

What about

Small and medium-sized businesses have been living in the CSR shadow of the large corporates, but their collective influence has the potential to fundamentally change the CSR landscape

IT IS EASY to understand why large companies need corporate social responsibility. One only has to scan the pages of the daily newspaper to realise that the size and complexity of large businesses means they often have large and complicated social and environmental impacts which can benefit from attention to CSR.

But most businesses are not big. According to the Australian Bureau of Statistics, 90 per cent of all employing businesses have less than 20 employees and 9 per cent have 20–199 employees. Many of these businesses do not face the pressures and visibility that often drive large businesses to embrace CSR.

So do small and medium-sized enterprises (SMEs) really need CSR, and if so, what should it look like?

We first need to acknowledge that even if SMEs don't always have big social or environmental impacts individually, when considered as a collective, they have enormous influence.

Second, we need to remember what CSR really means. There are myriad definitions of CSR but, most importantly, CSR is not a synonym for philanthropy. The Australian Centre for Corporate Social Responsibility defines CSR in a way that emphasises appropriate and positive responses to the effects of business activities. Another popular definition has been developed by the International Organization for Standardization, which is working on a global standard for CSR, the ISO26000 (see break-out box).

So, there is no moral or practical reason why SMEs should be excluded from practicing CSR. That being said, SMEs face a different set of challenges than their larger corporate counterparts when it comes to corporate social responsibility.

Last year the Victorian Government held an inquiry into the involvement of small and medium-sized businesses in CSR. In a submission to the inquiry, the Australian Centre for Corporate Social Responsibility suggested that SMEs may be practising CSR without labelling it as such: "They may be great employers, dealing well with their employees; they may be creating participative workplaces; they may be very alert to health and safety issues in the workplace and for customers; they may be attempting to operate sustainably and minimise their use of natural resources. All of these things we regard as examples of socially responsible behaviour."

Possibly, CSR in SMEs is more implicit than explicit. The CSR scholars Dirk Matten and Jeremy Moon made a useful distinction between implicit and explicit CSR in their recent April 2008 paper in the *Academy of Management Review*. They suggested that explicit CSR consists of specific voluntary policies and programs by business in response to societal issues; but implicit CSR consists of values and norms for business behaviour motivated by broad consensus about the role and contribution of business. SMEs may be more likely to practise implicit CSR because it makes sense within

SMEs?

a “business as usual” approach to behave responsibly and ethically. It may be harder for SMEs to practise explicit CSR, especially as defined and practised by big business, because it requires budgets and resources that are harder to find.

If we are to encourage greater adoption of CSR by SMEs, we must first understand the current state of CSR in SMEs. Unfortunately, there’s not a lot of research to go on. However, two useful pieces of research have recently been undertaken in Australia: one by Deakin University’s Corporate Citizenship Research Unit in 2007 and another by St James Ethics Centre in 2008.

Deakin University’s Corporate Citizenship Research Unit carried out a scoping regional CSR study of the Geelong region in Victoria in 2007 with a range of small, medium and large businesses, non-government organisations and government entities. While there was a variety of business sizes involved, the study reported that 91 per cent of the businesses in the region are considered to be micro to small businesses, defined as one to five employees. The research found that the adoption of CSR objectives in the region are reliant on CEO and senior management understanding and commitment through the strategic planning process; if CSR is not driven by the senior leadership, it is difficult to embed in the organisation; CSR strategic planning is not generally understood in the small-medium business sector; and regional CSR initiatives primarily encompass welfare, social and localised sport and cultural activities.

The study also highlighted the pivotal role played by industry associations. It found that the Geelong Chamber of Commerce has been crucial in connecting SMEs and community organisations that are involved in addressing issues of social disadvantage. One example of how the Geelong Chamber of Commerce and businesses have



Barriers to CSR in SMEs

- Time and resource constraints
- Lack of awareness of business benefits
- Existing CSR tools mainly geared towards large companies
- Absence of incentives or framework for CSR in SMEs
- Fear of additional regulatory or compliance burdens

Benefits of CSR for SMEs

- Attraction and retention of valued employees
- Development of unique selling propositions and competitive advantage
- Cost and efficiency savings
- Enhanced reputation

SOURCE: ACCSR TESTIMONY TO THE VICTORIAN GOVERNMENT’S INQUIRY INTO THE INVOLVEMENT OF SMALL AND MEDIUM-SIZED BUSINESSES IN CORPORATE SOCIAL RESPONSIBILITY, 12 JUNE 2007.

DEFINING Corporate Social Responsibility

“*Corporate Social Responsibility*” is the practices and processes that businesses use to respond appropriately to stakeholder expectations to minimise any social or environmental harm that may flow from the products, processes and behaviour of companies, and leverage companies’ unique competencies for positive social and environmental impacts.

SOURCE: ACCSR

Social responsibility is the responsibility of an organisation for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that:

- is consistent with sustainable development and the welfare of society;
- takes into account the expectations of stakeholders;
- is in compliance with applicable law and consistent with international norms of behaviour; and
- is integrated throughout the organisation.

SOURCE: ISO SOCIAL RESPONSIBILITY WORKING GROUP

10 Simple actions

Ten simple yet effective actions that SMEs can take:

1. Recycle printer and toner cartridges.
2. Buy and use fairly traded products, for example tea and coffee.
3. Look at how your staff get to and from work. Promote walking, car sharing, cycling and public transport.
4. Set up a payroll giving scheme for your staff.
5. Make sure lights, computers and other equipment are switched off at the mains every night.
6. Pay staff, suppliers and creditors on time.
7. Turn the office heating system down a few degrees and have it checked regularly.
8. Replace all lighting with low energy light bulbs.
9. Print double-sided where possible and only print the first page of emails.
10. Set up and promote flexible working for your staff.

