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## **Corporate Social Responsibility and SMEs**

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## Abstract

Out of the many new concepts and ideas prevalent in the management of small and medium-sized enterprises (SMEs) perhaps one of the most exciting to take the "stage" is that of corporate social responsibility (CSR). Although it is accepted that CSR is appropriate to the larger firm it is becoming clear that the concept is also of great importance to SMEs. This paper considers the engagement of SMEs in the CSR debate and makes comparisons between large and small firms to determine how successful SMEs are in engaging in environmental and social issues. In order to do this the research has considered the CSR reports of ten FTSE companies to determine a simple set of categories identified in the companies sampled. These are then compared with the categories identified from research into SMEs, which have emerged from analysis, rather than being a priori. The aim of the research is to assemble a CSR framework with regard to SMEs that can be applied at a generic level in the future.

**Key words:** small and medium-sized enterprises, corporate, social, responsibility, large companies

## Introduction

The paper considers the engagement of small and medium-sized enterprises (SMEs) in the corporate social responsibility (CSR) debate and makes a comparison between large and small firms to establish how successful SMEs are in engaging in environmental and social issues. This work is part of a larger study into the general characteristics of CSR exhibited by SMEs. It is believed that the findings will be of potential interest to both practitioners and commentators alike especially in the specific context of policies and practices. The research has considered the CSR reports of ten FTSE companies to establish a simple set of categories identified in the companies sampled. These have been compared with the categories identified from work concerning SMEs, which have arisen from analysis. Indeed, the work is taking place against the emerging policy on sustainability together with the growing significance of SMEs in the future competitiveness of the UK economy. In fact, it is recognised by small business policy makers and decision-makers in SMEs that decisions concerning their engagement with communities through CSR have important implications for socially responsible practice.

## Corporate Social Responsibility

The management literature shows that the ideas underpinning CSR can be traced through the stakeholder debate. In fact, there are those such as Jones, Wicks and Freeman (2002) who have argued that the stakeholder debate is at the core of CSR. The initiation of the stakeholder discourse in the management literature (Jones et al, 2002; Clarke and Clegg, 1998) has been credited to Berle and Means (1932) in their work 'Private Property and the Modern Corporation'. There has been subsequent debate as to whether organisations have a wider obligation to societal stakeholders or whether indeed they should attempt to maximise profits on behalf of stakeholders.

There are two significant contested areas in the CSR discourses of special interest. On the one hand, there appears to be little prospect of an agreed definition of CSR

(Hopkins, 2003). In fact, one of the recent publications in the field cites the term 'corporate philanthropy' effectively conflating it with 'corporate social responsibility' in attempting to make links with sustainable competitive advantage (Porter and Kramer, 2002). There is therefore the need for research to determine the meaning attached to the term 'corporate social responsibility' by the various actors. On the other hand, there is an emerging body of literature, which is debating the motivations for CSR among organisations. As a result there is a growing number of commentators evaluating whether these motivations are altruistic or strategic (Goodpaster, 1991; Carroll, 2001; Frankental, 2001; Lantos, 2001). Here Goodpaster has made a distinction between organisations having either a strategic or a multi-fiduciary view of stakeholders. An instrumentalist perspective is taken by a strategic conception of stakeholders seeing them as part of the organisation's strategic environment to be managed for its benefit. Whereas, a multi-fiduciary perspective contends that managers are motivated by obligations to stakeholders (Goodpaster, 1991). Here there are parallels with Carroll's hierarchy of responsibilities (economic, legal, ethical and philanthropic) in which philanthropic responsibility is where the organisation acts without expectation of return (Carroll, 2001). Geoffery Lantos who proposes a simpler but related dualism conceives CSR as being strategic or altruistic and argues that the latter is not a legitimate pursuit by managers unless they are owner/managers. This is because managers who are acting as agents for shareholders are violating shareholder's property rights if using organisational resources with no expectation of strategic benefit (Lantos, 2001).

