The business case for social responsibility in small and medium-sized enterprises

Developed with the support of the European Commission, Employment and Social Affairs Directorate.

Social Responsibility (SR) can help any business to succeed. It can build sales, develop the workforce, boost enthusiasm and innovation, enhance trust in an enterprise and increase a company’s reputation and standing. Pursuing responsible business practices makes companies more competitive.

Winning businesses of the 21st century will not only add value for their owners; they will add value to the rest of society. They will not just avoid unacceptable behaviour, but will aim to maximise the positive impact they can have on all of their stakeholders.

The challenge of this business case is to stimulate thinking among smaller businesses as to what constitutes responsible business and above all demonstrate its effect on performance, the bottom line and the vitality of a company as a whole.

The social responsibility debate is relatively new. But it is very important to small and medium sized enterprises. SMEs are ideally placed to pursue responsible business practice. For so many, social responsibility is just a new way to describe something they do already: investing in broader social values whose benefits go beyond profit. In this context, SR does not aim to ‘reinvent the wheel’. It is about building on existing good practice, maximising its impact and raising awareness among important internal and external audiences in a way that will help companies to become more competitive.

Half of European SMEs are involved to different degrees in external socially responsible causes. The degree of involvement tends to reflect the size of the enterprise, ranging from 48% amongst the very small enterprises to 65% and 70% amongst the small and medium sized enterprises respectively. (EU Survey)

The social responsibility debate recognises one overriding fact, that there are new issues that businesses need to consider and respond to in order to stay competitive. Issues such as globalisation, distribution of wealth, governance and regulation, environmental concerns and social expectations may not seem to have a direct impact on the activities of SMEs. But these issues are influencing people’s attitudes towards business in significant ways. More people want to buy from ethical companies, for example. Consumers want to purchase goods and services from companies who actively state that their objectives are social and environmental as well as economic.

And that leads to a chain of other imperatives and benefits for companies. Incorporating social responsibility and being openly aware of the new issues facing businesses today can help to control operational risk, thus preserving the value of
what a company already does. Applying responsible business practice can also create value, helping a firm to become more cost efficient. Or it can boost revenue, by opening a company up to new ideas of how best to run its core activities.

From a supply chain perspective, how SMEs deal with these issues may well influence business partners’ decisions on how and where to source materials and products. How a company responds to social responsibility issues could either present an opportunity or pose a threat throughout the supply chain. These days the supply chain has to answer to the retail chain because the retail chain has to respond to consumers. This trend is on the rise at all levels - local, national and international - and concerns all businesses.

By having a hands on attitude to issues such as how to protect the environment, how to treat people fairly and how to create value and maintain a sense of community, businesses send a powerful message to stakeholders: the key issues facing society are key issues for business too.

In a 1999 survey of 4000 people, conducted in France, Germany, Italy and the UK, 88 per cent said they would be more likely to buy from a company that supports and engages in activities to improve society.1

The benefits of such an approach are visible in other ways too: better waste management, for example, can save money. Staff with diverse backgrounds can contribute to innovation and creativity, bringing fresh and original perspectives to a company. Involvement with the community gives business a higher profile, important for any company that wants to grow.

The show me culture

It is clear that companies can no longer depend on society’s general acceptance that they act in good faith. Companies that are most likely to succeed in the future are those committed to:

- **Accepting** that they have an impact on the wider society and environment
- **Demonstrating** their willingness to be held accountable through greater transparency and clearer reporting of their activities
- **Actively seeking** endorsement from their stakeholders.

A 2001 survey by the Conference Board Inc showed that 42% of respondents thought that companies should be wholly or partially responsible for helping to solve social problems.

In the Millennium Poll on Corporate Social Responsibility², 56% of the respondents cited social responsibilities as the factor most influencing public impressions of individual companies.

What’s there to lose?

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2 1999, conducted by Environics International Ltd in cooperation with The Prince of Wales Business Leaders Forum and the Conference Board.
SMEs have time, resource and delivery pressures that often prevent them getting involved in what they see as new activities. But as discussed above, SR does not necessarily mean overhauling an entire system you are used to. Rather it is about building on what is already there, and making the link between SR and your core business activity.

