs this may be a lesser issue, and one that can be managed more easily, as they do not tend to sell in mass markets and there is less public information associated with their products and services. In relatively developed markets an important driver, particularly for larger firms are the existence of independent certifications, whereby institutions certify that the firm's products and services have been producing using responsible practices³. This applies to SMEs to a much lesser extent. While all firms can capitalize on the positive aspects of responsible practices, it will depend on the actions of consumers willing to act on the available information.

Nevertheless, CSR can be practiced by SMEs and reap many of the same benefits that larger corporations do. The level of involvement will certainly be different. There are many responsible practices that SMEs can do as a matter of routine and without having to develop extensive or expensive engagement strategies. Actually, they may turn their smaller scale to their advantage. Areas like reducing environmental impact, waste reduction and recycling, skill development and concern for the health and well-being of staff, are issues that can be handled relatively easy, and can yield tangible returns.

Ethical behavior is more visible in the geographical area of influence and hence tends to be more pronounced in SMEs than in the case of distant, impersonal big business. Relations with customers, suppliers and competitors are more based on trust than in the case of larger corporations, which rely on legal contracts or their business power to elicit response. In the case of SMEs there are many cases where credit is extended to customers or received from suppliers with little documentation. They are so well known in the community and with whatever stakeholders they may have, that it is harder for an SME to be visibly irresponsible. Nevertheless, they can be more responsible and reap the benefits.

Also, SMEs, having fewer employees and having the owners closer to the business, in many cases as managers, are more influenced by a few individuals, **employees and managers**, and for this reason it is easier to transmit a responsible ethic. Also, lately a new generation of SMEs is coming into force, younger, more educated, that has been born after the surge of interest in sustainability issues, which will be more responsive to responsible practices. This is the case in developed and developing countries alike. The problem of creating a *corporate ethic* is less of a problem for SMEs, as there are fewer

³ Examples of certifications are those related to fair labor practices, payment of fair prices to producers in less developed countries, sustainability of the forestry and agricultural practices, among others.

independent decision makers and it is easier to develop a collective ethic. Also, the *agency problem* of the divergence of objectives between managers and shareholders or owner is a much lesser problem. Managers of larger firms have incentives normally tied to short term performance that may lead to compromising the “investment” in CSR, which many times involves short term tangible cost in exchange for long term (tangible or intangible) gains. In the case of SMEs, gains, if sought, tend to be reaped in the shorter term and the goals of managers and owners are more aligned, as they tend to be the same persons.

Given the relatively local character of SMEs, where employees and owners are known in the community and many times are the community leaders, SMEs have a strong **identification with the community**. As a consequence the drivers for CSR for SMEs will tend to come from the community and the major external CSR activities will tend to be community related, in particular related to sports, health and education support. By the nature of SMEs, these CSR activities grow out of philanthropy or, at best, strategic philanthropy (philanthropy on matters related to the success of the business). CSR activities outside its core are seldom practiced as SME manager do not have time and the company does not have ample resources to invest. This means that as CSR activities tend to vary with economic conditions and may fluctuate depending on the fortunes of the corporation.

Nevertheless, this discussion does not mean that CSR activities are limited to these external manifestations. There are a host of CSR practices that are suitable for SMEs that can reap benefits, particularly related to internal management of people and processes, as we discuss below.

Another important driver for SMEs is the **demand from larger firms**, and in some cases from enlightened government buyers, for responsible practices in their SME suppliers, precisely to maintain the reputation for responsibility. SMEs selling to larger firms, particularly to those selling into consumer markets will need to adopt responsible practices in order to keep their clients. These responsible practices transmitted through the supply chain tend to be concentrated in environmental and human resources issues⁴. Some of these affected supplier firms may, in turn, influence other SMEs in their market, for instance their competitors selling in the local market, and, through example, other unrelated SMEs. The impact on the firms that do sell to large buyers in developed and developing countries is indeed a very important driver, sometimes, like the case of textile or sporting good suppliers, the most critical driver.

But this driver must be put in the proper perspective. Only a very small fraction of SMEs do sell to firms that have responsible practices requirements in their supply chain, particularly in developing countries. Most SMEs in developing countries sell only to

⁴ Not all pressures on the supply chain tend to enhance responsible practices. Sadly, there are many multinationals that in their efforts to maintain their competitiveness in developed markets will outsource their purchases to less developed countries, pressuring their suppliers to forgo their responsibility or ignoring their irresponsible practices in order to get the products as cheaply as possible. These practices will eventually surface and all involved may end up paying for it.

local customers or to other SMEs and even when selling to large firms, these firms may not yet have those requirements. This is a case where the diversity of SMEs makes generalizations very risky and each case must be analyzed separately. While important, the driver of responsible practices of the supply chain does not yet affect many SMEs, although it is one of the practices that has the fastest growth in recent times.

