Responsible business practice: re-framing CSR for effective SME engagement

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Abstract: This paper explores attempts to translate the Corporate Social Responsibility (CSR) discourse to Small- and Medium-Sized Enterprises (SMEs). The transfer of the CSR discourse is problematic because of the inherent differences between large-scale enterprises and SMEs as well as the heterogeneity existent within the SME sector. Within this context the authors argue that Responsible Business Practice (RBP) is a more appropriate term which recognises that SMEs have different motivations for engagement with, and methods of operationalising, RBP. The paper introduces a new typology to help understand and progress the mainstreaming of RBPs among SMEs, acknowledging four primary enterprise categorisations: market-driven responsible enterprises, environmentally responsible enterprises, socially responsible enterprises and sustainable enterprises. This paper extends the extant literature through its explicit consideration of SMEs in enhancing RBP. This approach, while building on the core essence of CSR, will help to facilitate the sector to progress beyond CSR and begin to develop to SME-specific theory and practice in this area.

Keywords: CSR; corporate social responsibility; SMEs; small- and medium-sized enterprises; market-driven; environmentally driven; socially driven; sustainable enterprises.

1 Introduction

While profit generation remains the primary function of business, the impact of business on culture, society and the environment has been the subject of intense scrutiny in contemporary business policy and practice. Following several examples of irresponsible big businesses, including Exxon and Enron, there has been a re-engagement with the axiom that business has a duty to society (Ackerman, 1973). Indeed, current thinking suggests that not only should business not do harm, but ultimately its impact on society should be positive (Handy, 2002). The organisational response to this challenge is Corporate Social Responsibility (CSR), an initiative intended to encourage large corporations to operate in a more socially responsible manner.

Given that the contemporary policy and media environment is strongly influenced by public opinion, demonstration of social responsibility is now regarded as an integral element of corporate strategy (McCombs, 2002). Within this climate, companies that shirk their social responsibility (e.g. by sourcing their raw materials from suppliers using child labour) leave themselves open to negative media attention, and even consumer boycotts (Gray, 2004). Moreover, the policy environment has brokered a number of voluntary guidelines delineating areas of social responsibility, for example the OECD guidelines for multinational enterprises (European Multi-Stakeholder Forum on CSR,
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Adherence to such guidelines is increasingly important given the low levels of public trust in private institutions (Eurobarometer, 2004). Engaging with the CSR agenda offers the potential to re-harmonise the business/society relationship (Seitanidi and Ryan, 2007) and also has a positive influence on the investment community (European Multi-Stakeholder Forum on CSR, 2004). CSR is increasingly associated with competitive advantage, enhanced risk management and opportunities for innovation associated with enhanced stakeholder relations (European Multi-Stakeholder Forum on CSR, 2004). As such, “[CSR] can make a business more competitive, more resilient to shocks and more like to attract and hold both consumers and the best employees” (Sawyer, 2004, p.62).

Central to the CSR agenda in large firms was the emergence of the ‘business case’, with its promise of enhanced brand image, ability to attract high-quality staff and long-term profitability through balanced stakeholders’ interests (e.g. Weber, 2008). The achievement of this level of reward demanded significant financial investment, the establishment of new discreet departments, and the development of sophisticated programmes and policies as well as clear objective performance measures (Garriga and Mele, 2004). For many small- and medium-sized enterprises (SMEs) however, the nature and level of such investment remains a luxury they simply cannot afford (Jenkins, 2004), or indeed may be inappropriate, given the nature of these enterprises (Fassin, 2008). Central to this proposition is the recognition that from an institutional perspective, SMEs are not just ‘small’ corporations (Lepoutre and Heene, 2006), they need their own unique ethical understanding of the difficult environmental problems they face (Tilley, 2000 p.33). Therefore, CSR, as it has been understood in a large corporation context, is often extremely difficult, if not impossible to replicate in an SME context (Jenkins, 2006).

