

CSR in SMEs: do SMEs matter for the CSR agenda?

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In this paper we argue that the collective grandness of small business is often underestimated in CSR research and policy-making. We emphasize the importance of understanding the contexts and the ways in which small- and medium-sized companies engage in CSR and how they differ from multinational companies. We suggest that it might be that researchers and practitioners are asking the wrong questions in their ambitions to prove 'the business case for CSR'. Perhaps we should rather focus on the 'how' and the 'with what impact' questions to understand better the SME engagement in CSR.

Introduction

The world economic scene has been continuously changing throughout the last decades, as the balance between business, state and civil society is challenged and transformed. In particular, great attention has been given to the social responsibility and commitment characterizing companies' strategic mission and behaviour. Following governments' indications and encouragement from other societal institutions, as well as developing their own voluntary actions, companies are showing willingness to demonstrate socially responsible behaviour, as those might have direct and indirect effects on the socio-economic context in which they operate, as well as on their own performance. The corporate endeavours to engage in socially responsible behaviour are what we refer to as corporate social responsibility (CSR).

Yet, it is our claim that in the attempt to explore, develop and critique the new societal balance from the perspective of corporate social responsibility, the 'grandness of the small busi-

ness' is overshadowed by a focus on the more conspicuous merits or scandals of large multinational companies. We understand the temptation in a mediatized world to focus predominantly on a few large megabrand's CSR engagements. It matters a lot for the global economy whether or not WalMart or Marks & Spencer decide to purchase organic or fair trade products from their suppliers. However, we contend that it also matters a lot for the global economy to what extent small businesses decide to engage in CSR activities. Although it is much more complex to identify, investigate and communicate CSR in the small business, we believe this area deserves more attention due to its potential impact on the global economy. It is our claim that the grand impact of small businesses' CSR engagement on state and civil society has been severely underestimated by researchers and policy-makers.

In this special issue, we have the pleasure of presenting a number of papers highlighting the ways social responsibility is gradually emerging not only as a condition but also as a strategy for small- and medium-sized enterprises (SMEs). We are particularly pleased that the Editor of *Business Ethics: A European Review*, Chris Cowton, was courageous enough to welcome our suggestion to put together a special issue on 'CSR in SMEs'

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after the international conference at Copenhagen Business School in November 2006, which gathered 130 researchers and practitioners across Europe and was supported by The European Academy of Business in Society (EABIS). So far, CSR in SMEs is an area that has not attracted much systematic research beyond a few dedicated scholars (e.g. Spence 1999, Spence & Schmidpeter 2003, Moore & Spence 2006, Perrini 2006a, Perrini *et al.* 2007, Russo & Tencati 2008) and a special issue in *Journal of Business Ethics* (2006). Quite a few myths exist among scholars, practitioners and politicians about SMEs being 'little big companies' (Tilley 2000), meaning that there is no need to pay particular attention to SMEs' CSR engagement. SMEs can simply and seamlessly adopt the techniques and strategies of large companies as they decide to engage in CSR activities.

We strongly disagree with this perception. Our research, readings and experience tell us that SMEs are motivated, challenged and engaged in CSR issues in many very different ways compared with large firms. However, we also acknowledge that more research is needed to understand in detail the conditions and strategies for SMEs to adopt CSR practices. With this special issue, we hope to bring more knowledge as well as more questions to this emerging field.

The 'grandness of small business'

We cannot overemphasize the importance of SMEs for the development of a corporate social responsibility that matters on a global scale. How many times, have we not been met with the comment from a managerial or a scholarly audience: 'Well, it is fine to know about SMEs' CSR engagement, but if you really want to understand the contemporary world economic scene, you ought to study how the multinational companies engage in CSR strategies. They set the scene. Their actions matter'. We do not disagree that MNCs have large impacts as they engage – or disengage – in CSR activities. But we do stress that the 'smallness' of the individual SME is not proportional to the collective 'grandness' of

SMEs. Let us remind ourselves about 'the grand scale of small business' in their contribution to social and economic coherence in the European economy:

- (1) Ninety-nine per cent of all companies in Europe are SMEs (i.e. <250 employees) (European Commission 2001). In some industries, such as in textiles, construction and furniture, SMEs provide around 80% of the jobs (Spence & Rutherford 2003).
- (2) SMEs are dominant in contributing to GDP.
- (3) SMEs have more labour-intensive production processes than larger companies. SMEs have great influence on the labour market. SMEs provide around 76 million jobs in the EU.
- (4) Countries with a high percentage of SMEs have simultaneously a relatively equal distribution of income and promote high social stability (Luetkenhorst 2004).
- (5) SMEs are a significant resource for innovation in niche markets that demand high flexibility and customized products.
- (6) SMEs serve as 'growth labs' for innovation and risk-oriented product development. SMEs are a foundation for long-term growth dynamics and for development of larger companies (Luetkenhorst 2004).