SOURCE: 'A BETTER BUSINESS JOURNEY' PRODUCED BY THE UK SMALL BUSINESS CONSORTIUM;
WWW.SMALLBUSINESSJOURNEY.COM



come together is the Business Connections program. This program has encouraged 24 new businesses into the region with 300 employees, which has had a positive impact on the community through the creation of new job opportunities.

The picture emerging from this research is that SMEs are much more actively engaged in CSR than previously thought. SMEs tend to have dense interconnections with the local community that are important to the success of the business. However, the processes they have for implementing CSR are less formal than in larger organisations. They are not necessarily documented, nor do they appear as statements of policies such as you might find in large businesses. Rather, they are there because that is the way things are done. They are part and parcel of the culture rather than part of the organisational structure as in their larger counterparts.

Responsible Business Practice in Small to Medium enterprises was the second piece of research commissioned by not-for-profit (NFP) organisation St James Ethics Centre as part of its Responsible Business Practice Project funded by the Federal Government. The goals of the Responsible Business Practice Project are to expand the number of Australian companies that are actively engaged in identifying and adopting more responsible business practices; and to consider options to improve, and where necessary refine, the tools that are available to promote responsible business practices across all levels of corporate management.

The SME research report, carried out by the Allen Consulting Group, described the state of CSR in SMEs and emphasised several keys to advancing CSR in SMEs:

- The personal values of the SME owner/manager are crucial in affecting leadership and engagement with CSR;
- CSR needs to be approached as a core part of the SME's daily operations, rather than as an extra burden;
- Policy makers need to recognise that a SME's primary concern is with financial sustainability and how responsible business practice can relate to it;
- There is a need to reach SMEs through their existing networks and specific sector/industry associations when promoting or communicating responsible business practice; and
- Simple language specific to their business should be used to engage SMEs .

The report highlighted the need to provide SMEs with information and guidance that is relevant to their own needs and realities. Simplicity and relevance are essential elements of SME-related communication.

So how can SMEs realise the opportunities that CSR offers? Should government be involved? Government has a number of ways to enable SMEs to take up CSR.



This includes financial incentives, legislation and the implementation of standards. Research suggests the appropriate role of government is to provide an enhancing and enabling environment by facilitating partnerships between SMEs and local industry associations and other stakeholders, encouraging debate, providing best practice case studies, and by offering tools to encourage responsible business practices.

In addition to the enabling role that government can play, the engagement of the NFP sector is essential. The three-way partnership between government, the NFP sector and small business will be much more likely to deliver success than government simply engaging small business because small business on its own does not necessarily have the qualifications or the expertise. Specialist organisations in the NFP sector will be able to bring the expertise in program delivery.

Large corporates can also help in this area by encouraging their own supply chains to adopt sustainability principles,

for example, has published an SME handbook, *The GRI Sustainability Reporting Cycle: A Handbook for Small and Not-so-small Organisations*. The GRI website also has details on the work it is doing with SMEs. One such project is with the Spanish Federation of Pharmacies to measure the social and environmental impacts of its 22,000 member pharmacies.

Advice provided to SMEs needs to be tailored to them with easy-to-use tools and case studies that make it real and provide encouragement to SMEs. For example, the Victorian Employer's Chamber of Commerce and Industry teamed up with the Environment Protection Authority Victoria to run a free program for local businesses called "Grow Me the Money". The program, funded by the State Government, aims to help SMEs to reduce their impact on the environment while saving money. The website provides advice on how SMEs can cut their energy, water and waste, as well as features case studies from SMEs who have started the process.

CSR policies in SMEs are part of the culture rather than part of the structure as in their larger counterparts

as many small firms are reliant on big firms for their business. Many companies are already introducing sustainable supply chain principles. For example, in 2007 Westpac Banking Corporation developed a *Sustainable Supply Chain Management Code of Conduct*, which is a statement of the minimum ethical, social and environmental business practices required of its 10,000 suppliers.

Such requests also need to be backed up with training and support for SMEs. A paper published by the International Institute of Environment and Development in the UK in 2005 highlighted the need to ensure that supply chain requirements do not "unnecessarily discriminate against SMEs... Otherwise, CSR standards run the risk of acting as a barrier to market entry for SMEs, undermining livelihoods and development." According to the European Commission, to avert this risk, companies need to provide adequate training on CSR, give SMEs time to progress and improve, and explain to SMEs how CSR requirements can represent a long-term opportunity for both parties.

One of the problems that SMEs face when seeking to address CSR issues is that many of the tools are designed for large companies. In order to overcome the challenges faced by SMEs, initiatives aimed at encouraging SME involvement in CSR need to be easily accessible and relevant. The Global Reporting Initiative,

These case studies are important in showing small businesses real-life examples of specific initiatives that have increased profitability and improved the business.

Overseas, the UK Small Business Consortium has developed a booklet for small businesses entitled *Better Business Journey*, which covers sustainability and responsible business practice in a simple "how to" guide format with tips on how SMEs can get involved (see break-out box).

There are many ways in which SMEs can increase their responsible business practices, and many ways in which large businesses, business associations, governments and professional service providers can play a supportive role. We will explore the changing face of CSR in SMEs in future articles in *Corporate Citizen*.

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