## Small and Medium-Sized Enterprises

In the UK SMEs (defined as organisations with fewer than 250 employees) provide 55.5% of total employment and 51.9% of turnover among active businesses in the economy (DTI, 2001). There has been increasing recognition, beginning with the Bolton Report in 1971 (Bolton, 1971), that small and medium-sized enterprises should play an important part in the regeneration of economies. In addition, the balance of economic policy appears to be shifting away from a reliance on foreign direct investment towards notions of community led development (Pickernell and McGovern, 2002).

It appears that SMEs are particularly reliant on links with their community. As suggested by Packham, Thomas and Miller: 'External stakeholders can be viewed as constituent parts of the entrepreneur's strategic network. Strategic networks are essentially a key resource of the small firm ...' (Packham, Thomas and Miller, 2001). Implied by this quote a question of interest to this research is the definition of external organisational stakeholders. If the definition offered by Freeman of a stakeholder being 'any group or individual who can affect or is affected by the achievement of an organisation's objectives' (Freeman, 1984) then the achievement of the society or community in which an organisation is located is legitimate. At the same time as there are debates over the relative legitimacy of various groups of societal stakeholders (Phillips, 2001) an increasing body of literature is considering the question of corporate social responsibility. Here the relationship between organisations and society is being placed at the centre of the discourse (Alexander and Bulcholz, 1978; Abbott and Monsen, 1979; Cochran and Wood, 1984, Balabanis et al, 1998).

## Small and Medium-Sized Enterprises and Corporate Social Responsibility

Several commentators have noted that research into business ethics and corporate social responsibility has been conducted largely in the context of larger organisations, rather than small or medium sized enterprises (Thompson and Smith 1991; Spence 1999). This is despite the fact that as noted above SMEs are important to the economy in terms of both employment and turnover. Research in this sphere also tends to conflate corporate social responsibility with business ethics, or discusses CSR as a 'subset' of business ethics, mirroring definitional problems found in the wider CSR discourse. This is particularly true of some earlier papers from the United States (US) (Brown and King 1982; Chrisman and Archer 1984). Another layer of complexity is added by the varying definitions of small or medium-sized businesses. Some studies restrict themselves to smaller organisations employing fewer than 50 people whereas others conceive small as being up to 1,500 employees. Clearly this makes comparison between studies difficult, as noted by Spence (1999).

The reasons for the apparent gap in the literature on CSR among SMEs are explored by Thompson and Smith (1991) and Tilley (2000). Of more importance here is to acknowledge simply that SMEs have characteristics that render their socially responsible activities worthy of separate study. Spence (1999) has summarised a number of characteristics of small businesses from a variety of earlier papers, including Curran and Blackburn (1994), Holliday (1995) and Rutherford *et al* (1997), in order to support the notion that ethical issues in smaller firms may be different from those affecting larger organisations. For example, smaller firms are said to be more independent in terms of ownership structure and autonomy from the local community. The former assertion implies that ethics and socially responsible behaviour might be closely related to the values and behaviour of a powerful individual within the firm. The latter notion of independence from community is contested however. The Bolton Report (1971) characterises small business owners as being more embedded in communities than their counterparts in larger organisations whereas Curran and Blackburn (1994) and Rutherford *et al* (1997) take an opposing view, proposing that smaller firms and their owners are likely to concentrate on business activities to the detriment of community engagement. Spence (1999) also suggests that smaller firms may lack strategic focus, as managers are more likely to take responsibility for operational functions as well as organisational leadership, especially where survival and cash-flow considerations dominate management priorities. It is also proposed that smaller firms are likely to experience reduced power distance and a greater degree of informality in terms of the personal relationships and control structures that develop. North *et al* (1998) imply that as a result externally imposed procedures may be antithetical to practices in small firms, although Tilley (2000) claims that small businesses in her study 'demonstrated a preference for external forms of regulation, as opposed to self-regulation, as a means of controlling the environmental behaviour of businesses' (p.36).