Commonly perceived barriers to getting involved are:

- Lack of time
- Lack of motivation
- Insufficient resources/capabilities
- Not knowing how to engage in SR or inability to see suitable opportunities
- Not feeling in touch with local needs
- Perception that community involvement is not related to business

Around 19% and 16% respectively of SMEs across questioned on their attitudes to social responsibility identify lack of time and financial resources as their main barriers to getting involved. (EU Survey)

However there are many reasons why SMEs are ideally placed to pursue responsible business practices. Compelling reasons include:

- Certain SR trends are already a part of SME culture. For example, SMEs are less likely to show age discrimination than large companies.
- Any viable approach to SR needs to build on what is already there by communicating current practices and improving them for the benefit of the company and the broader community. Many SMEs already conduct themselves in a socially responsible way.
- SMEs are in a good position to find a flexible yet appropriate approach. Less formal and bureaucratic than large companies, they can direct resources to SR activities without too much additional administration.
- SMEs are likely to be well placed to share experience and spread best practice. SMEs may be more willing to work with other companies on responsible business. Gaining publicity and brand advantage is rarely a priority for them when engaging in SR activities.

Of course many social responsibility issues are new. But, as this example shows, the opportunities outweigh the risks for companies who address them:

The current owners of the Seaview Hotel and Restaurant bought it in a run down state in 1980.

The hotel is run on a philosophy that places the local community at the heart of its business. It employs local staff, buys food and wine from local farmers and fishermen. The management also recycle as much as possible within the local community, passing on beds to those in need and computers to schools, for example. They also separate all the waste they generate, monitor water use and use low voltage lighting. The hotel also offers training and work placements, keeping staff turnover low.
Their business practices have helped them to raise turnover from £60 000 to £1.2 million since acquiring the hotel.\textsuperscript{3}

**What’s there to gain?**

Companies that practice responsible business tend to build on that approach as time goes by.

*The ENSR Enterprise Survey 2001 shows that an overwhelming majority of those SMEs currently involved in SR activities are expecting to either continue or even increase their participation in the next 3 years (73% and 14% respectively)*

There are good reasons why they should. All companies that have worked to embrace social responsibility tend to reap real rewards that help them to prosper.

Companies who foster better relations with employees, customers and the local community report that this boosts business performance in different important ways.

Improved staff performance and morale translates into a better reputation for the company which, in turn, can positively influence customer preference. Employees offered real chances to gain new, more transferable skills have greater job satisfaction and will help the company to become more productive. A local community that benefits from contributions by a local business – through sponsorship, funding, in-kind donations, pro-bono work, time and skills – will look favourably on that company, re-enforcing its essential licence to operate.

**Unfolding the Business Case for SMEs**

SMEs, like larger companies, are operating in a new environment. Increasingly they are under pressure to operate according to a broader set of business imperatives and make sure that their core operations reflect the changing aspirations of society.

The broader community is becoming increasingly sensitive to these changed circumstances. It is looking for companies to take a triple bottom line approach to their performance, sensitive to the social, environmental as well as economic impact of their operations.

There are market pressures that make a responsible business approach important to companies too. Increased job mobility means companies must work harder to attract and keep a skilled motivated workforce. Given the volatile nature of market places, a company’s success depends on it being in touch with the aspirations of consumers, communities and cultures and responding to their needs.

Responsible business is about managing the impact (positive and negative) of your business.

To avoid the threats posed by these changed circumstances, companies have to have a strong culture of risk/impact management. To reap the benefits of this new environment, companies must think strategically, manage effectively and communicate directly.

\textsuperscript{3} Pg 202 Grayson and Hodges, Everybody’s Business, 2001, Dorling Kindersley
Putting your stakeholders in the frame
Who are your stakeholders? Why do their views matter to your company?

Stakeholders are generally described as individuals, communities or organisations that affect or are affected by the operations of a company. As the diagram shows, an SME (like any company) has a diverse range of stakeholders. The following pages describe how the views of each of these may have an impact on your company and how best you can manage your relationship with them in a socially responsible way.

Customers

- Businesses need to provide customers with the highest quality products and services consistent with their requirements and expectations.
- Companies need to treat customers fairly and ensure that their health and safety is properly protected. Companies can respect the integrity of a customer’s expectations by being transparent in all its activities.
- One way to build a better relationship with customers is through “cause-related marketing”. This can increase customer appreciation of a product while simultaneously raising awareness of important issues or causes and delivering social benefits.
- Businesses can also gain from consulting with their customers. Sharing views can benefit companies and customers alike. It can highlight social issues that directly affect an enterprise as well as giving insights into the priorities and concerns of your customers. Consultation can also put businesses in closer touch with their markets enabling them to develop better informed and more effective business strategies.
Customer consultation is also crucial in retaining customers and establishing a good reputation.

