Laura J. Spence
Mollie Painter-Morland
Editors

The International Society of Business, Economics, and Ethics Book Series

Ethics in Small and Medium Sized Enterprises

A Global Commentary

Springer

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Ethics in Small and Medium Sized Enterprises

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Foreword

This volume, Ethics in Small and Medium Sized Enterprises: A Global Commentary is path-breaking in a number of ways. It introduces the reader to the distinctive features of small and medium sized enterprises (SMEs), it develops new theoretical thinking around SMEs, it presents useful data and case examples from empirical research, *and* it tackles the subject globally with contributions from every inhabited continent. The breadth and depth of the contributions to this book are thus truly amazing.

The fields of business ethics and corporate responsibility have traditionally focused their attention on large, usually multinational, corporations (MNCs) as the primary units for analysis. Some of the theoretical analyses deriving this sort of approach is transferable to SMEs. Still, these smaller companies have different frames of reference. They are usually local, not global companies. They are almost always close to the communities in which they operate, and many, but not all, tend to be family-owned or owned by a small group of investors or entrepreneurs rather than by anonymous shareholders. So the internal and external stakeholder relationships have to be redefined for SMEs. Thus there has long been an unmet need for new theoretical, normative, and empirical studies of small and medium sized enterprises.

One question raised in the volume, "Are SMEs ethical?" as the editors note, is not entirely interesting, since it is obvious that some are and some are not. Rather, the strength of the essays is in their spelling out how to judge whether SMEs are ethical, where again, the unit of analysis differs from that of a MNC. And whether and how SMEs are *socially* responsible to their communities and external constituents is, in part, dependent on the close SME – community ties particular to each SME and overlaps considerably with how they perceive and act on their other normative responsibilities. Thus a more fruitful question might be whether and how SMEs are responsible(rather than merely *socially* responsible) to their external stakeholders, including their cultural, social or governmental relationships in ways that coincide or conflict with their obligations to the other primary stakeholders, e.g., their employees, owners, customers, and suppliers.

This book is the beginning of what shall prove a rich set of research agendas that, to date, had been sadly overlooked. We are grateful to the authors and the editors for this volume, and we look forward to much more in the way of future empirical and theoretical research on SMEs.

ISBEE President Professor Patricia H. Werhane

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Our sincere thanks are due to the organisers of the 2008 International Society of Business, Economics and Ethics (ISBEE) Congress in South Africa who initiated the project leading to this volume with their inspired and courageous focus on Ethics in Small and Medium Sized Enterprises. We would particularly like to acknowledge Professor Deon Rossouw, President of ISBEE at the time, for his support of the initiative. Some of the articles, namely those in the 'Global Overview' section are reprinted from a special issue of the African Journal of Business Ethics with kind permission from the editor of that journal, Professor Leon van Vuuren. Mr Neil Olivier commissioning editor at Springer and Professor Joanne Ciulla, co-editor of the Springer ISBEE book series, have been hugely supportive and practically helpful.

The authors of the chapters have shown dedication and commitment to the topic of study, and patience in the evolution of this global book, for which we are enormously grateful. We must single out one contributor in particular, Professor Henk van Luijk, who was tragically taken ill during the production of this volume and died on 19 January 2010. His chapter with Lobke Vlaming remains in its uncorrected version as a result.

Professor Henk van Luijk was a leader in the European and global business ethics fields since the 1980s when he established, with colleagues, the European Business Ethics Network. He was also a founder member of the International Society of Business, Economics and Ethics in the 1990s. Henk was an inspiration to several generations of business ethicists and will no doubt continue to be so. His scholarly and personal contributions to our field and our community are already keenly missed. We dedicate this volume to him.

Laura J. Spence and Mollie Painter-Morland

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Chapter 1
Introduction: Global Perspectives on Ethics in Small and Medium Sized Enterprises

Laura J. Spence and Mollie Painter-Morland

Within the business ethics field, the presumption of the unit of analysis as a large firm has always been the norm. In recent years, however, recognition that this narrow approach is inappropriate has been rising. Journal special issues on the topic of smaller businesses and ethics can be found in both business, and ethics journals, but have been regional in perspective, with examples from the United States (Harris et al., 2009) and most consistently, Europe (Spence & Rutherfoord, 2003; Moore & Spence, 2006; Morsing & Perrini, 2009). Unfortunately, there is much less to report in terms of research on small and medium sized enterprises (SMEs) in developing countries. This presents scholars and practitioners with a huge challenge, one which we take on in this volume, and which we sincerely hope will be furthered by others. This is critically important since in these regions the stakes are so high in terms of poverty alleviation, sustainable employment opportunities, social and environmental challenges and the fight against corruption.

Once the gaps in terms of international representation within the research on SMEs have been filled, much also remains to be done in terms of content. What is needed is an extensive body of research on ethics in SMEs that derives its information only from these small businesses and develops models and best practices tailored specifically to their needs, not adapted from other models. What we know from the extant literature is that there is a clear difference between ethics in large firms and their smaller counterparts. This is no great surprise to small business researchers since all systems and processes are impacted by the difference in scale, yet the business ethics field continues in large part to disregard the important differences. It seems as if their commitment to certain normative positions allows business ethicists to gloss over important differences in context, scale, and socio-economic realities. This makes it very difficult to gauge the functioning of ethics within SMEs. While publications and conference papers on ethics in small firms can be found,

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This conclusion draws in part on Painter-Morland and Spence (2009).

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they are generally a token inclusion relative to the vast majority of contributions. In 2008, the International Society of Business, Economics, and Ethics (ISBEE) took this topic seriously and headlined 'Ethics in SMEs' at its congress in Cape Town, South Africa. The ISBEE congress established the foundation for a wider basis and more sophisticated understanding of the ethics of SMEs globally.

From these developments a need emerged for a volume that brings together research papers focusing on ethics in SMEs globally. This was an exciting prospect that presented both problems and wonderful opportunities. Not only did we soon realize that the research on ethics within SMEs is sparse, especially in the developing world, but we also had to deal with disparate methodologies, epistemological assumptions, and terminologies. However, despite these challenges, we were also struck by the valuable lessons that SMEs offer the broader field of business ethics and CSR, and by the emerging patterns that can be gauged from the various papers, despite the diversity of contexts and challenges they address.

How Are SMEs Different?

Wynarczyk et al. (1993) have suggested that there are three ways in which small firms differ characteristically from large firms. These are uncertainty and vulnerability, active engagement in innovation, and in terms of evolution and change. Some of these characteristics, such as engagement in innovation and change, may be more typical of SMEs in developed countries. In developing countries, SMEs also include micro-business such as street vendors and small service delivery operations, which depend on community networks and a loyal customer base, and aren't reliant on innovation and change to the same extent. Elsewhere the idiosyncrasies of small firms have been described as independent and owner-managed, stretched by a broad range of tasks, limited cash flow, facing persistent survival challenges, built on personal relationships, mistrustful of bureaucracy and controlled by informal mechanisms (Spence, 1999). This description of SMEs has been corroborated by many of the studies in this volume.

What makes the predominance of theoretical models derived from studies of ethics in large corporations troublesome for SME research, is that they have led to distinctions between various ethical dimensions of large organisations that are not applicable to their smaller counterparts. For instance, within the field of business ethics, clear distinctions are made between studies of CSR (corporate social responsibility) and organisational ethics, or 'ethics management and compliance' as it is often referred to in the United States (US). Studies of CSR typically focus on social impacts of the corporation on both its internal and external stakeholders. Ethics management or compliance initiatives focus on the ethical behaviour of the corporation or its agents, and are directed at curbing misconduct and limiting legal liability. In certain contexts, like the US, these fields initially developed largely independently from one another. It is only relatively recently that 'CSR' and 'ethics management and compliance' have become part of a more integrated approach to 'sustainability' and 'triple bottom-line reporting' globally (Painter-Morland, 2006). These distinctions create all kinds of terminological problems when one tries to study ethics in

SMEs. The chapters in this volume attest to this problem. Some authors use CSR as the central term, others use 'ethics' as a broad designation of both CSR and internal organisational ethics. We accept both as relevant to our topic. In fact, within SMEs ethical considerations seem to be dealt with without the use of any of these labels. It presents itself as a much more integrated part of business activity. What we therefore find within SMEs is that a strong sense of normativity emerges out of everyday business interactions with a variety of stakeholders. The kind of stakeholder interactions that large businesses spend a lot of time analyzing, nurturing and monitoring, happens as a matter of course within SMEs. In fact, creating reputational value, building networks and nurturing community interactions are very much part of securing their bread and butter. This does not suggest that 'ethics is easy' for SMEs. Quite the contrary is true. SMEs have to juggle the normative concerns that are part of their everyday practices much more carefully, and without the necessary institutional support and resources to which larger companies have access.

Ethics in SMEs: The State of the Art

It is with a great deal of pride that we present this edited collection of research on ethics and SMEs, with examples from every continent except Antarctica. Despite the breadth achieved, there are notable absences, particularly China and Russia, for which we were unable to secure suitable contributions. We urge future researchers to develop studies in all those cultures which we have not been able to cover, and to deepen our understanding of the cultural contexts we have been fortunate enough to include in this state of the art collection.

The contributions are presented in this volume organised as follows. In the first section, global overviews which summarise the situation in Africa, Europe, India, Latin America, New Zealand and Australia, and the United States of America are presented. These regional orientations are reflected on in more detail in the summative conclusion at the end of the book. Important to note here, however, is the similarities between the relatively developed contexts of Europe, New Zealand and Australia and the USA. Similarly, the relatively developing contexts of Africa, India and Latin America offer many analogous perspectives which distinguish them to a degree as a group as we develop in our concluding chapter. It has to be acknowledged that the broad overview provided by the papers that we were able to solicit of certain regions, such as Africa and Latin America, can hardly do justice to the diversity of issues that individual countries in each specific region face. As such, the specificity of the daily institutional challenges that SMEs in these regions confront merits much closer attention. This is the advantage of some of the European perspectives – they certainly display more contextual specificity. Much, though not all of the work reported on in the first section of the book summarises previous research rather than presenting new research. The intention of this first section is, for the first time, to give a global overview of research on ethics in SMEs.

In the second section, which we reflect on for the remainder of this chapter, are reports on original research projects from the regions. A wide range of approaches

have been taken in these papers, which we reflect in the structure of the book. This section is divided into theoretical contributions, country by country empirical contributions and a section on case examples. This variety of approaches illuminates a wide range of aspects of ethics and SME research. All the papers draw variously on ethics, social responsibility, sustainability, entrepreneurship and SME concepts, adding further to the variety and richness. We have not sought to narrow the definitions of these concepts and prefer to seek to overcome disciplinary silos which have traditionally hampered this topic, by taking an inclusive approach to work in the same broad area.

Developing Theory and Concepts

The majority of published work on ethics and SMEs has been empirical in nature to date. There is a clear need for rigorous theoretical models and conceptual clarification, which we hope some of the papers in this volume will address. For instance, in gathering the papers for the global overview section of this paper, it became evident that the relationship between entrepreneurship and SMEs' corporate social responsibility activities has not been adequately conceptualized. The paper by Blundel, Spence and Zerbinati offers a theoretical contribution towards clarifying this relationship and conceptualizing what is happening in practice. The authors cultivate the concept of Entrepreneurial Social Responsibility by bringing together the process of entrepreneurship and corporate social responsibility. Distinctively, they develop a *dynamic* approach to CSR, and argue that their work refocuses entrepreneurship research on quality rather than quantity of entrepreneurial activity. They also claim that the dynamic approach would be of value to the wider CSR literature on large firms.

In order to further conceptual development in the area of ethics in SMEs, one needs to grapple with the relationship between the everyday practices of SMEs and the concepts and business jargon that has been developed within the larger business environment. Such concepts include 'strategy', 'total quality management', 'environmental management', 'health and safety practices', 'ethics management', 'participative management', 'governance' etc. Bürgi's work draws on longitudinal research from Germany and Switzerland and highlights the lack of strategic orientation of SMEs. Bürgi develops a model which combines total quality management with morality and environmental perspectives to develop a concept specifically for SMEs. He paints a picture of SMEs 'characterised by transparency, integration, participation and empowerment of people, a holistic vision with comprehensive strategies and (moral) responsibility towards the customers, suppliers, employees, neighbours, society and physical environment'.

Notwithstanding the difficulty of dealing with this heterogeneous group so collectively, some might consider this a view of SMEs through rose tinted-spectacles. Indeed, the chapters in this book do offer a generally positive view of SMEs in terms of business ethics. The work making these claims is based on sound empirical research, yet the finding is still countered by assumptions of poor ethical practices

in SMEs, highlighted by sweat shops and poorly regulated working conditions. Our book is a contribution to elucidating this conundrum more clearly, though we do not claim to have any definitive answers to the question: are SMEs ethical?

Strengthening Empirical Research

The region most comprehensively covered by empirical research papers in this edited collection is Europe. This is perhaps unsurprising given the headway made in research on ethics and SMEs in this continent as noted in the European review chapter by Spence and Perrini. A distinctive French flavour is provided to Section two in the chapter on SMEs in Brittany by Hudson and Roloff. They note the important link to sustainable development and explore *how* SMEs implement CSR and what factors influence this practice. Their research, on 72 SMEs, finds that the natural environment dominates the respondents' perspective on CSR, and the government policy influences SMEs through multiple mechanisms in this area. What this paper allows us to see is the influence that government initiatives, policy directives and specific contextual concerns have on how ethical imperatives emerge within the SME environment.

Strategy is a key element of the individual research projects presented here, particularly in the chapters by Klein and Verbohle, Itturioz et al. and Santos.

Klein and Verbohle do empirical work on the functioning of SMEs in Germany. In fact their findings are of more general interest, since it reiterates the fact that in the case of SMEs, their more immediate everyday relationships define the way in which they view their ethical responsibilities. This paper reinforces earlier work in the UK which suggests that employees are the key stakeholders for SMEs (Spence 2000). The authors note the local nature of socially responsible activities and the lack of strategic planning. They go on to suggest that strategic planning and use of CSR as part of external communications are important approaches for SMEs to adopt. This is an interesting point and important – there is little empirical doubt that SMEs are engaged in CSR, but should they be using it – in the way that large firms do – to seek to bolster competitiveness? While there is nothing necessarily wrong with so doing, there is an element here of seeking to impose large firm approaches on SMEs. If, as Klein and Verbohle suggest, CSR approaches in SMEs are more internally driven and 'out of conviction', this could be seriously undermined by taking a formalised approach. There may be more financial gain in so doing, but we know that SMEs are not primarily – or at least only – driven by economic considerations. Underlying this discussion there are many further interesting research questions to investigate.

The strategic approach to social responsibility and its relationship to business value is the specific focus of the paper by Itturioz et al. They complete quantitative empirical work in a province of Spain to find that social responsibility intensity increases with firm size, that innovative and quality-aware firms are more orientated to social responsibility and that the greater the strategic alignment of socially responsible activity, the greater the resultant business value achieved. In 'large firm'

speak this means that in SMEs at least, there is a positive relationship between CSR and financial performance. This *highly* contested area warrants further research but it could be that large firms could learn something from the SME approach. An important insight that this volume puts forward is that CSR is not necessarily pursued with the deliberate strategic intention to enhance financial performance, but rather as an essential part of any business activity. This may bring us to consider whether we are in fact asking the right question when we pose the question 'Does CSR pay?' SMEs may bring us to ask the more radical and certainly more ethical question: 'How do we want to live?' and therefore 'Why are we in business in the first place?' Often their motivation centres on working with family, having more autonomy, flexibility and private time, meeting local needs, all of which makes the financial performance aspect only one amongst many variables, albeit an important one.

Klein and Verbohle also stress the locally based nature of socially responsible initiatives by SMEs. This local perspective is reflected across all of the chapters and is implicitly if not explicitly the case with SMEs. The one exception to this was in the research presented by Santos. The chapter by Santos offers a contrast to much of the findings presented here on SMEs and CSR. She finds from a sample of Portuguese firms that CSR is adopted out of a logic of obligation derived from the law or the market. SMEs were found to be aware of CSR and to respond to it informally but consciously. This may run counter to other research findings, which indicate a range of other localized motivations for ethics within SMEs. Furthermore, CSR in SMEs was found to be little influenced by sector, which again is in conflict to other research as noted in practice by van Luijk and Vlaming in this volume (see also Moore and Spence, 2006). What the Portuguese study does confirm however, is the fact that SMEs are very much influenced by their local context, in this case, their legal context and local policy frameworks. The sense of obligation derived from the law, and the strong inclination to meet those obligations, have to be acknowledged as socially constructed. We must develop sensitivity towards the unique challenges faced by SMEs operating within certain policy environments. In the case of Portuguese SMEs, policies certainly seem to have influenced their perspectives substantially. Alternatively the fact that the sample excluded micro firms – those with fewer than 10 employees could explain their unusual perspective. Either way, the groundswell of empirical work on SMEs and ethics remains insufficient to allow us to assume that there are common patterns to observe irrespective of context.

This contextual importance is further emphasised by the chapter by Bevan and Wynne from the Asian contexts of Thailand and Hong Kong. They adopt the bricolage approach which emphasises rich description and analysis, allowing the reader to interpret the data for themselves. The focus is on a relatively small sample of Hong Kong and Thailand SME owner-managers, who take a critical and sometimes surprising approach to business ethics. With a robust critique of classic Western 'large firm' models, the authors allow the data to tell its own story with some exciting nuggets of transcribed dialogue. Given the approach taken it would be inappropriate to interpret the data on Bevan and Wynne's behalf here, but the book is the richer for their Asian contribution.

Case Examples

It is important that research on ethics and SMEs is not limited to multiple research samples (qualitative or quantitative), and takes in other perspectives such as inter-organizational relationships, policy activities and deep research on single case examples. On a macro-level, the importance of policy development and supporting institutions is again reiterated in the individual research papers. On an inter-organizational level, the unique challenges that SMEs face in terms of supply chain relationships allow us a glimpse of how their issues differ from that of larger companies. In addition, micro-level case analyses provide the rich data that give our broader theoretical constructs texture and depth. We are pleased to include instances of these in our collection.

The work of a Dutch multi-stakeholder body on CSR and its actions in seeking to influence business practice is the focus of the chapter by van Luijk and Vlaming. They note the development of an institutional approach. The policy perspective presented in this paper is reflective in nature rather than reporting on academic research, and adds helpfully to our volume of chapters as a result. The experiences discussed in the paper promote working with business intermediaries to influence the activities of SMEs. It is clear that these kinds of institutional and policy initiatives play a very important role in developed countries, and are mostly absent in developing countries. The need for supporting institutions becomes eminently clear in the research done in Africa, India and elsewhere in the developing world. Here again however, it is crucial to take the context within which SMEs operate into account. In some cases, strong policy directives can play a very valuable role in enhancing ethics within SMEs, but in other contexts, especially in developing countries, policies that are too strict or too costly because they were developed with large companies in mind, could in fact have a harmful effect.

One area of ethics and SME research which has received some attention from a variety of perspectives is in the supply chain. This may be due to the fact that supply chain relationships have always been an important focus-area within the broader business ethics literature. It is also clear that supply-chain relationships link the concerns of larger companies with those of smaller companies, and hence, always merited close attention within the broader business ethics environment. The well known cases of Nike and Gap at the end of the 1990s, and the well-publicised poor working conditions in their developing country suppliers began the public and scholarly interest in this area. However, the question that must be posed is whether these analyses paid sufficient attention to the perspectives of SMEs. Recently the position and influence of SMEs in the supply chain has been more systematically studied, and the paper by Ciliberti, Pierpaolo and Scozzi pulls the literature together impressively. They focus on corporate social responsibility and SMEs in the supply chain, taking in smaller firms as both customers and suppliers. Much remains to be done in the area of ethics management and CSR within supply chains. The question that haunts many of these analyses, even the perspectives presented here, is whether larger firms abdicate their own ethical responsibilities by passing ethics management and CSR requirements on to smaller firms within their supply chain, many

of which have fewer resources to meet the demands. Some evidence to this effect already emerged from the papers originating from developing countries within the global overview section, and merits further investigation. It should be noted that the paper by Itturioz et al. also offers a good summative literature review on critical issues in SME social responsibility.

The work by Pivetta offers a different perspective from the other chapters on several levels. The chapter is primarily a case study over several generations of a family farm business in Argentina from 1870 right up until the present day. In addition, the pivotal characters in the business are women, and the business set in the context of an enterprise culture based on immigration. Such rich case studies offer us a level of detail and context that is rarely found in SME and ethics research and which it would be highly valuable to have more of. The developing country context is a further informative element of the Pivetta article.

It is worthy of note that a stated purpose of this volume was to bring together developing and developed country research on ethics and SMEs. We acknowledge that our success in doing this is limited – the global overviews are balanced appropriately, but the individual research papers weighted heavily to Europe particularly. It may be that this is because of the reasonably well established research tradition on ethics and SMEs in this region, but there is certainly relevant research that we were unable to access, perhaps because of language barriers or self-selection not to submit to an international volume, or inadequacies in our mechanisms for accessing interested authors. We are glad, however, to have made some progress in bringing developing country research to an international volume and audience, but note strongly the need for much, much more research from developing country contexts on ethics and SMEs in order to give a more balanced global picture.

We will never understand ethics in SMEs by looking at large firms, and we will never have a global overview without actively engaging with developing country perspectives. We present to you 16 further chapters which we believe do not fall into these traps. In the process, we hope to offer you a combination of empirical and theoretical perspectives that challenge us to take the lessons SMEs teach us seriously. We are confident that they offer a new and valuable perspective to the business ethics and CSR fields, without which we will not be able to address the serious ethical challenges that confront us globally.

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Part I
Global Overviews

Chapter 2
Africa: Ethics and Sustainability Within SMEs in Sub-Saharan Africa: Enabling, Constraining and Contaminating Relationships

Mollie Painter-Morland and Kris Dobie

Introduction

Small and medium sized enterprises (SMEs) have been described as the engine of many economies in the developing world. In fact, one can even say that they are crucial in sustaining economies worldwide. Fox (2005) reports that on average, SMEs represent over 90% of enterprises and account for 50–60% of employment at a national level. Some of the respondents in this study put this figure closer to 80% or even 90% in some African countries. Kenya's Economic Recovery Strategy, for example, is based on the assumption that 88% of new jobs would be created by SMEs (Tarus et al., 2007). The Industrial Development Corporation estimates that 80% of new job opportunities in South Africa are in SMEs (IDC, 2003).

It is clear that these businesses that emerge in response to community needs, and in an attempt to secure the livelihood of their owners, are the lifeblood of many in Africa. To use a metaphor central to the African context, the flow of goods and services seem to be life-giving water that in many respects brings relief to a parched land. However, without proper care and constraint this water could also end up being a carrier of disease, detrimental to the health of those who consume it. The flow could equally easily become a quick flood with few short-term gains but many long-term costs. Or even worse, it could remain a few trickles that dissipate in the parched land long before it could have much positive effect.

SMEs are facing many ethical challenges that seriously compromise the contributions they could make to the long-term economic well-being of their communities. This paper is an exploratory study aimed at getting a better understanding of ethical

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The majority of African SMEs seem to fall in the smaller end of the spectrum, which includes businesses with fewer than ten employees. These are often referred to as 'Micro enterprises', but form a definite part of this study.

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issues and practices in African SMEs and the impacts of these on the SMEs, their stakeholders, and their sustainability. We looked specifically at the role that relationships between SMEs and their stakeholders play in enabling or foreclosing the possibility of ethical business practices.

We gathered our data primarily through a series of qualitative interviews with intermediaries dealing with SMEs. From our analysis of these interviews we highlight certain themes and assess them from a perspective focusing on relationships with various role-players and stakeholders. Finally we proceed to relate our findings to available literature on ethics within the context of African SMEs in order to see if there is support for some of our theoretical propositions.

Methodology

The qualitative empirical part of the study sought responses to a series of open-ended questions from respondents dealing with, or representing SMEs in sub-Saharan African countries. Since focusing solely on SMEs would inevitably lead to a small sample in proportion to the total population we decided to widen the representation of our study by focusing our attention predominantly on intermediary organisations who deal extensively with SMEs through development or support projects. The thinking was that these organisations would be aware of the realities in a number of SMEs and would have concern for their sustainability. The final representation of respondents ended up being reflective of the distribution and availability of these organisations. (See Appendix 1 for information on respondent distribution.)

The data was gathered by means of telephonic interviews and electronic surveys. Twenty-one respondents were from intermediary organisations, while five respondents were themselves owners or operators of SMEs. The intermediary organisations included chambers of commerce and other business associations, microfinance or development NGOs, as well as private enterprises that focus on SME development by providing finance and technical support. Even though the majority of respondents were from intermediary organisations, we were still conscious of the need to get an African perspective. Of all the respondents only one was non-African.

Although we recognise that sub-Saharan Africa is by no means a homogenous region, we do not have enough data to view each country in isolation. It was clear from the interviews that some economies are more developed than others and therefore have different issues. However, we reflect on the issues that emerge strongly from all our data by focusing on the similarities rather than the differences.

Our interest was in how respondents viewed ethics within the SME environment, how they talked about the causal factors of unethical/ethical business practices, and what they believed is necessary in terms of building more sustainable SMEs (see attached questionnaires – Appendices 2 and 3).

We took an inductive approach in the data analysis by identifying recurrent concerns, or insights, which allowed us to see certain concepts/themes emerge

as salient. The recurring themes/concepts were labelled and then placed within categories that could bring us towards a theoretical framework.

The researchers were not experts in the field of SMEs, but rather ethicists whose academic background and practical experience were in Business Ethics and Corruption Prevention. What should however not be denied, is that as authors of this paper, we approached the data from our own background, philosophical predispositions and experience as ethics practitioners. We were certainly not 'blank slates'.

In this sense we made use of what Bowen (2006) refers to as 'sensitizing concepts'. These are broad concepts which inform or guide the empirical research (Bowen 2006:2–3). Sensitising concepts 'give the user a general sense of reference and guidance in approaching empirical instances. Whereas definitive concepts provide prescriptions of what to see, sensitising concepts merely suggest directions along which to look' (Bowen 2006:3). We have used 'relationships' as a sensitising concept for our study.

Ethics is always concerned with the good, the self and the other (Rossouw, 2002), and as such, it has relationships between individuals, groups, and organisations as its basis. The development of stakeholder theory 25 years ago formalised the relational dynamic that lies at the heart of business ethics theory (Freeman, 1984). Since then, much has been written on the nature of these stakeholder relationships (Dunham et al., 2006). Research into the relational dynamics within business however go beyond stakeholder theory, extending to descriptions of organisations as complex adaptive systems within which multiple agents engage in intricate, multi-linear relationships (Painter-Morland, 2007). Actions of these agents in organisations are explained and analysed by means of actor network theory (Pouloudi et al., 2004; Usher, 2006), or in other cases, described as the functioning of 'social capital' (Helg, 2007). Some other authors describe the relational dynamics in reference to philosophical approaches such as Communitarianism (MacIntyre, 1988) or gender discourses that invoke the importance of an ethics of care (Koehn, 1998). The emphasis on relationship in the business ethics literature clearly influenced the way in which we saw themes emerging through the data. We have therefore opted to view the data through a relational lens.

We found that relationships could enable sustainable business practices, constrain unethical behaviour, or in other cases, contaminate the business environment to such an extent that ethical behaviour becomes impossible. Enabling, constraining and contaminating relationships are part and parcel of normal business practice, while conditioning relationships can be seen as interventions, which could be part of normal business relationships, but could also exist in the social realm.

These emergent themes and theories should therefore not be interpreted as 'facts' about SMEs, but should rather be seen as indicative of the kind of theoretical proposals that could emerge in a conversation between ethicists and practitioners operating in the SME environment. Although the sample size is insufficient to make conclusive findings, we believe that – for our exploratory purposes – the themes which emerged are indicative of SMEs' experiences.

Patterns Emerging from the Data

The following gives an overview of the responses to our study.

When asked to define 'ethics', respondents' answers ranged from individual and societal expectations around proper behaviour, to the more formalised notions of conformance to rules and proper accounting practices. Respondents defined ethics as a concern for the values operative in society, rules of behaviour that aim at sustenance/sustainability of the business, or codes of conduct towards various stakeholders. Values, or virtues mentioned were: honesty, consistency, commitment, care, fairness, openness and transparency. Some of the participants specifically identify the building of linkages to the community, the environment and employees as central to what ethics means. A particularly lucid definition offered by one participant is that ethics: 'is a stance of responsibility and responsiveness in doing business to worthy causes in the areas of humanity (including workers, clients), community, environment and government . . .'. This definition perfectly captures the relational dynamic in the SME environment that we will elaborate on in the next section. From the above we distilled *'being true' to both societal values and to formal rules of practice* as a central category.

When asked about the impact of SMEs in society nearly all respondents' answers focused on the positive impact, predominantly in job creation. Many also perceive SMEs to be the 'engine of the economy'. SMEs play a role in meeting the needs of their country, community, and closer circle of family and dependents. This includes creating jobs, distributing goods and services to areas or people that would otherwise not have access to them, creating a market for small suppliers, decreasing the dependence on imported goods and working against monopolisation. SMEs also create significant income for the government and incentivise further entrepreneurship. One participant even attributed the 'overall economic and social improvement of society' to SMEs.

One could say that SMEs emerge as a response to personal or community need in the absence of other opportunities of formal employment, or other access to goods and services. Since adversity is the mother of invention, those in need of a livelihood find ways to sustain life. In more theoretical terms, this brings us to recognise that sustainability could be positioned at the very heart of SME activity. It is a response to the *desire to sustain* lives, families, communities and countries. In this sense, sustainability concerns go far beyond the sustainability rhetoric employed by some larger corporations in the first world. Building a sustainable business model can be viewed as an integral part of all SME activity in Africa, not some add-on standard that should be imposed to constrain 'business as usual'.

This closeness to community need is also reflected in the answers relating to SMEs' social responsibility projects. Some SMEs are involved in activities that play an important role in supporting their immediate communities. This ranges from supporting schools and the aged, or even providing community infrastructure such as water wells. These activities are mostly undertaken by individual businesses (un-coordinated) and are not as 'hyped' as corporate CSR projects. African SMEs are in

a much closer relationship with their communities, and the reciprocal sustainability impacts are more pronounced than might be the case in their first world counterparts.

However, the dark flipside of this responsiveness to need is the fact that many SMEs might be operating according to what Rossouw (2002:41) has described as 'survival morality', which by definition is concerned with 'bread first, morals later'. The argument is that many SMEs, or at least those in early stages of development, are so concerned with surviving that ethics will be compromised if there is any business advantage to be had. This is reflected in the responses. Business pressure, and sometimes pressure from an unethical environment, leads companies to 'cut corners', reduce product quality, and over-promise or over-commit, which eventually impacts negatively on the sustainability of these operations.

When asked about their understanding of the notion of 'ethics in SMEs', the theme that emerged most strongly related to 'honesty', 'straight dealing' and 'not cheating'. This was often strongly linked to the second most prominent theme, which referred to governance issues such as proper accounting, auditing and honest tax paying. After these, labour issues were most salient as many references were made to 'how they treat their staff'. Another strong theme was the issue of fairness in how SMEs treat the community and clients.

These themes were repeated when respondents were asked about 'important ethical problems or issues for SMEs'. Responses related to administrative dishonesty and to labour issues. Under *administrative dishonesty* we have grouped issues such as corruption, tax avoidance, misrepresentation in audits, and ignoring licensing procedures. These issues relate predominantly to relationships with government institutions, although investors increasingly have an interest in administrative honesty. The *labour* issues centred predominantly on fair wages and the treatment of staff. The latter includes disrespect for staff, as well as poor working conditions. Other labour issues included employing under-aged workers, not allowing freedom of association, not providing proper benefits or job security, and indulging in tribalism. A third, less prominent theme around ethical concerns related to the quality of goods and services. These include: over-pricing, misrepresentation in terms of product quality, and selling pirated goods. These are typical issues in survival mode, short-term focused businesses.[1]

When asked about factors that make ethics difficult many of the responses indicated that unethical behaviour is often the reaction to an environment in which unethical business practices are widespread. The existence of systemic corruption in the broader environment in which SMEs operate was consistently highlighted as one of the most serious challenges they face. The most prominent factor that was mentioned was corruption in interactions with government. SMEs necessarily have to interact with government agents (especially for licensing and taxation) and due to the inequality in power and resources, they have little or no bargaining power, or voice, in these relationships. Businesses that are not operated with administrative honesty are even more vulnerable to such extortion. In many countries this includes a large proportion of unregistered small businesses that operate outside of the formal economy. Competing with unethical competitors was also mentioned as

a central concern. This led us to conclude that many SMEs operate within a context of *contaminating relationships*, where the pressures to go along with unethical practices are very strong and positive peer-pressure is rare. Many respondents indicated a dire need for more awareness around ethics issues in business in general, but among SMEs in particular. Of specific concern is the shortage of positive stories and role-models.

The lack of quality controls, delays, and inconsistency in pricing are inevitable side-effects of SMEs emerging in such an environment. Respondents indicated that there are very few laws, local or otherwise, that constrain activities in the SME arena. Where there are basic standards, these standards cannot be enforced. In most cases, the owners of SMEs are not aware of these ethical standards, or they lack the basic business skills to implement them properly. The need to develop standards and monitoring systems is mentioned by some respondents, but others mention that burdensome government regulation tends to undermine ethics, rather than aid the promoting thereof. This desire for guidance and legal parameters, coupled with an aversion towards an overregulated environment, presents us with the paradox of the SME environment. Where the business environment is over-regulated, SMEs cannot afford the compliance measures that need to be put in place and therefore cannot survive. Multiple taxation was also raised as an issue that puts SMEs under the kind of competitive pressure that fosters dishonesty.

Respondents indicated that many of the ethical problems have a direct impact on the sustainability of businesses. They indicated that the following factors hinder long-term business relationships: poor quality products, short-term thinking (survival mode), lack of business experience or management skills, and inconsistent delivery from suppliers (sometimes related to infrastructural difficulties). On the positive side, honesty, reliability and professionalism amongst small business owners were identified as factors that facilitate long-term business relationships. All of these factors mentioned impact on the ability of SMEs to be *trusted* business partners. They include ethical and non-ethical issues. In relation to the most prominent ethical issues there is a definite correlation between sustainability and 'being straight in business'. The non-ethical issues relate particularly to management and other technical skills, as well as inconsistencies from suppliers.

The background and character of the business owner or manager, and their commitment to integrity and sound business practices, were repeatedly singled out as the crucial determinant of an SME's approach to ethical business practices. Education and a broader exposure to business practices (in larger centres or other countries) were some of the main determinants mentioned, followed by religion, socio-economic and family background. The power of a single individual to set the tone from the top could however have negative consequences when there is a lack of such ethical leadership. When organisational control is centralised within a single individual (CEO), a single family, or a few powerful politicians, it tends to breed ethical problems like conflicts of interest, nepotism and favouritism, and also undermines the crucial checks and balances on which organisational fairness normally relies.

The factors that participants identified as central in establishing a culture of ethics include: encouraging competition, developing strong reputations and nurturing long-term relationships with clients, encouraging freedom of association of employees, and less political interference. Participants indicated the need for protection against unethical individuals, unethical competitors and corrupt politicians. All of these factors have to do with the relational dynamics within which SMEs operate. What makes business relationships *enabling,* seems to be the way in which it facilitates and sustains *long-term* business relations. Participants identify reputation, trust, loyalty, consistency and punctuality, which in itself could signal fairness and respect. Both trust and respect are central to sustainability. Respondents made multiple references to the relationships between ethics (specifically *being straight in business*), a concern for *long-term relationships* and sustainable business practices.

It is clear that these more long-term concerns do not seem to figure as strongly as they should in the relational dynamics in which SMEs find themselves. It seems that SMEs find themselves in contaminating or debilitating relationships, which often overshadow the enabling relationships with stakeholders that could support the propensity towards ethical responsiveness amongst SMEs. Also, there seems to be a great need for strengthening certain constraints that could guide the relationship between SMEs and their stakeholders and develop the conditions of trust and respect that are central sustainability imperatives.

Theoretical Propositions

Enabling Relationships

The most positive contributions that SMEs make to their communities is described in terms of their ability to create jobs, opportunities, and to stimulate growth in areas where there would otherwise not be much economic activity. SMEs provide markets for local products, and bring products and services to areas without easy access to these. The most enabling relationship that SMEs therefore have is with the communities in which they operate. However, SMEs can only sustain these relationships if they can sustain their businesses. We shall see (below) that these relationships could potentially also operate as conditioning constraints, but for the purpose of this section, we will focus on the way in which building long-term relationships with immediate stakeholders in the community could potentially assist SMEs in weathering the storms of a turbulent business environment and building ethical, sustainable businesses.

The most important ethical relationships in terms of business sustainability are with customers and suppliers. These relationships have to do with trust and predictability. It is as important to *be* a trusted business partner as it is to *have* trusted business partners. Respondents seem to believe that building such a trusted enterprise is inextricably linked to also being administratively honest. Truly sustainable enterprises cannot only be honest in trade relationships, they also have to be honest in the internal administration, or governance of their enterprises. There is also

an indication that being a trusted business partner is intricately linked with good management skills. One of the easiest ways that SMEs break down their trust relationships is by over-committing where they don't have either the skills or the resources to deliver. As one respondent put it: 'SMEs tend to see the money first, then their capacities . . .'.

Creating feedback loops from customers, local suppliers, and local community organisations, can alert SME owners to new customer needs. Feedback loops can make SME owners aware of factors that may impact on customer buying power and concerns that customers and community members may have about the products, services or externalities of an SMEs business activity. Responsiveness to various stakeholders seems to be one of the most important aspects of sustaining those enabling relationships that make the difference between business success and failure. It is the concern for nurturing long-term relationships with these various stakeholders that provides the most important impetus for consistent ethical business behaviour within SMEs.

SMEs contribute significantly to employment. Labour is however in most cases readily available due to large numbers of unemployed people in developing countries. In some instances SMEs are seen to provide employment for people who cannot be employed by government or large corporates. SMEs therefore often view employees as a dispensable and replaceable resource. However, staff turnover costs, such as the loss of skills and the time and productivity lost in retraining new staff, must be brought to the attention of SME owners. Furthermore, positive workplace conditions enhance motivation and productivity and minimise sick days and other occupational health and safety concerns. Labour unions play an insignificant role in SME employment relationships, and there is significant scope for strengthening these. It should also be obvious that a better educated workforce will have more options and will be more aware of their rights.

Constraining/Conditioning Relationships

The question of how unethical behaviour can be constrained, or in more positive terms, how ethical behaviour can be conditioned, remains one of the most important dilemmas in the SME environment. There is clearly a need for standard setting, quality control and the development of sound governance processes. However, respondents describe over regulation within the SME environment as counter productive. Alternatives that may be explored relate to constraints which could emerge out of the interactions that SMEs have with each other as well as their concern for long-term relationships with customers, employees, supply chains, government and the local community.

The question that emerges is whether it is possible to enhance the mechanisms and support structures for self-regulation within the SME environment. Such self-regulation most often takes place in formal business networks. The approach here is to argue for reciprocal relational constraints amongst the players within the SME environment. For example, the Association of Ghana Industries has played a major role in the development of the Ghana Business Code. Through this initiative SMEs

voluntarily hold themselves and each other to certain standards. Besides raising awareness of the need for sound governance and ethical practices, it also provides SMEs with a stronger power-base when interacting with possible corrupting government players. One respondent indicated that the Nigerian National Association for Small and Medium Enterprises intervenes on behalf of businesses when corrupt officials are persistent. Such initiatives can only transpire where there are opportunities for SMEs to meet and discuss their most urgent needs and communicate their respective expectations of one another. It also requires significant moral will, and resources to capacitate the network to play an independent role. A number of examples of such networks exist throughout Africa.

Another important aspect of this peer-to-peer interaction is the sharing of those success stories where a commitment to ethics shows long-term positive results. The challenge is for SMEs to find the time and resources for these events. Furthermore, it is unlikely that SMEs in developing countries could do this on their own. Institutions are needed that could seek funding, organise, and facilitate these events. Civil society and especially research and training institutions have a role to play in this. The more challenging aspect of such a proposal is that competitors within a certain industry will have the responsibility to provide checks and balances on each other and to report unethical behaviour when it occurs. Subsequently the need for whistle-blowing resources or other avenues for complaints arise. Professional associations could play a very important role in providing access to whistle-blowing resources, or setting standards for their members and providing some resources for monitoring compliance. The problem however is that many of the professional associations are often understaffed and have little control over their membership.

Customers could also play a crucial role in placing certain constraints on business practices within SMEs. There are however two important factors that need to be in place if customers are to have any material effect. These are choice amongst competitors and access to information. If the customer has no *choice* of suppliers of certain goods or services, unethical business practices cannot be punished by withholding repeat business. Furthermore, if customers don't have access to *information* about sub-standard goods, unfair pricing, or the environmental effects of unethical business practices, they cannot withhold their support on ethical grounds. Both of these factors are currently poorly developed in many African economies – hence customer pressure does not play a big role in conditioning SME behaviour. The promotion of a sound competitive environment is therefore crucial. Civil society institutions and standard-setting bodies will need to play a stronger role in gathering information and educating consumers. They can also contribute by gathering complaints and directing these to the relevant authority.