Nevertheless, some SMEs in emerging economies are also the ones that stand to lose the most as they are rather vulnerable, as they may become dependent on these buyers. As has been pointed out, you may not gain a contract by being responsible (competition on price continues to be important), but you may lose it by being irresponsible⁵. With the requirements for good behavior from the buyers must come support, in particular training and advice from the larger firm to produce responsibly. To be effective in promoting responsibility, social and environmental standards must be used in a positive manner.⁶

While SMEs are subject to the same **environmental and social regulations**, few see them as opportunities and most consider them as costs of doing business. SMEs have substantially lower capacity to cope or influence regulations that larger firms and many see regulations only as a burden and in some less developed countries, as a source of irresponsibility, paving the way for corruption to overcome inefficient regulation or its enforcement. But as the discussion of the business case below shows, environmental regulation can be a source of cost savings and provide opportunities to develop new products and services. It is precisely SMEs, with their flexibility and capacity to adapt to changing conditions, the type of firms that can capitalize in new products and markets resulting from the increased awareness of society on social and environmental concerns.

Media and civil society pressures (monitoring institutions) tend to be less important drivers, as SMEs are less visible and fragmented. These stakeholders will most likely concentrate their resources in larger corporations or issues that command national or international attention. Only local media and local NGOs may be interested in the responsibility of local SMEs, and if they are, they can be a powerful driver. Local reporting of misbehavior, say pollution of a stream or mistreatment of workers, can galvanize a community against a local firm. Nevertheless, these cases are rare, as media, if they are concerned at all, will be more concerned with larger firms.

Providers of financial resources are also less important as drivers for SMEs than for larger firms. As mentioned above, most are privately owned firms with little access to the financial system, financed with owner, family and friend's resources and with retained earnings. In developing countries access to finance is even more difficult. Furthermore, SMEs are more likely to be customers of rather smaller local banks. Even if they are public corporations, the market for their shares is likely to be very thin. Their relationship with the financial system is also likely to be rather narrow and of a small magnitude, such that these institutions will not bother to demand socially responsible behavior, nor will the SMEs reap any cost of funds advantage by being responsible. If

⁵ See Vogel (2005) for a comprehensive discussion of supply chain issues.

⁶ In some cases developed countries may use the demands for responsible behavior as a protectionist tool. This is a very important issue in public policies, especially in the negotiation of free trade agreements.

any cost advantage is realized, it is most likely a result of financial transparency (corporate governance) and not from environmental and social responsibility. Recall for instance, that the Equator Principles⁷, adopted by rather large banks, applies for *project finance* and in this case, for projects with cost over US\$10 million. Even though the major financial institutions are extending the concepts to *corporate finance*, it may take a while before the application reaches small loans, which have high enough transactions costs already. This is not to say that some enlightened financial institutions will not look at the environmental and social risks and responsibility of SMEs, but it will not be the norm, much less in emerging economies.

The driver of financial markets may affect innovative, high growth or larger SMEs in developed countries that may have access to the financial and capital markets, particularly if they have to access specialized funds. This would certainly be case for up and coming SMEs that want to tap in the market for sustainable products like energy efficiency, environmental products and services and the like.

Other drivers of CSR in large corporations, like **internal codes of conduct** are also less likely to have an impact in SMEs, as the objectives of employees, executives and owners tend to be more closely aligned and there are fewer of them. They work better by example than by written rules. Codes of conduct, properly enforced, tend to be more effective in impersonal firms with large number of employees. External codes of conduct tend to be relatively unknown to SMEs. Again, not all SMEs are alike and for larger SMEs in developed countries, codes of conduct may be an important factor particularly if they are part of supply chain requirements, enforced by large buyers.

The following table summarizes the discussion on the impact of drivers. The reader must bear in mind the extreme differences between SMEs depending on size, on relative country development and on sector of activity. This table is only illustrative of the differences between large and small and medium firms, on a generalized basis.