Case study
Travelsphere is a direct selling tour operator in the UK that employs about 200 people. They were the first mainstream travel company to offer a specialised service for blind and partially sighted people. The company only had to make slight changes to their existing procedures but opened up new horizons for themselves and customers. As a result Travelsphere has established a new client base and brought in more than £100,000 in sales from a completely new market. (from David Irwin’s text).

Staff

A 1999 study by Fleishman-Hillard found that 87% of European employees would increase their loyalty to a company if it were seen to be involved in activities that help improve society.4

- Every business has an interest in being an employer of choice – being the sort of enterprise that people want to join. In a competitive and fluid job market, where there is a ‘war for talent’, this can be a real advantage.
- Paying staff fairly, providing a good working environment, communicating openly and honestly internally all help a company to prosper. So can respecting staff suggestions, avoiding discrimination, offering continuous learning, equipping staff with transferable skills and being sensitive to labour market problems associated with business decisions. These things can win the trust of your staff but also increase your efficiency and levels of innovation.
- Promoting personal development means ensuring that staff can achieve a good balance between work and the rest of their life, with appropriate flexibility in working patterns to protect their overall wellbeing.
- Health and safety is another concern for business. There is, of course, a great deal of legislation that sets down health and safety requirements. But businesses need to do more than simply meet the minimum requirements. A poor safety record may make it difficult to recruit staff.
- Being an active part of the community can also help to attract members of the local community with good skills as potential employees.
- Companies that behave responsibly and are aware of their impact on society beyond profit, have a better track record in attracting good staff. Employees often care that their company is environmentally aware, donates resources to the community and offers high standards of customer service.

4 Quoted in To Whose Profit? Building a Business Case for Sustainability, WWF and Cable & Wireless, 2002
As many as one in ten workers in Europe and North America is suffering from depression, anxiety, stress or burn-out.\(^5\)

As far back as 1989, the UK chain B&Q opened a Supercentre in Macclesfield staffed entirely by over-50s, as an experiment. After 6 months, results showed that the Macclesfield store outperformed other stores in nearly all aspects. Profits were 18% higher; staff turnover 6 times lower; absenteeism 39% lower, customer perceptions of service were higher and staff skills were higher than average.\(^6\)

**Investors**

- Businesses have a responsibility to manage their assets effectively in order to provide investors with a fair and competitive return, to disclose relevant information and to respect investors’ suggestions and opinions.
- Different businesses will take different views about what constitutes the most appropriate level of social engagement. But increasingly common standards apply. The importance of sustainable behaviour of companies is now being reflected in legal requirements in an increasing number of countries.
- The scope of the risks a company must manage is widening. Risk is no longer solely defined by financial factors, but extends to include environmental and social risk as well. How this expanded portfolio of risks is controlled will become an increasingly important concern for companies when they try to attract capital and investors.

**Suppliers**

- Good relations with suppliers are a key concern for most SMEs. The best relationships offer both parties benefits. They should aim to foster stability in return for value, quality and reliability.
- As both suppliers and contractors increasingly find themselves in longer more complex supply chains, managing this relationship becomes more delicate and requires more careful attention.
- Some companies choose to make social responsibility a key deciding factor in which suppliers they use, for instance preferring suppliers whose own employment practices respect human dignity. They are said to have a triple bottom line approach to business, caring for the social and environmental as well as economic aspects of their relations.
- This becomes important, as larger companies are being held more and more responsible for the practices of their suppliers and sub-contractors.
- For some large companies this means avoiding sub-contractors/suppliers who have a poor track record on labour practices or who procure from foreign sources that stand accused over practices such as child labour.

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5 A 12 Point Programme for Business to Combat Depression in the Workplace – Mental Health in the Workplace, ILO, 2001.
6 To Whose Profit? Building a Business Case for Sustainability, WWF and Cable & Wireless, 2002
➢ SMEs can promote responsible business when dealing with their own suppliers/contractors and fellow SMEs, helping to spread best practice and encourage responsible business at a local level.
➢ But the supply chain is only one type of business network and promoting responsible business among suppliers is only part of the solution. Companies need to extend responsible business practice beyond the supply chain, not least because not all SMEs are part of a neatly defined supply group.

**Competitors**

➢ Healthy competition is a key component of the business environment and it can be an effective way to spread best practice in the field of responsible business.
➢ Increasingly social responsibility is something that actually gives a company a competitive edge and a comparative advantage over its rivals.
➢ The majority of enterprises involved in socially responsible activities carry them out in isolation. Only about a fifth of enterprises carry out these activities in co-operation with other firms. Linking with like-minded companies, particularly through representative organisations, could play a key role in raising awareness and promoting good practice.