Supply chain relationships have a potential role in constraining SME behaviours. Government and large businesses can raise the bar on ethical business practices by raising the standard of ethical expectations from SMEs in their supply chain. This could relate to sound governance practices, employment practices, anti-corruption measures and quality standards for products and services. In many cases however, these players aren't committed to these standards themselves and they actually have a contaminating influence. Even when well intentioned they could develop standards that make compliance too expensive for SMEs. What seems to be crucial is that the

standards set by large business enterprises and government must simultaneously raise the bar on ethical behaviour *and* be responsive to SME needs. We will further reflect on this challenge in the last section of this paper.

Employees within the SME environment are often the most disempowered party in terms of having a voice against the unfair treatment they receive. Since many SMEs discourage or undermine workplace democracy, it is very important that employees have access to some bodies where they can make their voices heard. Many industries do have strong workers' unions which may be less organised within the SME environment. These unions should actively seek to support employees in the SME environment by recruiting members within SMEs, advising them on their rights and seeking avenues for recourse in the case of unethical treatment.

Contaminating/Debilitating Relationships

Debilitating relationships that SMEs have to deal with include relationships with their own national governments as well as with unethical businesses in their environment. The contaminating effect of SMEs' engagement with government was repeatedly mentioned by many of the respondents. Especially bribery seems to be a recurring example of unethical behaviour affecting SMEs in most of the countries we studied.[2] SMEs clearly seem to believe that they have no recourse to bodies or support structures that could assist them in maintaining their integrity in the face of extortive demands for bribes.

Such pressures on ethical conduct are exacerbated in an environment where positive role-models are in short supply. When the general business culture seems to be accepting of low ethical standards it impacts on businesses that might be struggling for survival. It is in these situations where positive peer networks are needed most.

Within the macro-economic contexts, globalisation poses threats to local markets and tends to create the kind of environments in which it is very difficult for SMEs to survive. Much research has been done on the constraints that the World Bank, IMF, international aid organisations and other international bodies place upon developing countries (see in this regard Patrick Bond's *Against Global Apartheid*, 2004). The types of preconditions placed on organisations wanting to gain access to funds or contracts serve to undermine, rather than protect SME sustainability. Ironically, some of these preconditions may be intended to raise the bar in terms of ethical standards and to provide checks and balances, but the truth is that they are not responsive to the needs of local SMEs. Instead of enhancing ethical behaviour, these constraints force SMEs to engage in deceptive practices, thereby further undermining integrity and transparency in the SME environment.

The Interaction Between Enabling, Conditioning and Contaminating Relationships

What makes the patterns emerging from this research particularly interesting is that it allows us to see the relationships between the fields of business ethics, CSR and

corruption prevention much more clearly than many theoretical studies of these disciplines allow for. Within SMEs, it becomes clear that sustainability is totally reliant on the way in which ethical relationships with various internal and external stakeholders can be fostered over time. The practical implications of the notion of 'Integrated Sustainability' mentioned in the King II Report (IoD, 2002) becomes clear when one takes into consideration that the ethical challenges SMEs face have everything to do with the fact that they operate within enabling, conditioning and contaminating relationships.

No relationship is however intrinsically good or bad. Peer networks can as easily be contaminating as constraining. Labourers and customers can be exploited or treated fairly. Clearly some form of ethical intent is necessary to build sustainable relationships. This could grow with more deliberate awareness raising and education in all forums. Intent also needs to translate into structural changes in the business landscape. Relationships with customers, the local community and employees can be enabling only insofar as there is a real stakeholder engagement model operative that gives voice to a variety of internal and external stakeholders. Constraints exist only if there is stakeholder and peer pressure and insofar as civil society organisations and networks are doing research and sharing information. Peers, competitors and professional organisations also have to be engaged in order to build in reciprocal constraints. What these relational constraints could enable, is the sharing of best practices, peer-to-peer interactions, relational checks and balances, story-telling, networking, and skills transfer opportunities. Meaningful skills transfer can only occur if networks are built across the boundaries that seem to exist between the private sector (big business *and* SMEs), government and civil society. If relationships with governments and international bodies remain contaminating and debilitating, not much will come of all the other positive initiatives.

Ethics comes down to building sustainable relations across sectors and within communities and organisations. This requires co-ordinated efforts between initiatives aimed at promoting business ethics, instilling good governance, preventing corruption, and the pursuit of broader social and economic goals in society.

Supporting Research Trends from the Literature Review

In this section, we relate the results of our research study to important trends in the literature in order to answer some of the questions originally posed, How are SMEs defined? How do SMEs view ethics? How do they view their role in society? And what is the relationship between all these ethical concerns and the sustainability of SMEs?

It seemed clear from our research that there are many different definitions operative within the SME environment in Africa. Some definitions are clearly taken over from the developed world, considering organisations with fewer than 250 employees to be SMEs.[3] Many in formal definitions were mentioned in the survey, which place African SMEs at much smaller sizes. The most prominent response was that an SME is an organisation with fewer than 100 employees and a working capital of less than $100,000. Some respondents did however mention that even these scales

were not reflective of what is on the ground. The varied definitions make it rather difficult to interpret the relevance of some of the responses we received and to test the theoretical propositions we make. For instance, though many SMEs function outside of the formal economy, there are others that, as a result of their supply chain relationships or government contracts, have to function within the compliance environment operative in the formal economy. The fact that many SMEs can get away with operating outside of these 'formal rules' changes their relationship to ethics. For them, ethics may have more to do with building the kind of trust that enables sustained business relationships without necessarily reverting to legal compliance mechanisms. For those in the formal economy ethics is more closely linked to the application of and conformance to the rules and regulations. The differences that exist amongst SMEs have lead researchers to argue that more detailed and targeted initiatives will be necessary to meet the specific needs of specific kinds of SMEs in different contexts. These initiatives must be tailored according to the priorities and objectives that SMEs and their countries have. If the focus is economic development, a different approach will be required from when the focus is social development, equity and poverty reduction (Jeppesen, 2005:472).

The differing definitions and objectives are also expressed in how SMEs view their role in society, or how terms like 'social responsibility' are understood. Helg (2007) made the important point that Western philanthropy equals business necessity in Africa. Many SMEs respond to the immediate concerns of their families and communities without formalising it as 'CSR projects' or framing it in these terms. Their role in society is described as creating jobs, bringing goods and services to those who need it etc. This brings us to the realisation that the academic distinctions used to make sense of SME activity, cannot so easily be 'read back' into their actual operations. A further mistake that is too often made is to assume that the private sector is similar all over the world. This causes Northern governments and donor agencies to apply their advice, interventions, and policy prescriptions uniformly to situations that differ significantly. It also discounts the fact that SME owners have different motivations and ambitions in starting and running their businesses. Some may be interested in growth and expansion, but others merely want to provide an economic safety net for their families at certain times of the year (Jeppesen, 2005:464–465). The dangers of using corporate models of developed countries as a benchmark to judge SMEs have been pointed out by many others (Spence & Rutherfoord, 2003). Rethinking the way in which ethics and CSR are understood in the SME environment seems to be an urgent priority.

Perrini (2006), for instance argues that research into larger firms' CSR practices typically focuses on how effectively corporations manage stakeholder demands. In the case of these large firms, stakeholder legitimacy is required for triple bottom-line success: economic prosperity, social cohesion and environmental protection. Perrini argues that these terms do not translate well to the reality of SME environments and that research on CSR in SMEs should rather be focused on social capital. Social capital focuses on the connections between individuals and depends on the existence of social networks and the norms of reciprocity and trustworthiness that arise from them (Perrini, 2006:308–309). From Helg's (2007) study into CSR in

Nigeria it seems that this holds true, but also extends to larger enterprises. The lack of pressure from consumers and civil society means that stakeholder legitimacy is not a driver of CSR in Africa (Helg, 2007:10). It would seem that what becomes an important driver is the need to give back to society in an attempt to reverse or overcome 'failures of social capital' (Helg, 2007:36). The drivers for CSR are not pressure from stakeholders, but rather aspirations to increased social capital. Spence et al. (2003) also stress the importance of social capital in the functioning of SMEs in the UK and Germany. Perrini (2006:308) cites Putnam in arguing that social networks improve the efficiency of society by facilitating co-ordinated action, and generating the norms, virtuous circles, trust, reciprocity, co-operation and collective well-being that conditions ethical behaviour. The conclusions that we drew with regard to enabling and conditioning relationships that are built on trust, underscore this perspective. Perrini provides further support for our contention that local engagement through social and civic activity can be linked to sustainability because it enables and nurtures the trust relationships upon which SME activity strongly relies.

Blundel et al. (2010) argue mainstream approaches that describe entrepreneurial activity as exclusively aimed at economic benefit need to be revisited. They also point out that alternative approaches (such as counter-cultural/critical approaches, which largely reject the profit-maximising motives of entrepreneurs, and reformist approaches which tend to argue for forms of social entrepreneurship) do not take us far enough. The conclusion that Blundel et al. come to, is that entrepreneurship should not be described in bipolar terms, i.e. as either economically motivated or socially motivated as the reality is far more complex. SMEs respond to needs, i.e. their own needs, and those of others, and the focus of their activity may shift over time according to a multitude of factors and dynamics. The needs of entrepreneurs and those they interact with and depend on go far beyond the merely financial. The success and sustainability of these businesses depend on how well these diverse needs are met over time.

What we would like to argue is that the variety of needs that SMEs typically fulfil embeds social activity within all business activity, instead of making CSR and ethical standards additional, add-on constraints to 'business-as-usual'. UNIDO's (2002:iv) research made it quite clear that CSR must be integrated into the core business strategy of organisations if it is to survive global recession or insecurity. UNIDO argues that 'CSR as a philanthropic add-on is vulnerable to cost-cutting'. The study uses the case example of Richards Bay Minerals in South Africa to argue that business-community interaction works best if it takes the form of partnerships rather than benevolence. These partnerships are aimed at skills transfer, ownership and self-sufficiency, and are planned and executed at the pace dictated by the community (UNIDO, 2002:44). This also seems to support our position that CSR practices and general business ethics and good governance initiatives are all engaged in the pursuit of sustainable business practices and should essentially be seen as part of the same process. The relational dynamic enables and conditions ethical business practices and fosters the kind of trust required for sustainability. Insofar as SMEs are responsive to social needs, they will also be able to operate

within certain ethical constraints and build the kind of long-term relationships that make sustainable businesses possible.

The importance of sustaining and furthering meaningful relationships within a business environment has been a topic of debate in business ethics for the last quarter century. In this sense, our findings continue this work by underscoring the importance of relationships between SMEs and stakeholders with 'names and faces'. In their research, Dunham et al. (2006) make a strong argument that it is the facelessness of stakeholder theory that has been its main impediment in earlier years. Particular stakeholders in a specific context have to be brought into business thinking in order for real ethical imperatives to emerge. We see proof of this in the way that SMEs enter into specific relationships with stakeholders that are central to their own sustainability. We also see that these relationships have the potential to act as ethical constraints in the absence of other regulatory mechanisms.

Actor network theory is another perspective that literature presents for making sense of our findings. Actor network theory describes the complex negotiations and trade-offs between various actors in a business context (Usher, 2006:137). These negotiations and trade-offs act as constraints that prevent unethical behaviour, but can also positively influence ethical behaviour because of the fact it creates certain tacit expectations and could allow an ethical business culture to emerge over time.

Within the business ethics literature, Aristotelian virtue ethics and Communitarianism have always provided us with a staple diet of meaningful normative approaches. It presented a way to think about how certain norms and values are created in and through everyday practices. And how certain virtues and character traits are cultivated over time. However, there has been much discussion on whether business organisations function *like* communities or *are* in fact communities (Parker, 1998:79). Though no clear consensus seems to exist, it is clear that there are many aspects in which organisations resemble community, and fulfil the function of community in the lives of those involved in it. As such, positive relationships have to be sustained, nurtured, and in some cases, contaminating relationships have to be abandoned if they have a negative effect. It is also important to state that the relationships that are operative within business environments are too complex to be described in terms of the functioning of a homogeneous community. A business should rather be seen as interacting with multiple sets of relationships in various contexts. Within these relational dynamics, a certain *ethos* emerges, but not the kind of *ethos* that could easily be explained from a Communitarian perspective. This is why it might be more sensible to understand the business environment as a complex adaptive system where multiple interactions over time could lead to a certain emergent pattern of ethical orientations (Painter-Morland, 2007).

Another question posed in view of the ISBEE conference is how ethics and sustainability may be related in the SME environment in Africa. Our research indicated that there is a very strong relationship, but that this relationship may play out in a different way than in developed economies. Much of the research on ethics and sustainability within developed economies focuses on the relationship between ethics and financial performance.[4] The terms that these studies employ do not translate so

easily to the SME environment. As indicated above, 'social' and 'ethical' performance is not viewed in exactly the same terms as what is understood by 'corporate social responsibility' and 'compliance' in developed countries. Therefore studying the relationship between 'compliance' dynamics and financial success will not make sense in the same way as it does in developing countries, at least not for those SMEs operating on the fringes of the formal economy. What is clear is that trust needs to be built to sustain business relationships, and that for different SMEs, this may mean somewhat different things. In Africa, this trust may be procured in ways that are slightly different from those in other parts of the world.

Fafchamps (1999) argues that market exchange (i.e. trade) is the most prominent form of resource allocation in Africa. However, small transaction sizes and the fact that legal enforcement of contracts is unlikely mean that businesses have to find ways of sourcing trusted business partners to enter into such exchange relationships. This is mostly done through long-term trade relationships and business networks where information of other trusted business partners is shared. Instead of contract-based reciprocity, African markets involve individuals who form relationships and networks to deal with transaction costs. Fafchamps quotes Granoveter who says: '... markets are embedded in webs of social relationships that help shape them'.[5] Referral systems play an important role in this system. It is not necessary to know a person to do business with them, as information is typically shared by a common acquaintance who provides a recommendation. Socialisation at weddings, funerals, sports events, religious activities and business conferences are also indicated as an integral part of business (Fafchamps, 1999:7). Networks are central and because of this, the more connected entrepreneurs are more likely to succeed and promote their own network of associates.

Welter and Kautonen (2005) argue that networks built on personal trust, as is described by Fafchamps, have their limitations. While personal networks play a large role during the start-up of a business, it could inhibit growth if the required resources or skills are not available within the network. To overcome this constraint, the presence of collective and institutional trust is necessary. Collective trust (trusting people whom you do not know through your network) might partially be provided through referrals in the expanded business network. Institutional trust, which is strongly linked to trust in legal and regulatory environment in a region or country, would mean that one could more easily engage in business dealings with people who are unknown and un-referred. Fafchamps argues that because institutional trust is low in Africa, SMEs are more reliant on networks of personal trust.

The downside is, however, that such networks often go hand in hand with cronyism and tribalism. Small groups of business owners tend to capitalise on this advantage instead of creating broad-based opportunity. Fafchamps (1999:9) however warns against stigmatising this form of networking and highlights the advantages, such as better exchange of information within the group, easier monitoring of compliance with obligations, extra sanctions for deviant behaviour etc.

In her book *It's our turn to eat: The story of a Kenyan whistleblower*, Michela Wrong (2008) sketches a picture of the negative consequences of tribal networks. She illustrates how the protectionism resulting from tribal networks easily spills over into large-scale corruption in government. She even links this internal protectionism to the violence which erupted in Kenya after their disputed 2007 election results.

Further research is required to determine how to deal with the negative effects of cronyism and tribalism, such as the way in which it undermines equal opportunity, whilst maintaining some of the benefits of network trust. A possible research project can be a comparison between the extent of nepotism in formal networks (with explicit ethical codes) as opposed to informal networks.

The question of how the ethical bar can be raised through other forms of business interaction is an area that a number of researchers have covered in more depth. As such, it provides support for our contention that checks-and-balances can be created within the supply-chain relationships that are part of the normal course of business, although one has to remain aware of the downsides of these kinds of mechanisms. Fox (2005) indicates the importance of maintaining sustainable supply chain relationships as a mechanism in improving ethical business practices within the SME environment. The establishment of a variety of 'business linkages' that facilitate the transfer of assets and skills is also indicated as crucial in the success of SMEs. Raynard et al. (2002) acknowledge the role that Trans-National Corporations (TNCs) can play in developing CSR in developing countries' SMEs through their supply chain relationships. At the same time they warn that expensive certification and monitoring required by TNCs can provide barriers for SMEs attempting to enter developed markets. In fact, the rhetoric of seeking the 'moral high-ground' in terms of labour standards may in some cases be a convenient ruse that TNCs employ to pass on the costs for monitoring and auditing CSR standards to their supply chain, who can often not afford this additional burden. This in fact increases poverty instead of advancing sustainable development. The problem with these standards also include the fact that they typically reflect the prevailing technologies and best practices of the countries in which they were developed and are not suited to the SME context in developing countries (UNIDO, 2002:49).

Before one even gets to the trade barriers that can be imposed by TNCs through expensive certification processes, there are other more tangible trade barriers that are not artificially imposed, but relate simply to the ability of African SMEs to be trusted suppliers. International companies will have the same problems in identifying trusted business partners as local African businesses do. 't Hooft (2006) discusses a case where a large European retailer entered into a development project with suppliers in Ghana. The major difficulties identified by the retailer in sourcing business partners reflect those issues raised by participants in our study. This related predominantly to getting continuity in terms of the timely delivery of quality products, in other words, those ingredients necessary for trusted trade relationships. The retailer had the resources to develop the capacity of Ghanaian enterprises to achieve higher standards. African SMEs will need to focus on these issues internally, not

only to enter international markets, but also to sustain local relationships. TNCs can (as part of their international CSR outreach) assist enterprises in achieving these standards, thereby strengthening positive role-modelling in developing countries. This more constructive (enabling and conditioning) relationship between TNCs and African SMEs points to a possible alternative – CSR by trade rather than CSR by exclusion. Some standards and best practices will always be a part of such relationships, but it is important that these be developed with sensitivity to the constraints that SMEs face.

A debilitating relationship that needs to be addressed is the one with government institutions. Macculloch (2001:10) mentions that in 1996 'a firm in Tanzania could expect to submit 89 filings per year compared to 21 in Ghana, 29 in Namibia and 48 in Uganda.' While some respondents (particularly those from Tanzania) indicated that the situation has improved significantly, it is worth reflecting on both the number of opportunities for rent seeking (bribery), as well as the administrative burden that SMEs face in such an environment. Macculloch argues that such a regulatory system creates a disincentive for SMEs to grow and join the formal economy. The more formalised they are, the higher their regulatory burden. Many of the debilitating relationship issues that were indicated by respondents have their origin in these issues.

Conclusions and Further Research Questions

Our research has brought us to recognise the role that enabling, conditioning and contaminating relationships play in the functioning of SMEs. These relationships influence how these SMEs view and respond to ethical challenges and live out their social responsibility. Many of the relationships that could potentially be very enabling, as well as conditioning, are currently in their infancy. The need for peer-to-peer sharing of success stories, skills transfer and mutual support structures seems to underscore the importance of strengthening more formal business networks. However, more informal social and civic networks are equally important in creating the social capital and trust environments that SMEs need to be sustainable. Our literature review provided further support for the development of a unique approach to ethics in SMEs within Africa. We argued for the need of relational constraints and multi-stakeholder checks and balances that condition ethical behaviour. We have also found that certain relationships are distinctly contaminating, especially with regards to corruption. A stronger relational bulwark against this kind of contamination is necessary.

Many questions however still remain that will require further research. It has become clear that there are many differences amongst SMEs and that understanding their social role and ethical behaviour depends very strongly on how they view their purpose, what their specific needs are, and what they can afford. For instance, it will be important to distinguish between SMEs of a slightly larger size, operating in the formal economy and the multitude of micro enterprises that function outside of it. A one-size-fits-all approach will certainly not work.

This also raises the question as to how TNCs should approach CSR standards and best practices in their interaction with SMEs. Though TNCs can play a role in raising the bar on ethical practices in SMEs, there is a need to be responsive to the constraints SMEs face. Developing an inclusive process by which standard approaches, models and best practices can be rethought in co-operation and consultation with SMEs in various contexts is long overdue.

Acknowledging the important differences between and within SMEs in Africa also allows us to view CSR and ethical business practices in a different way. SMEs can be socially responsive in ways that do not conform to typical CSR models, and show a concern for 'straight-dealing' that cannot be measured in terms of typical compliance mechanisms. In fact, SMEs may be equally concerned with internal and external trust relationships, hence rendering the dichotomy between CSR and everyday ethical business practices void. To what extent this happens in practice, however requires further research.

Another interesting area of research is to determine how the positive peer-to-peer interactions and networking practices that we have been arguing for are to be distinguished from unbridled nepotism that undermines equal opportunity and leads to discrimination against new entrants. Relational dynamics can certainly also become problematic if it undermines fairness and sound fiscal discipline. It seems as if various sets of relational counter-balances will be needed to counteract nepotistic impulses. Exactly how this would work is also a question for further research.

What seems clear though, is that the development of trust relationships is crucial in SME sustainability and that the relational dynamics that could either foster or destroy this trust are always already in operation. It is crucial to recognise this fact in order to strengthen the relationships that have a positive impact on sustainability and to curtail those that don't.

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Notes

1. Environmental issues might be conspicuous in their absence. Although they were referred to, environmental issues received a low mention in comparison with the other issues.
2. There were however a few respondents who mentioned that they did not believe corruption is a problem for SMEs in their countries.
3. Jeppesen (2005:467) reports that in South Africa, for instance, SMEs are defined as firms with fewer than 200 employees and assets of a certain size. However, distinctions are also made between survivalist firms (90% non-white owned), micro firms (60% non-white owned), and small firms (80% white owned). The vast majority of SMEs in South Africa are informal enterprises operating in the tertiary and service sectors. These differences in size, ownership and business purpose, make it very difficult to make general statements about SMEs.
4. See in this regard:

   - Verschoor, C. 1999. Corporate performance is closely linked to a strong ethical commitment. *Business and Society Review*, 104: 407–415.

- Verschoor, C. 2004. Does superior governance still lead to better financial performance? *Strategic Finance*, 86: 13–14.
- Verschoor, C. 2005. Is there financial value in corporate values? *Strategic Finance*, 87: 17–18.
- Margolis, J. & Walsh, J. 2006. Building the business case for ethics. Bridge paper by the Business Roundtable Institute for Corporate Ethics. Charlottesville.
- UNIDO, 2002. Implications for small and medium enterprises in developing countries. Corporate Responsibility, Vienna, p. 8.

5. Originally, African market exchanges employed the form of reciprocity that operated within gift-exchange, which requires some co-ordination and concern for the common good, but few explicit obligations (Fafchamps, 1999:1). There was some expectation of reciprocity, but such returns were often in the distant future, did not need to be equal, and were affected in terms of community benefit, not individual profit. Though this reciprocity seems troubling to the Western mind, it is built on a kind of trust and care for the communal fabric of society that merits contemplation.

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Appendix 1: Country Representation

Country	Intermediary	SME	Total
South Africa	1	2	3
Nigeria	2	1	3
Ethiopia	1		1
Ghana	2		2
Uganda	5		5
Kenya	2		2
Cameroon	1		1
Tanzania	2		2
Democratic Republic of Congo	2		2
Mauritius		1	1
Zambia	1	1	2
Across countries	2		2
	21	5	26

Appendix 2: SME Owners/Managers Telephonic Questionnaire

Ethics in Small and Medium Enterprises on the African Continent

For all of the questions that we will be asking, could you please refer to your own experiences within your company as well as your wider knowledge of other SMEs in your country?

I will be referring to small and medium enterprises as SMEs throughout the interview.

(Ask all of Questions 1–4.)

1. How do you define SMEs / What are SMEs?
2. Please tell me a bit about your company – what does it do, how many employees do you have?
3. What is your position in your company and how long have you been there?
4. What do you understand under the concept of ethics?
   (If they are totally off the mark or don't know at all, clarify briefly that we are talking about right and wrong conduct.)
5. If I speak of ethics in SMEs, what comes to mind?
   (From here on, use discretion in asking questions to probe further / get information on areas not covered by the respondent.)
6. What would you say is the impact of SMEs in society (both positive and negative)?
   a. Do you think other SME owners/managers see it the same way?
   b. Do you know of any social responsibility projects that your own organisation or other SMEs are involved in?
7. What are the most important ethical problems/issues for SMEs?
8. Why are some SMEs ethical and others not?
   a. What are the most important factors in establishing a culture of ethics in SMEs? (Skip if already covered.)
   b. What could make it difficult for an SME to be ethical? What factors either within the organisation or outside the organisation?
9. What factors facilitate or hinder long-term business relationships for SMEs, for example with suppliers or clients?
10. What background or resources do SME owners and managers have on ethics?
11. Do you have anything further you would like to say about ethics in SMEs in the country/area in which you operate?

(If nothing is mentioned on corruption ask:)

12. Is corruption a problem for SMEs in your country?

Appendix 3: Intermediary Organisations – Telephonic Questionnaire Ethics in Small and Medium Enterprises on the African Continent

Which African Country's SMEs would you say you have the most experience with?

For all of the questions that we will be asking, could you please focus your answers to your experiences of the SMEs in that country.

(Ask all of Questions 1–4.)

1. How do you define SMEs / What are SMEs?
2. What is your involvement with SMEs?
3. What do you understand under the concept of ethics?
   (If they are totally off the mark or don't know at all, clarify briefly that we are talking about right and wrong conduct.)
4. If I speak of ethics in SMEs, what comes to mind?
   (From here on, use discretion in asking questions to probe further / get information on areas not covered by the respondent.)
5. In (country X), what would you say is the impact of SMEs in society (both positive and negative)?
   a. Do you know of any social responsibility projects that SMEs in your country are involved in?
6. What are the most important ethical problems/issues for SMEs?
7. Why are some SMEs ethical and others not?
   a. What are the most important factors in establishing a culture of ethics in SMEs? (Skip if already covered.)
   b. What could make it difficult for an SME to be ethical? What factors either within the organisation or outside the organisation?
8. What factors facilitate or hinder long-term business relationships for SMEs, for example with suppliers or clients?
9. What background or resources do SME owners and managers have on ethics?
10. Do you have anything further you would like to say about ethics in SMEs in the country/area in which you operate?

(If nothing mentioned on corruption ask:)

11. Is corruption a problem for SMEs in your country?

Chapter 3
Europe: Practice and Politics: Ethics and Social Responsibility in SMEs in the European Union

Laura J. Spence and Francesco Perrini

Introduction

The different cultural, economic and linguistic traditions make it difficult in a sense to talk of a single European approach to anything, not least business ethics. However, what we *can* do is note the similarities within Europe, which distinguish it as a group of countries from other regions (Spence, 2000a). Despite its heterogeneity, Europe has a degree of common intellectual and cultural heritage. Furthermore, unlike other regions most of the countries[1] of Europe are governed increasingly by a common governmental framework in the form of the European Union (EU), and it is these countries that we focus on here. In December 2007 the signing of the Treaty of Lisbon further strengthened the ties between the countries of the EU.

The EU has a population of nearly half a billion. It was first conceived as a means of keeping peace between the frequently warring countries of Europe after the Second World War (European Union, 2009a). As such, it has at its heart the twin goals of economic prosperity and social cohesion, both of which mean that the business ethics and corporate social responsibility movements have been well received and indeed embraced by the administrative centre of Europe, the European Commission.

The semantics and terminology around social and ethical responsibility in European business is a problematic one. Within Europe the fields of corporate social responsibility (CSR) and ethics exist to some extent in parallel. There is no clear delineation in Europe of the meaning of or difference between these two concepts. The research which we report on here is termed both CSR and business ethics respectively. Nevertheless, it is the CSR terminology familiar in Anglophone which has been adopted at the European level, and which we accordingly broadly follow here with one important adjustment. Where SMEs are concerned there is a serious problem with the corporate social responsibility terminology, in that most SMEs

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are not corporations, i.e. they have neither limited liability nor are they legal entities in their own right. Indeed, SMEs are unlikely to use any recognisable language of CSR, including the acronym itself (Murillo & Lozano, 2006; Spence & Lozano, 2000). The CSR terminology has become the dominant refrain in this area, although it is worth noting that the phrase 'responsible business' appears to be gaining some currency (Moore & Spence, 2006; Southwell, 2004). We prefer to drop the corporate implication and talk instead of 'social responsibility', by which we intend to keep small and medium sized enterprises (SMEs) within the mainstream CSR debate. We adapt Aguilera et al.'s (2007) definition of social responsibility as being 'the firm's considerations of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social [and environmental] benefits along with the traditional economic gains which the firm seeks'.

Previous to the more active political involvement in CSR at the level of the European Union, in continental Europe social issues have tended to be addressed from the macro level, setting the constraints for business at the level of institutional frameworks and regulation, i.e. focusing on the 'rules of the game' (Enderle, 1996). This means that conditions are created for an implicit form of CSR (Matten & Moon, 2008) and has been suggested as a peculiarly European approach (Matten & Moon, 2005) compared to a US version of CSR, which is explicit in terms of corporate policies. Hence government, trade unions and corporate associations are the key actors (Crane & Matten, 2007:32). The change in Europe in recent years has been to adopt a more explicit, US approach,[2] bringing to the fore that which has long existed in the background (Matten & Moon, 2008). This is reflected in the European Alliance of CSR, which is presented at the end of this paper and represents a shift of focus putting the onus on voluntary corporate initiatives.

Small and medium sized enterprises are an explicitly acknowledged part of the European Union approach to CSR, being seen as 'a major source of entrepreneurial skills, innovation, and [that contributes] to economic and social cohesion' (CEC, 2005:3). In the European region generally, SMEs are a recognised part of economic life, although they do not necessarily feature explicitly in all policy and wider business initiatives. From a research perspective there is a thriving body of literature on SMEs though there remains a lack of theorising and impact on the mainstream management literature (Blackburn & Kovalainen, 2009).

In this paper we present the standard European definition of SMEs and locate their role in society. We use previous research to summarise SME social responsibility practices and highlight differences from large firms. Since Europe is not a single political, economic and social arena, we seek to demonstrate some of the internal differences by focusing on some specific example countries, taking in a Mediterranean country, one from northern Europe, the Anglo-Saxon example of the UK and the transition economies of central and eastern Europe and the Baltic States. With much political interest in seeking to influence SMEs to engage in social responsibility activities, we summarise the initiatives taken and recommend further courses of action. We take a look at environmental perspectives also. Finally we look at future developments in the social responsibility and SME field in Europe.

Defining SMEs

While there is much disagreement on the definition of SMEs in the literature (Curran & Blackburn, 2001), there is a reasonably clear proposal from the European Union, as shown in Table 3.1. Following this definition, there are 19 million SMEs in the region representing 99.8% of all EU enterprises and employing more than 74 million people (European Union, 2009b).

Table 3. 1 Definition of small and medium sized enterprise in the European Union

Enterprise category	Head count	Turnover	or	Balance sheet total
Medium	< 250	≤ € 50 million		≤ €43 million
Small	< 50	≤ € 10 million		≤ €10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

Source: European Union (2009c)

The parameters shown in Table 3.1 are not, however, universally accepted, resulting in different standards used in research projects, rendering comparison problematic. Curran and Blackburn (2001:8–19) detail the problems of defining small firms. They advocate an approach combining qualitative and quantitative perspectives, and remaining conscious of sector differences. Nevertheless, given the importance of cross-country comparison, it is the EU definition, which we would recommend when taking a broad perspective such as we do in this paper.

Role of SMEs in Society

As Raynard and Forstater (2002:3) point out:

> CSR represents not just a change to the commercial environment in which individual SMEs operate but also needs to be considered in terms of its net effect on society. If CSR, as some critics believe, introduces social and environmental clauses resulting in protectionism by the back door, imposes inappropriate cultural standards or unreasonably bureaucratic monitoring demands on small businesses, the net effect on the communities concerned will be a reduction in welfare. On the other hand, CSR offers opportunities for greater market access, cost savings, productivity and innovation to SMEs, as well as broader social benefits such as education and community development.

The net effect of social responsibility for SMEs remains unclear. Indeed, this is true of larger organisations too, despite the plethora of publications investigating corporate social performance (see Orlitzky et al., 2003). However, it is not our purpose to pursue this issue here with only one study thus far which has conclusive results on this within Europe.[3]

The importance of SMEs in Europe is not in doubt at the political level. The Vice President of the European Commission in charge of Enterprise and Industry claimed in 2007 that 'it is no exaggeration to say that in 2 years, Europe's 23 million SMEs

have become the centre of interest not only at the EU level but also in the Member States' (Verheugen, 2007:8). He refers in particular to the fact that of the six million new jobs between 1998 and 2004, five million were created in SMEs (Verheugen, 2007:2). This primary social contribution of SMEs, that of job creation, is of critical importance to Europe, as elsewhere, hand-in-hand with the goal of social inclusion.

Going beyond this perspective, the social role of SMEs becomes more unclear. Spence (2000b), however, found that over 50% of SME owner-managers in a UK survey felt that their social contributions included (in order of frequency stated): caring for employee health and welfare, good role modelling, supporting local business, giving to charity through the business, caring for the environment, supporting the local community, supporting their industry, as well as generating employment for others. This list is a commendable recognition of the social responsibility work that SMEs do.

In the next section we identify some of the issues around SMEs and their social contribution. These should be considered against the backdrop of a development in the EU, which offers the potential for SMEs to move still closer to the centre stage of European approaches called the Small Business Act. This was promoted as a priority for the Commission in 2008, institutionalising the 'Think Small First' rhetoric commonly promoted in the EU. Furthermore, it encompasses a drive away from close regulation of SME activity (Verheugen, 2007:9). The Small Business Act for Europe was adopted by the European Commission in the summer of 2008, recognising the central role of SMEs in the EU economy.

However, it should be noted that there is a conundrum here. On the one hand, research shows a great deal of small-scale empirical evidence of implicit social responsibility, on the other hand policy makers are targeting them for change. SMEs, characterised by a desire for independence and freedom from intervention and bureaucracy (Goffee & Scase, 1995), are not prone to responding to government initiatives. This raises the challenge of how best to influence SMEs, not least since many already exhibit socially responsible practices.

Ethics/Social Responsibility Practices Within SMEs

Research on ethics and social responsibility from the SME perspective is significantly different from the research based on large firm practices (e.g. Jenkins, 2006; Tilley, 2000). Nevertheless, the CSR of SMEs has received relatively little attention (for exceptions see Grayson, 2004; Moore & Spence, 2006; Morsing & Perrini, 2009; Perrini, 2006; Perrini et al., 2007; Russo & Tencati, 2008; Spence, 1999; Spence et al., 2000; Spence & Lozano, 2000; Spence & Rutherfoord, 2001, 2003; Spence & Schmidpeter, 2003; Spence et al., 2003; Thompson & Smith, 1991; Vyakarnam et al., 1997). This is not only a challenge in the study of social responsibility, but is endemic in management research more generally, where small businesses are often considered a minority activity, contrary to the evidence.

Research focusing on the SME relationship to social responsibility in Europe has highlighted that *SMEs are less likely to adopt and develop explicit social*

responsibility strategies than their larger counterparts. Graafland et al. (2003) suggest that small firms make less use of CSR instruments than do large firms mainly because of four motivations: visibility to the public and the media; economies of scale; more need for instruments that facilitate the communication of values and norms within the firm and to their customers; and stronger competitiveness in the output market for small enterprises. Moreover, CSR tools signify a greater proportional investment of time, finances and energy for the small firm than for large firms (Spence et al., 2000). In general, as has already been alluded to, research repeatedly suggests that *SMEs are engaging in CSR, but have a different profile compared to large firms* (Moore & Spence, 2006; Perrini et al., 2007). This is an extremely important point for understanding the position of SMEs in the analysis of social responsibility and business ethics in Europe. They are not necessarily the problem case, which they are sometimes portrayed to be. Perrini, Russo and Tencati provide more detailed evidence noting that large firms are more likely to address environmental management, employment, local communities, and controlling and reporting strategies. In contrast, SMEs reveal a stronger willingness to recognise the importance of responsible behaviour throughout the supply chain. Russo and Tencati (2008) distinguish between sizes of SME, and find that micro firms (with up to ten employees) reveal their CSR aptitude through strategies with a significant impact on the bottom line, for example, their commitment to eco-efficiency (i.e. reduction of consumption and pollution reduction strategies). Moreover, micro firms support initiatives that encourage stakeholder engagement, which can be seen to exemplify their attempt to secure a social licence to operate in the communities.

What this recent research in Europe suggests is that SMEs are subject to a number of distinctive and intrinsic characteristics that make them different from their larger counterparts, therefore affecting the content, nature and extent of their social responsibility activities. Drawing together much of the previous work on SMEs in this field in Europe, the following aspects can be identified as important (adapted from Spence, 2007):

- ⋆ a lack of codification of social responsibility in small businesses (Jenkins, 2004; Spence, 1999);
- ⋆ personal motivations for taking socially responsible initiatives are more important than marketing, strategic, or public relations approaches (Jenkins, 2004; Spence, 2000b);
- ⋆ owner-manager acts as both principal and agent of the firm (Quinn, 1997; Spence & Rutherfoord, 2001);
- ⋆ small businesses are often embedded in their local communities (Perrini, 2006; Spence et al., 2003; Tencati et al., 2004);
- ⋆ flexibility, personal service and reputation are important competitive factors for SMEs (Spence, 1999, 2000b, 2004);
- ⋆ employees are the key stakeholders (Janjuha-Jivraj, 2003; Jenkins, 2004; Spence, 2000b); and
- ⋆ sector context is particularly important (Curran & Blackburn, 2001; Spence & Schmidpeter, 2003).

While these factors are probably not limited to Europe, they were all identified in research on SMEs within the EU. Future research should investigate the extent to which these aspects of ethics and social responsibility in relation to SMEs are quintessentially European or otherwise.

A vast array of recent reports on social responsibility (CERFE Group, 2001; CSR Campaign, 2003; Raynard & Forstater, 2002; WBCSD, 1999) conclude with the clear direction for further research on social responsibility to provide SMEs with guidance and tools that enable them to implement and report on their socially responsible policies, processes and performance in an effective manner. This somewhat instrumental managerialist approach is in keeping with the dominant policy discourse around CSR in which the SME perspective remains embedded.

Country-Specific Traits: Denmark, Italy, the UK and Central and Eastern Europe and the Baltic States

Understanding a phenomenon across Europe cannot be done without reference to individual national approaches, and social responsibility is no exception (Habisch & Jonker, 2005:2). We have pointed out the similar cultural heritage across Europe. Despite the similarities that bind Europe together, national differences remain, though we believe that these do not overwhelm the similarities, such that it is still meaningful to compare Europe to other regions such as North America or Africa. Nevertheless, as Enderle (1996:36) points out, 'talk about morality and business is deeply culture bound and language-dependent'. In addition to the EU wide social responsibility initiatives to which all member states are subjected, several European countries seek to encourage initiatives by diffusing social responsibility amongst SMEs, and many initiatives have been promoted at the national level and by different types of organisation.

Here, we focus on a sample of countries to help give some texture to the wider European perspective we have presented: Italy (one of the classic southern countries of Europe with a Mediterranean flavour); Denmark (one of the north European countries with a highly developed welfare system); the UK (with its Anglo-Saxon perspective drawing it close on occasion to the US approach); and finally the group of countries which are known as CEEBS (central and eastern Europe and the Baltic States, which are new capitalist economies seeking to make sense of Westernised systems in relation to their communist pasts).

Denmark – North European

Denmark has long been known in Europe for its highly developed welfare system, which is primarily aimed at ensuring constant social welfare over time through generous transfer schemes, high-quality services and a comprehensive educational

system, all with a decidedly public makeup (CEC, 2007a). In the early 1990s, this led to extensive reforms in employment policy, setting the threefold objective of preventing exclusion from the workforce, creating the conditions for maintaining one's job, and expanding/improving the possibilities of reintegrating those who have been unemployed for long periods of time, individuals with limited job skills and so on. This landscape of profound change and redesign of social policy comprises the Danish government's initiatives regarding social responsibility (Jorgensen & Knudsen, 2006). A decisive stance in the debate on the importance for companies to move beyond mere observance of the law in corporate management was taken in 1994 with the campaign 'Our Common Concern – The Social Responsibility of Companies', promoted by the Ministry for Social Affairs. This initiative defined the government's official role in promoting the dissemination of CSR, which is to encourage social partnerships and research in order to reduce social exclusion and achieve an inclusive labour market. The emphasis on the importance of adopting actions based on partnership, which is the core of Danish public policy, is based on the belief that social challenges must be faced by focusing on co-operation between the players influenced by these challenges and those who can influence them. More specifically, public initiatives to promote corporate social responsibility are designed around the dissemination of knowledge, information campaigns and research, and other initiatives aimed at creating public-private partnerships.

The most significant initiative in the area of partnerships for the promotion of responsibility was the establishment in June 1998 of The Copenhagen Centre (TCC), which is an independent body created after the World Summit on Social Development held in Copenhagen in 1995 and the Danish CSR campaign. TCC acts as an intermediary among public authorities, businesses (including SMEs), trade unions and social organisations and is primarily responsible for stimulating public debate, co-operation between the social partners, and the sharing of experiences by conducting studies, organising and facilitating networks, and publishing reports, all in order to 'make CSR real'.