Research into CSR among smaller firms was initially dominated by contributions from the United States. For example, Reeder (1978) qualitatively examined locally headquartered firms as part of a study that included locally based subsidiaries. This was methodologically unusual as, apart from Wilson (1980), most early studies into CSR in the United States (U.S.) based smaller firms used quantitative methods (see for example Brown and King, 1982; Chrisman and Fry, 1982; Chrisman and Archer, 1984) and some attempt to duplicate studies previously conducted on larger organisations. Spence (1999) points out in summary that dominant themes from the

U.S. contributions indicate the local community and customers are the main recipients of small firm social responsibility. This focus on the customer would seem to reinforce Wilson's (1980) research, which sees profit seeking behaviour as dominant in small firms.

More recent research on CSR among SMEs in the United Kingdom can again be found in the field of business ethics. Spence and Rutherford (2001) conducted a qualitative study of social responsibility and ethics among small firm owner managers based in the south-east of England. These findings are of interest since they identify four frames from which small businesses might perceive their social responsibility, and make the important point that policy makers will have to engage these frames rather than assume small businesses are purely concerned with rational profit maximisation. Case study research has also been undertaken on behalf of the Institute for Public Policy Research, examining fourteen organisations split between London and Nottingham (Joseph, 2000). A notable result of this work is the wide variety of socially responsible activities undertaken by SMEs. More recently Spence and Rutherford (2003) call for empirical research into ethics among smaller companies, arguing that a sociological approach has much to offer. This call is being partially answered by an emerging literature relating ethics and social responsibility to notions of social capital (Spence, Schmidpeter and Habisch, 2003). The diverse discourses to which corporate social responsibility is related perhaps evidences the currency of the topic but there remains a paucity of research specifically aimed at CSR as a construct.

## Research Methodology

The research methodology has involved a comparative study of the results of an analysis of corporate social responsibility activities for a sample of large companies (LCs) and small and medium-sized enterprises (SMEs). The LCs were 10 major FTSE 100 companies and the SMEs were 10 organisations conforming to the Department of Trade and Industry definitions of small and medium-sized enterprises, being those employing from one to two hundred and fifty people (Joseph, 2000). The analysis of the LCs involved a simple set of categories identified in the FTSE companies sampled. The respondents for the SMEs were sourced from a database held by the University of Glamorgan.

Semi-structured interviews were carried out for the SMEs following focus groups and themes were used as sensitising concepts for the semi-structured interviews. A total of ten individual interviews were conducted with managers of SMEs. This provided a balanced comparison for the results with the ten LCs. The interview themes of interest were the extent and nature of community engagement undertaken by the organisation, whether the respondent articulated their community engagement as 'corporate social responsibility', and the meaning attached to the term corporate social responsibility.

During the ten interviews one respondent declined to be recorded and in this case detailed notes were made during and after the interviews. The recording for one interview was unusable but since detailed notes were made, including verbatim quotations, the data from this interview was still considered. Transcripts and notes of the interviews were read and examined using the a priori themes and other notable issues were also recorded.

## Findings

The findings for the examples of general activities concerning CSR for the FTSE companies sampled are shown in Table 1. These are based on the CSR reports of 10 companies.

**Table 1:** Examples of Large Companies' (LCs) Corporate Social Responsibility activities

Example of activity*	Numbers of companies** (n=10)
Health and Safety and Environmental issues	10
Supporting the community	10
Integrating Suppliers into the CSR process (supply chain)	8
Respect the individuality and diversity of the workforce	7
Integrity and high ethical standards – Human Rights	7
Customer satisfaction	6
CSR aspects according to the stakeholders expectations	4
Sales and marketing practices	4
Leadership by examples at all management levels	3
CSR measuring by Key performance indicators (KPIs)	3
Animal welfare	3
Responsibility of using technology	3

### Notes:

\* General CSR activities based on the published CSR Reports

\*\* The amount of reviewed reports - 10 major FTSE 100 companies

In this research companies integrate their suppliers into their own CSR process to optimise best CSR performance. Health and Safety regulations are essential in CSR based organisations. Supporting the surrounding environment is one of the key activities of the reviewed organisations. A weak point in most companies is the fact that CSR does not play a major role at all management levels. Integrating diversity in organisations' workforce policy is a big issue; however responsibility of using technology is not very prominent in those companies.