Table I: Relative impact of CSR Drivers in SMEs and large corporations

DRIVERS	SMEs	LARGE
Laws and regulations	Important but not determinant	Very important
Civil society	Somewhat less important	Critical for consumer goods and extractive industries
Financial and Capital Markets	Little importance, except for selected firms with access to these markets	Important in developed markets, more so for the larger firms.
Educated consumers/large buyers (supply chain)	Consumers have some influence. Large buyers can	Very important when the final product is a consumer

⁷ Equator Principles are voluntary agreements by signatory institutions to apply social and environmental safeguards and monitoring and reporting procedures in the financing of large projects. As of late 2007, there were a little over 50 signatory banks, mostly large institutions (www.equator-principles.com)

	be critical for a small number of SMEs	good (as opposed to a commodity or an industrial product)
Media and monitoring institutions	Relatively unimportant. Unlikely to be concerned with smaller firms	Very important in selected cases, particularly for multinationals in developing countries where environment and human rights are exposed
Employees	Very important, some responsible activities originate with employees	Lesser importance as they are impersonal
Exposure to competition and globalization	Important if and when consumers and buyers can appreciate the value of responsibility	Critical, both in a positive way (capture competitive advantage of being responsible) and in negative way (race to the bottom to avoid costs) Balance will depend of industry sector and structure
Managers/Board of Directors	Important drivers. Many times initiatives originate with enlightened managers.	Important also, but tends to be overshadowed by other drivers. Some company leaders are realizing the competitive advantages of responsibility, including new products and markets
Owners/shareholders	Critical for family and owner/manager firms. Sometimes are the original and most important driver	Only important for very well developed financial markets where responsible investment is mainstreamed

III. Impact of responsible practices on competitiveness

A. The business case is also important for SMEs

Even if SMEs are involved in responsible practices for altruistic or ethical reasons, the increasing competitive pressures and the economic situation of the marketplace make the issues of the impact on these practices on the competitiveness of the firm more and more relevant. This section considers the performance case of responsible practices and how can the SME do good by doing good.

The impact of responsible practices on the competitiveness of SMEs will depend on the extent that the drivers mentioned above apply to the firm, the industry and the country. A

Careful analysis of the impact of responsible practices must start with an assessment of the applicability of those drives to the situation at hand.

Perhaps motivated by the lack of time and resources to look at the bigger picture, most of the involvement of SMEs tends to be of an internal nature, i.e. towards its own employees and inside the company, which is a natural way to start, one that it is highly visible and has tangible returns. Many of the SMEs in developing countries are family owned and as such the concern for the welfare of the employees is almost like an extension of family. For instance, in many countries of Latin America, there was and still exists to some extent, a predominance of SMEs related to immigration, which makes the owners even more sensitive to the welfare of its employees, having felt the need for caring concern.

The external involvement tends to emphasize impact on the community and it is also driven by their impact on their employees or the pressure put on by employees and to a lesser extent by clients. Involvement in environmental matters tends to be limited to the larger segment of the SMEs and concentrated on internal actions, like recycling, energy and water consumption and the like. Consideration for the impact of operations on the external environment tends to be in response to regulations or by some large buyers that are exposed to the behavior of their suppliers.

While the business case may not be as strong, as generalized or as critical as it is for larger corporations, the case for SMEs can be shown effectively in the following three areas:

- Increased revenues
- Costs savings
- Productivity Improvements
- Risk reduction and asset values

This is not to say that other areas are not likely to yield net benefits, but are less likely to be managed capably by SMEs⁸. The following table illustrates in a schematic form some of the major areas of impact

Table II: Business case arguments for better SMEs⁹

	ECOLOGY AND ENVIRONMENT	HEALTH/ WELLBEING	DIVERSITY	COMMUNITIES
SAVING MONEY	<ul style="list-style-type: none"> • Energy savings • Waste disposal costs down 	<ul style="list-style-type: none"> • Staff stay longer, so lower training costs 	<ul style="list-style-type: none"> • Lower recruitment costs • Wider sources new staff 	<ul style="list-style-type: none"> • Insurance and security costs less because less crime and vandalism
IMPROVING	<ul style="list-style-type: none"> • Better waste 	<ul style="list-style-type: none"> • Healthier and 	<ul style="list-style-type: none"> • Less downtime 	<ul style="list-style-type: none"> • Better

⁸ For some examples see SustainAbility (2002) and companion volume (2007).

⁹ Taken from Grayson and Hodges (2001).