In such a context of social responsibility interactions among companies and organisations, Nelson and Zadek (2001) proposed a definition of partnership as 'people and organisations from some combination of public, business and civil constituencies who engage in common societal aims through combining their resources and competencies' sharing both risks and benefits. This work supports the notion mentioned previously that small organisations have a strong preference for non-formal responsible practices (CEC, 2003b): only very few Danish enterprises point to, for example, formal training practices as more important in comparison to non-formal training practices. National literature provides a number of reasons for this strong preference for non-formal training practices: lower costs (Koch & van Straten, 1997), ease of integration of this training into the enterprise's everyday activities, or its easier focus on the worker's specific individual and work role needs (Curran et al., 1997).

The Danish focus on social responsibility and SMEs was heightened with the publicly funded People & Profit project which ended in 2006 on mainstreaming CSR

in SMEs which focused particularly on competitiveness, knowledge dissemination, training and growth and found that socially responsible activities by Danish SMEs enhanced competitiveness (Kramer et al., 2005). As part of this work a mapping was done in 2005 of social responsibility in SMEs, which found that the most common areas of activity were workforce, environmental and charity/socially orientated and that ethical and moral reasons were the main drivers. Notably, firm size increase correlated with increased importance of financial gain and customer requirements as drivers.

Italy – Mediterranean and Southern Europe

Starting from an intense debate on social responsibility issues, which had emerged at the European level (CEC, 2001, 2002), the Italian Ministry of Welfare launched in June 2002 an innovative and ambitious project on the social responsibility of enterprises (Tencati et al., 2004). The initiative, called Corporate Social Responsibility – Social Commitment (CSR–SC), has the aim of promoting the involvement of Italian enterprises in social responsibility activities, with particular attention on SMEs. The framework of the project had to incorporate some general goals, broadly discussed with the Ministry of Welfare and other stakeholders, including: promoting a social responsibility culture among businesses; guaranteeing citizens that the reporting of corporate social commitment by companies is true and not misleading; defining a simple and modular standard that firms can adopt on a voluntary basis in order to identify socially responsible behaviour; and preparing a list of relevant performance indicators to measure the social performance of companies.

Specific attention was dedicated to SMEs from the very beginning of the project. Another important initiative is that by Unioncamere (the Italian association of Chambers of Commerce) and the Italian Ministry of Welfare who have established a network of CSR 'information desks' to develop CSR information and training services in local and regional chambers of commerce (Grayson & Dodd, 2007:6).

In fact, a comparison with the average size of European companies shows the peculiarity of the Italian system (CEC, 2003a) such that:

- there are an average of 3.9 employees in Italian businesses compared to an average of six employees per firm overall for the 15 EU member states; and
- industrial enterprises with over 250 employees account for 19.7% of the total in Italy and 34% of the total for the EU.

As shown and analysed in a broad range of literature (e.g. Perrini et al., 2007; Russo & Tencati, 2008), the particular features highlighted above have historically influenced the diffusion of managerial tools and standards in Italy. A well-known example is the diffusion of the ISO standards on total quality management (ISO 9001, 1994) and environmental management systems (ISO 14001) and the voluntary environmental regulations such as EMAS (Eco-Management and Audit Scheme). In

particular, Perrini et al. (2007) found that Italian firms are conscious of the importance of taking seriously both complaints and expectations of different categories of stakeholders; nevertheless, while implementing specific social responsibility strategies, firms do not recognise the same relevance of such different stakeholders. Moreover, they found that size explains the differences in firms' willingness to define and implement such specific social responsibility strategies, since formal CSR approaches still seem to be a prerogative of large firms. Regarding this latter point, Russo and Tencati (2008) provided evidence that firms still seem to approach social responsibility as an attempt to secure a licence to operate in their own community, therefore highlighting that differences exist between firms of different sizes at a twofold level: first, in the absence of formalising social responsibility strategies; and second, in the approach to responsible behaviours toward specific categories of stakeholders.

Given the above context, evidence suggests that the Italian approach to social responsibility involves a nationally widespread network of interventions and actions that are highly innovative (Perrini et al., 2006b). It is indeed true that many of the voluntary activities carried out by companies, mostly SMEs – despite a strong relationship with the local community – are scarcely systematic; that is, they are not structured into formalised strategic processes, and they have low visibility outside the company. This common approach to social responsibility in Italy, which can be defined as a sort of 'sunk CSR' (Perrini et al., 2006a), is a frequent phenomenon that cannot easily be appreciated and enhanced for use by conventionally competitive multinational corporations.

UK – Anglo-Saxon

The United Kingdom is unusual in the EU in that it has a Minister for CSR in the UK government, although the profile of this has diminished in recent years with it now being part of a much wider portfolio. The government role in terms of social responsibility is seen 'to raise awareness; provide an enabling environment encouraging businesses to adopt responsible business practice both at home and in their international operations and support and encourage adherence to international standards' (CEC, 2007a:89–91). Government sponsored research on social responsibility and SMEs resulted in a practical, web-based toolkit for SMEs on social responsibility and ethics issues launched in 2004 – www.smallbusinessjourney.com. This initiative is run by the Small Business Consortium. This consortium emerged in response to calls by UK SME for guidance on a coherent approach to social responsibility. The consortium consists of Accountability, Arts & Business, British Chambers of Commerce, Business in the Community, CSR Europe, Federation of Small Businesses, The Forum of Private Business, Institute of Directors, Lloyds TSB and Scottish Business in the Community (www.csr.gov.uk). In the UK, there is government level recognition that SME approaches to social responsibility and business ethics are different from large firms, and attempts are made to accommodate this through instruments and tools. A remaining problem, however, is that this

level of awareness is not always true of large corporations which are increasingly aware of supply chain risks in terms of social responsibility and are pushing social responsibility requirements down the supply chain as a form of risk management.

A number of research studies on UK SMEs have found very encouraging instances of socially responsibility activities, although these tend not to be documented or publicised (Jenkins, 2006, 2009; Southwell, 2004; Spence, 2000b). Spence and Rutherfoord (2001) found that rather than the primary motivator for small businesses being the profit motive, they commonly balance social goals and profit 'satisficing' activities. Though limited, research on social issues and ethics in the flourishing ethnic minority business group (Janjuha-Jivraj, 2003; Worthington et al., 2006), and in social enterprises, has also begun to develop in the UK (Cornelius et al., 2008).

Central and Eastern Europe and the Baltic States

The central and eastern European and the Baltic States, among the newer member states of the EU, are in a process of profound structural change. Once the decisive break with communism was made in the early '90s, SME development has been the cornerstone of economic reform policies pursued by all governments in the region (CEC, 2003a). A number of studies on CEEBS small and medium sized enterprises revealed that these countries have a very different situation compared to other European countries, because they are still in the process of transition towards a true market economy (Van Stel et al., 2004). Thus, the exact impact of SMEs on economic growth is not generic, but rather idiosyncratic, in that the impact is shaped by the level of economic development of the specific country. From a conceptual point of view, Audretsch and Thurik (2001) explained the different roles SMEs play in countries with different levels of economic development. They use 14 dimensions and distinguish between the model of the entrepreneurial economy and the model of the managed economy.

The central and eastern European and Baltic States are also aware of social responsibility and the important SME perspective. This is being promoted by the United Nations Development Programme (funded by UNDP and the European Commission), which launched a regional project to accelerate CSR development in the new and candidate member states, Bulgaria, Croatia, Hungary, Lithuania, Macedonia, Poland, Slovakia and Turkey. Since beginning the process of joining the EU, the CEEBS have tended to focus on economic development, with less attention on environmental and social concerns; 'Privatization and the new economic agenda resulted in "wild capitalism", where profit became the most important goal for most companies in the region' (Line & Braun, 2007:21). Whereas western European business is in the process of bringing social responsibility to the mainstream, here 'some business leaders are just becoming familiar with the term, while others have started a step-by-step approach to integrating CSR into their business practices. For a vast number of SMEs, CSR is still a very distant challenge, which falls outside

their business priorities. The fragmented understanding of the CSR concept is frequently linked to piecemeal philanthropy, rather than to core business or market positioning' (Accelerating CSR, 2009). In a study of the region to identify an understanding of the baseline of social responsibility, Line and Braun (2007) found that it is the businesses, rather than governments or other bodies who are leading change in this area, despite the socialist heritage, which would point to government as the stewards of social responsibility and welfare.

Across each of the European countries discussed in this section we see government or inter-governmental level intervention to seek to facilitate social responsibility in SMEs specifically. While empirical work is more developed in western Europe (represented by Italy, UK and Denmark in this case) compared to central and eastern Europe and the Baltic States, what we see is evidence of SME activity in social responsibility supported by the individual country's small business and political infrastructures. In CEEBS these are naturally less well developed as a result of the relatively recent move to a capitalist economy, hence it is unsurprising that the intergovernmental initiatives are the drivers. Common to all areas is a recognition of the relevance and importance for SMEs to engage with social responsibility. Unclear at this stage, however, is an accurate understanding of how best to do this.

Influencing SMEs

In light of the above considerations, research has recently taken due account of a knowledge gap in the social responsibility-SME relationship. Nevertheless, there is still inadequate knowledge of the business case, obstacles and drivers of social responsibility in European SMEs. Therefore, building a solid body of evidence could be a major contribution to furthering uptake of social responsibility among small businesses. Similarly, many European SME owner-managers and entrepreneurs (not to mention members of large multinationals) still do not have the competences and tools to manage firms in a responsible way. In particular, SMEs need to understand the relevance of social responsibility to their business.

In 2002, the European Commission approved and launched the establishment of the European Multi-Stakeholder Forum on CSR as the centrepiece of the commission strategy for promoting CSR and sustainable development. The Forum aimed to foster CSR, promoting innovation, transparency and convergence of CSR practices and instruments. It worked through improving knowledge about the relationship between CSR and sustainable development (including its impact on competitiveness, social cohesion and environmental protection). This was done by facilitating the exchange of experience and good practices and bringing together existing CSR instruments and initiatives, with a special emphasis on SME specific aspects. Additional initiatives included: exploring the appropriateness of establishing common guiding principles for CSR practices and instruments; taking into account existing EU initiatives and legislation and internationally agreed instruments such as OECD Guidelines for multinational enterprises, the Council of Europe Social

Charter, ILO core labour conventions and the International Bill of Human Rights. Going more in depth into the social responsibility-SME relationship, the Forum recognised:

> . . . that for SMEs where there is a heavy turnover of new entrants and businesses ceasing to trade; where most face intense daily pressures to survive; and where they face what may often seem like a constantly changing and extensive range of regulatory requirements, then simply meeting relevant environmental and social legislation will be a substantial commitment. There is a widespread fear amongst SMEs about additional regulatory burdens. All this needs to be appreciated in any discussion of CSR and SMEs. Sometimes too, heavy demands placed on SMEs at the end of long supply chains can translate into pressure to cut costs in such a way that social and/or environmental responsibilities are jeopardised.
>
> (European Multi-Stakeholder Forum on CSR, 2004:65)

Accordingly, Table 3.2 shows the base upon which the Forum recognised the need for promoting CSR among SMEs.

The key message that should be transferred to relevant actors is that social responsibility is not a shortcut to business success, but an investment that can pay off in the longer term. It can bring advantages, for example in terms of staff retention and recruitment, staff development and motivation, customer loyalty and reduced expenditure on energy. If social responsibility can contribute to the competitive advantage of the firm, then it can also contribute to the competitiveness of the socio-economic context in which firms operate. In particular, competitiveness depends on the productivity that a country, region or group of businesses active in any given territory draws from the human, financial and natural resources at its disposal.

Given that SMEs are a fundamental part of the growth and jobs equation (CEC, 2006), if CSR can contribute to regional competitiveness, this implies a need to focus on the social responsibility practices of SMEs, the businesses most closely associated with the regions and territories where they operate. Where social responsibility can provide SMEs with a comparative advantage, then particular attention must be paid to economies of scale with regard to cost, to the accessibility of CSR instruments and to the exchange of good practices within a specific context. We could argue that European SMEs have always been very close to what we call today 'CSR' (Perrini et al., 2007). Through their typically local anchoring, they are well placed to make a strong contribution to socio-economic development at a local level and act as responsible members of a community. Nevertheless, different actors, in the first place persons and organisations that work with and for SMEs, such as business support organisations, SME or sector representative organisations, trade unions, networks and non-governmental organisations, but also policy-makers, have to address this need from the viewpoint of SMEs themselves and then rightly underline the need to make social responsibility relevant and practical.

The European Commission also supports the analysis and dissemination of information about socially responsible practices through social partners, business networks and professional associations. Going beyond past initiatives, there is a common feeling about the need for increasing the quality and quantity of initiatives taken to support the uptake of social responsibility amongst SMEs. There does seem to be a groundswell of initiatives in Europe often regionally based,

Table 3.2 European multi-stakeholder forum round table on SMEs – some considerations

CSR SMEs initiatives need to be better grounded in SME reality and therefore:
* easily accessible, with relevant and quality advice;
* tailored to SMEs;
* available through channels that are known and trusted by SMEs, including sector specific trade associations;
* not bureaucratic;
* using language, examples and concepts to which SMEs can easily relate;
* flexible and a willing to go at the pace of individual SMEs – some will find it easier to adopt a step-by-step approach with CSR unpacked to component parts; and
* above all, to be delivered as close to the market and the customer as possible.

'Many SMEs are driven to integrate CSR because of the personal beliefs and values of the founders / owner-manager(s) and employees. 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. Additionally/alternatively, many SMEs are driven by some combination of minimising risks and maximising opportunities:

* Attracting, retaining and developing motivated and committed employees – especially because the speed of market and technology change means need flexible and engaged staff;
* Winning and retaining consumers and business customers (supply chain pressures and opportunities) especially because economic stagnation means SMEs need to find new markets/revenue streams;
* Being a good neighbour – maintaining a licence to operate from the local community;
* Responding to pressures from banks and insurers;
* Reputation – with internal and external stakeholders;
* Changing perceptions of the role of business in society (not only a source of profit), through the media, education, and actions by stakeholders;
* Cost and efficiencies savings e.g. reduced insurance and landfill costs;
* Networking opportunities;
* Product/market innovation, differentiation, and competitive edge; and the need for more sources of creativity and innovation in business;
* Anticipating future legislation/getting practical experience of compliance in ways that help business.'

Source: European Multi-Stakeholder Forum on CSR (2004)

with even an EU award for the best initiative promoting 'Responsible and Inclusive Entrepreneurship' (European Union, 2009d). In addition to initiatives already mentioned in this paper, Grayson and Dodd (2007:6–7) identify: Xertatu (supported by the Basque regional Government, the Bilbao Chamber of Commerce and other academic and non-governmental stakeholders in Spain (Xertatu, 2009)); Fabrica Etica (Tuscany leather-goods cluster regional initiative in Italy (Fabrica Ethica, 2009)); Vaderegio Regional Authorities network (Vaderegio, 2009); *Unternehmen: Partner der Jugend* (UPJ – Organisations: Partners of Youth), a network in Germany that promotes social responsibility amongst businesses and experiments in building cross-sector partnerships to enable businesses to contribute to solving societal problems such as youth unemployment (UPJ, 2009). Grayson and Dodd report activities

carried out under the banner of these initiatives as including 'surveys on attitudes to, and practice of, CSR in SMEs; collection of case studies; training for SMEs; development of CSR guides and management systems for SMEs; training material and capacity-building for SME "intermediaries"; and analysis of supply-chain issues. CSR award schemes with SME categories are increasingly common'.

SMEs and Sustainability

The European Union perspective on sustainability incorporates economic, social and environmental pillars, all linked with competitiveness, set in the framework of the Lisbon Strategy for Growth and Jobs launched in 2005. Social responsibility and sustainability are seen as linked since 'CSR is also part of the glue that binds the Growth and Jobs Strategy into our overall objective of sustainable development' (Verheugen, 2005). Grayson and Dodd (2007) argue that 'sustainability' may be a more helpful term than 'CSR' for smaller businesses. In 2007, Verheugen noted that '[w]e have not yet built the flexible, innovative, knowledge-based and environment friendly economy which will guarantee the long-term sustainability of our way of life' (2007:3). Therefore, CSR represents the main economic-social driver of business sustainability, that is, the capability of the firm to generate long-term value through mutually beneficial relationships with its entire network of stakeholders, 'business stakeholders' and 'socio-political stakeholders' (Perrini et al., 2006b). Here we concentrate on the environmental perspective of sustainability.

While there are legislative frameworks for environmental protection, individual SMEs often fall below the threshold for compliance or are not aware that they are not compliant (CEC, 2007b:3–4). Barriers to European SMEs engaging with eco-efficiency include lack of awareness of environmental problems or of the potential benefits of environmental management; insufficient access to information, expertise and tools; short-term planning; limited market incentives for environmentally aware behaviour and the macro-level governing of environmental issues (CEC, 2007b:4).

An Environmental Compliance Assistance Programme adopted in 2007 aimed at alerting Europe's 23 million SMEs not only to the negative impact that their daily business can have on the environment, but also to the business opportunity that a change in behaviour can present. This programme has a simple, if somewhat naïve, motivating message for SMEs: 'Go Green, Go Rich' (Verheugen, 2007:11). The elements of the plan include:

- ⋆ better regulation in design and implementation of policies, to facilitate and minimise the administrative burden of compliance for SMEs and free their resources for improving compliance;
- ⋆ more accessible tailor-made environmental management schemes, to integrate environmental concerns into the core business activities of SMEs in a coherent and cost-effective way;

- ⋆ focused financial assistance and a multi-annual financial programme, to promote and support initiatives by public authorities or business support networks aiming at sustainable production in SMEs;
- ⋆ building local environmental expertise for SMEs, to overcome the lack of know-how at company level; and
- ⋆ improved communication and more targeted information, to address specific information gaps (CEC, 2007b).

Clearly, at the European level, an awareness of the challenge for sustainability and environmental compliance for SMEs has arisen and a concerted effort is now being made to address these concerns. The next stage would be to go beyond the notion that environmental responsibility is profitable and seek to ingrain a more complex understanding, yet acceptance, of the vital importance of sustainability.

Current and New Developments

On 22 March 2006 the European Commission published a new communication entitled 'Implementing the partnership for growth and jobs: Making Europe a pole of excellence on corporate social responsibility'. In this document the Commission underlines the strong relationship between social responsibility, globalisation, competitiveness and sustainability (CEC, 2006:1): 'The Commission is committed to promoting the competitiveness of the European economy in the context of the re-launched Lisbon Partnership for Growth and Jobs. In turn it calls on the European business community to publicly demonstrate its commitment to sustainable development, economic growth and more and better jobs, and to step up its commitment to CSR, including cooperation with other stakeholders.' The Alliance is clearly defined as a 'political process to increase the uptake of CSR amongst European enterprises' (CEC, 2006:3).

According to the Commission, sustainable growth and more and better jobs are the two main related challenges which the European Union must face in a context of global competition and an ageing population to safeguard the European model of society, based on equal opportunities, high quality of life, social inclusion and a healthy environment. In this respect 'CSR can contribute to sustainable development, while enhancing Europe's innovative potential and competitiveness, thereby also contributing to employability and job creation. Further promoting CSR is central to the new partnership for 'growth and jobs' as well as for implementing sustainable development objectives' (CEC, 2006:8).

The communication on the European Alliance for CSR is the last step of a process begun in February 2005 when the Commission fostered a new start for the Lisbon Agenda by launching a Partnership for Growth and Jobs and continued in December 2005 by revising the Sustainable Development Strategy (CEC, 2005). The communication confirms that CSR is fundamentally about voluntary business behaviour: an approach entailing additional obligations and administrative burdens

for companies is considered counter-productive and contrary to the principles of improved regulation. The Alliance is a political umbrella for new or existing initiatives carried out by large companies and SMEs, and their stakeholders. It is not a legal instrument and is not signed by firms, the Commission or public authorities. The crucial concept underlying this initiative is partnership. Hence, the Alliance is intended as a vehicle for mobilising the resources and capacities of European companies and their stakeholders to promote CSR. Three business organisations are acting as support platforms for the European Alliance on CSR, helping to co-ordinate its work and to provide feedback to the European Commission and other interested parties: CSR Europe, BusinessEurope, and UEAPME (European Association of Craft, Small and Medium sized Enterprises). Helping SMEs to flourish and grow is one of ten priority areas for the alliance. At the time of writing it is too early to evaluate the success of this initiative.

Conclusion

Throughout the last few decades, the European economic scene has been continuously changing. Each change influences actors at different levels (i.e. policy makers, governments, organisations, and individuals). In this context, a great deal of attention has been paid to the social responsibility and commitment characterising a firm's strategic mission and behaviour. Following government indications as well as developing their own voluntary actions, firms are showing their willingness to adopt socially responsible behaviour, in that these might have direct and indirect effects on the socio-economic context in which they operate.

In such a dynamic context, 'CSR' is defined as a new managerial model centred on the voluntary integration of economic, social and environmental responsibilities into the entire value chain and all company functions, and on the relationships with the stakeholder network. CSR is a discipline through which the progressive alignment of shareholder and stakeholder interests is satisfied, along with a shift from short- to long-term objectives (Perrini et al., 2006b).

At a more institutional level, the EU has been actively dealing with these issues since 2001, when it presented the Green Paper, 'Promoting a European framework for CSR'. Since the inclusion of CSR in the European political agenda as one of the most relevant sources of competition for the entire economic system, each country's interest in CSR, at both the public and private level, has grown exponentially. There is now a steady stream of research and reports on social responsibility and SMEs coming from the EU.

In this paper, we have presented two parallel paths: one encompasses the efforts of policy makers and organisations to spread the idea of socially responsible behaviour and CSR practices through initiatives, and formal definitions. The other path includes academic research, which has progressed from an initial, vague awareness of the relationship between companies and social/environmental issues to the identification of a more defined set of management tools and rules of conduct.

In this context, the most challenging area of intervention remains the promotion of the actual adoption of CSR among enterprises, in particular SMEs. Surveys indicate that lack of awareness, especially of the relevance and benefits of CSR for every business, is a major obstacle to the promotion of social responsibility in Europe. Despite the successes to date, many issues remain to be tackled in order to raise further general awareness of social responsibility in SMEs in Europe.

Notes

1. Some 27 countries are members of the EU at the time of writing. The main exceptions being Norway, Switzerland, Turkey and the former states of the USSR and some of the former states of Yugoslavia.
2. We acknowledge that US corporate policies are at least in part inspired by government regulation such as the Sarbanes-Oxley Act 2002 and the Federal Sentencing Guidelines.
3. We will mention later the research by Kramer et al. (2005) which found a positive connection between social responsibility activity and financial performance in Danish SMEs.

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Chapter 4
India: CSR and Ethics in MSMEs in India

Vasanthi Srinivasan

Introduction

The contribution of the small and medium sized enterprises (SMEs) to the economic growth of a nation is well recognised. In developing countries like India, as some authors argue (Leutkenhorst, 2004), the contribution of SMEs towards employment generation is high because they tend to use more labour intensive production processes than large enterprises, boosting employment and leading to more equitable income distribution. In countries where the disparity levels in income are quite stark and the industrial growth has not been widespread and uniform, the role of the medium, small and micro enterprises (MSMEs) in creating employment is quite significant. They also provide livelihood opportunities through simple, value-adding processing activities in agriculture based economies, nurture entrepreneurship and support the building up of systemic productive capacities and the creation of resilient economic systems, through linkages with the large enterprises.

While their significant economic contribution is well understood, their responsible business practices have not been extensively studied for any meaningful interpretation to be drawn. While individually each of these SMEs may not have a significant influence like the large corporations, their cumulative social and environmental impacts could be significant. This is already being witnessed in the textile belts and the chemical belts in India. There is an urgent need therefore to understand the responsible business practices adopted by the SMEs. The importance of corporate social responsibility (CSR) among large companies in developing countries is itself of recent origin, no more than a few decades. Therefore, the study of CSR and ethics in SMEs in developing countries assumes greater significance given the rapid economic growth.

Responsible business practices can be conceptualised as consisting of two dimensions – the ethical behaviours of the corporation and the CSR practices that it adopts.

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This conceptualisation at an SME level translates to the role of the owners and their ethical orientations and the CSR activities of the enterprises that they own and manage. The CSR and ethics discourse till recently has been dominated by large corporations and CSR in SMEs has received relatively little attention compared to the CSR in large corporations (Moore & Spence, 2006; Spence & Rutherford, 2003).

There is a growing consensus that SMEs demonstrate distinctive characteristics, which make them different from large organisations and, therefore, the content, nature and extent of their participation in CSR and ethics is likely to be different (Jenkins, 2006; Tilley, 2000). Some of the characteristics such as smaller size and fewer resources when considered individually (Beekman & Robinson, 2004), managerial systems where ownership-management separation rarely occurs (Richbell et al., 2006); and, management training that does not always meet the company's real needs (Emiliani, 2000; Park & Krishnan, 2001) are unique to SMEs. In most SMEs, the distinction between the roles of management and ownership is weak, with multitask positions within the organisation being quite common. These enterprises are mainly oriented towards solving day-to-day problems; informal relations and communication predominate here; interpersonal relationships are very important; there is a high degree of interrelation with their environment or communities in which they often act as benefactors or local activists; and finally, they are subject to the market dynamics determined by large enterprises, which in many cases they supply to (Spence, 1999; Spence & Lozano, 2000; Enderle, 2004). With this heterogeneity, it is expected that the impact on CSR and ethics is likely to be varied. The ethical orientations of owners and their motivation for CSR practices in different contexts has received attention (Vyakarnam et al, 1997; Spence & Lozano, 2000; Murillo & Lozano, 2006) and all these studies also reflect a wide range of perspectives. The need to conclusively demonstrate the differences in CSR in SMEs in differing sizes still exists and since differences exist in the adoption of tools and methods across the SMEs, it reinforces the need for further research in this area. This paper attempts to understand the state of the field of SMEs in India.

SMEs in India

The term SME is of relatively recent origin in the Indian context. SMEs were referred to as small scale industry or SSI. The SSI was officially created in the 1950s. Since 1954, the Government of India has consciously nurtured, promoted and developed SSIs through specific policies as a part of the overall industrial development strategy (Prasad, 2008). Over the last decade, a number of these enterprises needed to compete in global markets as part of supply chains.

The contribution of SMEs to the economic development of India is significant. Their contribution in the total corporate sector is as follows: 40% of the total volume of production, 80% of employment, 60% of the exports and 92% in terms of enterprises. The SMEs contribute 7% of India's GDP. As per the Third All India Census of Small Scale Industries conducted in 2004, the SMEs have increased from about 80,000 units in the 1940s to about 10.52 million units. In the sports goods and

garments sector their contribution to exports is as high as 90% to 100%. They constitute 90% of the industrial units in the country and also contribute to about 35% of India's exports (Pandey, 2007). In recent years, beyond the economic growth, there is a greater urgency for 'inclusive growth' in which SMEs are expected to play a critical role. The geographical and socio-cultural diversity of India with 28 states and 16 national languages, coupled with significant disparities in income, and co-existence of poverty and high affluence make the SME sector more critical for India. Out of the 10.52 million units, 55% are located in rural India (Third All India Census of SSI, 2002). Registration of SMEs has not been compulsory in the Indian context. The sector employs about 25 million persons. Around 10% of the sector consists of women-owned enterprises. About 47% of the total SMEs were located in five states, with the remaining 53% being contributed to by 23 states. The role of SMEs in the context of balanced regional development and equitable distribution of income becomes relevant. The sector also contributes to about 7% of the GDP.

Though there were a variety of enterprises operating in India, no single definition of micro and small enterprises was available until the enactment of the Micro, Small and Medium Enterprises Development Act (MSMED) in 2006.

Definition of SMEs

SMEs are defined in different ways in different parts of the world. Some define them in terms of assets, while others use employment, shareholder funds or sales as criteria. Some others use a combination of revenue and employment as a hybrid criterion. The MSMED Act of 2006 defines them as:

- enterprises engaged in the production/manufacturing of goods for any industry; and
- enterprises engaged in rendering/providing services.

Enterprises in the manufacturing sector are defined in terms of investment in plant and machinery (excluding land and buildings) and further classified into:

- micro enterprises – investment up to Rs. 2.5 million i.e. up to Rs. 2.5 million (approximately USD$60,000);
- small enterprises – investment between Rs. 2.5 million and Rs. 50 million; and
- medium enterprise – investment between Rs. 50 million and Rs. 100 million.

Service Enterprises: defined in terms of their investment in equipment and further classified into:

- Micro Enterprises – Investment up to Rs. 1 million
- Small Enterprises – Investment above Rs. 1 million & up to Rs. 20 million
- Medium Enterprises – Investment above Rs. 20 million but below Rs. 50 million (Development Commissioner MSME, 2009).

The clarity in definitions provided is likely to result in a more focused policy and programme intervention for the various categories of firms. While the SME sector per se has witnessed a phenomenal growth, it is likely that a large number of firms occur in a cluster. Industrial clustering has received attention from various scholars in recent times. Clusters can be defined as sectoral and geographical concentrations of enterprises, in particular small and medium enterprises, faced with common opportunities and threats which can: (i) give rise to external economies (e.g. specialised suppliers of raw materials, components and machinery; and sector specific skills); (ii) favour the emergence of specialised technical, administrative and financial services; (iii) create a conducive ground for the development of inter-firm co-operation and specialisation as well as of co-operation among public and private local institutions to promote local production, innovation and a collective learning approach to SMEs. UNIDO's role and contribution to this effort has been significant (Russo, 1999). Clustering provides 'a collective efficiency' and acts as a catalyst of business growth (Schmitz, 1995).

There are two kinds of clusters in India that are well documented, namely the industrial clusters and the artisan clusters. The total number of clusters in India is estimated to be over 2,400, including about 2,000 rural/artisanal clusters. While industrial clusters dominated the discussions on clusters in the past, in recent years the services clusters have been emerging – especially the IT and BPO clusters. These clusters have become the major employment hubs in the country (Das et al., 2004). The Government of India has used the cluster development approach to facilitate the growth of industrial clusters in India. The SMEs in a cluster often form part of a global supply chain and their CSR practices have been receiving attention.

CSR and Ethics in India

The evolution and growth of CSR in large corporations in India has been well documented (BCCI, 2007; Mitra, 2007; Sood & Arora, 2006; Arora & Puranik, 2004; British Council et al., 2002; Kumar et al., 2001). In recent years, CSR in SMEs in India has been gaining increased attention from practitioners, NGOs and international agencies, but not significantly from scholars. In a comparative study conducted on CSR practices of Dutch Multinationals and SMEs operating in India, it was found that while large multinationals had formulated a CSR policy, which they make public, CSR is not at all institutionalised in SMEs. The reasons attributed to the lack of institutionalisation of CSR include limited resources to do CSR, lack of pressure from the customer or NGOs to do CSR and finally, the inability to see any direct benefit in doing CSR (CREM, 2004).

Much of the anecdotal evidence in India on SMEs appears to suggest that the ethical orientation of the SMEs is a product of the ethical orientation of its owner. Since the ownership structure of SMEs varies significantly, it is likely that the stringent governance norms that apply to large corporations may not be relevant and

enforceable. And this therefore supports the view that the owners/managers in SMEs determine the ethical orientation of the firm. This paper attempts to draw from the existing body of knowledge, from both the academic and popular literature in India to identify the CSR practices and develop a research agenda for responsible business practices in the SME sector in India.

A review of the literature indicates that a few studies have examined the value orientations and ethical stances of Indian managers in large corporations (Monga, 2005; Fisher et al., 2001). One study empirically examines the cultural influences on the judgment of Australian, Malaysian and Indian SME managers to whistle blowing as an internal control mechanism (Chavan & Lamba, 2007). There is, however, no discussion in the paper about the significance of the choice of SME managers. Since the findings are at the level of cultural influences, the SME managers appear to be just a sample, with no specific behavioural uniqueness attached to them.

In an exploratory study conducted in the Pune Industrial belt in Western India, it was found that compliance to the government laws was seen as being socially responsible. Many SME owners were of the opinion that philanthropy and CSR are one and the same. Since many of the SMEs are at a stage where they are struggling to establish themselves and do not have the manpower or resources to address these issues, they tend to ignore them (Revenkar, 2004). In a comparative study undertaken on constraints and contingencies of small business in Bangladesh and India, the authors found that many SMEs had similar constraints and contingencies across countries and bribery related variables tended to be fairly similar (Amin & Bannerjee, 2007).

In another study done in an industrial cluster in northern India, the author (Tarun Kumar, 2004) observed that since most SMEs were led by owners, the value system and philosophy of the owner played a significant role in determining the CSR practices undertaken. Many of the SMEs are unable to see any clear benefits by following or practicing CSR. Very few companies had social reports, codes of conduct or stated ethical practices. But the study points that many of the SMEs are involved in some kind of developmental activities. Many of the CEOs of these SMEs were members of Rotary or Lions Clubs and supported various developmental activities initiated by these clubs.

In the last decade, the government is actively promoting cluster development as a strategy to grow SMEs. In 2007, UNIDO along with the Swiss Development Corporation has embarked on a thematic co-operation to identify and disseminate good practices and operational suggestions to improve the participation of the SMEs in the CSR movement. The sports good cluster in the State of Punjab had a multi-stakeholder engagement on CSR in 2008. In a study conducted by the UNIDO (2008) on CSR perceptions and activities in SMEs in five industrial clusters in India, it was found that regardless of the geographical region they hailed from, SMEs tended to behave similarly towards CSR. Many of them considered ‘taking care of their employees internally’ and ‘being involved in community welfare’ as their CSR responsibility. The influence of the personal values of the entrepreneurs in determining the choice of CSR activities found support. The position of the SME in the value

chain and the financial size seems to positively impact the nature of CSR activities undertaken. When markets and large buyers put pressure on the SMEs, activities like worker education, health and safety compliance are undertaken which in the normal course of business would be unlikely to occur.

In the case of clusters, the role of cluster wide CSR activities assumes significance. The leather cluster is plagued by pollution. The operations in leather tanning – washing, stripping, bleaching, chrome tanning and basification – involve the use of very toxic chemicals and its effluents tend to pollute ground water. Collective CSR efforts will include effluent treatment plants. The adoption of common effluent treatment plants and eco-friendly technologies has not become very widespread due to lack of awareness among small firms and also partly due to lack of enforcement of environmental laws amongst small players (EXIM, 2000).

The influence of codes of conduct and certifications on the ethical practices of SMEs in the export sector requires further investigation. The impact of these codes appears to be the highest in industries like garments, carpets, textiles and beverages that are produced for export. The brand and corporate image of the buyer is impacted in the supply chain and, therefore, most exporters comply with these standards. There are hardly any examples of organisations that adopt these codes of conduct while manufacturing for the domestic market. The reality of codes and standards in India as it exists now covers a very small fraction of the Indian market (Sood & Arora, 2006).

Implications for Future Research on CSR

As is evident from the above discussion, while a few exploratory studies have been conducted on SMEs in India, there is still inadequate understanding of the phenomena. However, it appears that more studies on CSR practices in SMEs have been undertaken compared to the research on ethical orientations of the owners/managers of SMEs. One of the interesting aspects that have emerged is the definition. In many countries, the definition of SME is based on employment, while in India the definition of SME is based on fixed assets. These definitions are a product of the varying institutional contexts across nations. Does a political economy perspective of looking at 'national business systems' (Matten & Moon, 2008) provide an alternate lens to understanding SMEs?

There is support in the Indian context also for the influence of personal values of entrepreneurs on CSR practices (Spence & Rutherford, 2003; Murillo & Lozano, 2006). It also appears that external pressures from buyers, markets and industry associations shape the values of the entrepreneurs. What is the role of the personal values of the entrepreneur in the manner in which decisions related to ethics and CSR are being taken?

It is interesting to note that very few studies in the Indian context have taken a business ethics perspective. Does the lack of studies in this field indicate unwillingness on the part of the researchers to probe in to the deeper issues of widely

prevalent corruption and bribery practices and their impact on SMEs? How SME owners manage and cope in these contexts is an area for further research.

Most of the studies done in the Indian context have largely been qualitative and exploratory in nature. They have been done also by the NGOs or international agencies and focused on the manufacturing sector. In recent years, the contribution of the services sector to the Indian economy has been increasing. There have been no studies so far examining the impact of CSR practices in SMEs in the services sector. The emergence of the information technology sector in India during the last decade as a significant contributor to the national economy has raised the expectations of a higher corporate responsibility from these organisations. The Indian Diaspora and returnees have played an integral role in the creation of SMEs in this sector. Therefore, there is a need to understand in depth whether this new generation of Western educated SME owners demonstrate different value systems that influence the state of CSR in the sector.

As is evident from the literature review, there is a dearth of research studies on understanding the role of ethics and CSR in SMEs in India. Some of the research areas that emerge are as follows:

- How effective are industry associations in influencing the state of CSR in SMEs? What is the nature and character of this influence?
- Is the CSR intervention at a cluster level likely to be more successful than at the level of the firm? One could explore this question from multiple perspectives – the economic perspective with reduced costs arising out of a cluster orientation, and the cultural context in which peer and community pressure of participation could induce a spill-over effect on CSR practices. Since a number of SMEs in a cluster could significantly impact the field of sustainability and environment, this topic assumes greater significance.
- How do SMEs that engage in CSR manage the additional costs of being responsible? It appears that unlike large corporations, they do not have a market or consumer incentive to be ethical or behave responsibly.
- How do owners engage with the various stakeholders on critical ethical aspects? What are the stances adopted by them? There is an urgent need for research at multiple levels – at the individual, organisation and the industry level.
- What are the variables that impact the adoption of CSR practices by SMEs?

Conclusion

Since SMEs contribute significantly to the economy and are geographically widely spread in a country like India, their adoption of CSR and ethical practices is crucial to a balanced development. There is a paucity of academic research in this area. In a vast country like India, comprising of 28 states which are economically at different stages of development, a study of the intra-country similarities and differences in adoption of CSR practices in SMEs could be a valuable exercise for policy makers.

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Chapter 5
Latin America: Ethics and Corporate Social Responsibility in Latin American Small and Medium Sized Enterprises: Challenging Development

Maria Cecilia Coutinho de Arruda

Introduction

Ethics in small and medium sized enterprises (SMEs) has not been a significant focus of academic studies in Latin America and the Caribbean.

Latin America is a diversified region. Geographically, North, Central, South America and the Caribbean countries are gathered. Some figures help to understand the region's situation. In 2008, the Gross Domestic Product (GDP) of Latin America and the Caribbean grew by 4.6%, and per capita GDP rose by 3.5%. Most countries have presented a positive economic performance, perhaps in a slower, but always increasing path. For instance, in 2008, the region registered its fifth consecutive year of substantive growth, with GDP expanding by about 5.4%, and the per capita GDP by 3.3% (ECLAC, 2008).

These countries are different in terms of the Latin-European cultural influences, as well as racial and economic issues. Such facts impact the size and characteristics of industries. While SME research has been deeply developed in Europe and North America, Latin America, as a unit of analysis, is still new and rare. Therefore, it is not easy to reach a consensus about the SME definition.

Although around 90% of Latin American firms are small, the availability of statistical data is limited, and precise information for business is costly. Given this, any research project related to Latin American enterprises, involving a search for information not directly related to business profits, requires a significant investment.

SMEs have increased in number, due to many reasons. International crises, wars and globalisation have impacted the employment level, mainly in multinational companies (MNC). As an example, Brazilian micro, small and medium sized enterprises (MSMEs) experienced 22.1% growth in the period from 2001 to 2004. This number includes formal and informal enterprises (SEBRAE, 2006). Many professionals with expertise in specific areas decided to open their own businesses, often

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becoming suppliers for the same companies for which they previously worked. Nowadays, upper middle class citizens are responsible for about 10% of SMEs. Created upon innovative ideas, product concepts or processes based on leader's expertise, the opportunities have been offered in market niches.

The Global Entrepreneurship Monitor world ranks Latin American countries and the Caribbean as having the most entrepreneurs in 2008. Bolivia occupied the first position in the ranking, showing a TEA index (early stage entrepreneurial activity) of 29.82, which means that one out of every three Bolivians developed some entrepreneurial activity. Peru held the second position, with the TEA of 25.57, i.e. one in four Peruvians developed entrepreneurial activities. Other Latin American countries had similar indexes: Mexico (13.09), Chile (13.08), Brazil (12.02), and Uruguay (11.90). It is interesting to notice in the 2008 GEM Survey that developed countries, such as Belgium, Germany and Russia were ranked last (GEM, 2008: 24).

In reality, serious ethical issues can be seen at micro, meso and macro levels. The SMEs are now finding ways to discuss such issues, as they receive support from international agencies, local government and specific stakeholders. Corporate social responsibility (CSR) has been mostly taken into consideration in large corporations in Latin America. The author considers how the region has naturally started applying it in SMEs' strategies and practices, i.e. a mix of all three levels. With regional integration, a network of organisations and associations of business leaders helped to become socially responsible through a variety of initiatives. The objective of this paper is to discuss the SMEs' social contribution to the regional economic development, based on documental research and data provided by academics, practitioners, leaders of NGOs, experts in Business Ethics (BE) and CSR. Some of them are Alter (2003); Ashley (2002); Haslam (2008); Ibarra (2007); Khagram et al. (2004); Kliksberg (2003); Oliveira (2008); Paladino (2007); Peinado-Vara (2005); Preziosa (2005); SEBRAE (2005a, 2006); Vives et al. (2005a); Wharton (2007); and Zevallos (2003).