As Spence & Rutherford (2003) put it: 'The small company is the dominant way of organizing', and as scholars, practitioners and politicians endeavour to understand and promote corporate CSR engagement, we contend that an improved understanding of current CSR practices in SMEs has the potential of stimulating a high impact for the global economy and society as well as for the SMEs themselves.

What matters to SMEs in their CSR engagement?

In the contemporary dynamic context, several factors seem to have an influence on corporate strategies. Size, level of internationalization, innovation, commitment to the local community, brand recognition and environmental concerns are some crucial variables that researchers are

focusing on to try to answer various questions: which companies are contributing to the development of a socially responsible context, which are the best practices to improve the social and economic conditions characterizing the worldwide scenario, which are the more indigent regions that need a consistent intervention by different actors, such as governments and organizations, and so on. Within this context, the interest in corporate social responsibility and the contribution to sustainable development is now an established fact. Beyond multinational companies, which pioneered in this field with conspicuous efforts, SMEs are developing new tools and approaches to manage social and environmental issues within the scope of their strategic and competitive activities (Spence 1999). Literature and managerial practices show evidence that corporate performance depends on various intangible assets such as knowledge and the capability to innovate, the consensus and trust of stakeholders, reputation, and the availability to contribute to the community well-being (Castaldo & Perrini 2004). Even if many studies are still analysing the possible connection between CSR and financial performance (McWilliams & Siegel 2001, Margolis & Walsh 2003), a rising number of firms are adopting socially responsible behaviours.

After more than 30 years of research, the effective impact of CSR policies on financial performance and, in general, on the overall corporate performance is uncertain and unclear. This lack of reliable findings undermines the efforts to define a consistent reference framework for CSR in order to support, in an adequate way, managerial decision-making processes. It might be the case that both practitioners and scholars are asking the wrong question in trying to prove the business case; it is more important to pursue other avenues such as the 'how' to manage and the 'what impact' of CSR.

A common denominator of the papers published in this special issue is the attempt to understand how, and with what impact, CSR can contribute to creating a competitive advantage for SMEs. We did not systematically invite only such papers, but it turned out that there is a great interest among researchers in exploring this

perspective. In such a framework CSR must not be considered an *ad hoc* expense, rather it is integrated into the company's core business activities in such a way that it positively affects the company's performance and its competitiveness by enhancing the developmental potential and reducing the risk profile.

However, beyond these usual benefits associated with the adoption of socially responsible behaviour, shared by both SMEs and large firms, differences in the objectives and results of corporate social responsibility for SMEs deserve to be highlighted. In particular, existing research emphasizes the reliance and dependency of SMEs on the interpersonal relationships with the different stakeholder groups, competitors included (Spence *et al.* 2003). In this context, formal engagement, networking within and across sectors, volunteerism and giving to charity provide an extremely fruitful opportunity to invest in social capital, cultivating close relationships within the social and business environment. It is in this way that SMEs are able to establish mutual help relationships, functional to stability and survival in increasingly competitive market arenas. But the involvement in corporate social responsibility may also enhance reputation and stimulate confidence and loyalty, with relevant returns in terms of workforce stability and better relationships with financial institutions, suppliers and partners (Vyakarnam *et al.* 1997). Finally, CSR in SMEs means the possibility to pursue employees' health and safety, to improve work climate and productivity, and to provide a source for differentiation and visibility in increasingly complex and dynamic markets (Spence & Lozano 2000, Murillo & Lozano 2006).

Engagement in CSR for SMEs is not an easy task but poses a number of challenges. SME participation in global supply chains has been clearly posed as a dilemma, as MNCs are seen to regulate the behaviours of the SMEs beyond any legal regulation and against the interests of the SMEs. On the other hand, SMEs operate in, for example, emerging markets with tremendous experience of innovation – and tough market conditions – and a new focus has emerged around how business opportunities sometimes develop for

SMEs in the wake of CSR demands. These SMEs institute CSR approaches because it makes sense to do so, not because 'somebody' says it is a good idea! A recent study by colleagues in the Nordic Centre for Corporate Responsibility explored how Nordic SMEs have created innovations related to their CSR engagement (Hockerts *et al.* 2008). One of the findings indicates that these Nordic SMEs perceived CSR as a business opportunity to create a new platform for competitiveness.