PRODUCTIVITY	disposal	happier employees <ul style="list-style-type: none"> • Less absenteeism 	as new staff learn	motivated staff
GETTING MORE SALES	<ul style="list-style-type: none"> • Eligible for corporate tender lists • Customer of choice for eco-consumers 	<ul style="list-style-type: none"> • More continuity in customer service 	<ul style="list-style-type: none"> • Better understanding of diverse markets • Representative of markets served 	<ul style="list-style-type: none"> • Raised profile • Active in networks, which help identify new business opportunities

B. Increased revenues

As a consequence of strong community identification major benefits of responsible behavior tend to be consumer loyalty and reputation within the community and other stakeholders. Both may translate into increased revenues, either through sales volume and/or the ability to charge higher prices, depending on the extent of the competition. If the firm is consumer oriented, i.e. deals with the final user of the product or service, it may be able to attract a larger customer base or keep the loyalty of the existing one. It may also be able to pass on cost increases with less resistance. If the firm sells to other firms, this impact will depend on the corporate responsibility practices of the buyers, and may go from being critical to accessing the clients to irrelevant if the clients do not care.

Another road to increased revenues may come from marketing the responsible characteristics of the product. For instance, if the product is recyclable, energy efficient, or produced using recycled materials, with less energy, more healthy, organically produced or produced with fair wages, etc., the SME may properly emphasize these characteristics in marketing the product. In this sense, it may also be able to attract a customer/client base that was not able to attract before.

While there is no space to be comprehensive, some examples will suffice. For instance, activities that may enhance the goodwill of local customers and potential employees include: involvement in community affairs, employee and executives volunteering time, donation of surplus inputs and products to local assistance institutions, purchasing from local suppliers, support for local sports and local schools (very common, everywhere you go you see a picture of the sports team sponsored by the local small business), among others.¹⁰ Some of these activities have very little cost for the company and may provide enhanced returns.

As consumers and clients become more educated in the value of corporate responsibility and start incorporating their preferences into buying decisions, a market opens for responsible products. Nevertheless, it must be emphasized that this is no panacea. There are many customers that state that would buy responsible products, sometimes even pay a premium; nevertheless these stated preferences do not materialize in practice. There is

¹⁰ For more examples, see Grayson (undated)

huge gap between intentions and actions¹¹. The reader can contrast this with his/her own behavior when buying goods. Furthermore, in many cases consumers do not know and even have no way of knowing about the responsible practices that went in the product. Under these conditions it is even harder to express preferences and for those preferences to have an impact on revenues. This is even more problematic in developing countries, where there is less access to information on responsible practices. SME managers must inform markets about their responsible practices for these to have an impact. The communication strategies described below are critical to achieve these impacts.

Furthermore, with the movement towards more responsible products, SMES, with their capacity to adapt and innovate are very well placed to take advantage on new markets opportunities. Good examples are SMEs engaged in the production of business and personal gifts using recycled materials. In large firms a good example is the Ecomagination strategy of General Electric, seeking to capture the market for more efficient production of energy and reduction of greenhouse gas emission. Wal Mart decided to push the sales of energy efficient bulbs as part of their corporate responsibility and ended up with a very profitable business line, with sales exceeding the most optimistic expectations. A whole new industry on sustainable tourism is being developed, where SMEs are normally the major suppliers of goods and services to the large providers and can take advantage of the new demand. New markets are opened through the increased concern with social and environmental responsibility.

C. Cost savings

This is probably the most effective area for SMEs, as there are myriad of possibilities to do good and save money¹². The most accessible ones are in resource consumption, for instance the consumption of energy, water and paper, of packaging materials, waste reduction, recycling of materials, among others. Some responsible actions may not save costs, but may nevertheless contribute to enhance the reputation of the firm or the motivation of employees, which in turn may translate into increased sales or increased productivity (for example the use of recycled paper or recycled printer and copier cartridges).

There are many ways to reduce energy consumption and while an energy audit is to be recommended, one should not use its cost or its timing as an excuse. One can start by raising consciousness of employees as to the importance of energy savings, encouraging them to turn off lights, computers, machines, etc., when they are not in use, especially over night and over the weekends. Check for heating or air conditioning losses and consider changing the regulated temperature, install automatic switches to turn lights, heating and air conditioning off at specified times, change light bulbs to reduce consumption and save on air conditioning to reduce the extra heat generated by lighting

¹¹ This is what retailers call the “30:3 phenomenon” where 30 percent of buyers say they have responsible production in mind when buying and 3 percent actually act on it. See the article by Michael Shapinker in the Financial Times issue of September 11, 2007.

¹² Green Business (2001) contains suggestions and references to more suggestions.

(fluorescent versus incandescent), when replacing any energy consuming equipment investigate the possibility of buying more energy-efficient ones, maintain equipment to insure efficient operation. There are energy savings also in the proper maintenance and use of vehicles, including using more fuel efficient ones.