Defining Small and Medium Sized Enterprises in Latin America

The concept of SMEs varies in different countries or regions. Aiming to promote the development of SMEs in Spanish and Portuguese speaking countries, the Organizacion Latinoamericana de Micro y Pequenas Empresas – OLAMP (Latin American Organisation of Micro and Small Sized Enterprises), an international non-profit organisation, was created and integrates more than 30 public and private institutions. It gathers 19 nations (most of which are in Latin America: Argentina, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Paraguay, Peru, Uruguay, and Venezuela) and business associations (Confederacion Bolivariana de Venezuela de la Micro, Pequena y Mediana Empresa – CONFEDEMPRESA-MIPYME; Comision Empresaria MIPYMES MERCOSUR, Argentina; Confederacion Latinoamericana y del Caribe de la

Table 5.1 Classification of enterprises by number of employees and value assets

Size	Workers	Value assets (minimum wages)
Small size enterprise	11–50	501–5,000
Medium size enterprise	51–200	5001–30,000

Source: OLAMP (2004)

Pequena y Mediana Empresa – CLAMPI, Colombia). Table 5.1 shows OLAMP's contribution to research projects, defining parameters to measure the size of such enterprises. As a limitation, they do not take into account the micro sized enterprises, which happen to be the majority in the region.

Researchers at the Comision Economica para America Latina y el Caribe – CEPAL (Economic Commission for Latin America and Caribbean – ECLAC) have gathered information from different sources and criteria to define MSMEs in the region (FUNDES, 2002:4).

In a rigorous approach, Angelelli et al. (2007) discuss the extreme difficulty to present a comprehensive definition of enterprise sizes in Latin America, due to differences in sectors and a wide diversity in markets and national economies. Aiming at a most homogeneous figure, their study indicates several indexes used by 18 Latin American countries (LAC), as number of employees, sales, assets, and a combination of other competitive and collaborative units.

Argentina, for instance, considers annual sales. Colombia and Chile define size as a criterion, based on the number of employees and an economic variable. Among others, Brazil, El Salvador, Peru and Venezuela work with their own definitions. Therefore, there is no consensus concerning criteria (Vives et al., 2005a:18).

For the purpose of this paper, the author understands that there are many similarities in LAC. As Central America and the Caribbean have small economic and demographic participation in the region (Peters & Waltring, 2003), they will always be included in the analysis.

Latin American and Caribbean countries went through economic and political reforms in the 1980s and 1990s: liberalisation of markets, privatisation of several industries for which the public sector had been responsible, and price stabilisation. New ways to develop the countries aimed at better social conditions (ECLAC, 1994).

Many organisations are concerned about capacitating early stage business leaders and professionals in SMEs. In Brazil, the Servico Brasileiro de Apoio as Micro e Pequenas Empresas – SEBRAE (Brazilian service to support micro and small sized enterprises) has largely offered programmes meaning to develop managerial skills, technology information, education in accounting and economics, qualifying citizens to access the market. Other institutions aim at similar objectives throughout Latin America. Exchanging experiences has proved to be a good help to the leaders. According to the SEBRAE Observatory, micro and small sized enterprises represent 98% of the private sector organisations in Brazil (SEBRAE, 2005a).

Table 5.2 Number of micro enterprises by size of the economy and population

Country/region	2004 GDP (US$ billions)	2004 Population (millions)	Number of MSMEs	People per MSME
Brazil	599.8	179.1	4, 903, 268	37
Mexico	676.5	106.2	2998, 449	35
Venezuela	107.5	26.2	2, 909, 594	9
Argentina	151.9	37.9	2, 187, 874	17
Ecuador	29.9	13.4	1, 043, 440	13
Chile	93.7	16.0	700, 014	23
Colombia	95.2	45.3	684, 646	66
Peru	67.9	27.5	658, 837	42
Paraguay	7.0	6.0	548, 000	11
Bolivia	9.4	8.8	501, 333	18
Dom. Rep.	19.4	8.8	355, 175	25
El Salvador	15.8	6.7	264, 914	25
Honduras	7.4	7.0	257, 953	27
Guatemala	26.1	12.7	173, 699	73
Uruguay	12.0	3.4	143, 035	24
Costa Rica	18.5	4.2	73, 518	57
Nicaragua	4.4	5.6	54, 953	102
Panama	13.8	3.2	39, 636	81
Region total	**1,956.2**	**518.0**	**18,498,338**	**28**
Europe	**12,213.0**	**460.0**	**23,000,000**	**20**

Source: Angelelli, Moudry & Llisterri (2007:38)

An interesting comparison to European data allows a perception of the micro sized enterprises' important role in Latin America (Table 5.2).

Aiming at the future, the economic scenario seems optimistic for many Latin American countries, given their characteristic of raw material exporters. On the other hand, the wealth concentration has constantly increased in most nations in the region (Schwartzman, 2000).

Public policies seem not to be sufficiently strong to correct the extreme disparities found in countries, such as Brazil and Peru. This opens good opportunities for private initiatives through micro and small sized enterprises that find niches in the market. They contribute for a better distribution of wealth at the same time as they stimulate higher quality of education and other social services (Sainz & La Fuente, 2001).

The Role of Latin American SMEs in Society

In the last two decades, MSMEs reached an important position in the development agenda of many countries as effective job and wealth creators. Looking at the impact in society, some public policies help them to overcome obstacles in production and marketing, preparing them to compete with large corporations (Oliveira, 2008).

Leaders of Latin American SMEs seem to be seriously concerned with the North-South inequalities (Kliksberg, 2003). Regional social problems seem to become more accentuated. The globalisation process has not helped to reduce them as much as expected.

There is a large spectrum of meanings around the business ethics (BE) and CSR concepts. Because of the strong wealth discrepancies existent in most Latin American countries, terms such as philanthropy, charity, social assistance and grants have often been indistinctly used in the media, in business, in churches and in communities. These concepts are not clear in the business arena yet.

In the 1950s, the internationalisation of multinational corporations (MNCs) raised ethical concerns. Facing cultural shocks, the MNCs developed codes of ethics or codes of conduct to assure that their core values were seriously preserved in the subsidiaries throughout the world. Social and economic constraints could create opportunities for less ethical procedures. There is an increasing focus on individual values and ethics, on human dignity and transparency. Compliance with the law became a bottom line in the formulation of business strategies, which was not so common in other times. Despite this concern from the headquarters, social problems were clear and concrete in Latin America.

With good intention, most people tried to solve short-term problems. Professionalism was needed to organise programmes and actions in order to effectively find permanent solutions.

In the early 2000s, Brazilian CSR movements apparently started to influence other Latin American countries substantially. The challenge has been to be persistent and hopeful. For many reasons, Latin Americans seem to have lost self-esteem. A SME leader's first priority may be to help the employees, and citizens in general, to recuperate the trust in themselves and the sense that it is worthwhile struggling for a better economy. Representing around 90% of the economy (in number of firms), the contribution of SMEs to the GNP is only about 5%, which is a paradox. A partnership between large and small sized enterprises has to effectively occur, concerning CSR. This effort requires organisation and articulation, so that the programmes become more focused and effective.

CSR has recently started to be seen not as a matter of financial resources invested in social projects, but as a philosophy that determines the relationship between SMEs and all stakeholders. As examples, it is positive to see how Latin American SMEs open opportunities for older workers – over 35 years of age, for instance – while large companies fire, more than hire them. Women seem still to be discriminated against concerning wages, compared to men. SMEs have shown to be the alternative for many women who started their own businesses. Frequently they become the most important – if not the only – financial support in the family.

By 1990, several Latin American business leaders started to mention CSR, meaning philanthropy, corporate citizenship, social investment or donation, just to summarise some of the many different denominations for the CSR concept. The academicians were not included – or invited to participate – in such a discussion. The terms were not clearly defined in the business field, generating strong bias around the theoretical rigour. This fact has raised not only semantic issues, but eventually

wrong practical applications of the concept. Many non-governmental organisations (NGOs) are legally created, but do not fulfill their objectives. This recalls the importance of having ethics as the basis of the CSR concept. The current situation is that ideas are more important than concepts. For instance, while codes of ethics were the most important CSR tools in the late 1990s, social balance sheet, social investment, socio-environment, sustainable development and, now, transparency and reputation have become the key words in the area, with no clear definitions. Despite the effort of academics, mostly in South America and Mexico, there is a need for deeper studies in BE and in CSR.

CSR Activities in Latin America

As in many other regions, ethics has not been considered a crucial topic or a priority for business leaders, mostly in large corporations in Latin America. Nevertheless, significant amounts of resources have been dedicated to huge social projects, which show the generosity of top managers in many companies. Considering the fiscal benefits that governments offer to the large profitable organisations, more educated citizens often show some skepticism concerning CSR. Expensive social reports have been written, showing their professionalism, but at the same time their subtle, tenuous or clear marketing intention.

Because of the proximity of owners or investors, Latin American MSNEs usually do not create codes of ethics. Occasionally, when they stand as MNCs' subsidiaries, they follow the company code of ethics or conduct (Agatiello, 2003). Compliance remains contestable, due to their 'flexible' culture (as the Brazilian *jeitinho*: always find a way, no matter what and how you do it).

It is typical of Latin American SMEs to understand and participate in social, cultural and political initiatives, indicating commitment towards the local needs. Family businesses are seen as ethical and philanthropic, which does not call so much attention as often happens with large corporations (UNIDO s/d). The amount of resources dedicated to philanthropy is scarce, given the economic limitations of the enterprises' size.

Aiming at the Global Compact principles of good corporate citizenship, the United Nations Industrial Development Organisation (UNIDO) developed the Operational Guide for SMEs, emphasising the significant impact of CSR in the countries or regions. Actually, many Latin American MSMEs seem not to be particularly interested in this manual, as they feel closely committed with the institutions that care about the social problems around them, mostly related to poverty alleviation. Donations, more than investment, are the way they choose to show their CSR concern.

The UNIDO's expression 'silent CSR' seems quite appropriate for MSMEs' leaders in Latin America. The legislation does not allow them to be more generous with their financial support, as they truly struggle for survival. Those legally established try to be as socially and environmentally responsible as possible, in their operations and in their supplying activities. This does not mean that they are not

aware of all the CSR movement in the country. They just have to be prudent, as changes in regulation make them unstable.

In Latin America, the CSR movement became more active in the late 1990s, when the market required more ethics and transparency in business. SMEs could not be left out of this concern, as the opportunities for initiatives were appearing.

Large corporations started to hire professionals dedicated exclusively to CSR. They analyse proposals, organise internal programmes, and manage the concern with the community. Business schools, as well as all careers in universities, together with volunteer programmes, have dealt with CSR. A Latin American network started to be established, as a consequence of a culture of responsibility and social good. In this context, Latin American SMEs joined the network, although their participation had to be quite different from that of the large corporations. Teaching entrepreneurship has been a good opportunity to bring up the role of SMEs in society and their effective potential contribution.

Hundreds of institutions have dealt differently with CSR, social investment or philanthropic activities, emphasising topics as informality, poverty alleviation, corruption, interaction with stakeholders, social and environmental responsibility, sustainable development, volunteer work, solidarity and gender, among others. Some aspects that the author considered more relevant for MSMEs are discussed in this paper.

Informality

A politically correct expression for illegal economic activities has frequently been used in the business world and in the means of communication in Latin America: informality. It can be either a 'domestic market', meaning sales of homemade products directly to consumers, or clandestine manufacturing industries operating in non-established firms.

In this sense, informality in Latin America is a reality that usually is not reflected in most statistical data provided by governmental agencies. Nevertheless, they have a significant impact in the economy of the region. Some figures help to understand their importance:

- 56% of Latin American urban workers are employed in the informal sector;
- informal self-employed workers account for 24% of urban jobs, while informal salaried workers make up about 30%;
- young people hold more than half of the jobs in the informal wage sector;
- in Brazil, 76% of micro sized enterprises lack a license to operate and 94% do not pay taxes; and
- in Nicaragua, less than 7% of micro sized enterprises have more than two employees after three years of operation (World Bank, 2008).

Perry et al. (2007) study the phenomena with two approaches: *exit*, for many reasons, such as lack of jobs and cost restraints to access the format market; and

exclusion, motivated by cost-benefit advantages, such as easier possibilities of tax evasion, flexibility to create jobs with no commitment to provide welfare plans, such as health and life insurance, and pensions to reduce the worker risk. The authors consider informal workers as independent and informal salaried. Independent would mean experienced self-employed or micro entrepreneurs that voluntary chose the informality for its flexibility and autonomy. The informal salaried, mostly young, would be workers that prefer a formal or independent job.

As informal MSMEs become successful, it is often imperative that they enter the formal market. In the same study Perry et al. present some figures of an IFC survey held in Bolivia, Peru, Brazil, Honduras and Nicaragua indicating the advantages for this formalisation: compliance with the law (47%); avoidance of paying fines (20%); increase in the number of clients (14%); avoidance of paying bribes (9%); better access to credit (8%); better compliance with the contracts (2%).

In fact, the informality creates a gap between the micro and the large sized enterprises:

> Another complexity lies in the so-called 'missing middle', this intermediary sector which is missing in the statistics and based on the observation that the distribution of employment in a country is generally bi-modal: Many jobs are created by the micro-enterprises of the informal sector, many jobs are created by large firms and in the middle, small and medium enterprises are missing, giving room to the interpretation of an absence of transition from informal to formal. . . . Of course the missing middle is of particular interest because these enterprises are precisely at the margin, trying to push the borders of informality further.
>
> (Perry et al., 2007:2)

In some Latin American countries, the governments are creating mechanisms to discourage the informality of MSMEs: SARE Programme in Mexico (less bureaucracy for registration) and Brazilian SIMPLES Programme (tax reduction).

The ethical perspective of such a reality is complex. On one hand, informal enterprises cause unfair competition, as their prizes become more attractive to customers. In the long run, they negatively impact the economy as a whole. Also, an extremely large number of entrepreneurs and employees, citizens after all, live in the illegality. Very important is the fact that these workers, mainly the young generation, may get used to not struggling to find a formal and stable job, and therefore do not contribute to build an economically and morally sustainable society. On the other hand, the reality of low per capita income drives workers to any source of job that can guarantee their survival. This vicious circle can only be broken by strong and courageous public policies that should be implemented by ethical governmental agents committed to social justice. The low level of education has made Latin American citizens elect representatives that often do not take ethics and social responsibility into consideration, neglecting the democratic principles of their constitutions. For instance, in Brazil the government offers so many different kinds of financial support (subsidies) for the poorest segment of the population (including here the unemployed citizens), that there is no incentive for these people to look for a job. As a consequence, the economic development suffers a negative impact in the long run (OECD, 2008).

Poverty Alleviation and Job Creation

Mostly, after 1950, the awareness of serious social issues motivated citizens, businesses and not-for-profit organisations to co-operate with the governments in the task of eradicating problems such as poverty, child labour, slavery, and unemployment, among others. The United Nations Millennium Development Goals have encouraged many initiatives.

Through decades, governments allowed many companies and citizens to deduct the payment of income taxes, if they proved to have contributed to philanthropic projects. Several not-for-profit institutions were 'adopted' by businesses, or found in them partners to help them to achieve their goals.

In the last decade, large private companies preferred to create their own foundations or associations. Some of these initiatives came out of needs that the business itself required. For instance, educational institutions prepared teenagers for their first job. In some cases, government, not-for-profit organisations and businesses invested in joint projects to develop abilities in young students, preparing them to assume technical positions in all sorts of firms.

Recently, leading business schools in Latin America have developed a CSR programme sponsored by the AVINA Foundation, having the Harvard Business School as a partner. Their goal is to support social entrepreneurship, aiming basically to reduce poverty.

The SMEs have been significantly responsible for the generation of job positions. The large size companies, aiming to increase the productivity required by globalisation, have continuously looked for innovative processes, tending to robotise their plants with the dismissal of innumerable employees. Nevertheless, instead of supporting the SME, the governments of most Latin American countries seem to underestimate them or to postpone solutions for the problems they face.

The Brazilian Lei Geral das Micro e Pequenas Empresas (Lei Complementar n. 123, December 14, 2006 – General Law for micro and small sized enterprises), legislation concerning micro and small sized enterprises, was recently updated with the intention of generating job positions, improving the wealth distribution, promoting social inclusion and offering incentives to innovation, among other benefits. A significant tax reduction was established for SMEs with annual total revenue below US$1,150,000. Some areas could have even more benefits. It is expected that other Latin American countries also start to offer better legal conditions for SMEs.

Despite their small number of workers per establishment, in the last years more jobs have been created in the micro than in medium and large sized organisations. This is one of the important findings of the Relacao Anual de Informacoes Sociais (Rais – Annual Report on Social Information), prepared by the Brazilian government. According to this Report, in the period of 1995 to 2000, small sized business with less than 100 employees created 96% of new jobs in Brazil. Similar figures seem to express the reality in other Latin American countries.

Nowadays, Brazilian entrepreneurs face a serious challenge: the fear of hiring. Some of the reasons are: the very high amount of social taxes, which reach over

103% of the worker's wage; a significant bureaucracy meaning financial costs, attention, time and anger; a relative insecurity concerning the excessively protector behaviour enforced by the labour laws and justice; the fear of fiscal actions by the Labour Ministry, which often allow simultaneous action and judgment; a joint responsibility concerning third parties; suing for moral damage when workers experience unfairness; a judge's power to block a banking account in a labour litigation; and the volume and complexity of legal obligations.

For instance, despite the size or industry, a Brazilian entrepreneur has to follow:

- 46 constitutional requirements;
- 922 articles of the Consolidacao do Trabalho (CLT – Labour consolidation of laws and rules);
- 200 specific laws and rules;
- 79 conventions of the Organizacao Internacional do Trabalho (OIT – International Labour Organisation);
- more than 120 ministerial rules;
- more than 30 regulation norms, with more than 2,000 requirements of safety and labour medicine;
- more than 60 rules of labour fiscal actions; and
- more than 300 decisions of the Tribunal Superior do Trabalho (TST – Labour Supreme Court) and obligations generated in union agreements, besides a large number of contradictions of the Brazilian courts (Penha, 2007: B2).

More information was intentionally offered here about Brazil, as this country seems to have played a leading role in the CSR movement in Latin America. There is an expectation that similar measures and procedures will occur or already occur in the rest of the region.

Corruption

The fact that MSMEs employ the largest number of workers in Latin American countries is a CSR concern. As the MSMEs invest in their employees, they will become more conscious of their political role in society.

CSR in Latin America will contribute to the economy, as formal jobs can replace the current informality. As governments reduce taxes for MSMEs, business leaders will avoid fraud and other unethical conducts, and will find conditions to employ more human and financial resources, increasing their contribution to society as a whole (Schiappa-Pietra, 1998).

The concept of hospitality, loyalty and friendliness is often used as a synonym for corruption, meaning short-term gains as gift-giving, bribery, use of public resources for one's personal benefit (i.e. the recent scandal of Brazilian corporate credit cards handled by governmental leaders). Although most citizens notice the ethical problems, their concern is not quite reflected in the elections.

Aiming to support SMEs, Itacarambi (2007) understands that the quality of an organisation's culture can become an attribute of competitiveness, the same way as administrative-financial variables, price, excellence of products and services. He comments on how the society as a whole starts to evaluate intangible criteria, such as transparency in governance, compliance and ethical values. Business citizenship is perceived according to: the level of participation of the enterprises in the problem-solving process; and the commitment and effectiveness of the enterprise in balancing public and private benefits of its activities, measured by its economic, social and environmental results.

Interaction with External Stakeholders

Whenever ethics is not clearly the basis for CSR, any inconsistencies perceived by consumers, suppliers, clients or any stakeholder impacts negatively on the results. As a consequence, there is a loss of trust and reputation with a denigrating image. Even financially, it is not easy to recuperate the stakeholders' disappointment.

Once this is true, the organisation urgently needs a CSR programme. In this situation, the stakeholders have a special interest in offering their contribution. For investors or owners, consistency and transparency become a tool for business and for the common good. Top managers and workers easily verbalise this philosophy. Actually, what can be observed is that it is still difficult to transform ideas into actions.

> The 'CSR System' . . . theorises the key relationships and influences on the development of the CSR culture in the region. It defines the major actors working to promote CSR in the hemisphere as multilateral organisations, governments, private firms, private foreign foundations, educational institutions, and civil society organisations.
>
> (Kliksberg, 2003)

What relates to the government, tax evasion and informality seems to be necessary for MSMEs to survive or succeed in some Brazilian economic sectors. In order to reach higher ethical standards, a better relationship between MSMEs and the government is mandatory. A fair labour legislation and lower taxation would contribute for MSMEs' higher road, in terms of business ethics.

Considering the relationship of MSMEs with their stakeholders, or the several parts specifically interested in the organisation, special attention has been given to strategic partners and the government, due to the large number of MSMEs operating in the informality.

Ethics Within SMEs

It is understood that the core of CSR has to be personal ethics. 'Be good to do good' has shown to be the root of a real CSR. In general, all individuals in a company are equally responsible for good performance, but the means to reach the business

goals are not always the most ethical. Leaders have the responsibility to offer ethical examples, to make sure that an effective ethical climate is a result of individual efforts. CSR starts inside the firms. Good products, fair salaries, punctual payments, respect towards the workers, suppliers, clients and competitors, among other factors, may assure that CSR is a serious concern in a company.

> The segment of small businesses is one of the main pillars of sustaining the national economy, either for the number of enterprises and geographic distribution, or for their capacity of generating jobs. Even if recognised by its social and economic importance, the sector finds serious obstacles for its growth, sustainability and competitiveness.
>
> (Gianni, 2007)

As in any other sized enterprises in Latin America, many ethical problems are easily found in MSMEs: Unfairly dealing with employees, inappropriate use of company resources, and fraud, among others.

Being ethical and successful has become a challenge for MSMEs. Labour legislation seems to be the most negative burden for entrepreneurs. While it is crucial to guarantee a minimum respect for the rights of workers, the legislation at times appears to be excessively protective. In Brazil, labour conflicts usually benefit the worker.

The CSR discussion has focused on individual firm case studies, best practices, and philosophical and moral support to encourage the adoption of codes of ethics. While it became usual for large companies, it is not so common for MSMEs in Latin America. Several organisations have tried to support them in creating their codes. Given the limited number of employees, a written code has often been perceived as useless, as the mission and the principles of owners or investors are clear to all. Once the MSMEs operate as subsidiaries of MNCs, they are required to follow the headquarters' ethical policies.

Large corporations have made efforts to encourage their direct suppliers, and through them the whole supply chain, to take ethics and CSR into account in their decision-making and in their relationship with all stakeholders.

Ethics and Sustainability

Mainly after the crash of 2008, it is interesting to notice how ethics impacts Latin American SMEs' sustainability and vice versa. In other words, to what extent companies' financial security impacts their ethical behaviour.

While many SMEs have been created in Latin America, others have soon gone into bankruptcy. Often SMEs' owners are unable to position themselves in the market, even if they offer good products, services or ideas. They frequently start their business as a micro sized enterprise and become successful. Based upon the initial positive results, their goal is to make the firm a SME. In order to survive, some of these business leaders go into informality or illegally withhold practices. Others are not prepared to manage the business. The inefficiency may lead to fraud, intentional tax evasion, bribery and unemployment. Qualified employees are replaced by less

competent workers, as lower wages imply a cost reduction. Aiming to compete with large corporations, the Latin American SMEs would need to rely on appropriate legislation to protect them: taxes compatible with their conditions; agility to assure patents in their innovation processes; piracy control; and support against predatory competition.

Survival and sustainability have been major concerns. The 2004 SEBRAE Report (2005b) on SMEs' mortality indicated that 49.9% close their activities before 2 years of existence; 56.4% before 3 years; and 59.9% before 4 years. In order to obtain gains of scale and to reach better conditions to negotiate, SMEs have organised associations that allow them to buy from large suppliers and exchange managerial experiences. The same way as in Brazil, this initiative seems to have increased the SME's competitiveness in Latin America.

Apparently most companies certified by SAI are large sized. The SA 8000 will strengthen the relationship with the community, in a concrete commitment with the sustainable development, better competitiveness and stronger corporate image. In order to remain competitive, the SMEs have to adopt some environmental controls as they provide goods and services for large companies. In this sense, the large corporations require several conditions to keep SMEs in their list of suppliers.

A Brazilian survey developed in 2003 by the Confederacao Nacional da Industria (CNI – National Confederation of Manufacturing Companies) indicates that 68.5% of the SMEs had some sort of environmental control. In 2006, 73.5% of them already had some programme in this area. As a matter of survival, 92.9% of pharmaceutical enterprises show environmental care, as well as 92.3% of chemical manufacturing businesses, 91.3 % of the leather industry and 90.9% of paper industry. According to this survey, rules and legislation encourage the enterprises to adopt environmental controls. In 60% of the businesses, the leaders understand that the environmental protection improves the institutional image, while 17% notice a cost reduction (CNI, 2006). Every enterprise reports to different levels of Health and Environmental governmental agencies, depending on the city, state or national regulation for specific industries.

In order to remain competitive, the SMEs have to adopt some environmental controls as they provide goods and services for large companies. In this sense, the large corporations require several conditions to keep SMEs in their list of suppliers.

Governmental agencies usually react with moroseness in offering licences to new operations. Corruption is also a limitation in this aspect. If environmental protection is not concrete, SMEs have to pay fines. If they improve their technology, meaning to preserve the environment, the licences are not easily obtained.

Developments of CSR in Latin America

Given that the concepts are not clear, what becomes more concrete and appealing to business leaders is to create or adopt CSR indicators, or to show interest in the Global Report Initiative (GRI), and the Millennium Development Goals (Pinto, 2005). Conferences, seminars and workshops are frequently organised to increase

sensitivity to the main issues. Unfortunately, the results seem not to be proportional, or actions appear to be mostly marketing oriented. Few large corporations seem to develop serious internal programmes in Latin America. MNCs bring their codes of ethics, which seldom are appropriately discussed with employees in the subsidiaries or suppliers. Therefore, SMEs usually do not create ethics or CSR policies, assuming that the owners or investors are physically close to employees and their values are tacitly communicated and perpetuated. In order to obtain gains of scale and to reach better conditions to negotiate, SMEs have organised associations that allow them to buy from large suppliers and exchange managerial experiences. This initiative has increased the SME's competitiveness. This *Associativismo* has attracted many SMEs in Latin America.

Vives et al. (2005a) carried out a survey about eight Latin American and Caribbean SMEs' perspectives to invest in internal, external and environmental activities of CSR in the period from 2005 to 2008. Internal responsibility was related to socially and environmentally responsible attitudes towards the health and well being of workers, training and participation in the business, equal opportunities, work-family relationships, and some corporate governance practices (independent audits, CSR in suppliers, and internal control of corruption practices). External responsibility was understood as support for social and cultural community activities, as well as community development and other issues. Environmental responsibility embraced activities related to the decrease of the environmental impact of their operations, reduction of waste and consumption of natural resources, and recycling, among others.

Although Vives et al. (2005a) developed the three responsibilities in the survey, only the results of the external are summarised in Table 5.3. The reason for this is that the citizens' perception relies on external CSR activities, and not as much on internal or environmental activities.

Latin American and Caribbean countries have received support from the Inter-American Development Bank (IADB) to increase their competitiveness. Certainly many SMEs benefited. Non-governmental organisations and networks have promoted programmes, training, and awards to CSR projects, emphasising topics such as sustainable development, poverty, environment, volunteer work, and solidarity.

Following the principles and methods of the Business for Social Responsibility (BSR), the Instituto Ethos deals with CSR in Brazil and supports partner organisations throughout Latin America. Instituto Ethos and SEBRAE (2003) edited a step-by-step CSR manual for SMEs, defining guidelines about:

Table 5.3 Latin American SMEs' perspectives of external CSR activities

Active SMEs in external CSR (%)	Perspectives
55.4	Remain as it is
34.8	Increase support
8.9	No clear idea
1.0	Reduce support

Source: Adapted from Vives et al. (2005a: 81)

1) **Values and Transparency**
Self-Regulation of Conduct
- Ethical Commitments
- Embedding into Organizational Culture

Transparent Relations with Society
- Dialogue with Stakeholders
- Relations with Competition
- Social Reporting

2) **Workforce**
Dialogue and Participation
- Relations with Unions
- Participatory Management

Respect for the Individual
- Commitment to Children's Future
- Valuing Diversity

Decent Work
- Remuneration, Benefits and Career Policy
- Concern for Health, Safety and Working Conditions

3) **Environment**
Responsibility before Future Generations
Management of Environmental Impacts and Product and Service Life Cycle
Reduction of Inputs and Waste of Materials

4) **Suppliers**
Selection, Assessment and Partnership with Suppliers
- Child Labor in the Production Chain
- Relations with Outsourced Workers
- Support for Supplier Development

5) **Consumers and Customers**
Marketing and Communication Policies
Excellence in Consumer Service
Knowledge of Potential Harm Caused by Products and Services

6) **Social Dimension of Consumption**
Marketing and Communication Policies
Excellence in Consumer Service
Knowledge of Potential Harm Caused by Products and Services

7) **Community**
Relations with the local community
Philanthropy/Social Investments

8) **Government and Society**
Political Transparency
- Contributions to Political Campaigns
- Anti-Corruption and Bribery Practices

Social Leadership
- Leadership and Social Influence
- Participation in Governmental Social Projects.
(Ethos, 2003:9–10)

According to this manual, a socially responsible SME becomes more competitive. Prices are not the only factor to be considered. Nowadays, it is extremely important to care about the relationship with all the stakeholders, meaning the many groups related to the enterprise. Products that do not degrade the environment attract new consumers and clients, generating business opportunities and a strong institutional image. The access to credit opens possibilities of growth to SME, if CSR criteria are included in the managerial models. Consumers are more concerned about quality and social issues, demanding better products, services and information.

The CSR programmes can be monitored. The SA 8000, created by Social Accountability International (SAI), is an international certification that could help the SMEs. In a broad definition, the SA 8000 measures the relationship of top managers with employees and the community, as well as how the environment is treated. Apparently, most companies certified by SAI are large sized. The trends are that the stakeholders will require from all firms a socially responsible behaviour. The SA 8000 will strengthen the relationship with the community, in a concrete commitment to sustainable development, better competitiveness and stronger corporate image.

Final Considerations

MSMEs in Latin America have a special role aiming at low-income consumers. In order to achieve this goal, either serving middle or final customers, they have to develop a sustainable and solid CRS network, including social organisations and local governments.

Most Latin American countries' legislators seem not to be as supportive to the SMEs' development as necessary. The recent Brazilian law, for instance, showed a significant step forward in strengthening the importance of SMEs, but did not solve the most serious problems. Anyway, it may serve as benchmarking to the region. Hopefully other initiatives become helpful.

More than ever, Latin American universities have included *Entrepreneurship* classes in their programmes. A new generation of professionals can improve the SMEs' level of quality and results. The countries' economy as a whole will benefit from this.

People who understand their business, do not necessarily rely on adequate knowledge or tools to run their SMEs successfully. In Brazil, SEBRAE is considered an important initiative to reduce this gap. Only in Sao Paulo, 30,000 current or potential SMEs' leaders receive orientation, individually or in groups, every year. This support is offered through classes, workshops, talks, consultancy, and the website (Portugal, 2007).

The current emphasis in CSR activities can be perceived as a benefit that the private sector offers to society. Nevertheless, it is common to see that this attitude, called *citizen-business*, may hide or foster omission on the government side. By not fulfilling their responsibilities, governmental agents often use public resources, mainly those indicated in the stated budget, for less ethical purposes. Corruption may be one of the consequences of such an omission. In this sense, the CSR concept

should eventually be reconsidered, as an inversion of roles and responsibilities may provoke a social disorder, and a lack of social justice. Businesses should not be *penalised* twice. Taxes are not reduced as CSR activities are developed by profitable enterprises. This perspective clarifies why large corporations like to show their CSR budget figures, meaning an investment in marketing, encouraging SMEs to also do it to make sure that they will be good suppliers.

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Chapter 6
New Zealand & Australia: A New Zealand and Australian Overview of Ethics and Sustainability in SMEs

Eva Collins, Carolyn Dickie, and Paull Weber

Introduction

Australia and New Zealand have a long, deep and multifaceted association which is reflected in the similarities that exist between the way that small and medium sized enterprises (SMEs) are investigated and classified on both sides of the Tasman Sea. Unfortunately, in both countries there is an absence of studies focused on ethics and sustainability related to SMEs. This paper begins by describing the Australian and New Zealand context. The link between ethics and sustainability is explained. A definition of SMEs in New Zealand and Australia is given, which both differ somewhat from international definitions. The role of SMEs in society is discussed and an in-depth description of one study in each country covering SMEs and sustainability is presented. The paper concludes with a call for additional research in the area and an elaboration of the authors' own research agenda.

The Australian and New Zealand Context

One reason for the close ties between Australia and New Zealand is the existence of a trans-Tasman agreement on Closer Economic Relationships (CER) which has progressively enhanced the movement of people and trade between two close geographic neighbours. There is also evidence of a shared perspective displayed via the existence of intellectual ties such as the Small Enterprise Association of Australia and New Zealand (SEAANZ) which encourages collaboration between researchers, practitioners, educators and policymakers of both countries. It is because of these

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close ties that this paper can treat the two countries in an amalgamated and themed discussion on ethics and sustainability, whilst still being mindful of the economic, social and geographic differences that do remain.

New Zealand is a small, economically developed nation with a population of just over four million people. Gross national income (GNI) per capita was 22nd out of 30 OECD countries in 2005 (Ministry of Social Development, 2007). By comparison, Australia is ranked 11th in similar OECD rankings (OECD, 2007) and is a much larger and drier continent with an estimated resident population of 21,283,000 as of 31 March 2008 (ABS, 2008). The New Zealand economy relies on primary industries such as farming and forestry and has branded itself internationally as 'clean and green'. Business, particularly the tourism and dairy sectors, have tried to leverage the clean green image through their advertising, but not necessarily their practices (de Bruin & Lewis, 2005).

Australia has a greater reliance on mining as an export income earning endeavour but still possesses a significant tourism industry. This proportionately greater reliance on mining may mean that Australian SMEs are somewhat less focused than their New Zealand counterparts with regard to sustainable practices. Mercer and Marden (2006) have referred to the Australian situation in terms of sustainable development as a 'quarry economy'. However, similar strategies related to sustainability are becoming more evident with the introduction of sustainable tourism practices in Australia described as '... [a] drive to make every tourism business and traveller ecologically and culturally sensitive . . .' (Industry Sustainability, 2006).

In 2003, the New Zealand Government published its policy on sustainable development (DPMC, 2003), stating that 'sustainable development must be at the core of all government policy' (10). In 2006, the government reiterated and strengthened its commitment to sustainable development, suggesting New Zealand 'aim to be the first country which is truly sustainable' (Clark, 2006). New Zealand is also a country dominated by SMEs. In 2006, 96% of enterprises employed 19 or fewer people (Ministry of Economic Development, 2007). In the early 1990s Australia was considered a world leader in developing sustainable business strategies and initiatives. However, since that time little has been added to the original model and Australia is now well behind other developed countries in this regard (Dovers, 2002). This decline in focus clearly has an impact on how business views its social and environmental responsibilities.

There is an inextricable link between ethics and sustainable business practices. As May et al. (2007) suggested in the introduction to their edited volume, both corporate social responsibility and sustainable business are part of a cluster of terms that includes ethical business, sustainable development, socially responsible business, green management and corporate citizenship. Foot & Ross (2004) argue that sustainability or sustainable business can be viewed as a broader concept compared to business ethics or corporate social responsibility; sustainability 'embraces a wider, time-dependent definition of a benefit to society (such as social capital) and focuses on results rather than standards of behaviour . . .' (113).

As noted above, there is a dearth of research on ethics and sustainability related to SMEs in New Zealand and Australia. Perhaps the best known academic research centre dedicated to SMEs in New Zealand is the New Zealand Centre for SME

Research founded at Massey University in Wellington in 2000. Although the centre has a broad array of research topics, to date there has not been a focus on ethics and sustainability. The Ministry for Economic Development conducts an annual survey on the structure and dynamics of SMEs, examining their significance to the economy and their financial performance. The report is in its eighth edition, but does not cover ethical or sustainability practices.

In 2001, the Australian Government began measuring and recording a set of sustainability indicators for Australia, but these were not focused on SMEs (2007a). Other discontinued SME focused government studies in Australia, throughout the 1990s and up until 2004, did not contain a concerted focus on either sustainability or ethics (ABS, 2005).

Noting this general lack of Australian SME information on sustainability, the data relied upon for this overview was extracted from a recently concluded exercise to benchmark SMEs in Western Australia (Weber et al., 2009). In particular, we draw upon the qualitative responses from open-ended questions on success factors to scan for the presence of responses that attribute success to ethical and/or sustainable behaviours. The findings are informative and in many ways mirror the New Zealand experience. Overall it was observed that approximately 10% of survey respondents made an unaided connection between their success and behaving in an ethical manner.

For New Zealand, the data relied upon for this overview was extracted from a multi-year research programme, sponsored by the University of Waikato Management School and the Sustainable Business Network (a network of predominantly small and medium sized organisations interested in sustainability practices), which focuses on the uptake of sustainability practices by New Zealand businesses.[1] One of the data sets from the ongoing study is an evaluation of sustainability practices by firm size, which allows for SME-specific analysis. There has been no other similar research conducted in New Zealand, which is surprising for a country dominated by SMEs and dependent on its clean and green image. Before exploring the details of each country study, it is helpful to clarify what an SME is in New Zealand and Australia.

Defining SMEs in New Zealand and Australia

The New Zealand Ministry of Economic Development (MED) defines a SME as an enterprise with 19 or fewer employees which is the same employment range used by the Australian Bureau of Statistics (ABS) (2007b). These definitions have been criticised because they do not easily align with international definitions (Massey & Ingley, 2007). Table 6.1 contrasts four definitions that have been applied in the two countries.

There are differences in these definitions of SMEs and arguably the profile of most businesses means that even a large firm in New Zealand or Australia would be considered small in other developed countries, such as the United States. The predominance and profile of small business is examined in the next section.

Table 6.1 Definitions of SMEs in New Zealand and Australia

Firm categorisation	MED (2007)	Cameron and Massey (1999)	Collins et al. (2007b)	ABS (2007b)
Non-employing	(i.e. only employ the owners)			
Micro enterprise	–	0–5 employees	–	1–4
Small	0–19	6–49 employees	0–9 employees	5–19
Medium		50–99 employees	10–99 employees	20–199
Large	More than 99	More than 99	More than 99	More than 199

Role of SMEs in Society

'From 2001 to 2006, SMEs accounted for 59% of all new net jobs in the economy' in New Zealand (Ministry of Economic Development, 2007:5). SMEs are dominant across the New Zealand economy, particularly in the property and business services sector (98.7% of businesses) and in the finance and insurance, construction, personal and communication services (Massey & Ingley, 2007). Indeed, these enterprises are often run by a sole trader or as a micro enterprise. The MED survey on SMEs for 2006 found:

- 96% of enterprises employed 19 or fewer people;
- 87% of enterprises employed five or fewer people; and
- 64% of enterprises had no employees (Ministry of Economic Development, 2007).

The role of SMEs in Australia is similarly pervasive with the following data drawn from surveys conducted by the ABS (2007b) finding that at the end of the 2006 financial year (June 30):

- 95.90 % of enterprises employed 19 or fewer people;
- 84.29 % of enterprises employed 4^2 or fewer people; and
- 59.05 % of enterprises had no employees.

From viewing both sets of data, it is clear that the predominance of very small businesses could make it difficult for government to reach and engage them to achieve policy objectives. These companies tend to be 'small, closely held firms that, while sharing some of the features of large firms, will be dissimilar in their legal structure, market scope and management practices' (Massey & Ingley, 2007:6). In addition, researchers are challenged to identify and solicit information from business owners with limited time and whose resources tend to be focused on economic survival. This may be one reason for the paucity of research on SMEs and ethics. Researchers in Western Australia report similar challenges engaging with the small business community with a recent pilot study to benchmark SMEs (Curtin Business

School, 2008). The next section is a detailed description of one multi-year study focused on the uptake of sustainability practices with SME data in New Zealand and some matching observations from the raw data collected via the Western Australian Small Business Benchmarks (WASBB) initiative (2008).

Ethics and Sustainability in New Zealand

An ongoing research project sets out to examine the nature and extent of business adoption of sustainability practices in New Zealand. In 2003, members of the Sustainable Business Network (SBN) and a matched sample of non-SBN members taken from the Kompass database, were surveyed. Surveys were mailed to 1,843 CEOs or owners of organisations. There was a 44% response rate.

With a random sample of 30 of these survey respondents, follow-up interviews and focus groups were conducted in 2004/2005. In most cases the company's managing director or CEO participated. The focus groups and semi-structured interviews were designed to discuss the survey instrument and gain a deeper understanding of sustainability practices and concepts.

In 2006, the 2003 survey respondents were re-surveyed. The survey instrument remained the same. As in 2003, the survey instrument was posted to all the members of the Sustainable Business Network plus a sample of non-SBN members from the Kompass database to enable a comparison between the two. In total 1,710 questionnaires were mailed. There was a 30% response rate.

The results were collated into three different data sets: (i) 2003 vs. 2006; (ii) SBN members vs. non-members; and (iii) comparisons by firm size (Collins et al., 2007b). This paper focuses on the third data set, firm size and the quotes below are from the focus groups and interviews.