A few companies address their sales and marketing activities very carefully to customers and consumers by setting internal rules as to how marketing is used. Just four companies are looking to address CSR to their stakeholders. Those stakeholders are mentioned in the preface of the CSR reports.

The results for the examples of general activities concerning CSR for the SMEs sampled are shown in Table 2. These are based on focus groups and interviews with the ten companies sampled.

**Table 2:** Examples of Small and Medium-sized Enterprises' (SMEs) Corporate Social Responsibility activities

Example of activity	Numbers of companies** (n=10)
Sponsorship of local * club	6
Recycling and waste management	5
Giving non-surplus goods to local groups	4
Ethical attitude towards customers	3
Regular donations to local charity	3
Use of office facilities for local causes	3

Giving prizes to local schools	3
Allowing staff time off for community involvement	2
Donations to Welsh charity	2
Giving surplus goods to local groups	2
Donations to UK or international charity	1
Tree planting	1
Using low sulphur fuel in company vehicles	1
Free transport for local food aid delivery	1
Free transport for the elderly	1
Ad hoc donations to local charity	1
Free gym use in connection with local NHS trust	1

### Notes:

\*The use of the word 'Local' refers to the immediate community, in some cases a town, in which the organisation is based.

\*\* There were two respondents who could genuinely think of no sense in which their organisation engaged with the community, although that is not to say that the interviews did not yield interesting data about attitudes towards, and labelling of, corporate social responsibility.

By comparing the findings in Table 1 (for LCs) and Table 2 (for SMEs) the following table can be drawn up showing similarities in terms of categorising the examples of activities into general CSR areas (Table 3).

**Table 3:** Comparison between Large Companies' (LCs) and Small and Medium-sized Enterprises' (SMEs) Corporate Social Responsibility activities

Examples of areas for CSR activities	LCs (n=10)	SMEs (n=10)
Environmental issues (including recycling and waste management)	10	5
Supporting community involvement	10	2
Workforce and the office	7	3
Ethical standards	7	3
Customer satisfaction	6	3

It can be seen that environmental issues ranked highest for both LCs and SMEs. For LCs environmental issues were also grouped with health and safety issues whereas for SMEs environmental issues included recycling and waste management. With regard to supporting the community this was categorised as a general activity for LCs whereas for SMEs this included allowing staff time off for community involvement. For the area of the workforce and the office LC activities included respecting the individuality and diversity for the workforce whereas for SMEs there was the focus of using office facilities for local causes. The area of ethical standards involved integrity and human rights for LCs whereas for SMEs this concerned ethical attitudes. Finally, the area of customers was seen to be regarding satisfaction for LCs and the attitude towards customers for SMEs.

## Conclusions

There is a need to express caution with regard to the findings of this research since only 10 FTSE large companies and 10 SMEs have been surveyed for the comparative analysis described. Although only a small number of companies have been surveyed since there were equal numbers of small and large companies this has provided a balanced study. There are, however, some emerging themes that will be of interest to both researchers and policy makers alike. The comparative study described in this paper shows that there are areas involving CSR where both LCs and SMEs are engaged although very often the activities involved may be different due to the greater resource base of LCs and the limited financial and technological resources of SMEs. One problem is the apparent lack of recognition of activities, by both LCs and SMEs, as contributing to CSR which many companies seem to be doing already. When this limitation is coupled with the association that appears to be evident between the term 'corporate social responsibility' and environmental matters this presents a challenge for policy makers who are seeking to encourage engagement between business and society as a whole. There is clearly the case for further research to develop the initial findings given in this paper. In the first instance it would seem to be sensible to survey 100 FTSE large companies and 100 SMEs to provide statistically significant findings which will further elaborate the areas of CSR and the activities involved.



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