CSR involves a wide range of diverse components and practices, many of which are difficult for SMEs to conceptualise and manage. Moreover, the SME sector itself is made up of a range of differing organisational forms and business sectors rendering SMEs a heterogeneous rather than homogeneous business grouping. Indeed, a consensus is forming that the premise on which CSR has been developed is not suitable or appropriate for SMEs (Spence and Rutherfoord, 2000; Sarbutts, 2003; Jenkins, 2004; Fuller and Tian, 2006). For example, Moore and Spence (2006) argue that CSR, as a term, does not capture the more praxis approach required for SMEs. Building on this, we use the term Responsible Business Practices (RBP) rather than CSR. This recognises that SMEs not only have different motivations for engagement with RBP than larger organisations, but will operationalise the concept in different ways. Moreover, the focus of engagement in RBP may be quite diverse within the SME sector, with extant research highlighting that SMEs may be engaged in social entrepreneurship, eco-entrepreneurship, neither or both.

Given that SMEs represent over 99.8% of the 17.9 million enterprises within the European Union (EU), generating approximately 65 million jobs, and 56.2% of its private sector turnover, understanding their current and potential relationship with RBP is essential (http://europa.eu.int). In recognising the complex and diverse nature of the SME sector (Miller and Friesen, 1983; Carson et al., 2001) we propose that different SMEs will be orientated towards RSP in different ways (Kvåle and Olsen, 2006), depending on the nature of the enterprise. In this paper, we offer a novel typology of business enterprises which captures this multiplicity and allowed for a more refined discussion on the nature of adoption and implementation of RBP in SMEs. The types of enterprises identified include: market-driven, environmentally driven, socially driven and sustainable enterprises. The paper begins with a discussion on the nature of SME engagement with RBPs. Following this, in the main body of the paper the four types of enterprises
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identified are discussed. Throughout this section consideration will be given to the challenges facing these enterprises in maintaining their position and the possible trajectories open to them in developing their RBPs, including the mechanisms by which this might be possible. The paper concludes with by outlining the theoretical and managerial implications of the framework proposed.

2 SME engagements in responsible business practices

An important theme in the extant literature on SME engagement in RBPs is the debate as to the role of mission versus market opportunity as the central driving force (Wan-Jan, 2006). For example, Williamson et al. (2006) argue that it is business performance and regulation, and not moral vision, which form the central drivers for RBPs among SMEs (Williamson et al., 2006). According to the authors, the current business climate does not encourage (and may actually undermine) SMEs’ ability to take voluntary action to the betterment of stakeholders. This ‘either/or’ approach to understanding the motivation for RBPs by SMEs highlights the need for a more inclusive framework. Indeed, the tension between business and moral justifications for engaging in RBP has led to attempts to find a ‘3rd way’. For example, Jenkins (2006) posits that conceptualisations of RBP among SMEs should allow for firms to exploit business opportunities afforded from such an approach without, necessarily, reducing its positive social impact. It is clear, therefore, that in developing a theory of RBP for the SME sector it is critical to avoid a ‘one size fits all’ approach.

Moreover, SMEs have certain characteristics that set them apart from larger corporations, such as operating within tight resource constraints (both time and financial), and characterised by close and often intense relationships with key business partners, including employees, customers, suppliers and local and national authorities (Gilmore et al., 2001; Hill, 2001; McGowan and Clarke, 2001; Shaw, 2004; Blankson and Cheng, 2005). For SME owner/managers, their personal network is one of the most vital aspects of building a successful enterprise (Stokes, 2000; Gilmore et al., 2001; Grant et al., 2001; Hill, 2001; Shaw, 2004). Such close relationships tend to be described in terms of trust and open communications and are considered vital for the successful implementation of RBPs in firms (European Multi-Stakeholder Forum on CSR, 2004). Moreover, according to research conducted by the European Commission (2002), there remains a direct relationship between owner and manager/controller in many SMEs. Thus, the owner/manager can make personal decisions about the direction the firm takes, including how the firm engages with issues surrounding RBPs. Indeed, recent research confirms that unlike large corporations, SMEs are more likely to embed responsible business strategies into explicit management systems and remain conscious of their connectedness to their locale and the communities therein (Russo and Tencati, 2009).