Although earlier research had been conducted on the adoption of environmental practices by New Zealand businesses (Springett, 2003), it was focused on large businesses. The Collins et al. (2007b) study was the first national survey to include businesses of all sizes and collect data on environmental and social practices. By broadening the study beyond large firms, the researchers were able to consider New Zealand's unique business profile, with its predominance of small and medium enterprises. The breakdown by business size for the Collins et al. (2007b) survey is:

- small (less than nine employees) – 181 respondents;
- medium (ten to 99 employees) – 208 respondents; and
- large (more than 99 employees) – 112 respondents.

The findings in 2006 were similar to the 2003 findings, where size was found to be a significant predictor of the uptake in sustainability practices. Large firms had higher uptakes of both environmental and social practices and reported higher levels of internal and external pressure to adopt these practices. Consistent with

international research (Ammenberg & Hjelm, 2003; Simpson et al., 2004), small firms in New Zealand did not believe they had much of an environmental or social impact:

> We have a very small staff, only 13 people on staff. So, whatever we do in the area of sustainability or social responsibility is certainly on a very small scale.
> (Collins et al., 2007b:28).

Other business managers said financial pressures prevented them from becoming more engaged in sustainability issues:

> Obviously our first goal is to make our profit at the end of this financial year. So, obviously we can't afford the same things as our larger competitors can afford.
> (Collins et al., 2007b:27)

One focus group participant saw small size in a more positive way:

> I think the size of organisation is a big factor. When you're a small organisation there's different things you can do as opposed to a large corporate. And still do good things, but at different levels and in different ways. So I know when we went through a smaller phase, there was a different feel, more of a family atmosphere in the organisation. As it gets bigger and there's more business pressure. If it's going well financially, there's a lot less pressure to be able to do a few more of these things. Whereas if it's growth, growth, go, go, go, it's much harder, and people are more heads down, rather than doing things that they'd like perhaps to contribute in other ways.
> (Collins et al., 2007b:28)

Figures 6.1 and 6.2 taken from the Collins et al. (2007b) report show the most common social and environmental practices segregated by firm size. For all firms, the uptake of social practices was more common than for environmental practices. Social practices mirrored company size with the smallest uptake coming from small firms.

Although SMEs did not have as high an uptake of sustainability practices as large businesses, the rate of increase from 2003 to 2006 for environmental initiatives was highest among small businesses. This was particularly true for consideration of environmental impacts (an increase of 23% from 2003 compared to 6% increase for large

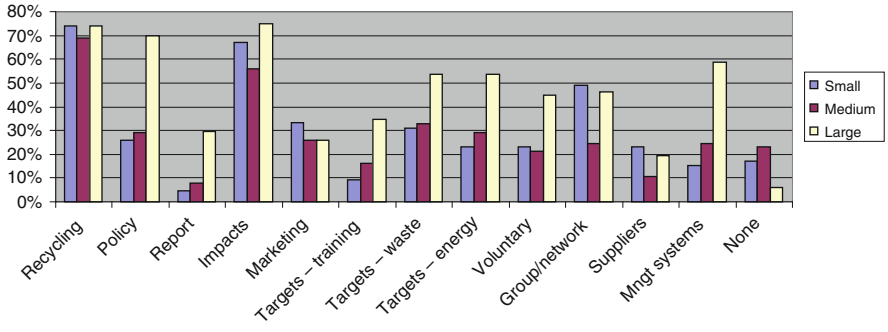

Fig. 6.1 Environmental practices by firm size 2006

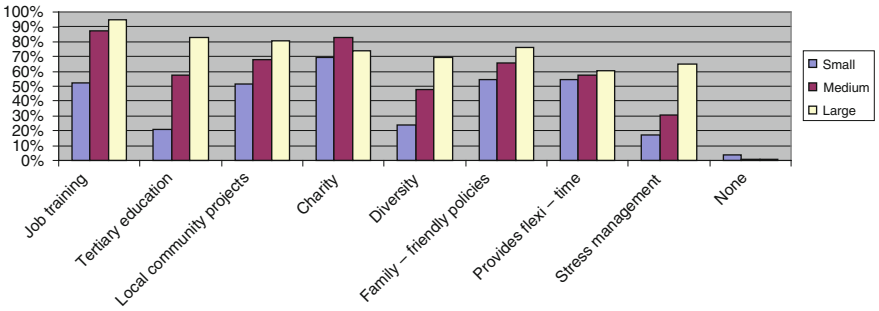

Fig. 6.2 Social practices by firm size 2006

business), joining an environmental group or network (an increase of 20% compared to 6% for large businesses) and having a recycling programme (19% increase compared to 16% increase for large businesses).

A feasible reason for the increased uptake of environmental initiatives was small companies feeling the pressure as larger corporates try to green their supply chain. But, in fact, 61% of small businesses reported receiving no pressure to adopt environmental practices and only 18% reported pressure from their customers. Instead, 48% of small businesses reported values and beliefs of management to be a key driver and 47% cited reputation and brand.

Related to social practices, the most significant change from 2003 to 2006 was a significant increase in the philanthropic practices by only medium sized businesses. From 2003, there was a 13% increase in medium sized businesses giving to charity (compared to 3% for small and 6% for large businesses) and an 11% increase in medium sized businesses giving to local community projects (compared to 3% for small and 5% for large businesses). It is unclear why there was a significant increase for social giving only in medium sized businesses. The second round of interviews from a sample of respondents occurs in 2009 and this is one of the questions pursued by the research team.

Similar to environmental practices, SMEs reported very little internal or external pressure to adopt social practices. Internal pressure might come from stakeholders such as employees, shareholders, boards of directors and/or parent company. External pressure might come from customers, competitors, government and/or interest groups. The biggest shift from 2003 was the reported increase of pressure from employees (from 10% in 2003 to 19% in 2006) reported by small businesses. One explanation for this could be the low unemployment rate in New Zealand and the difficulty in recruiting and retaining staff. One respondent stated:

> . . . employees see it as important – do interesting work on a reasonable salary, but actually what's more important is a good working environment. Work you're doing in the environment that you're working in, tends to be the two key drivers and what you pay people ends up about fourth or fifth on the list. But those two tend to be why people want to stay and join and they'll stay with the organisation at the end of the day.

But, overwhelmingly, the driver for the uptake of social practices was reported as the values and beliefs of managers. It is unclear what is driving the increase in values and beliefs being cited as the motivation for social practices and it is a further area of inquiry being explored in the 2009 round of interviews with survey respondents.

Ethics and Sustainability in Australia

WASBB data were collected via postal and online surveys between May and August 2008 from SMEs throughout Western Australia as part of a project to create performance benchmarks for SMEs across a bank of financial and non-financial performance criteria. Questions of interest from an ethics and sustainability perspective included closed response items on environmental management issues and volunteering. In addition, we examine a range of open responses from the 12% of the participating SME owners who voluntarily attributed their success (at least in part) to environmentally and socially responsible practices. For the purpose of comparison with the New Zealand data results are reported using the same employee size ranges used by Collins et al. (2007b) applied to the WASBB data (comparative-total sample N = 390):

- small (less than nine employees) – 301 respondents;
- medium (ten to 99 employees) – 89 respondents; and
- large (more than 99 employees) – two respondents.

It is important to note that SMEs in many cases will not self-identify as behaving in a sustainable fashion. Weber (2006) has observed in research conducted in Western Australia that SME rural hospitality owners do undertake a wide range of triple bottom line activities without overtly identifying these actions as sustainable practice. As with the New Zealand study, and as noted by researchers (Ammenberg & Hjelm, 2003; Simpson et al., 2004), they simply believe that these are the normal frugal behaviours of good stewards of the land and community. For example, owners of a wine tourism venture in the South West of Western Australia said this of their local community direct competitors:

> We don't really regard any of the other businesses in the valley as competitors, if one of our competitors attracts 500 people in a weekend it is a good thing . . . .
> (in Tassiopoulos, 2008)

Quotes such as this serve to remind us that small business owners may not overtly identify as sustainability focused; even when their attention is drawn to a sustainability agenda the owners may consider the impact of their small business as marginal.

Analysis of three questions (two related to volunteering which were identified as suggesting an ethical business stance and one question relating directly to environmental practices) revealed some enlightening findings from a small subset of responses that focused on ethical issues. Ten of the 19 participants who responded to these questions strongly disagreed with the statement that their business was a

Table 6.2 Social and environmental practice

Question	Q56: Do you permit your staff to volunteer for any community service during business hours? Q57: Do you volunteer for any community service?	Q60: In the past year, have you changed your business processes and practices to reduce your environmental impact (i.e. reducing energy usage, waste and raw materials consumption).
Positive response by case number	2, 4, 5, 11, 13, 14, 28, 30, 53, 69, 74, 91, 92, 95, 108, 121, 152	2, 4, 5, 11, 14, 30, 53, 69, 95, 104, 121, 147, 152

success. This perspective provides some indication that social and environmental impact was not a measure of success for those small business owners. There was a noticeable convergence between the social and environmental factors as described in Table 6.2, with 11 of the 19 cases answering yes to all three questions.

A further indication that small business owners in Western Australia are not as aware of the impact of social and environmental practices from a sustainability perspective can be seen by the answers to the open-ended questions at the end of the WASBB questionnaire. Question 91 asked, 'In what ways do you measure or quantify your own business and personal success?' (WASBB, 2008) Respondents cited such things as 'dignity in the workplace' (47 year old female building contractor), 'respect of the community' (39 year old female construction contractor), 'reputation, integrity and honesty' (47 year old female management consultant), 'loyalty to and from workers' (39 year old female construction contractor) and 'ethical and fair treatment of all parties' (54 year old male consultant engineer) in response to the above question. Whilst respondents may not directly identify these concepts in terms of ethical or sustainable practice, they were aware that they need to behave in this manner in order to remain in business and be competitive.

Perceived Barriers

International research on SMEs has reported greater barriers to implementing sustainability practices (e.g. lack of expertise and capital) compared to larger firms (Ammenberg & Hjelm, 2003; Simpson et al., 2004). However, in the Collins et al. (2007b) New Zealand study, large firms were more likely to cite barriers than small and medium sized companies. Cost, management time and knowledge and skills were the three most commonly cited barriers by all sized firms, but cited more frequently by large businesses. Table 6.3 illustrates a breakdown of the responses from New Zealand:

One explanation could be related to the fact that large firms have more formalised processes and policies with associated costs compared to SMEs. However, large firms were also more likely to cite drivers for sustainability measures including enhanced reputation and brand (79%) and adopting practices as a way to recruit

Table 6.3 Barriers to adopting environmental and social practices by firm size

	Small	Medium	Large
Costs	40%	52%	65%
Management time	33%	42%	43%
Knowledge and skills	29%	31%	38%

and retain employees (60%). Large businesses that were more engaged in sustainability initiatives were also more aware of the complexity of the issues, including advantages as well as obstacles to adoption.

The concept of perceived barriers to adopting environmental or social practices was not directly canvassed in the WASBB study. However, analysis of the responses to questions related to various triple bottom line practices were collected for the main WASBB report (Weber etal., 2009). These results show that only 27% of small business owners have conducted an environmental audit with 51% engaging in any form of community volunteering (N = 344). This is somewhat indicative of a majority or at least a significant minority of SMEs not having much enthusiasm for social or environmental outcomes. This observation was supported by negatively framed comments of respondents such as 'being responsible for the financial well being of a large number of people and their families' (62 year old male equipment wholesaler); 'focus on simple and singular financial objectives' (42 year old male management consultant); 'responsibility continues nonstop all year' (66 year old male liquor retailer) and 'challenge to achieve financial independence' (65 year old male outdoor leisure equipment retailer) which all indicate that small business owners are more focused on the financial aspect of maintaining their business. It is also noted that a significant number of respondents viewed ethical and sustainable business practices as being irrelevant to their business because of the small size of their organisation.

Conclusion

This paper reviewed the current state of knowledge of SMEs in Australia and New Zealand related to ethics and sustainability. It is a concern that the dominant aspect of the New Zealand and Australian economies – small businesses – has been the least studied. The two studies described in the overview of both countries found that managers of SMEs undertake a number of triple bottom line activities, without overtly identifying these actions as sustainable practice. At the same time, both country studies suggest that a myopic focus on the financial bottom-line may be a significant barrier for SMEs adopting further sustainability practices.

Ironically, the New Zealand Government has committed itself to achieving a sustainable economy, without undertaking the research necessary to achieve that fundamental shift or to measure its success. This suggests that the government's policy objectives will be poorly informed and marginally effective.

Australia does have an articulated policy on ecological sustainability which was ratified by all states in 2002. Western Australia built upon this good beginning to formulate its own strategy on state sustainability in 2003, but progress beyond these policy beginnings has been limited. It would seem from anecdotal evidence within the WASBB data that the message has not penetrated to many SMEs in Western Australia and the lack of government legislation, initiatives and direction does not provide any impetus for small business to engage in ethical or sustainable business practice.

In an attempt to fill the research gap, the authors of this study will continue to research SMEs related to sustainability and ethics. In 2009 in New Zealand, follow-up interviews will be conducted with a sample of the 2006 survey respondents. In addition, the third national survey will be conducted in 2009. In light of the global economic crisis, it will be particularly important to document the sustainability practices of SMEs. We are particularly interested in what is driving charitable giving and community engagement in SMEs and pursuing the notion of values driving the uptake of sustainable practices. What influences the values of the CEOs of SMEs and do those values translate into an increase of sustainability practices?

In Australia, partners are being canvassed to replicate and extend the pilot WASBB project in the next iteration in 2010. One goal will be to bring into sharper focus some aspects of social entrepreneurship relative to financial performance. Until then, the rich data-set within the first round of WASBB suggests some interesting lines of enquiry. These include: examining linkages between economic success, personal success and triple bottom line thinking; apparent gender differences in triple bottom line objectives and attitudes; and age-related attitudes towards environmental objectives and variations between rural and urban triple bottom line performance. There is also the potential from the WASBB data to identify particular industries via the four-digit Australian and New Zealand Standard Industry Classification (ANZSIC) code to focus at an industry level on who is over and underperforming on the triple bottom line. Such revelations will no doubt raise further questions of why these differences exist and how we might identify exemplars and encourage benchmarking of ethical and environmental performance alongside traditional financial goals.

There is exciting potential for New Zealand and Australian researchers to continue to build a deeper understanding of the ethics and sustainability agenda of SMEs in the Antipodes. This sharing and comparison of research findings between the two countries holds great promise of driving policy and SME behaviour in a sector that collectively accounts for more than 96% of all businesses in the two nations.

Notes

1. Publications related to SMEs from the Waikato Business School and Sustainable Business Network research project include: Collins et al. (2007a, b), Lawrence et al. (2006) and Lawrence and Collins (2004).
2. There is a slight mismatch between Australian and New Zealand definitions here with the ABS including organisations with five employees in the category of small rather than micro.

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Chapter 7
USA: An Overview of Empirical Research on Ethics in Entrepreneurial Firms Within the United States

Melissa S. Baucus and Philip L. Cochran

Introduction

The vast majority of empirical research in business ethics has been conducted in large corporations, resulting in a fairly substantial body of knowledge. A recent review of the field of behavioural ethics summarises much of the large-firm ethics research (Trevino, Weaver & Reynolds, 2006). An early empirical study of ethics in smaller firms (Longenecker & Schoen, 1975) provided an indication that attitudes may vary among people in small versus large organisations. This led to questions regarding whether entrepreneurs possess different ethical values and attitudes, face different ethical issues, and make different ethical decisions than managers in large firms. Scholars have recently suggested that entrepreneurs starting new ventures might exhibit an inherent bias toward compromising their own values in order to succeed at any cost (Fisscher, Frenkel, Lurie & Nijhof, 2005).

Scholarly interest in ethics and entrepreneurship has increased as illustrated by Issue 3 of the Ruffin series on ethics and entrepreneurship (Freeman & Venkataraman, 2002) and a special issue of *Journal of Business Ethics* in 2005 featuring articles from the 2004 conference of the European Business Ethics Network (EBEN). These demonstrate a growing emphasis on ethics and entrepreneurship, particularly development of theoretical work and empirical studies by international scholars; however, the review here of empirical research on ethics and entrepreneurship in the US shows that we still know very little. Payne and Joyner (2006) illustrate the problem in the field when they review all of the empirical research that compares the ethics of managers versus entrepreneurs – all 11 studies – and 8 of the 11 rely on small businesses rather than entrepreneurial firms. The broader focus of this review on studies of ethics in entrepreneurial firms in the US (by researchers at US universities) results in a somewhat larger number of empirical studies, but the amount of

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research in this area pales by comparison to the extensive body of empirical research conducted in large corporations.

Our obvious conclusion is that more research needs to focus on entrepreneurial firms but the recommendations presented here go beyond that. Sampling problems, use of research instruments that present decisions less likely to occur in entrepreneurial firms, and other methodological issues must be addressed. We also recommend greater reliance on theoretical frameworks in the ethics literature, applying them to the entrepreneurial context. We hope our review and recommendations will generate increased research on ethics in entrepreneurial firms, particularly studies that investigate different levels of analysis and research questions that have not yet received attention.

Our paper begins by defining entrepreneurship and explaining how it differs from small business and related areas in the United States. This leads to a discussion of the growing role entrepreneurship plays in the US economy and calls for greater entrepreneurial activity as a source of economic growth and prosperity in the global economy. Entrepreneurship has a significant impact on US society, making it important to understand ethics within the entrepreneurial context. We touch on a few studies regarding how entrepreneurs regard their obligation to society while explaining that many US researchers delineate between ethics and corporate social responsibility (CSR), corporate social performance (CSP), stakeholder theory and stakeholder management. These distinctions matter for international researchers trying to publish in US academic journals so that we can compare research results across the globe. We conclude with a discussion of concerns about prior research methods, recommendations for improving research designs, and efforts to test some of the conceptual models of ethics in an entrepreneurial context.

Defining Entrepreneurs in the US

Substantial debate in major entrepreneurship journals in the US centres on how to define entrepreneurship (cf. Brush, Manolova & Edelmlan, 2008). Scholars focus on issues such as whether entrepreneurship must involve starting a completely new organisation, pursuing a relatively high growth rate for the enterprise, developing a management team without family members and so forth. One widely used definition of the field depicts entrepreneurship as, 'the scholarly examination of how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated, and exploited . . . the study of *sources* of opportunities; the *processes* of discovery, evaluation, and exploitation of opportunities; and the set of *individuals* who discover, evaluate, and exploit them' (Shane & Venkataraman, 2000:218). This definition, that can include entrepreneurial activities within large corporations, contrasts to definitions requiring an entrepreneur to start a new venture, such as: 'Entrepreneurship is the process in which one or more people undertake economic risk to create a new organisation that will exploit a new technology or innovative process that generates value to others' (Schramm,

2006:4). Although Schramm requires that an entrepreneur create a new organisation, he later states that, 'Entrepreneurship is a mindset' (2006:11) or way of thinking that opens people up to the idea that they could start a business. This notion of entrepreneurship as a mindset ties directly to research emphasising the cognitive aspects of entrepreneurship and the idea that entrepreneurs may have different ways of thinking and viewing the world around them that enable them to better identify and exploit economic opportunities (e.g. McGrath & MacMillan, 2000).

We adopt Shane and Venkataraman's (2000) definition of entrepreneurship because it represents one of the broader ones in the field. This definition does not require an entrepreneur to create a completely new organisation so it can encompass corporate entrepreneurship, often defined as activities involved in exploiting new opportunities within the context of an existing organisation. In contrast to the definition offered by Schramm, it also does not require an entrepreneur to develop a new technology or innovation. This recognises that some entrepreneurs excel through imitative strategies in which they take an existing technology or business and find ways to improve upon it by offering better service, tailoring it to a niche market in the industry and so forth.

Entrepreneurs differ from small business owners (Ebert & Griffin, 2005; Katz & Green, 2007). Scholars in the US typically emphasise that entrepreneurs seek high growth while small business owners appear content with generating sufficient revenue to support the owners' personal goals and lifestyle (Katz & Green, 2007). Some small business owners may even resist growing too large because it would require them to supervise lots of employees, create a more complex organisation with systems and procedures in place to effectively manage the operations, and reduce some of the owner's flexibility and autonomy. The US Small Business Administration defines a small business as an independent business with fewer than 500 employees. Entrepreneurs may start out with very small ventures but they will possess goals of growth, likely exhibit substantial growth over the first few years of the venture and continually innovate and search for new opportunities. Small business owners often operate lifestyle or hobby businesses and content themselves with maintaining existing markets and opportunities.

This distinction between entrepreneurs and small business owners has often been blurred, especially in early entrepreneurship research, with researchers using samples of owners or employees of small businesses and then drawing conclusions about entrepreneurial firms. This represents an issue discussed later in the area of ethics and entrepreneurship research. In recent years, entrepreneurship researchers in the US have been more vigilant about conducting research using samples of firms that meet various definitions of entrepreneurial firms. This contrasts with entrepreneurship research in Europe where the term SME – small and medium sized enterprises – describes entrepreneurial firms, small businesses, family firms and larger firms than included in US samples.

Medium and large firms that engage in entrepreneurial activity represent examples of corporate entrepreneurship for US researchers. Corporate entrepreneurship occurs when an existing medium or large sized firm starts a new venture within

the context of their existing corporation. Some definitions of entrepreneurship by US scholars include corporate entrepreneurship, such as the one by Shane and Venkataraman (2000) used here or Covin and Miles' (1999) explication of entrepreneurship as a process of discovery and development of opportunities that allow an individual to create value through an existing firm or by establishing a new organisation. However, corporate entrepreneurship represents a separate stream of research because of unique characteristics of the phenomenon.

Corporate entrepreneurship differs in several key ways from an individual starting a venture independent of a corporation. Employees within an existing firm who want to start a new venture must successfully sell their idea to upper-level managers, acquire essential resources within the firm, and meet the corporation's goals for the new venture as well as their own goals. They operate within an established organisation structure, a long-standing culture or climate related to ethical behaviour and sometimes governed by codes of conduct. Corporate entrepreneurs often have access to more resources since the corporation has deeper pockets and a larger talent pool. A very important distinction involves the fact that a corporate entrepreneur will typically still have a job even if the new venture fails: the employer will find another opportunity or position for the employee. This makes corporate entrepreneurship unique in many ways compared to entrepreneurial ventures started by independent entrepreneurs. Researchers have developed separate models predicting corporate entrepreneurship (e.g. Dess & Lumpkin, 2005; Zahra, 1991). Some studies have been done on ethics in corporate entrepreneurship settings (cf. Chau & Siu, 2000; Kuratko & Goldsby, 2004) but a complete review of that work is outside of the scope of this paper.

Entrepreneurship researchers in the US also delineate between entrepreneurial firms, franchise organisations and family businesses. Franchising represents a hybrid form of organisation that allows an individual to act as an entrepreneur in starting up an enterprise but reduces the entrepreneur's risk by providing a proven business formula and brand in exchange for a base fee and royalties. The franchisee does not have the level of autonomy possessed by an entrepreneur, however, since the franchisee must adhere to the franchisor's rules for setting up and running the business, and provide the products or services developed by the franchisor. Family businesses often start out as entrepreneurial ventures with a single family member creating the new venture; however, many family businesses operate for a number of years and move out of the entrepreneurial category when the founder's children, grandchildren or other relatives begin running the business. Some family businesses start out with multiple family members on the new venture team, creating unique issues and dynamics (e.g. family members may share ownership and profits while non-family managers do not) relative to entrepreneurial ventures started by a single entrepreneur or by unrelated individuals.

In sum, US researchers interested in empirically studying entrepreneurs and entrepreneurial processes typically try to select samples of entrepreneurs and not small business owners, franchisees, family-owned and operated businesses, or corporate entrepreneurs unless the goal of research involves comparing entrepreneurs with one or more of these other groups, for instance, to see how entrepreneurs

versus small business owners perceive risk. Researchers outside of the US need to understand these distinctions in order to carefully select their research sample and accurately describe it when attempting to publish in US academic journals. These variations in types of entrepreneurial and other smaller ventures also complicate efforts to compare empirical results across countries.

The Role of Entrepreneurs in the US

Entrepreneurship plays a major role in the United States economy. A report prepared by the Small Business Administration states that in 2004: small firms employing less than 500 workers provided all of the 1.86 million net new jobs in the United States while large firms experienced a decline in jobs; small firms generated over half of the private non-farm gross domestic product in the US; and small firms with less than 500 employees comprise over 99% of businesses in the US (Small Business Administration, 2008). As the economy weakened in 2007, small firms continued to provide most new jobs and the total number of self-employed individuals remained fairly constant (Small Business Administration, 2008). A study in the US funded by the Kauffman Foundation indicated that 10.5% of the working adult population was involved in starting a business or running a business that was less than 3 years old (Palmer, 2003). Men were more likely to engage in entrepreneurial activity with 1.6 males involved in a new venture for every female, and in the 18–24 year old group, males were almost three times as likely to be involved in new businesses than females in that same age group (Palmer, 2003). The number of women entrepreneurs has grown by 14% since 1997, with over 6.2 million female-owned businesses in the US generating $1.2 trillion in sales and employing 9.2 million people (US Newswire, 2003). These women-owned businesses experienced a 30% growth in employment since 1997 while other businesses in the US grew by only 18%.

The US economy has slowed considerably in the past several years with petroleum prices fluctuating, numerous large corporations such as General Motors suffering from major financial problems, food costs increasing and consumer confidence declining. Innovation and entrepreneurial activity has been touted by some as the best solution for dealing with global warming, poverty, and other world problems, as well as for growing and transforming the US economy. Carl Schramm, President of the Kauffman Foundation, asserts that innovation and entrepreneurship represent a ‘secret’ for maintaining the US position as an economic superpower and the primary way to assure prosperity, stability and peace around the world (2006). Schramm and other proponents of this view cite the long history of innovation and entrepreneurial activity in the US, dating back to Benjamin Franklin and Alexander Hamilton, as evidence of both the success and potential of entrepreneurship in addressing serious problems. Their argument will likely generate considerable debate among scholars but increasing investments intended to foster greater entrepreneurship demonstrate support for the belief that entrepreneurship represents a key force in economic progress.

Substantial investments in entrepreneurship have occurred in governments and education. Many states have developed programmes aimed at encouraging entrepreneurs to start ventures or relocate in their states. For instance, the state of Kentucky provided $53 million and passed the Kentucky Innovation Act in 2000, requiring the state's Cabinet for Economic Development to create a Department of Commercialisation and Innovation that would take actions to increase the number of technology and research-intensive businesses in the state, increase jobs in these sectors and create clusters of innovation (Kentucky Cabinet for Economic Development, 2008).

Many government initiatives link to university activities since universities develop numerous new technologies and products that can be patented and commercialised. Universities benefit also from the increasing investment in entrepreneurship research and education by groups such as the Kauffman Foundation and Coleman Foundation. These groups have funded numerous endowed chairs for entrepreneurship faculty, provided research grants, and encouraged entrepreneurship education. The Kauffman Campus Initiative awarded grants of up to $5 million to a group of universities to launch programmes aimed at integrating entrepreneurship across the university curriculum. This takes entrepreneurship education out of the Colleges of Business and extends it to other programmes across the campus to develop more individuals willing and able to engage in entrepreneurial activity. Entrepreneurship programmes have grown tremendously in the past decade with many universities creating undergraduate, masters and doctoral programmes; expanding existing entrepreneurship course offerings; participating in an increasing number of business plan competitions; and offering assistance to local entrepreneurs through consulting courses in which students, mentored by an entrepreneurship professor, apply their entrepreneurship knowledge to help entrepreneurs solve real world problems.

In summary, interest in entrepreneurship has grown tremendously in the US as many people recognise the critical role it plays in the economy and its potential to help address a wide variety of societal problems. Educational initiatives have expanded greatly in universities, state and federal governments have looked for ways to increase entrepreneurial activity, and private organisations provide resources to fund research and educational endeavors in entrepreneurship.

Ethics Versus Stakeholder Theory, CSR and CSP

Researchers in the US typically differentiate between ethics and stakeholder management, CSR and CSP. Business ethics researchers have conducted empirical investigations of a multitude of topics including levels of moral judgment (e.g. Elm & Weber, 1994; Weber, 1996), moral reasoning (e.g. Weber & Green, 1991), ethical decision making and punishment (e.g. Ashkanasy, Windsor & Trevino, 2006; Treviño & Youngblood, 1990), reactions to just and unjust punishment (Ball, Treviño & Sims, 1994) and similar issues at the individual level of analysis. The extensive body of empirical research on ethics at the organisational level includes

perceptions of ethical leadership (e.g. Treviño, Brown & Pincus-Hartman, 2003), the effect of organisational justice and ethics programmes on employees (Trevino & Weaver, 2001), a survey of corporate ethics practices (Weaver, Trevino & Cochran, 1999a), the influence of executive commitment and environmental factors on corporate ethics systems as forms of control (Weaver, Treviño & Cochran, 1999b) and so forth. These research streams draw on the extensive literature in business ethics.

In contrast, research on stakeholder management builds on stakeholder theory beginning with Freeman's seminal work (1984) and followed by key extensions (e.g. Donaldson & Preston, 1995; Mitchell, Agle & Wood, 1997; Phillips & Freeman, 2003). Entrepreneurship scholars often discuss issues such as how startup entrepreneurs can establish cognitive legitimacy with their stakeholders (Aldrich & Fiol, 1994) but numerous opportunities exist for scholars to empirically test stakeholder theory in the entrepreneurial context. Entrepreneurship researchers have made important theoretical contributions in the area of stakeholder management. For instance, Sarasvathy and her colleagues focus on topics such as relationships between entrepreneurship, innovation and hardships imposed upon a firm's stakeholders (e.g. Dew & Sarasvathy, 2007). In another example, scholars have used a network perspective to provide a conceptual explanation of how of entrepreneurs' relationships with stakeholders can assist the entrepreneurs in discovering opportunities (Vanderkerckhove & Dentchev, 2005). The work by Dew and Sarasvathy illustrates that entrepreneurship differs from innovation in the United States since innovation exists in organisations of all sizes, not just entrepreneurial firms, and entrepreneurship includes more activities than just innovation.

Corporate social responsibility and corporate social performance have received extensive attention in the context of large corporations. We briefly touch on a few studies applying the CSR literature to the entrepreneurial context in a later section. CSR and CSP involve greater emphasis primarily on the firm's relationships with external constituents while ethics scholars tend to study individual or within-organisation decisions and relationships. For instance, researchers have investigated whether the social responsibility of small firms varies from CSR in larger organisations (e.g. Chrisman & Fry, 1982). Entrepreneurship scholars interested in studying CSR or CSP need to ground their empirical work in the extensive literature on CSR or CSP, depending on which construct they choose to measure.

Ethics in Entrepreneurship

The discussion of differences between ethics, stakeholder theory, CSR and CSP illustrates that each represents a distinct literature within the field of business and society. The next section explains our decision to focus solely on ethics in the entrepreneurial context, specifically empirical research, in order to highlight the opportunity for scholars to begin to fill the gap that exists in this area. A review of the five areas of empirical research on ethics and entrepreneurship follows this discussion.

Research Conducted in and by Scholars in the US

A number of articles on ethics and entrepreneurship have appeared in high-quality journals that focus on ethics as well as those publishing work in entrepreneurship. This complicated our effort to identify empirical studies that fit definitions of entrepreneurship used in the US and our restriction of range to ethics research. Some very interesting research on ethics and entrepreneurship remains conceptual such as a model that integrates the spirit of entrepreneurial activity and moral decision making (Buchholz & Rosenthal, 2005) or the many other articles by non-US scholars that appear in the same special issue of *Journal of Business Ethics* as the Buchholz and Rosenthal one. Our objective involved highlighting how little empirical research US scholars have done on ethics in entrepreneurial firms in the United States. We acknowledge the increasing number of conceptual papers that have been reviewed in other places (e.g. Freeman & Venkataraman, 2002; Hannafey, 2003) and a growing number of empirical studies by international scholars, including some that appear in the Ruffin Series Number 3 (Freeman & Venkataraman, 2002). For instance, one conceptual paper by an international author (Wempe, 2005) suggests that tension between values (or ethics) and business may provide opportunities for entrepreneurs; yet few US entrepreneurship scholars focus on unethical business opportunities or ventures. The conceptual work proposes numerous interesting relationships that need to be empirically tested in entrepreneurial organisations.

Research purporting to examine ethics in entrepreneurial firms can be grouped into five major categories: (i) ethical attitudes of entrepreneurs, sometimes comparing attitudes of entrepreneurs with those of managers; (ii) ethical issues encountered by entrepreneurs; (iii) ethical decision making; (iv) ethical climate and organisational factors; and (v) type of entrepreneurial activity and the entrepreneur. We review research in each category, focusing on what these studies appear to tell us and ways to address limitations of prior research in future research. Studies using samples of small businesses were included here since some of those firms were likely entrepreneurial by definition (e.g. high growth new ventures), but researchers did not gather data to distinguish between the two groups of firms.

Ethical Attitudes of Entrepreneurs

One of the first investigations of ethics in smaller firms was conducted by Brown and King (1982), looking at how the ethics of small business people compare to those of managers in larger firms and to the general population. Their study suggests that across the board, people view individuals in small business as having the highest ethical standards, with all groups of respondents ranking small business people higher than physicians, corporate employees and government officials (Brown & King, 1982). An interesting aspect of this study involves the fact that respondents rank ordered the ethics of each group based on their perceptions but respondents were not asked about their actual level of knowledge or the basis for their perceptions of each group. Misconduct by large corporations and government

officials appears frequently in the media so that may account for respondents perceiving these two groups as having lower ethical attitudes. The study also relied on small business people rather than entrepreneurs.

Two studies extended Brown and King's work, looking at ethical attitudes among entrepreneurs and comparing them against those of managers. The first study asked 165 entrepreneurs and 128 managers to respond to 12 vignettes and 7 scenarios (Bucar & Hisrich, 2001). Entrepreneurs exhibited higher ethical attitudes in responding to these situations than managers. A follow-up study (Bucar, Glas & Hisrich, 2003) relied on the same research instrument to compare the initial US sample of entrepreneurs and managers (2001) with a new sample of 82 managers in Slovenia and 159 entrepreneurs in Russia. Results indicate that US respondents – both entrepreneurs and managers – have higher ethical attitudes than those in Slovenia and Russia, and entrepreneurs and managers in Slovenia and Russia did not differ significantly from one another on their ethical attitudes (Bucar et al., 2003). The researchers did not address the question of whether their scenarios reflected ethical virtues or universal character traits that would apply across all cultures. The results for international respondents may be due to the scenarios themselves rather than reflecting actual differences in ethical attitudes.

In sum, the three studies investigating ethical attitudes appear to suggest that entrepreneurs and small business people may possess higher ethical attitudes than managers and the general population. As Payne and Joyner (2006) note, the research methodology used in these studies of asking respondents directly about ethics may elicit different attitudes than respondents actually hold (e.g. socially desirable responses) and respondents' decisions and behaviours may vary greatly from their espoused attitudes. On the other hand, entrepreneurs can benefit from understanding how the general public perceives their ethics. We also know little about the importance entrepreneurs place on ethics and strategies they use to manage stakeholders' perceptions of their ethics. These represent fruitful areas for research.

Ethical Issues for Entrepreneurs

One of the most researched areas involving ethics and entrepreneurs focuses on the ethical issues and situations encountered by entrepreneurs. Two early studies in this area involved an effort to learn more about whether the ethical situations encountered by entrepreneurs differ from those faced by others in society and whether entrepreneurs respond any differently than other people. In the first study, Longenecker (1988) provided respondents with 16 business decisions or short scenarios and respondents rated the acceptability of them using a seven-point scale ranging from never acceptable to always acceptable. Longenecker compared the 168 respondents who said they were self-employed with 1866 people not self-employed, concluding that respondents exhibited no significant differences on nine of the decisions. On two decisions, entrepreneurs appear more ethical and on five decisions, entrepreneurs reported less ethical responses. Longenecker indicates that entrepreneurs may focus more on the direct financial benefits for themselves in

these five cases, illustrating ethical egoism or self-interested behaviour. This led to a follow-up analysis of other sub-samples within the same dataset (Longenecker, McKinney & Moore, 1989) that compared 572 managers in small businesses of less than 100 employees with 785 employees in firms employing more than 1,000 people. Results of this analysis showed small business employees viewed six ethical issues or situations as less acceptable than larger firm employees, but on another six ethical issues, the small business employees appeared less ethical. Longenecker and his colleagues (1989) conclude that these differences may indicate that some ethical issues in the instrument appear more relevant to small business employees while other issues have greater relevance for employees of large corporations. Although the two studies taken together seem to show that people working in small businesses may view some unethical issues or responses to situations as more acceptable than employees in large firms, the issues in the study may not consistently apply to small businesses and we still know little about ethical issues in entrepreneurial firms.

The instrument developed by Longenecker et al. (1989) was subsequently tested by Hornsby, Kuratko, Naffziger, LaFollette and Hodgetts (1994) who wanted to see if small business owners faced these ethical issues and if there were underlying dimensions among the issues. Their analysis of survey responses from 282 small business owners in the Midwestern and Southern US confirmed the four factors from the Longenecker et al. (1989) study, although they threw out one factor scale because of very low reliability (0.32). They concluded that small business owners encounter three types of ethical issues that they labelled business development, money-related theft, and administrative decision making. The reliabilities of these three factors, 0.65, 0.65 and 0.58 (all well below generally accepted standards), suggested that Longenecker et al.'s may have expressed a valid concern that the ethical issues in the instrument may not consistently apply to small businesses. A later study of 401 entrepreneurs and small business owners in the Midwestern US, all with less than 500 employees, gathered data using the 16 items in the Longenecker et al. (1989) instrument, factor analysed the data and concluded that ethical issues in small firms represents two dimensions: administrative/instrumental and profit/personal gain (Kuratko, Goldsby & Hornsby, 2004). An interesting extension in the study by Kuratko and his colleagues (2004) entailed asking small business owners to indicate the amount of time they spend on various stakeholder groups; results show owners consider their primary stakeholders to include customers and employees. The amount of time spent on various stakeholder groups (e.g. employee centred or customer centred) did not relate to the types of unethical behaviours but did correlate with satisfaction with stakeholder relationships: owners spending more time on suppliers, government or academic institutions expressed less satisfaction with stakeholder relationships than those who devoted more time to customers, stockholders or banks/lenders (Kuratko et al., 2004). This study appears to be the only empirical research conducted using stakeholder theory and attempting to examine relationships among stakeholder orientation and ethical or unethical behaviours. We view this as a very promising area for future research.

Another group of researchers have considered how the external environment in which small firms operate may impact their ethical values and the ethical issues they

encounter. Smith and Oakley (1994) used the Longenecker et al. (1989) instrument to examine whether the size of the community affects a small business owner's ethical values. They obtained surveys from 110 owners of small businesses in a metropolitan area near a state capital and 99 owners of firms in non-metropolitan areas; their analysis of responses to the Longenecker et al. (1989) instrument indicated that small business owners in non-urban areas appear to have higher ethical values than those in urban areas (Smith & Oakley, 1994). The reasons for these differences remain unclear but could involve small business owners feeling a stronger sense of community in a non-urban area or simply that they perceive any unethical behaviour may be more easily noticed and brought to the attention of the firm's stakeholders and the community. One of the key contributions of Smith and Oakley's work entails focusing attention on the external environment in which the firm operates. Additional studies could examine the urban versus non-urban dimension or could include other measures of the firm's environment such as scarcity/munificence, dynamism, stage of industry evolution and so forth. Theories of corporate illegality developed for large firms suggest that both pressure or opportunity in the firm's industry environment may encourage them to engage in illegal or unethical behaviours (e.g. Baucus & Near, 1991). These theories could be adapted to small firms, allowing researchers to explore contextual variables related to ethical behaviour.

Ethical Decision Making

Ethical decision making represents one of the few research streams within the entrepreneurship and ethics area that relies fairly heavily on ethical theories and research. One of the first studies in this area used the multidimensional ethics scale developed by Reidenbach and Robin (1991) to examine the ethical dimensions used by small business owners and managers and compared them to those of consumers: results indicate no significant differences between the two groups on the dimensions used (Humphreys, Robin, Reidenbach & Moak, 1993). Both groups rely mainly on moral equity – justice and fairness – in judging what represents ethical behaviour and less on relativism (acceptability in culture and tradition) and contractualism (adheres to or violates an unwritten or unspoken contract), although small business owners appeared to place somewhat more weight on the latter two dimensions than customers did. Payne and Joyner (2006) extended this research in two ways. Instead of prompting respondents with ethical decisions or issues and possibly triggering social desirability biases, they reanalysed interview data they had collected from ten successful business founders – entrepreneurs with growing ventures – when they conducted a prior study of new venture creation and development (Payne & Joyner, 2006). They also developed four categories of decisions that encompass ethics using Kant's and Rawls' theories and used these four categories in their content analysis of the data to show that entrepreneurs encounter ethical issues associated with: (i) individual entrepreneurial values of integrity, honesty and a strong work ethic; (ii) employee programmes such as training, assistance, benefits

and empowerment; (iii) quality products and customer service; and (iv) accountability to the external environment or external stakeholders (Payne & Joyner, 2006). The research design used by Payne and Joyner represents one of the few that allows entrepreneurs to generate the ethical issues of concern to them rather than prompting them with issues identified by researchers. We recommend that more research in this area rely on interviews and methods that permit entrepreneurs to provide the ethical issues that most concern them since that will likely produce some issues and dimensions not yet identified. Our recommendation receives support from a study by Vyakarnam, Bailey, Myers and Burnett (1997) in the United Kingdom that used focus groups of four to eight small business owners to learn more about the ethical issues and dilemmas they face: results show personality issues, conflicts of interest, and stakeholder obligations versus responsibility to the business were key problem areas. Some of these issues have not been fully incorporated in research instruments designed to investigate ethical issues in entrepreneurial or small business firms.