**Communities**

51% of SMEs involved in external community activities carry them out on an occasional basis compared to 45% who conduct them on a regular basis. Of the SMEs involved in SR activities, only 28% currently argue that these activities are integrated into the general business strategy. *(EU survey)*

➢ It is no longer enough to argue that businesses contribute to society simply by creating jobs and wealth.
➢ A business can only sustain its credibility if it has clear a ‘licence to operate’ from the local community.
➢ SMEs are particularly well placed to benefit from strong relations with the community. They are usually a key part of the local community, often run by people who have a longstanding connection with the area.
➢ The need to be a good citizen, respect and reflect the concerns and priorities of local community, demonstrate a clear understanding of the broad role businesses play in wider society are all factors that build trust with the community. They can make or break your licence to operate.
➢ Many SMEs already make a valuable contribution to the community through numerous activities. Social responsibility is not about redefining these activities. It is about seeing the benefits of these activities and making them a core part of your business strategy.
➢ Investing in the local community is not just about a feel good factor. Your business can also gain and not just in terms of reputation. If you donate old equipment – like computers to schools – you can extend the useful life of a piece of equipment, save the costs of dismantling and disposing of the product, while being of use to someone else.
➢ Involving staff in community programmes can add to their personal development, increasing their motivation and commitment to the company,
thus cutting staff turnover. By showing your company is attentive to the needs of the local community you enhance your reputations as employer. Doing so will help you attract new staff and new customers and clients.

**Case study**
Forward Publishing is a London-based SME. Its founder, William Sieghart and staff were concerned the young homeless people outside their offices. They came up with the idea of persuading the restaurants of fashionable Soho to add a voluntary charge of £1 to bills during the run up to Christmas. In the first year one restaurant participated, now the number has increased to several hundred.

**Public Authorities**
- Good relations with public authorities are key to the success of any company. For SMEs, this is particularly true at the local level.
- Transparency and a commitment to responsible business could give a company an advantage in securing public contracts.
- Co-operating with public authorities in social campaigns is a way of furthering community involvement and could enhance reputation.

**Non-governmental organisations (NGOs)**

*In a survey published in 2001 by Strategy One on global attitudes to NGOs, a general finding was that “NGOs are trusted nearly two to one to do ‘what is right’ compared to government, media or corporations.*

- Companies that are in touch with NGOs demonstrate an openness and willingness to listen to the opinion of the broader community within which they operate.
- NGOs can often provide fresh insights or perspectives that can help a business keep up with changing expectations of their other stakeholders. Heightened awareness of this sort could, in the long-term, provide a competitive advantage.
- Co-operating with NGOs can also build trust between business and the community and enhance a company’s standing with customers and investors. NGOs are generally seen as trust-worthy. Businesses can benefit from the good will that NGOs enjoy.

**Case study**
Nambarrie, based in Belfast, Northern Ireland, is the maker of Number-one tea. In 1998 it produced 100 000 tea packages with a breast cancer awareness message on them in a non-profit partnership with Action Cancer. Five pence from each sale of the special packs was donated to Action Cancer. The initiative was seen by the company’s executives as a way to promote a positive and important message, to strengthen the local brand image and to give back to the community. The company
also said that the initiative boosted staff morale. In 1999 they were awarded a Business in the Community award for Community Excellence. 7

The business of social responsibility

How does responsible business affect your company’s operations?

Social responsibility is a relatively new issue for business. But it is not something that operates in isolation from the issues that concern companies everyday. Increasingly it is being seen as an important and integral part of normal business operations. If handled well, it can help a firm to operate more efficiently, more effectively and more competitively.

Shareholder value
Revenue
Efficiency
Access to capital
Attracting customers
Reputation and credibility
Human and intellectual capital
Risk
Innovation

Shareholder value

- Increasingly, a company’s performance as a responsible business is key to its stock market standing, helping to protect it from instability and share price fluctuations. Investors are becoming more concerned to invest in company’s that act with social responsibility.

Revenue

Revenues pay for staff, capital and investment. They can also facilitate research and development (R&D). A company’s stream of revenue can fluctuate due to changes in pricing, access to new markets, and the market share of existing products and services or of new ones that appear.

Social responsibility can boost factors that drive revenue in important ways.

- If employees are satisfied, they are willing to make more effort for employers in terms of responsibility, innovation and commitment.

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7 pg 204, Grayson and Hodges, op.cit
In terms of stakeholder engagement, new initiatives and cause-related marketing can both build reputation and increase revenue.