Similar suggestions can be made for water consumption. Start by checking for leaks, reducing consumption in non-essential uses, installing water efficient fixtures, recycle water if at all possible¹³. Other savings in resource consumption can be had in the use of paper, by installing printers and photocopiers with two sided capabilities, when replacing old equipment, or using paper already printed on one side to print or photocopy on the other side non-essential documents (saving waste at the same time).

For SMEs selling packaged items, savings may be possible by analyzing the use of materials. For example, using less expensive materials, for instance recycled ones, or designing the packaging to minimize the use or maximize the possibility of reusing the materials. This may save transportation and waste disposal costs and save money in the purchase of packaging materials¹⁴. Also, eliminating non-recyclable elements in the packaging may increase recyclability and reduce costs. Use of environmentally friendly inks in printing may not reduce costs, but may enhance the reputation of the company.

In waste disposal the major savings come from reducing the amount of waste, but also from a reduction in environmental risk. Reputation can be enhanced with proper disposal of waste¹⁵. Some waste reduction can come from redesign of the product and the packaging, but also from process analysis. By analyzing the manufacturing process, the byproducts may be reduced or may be produced in such a way that they are useful to the firm or can even be sold or recycled.

In relatively more advanced financial markets, responsible practices may allow the firm access to finance in better terms. Slowly but surely, financial institutions, including insurance companies are evaluating those practices and are willing to offer coverage on better terms if the risk perception is lower. Responsible practices may not yet offer SMEs access to finance where the market is rather underdeveloped, but it may avoid denial of

¹³ By installing waterless men urinals in a building housing 1,700 employees, the Inter-American Development Bank (not an SME!) saves 6 million gallons of water a year, besides being much more healthy. The investment has a very short payback period and can be replicated in SMEs.

¹⁴ Wal-Mart (not an SME either!!) is moving into an extensive program of reducing packaging materials in its program of “zero waste”. It estimates that by reducing packaging by 5 percent “...it will equal to removing 213,000 trucks from the road and saving about 324,000 tons of coal and 67 million gallons of diesel fuel per year.....our supply chain alone could save US\$3.4 billion.” (see www.walmartfacts.com) Granted, savings in an SME will probably very small, but this example shows that these savings cannot be ignored, as packaging has a significant impact in materials and energy consumption (in production and transportation) and contributes to waste.

¹⁵ One of the most egregious examples is the one of plastic bags in supermarkets, which are not biodegradable. Many may have seen the unsightly sights in many developing countries of plastic bags hanging on trees for years. A supermarket in Spain is offering reusable, recyclable, biodegradable bags made from potato starch, which are significantly more environmentally friendly than bags made out of fossil fuels or made out of trees.

access in those markets where SMEs do have access to finance. May not open the door, but it may prevent it from closing.

D. Productivity improvements

Actions on human resources management and the working environment are the most likely to lead to productivity improvements. Most of the of the activities discussed in this section related to human productivity are the result of good human resources management tools, which can be further enhanced when placed in the context and strategy for responsible practices.

Some of these management practices that can have a further impact on productivity are those related to some benefits, like providing access to education, training and health care for the employee and the family. Also, counseling on addictions and domestic violence, which can reduce absenteeism. Many SMEs do not go this far. Also, in-house training programs, access to outside training, or at the very least time off for training can also enhance productivity. Mentoring is another responsible activity that can pay dividends in terms of employee retention and enhanced productivity.

A responsible firm will also look to have other benefits that do not necessarily have a tangible short term impact on productivity but that may have a longer term impact or no impact at all, and do it as solidarity to the employees. This would be the case of paying wages above the minimum wage, if this is deemed to be insufficient for decent living.

An overlooked activity in SMEs is that of job enrichment. Many SMEs have jobs which are quite repetitive and managers are content with optimizing the process to enhance productivity. Sometimes including variety as the possibility of learning other skills on the job can be a good investment.

Conciliation of work-family demands can also yield benefits, for instance through the use of flexible working hours or even working from home. Adequate vacation, even beyond industry norms, may help attract and retain qualified personnel. The provision of exercise facilities or adapting the work schedule to allow it can be beneficial. For SMEs this may mean pooling with other SMEs in the area.

SMEs must take full advantage of the benefits provided by non-discrimination, both in terms of gender and race. Non discrimination of young women in child-bearing age can also yield loyalty and enhance productivity in the long run. In some less developed areas, there may be even be a need to provide some level of positive discrimination in order to contribute to the development of the community and to attract goodwill.

Good working conditions, for instance in terms of proper lighting, comfortable working spaces, clean restrooms, adequate rest periods, the proper use and pay for overtime are also part of responsible practices. SMEs are sometimes under pressure to cut costs and these are unfortunately areas that tend to suffer.