Consideration of RBP among SMEs has traditionally focused on internal and community-based projects and policies (Moore and Spence, 2006). This has involved developing closer community–stakeholder relations, and generally making SMEs better places to work (e.g. work-life balance and/or diversity-based initiatives). However, more recently the nature of impact of SMEs, collectively, on the natural environment has come more to the fore (Tilley, 2000). For example, SMEs as sub-suppliers to international corporations are being increasingly called upon to engage with environmental management
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systems, in order to align their practices with changes in customer preferences. According to the European Commission (2003) report on Responsible Entrepreneurship, the marketplace is one of the least understood areas of corporate responsibility, and yet, due to its proximity to the day-to-day operations of the company, it remains one of the most vital CSR spaces for SMEs. Thus, “the way companies operate in the marketplace is a crucial indicator of how they have integrated social, ethical and environmental concerns into their mainstream organisational culture and decision-making process” (European Commission, 2003, p.11). SME approaches to sourcing raw material, supplier and customer relationships, marketing and advertising, and pricing and distribution policies should all reflect the SMEs commitment to RBP. Thus, it appears that engaging in RBPs is likely to involve both internal organisational dimensions (e.g. working practices and policies) and external marketplace dimensions (e.g. supply chain management and green product/service development). Moreover, such engagement can be socially motivated and/or environmentally motivated. Social motivation includes the desire to make SMEs better places to work (Sachs et al., 2006) and captures a moral engagement with an SMEs various stakeholders, while environmental motivations concern depletion of natural resources, minimising pollution, etc. (Tilley, 2000).

An important conclusion to the above discussion is the recognition that different enterprises will engage in socially RBPs from different starting points. That is, not all SMEs will engage in the same RBPs and that firms will gravitate towards particular forms of RBP depending on their nature and history. For example, there is a clear difference between firms engaging in RBPs as a supplier-compliance process, a new green start-up, or as a small family firm deeply embedded in their local community. Moreover, while there will be different starting points, we must also recognise that engaging in RBP is a dynamic process (European Commission, 2003). Therefore, while RBP may be initiated for market reasons, over time there is scope for greater internalisation of a responsible approach to business.

In this paper, we offer a novel typology of business enterprises which captures this multiplicity and allows for a more refined discussion on the nature of adoption and implementation of RBP in SMEs. The types of enterprises discussed are market-driven responsible enterprises, environmentally responsible enterprises, socially responsible enterprises and sustainable enterprises. These positions are identified in the matrix below (see Figure 1) and distinguish between social and environmental dimensions of RBP. Sustainable enterprises are those that are motivated from start-up to engage in both socially and environmentally RBPs. This is the ideal position and many firms that meet these standards are examples of best practice. There are also a number of other firms that focus on managing either their social or environmental impact. Finally, the market-driven responsible enterprises represent the growing number of firms which have made significant changes to the processes or products in order to position themselves as responsible. Such firms may adopt a short-term competitive response or may engage in more strategic adaptations which would enable them to adopt any of the other positions. Key points of differentiation between these include the degree of proactive versus reactive behaviour, whether mission or the market is the primary driver, and lastly whether the enterprise’s responsible business behaviour is manifested largely in organisational processes or marketed products/services.
2.1 Sustainable enterprise

The Cornell Global Forum on Sustainable Enterprise defines sustainable enterprises as ‘profitable businesses that simultaneously raise the quality of life for the world’s poor, respect cultural diversity, and conserve the ecological integrity of the planet for future generations’ (http://www.cornellglobalforum.org/). Sustainable enterprises are established with the core philosophy of building a sustainable business in environment, social, cultural and economic terms. The product or service offerings from these enterprises are focused on the improvement or enhancement of our society, culture or environment. Such companies are designed to be sustainable from start-up, and therefore are driven by values as well as profit. In this regard, sustainable enterprises are ideal types and the term is equally applicable to both large and small enterprises. It is also important to highlight that the focus is on the sustainability of RBPs rather than on economic sustainability as is used in the wider literature.