**Efficiency**

The efficiency of a business indicates its health. Efficient companies turn inputs into productive outputs in the most cost-effective way. This can be done either by reducing costs (capital, operational and financing) or by maximising the productivity of resources by having a higher output for each unit of money spent in the running of your business.

Social responsibility can help to increase efficiency.
- A positive workplace atmosphere is a crucial factor in employee productivity: this could add to the reduction of operating costs.
- Eco-efficiency is an obvious way in which social responsibility and efficiency can be harmonised. As well as respecting the environmental bottom line, rethinking resource use (energy efficiency, reuse, recycling etc) can increase efficiency.

**Access to capital**

Access to capital enables a company to grow and affects its ability to invest in the future. Availability and cost of capital depend on two basic things: the expected rate of return and risk. If the risk on an investment is high, then investors will require a higher rate of return. Competitive companies can acquire and access equity and debt capital with most ease.

- Although currently most lenders and investors do not have SR criteria, the growth in socially responsible investment (SRI) is a clear indication of likely future trends.
- From this point of view, a company that addresses and integrates SR from an early stage is likely to establish a competitive advantage that could help to access capital.
- Viewed more negatively, if a company’s practices are neither responsible nor sustainable, its reputation will be undermined and investors and lenders will perceive the company as increasingly risky. Failure to conduct business responsibly will therefore become a growing obstacle to raising capital.

**Customer attraction**

A company’s ability to attract and maintain a customer base depends on it being able to offer attractive and relevant products backed by excellent customer services. It is essential for a company to demonstrate that it places a strong emphasis on customers throughout its core activities.

For SMEs, customer loyalty is extremely important. If it exists, it is a good building block for a competitive business. But, as all firms know, it cannot be taken for
granted. Attracting and keeping customers is key for future revenue and is a constant process.

- A company’s reputation is fundamental in attracting new customers and an increased customer base expands your reputation.
- Consumers are becoming more selective and sensitive as to a company’s record on social responsibility.
- Evidence shows that if quality and price are equal, customers will choose products/services where SR is evident over others.
- Being attentive to customers’ needs and expectations and trying to anticipate how your business can respond to them, can add to competitive advantage as well as increase reputation.

**Reputation and credibility**

Although SMEs do not brand themselves or their images in the same way or using the same marketing techniques as large companies, reputation remains critically important.

- Reputation is a key asset for a company of any size - one that can attract or repel customers, employees and investors.
- Companies with good reputations have the power to boost business opportunities.
- Activities, which demonstrate genuine levels of transparency, ethical behaviour and stakeholder engagement, all help to build the trust and reputation that provide a company with a solid licence to operate.

**Human and intellectual capital**

A company’s human and intellectual capital is one of its most valuable assets.

In a knowledge-based economy, the definition of what kind of capital a company needs becomes more fluid. Human capital is the accumulated knowledge and skills that exists within a company and its employees. It can be measured by a company’s recruitment and staff turnover rate; the amount it spends on training and development and ultimately on its ability to innovate.

But managing human and intellectual capital means much more than just attracting and keeping staff.

- It is also about enabling employees to develop in a way that enriches both the company’s and the individual’s knowledge base.
- Good work conditions and a good reputation can help a company to attract, keep and develop human capital.
Community involvement plays a less obvious but nonetheless important role. It helps employees to develop new skills, increases their motivation and can lead to greater innovation and creativity.

Risk

Companies are being held increasingly accountable for their actions today. So managing risk is a vital task for an enterprise of any size.

The scope of risk is also widening. The definition of risk now extends beyond purely commercial aspects and takes into account a company’s wider impact on society.

- Risk affects access to capital - the higher the risk attaching to a company, the more difficulty it has in accessing capital.
- High risk can also have a negative impact on a company’s reputation.
- Dialogue with stakeholders and transparency can help companies to limit risks by helping them to establish good relations with broader society.
- Open dialogue can, in turn, help companies get a better handle on trends and expectations, helping them to spot new market opportunities through a better understanding of society’s expectations.

Innovation

The most successful companies are also the most innovative. Innovation is key to maintaining a competitive edge.

A company that regularly designs, improves and delivers new and improved products and services is the one most likely to thrive. And innovation is not just an external concern. Vibrant companies bring the same creative thinking to their internal business models and operations.

- Creative, lateral thinking is easier in organisations that are open to new ideas and opinions.
- Engaging with a wider circle of stakeholders – including NGOs, employees, the community, business partners and investors - can expose a company to new perspectives that boost innovation.
- SMEs are well placed to innovate. They tend to have much more flexible structures, less chained down by bureaucracy and procedure than larger companies.