Something relatively uncommon in SMEs is making employees participate in the decision making, even if it is only at the tactical level. Their input could contribute to bettering working processes. Also, SMEs should consider the possibility of involving some employees in revenue sharing programs. Obviously this may not be suitable for some types of SMEs.

These responsible practices enhance the capacity to attract and keep good employees, the motivation of existing ones as they see the responsiveness of the firm to issues of concern. There is evidence that employees prefer to work with firms that have a good reputation for concern with the environment, community and employees. This may allow the forms more choice in selecting from the pool of qualified employees and may help in retaining them.

E. Risk reduction and asset values

While not as critical as for large enterprises, responsible practices can lead to risk reduction. For instance, by employing sound human resources, environmental and corporate governance practices, the firm can avoid future problems related to litigation for damages or fines imposed by regulators. Respect for the rights of workers and care for their welfare can avoid or mitigate labor actions like strikes or work stoppages.

These practices can also lead to increases in the value of assets, particularly intangible assets like reputation that while not accounted for in most financial statements, may be incorporated in the share valuations for those firms that quote in stock exchanges or at the time of a takeover by another firm. It may allow them access to capital on better terms. For large firms, reputation can be one of the most important assets, particularly for those firms that sell consumer products. Reputation in turn can enhance business opportunities, allowing the firms to enter in partnerships with other reputable partners, attracting better employees and accessing markets among others.

F. Closing remarks

One of the most responsible practices is to offer long-term gainful employment and fair wages, for which the long term sustainability of the firm is critical. Responsible practices can provide impetus to the virtuous circle of performance enhancement, which in turn facilitates the process of investing in responsible practices. It must be remembered that SMEs in less developed markets are very likely competing on price with other firms that may not have a high regard for responsible practices. Jeopardizing the competitive position of the firm may be irresponsible to the many workers that depend on the firm. But responsible practices can enhance their competitiveness, when properly managed.

The business case must be sold carefully, as some responsible activities do have real tangible costs in the short term that can impact the finances of the firm. Many of the benefits may be intangible and may only be realized over longer terms. The firms must develop a careful strategy for involvement, taking into account the values of the firms, the competitive environment in which it operates, the prospects of the firms, the

possibility of capturing benefits, among others. The firm may get involved in responsible practices just because it is the “right thing to do”. This is perfectly valid, but the extent of the involvement must be part of the business strategy. For this, education of managers and employees are important ingredients, as is the communication strategy that we discuss below.

IV. Communication strategies for Small and Medium Enterprises

To reap the benefits of competitiveness, communication, as for larger firms, is important, as the realization of some of the benefits requires that others be aware and act, in particular consumers and buyers (to increase revenues) and employees (to reduce costs and enhance productivity). While many of the responsible practices of SMEs may be done for altruistic, ethical or religious reasons, the sustainability of those practices, their extent and intensity can be enhanced if the company receives some benefits. Actually some argue that the company should engage on responsible practice, only to the extent they are profitable. The responsible practices of the company must be made known for stakeholders to act and provide potential benefits. In order to act, they must know. “If a tree fell in the forest and nobody heard it, did it fall?”

As the CSR activities of SMEs are rather natural and informal, it is unlikely that these firms would think it is a priority to report these activities and many would not even see a need. Nevertheless, if these activities are going to become part of the strategy, or at least enhanced and systematized, they need to produce some long term return and a good strategic communication can be of help. The communication can also help the firm reflect on its own responsible practices and help enhance and focus them. Furthermore, these communication efforts may stimulate other firms to also undertake or deepen CSR activities.

As the major stakeholders of SMEs are the employees and the communities (which for many SMEs is almost synonymous with consumers), and in some cases suppliers and large buyers, the strategic communication should be directed to these groups. To some extent, civil society and local government institutions will also be interested, although to a lesser extent than in large firms. There is much less need to produce formal sustainability reports for the public at large, which are probably unaffordable anyway for many SMEs. For SMEs, targeted interventions are a must and they should be targeted to these four audiences¹⁶:

- **Workplace:** employees, including trade unions;
- **Community:** local organizations like community organizations and schools;
- **Marketplace:** customers and buyers, including consumer associations and providers of financial resources; and,
- **Surrounding Environment:** local government and civil society.