A well-known example of such an enterprise is Ecover, a Belgian-based household detergents firm that produces environmentally sound ecological cleaning products (European Commission, 2003). Ecover has constructed an ecologically sound factory and production processes and has achieved recognised success in competing against the more ‘mainstream’ companies. While market-driven enterprises will need to comply to supplier demands, sustainable enterprises can be seen more as market shapers who will call upon their suppliers and other business partners to mirror or respond to their own socially RBPs (e.g. Ecover’s Stakeholder Management System and supplier screening scheme). The orientation of sustainable enterprises is a ‘whole company’ one, where business strategy and success is embedded in social/environmental values. This suggests flexible and open management structures which encourages participation and interaction with a range of stakeholders including employees, customers and suppliers. Where formal ethical and environmental policies and programmes are developed, they are done so from an integrated organisational culture which supports such an approach; as opposed to an add-on process at odds with organisational culture or orientation. Like other forms of responsible enterprises, such companies will engage in recognised mechanisms of RBP, including cause-related marketing, employee volunteering, fair trade purchasing, or research and development into sustainable business processes (e.g. http://www.
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ecoverwateraid.com or http://www.innocentdrinks.co.uk/us/ethics/sharing). However, the key differentiation between these companies and others engaging in similar practices will be the proximity of practice to organisational mission (Isaak, 2002). However, it is important to recognise that this idealised position may be difficult to achieve and maintain with the often limited resources at the disposable of SMEs. Indeed, many such enterprises have found themselves open to take-over and mergers as large firms seek to enhance their ‘green portfolios’; for example, Green & Black’s chocolate as bought out by Cadbury and the Body Shop as bought by L’Oreal; the latter receiving highly critical responses from ethical business watchdogs (see e.g. http://www.naturewatch.org/shoppingguide/News_loreal_bodyshop.asp). Therefore, some enterprises focus their efforts either on social entrepreneurship or on environmental entrepreneurship.

2.2 Environmentally responsible enterprise

Increased attention and importance given to environmentally sound products and services has resulted in the growth and expansion of green markets, e.g. renewable energy systems, environmentally safe household cleaning products, cosmetics and organic clothing and food (Mustafa, 2006; Pujari, 2006; Fowler and Hope, 2007). Efforts to reduce the impact of business on the environment have led to the demand for new technologies. Fulfilling this demand has created an environment conducive to green start-up businesses (United Nations Environment Programme, 2008), now being termed the ‘green economy’ (Henderson, 2007). These conditions will of course mean that market-driven enterprises will join the green technology race. However, the type of enterprise described by the label environmentally responsible enterprise refers more to what Isaak (2002) terms ecopreneurs. These ecopreneurs include those “who create green-green businesses in order to radically transform the economic sector in which he or she operates” (Isaak, 2002, p.81). These companies, by nature, contribute to society by developing products and technology that enable the reduction of society’s impact on the environment (e.g. green electricity, carbon counting, passive house construction techniques, etc.). While these firms by their market offering contribute positively to society, there is nothing to suggest that this will be followed up in the way they run their company, including relationship with stakeholders etc. Indeed, in attempting to grow young green start-ups, ecopreneurs may find themselves having to resolve the tensions arising from their staying true to their founding mission and need to maximise sales (Schjoedt, 2009). Engaging in RBPs that go beyond external environmental aspects, therefore, becomes particularly important in such cases. Indeed, this form of enterprise could move towards being a sustainable enterprise if they work towards aligning mission, product and organisational processes.