However, the general perception among European SMEs seems to be that CSR represents a new burden and a threat. Many SMEs fear that they may not be able to meet the social and environmental requirements of buyers and supply chains without losing their competitive edge in national and international markets (Maloni & Brown 2006). At the same time, they are aware that if they do not meet these requirements, they may not be in a position to access new foreign markets or large international buyers who stipulate their own codes of corporate ethics. Many SMEs are driven to integrate CSR because of the personal beliefs and values of the founders, who are often also the owner-manager, and employees (Vallentin & Morsing 2008). This will be most obvious in co-operatives and other social enterprises where the core purpose of the business may be a social goal; but it holds true for many other SMEs too (Perrini 2006b).

Although empirical evidence is still limited, but nevertheless far greater than that found in the published literature, it appears that stakeholder pressure rather than a pro-active CSR engagement is still the most frequent encouragement for many SMEs to improve their social initiatives. However, the immediate benefits of CSR engagement for the SME itself may even surprise the SME, such as for example financial savings (e.g. reduction in water, electricity and raw material consumption), environmental improvements (e.g. reduction in solid waste generation and improvement in waste water quantity/quality), social improvements (e.g. risk reduction, improvement in working/health conditions) and product improvements (e.g. better quality, increased yield, reduced rejects) in the participating companies (Luken & Stares 2005: 50).

Content

This special issue makes some suggestions on how to identify, explore and analyse CSR among SMEs in a manner relevant in a European context. While CSR emerged as an issue for large international companies, today SMEs witness that CSR has become a global concern that they need to address – whether they appreciate it or not. In this development, public authorities, policy-makers and researchers have a huge role to play to investigate and give visibility to the implications of CSR for SMEs. In particular, what is suggested here is the need for stimulating the debate on the particular implications of CSR in SMEs, as well as the need for policy-makers and authorities to investigate more carefully how the economic and political context may most appropriately support the development of socially responsible behaviour by SMEs.

A permeating agenda across the papers is the analysis of the 'SME business case for CSR' based on empirical data. From an external perspective, analyses embrace the importance of how SMEs become embedded in networks, how CSR may be perceived as a business opportunity, and the relevance of developing strong stakeholder relationships. From an internal perspective, one paper focuses on the importance of managerial and employees' values and skills. Finally, the last paper explores one of the most recent challenges for SME managers: how to communicate about their CSR engagement. While the papers are mostly concerned about exploring successful strategies for SMEs in their development of CSR engagement, there is also a concerned and critical voice in more of the papers: while research indicates that CSR presents a promising avenue for SMEs, SME managers should be careful about their CSR engagement. The papers are briefly summarized in the following.

From a public policy perspective, the paper by David Murillo and Josep Lozano focuses on how networks may support the development of CSR among SMEs. Murillo and Lozano emphasize the importance of inclusion, representativity and legitimacy as key elements for successful construction of networks to promote CSR in SMEs. Based on a study of a public-private initiative

whose aim is to promote CSR in SMEs, they conclude on the importance of getting SMEs embedded in networks.

Heledd Jenkins develops a business opportunity model of CSR in SMEs to analyse how SMEs may take advantage of the challenges of CSR. Based on data from 24 SME case studies, Jenkins unfolds the particular business opportunities that emerge out of SMEs. The paper demonstrates how CSR may be integrated into strategy and embedded in the organizational norms.

The paper by Eva-Maria Hammann, André Habisch and Harald Pechlaner explores the link between personal managerial values and economic value using qualitative interviews and a survey including data from 261 German SME executives. They conclude that 'socially responsible behaviour or management practices' towards employees, customers and to a lesser extent society are positively correlated with SMEs' economic performance.

The paper by Gary Lynch-Wood, David Williamson and Wyn Jenkins sets out to explore what they refer to as 'the external business case'. They develop a model to analyse its constituent elements in a voluntary setting and how these elements influence the behaviour of SMEs. They carefully conclude that the business case for SMEs' voluntary adoption of environmental behaviour is at best still weak.

Kyla Fisher, Jessica Geenen, Marie Jurcevic, Katya McClintock and Glynn Davis argue in their paper that SMEs have stronger relationships with their stakeholders than their MNC counterparts and therefore SMEs have a strong social capital. In the paper, Fisher *et al.* develop a model of strategic CSR from an SME perspective (the ABCD framework), supporting and expanding Porter and Kramer's study of how large companies can strategically integrate CSR.

The final paper by Anne Ellerup Nielsen and Christa Thomsen explores in a rhetorical study how SME managers respond to the increased demand for SMEs' corporate communication on CSR issues. Nielsen and Thomsen conclude that SMEs should be careful not to turn their local and authentic practices into a marketing and branding exercise – decoupling practice from an 'artificial picture' of the company.

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