¹⁶ Following the “Guide to communicating about CSR” included in the Toolkit of the European Commission for SMEs. See European Commission (2004)

Good communication may lead the firm to enhance consumer loyalty, be known to responsible buyers (some of which may even require a report from the firm on their CSR activities to make it eligible), improve the reputation of the firm or the brands, enhance the pride of employees in working for the firm, among other things. These effects can reinforce some the benefits of the CSR activities themselves.

This is not to say that SMEs should start “marketing” their responsible activities, in the sense of prioritizing the impact of the communication over the activity that it is being reported. The idea is to report the good that the firm is doing, not to have the publicity used as an end, must be a mean. It not a matter a making a contribution to the community in order to have the picture taken and displayed in the papers, it is a matter of doing good for the community and eventually let it be known. **Reporting on responsibility must be done responsibly.**

The following table presents an illustrative view of the communication strategy. It does not pretend to be all-inclusive and each SME will have to tailor its strategy to their situation and, especially, their means.

AUDIENCE	INSTRUMENTS	CONTENT
Marketplace (Consumers/buyers)	Website Special reports/brochures TV/Radio/Press advertisements	Responsible activities in: environment (resource consumption, waste, pollution, protection), quality of workplace, human resources, community support, purchasing criteria, product quality and safety, consumer education and the like.
Community	Website Live presentations in meetings Press releases	Responsible activities in: community support, social inclusion (race, gender, age, handicapped), environment
Workplace (Employees)	Intranet Newsletters/bulletins Personal meetings E-mails/e-bulletins Posters/banners/videos	Responsible activities in: fair wages, work-life balance, health and safety policies, counseling, social inclusion, quality of workplace, training and career development, job enrichment, benefits,

		environment.
Surrounding Environment (Public/Third sectors)	Website Special reports Press releases Interviews	Taxes, transparency, environment, social inclusion, quality of workplace.

V. Fostering responsible practices in Small and Medium Enterprises¹⁷

The approach of SMEs to CSR activities will be conditioned by the characteristics described above and the fact that there may be more personal reasons for their existence, for instance to make a living, to apply entrepreneurial skills, to become rich, to exploit a product or service idea, etc. This produces a more personal and less institutional approach to CSR activities.

While for larger firms some important elements of a CSR strategy are the full fledged Sustainability Reports, where the firm reports on all their responsible practices, many of them reporting progress on self-devised or international indicators, this is less relevant for smaller firms, as they do not have the resources, in particular the information and managements systems to produce such formal and comprehensive reports.¹⁸ For large firms these reports are a way to capture competitive advantage by showing responsibility, but as the reports are scrutinized by stakeholders, they become a source of feedback to enhance those practices.

The most important barrier to overcome is the perception by many SME managers that being responsible is expensive, takes time and money and does not yield commensurate returns. This is associated with the lack of awareness of the potential benefits and the realization that a responsible strategy involves more than occasional philanthropy, responding to demands from the community.

In order to engage SMEs, specially the smaller ones, it may even be counterproductive to try to promote an integral CSR concept and may be better to build upon what they are already doing, deepening or widening their activities. For the SME it may not be a case of integrating CSR into the firm's strategy (even if it were to have one), as is the case for the larger corporation, but will be more of a piece-meal, gradual, approach to responsible practices. Many SMEs are engaged in what we would call CSR but they do not call it by that name, they may not even know about CSR, they may not even thing that they are explicitly engaged. Their involvement is **informal**, gradual, one thing at a time, almost without noticing it. It need not involve large investments or recurring cost. Many of these activities have been developed naturally, as a result of demands from the employees

¹⁷ See for instance the publication of the Department of Trade and Industry of the United Kingdom cited in the references.

¹⁸ There internationally accepted guidelines for reporting prepared by the Global Reporting Initiative, GRI, that are used mostly by very large firms, although they have produced a supplement for smaller firms. See the GRI website at www.globalreporting.org.

and the community. Sometimes the best ways to start is appealing to the altruism of managers/owner, using the “feel good” argument, as many of them may have been low-level employees themselves and understand the value of solidarity.

The comprehensive concept as it is traditionally presented for larger firms is alien to most SMEs in developed countries and much more in developing countries. The engagement in CSR is more of a natural part of doing business, than a conscious effort to engage in something of strategic value. One of the best ways to enhance the adoption of CSR practices is precisely to develop and appreciation of this strategic value, that CSR is more that philanthropy and that it can have business benefits, as described above.