One surprise in research on ethics and entrepreneurship involves the relative lack of attention paid to levels of ethical or moral decision making. Teal and Carroll (1999) conducted an early study in this area, using Rest's Defining Issues Test to examine the ethical reasoning of 26 entrepreneurs. Their results indicate that entrepreneurs have a somewhat higher level of moral reasoning than middle managers and the general population, using measures of these latter two groups obtained from prior research on moral reasoning (Teal & Carroll, 1999). The small sample size of their study and having a sample consisting of 62% females may have affected the results, suggesting that researchers should replicate and extend this research. Entrepreneurs often start their own firms in order to have control over their lives rather than working for and answering to someone else so we might expect them to reason at a level above Stage 3, that used by the majority of the general population, where group norms exert a heavy influence on ethical decision making or reasoning; however, research needs to demonstrate that entrepreneurs do reason at higher levels and why this occurs.

A recent investigation examines the role moral imagination plays in incorporating ethics into decisions of high uncertainty (McVea, 2009). McVea builds on work by Sarasvathy and her colleagues suggesting that entrepreneurs use unique cognitive approaches when solving strategic problems they face (Sarasvathy, 2001; Sarasvathy, Simon & Lave, 1998). One of the most notable contributions of McVea's (2009) research to the area of ethics and entrepreneurship involves his use of a qualitative research methodology: verbal protocol analysis and interviews were conducted as 12 entrepreneurs and a comparison group of MBA students made decisions in the context of an ethically challenging scenario. Results of this study indicate that entrepreneurs appear to use a high degree of moral imagination and initially frame the situation as involving ethics while MBA students use less moral imagination and primarily a decision frame that emphasises financial risk (McVea, 2009). This research suggests that entrepreneurs may engage in different cognitive processes and framing than other business people, highlighting an area in need of further study.

One study of decision making biases among entrepreneurs did not focus directly on ethical decision making but the situations used in the research encompassed ethical issues so we have included the study in this review. Busenitz and Barney (1997) asked 124 entrepreneurs and 95 managers to respond to five questions on death rates and accidents, and their data show that entrepreneurs rely more heavily in the overconfidence and the representativeness heuristics when making decisions than do managers. This study highlights the need for research linking cognitive biases to ethical decision making, particularly among entrepreneurs. If entrepreneurs more frequently engage in decision making biases than managers, they may inadvertently make unethical decisions. One approach to investigating this issue involves presenting entrepreneurs with a series of decisions similar to those in the Busenitz and Barney research with one set including ethical dimensions and another set excluding the ethical dimensions to see if entrepreneurs consistently engage in biases or if the presence of ethical dimensions triggers different decision making processes.

Ethical Climate and Organisational Factors

Four research studies have examined the ethical climate or ethical organisation of entrepreneurial firms in an effort to determine whether entrepreneurs or small business owners differ in their ethical orientation than other managers. The first study (Welsh & Birch, 1997) used the 26-item ethical climate questionnaire developed by Victor and Cullen (1988) to examine the ethical climate in 26 small businesses and compare them to the ethical climates in larger firms in the Victor and Cullen sample. Welsh and Birch also included a 20-item measure of Machiavellianism in order to look at how small business owners use power in their organisations. Results indicated small business owners were less likely to abuse power than other people, more likely to view ethical values as universal rather than relativistic, and were more likely to emphasise caring and independence dimensions of ethical climate than other people (Welsh & Birch, 1997). A follow-up study supported the lack of an instrumental ethical climate in entrepreneurial firms shown in the Welsh and Birch sample but did not indicate that entrepreneurs use an independence or caring climate (Neubaum, Mitchell & Schminke, 2004). The results from 304 employees in 45 entrepreneurial firms showed new firms were more likely to have rules-oriented ethical climates compared to older entrepreneurial ventures, and new firms were less likely to have instrumental or independence ethical climates (Neubaum et al., 2004). One explanation for the conflicting results of these two studies may be that Welsh and Birch relied on small businesses and did not examine the age of those firms whereas Neubaum and his colleagues categorised by age using two variables, a dichotomous one for new versus not new firm and a continuous variable for the age of the firm in years. The two variables for age produced different results in the analysis. This may mean that age represents a more complex variable than expected and that age could be a proxy for another unmeasured variable such as organisation size or organisation complexity such as ethical rules, procedures and compliance systems that become instituted as the firm grows and ages.

Firm age was recognised in a study of ethical climate that examined how ethical climate changes as a firm grows and evolves. Researchers (Morris, Schindehutte, Walton & Allen, 2002) examined ethical climate, ethical development, Machiavellianism, locus of control and tolerance of ambiguity in 227 small firms that had fewer than 500 employees and had been in existence for less than 15 years. Their data showed firms fall into four categories in terms of their approach to ethics, ethical programmes and ethical policies: (i) 'deficients' or firms with very few ethical policies and programmes, little emphasis on ethics and infrequent discussions of ethics were most common, making up 47% of firms; (ii) 'pain and gain' firms, a modest 7% of the sample, that exhibited many similarities to 'deficients' in terms of institutionalising ethics but they took ethics very seriously and relied on rewards and punishments as well as stories of exemplary ethical behaviour; (iii) 'core proponents' of ethics that have established ethical policies but have not yet instituted many of the aspects of an ethical climate which included 26% of the sample; and (iv) 'superlatives' or the 21% of the firms in the sample that indicated they had most of the ethical policies and programmes on the research instrument that encompass an ethical climate (Morris et al., 2002). These results parallel research by Reidenbach and Robin (1991) maintaining that large firms vary in terms of their stage of moral reasoning so that more advanced firms exhibit ethical climates consistent with higher levels of moral reasoning.

The notion of entrepreneurial firms evolving in terms of their ethical climate was the focus of another study of ten successful high growth entrepreneurial firms that had been in operation for at least 5 years (Joyner, Payne & Raiborn, 2002). These researchers grounded their investigation in Paine's (1994) ethical framework in order to determine whether entrepreneurial firms rely on a legal compliance strategy or if they have evolved to an integrity strategy. Results showed all ten entrepreneurs exhibited a legal compliance strategy by adhering to the letter of the law, and eight of the ten firms had gone far beyond this to demonstrate a number of dimensions of an integrity strategy as well; the remaining two firms had a few characteristics of an integrity strategy but had not gone as far beyond legal compliance (Joyner et al., 2002). These results appear to support research on entrepreneurs' ethical attitudes, indicating that entrepreneurs appear very concerned about ethics and ensuring that their firms support ethical behaviour.

In sum, the research on ethical climates and ethical organisations appears to indicate that entrepreneurial firms go through an evolutionary process, gradually institutionalising an ethical climate in the procedures and policies of the firm. Researchers can extend this stream by looking at entrepreneurial firms in different industry environments to see if the environment and industry culture influence the development of an ethical organisation climate since prior research has paid little attention to the context within which the sampled firms operate. Additionally, the studies reviewed here relied on entrepreneurs and small business people reporting their use of ethical policies and programmes and this could lead to self-report bias so future research should examine archival data or corporate documents to see if entrepreneurs have actual practices in place to support ethical behaviour.

Type of Entrepreneurial Activity and the Entrepreneur

Entrepreneurship researchers have paid little attention to the ethics of entrepreneurial activity, with most researchers operating on the implicit assumption that entrepreneurs add value to society by exploiting opportunities in the environment. Baumol (1990) argued the entrepreneurial activities fall into three categories: (i) productive, such as those that involve innovations; (ii) unproductive, including rent-seeking activities; and (iii) destructive or those that involve criminal activities. Although Baumol did not discuss the ethics associated with activities in each of these categories – something ethics researchers should do – the third category of destructive activities appears fairly clearly to involve unethical behaviour, while unproductive activities in the second category may encompass questionable ethical behaviours.

A study by Hall and Rosson (2006) supports the distinction between different types of entrepreneurial activities with spam demonstrating destructive entrepreneurship, music file sharing providing an example of unproductive entrepreneurship, and Internet pharmacies illustrating productive or innovative entrepreneurial activity. These researchers conducted a case study of these three entrepreneurial endeavors and concluded that technological turbulence creates entrepreneurial opportunities as well as ethical issues and that new firms operating in these environments must establish legitimacy to survive; stakeholders appear much less likely to grant legitimacy to entrepreneurs engaged in less ethical – unproductive or destructive – activities (Hall & Rosson, 2006). This initial study, while limited to a very small sample and exploratory in nature, suggests that researchers need to explore more fully the ethics involved in various entrepreneurial activities. We need to develop criteria for assessing the ethics of entrepreneurial activities, for instance, to determine whether music downloading constitutes an unethical and illegal activity or merely an illegal one and whether payday advancement businesses (i.e., loaning money to low-income individuals at very high rates of interest until the individuals receive their next paycheck) represents ethical or unethical forms of entrepreneurship.

We cannot simply assume that entrepreneurship by definition encompasses only ethical activities. Brenkert's (2009) recent discussion of rule-breaking within a virtue ethics framework adds a novel perspective, raising questions about whether and when rule-breaking in an entrepreneurial context constitutes unethical conduct. Researchers need to extend this work, as well as explore issues such as whether entrepreneurs engaged in more ethical purposes or endeavors have higher profitability, whether certain types or degrees of rule-breaking impact the ease with which entrepreneurs establish legitimacy with and acquire essential resources from their stakeholders and so forth.

The relationship between entrepreneurship and prior ethical or unethical behaviour was examined in a recent study (Zhang & Arvey, 2009). The results of their investigation of 60 entrepreneurs and 105 managers indicate that modest versus severe rule breaking as an adolescent relates to being an entrepreneur as an adult (Zhang & Arvey, 2009). This preliminary research, combined with work

on entrepreneurial activity as rule breaking, represents an area that warrants further empirical investigation. Researchers need to examine illegal entrepreneurial ventures, differences between highly novel entrepreneurial firms that by definition engage in rule-breaking versus imitative new venture that conform to industry rules, and relationships among rule breaking as an adolescent or manager in Corporate America versus as an entrepreneur starting and running a new venture.

Corporate Social Responsibility and Entrepreneurship Research

Corporate social responsibility has received little attention by entrepreneurship researchers, possibly because of the label 'corporate' in the term, which implies more established organisations. An early study by Wilson (1980) investigated 180 small business owners and managers in larger firms to learn more about how small business owners view their responsibilities to society. Wilson developed 541 statements about CSR and respondents most frequently selected those involving responsibilities to customers as part of a small business' social responsibility. Small business owners appeared to fall into two types, Type P or the 88% of the sample that were profit-oriented; and Type V, 12% of those in the sample, made up of owners concerned about other values in addition to profitability (Wilson, 1980). These results initially appear to contrast greatly with those of Joyner et al. (2002) that indicated entrepreneurs went beyond legal compliance to focus on integrity in their firms; however, Wilson's data may emphasise the end results or goals of entrepreneurs or small business owners while Joyner et al.'s results may focus more on the means or how entrepreneurs go about accomplishing their goals.

A second study by Chrisman and Fry (1982) extended Wilson's research. This study relied on 19 items in the four categories used by Wilson (1980) to examine attitudes about CSR among 51 small business people and compare them to attitudes among 65 people in the general population. One item in the study asked respondents to provide a definition of CSR and the authors concluded that small business people better understand CSR of small business because only 16% of small business people did not respond to the item while 26% of the general population did not provide a definition of CSR for small business. The authors' conclusion does not follow logically from their methodology but they raise an important issue that warrants additional study: How well defined is CSR for small firms? We also do not know the extent to which entrepreneurs and the public in general agree on the CSR of small businesses. For instance, we lack data on whether establishing an entrepreneurial venture in an area with little economic activity to help improve the area rather than in an already prosperous part of town represents a form of social responsibility. Entrepreneurs could benefit greatly by better understanding the expectations of society and how these may or may not agree with their own understanding of the CSR of entrepreneurs.

One study has investigated the CSP of firms, comparing 202 non-family and 59 family firms that appeared on the Standard and Poor's 500 for 10 years (Dyer & Whetten, 2006). These firms, while family owned, experienced high growth so

they can also be considered entrepreneurial ventures. Dyer and Whetten (2006) used KLD data on CSP to show that family firms appear more socially responsible than non-family firms, and that family firms had significantly fewer product, environmental and employee concerns – three social concern measures – than non-family firms. This recent study hopefully will foster additional research focusing on CSR or ethical behaviours of firms, relying on more objective data rather than surveys asking entrepreneurs or business owners to report on their attitudes and behaviours. Dyer and Whetten's study (2006) needs to be replicated in additional entrepreneurial firms and researchers may want to include variables for the type of capital used to finance the firm since venture capital backed firms may behave differently in terms of CSR than publicly traded firms. Family controlled firms may permit entrepreneurs (e.g. the head of the family) to engage in greater CSR than entrepreneurs who must meet the expectations of outsiders who invested in the firm.

This discussion does not represent all of the research on CSR in entrepreneurial organisations. Instead, it illustrates the types of questions entrepreneurship scholars could examine. One interesting extension of the research by Dyer and Whetten (2006) could involve comparisons of family versus entrepreneurial firms run by founders versus corporations led by professional managers to see which exhibit the highest levels of CSR, controlling for firm size and age.

Conclusion

Our review of empirical studies of ethics and CSR in entrepreneurial firms indicates that researchers have initiated several streams of research. Their results, if believed, seem to suggest that entrepreneurs and small business people espouse fairly high ethical values, encounter a number of ethical issues in starting and running a new venture, establish organisations to support the existence of an ethical climate as their firm evolves, and emphasise CSR by their firms. However, the small number of studies, heavy reliance on self-reports from small business employees as well as owners and entrepreneurs, research instruments that have not been shown to be valid and reliable, and use of surveys and scenarios that ask about ethics in ways that elicit social desirability bias, raise questions about what we can conclude from this research. The most important conclusions seem to be that each stream of research warrants further attention, numerous opportunities exist to examine relevant and important questions within each stream, and researchers can make significant contributions by integrating theoretical perspectives from the business and society field as a stronger grounding for research in this area.

One difficulty faced by scholars interested in studying ethics in entrepreneurial organisations involves the need to possess knowledge of the literature in each discipline. We recommend that entrepreneurship scholars consider applying and empirically testing one of the widely cited conceptual models of ethics (e.g. Jones, 1991; Jones & Ryan, 1998; Trevino, 1986), although this will require researchers to consider how the entrepreneurial context may differ from that of large corporations. Much of the research in the ethics discipline could be transferred to and tested in

an entrepreneurial context (cf. Brown, Trevino & Harrison, 2005). It may be easier to begin by empirically testing arguments offered in many of the conceptual articles on ethics and entrepreneurship, such as the one by Rutherford, Buller and Stebbins (2009) that discusses the ethical boundaries entrepreneurs may face when trying to build legitimacy for their new ventures, or the other conceptual work highlighted earlier in this article. International scholars have also conducted interesting research on ethics and entrepreneurship that can be replicated in entrepreneurial firms in the US. For instance, Bryant's (2009) research examining relationships between self-regulation and moral awareness among Australian entrepreneurs could be studied with US entrepreneurs to see what differences may exist across national borders. A final recommendation involves the need for greater collaboration among entrepreneurship and ethics scholars. Research teams with scholars from each discipline can more easily bridge the knowledge gaps that exist and likely generate insightful research questions, as well as develop better research designs.

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Part II
Individual Research: Theory Development

Chapter 8
Entrepreneurial Social Responsibility: Scoping the Territory

Richard K. Blundel, Laura J. Spence, and Stefania Zerbinati

Introduction

> Entrepreneurship is not simply about how one creates a business or the workings of the economy. It is far more about how we organise today's society
>
> (Brenkert 2002: 33)

> We achieve what we want to achieve. If we are not achieving something, it is because we have not put our minds to it.
>
> (Muhammad Yunnus, quoted in Haider 2007)

In the early 21st century, we have seen a rapidly increasing interest in the relationship between entrepreneurship and social responsibility, broadly defined (henceforth abbreviated to 'ESR').[1] With national and international governments appearing increasingly impotent in the face of global problems, including poverty, conflict, pollution and climate change, influential voices are urging entrepreneurial actors to generate solutions. The resulting discourse has engaged policy-makers, corporate actors, non-governmental organisations and prominent entrepreneurs around the world. And it is much more than empty rhetoric. There is also evidence of substantive social and environmental impacts arising from such entrepreneurial initiatives. The following examples provide a brief illustration of the kind of developments we have in mind:

- The Grameen Bank, founded by Muhammad Yunnus, has extended more than $6.5 billion in micro-credit loans; of its 7.3 million borrowers, 97% are women (Grameen Bank 2008)
- South African musician Aubrey Mayer has secured the support of several countries and international agencies for his 'Contraction & Convergence' strategy to tackle the fundamental causes of global warming (Global Commons Institute 2008).

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- Voluntary sector and social enterprise initiatives have contributed to a rapid expansion in 'Fairtrade' labelling and certification schemes, contributing to improved living and working conditions, reduced pesticide use, and improvements in animal welfare (Nicholls 2004; Moore et al. 2006; Fairtrade Foundation 2008).
- Since its inception in 2006, the Bill and Melinda Gates Foundation has committed more than $14billion in grant funding to alleviate social problems in the USA and around the world (Gates Foundation 2008)
- Entrepreneurship and social responsibility have both become closely aligned with the European Union's key policy objectives of jobs, growth, and social inclusion (CEC 2005; Verheugen 2005, 2007).

The proliferation of practical developments 'on the ground', and the higher profile in policy circles has also found an echo in the research community, with the opening up of some new sub-fields (e.g. social entrepreneurship, environmental entrepreneurship) and the extension of more established ones (e.g. voluntary/third sector, community and development studies). There has also been a growing collection of more popular work by academics, presenting compelling arguments for a reform of contemporary capitalism, in which entrepreneurial activity – including 'grassroots' participation – is seen as a key mechanism for improving the economic position of those currently marginalised, as well as serving broader social and environmental goals (e.g. Prahalad 2004; Hart 2007).[2] However, the literature is diluted across a variety of disciplinary areas, with little cross-referencing, and still less coherence in terms of a body of empirical research into, or conceptual development of, the phenomena surrounding social issues and entrepreneurship.

In the section "Introducing ESR – Ethics, CSR and Positive Social Change Through an Entrepreneurial Lens" we introduce our key concepts of entrepreneurship, CSR and ethics, drawing particularly on the work of Aguilera et al. (2007), which is an important starting point for a number of strands in the paper. We locate our work in the influential discourse of the business case for CSR. We introduce Entrepreneurial Social Responsibility (ESR) as a concept for incorporating these perspectives and addressing weaknesses in standard CSR definitions. In the next section on "Entrepreneurship and Social Responsibility" we define entrepreneurship more closely in terms of the entrepreneurial process as a complex phenomenon requiring multi-level analysis. We present the three approaches in the literature on entrepreneurship and CSR: the mainstream, counter-cultural/critical and reformist.

In the section on "Conceptualising the ESR Territory" we clarify our conceptualisation of Entrepreneurial Social Responsibility.

We start by exploring the tensions between commercial orientation and social responsibility with the aid of Spence and Rutherfoord's (2001) model which puts the two concepts not as opposing ends of a spectrum, but in a 2 x 2 matrix. Building on this, we present a model of the underlying dynamic of the entrepreneurial process. Finally, we put these two diagrams together to present a three dimensional model of the territory of ESR. We conclude by considering the implications of ESR for policy and practice, entrepreneurship and traditional CSR.

Introducing ESR – Ethics, CSR and Positive Social Change Through an Entrepreneurial Lens

Developing the Terminology: Building on Aguilera et al. (2007)

Positive social change can be aligned with the established notions of business ethics and corporate social responsibility. Like 'entrepreneurship', there is no commonly agreed definition for any of these terms.[3] Ethics is clearly linked to moral philosophy and commonly a prescription of what behaviour *ought* to be (although this varies according to the theoretical perspective taken). CSR is a term more embedded in societal expectations of corporations, and has wider currency in the corporate world than business ethics. In an extensive review of CSR and related concepts, Waddock (2004) concludes that all of the varieties of definition cluster around the notion of collective, agency approaches to social issues. Going a little further, Wood and Logsdon (2002: 59) identify CSR as being represented by 'broad ethics-based and problem-solving norms of social reciprocity'. In common with other definitions of CSR, these suggest a rather static notion of the concept, such that it tends to be viewed as a decontextualised and binary notion, with CSR being either present or absent from the corporation. We are broadly aligned with Aguilera et al.'s (2007: 836–837)[4] rather more thoughtful definition of CSR to be 'consideration of, and response to, issues beyond the narrow economics, technical and legal requirements of the firm to accomplish social (and environmental) benefits along with the traditional economic gains which the firm seeks', indeed this paper builds on their approach, similarly pointing towards a multi-level theory of social change. By focusing on positive social change the authors enable a more deliberate theoretical development than has hitherto been present in the academic literature. They argue that CSR triggers positive social change for example resulting in more environmentally-friendly methods of production, improved labour relations, investments in local communities and philanthropy.

While the multi-level analysis of Aguilera et al. (2007) allows for a degree of dynamism in their approach to understanding CSR, we feel that this aspect needs to be made more explicit. We inject dynamism into the definition by focusing on the processual nature of ESR rather than the rather more static nature of CSR:

> *Entrepreneurial Social Responsibility is the dynamic consideration of, and response to, issues beyond the narrow economic, technical and legal requirements of the firm to accomplish social and environmental benefits along with the traditional economic gains sought in the entrepreneurial process.*

Hence we are concerned with the nature of the link between an inherently dynamic entrepreneurial process and the influence it has on positive social change. In order to investigate this we draw together the literature from relevant fields of inquiry: CSR, business ethics, entrepreneurship and small business. This includes research on corporate social responsibility and ethics in smaller enterprises (for summaries see Hannafey 2003; Moore and Spence 2006; Morsing and Perrini 2009), work on entrepreneurs as productive, unproductive and destructive contributors to

society (Baumol 1990) and perspectives on the perceived tension between profit maximisation and social responsibility (Spence and Rutherfoord 2001; Austin et al. 2006). On the other hand, research into social entrepreneurship and environmental entrepreneurs promotes social and environmental issues as opportunities for entrepreneurship (Dees et al. 2004; Nicholls 2004).

Scoping the Territory

Mainstream policy perspectives on CSR are concerned with proving the business case in order to win over sceptics, i.e. demonstrate that acting socially responsibly is profitable. Despite a variety of studies pursuing this 'holy grail' of business ethics, conclusions are varied, ranging from Vogel (2005) who determines that there is little evidence to suggest that CSR is positively related to profit but that it is not a serious issue, since neither is there overwhelming evidence that other business processes directly impact profit (such as marketing or training). Orlitzky, Schmidt and Rynes (2003) on the other hand, in an authoritative overview of previous research, argue that there is a positive link. Similarly, many seek to demonstrate that CSR activities promote entrepreneurship. Surie and Ashley (2008) and Cheung and King (2004) use the ethical theories and qualities of pragmatism and Confucianism are positively linked to entrepreneurial activity. Switching the causal link around, Sarasvathy (2002: 95) argues for entrepreneurship as a force for positive social change. She proposes that a new vocabulary of entrepreneurship is needed "to tackle the central task of imagination in economics, i.e., to create from the society we *have* to live in, the society we *want* to live in."

In an approach which problematises the apparently mutually exclusive research findings around positive social change and orientation toward profit, Spence and Rutherfoord (2001) find that entrepreneurs combine social goals with profit seeking activities in a variety of different ways, sometimes prioritising commercial goals over social issues and vice versa (see Fig. 8.1 later in this paper). Indeed, their

	Perspective	
Practice	*Strong commercial orientation*	*Weak commercial orientation*
No positive social change	**1. Profit maximisation priority**	**2. Subsistence priority**
Positive social change	**3. Enlightened self interest**	**4. Social priority**

Fig. 8.1 Entrepreneurial frames of commercial orientation and positive social change Source: Adapted from Spence and Rutherfoord (2001)

findings act as a foundation for the work presented here. However, as we go on to argue in Section "Conceptualising the ESR Territory", Spence and Rutherfoord (2001) do not discuss how and when entrepreneurs might shift between quadrants. It is this dynamic aspect of positive social change which is of most interest to us, and distinguishes our work clearly from that which has been done previously.

Hannafey (2003) identifies gaps in the existing literature on ethics/CSR and entrepreneurship including empirical and cultural comparative research, theory, and the influences on ethical behaviour. Importantly, he highlights as an area for further research one of the main arenas to which the current paper contributes, that is, 'how the ethical concerns, perspectives, and behaviours of entrepreneurs change over time as their organizations grow and develop will greatly enhance what is already known about the early venture period' (Hannafey 2003: 106). We adopt a similar approach to that of Aguilera et al. (2007), proposing a multi-level analysis to explicate the intricacies of the dynamic entrepreneurial process. By developing this in the context of Entrepreneurial Social Responsibility we hope to contribute to a more sophisticated and insightful elaboration of CSR that is tailored to meet the distinctive demands of the entrepreneurial process.

Entrepreneurship and Social Responsibility

Defining Entrepreneurship

One of the greatest challenges in scoping the relationship between entrepreneurship, the entrepreneurial process and social responsibility, is to define the initial terms of our enquiry. Entrepreneurship remains (in the economist Edith Penrose's memorable phrase), 'a slippery concept' (Penrose [1959] 1995: 33), difficult to formalise and open to multiple interpretations. Researchers within the entrepreneurship field have struggled – and failed – to unite around a commonly-accepted definition of entrepreneurship that locates individual entrepreneurial actors within a broader set of explanatory theories. In practice, there are a number of parallel subgroups in this area, often working in isolation within well-guarded disciplinary silos (Gartner 2001; Blundel 2007). One of the main reasons for this outcome is that entrepreneurship is a multi-level phenomenon (Low and Macmillan 1988; Davidsson and Wiklund 2001), with research ranging from individual (e.g. psychological trait and rational choice theories) to organisational (e.g. entrepreneurial team and network dynamics), and broader institutional and socio-cultural levels (e.g. geographic clustering and 'Upas Tree' effects[5]). There have also been differences over the kinds of organisation addressed by entrepreneurship research. Some influential academic contributions have focused on new ventures (e.g. Gartner 1985; Stevenson et al. 1989), while others have written more extensively on what is now termed 'corporate' entrepreneurship in existing organisations (e.g. Kanter 1984). More recently, some entrepreneurship scholars have attempted to confront what they see as a muddled collection of concepts and methodologies, and define their object of study more

precisely (e.g. Shane and Ventakaraman 2000; Gartner 2001), but these efforts have been also challenged by others who regard eclecticism as more of a virtue than a hindrance (cf. Zahra and Dess 2001).

Given this background, for the purposes of clarity, we will briefly summarise the interpretation of entrepreneurial activity that has been adopted in the current paper[6] First, we follow many well-established characterisations of entrepreneurship by interpreting it as a *dynamic* and essentially *creative* process involving the discovery and exploitation of value-creating opportunities, without regard to resources currently controlled. Second, we recognise that this process operates at *multiple levels* of analysis. Third, and in contrast to some scholars, we acknowledge that this multi-level process generates *emergent* phenomena, which are not reducible to their component elements. Fourth, we take the view that the 'value-creation' aspect of the process can be usefully extended beyond purely financial returns (typically measured in terms of financial accounting profit or return on investment), to incorporate broader social and environmental gains. Fifth, we concur with recent arguments presented in the social entrepreneurship literature, recognising that entrepreneurial processes operate across a range of organisational contexts (e.g. public, private and voluntary sector).

Entrepreneurial Process as a Multi-level Phenomenon

We find convincing Aguilera et al.'s (2007) observation that to understand the influences on positive social change multi-level analysis is required. Similarly in the entrepreneurship literature methodologies differ in the extent to which they probe beyond observed events (i.e. surface-level effects) in order to understand underlying causal sequences or generating mechanisms (Pentland 1999). Many insights into entrepreneurial processes have been achieved through single-level approaches. For example, population ecologists have examined macro-level processes with data that is primarily aggregated and quantitative (i.e. official statistical data sets recording firm entries and exits), while ethnographic researchers have revealed some richly-detailed micro-level processes through direct exposure to localised fieldwork sites. However, there is a strong case for seeking methodologies that are capable of taking entrepreneurship research a step further towards integration (Blundel 2007). Unfortunately, there is little evidence that such integration is taking place. Entrepreneurship research has blossomed in many academic disciplines, generating a rich and diverse harvest of empirical and conceptual material. However, this variety masks the fact that the field is fragmented, with specialists making little use of one another's work (Ucbasaran et al. 2001: 57). Furthermore, in pursuing the methodologies traditionally associated with these disciplines, entrepreneurship researchers have tended to focus their attention on particular levels of analysis. In their comprehensive review of 'past research and future challenges', Low and MacMillan (1988: 151–152) suggested that entrepreneurship researchers may choose among five levels of analysis in pursuit of relevant

phenomena: the individual, group, organisational, industrial and societal. They noted a tendency for most previous research to be conducted at a single level of analysis, but argued that a few recent examples of multi-level research demonstrated the potential for achieving a richer understanding of entrepreneurship processes. This led them to conclude that entrepreneurship research designs would be enriched if they were able to incorporate *multiple* levels of analysis:

> The relationships between phenomena that can be observed at different levels of analysis are important not just for academics, but for both practitioners and public policy makers as well. From the entrepreneur's perspective, the success of the individual enterprise will be affected by factors that can only be observed at different levels of analysis. *To miss any one of these perspectives increases the probability that key factors will be overlooked and that unanticipated events will take the entrepreneur by surprise*. From the public policy-maker's perspective, the insights generated by multi-level studies have the potential to improve targeting of government efforts to encourage successful entrepreneurship.
>
> (Low and Macmillan 1988: 152 – emphasis added)

However, as Davidsson and Wiklund's (2001) review of research practice revealed, the entrepreneurship literature is dominated by micro-level analysis, with integrated 'micro/aggregate mix' approaches continuing to represent a small proportion of published work.[7]

We agree with both Aguilera et al. (2007) and Low and Macmillan's (1988) arguments for multi level analysis in understanding positive social change and entrepreneurship respectively. Since we join these two variables in our concept of Entrepreneurial Social Responsibility, understanding the underlying causal sequences and generating mechanisms of influence will be crucial, hence we recommend a multi-level analysis of process.

Three Approaches to Entrepreneurial Social Responsibility

The relationship between entrepreneurship and social responsibility received very little attention during the last century, but it is possible to detect a growing interest over recent decades. In this section, we identify three distinct approaches to this relationship, each of which continues to have a significant influence on the way that ESR is interpreted:

- Mainstream approaches
- Counter-cultural/critical approaches
- Reformist approaches

Our central argument in this section is that, despite an impressive resurgence of interest in the last few years, with a flurry of academic publications in a variety of journals,[8] it is possible to detect significant limitations in all three approaches. As you might anticipate from arguments presented in the preceding sections, we see the 'reformist' strand as having the greatest potential to inform future ESR research.

However, we also recognise that the other two strands also have something of value to impart. The main purpose of this brief critical review it to take an initial step in making more explicit the intellectual traditions that inform our current understanding of the uneasy relationship between entrepreneurship and social responsibility. Our hope is that, by debating and refining these critiques, we can remove some important conceptual barriers to progress in this emerging field of study, and open the way for a more ambitious and fruitful research agenda.

Mainstream Approaches

Mainstream policy perspectives on entrepreneurship tend to focus on the economic contribution of entrepreneurial activity as the 'engine of the economy', generating wealth and providing employment. That this statement is so unsurprising, even self-evident, highlights a primary obstacle to an enriched understanding of ESR. In short, this dominant entrepreneurship discourse hangs on an economic framework; other approaches are tolerated, but they operate on the margins – both in terms of academia and policy communities. Of course, there are very good reasons for academics and policy-makers to focus on economic imperatives. These were the driving forces behind the revival of interest in entrepreneurship and small firms in the 1970s, at the dawn of the 'enterprise culture' (Carr 2000), and have renewed currency in the light of the global economic crisis of 2009. The problem with this, from an ESR perspective, is that such a focus tends to sideline questions other than those which can be framed in terms of economic performance. It would also be incorrect to present the mainstream literature as *exclusively* concerned with economic variables. An exceptional case is Baumol's (1990) historical study, which explored the entrepreneur's contribution to society over several centuries. He distinguished between 'productive' entrepreneurship which has a beneficial or positive impact on society; 'unproductive' entrepreneurship, characterised by rent-seeking activities that do not create social benefit; and 'destructive' entrepreneurship, characterised by criminal activities that yield a net social loss.

Many other important contributors pay attention to what might be termed 'social' benefits, most commonly job creation and either urban or rural regeneration. [9] There are also many research sub-fields that explore social phenomena in relation to entrepreneurship (e.g. trust and reciprocity, social capital, networks). The key limitation of both types of study from our particular perspective is that the social dimension (i.e. the social benefits and antecedents respectively) is not the focus of study; the primary concern in the mainstream is with profitable growth and wealth-creation, and this determines its research agendas and associated methodologies. In this respect, mainstream approaches to entrepreneurship are consistent with Friedman's (1970) tightly-defined position on corporate social responsibility. So is this argument of any relevance beyond academia? The evidence suggests that it is making a real difference to the kind of entrepreneurial activity that is taking place on the ground.

The initial triumph of the 'enterprise culture' project in countries such as the US and the UK, coupled with economic globalisation, is contributing to an intensification of enterprise policies around the world, informed by the intellectual traditions

of the mainstream (e.g. Turkey as noted in Uygur 2009). In both developed, developing and transitional economies, government agencies and other actors are engaged in a concerted effort to stimulate their indigenous capabilities in entrepreneurship and innovation, the (very reasonable) objective being to combat the threat posed by global competitors (e.g. Verheugen 2007). Our concern is that such approaches are simply inadequate in the face of the deep-rooted social and environmental challenges that we face in the early 21st century.

Mainstream approaches are constrained by their tightly-defined research questions and methodologies. They cannot address many questions about entrepreneurial activity and its potential to achieve positive social change, because such outcomes fall outside the scope of conventional economic performance measures. They also lack the conceptual equipment to consider how qualitative changes of this kind might be effected. However, while the main public policy emphasis continues to be around ways of increasing the *quantity* of entrepreneurial activity, there is evidence of a limited, but seemingly growing interest in its *quality* (cf. OECD 1998; CEC 2005). In order to probe the intellectual roots of this shift, we need to consider the other two approaches to Entrepreneurial Social Responsibility.

Counter-Cultural/Critical Approaches

The 'counter-cultural' or 'critical' strand comprises a variety of critiques of the enterprise culture and the perceived negative impacts of unbridled entrepreneurial activity on society and the natural environment. It has developed alongside industrial capitalism, and has surfaced in many forms, ranging from political agitation to a contribution from the creative arts. To take a striking example from the early 19th century, English political commentator William Cobbett railed against the negative impact of two of the principal entrepreneurial initiatives of his era, canal building and the commercialisation of agricultural production, highlighting their impact on the welfare of rural communities.[10]

> Here are some of the very finest pastures in all England, and some of the finest dairies of cows, from 40 to 60 in a dairy, grazing in them. [. . .] but, while the poor creatures that raise the wheat and the barley and cheese and the mutton and the beef are living upon potatoes, an accursed *Canal* comes kindly through the parish to convey away all the wheat and all the *good food* to the tax-eaters and their attendants in the WEN! [i.e. 'wart or tumour', a reference to London].
>
> (Cobbett [1830] 1973: 362–363)

A common feature of these approaches is that entrepreneurship is viewed as an inherently unethical phenomenon that makes a negative social contribution. These critiques are often encapsulated in discourses around the lengths which entrepreneurs will got to in order to generate short-term profit, including such examples as cost reductions resulting in issues such as dangerous chemicals in toys (Pilkington and Pallister 2007), poor working conditions in clothing supplier companies (Siegle 2007) and the promotion of unhealthy foods which contribute to obesity (Schofield and Cracknell 2007).[11] Other recent entrepreneurial targets have included budget airlines (for their impact on global carbon emissions) and

innovative entrants to industries regarded as having socially-damaging impacts (e.g. internet gambling). It is clear that this intellectual tradition, and the research that it has stimulated, has made a considerable contribution to highlighting the harm caused by unbridled entrepreneurial activity. However, it also has some important limitations, from the perspective of ESR. Paradoxically, it tends to share with 'mainstream' approaches to entrepreneurship a tendency to exclude consideration of social benefits, or how they might be achieved. In its more 'romantic' guise, the counter-cultural approach is prone to making conceptual leaps, from criticism of a prevailing state of affairs to depictions of desired end-points, without examining the process of getting from one to the other.[12] In this sense, we argue that (like the 'mainstream'), it lacks the conceptual requirements for exploring the territory of ESR. Though specific enquiries in this tradition have revealed abuses and helped to introduce regulations governing entrepreneurial activity, it is probably fair to say that its impact has been limited in policy terms due to the lack of detailed and compelling analysis of how more socially-beneficial entrepreneurial outcomes might be achieved.

Reformist Approaches

In contrast to the other two approaches, the 'reformist' strand does seek to adapt and redirect mainstream concepts of entrepreneurial agency towards more progressive goals. We have already mentioned some important contributions in this area coming out of the business ethics and CSR community in Section "Developing the Terminology: Building on Aguilera et al. (2007)"[13] There have also been a number of studies examining, and in many cases also promoting, new forms of social and environmental entrepreneurship (e.g. Nicholls 2006; Hawken 1993), and associated institutional innovations such as Fairtrade certification (Nicholls 2004; Moore et al. 2006) and social investment markets.

Reformist contributions vary enormously in their stance towards commercial forms of entrepreneurship. Some (what might be termed the 'mainstream wing'), seem to regard commercial entrepreneurs as offering a template for the third sector (e.g. placing a strong emphasis on competition between social enterprises as an essential part of their strategy to achieve social goals), while the 'critical wing' (in our informal terms), take a much more sceptical view of commercial entrepreneurship, and are likely to reject terminology such as 'social entrepreneur' in favour of more traditional (or less politically 'loaded') terms, such as 'social innovator' or 'community champion'. As we have already noted, our definition of ESR seems to sit quite comfortably within the reformist approach. However, though it has already generated a great deal of useful knowledge about entrepreneurship, ethics and positive social change, we suggest that there is considerable scope for conceptual development, and for extending the scope of the reformist research agenda. Limitations of the reformist approach include its lack of applicability to dynamic changes in entrepreneurship and the tendency to take a single-level focus as we discuss below.

The vast majority of reformist approaches take a static view of CSR. Venkataraman (2002) is a notable exception, using stakeholder theory in understanding entrepreneurship. He argues that "the process of entrepreneurial discovery and exploitation will ensure that the corporation will be managed *as if* for the benefit of all the stakeholders in the enterprise. Firms which are not so managed, will, over time, be selected out of the business (and therefore social) landscape" (Venkataraman 2002: 50, parentheses as in the original). This point is tempered rather by Shepherd and Lévesque (2002) who argue that time and delay in reaching this equilibrium point must be taken into account, and may dis-benefit given stakeholders.

Other studies take the more traditional static approach, for example by drawing on ethical theory to investigate the social orientation of entrepreneurs, assuming this to be rather fixed for any one individual. For example, Newbert (2003) returns to Adam Smith's work on *The Wealth of Nations* and *The Theory of Moral Sentiments* to argue that rather than focusing on simplistic economic self-interest, entrepreneurs operate with a combination of economic and social motivates, and can contribute substantially to the greater welfare of society. A similarly positive view of entrepreneurship emerges from Velamuri's analysis of entrepreneurship as a form of altruism (2002). He identifies the entrepreneur as "a fellow citizen, with all the aspirations, doubts, generosity, and prejudices of any other human being" (Velamuri 2002: 130). He concludes by calling for more focus on the value which entrepreneurs generate, rather than that which they appropriate (ibid.: 133). Bucar, Glas and Hisrich (2003) have undertaken an international comparison and applied integrated social contract theory and stakeholder theory to their data on managers and entrepreneurs. They find that in the US a greater percentage of entrepreneurs compared to managers exhibit ethical attitudes in business, although no significant difference was found in Slovenia, pointing to the influence which cultural context can have on attitudes.

Demonstrating the single-level focus of research in the reformist arena, a number of papers draw on micro-level phenomena, notably the psychological perspectives of individual entrepreneurs, in particular their cognitive moral development (Solymossy and Masters 2002), moral reasoning and decision-making (Buchholz and Rosenthal 2005; Payne and Joyner 2006; Teal and Carroll 1999). These generally conclude that entrepreneurs have a somewhat enhanced faculty for moral reasoning and decision-making. For example, in the case of organic production and Fairtrade, we have seen new 'for profit' entrepreneurial ventures that combine business with social and environmental outcomes. It is difficult to say whether such entrepreneurs have started these specific types of venture because of the anticipated positive social outcome. Rice (2000) argued that their motivations are usually economic. From the growers/farmers perspective joining the organic or fair trade movements, 'represent a path toward increased productivity' (Rice 2000: 44). In addition the premium price paid for the product is usually also a motivation.