2.3 Socially responsible enterprise

The concept of social entrepreneurship has emerged as an important concept within the field of non-profit management, while remaining an under researched area in the field of responsible business and SMEs in particular (David, 2007). A social entrepreneur is someone who recognises a social problem and uses the principles of entrepreneurship to organise, create and manage a venture to bring about social change. While traditional entrepreneurs tend to measure performance in profit and return, social entrepreneurs assess their success in terms of the impact they have on society and often work through...
NGOs and citizen groups (Spear, 2006). The nature of certain family firms allows them to be categorised as socially responsible enterprises, given the importance of reputation, the influence of owner/founder values on firm orientation and the close links between management, employees and business partners, which combine to embed social responsibility in the organisational culture (Uhlman et al., 2004; Dyer and Whetten, 2006).

Socially responsible enterprises are therefore founded on strong social principles, and will tend to take a holistic approach to sustainable business practices. It is recognised that many SMEs, by their nature, encourage strong relationships between their employees and the local community from which they draw their workforce (European Commission, 2003). Employee volunteering and sponsorship/donations are two of the most common mechanisms to engage in both workplace and community-based RBPs (European Commission, 2003). For example, Happy Computers, a computer training company in the UK (European Commission, 2003), partnered with PADEAP (Pan-African Development, Education and Advocacy Programme) to send staff members to Africa on a ‘training the trainers’ style programme. For these enterprises, engaging in RBP will be about ‘the way they do business’ (Jenkins, 2004). As such many such businesses may have not traditionally developed ‘formal CSR programmes’ (Roberts et al., 2006). An important differentiating factor between socially and environmentally responsible companies is that what socially responsible companies produce or deliver need not be ecologically sustainable. However, in recognising the dynamic nature of RBP, we can see examples of socially driven enterprises engaging more in environmental issues. For example, Zonnige Kempen, a Belgian social housing company, is leading the way in incorporating renewable and sustainable techniques in materials, water and energy in their building projects. Such enterprises can therefore build upon their existing capabilities and strong social orientation to successfully engage in more environmental issues.

2.4 Market-driven responsible enterprise

Many SMEs now recognise the competitive advantages associated with being considered socially or environmentally responsible. For example, many larger organisations demand that their suppliers adhere to industry norms for RBP including ‘greening’ the supply chain (Baecke et al., 2002; Kogg, 2003; Pedersen, 2009). Indeed, this represents a trigger for engagement. For example, MAS in Sri Lanka implemented changes in its processes as a result of Marks & Spencer, Plan A (The Economist, 2008). Another relatively common trigger, for many SMEs to engage in community-based CSR practices, will be to help overcome recruitment issues (Jenkins, 2004) for example, by engaging in training and development for disadvantaged groups. Consumer demand for environmentally sound products and services also continues to grow in nature and scope (Garbato, 2005; Jansen and Stevels, 2006; Kilby, 2006; Thogersen, 2006) with the ethically conscious consumer now more visible and more vocal (Shaw and Shiu, 2003; Carrigan et al., 2004; Harrison et al., 2005). This represents considerable opportunities for SMEs from green services (restaurants, tourism, web hosting) to everyday and luxury products (household products and fashion).

Market-driven enterprises therefore include firms who engage in RBPs in order to develop or enhance their competitive advantage. For example, Muumimiaalma Oy (Finland), is an SME-owned theme park, highlighted for its RBP because it addresses environmental issues as part of the ‘educational’ aspects of the park (European Commission, 2003).
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Commission, 2003). There is no evidence to suggest that this was part of the parks original mission. However, the focus on environmental education represents a strategic response to the changing demands of the market, and arguably the appropriate social response given its resources. Thus, firms like Muumimaailma and MAS have made a strategic response to the marketplace by adapting their processes or market offering in order to be recognised as responsible enterprises. Techrec ltd (Ire) is another example where a company, seeing the shift the market opportunities emerging from the WEE recycling scheme, adapted its operations to focus solely on this sector (http://www.csr4u.org/). Given the strategic nature of the response, such firms may be more inclined to develop quantifiable performance measures and engage in proactive efforts to communicate their positioning in the marketplace. Market-driven responsible enterprises may (similar to environmentally responsible enterprises) enter ‘green’ markets, and (similar to socially responsible enterprises) may engage in a range of different activities, such as community education, workplace training, cause-related marketing and sponsorship, however, their motivations are more likely to be economic rather than moral. Notwithstanding their strategic intention, such firms can contribute positively to society and the environment by their actions.