How should SME involvement be promoted? As SMEs are a lot closer to the community and more dependent on associations or networks with similar businesses, the most useful sources of influence would be local governments, industry and commerce associations and large buyers. The preferred method should be persuasion, through encouragement and support. SMEs must be shown the business case, but care must be exercised not to overstate it, as many of the actions taken by these firms may not have a direct or measurable impact on the bottom line. Recall that the information systems of SMEs are not as well developed and may not be able to detect causality. As a matter of fact, may SMEs admit that their responsible practices do yield benefits, but are not able or do not bother to quantify these benefits. They may be content with a subjective or perceived relationship.

The tools they need must be rather simple and come naturally. For instance, one of the most effective tools is the dissemination of examples from their peers. Also, the availability of guidelines, checklists and cases¹⁹ prepared and presented by institutions and individuals that think like them that do not attempt to sell them the tools of big corporations. For SMEs, which is some cases are not sophisticated and do not have the resources or talent to devote to CSR issues, the most important recommendation it to make the advice and strategy of engagement as simple as possible, trying to promote one achievement at a time. It is important to avoid frustration to set in. In all of this process, it must be kept in mind that there are many barriers to engagement mostly related to lack of resources, especially the time of the owner or managers, and knowledge or awareness of the opportunities afforded by these practices.

While it is desirable for business and local associations to try to engage new business, it is also important and more effective in the short run, to widen the involvement of those already engaged by showing them the business benefits. As far as possible, the impression of obligation must be minimized in order to develop the conviction, which is more sustainable in the long run.

¹⁹ Examples of these guidelines and checklists are those produced by the Canadian Manufacturers and Exporters (undated) and the one produced by Green Business (2003). Cases, only from European SMEs can be found on the SMEKey and the Business in the Community websites (see references). Cases for Latin America can be found in Vives and Peinado-Vara (2004) and Flores et. al (2007), although several of the firms highlighted are relatively large.

The discussion above has assumed, implicitly, that all responsible actions are of a voluntary nature and that all that it is needed are measures to stimulate their desires to act responsibly. There are many areas (particularly in labor and environment) that cannot be left to voluntary actions and to be “promoted” they must be mandated by laws and regulations. Nevertheless, care must be exercised that these regulations do not impose a heavy burden that forces SMEs to forego other responsible practices. SMEs have much less capacity to deal with regulations than larger firms, which can devote significant resources to fighting or complying.

VI. Closing remarks

Is Corporate Social Responsibility Possible in Small and Medium Enterprises? Not only are responsible practices possible in SMEs, but are also desirable, not only for the contribution that they make to the betterment of society and the environments, but also because they can yield performance improvements to the firm. The reasons for engaging in responsible practices are different for SMEs than for large firms, as they are less subject to the pressures of stakeholders and rely more on owners, managers and employees motivations. Those firms are much less aware of the potential benefits of responsible practices and are content with the perception of those benefits, unlike larger firms that may need to see tangible evidence. While SMEs are aware of the potential of some practices, to deepen their involvement, managers need to be educated on many of the possibilities and shown with examples and cases the value of involvement. Programs must be put in place by governments and business associations to support this process.

In order to have a manageable discussion, we have made many generalizations. It must be borne in mind that there extreme variety within the term SMEs that encompasses small firms and some quite large ones, manufacturing and commerce, innovative and growth forms and family firms, even subsistence firms, operating in developed and developing markets. Even the simple concept of responsible practices involves an extremely wide variety of activities. Responsible practices must take into account the characteristics of the firm and the environment in which they operate. Definitely one size does not fit all. We have attempted to present the discussion to cover those differences.

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Business in the Community is a website for the United Kingdom promoting the improvement of the positive impact of business in society. It includes a channel for SMEs, with cases and other materials. www.bitc.org.uk/small_businesses

The Corporate Social Responsibility site of the **European Commission** contains extensive materials, including cases and toolkits for SMEs.

<http://ec.europa.eu/enterprise/csr/>

The Author

Antonio Vives is Principal Associate of Cumpetere, a CSR consulting group. Previously he was Manager of Sustainable Development at the Inter-American Development Bank, He is the author of numerous articles on private participation in infrastructure, financial markets development and Corporate Social Responsibility. Has published several books and it is at work on one book on CSR in developing countries. He created the Inter-American Conferences on Corporate Social Responsibility and is Chair of the organizing committee and editor of the six editions of the Proceedings. Has been adjunct professor at George Washington, Virginia Tech and Carnegie-Mellon Universities in the United States and was professor at the graduate school of business, IESA, in Venezuela. He is currently consulting professor at Stanford University. Is frequent lecturer in international conferences on CSR. Holds a Master degree in Industrial Administration (MBA) and a Ph.D in corporate finance from Carnegie Mellon University.

Contact details:

antoniov@cumpetere.com