In conclusion, there is much to learn from the three approaches outlined in this section, but in order to identify a way forward, we also need to be aware of their limitations. The first two approaches are constrained by their relatively

narrow frames of reference and associated methodologies. The reformist approach has enormous potential as a vehicle for studying ESR, but (much like its precursors in business ethics/CSR and conventional entrepreneurship), has been limited by a tendency towards static, cross-sectional research designs and studies that address a single level of analysis. In short, we need to learn from the experience within each approach and use these lessons to 'break out' and explore what we have termed the 'ESR territory' more thoroughly. In the next section, we present our initial thoughts on how this intellectual space can be conceptualised.

Conceptualising the ESR Territory

Exploring the Tensions Between Commercial Orientation and Social Responsibility

In this section we present our working draft of the ESR territory, building it up in the form of three linked diagrams. The first of these deepens the earlier discussions relating to the inherent tensions in the 'business case for CSR' (Section " Scoping the Territory"). As we have noted, this is a key debate in the CSR/business ethics literature, which centres on the question of whether acting as a socially responsible corporation 'pays' in terms of commercial performance. From an instrumental perspective, the conclusion must be that firms should invest in socially responsible activities when it is in their own self-interest so to do. However, research examples abound of instances where socially responsible behaviour is evident which is not self-interested (see Moore and Spence 2006). Focusing particularly on entrepreneurship, Spence and Rutherfoord (2001) investigate the orientation of the entrepreneur to commercial gains and social issues. They find that entrepreneurs combine social goals with profit seeking activities in a variety of different ways, sometimes prioritising commercial over social issues and vice versa.

An adaptation of Spence and Rutherfoord's model is shown in Fig. 8.1, and provides the initial building-block for our new conceptualisation of ESR.

The two dimensions within the diagram are derived by Spence and Rutherfoord's (2001) study, which draws on qualitative interviews and a quantitative survey using Erving Goffman's *Frame Analysis* ([1974] 1986). From these, the four quadrants shown in Fig. 8.1 were identified and can be explained thus:

- In the first quadrant, the priority is to maximise profit, and no positive social change is pursued. Where, for example, an entrepreneur declines an invitation to make an easily affordable anonymous donation to a charity because this will directly impact on her profit opportunity, the profit maximisation priority is being demonstrated.
- In the second quadrant, achieving sufficient profit to continue in the business is sought, demonstrating a subsistence priority in which no positive social change is pursued. No special efforts are made either to maximise profit or to make contributions to positive social change.

- In the third quadrant, both profit maximisation and positive social change are pursued, identified by an enlightened self-interest approach. Where, for example, the entrepreneurial second-hand car showroom owner sponsors the local youth football team because it represents a social contribution *and* the costs are more than covered by increased sales to impressed parents of the footballers and other community members, the enlightened self-interest approach is dominant.
- Finally in the fourth quadrant, a social priority is key, wherein positive social change is actively pursued and a satisfying level of profit is sought. For example, a woman from a disadvantaged ethnic community might run her business in large part because she knows that she acts as a mentor and inspires others in her community that they too can achieve economic and social success.

Spence and Rutherfoord's (2001) findings suggested that individual entrepreneurs are unlikely to be 'located' in any one quadrant permanently, and that they can be differently orientated to commercial issues and positive social change according to the situation. A related implication of these findings is that the entrepreneur can be orientated to different perspectives on commercial orientation and positive social change in different phases of the entrepreneurial process. For example, commercial orientation may be key during start-up, but life stage and personal events (such as a sibling with a terminal disease), might instigate a review of personal priorities and cause a shift from a strong commercial orientation to a social priority. Hence positive social change may be regarded as of little consequence with regard to the identification or exploitation of an entrepreneurial opportunity, but much more important when a financially-successful entrepreneur is deciding how to distribute the financial wealth accumulated over time. However, Fig. 8.1 does not enlighten us with regard to the circumstances under which a shift between quadrants is made.

In Fig. 8.2 we represent the entrepreneurial process as a spiral, comprising four distinct but closely inter-related phases: recognising and creating opportunity;

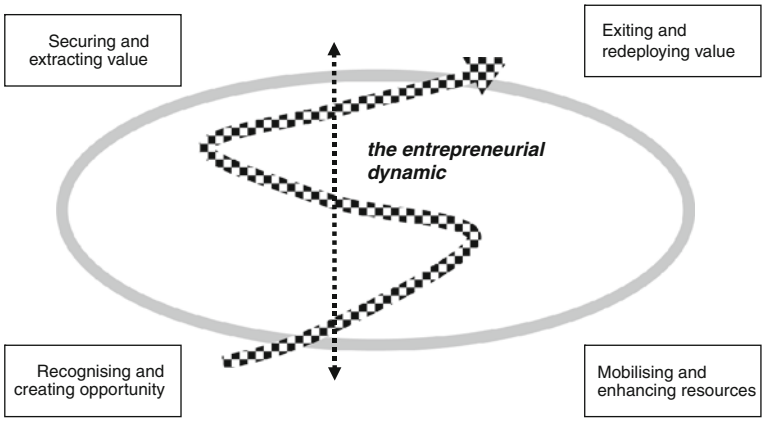

Fig. 8.2 Entrepreneurial processes and the underlying dynamic, Source: Blundel, Spence and Zerbinati (2009)

mobilising and enhancing resources; securing and extracting value; and exiting and redeploying value. The identification of these activities is not in itself new, but the way in which we present them is novel. We capture the dynamism of the entrepreneurial process in the spiral formation and highlight how each represents a location for positive social change. Accordingly there are important research questions around the *connections between phases*. For example, in the past we have seen a common pattern whereby socially-damaging entrepreneurial activity in the private sector has yielded financial value (in the form of profit accumulated by the individual entrepreneur), that has later been redeployed for social benefit (by the entrepreneur-turned-benefactor). An example would be Microsoft and the Bill and Melinda Gates Foundation mentioned in the introduction. On Fig. 2 we can begin to plot these different patterns and consider how and whether there are models which result in greater positive social change over others.

To clarify, the vertical axis of the spiral in Fig. 8.2 (with is represented by the linear vertical axis in Fig. 8.3) is there to highlight the point that greater entrepreneurial dynamism (which in this visual metaphor would be a longer, and perhaps more rapidly spinning spiral), needs to be isolated conceptually from its traditional associations with a stronger commercial orientation. There is no reason to suppose that this kind of dynamism cannot be present where positive social change is the dominant orientation. Examples here might include Anita Roddick's influence on animal welfare through her entrepreneurial activities with the Body Shop and Craig Sams and

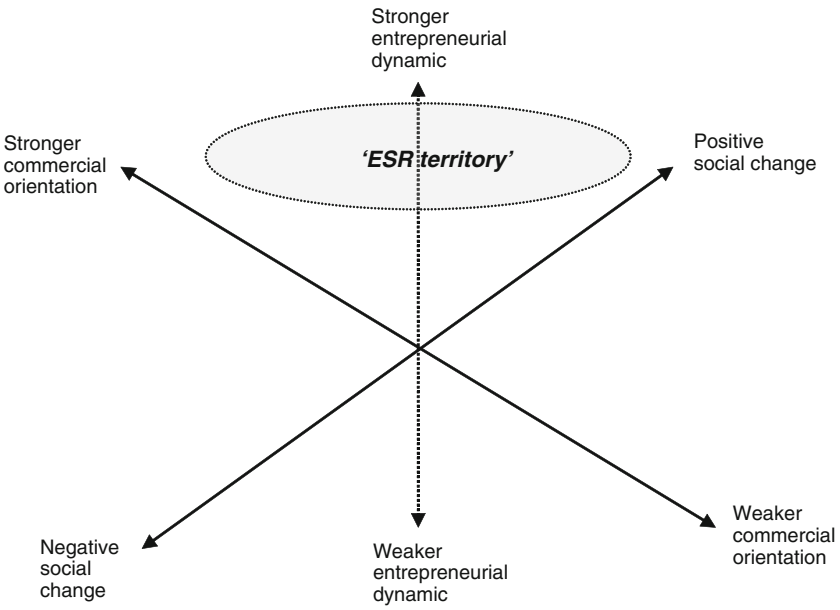

Fig. 8.3 'ESR territory' in outline: connecting the entrepreneurial dynamic to positive social change Source: Blundel, Spence and Zerbinati (2009) – after Spence and Rutherfoord (2001)

Josephine Fairley's contribution to improved prices for cocoa farmers with Green & Black's Organic chocolate.

In Fig. 8.3, we bring together a three-dimensional extension of the Spence and Rutherfoord model (Fig. 8.1) and the entrepreneurial dynamic represented as a vertical dimension in Fig. 8.2. The diagonal lines are drawn from Fig. 8.1, representing the two dimensional exposition of social change and commercial orientation. The entrepreneurial dynamic process is, as previously mentioned, represented by the vertical. We are then exploring the interaction between the three dimensions throughout the process. Our assumption is that the underlying mechanisms are inter-related, so it is helpful to examine it in this integrated way. One of our key arguments in this paper is that the ESR territory identified in Fig. 8.3 represents an extremely important, yet largely unexplored intellectual space. Furthermore, it is a space that needs to be 'opened up' and subjected to a more systematic and critical examination by researchers from both the entrepreneurship and the business ethics/CSR communities. Our hope is that this paper can play a small part in initiating this process.

Returning to the calls for multi-level analysis in CSR and entrepreneurship as previously mentioned, we argue that our ESR model is well positioned to facilitate this. We now have an enhanced possibility of investigating our research question of "In what circumstances is positive social contribution an outcome of the entrepreneurial process?" Aguilera et al.'s categories of individual, organizational, national and transnational can each be viewed from the perspective of the ESR model and embrace the territory we have outlined.

At the individual level, the focus will almost certainly be on the motives of the individual entrepreneur. Her desire and ability to affect positive social change, commercial orientation and personal entrepreneurial drive each need to be taken into account. These may each in turn be affected by external reputational issues on any of these fronts. Awards and listings are now prevalent, for example, for entrepreneurs who contribute to society (Business in the Community, Impact on Society Small Company Award), financial success and growth (Ernst & Young's Entrepreneur of the Year) and recognition for entrepreneurial prowess (the Guardian newspaper's 'Courvoisier Future 500' entrepreneurs listing). In addition, the factors previously mentioned which drive entrepreneurs in their decision-making and have been found to indicate advanced ethical reasoning also come into play. Personal factors (gender, age, spouse, life stage, education, financial security, friendships, mentor) will accordingly influence positive social change and precipitate change in the approach taken.

At the organisational level, Aguilera et al. (2007) focus on shareholders, managers and customers. Since we are encompassing smaller businesses as well as large firms and other organisational forms, we might reframe these categories to be organisational partners (shareholders, employees, and customers). In the small firm case, employees have been found to be the most influential stakeholder (Moore and Spence 2006) and hence can be assumed to have a powerful impact on positive social change at the organisational level. In large organisations, customers are conventionally seen as the primary stakeholder beyond the shareholders, and the fashions and

demographic of customers are likely accordingly to influence the organisation's positive social change orientation. In the UK, for example, supermarkets target social issues which their customers find to be most important. In 2007, for example, a focus on the free giving of plastic bags drove the major supermarkets to respond to customer pressure (and governmental encouragement – combining levels of influence) and reduce useage dramatically (Hickman 2008). Where customers are corporations in the supply chain, insistence on CSR standards compliance may also drive ESR for positive social change (or alternatively mitigate against it if the cost reduction is the only important factor). While shareholder motives are usually assumed to be profit maximisation and of courses there is a clear drive to ensure financial advantage from the shareholder (i.e. a commercial orientation), the picture is in reality more complicated. Increasing numbers of investors also have social concerns and are ready to place their money according to their ethical perspectives. In many cases shareholders may also be family members, which adds a further emotional dimension to the analysis, and opens the possible motivational drives to further disparity. Even where the primary motive for a shareholder is financial reward, maintenance of the license to operate and the avoidance of risk-taking which jeopardises the business, will also have a role to play.

From the perspective of the national level, Aguilera et al. (2007: 848) note that the "laws governments pass to encourage CSR are uniquely powerful because they can achieve broader coverage than voluntary initiatives". They argue that such laws are more common in Europe than the US, for example, and can influence the CSR climate considerably. The national legal and institutional framework hence is of critical import to ESR. There may be economic reasons for encouraging high levels of CSR among enterprises, in order to attract foreign direct investment in developing countries, for example. Combining this with support, education and training for entrepreneurship activity and putting in place financial structures to promote wealth creation (for example via taxation mechanisms), will each influence the movement around the ESR of an individual firm. There is a paradox here, however. While national level intervention may be the most powerful means of steering ESR, entrepreneurs and small business people are traditionally antipathetic to bureaucratic interventions.

At the transnational level, in a context such as Europe, we see manifold initiatives to encourage growth, employment, social cohesion and inclusion by virtue of the entrepreneurial process (CEC 2005 and see chapter on SMEs in Europe). More globally, we can see the actions of the United Nations Global Compact seeking to promote social responsibility and explicitly to engage with a range of organisational types. Transnational advocacy non-governmental organisations tend perhaps to focus on high-profile global offenders in their objectives to counter specific issues, such as animal testing of cosmetics, rather on entrepreneurial activities. Where NGOs are able to change the agenda, however, they both contribute to creating an environment where new opportunities open up for the entrepreneur and influence public opinion which may be played out through the entrepreneurial process. For example, the drive by NGOs to enable cheaper generic versions of drugs in developing countries which the pharmaceutical companies have resisted,

opens up opportunities for entrepreneurial suppliers of the generics. On the financial side, the International Monetary Fund and the World Bank, among others, seek to stimulate economic wealth generation transnationally, creating an environment for entrepreneurial commercial success.

In this section we have sought to conceptualise the territory of Entrepreneurial Social Responsibility by drawing together dimensions of commercial, social orientation and the dynamism of the entrepreneurial process. In doing so we demonstrate that ESR is not solely relevant to traditional social enterprises but incorporates entrepreneurially dynamic, commercially astute organisations too. Our conceptual model is designed to enable a dynamic perspective of ESR, in which changes in any of the dimensions can be analysed. Furthermore it allows for multi-level analysis and to seek to understand the interplay between levels and associated elements of ESR. Accordingly it is possible to view ESR from the perspective of the individual entrepreneur, the organisation (e.g. employees, customers, shareholders), the national level (legal and institutional frameworks) and the transnational level (NGOs, transnational policy-making bodies e.g. the EU, and institutions e.g. the UN). Our ESR model considerably unlocks the research and policy opportunities on Entrepreneurial Social Responsibility.

Concluding Remarks

As we indicated at the outset, this paper is exploratory. As a consequence, our concluding remarks are presented in the form of discussion points, rather than as prematurely closed arguments. They are organised into three sections: implications for business ethics/CSR research; implications for entrepreneurship research; and implications for policy and practice. We hope that the paper will stimulate an ongoing debate around entrepreneurship and social responsibility, including some constructive criticism of the arguments we have presented here.

Implications for Business Ethics/CSR

The foundation of a research programme introduced in this paper has the potential to enhance the business ethics/CSR fields in a variety of ways. We acknowledge that our work builds and develops on that of Aguilera et al. (2007) who also advocate a multi-level approach in their analysis of understanding the influences on corporations contributing to positive social change. However our work departs from theirs in a number of important ways. First, our ESR model offers a distinctive approach to understanding social responsibility issues outside of the usual corporate context. Second, we offer a mechanism for making ethical concepts more dynamic. An appealing aspect of the ESR model is that it enables us to move away from the usual static model of CSR towards a more dynamic appreciation of social responsibility, change and ethics. With the possible exception of decision-making models,

the vast majority of CSR and ethics research tends to skate over the dynamic context of organisational life. By introducing a processual perspective, we hope to demonstrate that the complexity of business practice can be analysed using the multi-level approach we advocate. In so doing, we advance the dynamism of CSR and ethics concepts.

Implications for Entrepreneurship

The arguments presented in this initial paper have the following implications for entrepreneurship research. Primarily, we are directing attention towards the mechanisms that create *quality* of entrepreneurship rather than just *quantity* – the dominant emphasis in mainstream literature and policy. It should be acknowledged, however, that while social entrepreneurship does address some of these issues it implants entrepreneurship into the social sector whereas we reverse the process. The object of our examination is how the social dimension is implanted into entrepreneurship processes. Our research question is thus: In what circumstances is positive social contribution an outcome of the entrepreneurial process? Second, we provide an example of the benefits of taking a multi-level rather than a single level approach. In doing so, we address a lack of understanding of entrepreneurial decisions over time and in the context of social, legal, environmental, economic and institutional environments. Third, we widen the relevance of all phases in the entrepreneurial process, going beyond start-up to include: recognising and creating opportunity; mobilising and enhancing resources; securing and extracting value; and exiting and redeploying value.

Implications for Policy and Practice

We started this paper by noting some of the contemporary examples where entrepreneurial activity is resulting in significant social and environmental benefits. Clearly, there are instances of constructive entrepreneurial activity alongside the media-inflamed image of the ruthless and egotistical entrepreneur who has no regard for the social or environmental damage caused by her activities. Social entrepreneurship offers a counter to this strictly commercially orientated image, but we are concerned that treating the field as bi-polar – commercial entrepreneur versus social entrepreneur – obscures the complexity of the entrepreneurial process. There is a danger of policy makers uncritically focusing all their efforts to encourage positive social change on self-acclaimed ‘social’ entrepreneurs, and ignoring the rest of the entrepreneurship community. We strongly advise against this. Empirical research indicates that there is a wide variety of social contribution by otherwise mainstream entrepreneurs, ranging from mundane piecemeal activities to more radical forms of entrepreneurial behaviour which do not ascribe to the mainstream emphasis on competition and economic performance measures. The challenge for policy

makers is not only to enable more entrepreneurship, but to redirect the great swathe of entrepreneurial activity around the world away from socially damaging models to ones which understand positive social change as part of the entrepreneurial process.

Notes

1. 'Social responsibility' and the pursuit of 'positive social change' are treated here as shorthand terms for the closely inter-related social, economic and environmental goals of sustainable development (SD). In using this shorthand, we also recognise the inherent limitations and tensions in SD (Pezzoli 1997; Robinson 2004).
2. Prahalad's book is entitled 'The fortune at the bottom of the pyramid.' At the World Economic Forum in Davos in 2008, Bill Gates promoted a similar set of ideas under the banner of 'creative capitalism' wherein he advocates the combination of self-interest and caring for others.
3. In early 2007, a definition of the term CSR was nominated as needing to be checked for its neutrality on that contemporary barometer of meaning, Wikipedia http://en.wikipedia.org/wiki/Corporate_social_responsibility.
4. This reference goes back to that by Davis (1973: 312).
5. The 'Upas Tree' effect, originated by Checkland (1976) refers to the thesis that the extended presence of large industries in one location – in this case 19th and early 20th-century Glasgow – may impede entrepreneurial vitality in the local community.
6. Our working definition draws, *inter alia*, on Schumpeter ([1934] 1961), Penrose ([1959] 1995), Shane and Ventakaranam (2000), Stevenson and Gumpert ([1985] 1992), Zerbinati and Souitaris (2006).
7. These findings were based on a content analysis of articles published in leading US and European entrepreneurship journals; we are not aware of any significant changes in the kinds of analysis being undertaken since the research was published.
8. For example, the *Journal of Business Venturing* has run a special issue on relationships between entrepreneurship and ethics (Harris et al. 2009); other entrepreneurship and organisation journals have addressed related issues such as entrepreneurship and the natural environment. We recognise that our categories are fairly crude, and that broad-brush critiques cannot do justice to the sheer variety of published work in this area. However, we hope that they will serve the previously-stated purpose of stimulating what we see as a much-needed constructive debate.
9. Publications such as the Bolton Report (1971) in the United Kingdom highlighted a range of concerns prompted by what was then seen as a collapse in the small firm population; the influential, though much criticised US study by Birch (1979), presented evidence on the job-creation potential of smaller entrepreneurial firms.
10. The resulting tension between commercial and artisanal models of enterprise are explored further in Blundel and Tregear (2006).
11. Other researchers investigating illegal forms of entrepreneurship take a more nuanced view. For example, Aidis and van Praag (2006) go beyond the 'grey area' of ethics to investigate illegal experiences of entrepreneurs and how they contribute positively to human capital, while Langbert and Grunewald (2004) use an empirical case study to explore why it is so difficult for a real estate entrepreneur to avoid using dubious ethical tactics during negotiations.
12. Taking an (admittedly) exaggerated example of this tendency from English literature, the Victorian novel by Charles Dickens, *Hard Times* makes a dramatic comparison between an entrepreneurial mill-owner 'Gradgrind', whose severe utilitarian ethic contrasts with the warm virtue and humanity found in a circus community.

13. Other contributions that we regard as broadly 'reformist' in approach include: Aidis and van Praag 2006; Hannafey 2003: 99; Kuratko and Goldsby 2004; Langbert and Grunewald 2004. We also note the interesting and distinctive position taken by Carr (2003), who argues that entrepreneurs should be regarded as having an ethic in the sociological (Weberian) sense of a 'way of being'; the focus of interest is then to uncover the nature of that 'ethic'.

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Chapter 9
A Comprehensive Model for SMEs: Measuring the Dynamic Interplay of Morality, Environment and Management Systems – Towards Continuous Improvement

Jörg Bürgi

Introduction

This article discusses the specific positions and relations of Small and Medium Sized Enterprises (SMEs) within the overall context of business, economy, society and physical environment. It concentrates on the steering elements of and within these companies, especially on the influence of their morality and management systems. The discussion of these steering elements demonstrates that a comprehensive SME model and a corresponding measurement tool are needed to detect issues for effective continuous improvement. In a second phase, the model and the measurement tool are tested by a survey of 27 SMEs in Germany and Switzerland.

Morality and ethics take a prominent place as steering elements of and within companies. In daily use and also in research, morality and ethics often are not differentiated from one another. For his research the author reflects definitions of internationally recognised scientists (Crane & Matten 2004:11; Ulrich 2008:31). 'Morality' is concerned with norms, values, and beliefs embedded in social processes which define right and wrong for an individual or a community. 'Morality' is part of the nature of human beings which builds up socially valid moral rights, duties and behavioural norms. 'Ethics' is concerned with the philosophical reflection of morality and the application of reason to elucidate specific rules and principles that determine right and wrong for any given situation. 'Ethics' aims at a universalistic and rational moral point of view.

The author focuses on 'moral' or morality' in connection with companies. Companies are communities which define ongoing rights, duties and behavioural norms, values and beliefs in their social processes. These issues are often not defined and philosophically reflected in SMEs, therefore the broad use of 'ethics' may not be appropriate.

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Design of the SME Model

This article detects a gap in the discussion of SMEs and therefore aims to define a model of the dynamic interplay in SMEs, of morality and (standardised) management systems within the environments of economy, society and physical environment. This model will be the basis for the development of an adequate analysis and measurement tool aiming at the detection of options for continuous improvement.

The paper begins by defining and positioning SMEs in society and economy, followed by the definition of the model based on the issues concerned. That allows the analysis and measurement tool to be checked by the results of the survey.

SME Model

Research concerning SMEs discusses morality, management systems and environment often separately. The SME model of the author tries to fill this gap by positioning SMEs in an overall context; it explains the interplay of SMEs, morality and (standardised) management systems within their environment. The model will be considered in detail after a literature review of the main elements of the model.

SMEs, morality, management systems and their internal and environmental issues are not simply linked linearly to one another (cause-effect feedback), but related reciprocally and enclosed circularly (effect-effect feedback). They are embedded in time; as a result their elements, their internal relations and their environment and the corresponding relations may be in a continual change.

As a consequence of such a systemic thinking, a paradigm of total determination can be deduced from the view of an ongoing interaction and communication of elements in self-organising systems (Maturana 2004). This theory is often combined with the idea of the stringent 'survival of the fittest' and the negation of 'spaces of freedom' or influence capabilities and therefore of morality. Maturana developed a middle way:

> Human beings are capable of describing a certain action as responsible. . . The experience of choice and decision, which we human beings make, does not at all contradict our structure-determinedness. Human . . . may, however, by virtue of a perspective opening up in a meta-domain, make the experience that they have a choice.
> (Maturana 2004: 76)

Elements of SMEs

An assortment of common elements of SMEs is deduced based on a large literature review – distinguishing internal and external issues (e.g. Bühler 2004; European Communities 2002, 2003a, b; Frey 2004; Fueglistaller 2003b, 2004a, b; Laeis 2005; Lehmann 2003; Liebermann 2003; Mohn 2003; Monnich 2001; Mühlebach 2004; OECD 2000; Schillig 2003; sneep 2007; Spence 2003a; UN 2004; Welter 2000):

Internal issues of SMEs:

- SMEs are centred on the personality of the owner-manager/entrepreneur; their leadership and decisions often based on qualitative and impulse reactions. Communication and coordination founded merely on personal, often amicable relations with employees. Culture is an outstanding element generating specific forms of moral attitudes and behaviours.
- The concentration of tasks produces complexity which has to be managed by a small number of people. But this multi-tasking allows informality and a less articulated and bureaucratic core; by that it generates the chance of greater flexibility, often combined with strength of innovation.
- The desire for independence stimulates private ownership and entrepreneurial skills. Securing long-term survival or accumulation of family assets is more important than increasing market value. But owners suffer from increasing difficulties to find a successor.
- SMEs often complain about lack of personnel, financial and time resources – pushed by globalising, technology-driven environment.

External elements:

- SMEs are the backbone of the market economy and therefore one of the principal driving forces of economic development. They are flexible and able to adapt quickly to changing market demand and supply situations.
- They generate employment and contribute to alleviation of poverty. Increased employment is not equivalent with higher productivity, because SMEs are overrepresented in sectors with low productivity growth, like retail trade.
- SMEs are present in networks of external relations which are indispensable elements for innovation. Networking allows long-lasting and co-operative partnerships with a limited number of regular partners, provoking better performance. Innovation is a vehicle for knowledge spillovers, particularly in terms of competition for new ideas and human capital embodied in knowledge workers.

Networking and innovation assist the regional and local development. At the same time they are a precondition for sustainable development and responding to the demands of globalisation. Diversifying economic activity of SMEs makes a significant contribution to exports and trade. Globalisation decreases trade barriers, but brings disadvantages in competition to only nationally acting SMEs.

SMEs Embedded in an Environment

Companies of all sizes and industries are decisive parts of the economical system in which they are intensively related amongst each another and to other elements (e.g. market system, customers/end-users, finance, insurances). Economy is not

independent; it is a subsystem of the human society; which again is embedded in the physical environment of the planet (e.g. Boff 1995; Crane and Matten 2004; Des Jardin 1997; Korten 2000; Ulrich 2008).

Society

Owners, managers and employees are within the 'company' and at the same time elements of its environment. The effects of this condition are especially vital for SMEs: It is quite possible that workforce and often suppliers are living in the same geographical region. Relations to local media and administrations are rather intensive. Managers and employees are members of associations, are involved in decisions concerning regional infrastructure etc. These elements at least partly explain the often obvious social responsibility of SME owners and top-managers influenced by local and regional moral traditions (DTI 2002; Laeis 2005; sneep 2007; Spence 2003b; Werner 2006).

The influences of government and authorities are increasing and the control of economic areas by legislation is escalating and quite often changing – in opposition to the world-wide demand to promote SMEs, (Fueglistaller 2003a; sneep 2007). This development threatens especially SMEs which have limited or no possibilities to switch to states with lower requirements (European Commission 2002, 2003; Eisenhut 2004; NatWest 2004; Schillig 2003; Welter 2000).

Economy

SMEs traditionally occupy the same neighbourhood as actual and possible customers, suppliers, and competitors, with their financing based on local banks (Fueglistaller 2003b; sneep 2007). The developing market increasingly challenges SMEs to expand their activities regionally, nationally and even globally; this development is related to the industries the SMEs belong to (Enderle 2004; Fueglistaller 2004b; Lehmann 2003; OECD SME unit 2004; sneep 2007). Even traditionally locally or regionally operating industries (e.g. construction) have to enlarge their geographical range because of market pressure by competitors with additional cost for logistics.

Expanding their geographical radius demands additional methodologies guaranteeing product and service quality as an alternative to personal relations to customers and suppliers. Since the 1970s national and latterly some international regulations concerning product and services requirements as well as their production management and processes increasingly have filled this gap (e.g. ISO 9000 for quality and ISO 14001 for environment management).

Physical Environment

The impact of human beings on the physical environment (use of resources, pollution) is increasing significantly (e.g. Mrasek 2007: Comments to the UN Climate Change Report). Already in 1987 the Bruntland Commission (World commission on

environment and development) proposed as an input to 'The Earth Summit in Rio de Janeiro of 1992,' the concept of sustainability challenge. The concept looks for approaches to sustain the provision of goods and services that society derives from natural systems in ways that "meet the needs of the present without compromising the ability of future generations to meet their own needs" (Bruntland 1987). The impact of SMEs on the physical environment can only be estimated, but with regard to their great number it may be enormous, and they may be responsible for a significant share of the total environmental burden. Although no generally accepted figures on the actual environmental burden are currently available (Bernardini 2007), SMEs may contribute up to 70% of all industrial pollution. The behaviours of SMEs are examined by various researches (e.g. Hillary 1999). To sum it up: if a SME is forced to change by legislation or is confronted with severe environmental aspects, it will respond to those (use of matters and energy, recycling, waste management and others).

Management of SMEs – Steering Within 'Spaces of Freedom' or Influence Capabilities

The discussion concerning management capabilities of SMEs starts with the dynamic interplay of moralities influencing attitudes and behaviours followed by missions and strategies and concludes with a short outline of management systems as supporting instruments.

Morality

Generally, the first interest of any company is its economic survival, simply because the economic sustainability of an enterprise is the first precondition for pursuing any moral activities (European Communities 2003). Enderle (2004:52–55) assumes that an organisation has "a 'space of freedom' which involves more than one possible course of action, can be bigger or smaller, can change over time, and is limited by constraints". In correspondence to the space of freedom he postulates an equal amount of ethical responsibility, "according to the fundamental principle of ethics that 'ought implies can'. . . Culture and ethics . . . play indispensable roles, not only in shaping those economical and legal constraints and forming new constraints (such as global codes of conducts), but also in using the existing spaces of freedom of business organisations".

An increasing number of organizations worldwide are intensifying their social and environmental awareness and advocacy efforts, but up to now there is no unifying definition (Sanders 2008). Corporate Social Responsibility (CSR) has become the mainstream expression for moral activities of companies. The International Standard Organisation (ISO) is on the way to defining a specific standard concerning Social Responsibility in ISO 26000 (edition planned for 2010). The Draft of September 2009 defines social responsibility as responsibility of an organization for

the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that:

- contributes to sustainable development, health and the welfare of society;
- takes into account the expectations of stakeholders;
- is in compliance with applicable law and consistent with international norms of behaviour; and
- is integrated throughout the organization and practiced in its relationships.

Moral attitudes and behaviours of SMEs differ intensively from those of large companies' practises. A large number of articles and surveys concerning the interplay of SMEs and morality have been analysed to identify specific characteristics of morality of and within SMEs (e.g. Bader et al. 2007; CERFE Group 2001; DTI 2002; European Communities 2002; Enderle 2004; Laeis 2005; Lai 2006; Mahmood 2008; Perunicic & Alexandrova 2007; sneep 2007; Spence and Rutherfoord 2001; Spence et al. 2003; Spence 2007):

- Moral responsibility is just a new way to describe something SMEs do already.
- Because ownership, management and control are usually concentrated in the same hands, the personal preference of top management and owners is the most influential factor.
- Motivating backgrounds include personal interests, responsibility towards the family, giving something back to the community and business reputation. Moral activities concentrate on employees and their families, the local communities, business partners, and the physical environment.
- Moral attitudes and behaviours can be also influenced by size, geographical region, economical situation, use of strategies, and company culture. The use of management systems may be another influencing factor.
- Main barriers are the lack of time and motivation, insufficient resources or capabilities, no knowledge for engagement in social responsibility or inability to see suitable opportunities, not being in touch with local needs and a perception that community involvement is not related to business.

Mission, Strategies, Traditions

Management literature uses the terms 'vision', 'mission' and 'strategies' intensively, but rarely characterises them. DeFeo (1998) speaks of confusion between vision and mission. ISO 9004:2009 (ISO 2009) means with 'mission' "the description of why the organization exists", and with 'vision' "a description of its desired state, i.e. what the organization wants to be and how it wants to be seen by its interested parties" – similar to the ASQ Glossary (2007) defining 'vision' as "An overarching statement of the way an organization wants to be; an ideal state of being at a future point". "While vision represents the end state, strategy represents the starting point and the context in which all other planning begins" (Borawski 2007:31). (Key) strategies represent the fundamental choices to reach the vision. They should cover the main areas of business: customer relations, costs, internal processes (including suppliers

and competitors), and culture (including values/traditions concerning society and sustainability). Modern approaches to strategy use systems models to consider more effectively the complexities of the world and strategies (Borawski 2007).

'Mission statements' are uncharacteristic to SMEs; but companies using the quality management standard ISO 9001 are forced to formulate their 'quality policy' which often contains elements of a mission or at least of strategies. Changed market demands and increasing market pressure force SMEs to formalise their procedures initially and subsequently to integrate these into a system of reflected vision/mission and strategies.

Management and staff identify increasingly with mission, strategies and values, if corporate culture is combined with CSR and branding. The culture of successful SMEs is characterised by strategies connecting traditional values with innovative strengths (Fueglistaller and Fust 2006).

Management Systems – Tools Supporting Long-Term Success

Probably all organisations define at least informal procedures to clarify commonly applied practices and responsibilities. A certain formalisation is forced by external requirements of investors, customers, suppliers and public administrations. Also SMEs optimise their shop floor procedures for standardising daily activities by a 'roof' containing their relations to companies' mission and strategies.

Management system standards, such as ISO 9001 (quality management) or ISO 14001 (environmental management) are quite familiar (West 2007). They provide requirements or guidance for the management system an organisation uses to attain particular types of results. The factor of interrelatedness of and within companies has been reflected within the standards' revisions (ISO 9001:2000; ISO 14001:2004) giving an understanding of the business through a process approach.

Since its first version of 1996 the environmental management standard ISO 14001 has based on a spiral circular conception: The process starts with commitment to implement an environmental management system, followed by the definition of the Environmental policy, Planning, Implementation and operation, Checking and corrective action, and Management review. The standard embodies a moral orientation because of its aim optimising attitudes and behaviours towards the physical environment.

In its second revision of 2000, the quality management standard ISO 9001 integrated management thinking using a model of two cybernetic cycles (external: optimising customer relations – internal: optimising management of processes). Because until then the majority of companies has used a shop floor and activity orientated system, the transformation to a working process approach idea is often not yet finished.

While separate quality, environmental and health and safety management systems concentrate on specific parts, their conjoint implementation can interrelate and give a reasonable level of comprehensiveness (Petrick 2002; Shipley 2003). Total Quality Management (TQM) models as the European EFQM and the US American MBQNA aim to be all-embracing (Baldrige National Quality Program 2006; EFQM 2003). Likewise the ISO 9000 quality management standards series guidelines (ISO

9004) broadened requirements of interested parties and finance and so aim for greater inclusivity (Russel 2003, 2004; Seaver 2002). The revision of 2009 intensifies this purpose and explicitly integrates moral elements as well as sustainability (ISO 2005a; ISO 2007a, b, 2009; ISO/TC 176/SC 2 2008b).

Because quite a lot of SMEs are suppliers to end-producers or public administrations, many of them have been forced since the early 1990s by their customers to introduce standardised quality management systems according to standard ISO 9001. If SMEs have impacts on the physical environment they often also implement standardised environmental management systems according to ISO 14001. EFQM and MBQNA also developed specific TQM models and awards for SMEs.

Because there is little research concerning the effects of TQM within SMEs, the analysis in this article concentrates on literature review concerning the use of standard version ISO 9001:2000 of and within SMEs as well as on research relating to ISO 14001.

Quite a number of authors describe characteristics of SMEs using quality standard ISO 9001 (Casadesus & Karapetrovic 2005; Jabnoun et al. 2005; Longchamp 2008; Martinez & Martinez 2007; Pinar & Ozgur 2007; Singh et al. 2006; Van der Wiele et al. 2005):

- The implementation of a system according to the version 1994 was often externally forced by customers, head offices and governments. Additionally it provoked frequently a trend to bureaucracy
- The use of version 2000 initiated an increasing confidence of customers and their satisfaction. Because the 2000 version is nearer to TQM, consequent use of the Standard provides a development to TQM.
- The implementation of the two cybernetic circles of the ISO 9000 model is often sophisticated.

SMEs using the environmental standard ISO 14001 show comparable or additional characteristics (Balzarova et al. 2006; Briggs 2006, 2007; Darnall 2006; Gutowski et al. 2005; Hillary 1999; Masurel 2007; Obršálová et al. 2005; Pedersen 2007):

- Many companies do not have a strategic policy or concept.
- Legal compliance and customers are important drivers supporting market advantage.
- Use of materials and energy are optimised.
- A number of internal and external barriers hinder the implementation.

Design of the SME Model

This article builds an SME model which integrates different elements of companies and especially helps to explain the dynamic interplay of SMEs, morality and

(standardised) management systems within their environment to define issues of optimisation. By this model it fills the gap of a separate view of individual issues.

The primary description of the three examined steering elements within SMEs is utilized as the basis for discussing their interplay and designing the SME model of this research:

- Attitudes and behaviours of owners, top-managers, employees – based on an interplay of moralities
- Mission, strategies, traditions – based on a specific morality, embedded in company culture
- Management systems – tools supporting long-term success

The utopia of the interplay of the steering elements has to be reflected upon before examining daily reality. Ideally the steering elements cover one another: People within a SME develop and share the same (moral) values embedded in and supported by a living culture. These values are commonly translated into a corresponding vision and related strategies. The use of suitable managed systems containing iterative methodologies for controlling and continuous improvement support a sustainable translation into action (i.e. moral behaviours in business and towards stakeholders).

Korten (2000) designs a utopia of future economies by describing six vital characteristics of economies sustaining life: respecting the demands of individuals, families, local communities and nations; satisfying material, social and spiritual demands by economical use, just division and ongoing recycling of existing energy and resources; building on local communities, carefully handling the direct environment and being principally self-reliant; rewarding co-operation supporting the productive capacities of the community; enabling communication and collaboration with one another for the benefit of all; strengthening cultural, social and economical creativity and diversity by the free exchange of information.

Shifting the focus to SMEs in particular, Enderle (2004) proposes seven recommendations for successful SMEs: Concentration on exceptional and sustainable products; trust in people (employees and customers); consideration of the local context in order to become competitive at the global level; an ongoing process of learning and implementation with openness and perseverance; using the space of freedom in the fullest possible extent and expanding it by networking with like-minded partners; respecting the 'triple bottom line' of economic, social, and environmental responsibilities and balancing these responsibilities in order to maximize the sustainability; assessing business in order to control the space of real freedoms that people enjoy.

Total Quality Management (TQM) is a comprehensive model to integrate the (moral) attitudes and behaviours of human beings and the future orientated company culture with mission and strategies and the serious implementation of management tools. For Ghobadian et al. (2007) TQM and CSR share similar philosophical roots. They identify a substantial overlap between the elements of the two concepts, and the ultimate expected outcomes show significant similarities (e.g. needs

of stakeholders, fairness and participation, delegation of authority and responsibility, full disclosure, transparency, empowerment). For Hazlett et al. (2002) quality management frameworks can offer a strong foundation from which CSR strategies, behaviours and activities in an organisation may be developed.

The reflections concerning Korten's utopia and Enderle's recommendations as well as the relations of CSR and TQM allow the conclusion that the elements of the model can correspond with one another. It can be supposed that the translation of this correspondence has an optimal chance within a seriously managed and future orientated SME owned by a family, business partners or a co-operative following the principle of subsidiary decision making. This sort of SME is based on a proven common culture. This culture is characterised by transparency, integration, participation and empowerment of people, a holistic vision with comprehensive strategies and (moral) responsibility towards the customers, suppliers, employees, neighbours, society and physical environment. In consequence such a culture guarantees the sustainability of life. The aspect of 'time' is also significant: continuous and various changes challenge additionally the elements of the model; implying dynamic interplay.

Case studies of different SMEs illustrate that the ideal correspondence of the elements can rarely be attained in reality (e.g. Balzarova et al. 2006; Enderle 2004; Laeis 2005; Masanet-Llodra 2006; sneep 2007; Spence 2001, 2003; Werner 2006). The ideal development of an SME focuses on the interplay of TQM and CSR typified by integration, participation, circularity and (moral) responsibility towards all stakeholders. Therefore the SME model of the author uses issues of human beings working within a company, living the company's culture and implementing management tools. By that it helps to explain the complex and dynamic interplay of SMEs, morality and (standardised) management systems within their changing environment. It allows a differentiated understanding of SMEs and provides approaches for their optimisation (Fig. 9.1).