Maintaining a pure market-driven orientation towards responsible business is however a precarious position and difficult to maintain. The impact on profit and earnings is always central to decision-making and thus trade-offs may be made with regard to RBPs. Given the centrality of sustainability to contemporary discourse, policy-makers, media and business watchdog organisations are particularly sensitive to greenwashing and other short-term practices (Ryan et al., 2009) and penalties are likely to be incurred. Indeed, such short-term responses to RBPs leave firms open to the boom and bust characteristic of green markets (Crane, 2000). ‘Walking the talk’ therefore becomes an important capability to sustain a ‘responsible’ market position. This will involve adapting organisational-level culture and practices more generally. For example, Connaught Electronics, a technology supplier to the automotive industry, have been recognised (European Commission, 2003) not only for their commitment to quality (evidenced in their achieving ISO9001, QS9000, ISO14001 certification) but more particularly in the manner in which they went about this. That is, through a process of developing long-term learning relationships with customers.

3 Discussion and conclusion

The above discussion aims to illustrate that different enterprises will engage in different forms of RBP, and that these differences can be categorised. For reasons of history or business approach, different enterprises will gravitate towards different dimensions of RBP. This suggests that there is no metaphorical ‘clean slate’ from which SMEs begin their engagement in RBP. It is also clear that SMEs are not just small large corporations, and that they are more likely to engage in informal RBPs; perhaps never using the original CSR term to describe these practices (Murillo and Lozano, 2006). Therefore, attempts to ‘mainstream CSR for SMEs’ (European Multi-Stakeholder Forum on CSR, 2004), by way of promises of benefits to the bottom line (Longo et al., 2005) could actually do SMEs a disservice in the long run (Gond et al., 2007), given that although short-term market-based benefits can be gained by engaging in different forms of RBP, these are difficult to sustain in the long term. The dynamic nature of RBP engagement
therefore needs to be recognised. For example, while market changes can and will trigger RBPs, for these to be sustainable, the enterprise will need to engage in a process of implementation characterised more by way of stakeholder dialogue and learning rather than surface approaches or stakeholder coercion (Greenwood, 2007). Moreover, as the importance of environmental degradation continues to grow even those enterprises that traditionally were seen as highly socially responsible will need to become more cognisant of environmental issues. Environmentally driven enterprises will themselves have to consider the social dimension to their work, reflecting on the nature of their relationship with employees, customers and other stakeholders, in order to maintain consistency across platforms. Finally, while sustainable enterprises can be seen as a form of ideal, one of the most pressing issues facing these will be the concept of sustainable growth, that is how they can grow their businesses while maintaining the tender balance between mission and profits.

From this exploration of RBP in SMEs it is evident that different SMEs have different responsible business orientations, or areas of RBP that they more naturally gravitate. From these different starting points future possibilities, economic, social and environmental, can be realised by building on current capabilities. This form of categorisation of SMEs offers important opportunities for praxis by allowing owner/managers to identify their current position and future possibilities. Thus, this typology allows SME engagement with RBP to be categorised in a meaningful manner, while also enabling future research to engage in a more nuanced dialogue with regard to discussions of RBP in SMEs. This future research could explore the applicability of this typology to a range of SMEs in different geographic locations and different industry sectors, thereby adding further richness to the data.

References

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