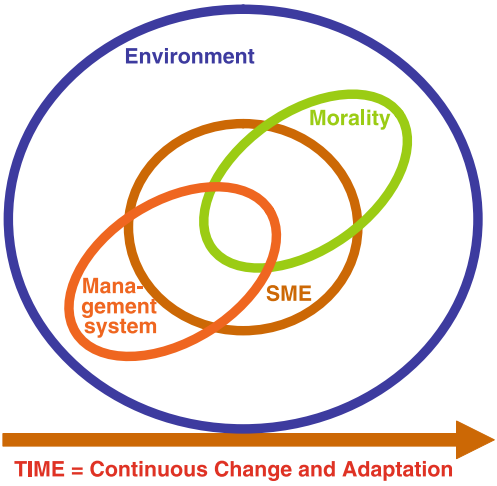

Fig. 9.1 SME model – Jörg Bürgi

The model contains an overlapping and dynamic interplay of the four components SMEs, morality, management systems and their environment. This corresponds with the companies' practices as mentioned above which may differ extremely and therefore produce different forms of overlapping and interplay. That is why the individual overlapping of a SME has to be monitored and as far as possible measured; the results may be converted into sources of continuous improvement of the company. A specially designed tool supports this aim by defining criteria for the assessment of successful companies watching the four components.

Methodology to Test Compliance with the SME Model and to Detect Possibilities for Continuous Improvement

The measurement element of the SME tool has to integrate the foregoing reflections; the interplay of TQM and CSR typified by integration, participation, circularity, subsidiary decisions making and responsibility towards all sorts of stakeholders and issues of human beings working within a company, living the company's culture and implementing management tools.

The aim of the measuring tool of this article is the wide-ranging monitoring of the individual company's extent of realisation of the SME model. The overlapping and interplay of the four elements can be examined: SME, morality, management system and environment. The result of the examination provides the optimisation of a company's vision, strategies and activities. The analysis starts with a simple matrix with four quadrants (see Fig. 9.2).

Basic Matrix

The two parameters of the basic matrix 'Fit with Effectiveness' and 'Fit with Strategy' present the main elements of the SME model to be examined. 'Effectiveness' is the "extent to which planned activities are realized and planned

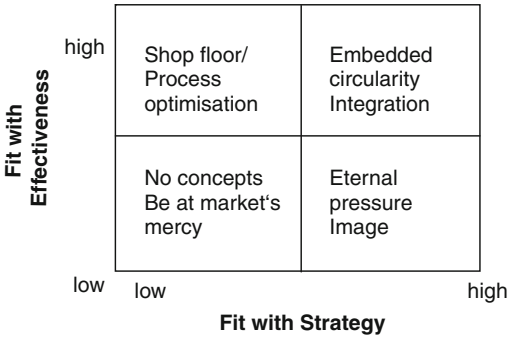

Fig. 9.2 Measurement tool – basic matrix

results achieved" (ISO 2005) and represents the strength of implementation of an activity. 'Strategy' is "the starting point and the context in which all other planning begins" (Borawski 2007) and represents the extent of long term orientation and/or sustainability. Therefore the parameter 'Fit with Effectiveness' describes the soundness of the four elements. The implementation and optimisation of activities of a company may concentrate on daily activities (mainly in optimising activities on shop floor level and / or individual or chains of processes) and / or on the company as a whole (in relation to its visions and model of leadership). The more a company reaches a holistic effectiveness the more the four elements are overlapping and interplaying.

The distinction between the properties of activities/procedures and systems is additionally important; it demonstrates their relationship to the second parameter 'Fit with Strategy' which expresses the (principally long-term) emphasis of a company's (moral) attitudes and behaviours. The specific position of a company on the parameter shows the specification, importance and implementation of its visions and strategies and the degree of overlap and interplay of the four elements.

Characteristics of the Four Quadrants

No Concepts – Be at the Market's Mercy

Some companies may not have defined or at least implicit visions relating to their activities. They only react on the continual (mainly short-term) changes of the market's requirements and customers' demands. That is why they behave neither strategically nor effectively. These companies have no long-term concepts of leadership and use minimal components of management systems. They may be characterised by moral attitudes and behaviours because of the personal backgrounds of managers and staff, but these elements are not part of a vision and have minimal influence on specified activities.

Shop Floor/Process Optimisation

Other companies concentrate on shop floor or process level and try to achieve the optimum in these domains. They are either forced by the market and their customers, legislation or financiers, and mainly optimise quality and process time or efficiency (with the aim to reduce costs). These companies again may be characterised by moral attitudes and behaviours because of the personal backgrounds of managers and staff, but these elements are not part of a vision, though they may have some influence on activities.

External Pressure – Image

Some companies are forced by legislation, customers or holdings (if a subsidiary) to implement a (standardised) management system or specific form of leadership.

Others may use a management system to cultivate their external image and/or to improve their marketing activities. External pressure and image optimisation may have some (short term) impacts on business performance. But the management systems of such companies remain often ineffective and poorly implemented. Internal and external controls are frequently artificial and not capable of detecting the companies' reality; they are not able to offer a basis for continuous improvement. Also these companies may be characterised by moral attitudes and behaviours because of the personal backgrounds of managers and staff. These may coexist with moral elements and codifications being forced by the requirements or the wish for image optimisation. Codified moral elements may have some influence on activities.

Embedded Circularity – Integration

Companies typified by embedded circularity and integration are guided by strategy and effectiveness. They use all the possibilities of their management systems with participation, double loop feedbacks and subsidiary decision making as well as moral approaches. They also fully integrate processes, customers, people, suppliers, public, physical environment and other interested parties. Their behaviour is based on defined or at least implicit visions and common values which are continuously controlled and adapted. They are characterised by circular thinking (starting with aims, visions, building and implementing strategies, integrating all sorts of stakeholders and earning money). In short they follow the triple bottom line model regarding social, ecological and economic demands.

Their behaviour is typified and accompanied by an integrated system of continuous analysis and control to underpin a continual optimisation of the whole company and effective innovation. These companies are also characterised by comprehensive, circular and sustainable risk management integrating opportunities and threats. Values of management and staff are continually discussed becoming an integrated component of the company culture and system, thereby supporting its long term, sustainable optimisation.

A large range of overlapping and dynamic interplay of the four elements is realised in these companies: An SME is able to integrate morality, its management system and its environment, and adapting to changes.

Specifications

The specifications are deduced from the definitions of the basic matrix and the SME model and literature review. The specifications describe ideal types and enable the rating of different elements according to the four quadrants.

Issues of the specifications: These issues describe individual company's characteristics and activities and allow its measurement as a basis of its continuous improvement. Every issue is validated according to the four quadrants of the basic matrix: No concepts/Be at market's mercy, Shop floor/Process optimisation, External pressure/Image, Embedded circularity/Integration.

- Element "SME": ownership (e.g. family, partner, public – management of change), leadership and decisions making (e.g. hierarchical, patriarchal, partnership, team orientation), people (e.g. position, integration), patterns of organisation (e.g. hierarchical, functional, matrix, team), culture and traditions (specifications), values (e.g. specifications, issues of ideal boss and ideal employee), communication (specifications – e.g. hierarchical, partner, team), finance (turnover, cash flow, profit), resources (people, finance, time)
- Element "Environment":
    - Society: public activities (e.g. membership in local authority or parliament) and sponsoring (e.g. of sport, handicapped), legislation (handling of requirements, laws), associations (e.g. membership, board)
    - Economy: innovation/agility and public relations (methodology, range), market position / competitors/geographical radius (range, effects), customers (specification, relations), suppliers and partners (specification, relations), financing (specification, relations)
    - Physical environment: e.g. activities, degree of sustainability
- Morality: motivation (individuals, company), specifications (e.g. type of activity), sustainability and codification (degree of sustainability, degree of codification)
- Management system: mission and strategies/statements (range, use, circularity, integration – managing of objectives), range and formality (system development – characteristics: e.g. shop floor, procedures, elements, used standards), quality (definition, methods for implementation, praxis and improvement), financial control and risk management (methodology [managing of objectives and measures], comprehensiveness [reflection and balancing of strength, weaknesses, opportunities, threats]), knowledge management (e.g. activities, range), comprehensiveness (integration of different components [including finance and morality] and people, circularity of processes).

Examination by Research

Outline

The author examined his SME model and the corresponding measurement tool by a longitudinal survey of 27 companies in two European countries using a large semi-structured questionnaire. It was challenging to select an optimal mix of SMEs for a long term analysis (selection criteria: size [micro, small, medium] – use of standardised management systems [with, without]). Most of the participating companies have been found by using existing professional contacts of the author (Switzerland) and of a colleague (Germany).

All companies used procedures and planned activities. Occupational health and safety is a legal requirement in both countries which especially in Switzerland is

nominally checked by authorities. More than half of the companies use standardised quality management systems (ISO 9001, EFQM, Swiss Tourism) and about 20 percent environmental management systems (ISO 14001). No SME used ethical standards such as SA 8000.

Figure 9.3 offers an insight into the companies:

Characteristics	All – 27	Switzer-land – 21	Germany – 6
Number of companies	27	21	6
Size: medium – > 49 employees	6	5	1
Size: small – 10–49 employees	16	11	5
Size: micro – 1–9 employees	5	5	0
Industry: Production	13	11	2
Industry: Service	14	10	4
Market position: Leader, 2nd position	17	13	4
Market position: Niche	18	13	5
Ownership: Ltd. – different owners/partners	7	6	1
Ownership: Ltd. – family company	14	12	2
Ownership: Private company	1	1	0
Ownership: Foundation, public owner	5	2	3
Mgmt-system: Quality ISO 9001, Tourism	15	12	3
Mgmt-system: EFQM	4	3	1
Mgmt-system: Environment / ISO 14001	5	4	1
Mgmt-system: Own model	7	4	3
Mgmt-system: Procedures, plans defined	27	21	6

Fig. 9.3 Longitudinal survey with SMEs – some basic specifications of companies

The survey was characterised by two rounds of interviews in 2003/4 and 2006/7. It observed the four overlapping elements of the SME model and the measurement tool by checking attitudes and behaviours of 214 persons of all hierarchical levels (owner/top manager, managers, qualified and semi-skilled employees, apprentice) and from different departments; 116 of them have been available in both rounds. All companies have been analysed by using the tables of specifications mentioned above.

The sample with 27 companies is relatively small. Because of their readiness for a long term analysis, it can be supposed that the majority of the participating SMEs belong to a higher quality level of management. These restrictions only allow a multiple study analysis and not widespread statements concerning behaviours of SMEs.

All the analysed companies have their own specific management system, where at least they follow a set of procedures or plans. Between the two rounds of interviews there was a development towards integration of people and a holistic system view in most of the companies. Especially medium and small companies showed an intensifying trend towards formalisation of their management systems, but nearly no micro companies (up to 9 employees) did, as they are often dominated by the personality of the owner.

Some Brief Results

- Two companies mention a direct influence of the feedback from the first interview round on their development.
- Two constructing companies without a standardised system are completely at their market's mercy.
- A tourism and a production company have procedures which are only moderately used with little relation to their strategies.
- A construction company uses its management system only for optimisation of its image.
- All other companies have procedures which are somewhat related to strategies accompanied by different levels of integration and interplay:
    - The level of effectiveness is mainly higher in companies with a standardised system.
    - Companies with a standardised system trend to more dynamic circulation, integration and holism.
    - This trend is especially intensive in companies with an environmental management system.

Common Issues of Specifications

A general overview provides an insight into common issues of the SME model's measuring specifications:

SME:

- Ownership: More than three quarters are limited companies; more than half are limited companies and owned by families. The majority of all companies plan possible changes in ownership. A minority trends to short time reactions.
- Leadership and decisions making: The interviewed SMEs are intensively regulated by attitudes and behaviours of the owner/top manager. Existing standardised management systems help clarifying responsibilities. About a third has trends to integrate employees.
- People: There is a basic integration in most companies, combined with training. The 2nd round of interviews showed that in some companies the integration of people was reduced (because of changes within top management and employees).
- Patterns of organisation: Most companies tend to a team orientation. Quite a lot have a parallel patriarchal form of organisation. Medium sized companies have mainly clear structures with divisions. About a third tends to integration and circularity.
- Culture and traditions: There is a wide range of cultures/traditions – from minimal common activities to intensive familiarity (even in medium companies).
- Values: Only few have defined and communicated common values. The values of the owners/top managers are decisive. More than two thirds of the top-managers/owners of companies with standardised systems assess social elements

as very important (companies without systems: about half); and all companies with environmental systems consider social and environmental elements as decisive. About a third tends towards integration of employees.

- Communication: There is a wide range of modes of communication – depending on culture, traditions and patterns of organisation. Quite often managers assess communication higher than employees do. Exchange of information is mainly concentrated on shop floor activities or processes.
- Finance: Most companies intend to balance the company's/family's money and banks'. Some try not to require finance from banks, and a few totally depend on banks. There are minimal differences in financial results between companies with and without certified management systems; but nearly all companies with ISO 14001 have increasing cash flows. At least all use profits for investment and training. More than half of the companies implemented an intensive financial control.
- Resources: Quite a lot of companies have time pressures and problems to acquire people and finance. The 2nd round of interviews showed a general intensified lack of time because of the economic boom.

Society:

- Public activities and sponsoring: All companies offer jobs, the majority also for apprentices. A few managers are active in politics. The general tendency for sponsoring (i.e. sports) was partly reduced between the two rounds of interviews because of minimal (customer) feedback from members of fostered organisations. Public activities are integrated issues in about a third of companies.
- Legislation: All follow legislation, but quite a lot suffer from the increasing number of requirements.
- Associations: Some managers mention activities in associations (e.g. membership, board). A majority of them integrates their activities into strategies.

Economy:

- Innovation/agility and public relations: More than half of the companies are innovative in products and processes; innovations are part of their strategies and combined with PR. Others are merely reacting on market changes.
- Market position/competitors/geographical radius: All companies are market orientated. About half are market leaders or in second position; for these market planning is an integrated element. The relation to competitors depends on industry; between the two rounds of interviews the relations became less stressed (probably because of the economic boom in Europe since the first round of interviews). Depending on industry the geographical radius is enlarging because of growing market pressure.
- Customers: All companies are market orientated and try to fulfil the requirements of their customers. For about two thirds customer relationships are managed.
- Suppliers and partners: Generally the relations to suppliers have the form of long term partnership. Only a small minority concentrates only on price in their selection of suppliers.

- Financing: Some try not to obtain finance from banks, and a few totally depend on banks. For about two thirds financial controlling and planning is part of their risk management.

Physical environment: All companies feel responsible towards the physical environment and fulfil at least legal requirements. Quite a lot try to do more than demanded (not only companies with the standard ISO 14001). Some have only minimal or even no issues concerning physical environment (companies with office orientated activities). Nearly half integrate environmental activities into their strategy.

Morality:

- Motivation: All companies are influenced by the moralities of individuals. About half have a tendency to integrate morality into their strategy.
- Specifications (details see '4.3.1 Excursus: Weighting of values – specifications of moralities'): The companies are characterised by an optimal mix of values guaranteeing private and company survival (highest ratings downward: 'being an example, implementing ideals and keeping commitments' – 'enough time for private relations, family, leisure' – 'justice, community, solidarity, participation and tolerance' – 'open to others, to respect one another'). 'Maximising profit' has the smallest rate within a list of 17 values (details see Fig. 9.3).
- Sustainability and codification: Only half have a minimal definition of the company's morality. But most engage with sustainable issues focussing on social and environmental perspectives.

Management system:

- Mission and strategies/statements: More than half of the companies consider moral issues and quality leadership as part of their mission, followed by customer orientation and collective survival. About three quarters formulate a mission and related strategies (with different degrees of formalisation and integration). All companies with standardised environmental systems are expansion orientated.
- Range and formality: The majority have defined responsibilities and shop floor procedures. But only a third disposes of working comprehensive and dynamic systems with integrated improvement.
- Quality: Quality is mainly shop floor orientated. Only a ninth has circular, dynamic, integral and sustainable systems of praxis and improvement.
- Controlling and risk management: The majority control their financial activities. But very few have a comprehensive risk management of all activities and a defined methodology to plan their future.
- Knowledge management: All profit from the dual system of professional education of Germany and Switzerland. But only a fifth has strategic knowledge management.
- Comprehensiveness: The management systems concentrate on shop floor and process level. Only a third have planned, integrated and circular systems aiming at sustainability.

Excursus: Weighting of Values – Specifications of Moralities

Besides the general statements of morality, all interviewed persons had to weight different descriptions of values (see Fig. 9.4): Totally 25 points have been available, and every description had to be evaluated from 0 to 5 points.

Because there are minimal differences between the results of the two rounds of interviews, only the values of the second round are discussed in this article (see Fig. 9.5).

Descriptions of values	
A.	To be an example, to implement ideals and to keep commitments
B.	To be integrated in decisions
C.	To be strictly compliant with standards and laws
D.	Fun is the most important element of my life
E.	To produce a good impression, image
F.	To have enough time for private relations, family, leisure
G.	To put justice, community, solidarity, participation and tolerance in front
H.	To be behave responsible – even if there is resistance within the company
I.	To avoid all cost which are not directly productive, to maximise profit
J.	To aim mental, psychic and physical health
K.	To have the possibility for lifelong learning, to be enabled and challenged
L.	To be loyal – to have primarily an engagement for tasks and the company
M.	To be open to others, respect one another – feedback(positive and negative)
N.	To think in long terms, to value and integrate consequences
O.	To have alternatives in work and private life
P.	To have enough time for planning and reflecting
Q.	To be flexible, spontaneous

Fig. 9.4 Longitudinal survey with SMEs – list of descriptions of values

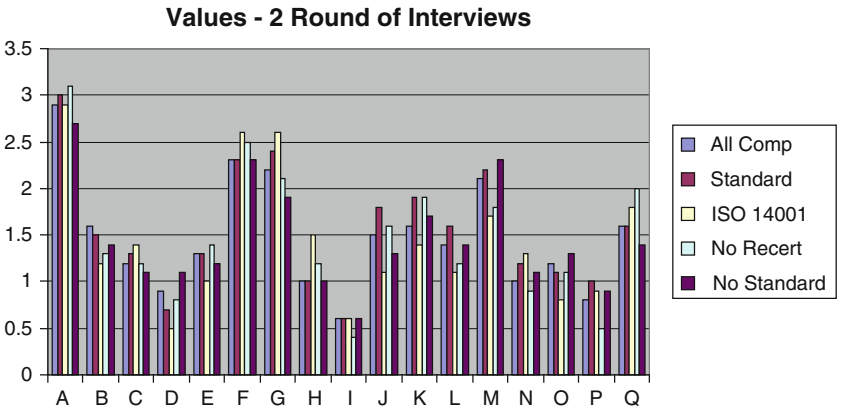

Fig. 9.5 Longitudinal survey with SMEs – list of descriptions of values – evaluation of companies using different sorts of management systems

The peaks of valuation of users of the different sorts of management systems deflect minimally: The most impressive peaks are A ‘being an example’, F ‘private time’, G ‘justice, solidarity’ and M ‘openness, respect’. Incorporating the medium peaks J ‘health’, K ‘life long learning’ and Q ‘flexibility’, the analysed companies are charactrised by an optimal mix of values guaranteeing private and company survival. The minimal rate for I ‘maximise profit’ is not surprising, reflecting the triple bottom line values (two thirds of all companies weight ‘social’ as important); this weighting is underlined in most cases by the company’s praxis.

Basic Matrix – Positions of the 27 SMEs – Analysis

The individual company has been classified according to the specifications and positioned adequately in one of the four quadrants of the basic matrix. The summary in Fig. 9.6 shows the distribution of the assessment of the 27 SMEs of the author’s survey. About a third of the companies is situated in the upper right quadrant (Embedded circularity – Integration) and about half in the upper left (Shop floor/Process optimisation).

The summary of the results of the basic matrix supports the assumption that primarily motivated companies have been ready to participate in a longitudinal survey with so many and relatively long interviews. It also underlines the general overview discussed above.

Prima facie the results obtained may not be too innovative: Three companies in the upper right quadrant (of totally ten) indicate that the use of management systems according to standards is not needed on the way to embedded circularity and integration. This may be related to the fact that mainly motivated companies paticipated in the survey. Otherwise the discussion demonstrates that companies with standardised (especially environmental) systems tend to be more effective than

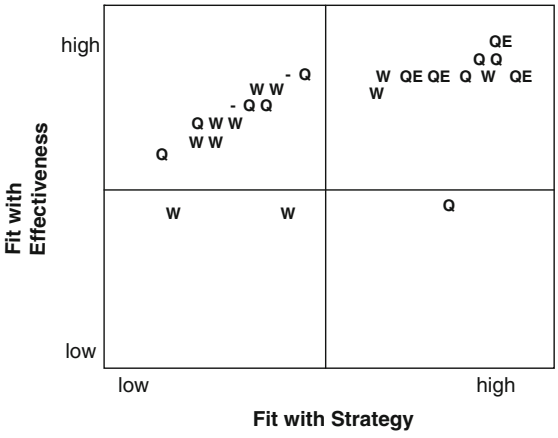

Fig. 9.6 Validation of the SMEs within the survey of the author using the basic matrix.
Q : companies with standardised quality system; QE: companies with standardised system for quality and environment; -: companies with no re-certification of their standardised system; w: companies without standardised systems

companies without standards. These are also characterised by more embedded circularity, integration and a successful dynamic interplay of the elements morality, standardised management system and environment.

Conclusions

This article discussed the specific positions and relations of SMEs within the overall context of business, economy, society and physical environment. It concentrated on the steering elements of and within these companies, especially on the influence of their morality and management systems. The discussion of these steering elements demonstrated that a comprehensive SME model and a corresponding measurement tool are needed to detect issues for an effective continuous improvement.

The model contains moral, management system and environmental issues in a dynamic interplay. A specific measurement tool was developed to examine this model. Both have been examined by results of a survey of the author.

The model and the measurement tool can be used as a comprehensive analysis system for companies. In so doing this analysis serves as a basis for a widespread continuous improvement containing vision, strategies, and activities as well as financial control – built on sustainable philosophies: CSR and TQM.

The literature review and the longitudinal survey illustrate that the effects of the standardised management systems often concentrate on optimisation of (shop floor) processes. Additionally the survey shows that mainly small (10–49 employees) and medium sized (50–249 employees) companies are on the way to a circular integration of people and processes, but nearly no micro companies (up to 9 employees). This impact is in most cases not linked to the used system, but based on moral attitudes and behaviours of owners/top-managers.

Exceptions are SMEs using an environmental management system; they tend to be more effective than companies without standard. These are also characterised by more embedded circularity, integration and a successful dynamic interplay of the elements morality, standardised management system and environment. This may be related to the moral issues and the basic spiral circular conception within the environmental management standard ISO 14001. These issues are the theoretical basis of the standard since its first version of 1996.

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Chapter 10
CSR and SMEs in Portugal: The Strategy of Obligation

Maria João Santos

Introduction

Corporate Social Responsibility (CSR) has now taken on a more systematised structure with broader general awareness. It not only emerges out of the set of policies and measures defined under the auspices of both the United Nations and member states but also as a movement driven by the business sector itself that perceives CSR at least as an important means of creating value. Developments in business management models, based on relational networks and intangible assets, ensure a context favourable to a greater emphasis on CSR issues.

Within this scope, the growing involvement of the business community in social responsibility does not exclusively result from signing up to ethical principles, pressure or civil society. They equally derive from a very clear and precise interpretation by companies that social responsibility practices may contribute towards the creation of value and leverage intangible asset management related to market value, image and brand, social capital, knowledge, innovation, risk or networks.

Approaches to CSR have frequently focused on major companies, generally multinational in nature (Santos et al. 2005). Furthermore, despite the undeniable weight and importance held by SMEs within the European context, both in terms of employment and turnover, studies on CSR at such companies are rare (Spence and Lozano 2000; Graafland et al. 2003; Spence 2003; Perrini et al. 2007;). And while it is relatively easy to identify the CSR practices of large companies given their extensive promotion, this does not happen in the case of SMEs. The dynamics, motivations and strategies are less explicit. They derive from tension in the relationship resulting from a complex web of forces, interests and convictions in which the affirmation of a responsible entrepreneurial spirit interacts with the no less influential set of overarching business pressures.

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Given that the understanding and implementation of CSR practices in SMEs reflects a very specific reality, this research seeks to identify the dynamics underlying their adoption and, in particular, to set out a typology that enables the different SME CSR strategies to be mapped out.

The study presented is part of a broader project carrying out a diagnosis of SME CSR across Portugal, setting up a bank of practices, an analysis of CSR networks and a study on the prospects for CSR nationally within the 2015–2020 timeframe.

In Portugal, qualitative data on CSR are both scarce and vague. Factors susceptible to inducing greater corporate responsibility have not been identified. It is certain that SMEs display a set of unique characteristics that differentiate them from larger companies and impact on CSR practices and hence the most relevant dynamics and mechanisms require analysis. This needs to incorporate how the pressures generated by subcontracting companies and their respective clients may condition CSR practices in SMEs. The objectives further include detailing and classifying CSR strategies, within the multiple variables at play in this process, above all to overcome a simplistic view that assumes all SMEs are the same and defines them only by a defensive or offensive attitude. Furthermore, this project seeks to contribute towards the formulation of a typology detailing the different SME CSR strategies and based on a questionnaire applied nationally to identify the dynamics underlying the adoption of CSR practices by SMEs.

Research Theory and Model

CSR Perspectives

The CSR concept neither achieves a consensual definition nor is easy to define. It generically assumes that companies integrate the concerns, interests and benefits of stakeholders, whether human, community or environmental, and act in conformity undertaking pro-active initiatives to improve existing conditions within a logic of the sustainable development of the surrounding environment.

This understanding is to be found in the European Commission definition which approaches CSR as: the voluntary integration of social and environmental concerns by companies in their operations and in their interactions with other interested parties (European Commission 2001).

This concept of CSR incorporates some basic characteristics. It assumes that the behaviour companies voluntarily adopt extends beyond legal requirements, is closely bound up with the concept of sustainable development and does not represent some optional "addition" to core company activities. It is instead a new concept regarding company management in its overall sense.

Despite there being relative consensus as regards the principles underlying CSR, the concept has evolved significantly with very different conceptions as to the means of intervention through which organisations interact with the societal context. From

one perspective, corporate responsibility is limited to the creation of shareholder value as a means of producing wealth within a framework of respect for the rules imposed by society or by the law (Friedman 1962). For others, CSR emerges out of a philanthropic perspective taking the form of donations or the granting of facilities for social or humanitarian purposes resulting in voluntary acts out of a desire to participate in civil society, good citizenship and social solidarity.

For Mintzberg (2002), for example, the conception of CSR extends still further beyond such philanthropic practices or simple community support. For this author, it takes on an altruistic attitude that assumes the commitment of managers to sustainable development serving to boost the general well-being and generational progress. In turn, Michael Porter takes a different position with CSR resulting from a strategic management vision and understood as an instrument for the creation of value. Through new management practices and through interaction with stakeholders, CSR can foster competitive capacities simultaneously contributing towards more sustainable development (Porter and Kramer 2002).

A still broader vision of the role that companies may play in society is proposed by Simon Zadek (2001). This author holds that, within the framework of the new economy, companies in association with other organisations may develop new forms of civil governance. Civil responsibility is present when a company actively engages in the promotion of governance regimes able to bring about the integrated and sustainable development of the surrounding community. Business citizenship involves companies integrating the interests of stakeholders in the way they interact and in conjunction with multi-differentiated organisations engaged in the governance of regions so as to bring about more integrated and harmonious community development. To this end, CSR is present not only when companies reflect on the impacts of their activities but also when they actually intervene in their own civil regulation and ensure more sustainable development.

These briefly presented multiple perspectives demonstrate that there are a range of understandings as to CSR (Jenkins 2004). Its future evolution shall depend not only on the strategies of the respective economic actors but also the broader understanding taken on by both the respective interested stakeholders and society in general.

However, it is not only the concept of CSR that is undergoing change: the very practice of CSR is also evolving over time. While, as Zadek (2001) states, in a first phase (non-strategic social responsibility), companies may be responsible "without knowing it", engaged in occasional CSR practices that fall beyond company strategy even if resulting in better commercial performance through an enhanced reputation and for example by donating computers to a school or financially sponsoring a "*cause*". In a second phase, (strategic social responsibility) organisations conceive of CSR as an integral part of a long term sustainable strategy and a means able to bring important benefits to the company. According to Zadek (2001), Europe is currently in this phase with the direct involvement of leaders (directors, owners and managers) representing a crucial facet of the transition to this phase.

There is a third generation (competitive responsibility), which is characterised by the direct and integrated intervention of companies in their surroundings.

This positioning extends beyond the voluntary adoption of behaviours by each organisation. It assumes cooperation between companies and other organisations, specifically civil society and state entities so as to influence the respective market and introduce means of regulation anchored around sustainable principles. In essence, this generation aims to establish a relationship between the development of society and the sustained growth of organisations and rising national competitiveness.

Conceptual Model

While there are no pure models, the classification of various CSR strategies is of particular importance given that it enables greater effectiveness in intervention policies designed to strengthen corporate responsibility. Identifying companies by different "types" ensures the segmentation of factors able to bring about higher levels of CSR and correspondingly define different policies and measures adjusted to each reality. Among specialists, there is generalised consensus as to the specific characteristics of SME CSR. In order to dispel the simplistic view that assumes all SMEs are alike or focuses on a bipolar perspective of either defensive or offensive attitudes, this research included the establishment of a typology of SME CSR strategies able to incorporate several of the variables impacting on these processes. In this case, particular attention was paid to the business strategy and the external pressures experienced by subcontracting companies within the working logic of globalized markets as well as the influence of civil social organisations and the tertiary sector. This attitude is also incorporated into the culture and values of managers in the analysis of factors affecting the adoption of CSR strategies at SMEs. The relationship between these variables is complex and certainly influenced by the way in which SMEs themselves exercise corporate responsibility.

While CSR practices result from the confluence of multiple forces (Arthaud-Day 2005), for the purposes of this study three factors were selected as the most important due to their significant influence over the development of CSR practices: business strategies, stakeholders and the attitude towards CSR (CBSR 2003). Within this scope, particular attention was paid to the SME positioning within the scope of the market, external pressures applied by client entities as well as the influence played by civil society and tertiary organisations. Given that culture, competences and values of the management represent an important factor in fostering SME social responsibility, this area was also subject to evaluation in terms of ascertaining whether or not the individual ethics of the owner or manager are determinant. The relationship between these factors is complex and certainly varies between companies and circumstances (Fig. 10.1).

In order to operationalise the aforementioned conceptual model, the central concepts were broken down by dimensions and sub-dimensions. Based on these, it later proved possible to construct a typology identifying the different SME social responsibility strategies.

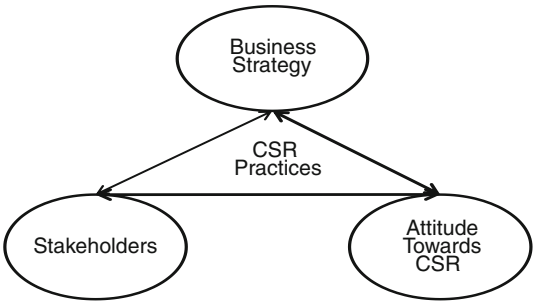

Fig. 10.1 Conceptual model

Concept of SME Social Responsibility Practices

The SME social responsibility practice concept was structured into three sections: economic, social (internal and external) and environmental, which were in turn broken down into various sub-dimensions. This level of analysis was designed to observe the social responsibility practices as used by companies.[1]

SME Business Strategy Concept

The strategic business concept assumes the identification and characterisation of the objectives or results that the company aims to achieve in the short, medium and long term. Based on the cross-referencing of business strategies as proposed by Michael Porter (1985) (Cost, Differentiation and Focus) and by Alfred Chandler (Innovation), (Chandler 1962), four types of strategy were systematised. They are: (a) cost strategy, (b) focus strategy, (c) differentiation strategy and (d) innovation strategy.[2]

Concept of Stakeholder Relationships

Stakeholder relationships define cooperative company interaction with parties interested in company actions and as such feature state entities, employees, clients, suppliers, trade unions, the community, universities, associations and other partners. The stakeholder concept enables us to observe the intensity of relationships maintained by SMEs with different interlocutors that directly or indirectly fall within their scope of intervention and the type of activities such cooperation establishes (intensity of relationships measured on a scale of 1–5, with 1 – not common and 5 – very common).

This concept incorporates stakeholders in the following sub-dimensions: intensity of relationship, activity typology.

Concept of Attitude Towards CSR

The attitude towards CSR considers a range of variables influencing the attitude of managers and owners: the motivations resulting in social responsibility practices

being adopted, the benefits resulting from their implementation, obstacles and restrictions encountered in the development of SME social responsibility strategies and the types of support necessary in support of such practices within the Portuguese context. This conceptual model further looks at another analytical variable: the regularity with which CSR practices take place assuming that there are differing frequencies and whether implemented occasionally and/or on a regular basis.

The concept of attitudes towards CSR includes the following sub-dimensions: motivations, benefits, obstacles, types of support, regularity of practices, meaning of CSR.

Based on this conceptual model of analysis, a typology was set out integrating the different strategies in effect for SME social responsibility practices.

Strategic Typology

Based on analysis of the relational forces between the vectors defined in the initial hypothesis and those deemed most influential in the adoption of CSR practices by SMEs (attitude towards CSR, the influence of stakeholders and business strategy), it proved possible to set out a strategic typology. The 'SME Social Responsibility Strategy Type Model of Analysis' proposed in this study identifies four fields for analysis that are: Obligation, Reactive, Preventive and Voluntary (see Table 10.1).

Table 10.1 SME social responsibility strategy type model of analysis

Voluntary **Strategy:** Innovation **Stakeholders**: Assoc., Universities and Companies **Attitude towards CSR** a) **Motivations**: Creation of Value b) **Benefits**: Organisational c) **Obstacles**: Cooperation (social capital) d) **Support Types**: Knowledge **Regularity**: Regular, integrated into strategy	**Preventive** **Strategy**: Differentiation **Stakeholders**: Trade Unions and the Community **Attitude towards CSR** a) **Motivations**: Ethical-Social b) **Benefits**: Communication c) **Obstacles**: Information and Knowledge d) **Support Types**: Technical **Regularity**: Occasional, integrated into strategy
Strategy: Cost **Stakeholders**: Partners and State Entities **Attitude towards CSR** a) **Motivations**: Profit b) **Benefits**: Economic-financial c) **Obstacles**: Financial d) **Support Types**: Financial **Regularity**: Occasional, not integrated into strategy **Obligation**	**Strategy**: Focused **Stakeholders**: Employees, Clients and Suppliers **Attitude towards CSR** a) **Motivations**: Group pressures b) **Benefits**: Commercial c) **Obstacles**: Temporary d) **Support Types**: Information **Regularity**: Regular, not integrated into strategy **Reactive**

Application of this model of analysis characterises the SME social responsibility strategies in effect in accordance with their positioning within the model. Correspondingly, the main characteristics of the different social responsibility strategy are the following:

– *The **Obligation Strategy***, characterised by:

- a business strategy focusing on achieving lower costs than the competition,
- CSR practices developed occasionally and not integrated into the company strategy,
- the main stakeholder relationships are established with state entities resulting from a need to comply with environmental legislation, labour and financial management laws,
- motivation for action focuses on obtaining profit specifically through gaining state incentives,
- perceived benefits revolve around the economic-financial area, for example through cost reduction and higher productivity,
- the most commonly identified obstacles are financial in nature and associated with a lack of cash and state support, and
- types of support requiring public support and fiscal incentives.

– The ***Reactive Strategy***, characterised by:

- a business strategy oriented towards specific products/services or markets and shedding the less profitable,
- CSR practices engaged in on a regular basis but not integrated into the company strategy,
- the main stakeholder relationships are established with employees, clients or suppliers out of a need to optimise working processes and boost productivity,
- motivations for action are developed under the pressure of groups influencing company orientations,
- the perceived benefits focus on the commercial area given how the company is pressured to raise product/service quality and sales,
- generally identified obstacles to implementation related to factors of time, and
- the most facilitating types of support are informative in nature (for example, awareness campaigns and knowledge about practices).

– The ***Preventive Strategy***, characterised by:

- a business strategy focused on the development of products/services with greater value to the consumers (for example, design, brand, image, client service),
- CSR practices take place on an occasional basis but are integrated into company strategy,
- the main stakeholder relationships are established with trade unions and the surrounding community out of a need to raise client loyalty levels,

- motivations for action derive from an ethical-social consideration that social and civic responsibility is inherent to the company,
- the perceived benefits focus on communications to the extent that the company feels the need to improve its image among consumers/clients, business partners and the community in general,
- obstacles to the implementation of CSR practices generally relate to a lack of knowledge as to "how" to implement them, "never having thought about the possibility" and "not related to the company area of activity" are essentially information and knowledge obstacles,
- the types of support that most restrain implementation are technical in nature (for example, the lack of consultancy services and training programs for the development of competences in the field of social responsibility).

– The ***Voluntary Strategy***, characterised by:

- a business strategy oriented towards the launch of new products,
- CSR practices are undertaken on a regular basis and integrated into company strategy,
- the main stakeholder relationships are established with other companies, associations and schools/universities and, given the need for innovation, the company perceives interaction with other entities as added value for the business,
- motivations result from the need to create value through the loyalty of clients/consumers, the improvement of relationships with business partners and investors and the strengthening of the institutional image of the company in the community,
- organisational benefits are perceived as competitive advantage and as better employee motivation,
- the obstacles generally identified refer to the level of cooperation given that the company encounters difficulties in the development of cooperative relationships with other entities specifically due to the lack of networks, confidence and low levels of company participation in civil society, and
- the support types that best facilitate the development of CSR practices include support for pilot experiences in companies and cooperative initiatives.

The SME CSR strategy types result from analysis of the three facets explained above: the attitude towards CSR, the influence of stakeholders and the business strategy.

The conceptual model inherently incorporates the setting out and identification of a typology of strategies even if in reality there are situations where SMEs display characteristics of different CSR strategies contributing towards the probable existence of hybrid models.

It should further be noted that the operationalisation of the conceptual model shows the existence of an evolutionary trend in social responsibility strategies that may serve to guide SME management. Hence, where a company currently has in place an Obligation Strategy and wishes, over the medium and long term, to adopt a

Preventive Strategy this becomes achievable through the adoption of a set of orientations in the areas of business strategy, relationships with stakeholders, the regularity of CSR practices, for example. Indeed, it is highlighted that the evolutionary trends in strategies does not take on a obligatory nature as there is no fundamental rational that forces SMEs to go through all the evolutionary stages to reach a social responsibility strategy, for example, Voluntary type. Quite simply, a company may adopt the strategy most appropriate to its objectives without having to go through the preceding strategic stages.

Research Methodology

The carrying out of the empirical study required a methodological approach integrating the different research phases. The first phase consisted in setting out the aforementioned conceptual model. This involved the elaboration of a reference framework enabling the classification of the different strategies put into practice by companies within the scope of CSR. This similarly included the construction of a theoretical table, drawn up based on the systematisation of an extensive list of indicators, which was later implemented in the form of the SME CSR strategy questionnaire.

This questionnaire included a broad range of questions so as to cover all the indicators (Instituto Ethos 2004) included within the conceptual framework. The questionnaire was sent out by post to a sample of 2,000 small and medium sized companies in the five regions of Continental Portugal (North, Centre, Lisbon and Tagus Valley, Alentejo and the Algarve). The companies operate in diverse sectors of activity, with a dimension of between 10 and 250 employees and business turnover of between 2 million and 50 million euros, corresponding to a stratified sample within the SME universe in Portugal, excluding micro companies.

A data base of companies meeting the aforementioned criteria was acquired for this purpose. Of the 2,000 companies targeted, a total of 235 responded corresponding to an 11.75% response rate. The data received was processed and subject to analysis with recourse to SPSS (Statistical Package for Social Sciences) statistical processes, specifically frequency analysis and correlations.

Research Results

SME and CSR Practice Profiles

Based on the companies that responded to the questionnaire, the following SME profile was identified. Medium (between 50 and 249 employees) sized companies (73%) were in the majority and located in the regions of Lisbon (32%), North (30%) and Centre (28%) of Portugal. They belong in the main to manufacturing industry (with traditional sectors such as footwear, clothing and paper to the fore) and trade and mostly have significant company histories ranging between 20 and 49 years (42%) and between 10 and 19 years (32%).

While no direct connection can be made stating that companies in business for over a decade or longer and employing more employees a priori demonstrate a greater involvement/awareness as regards CSR issues, it remains significant that in a sample of 2,000 companies these were the companies that proportionally most responded. Such a profile has been corroborated by various international studies verifying that the numbers of years in business and company size variables are representative as regards greater SME engagement in CSR. Furthermore, the research carried out further found that around a half of those companies returning the questionnaire hold certification with some form of quality norm. The most commonly mentioned certification types were the quality norm NP ISO 9000, followed by the environmental management norm NP ISO 14001 and the workplace hygiene, health and safety norm OSHA 18000.

In further analysis, it was found that there is a statistically significant relationship between: (i) certification, (ii) company size, (iii) years in business and (iv) sector of activity and the adoption of CSR practices. In the case of certification, this bears a positive impact on the internal social CSR dimension. That is, the existence of SME certification induces the development of practices focusing on the level of internal clients (employees), specifically through recognition and reward, involvement and participation, senior employment and training practices. In addition, certification also has an impact on the environmental dimension fostering environmental system and pollution and waste practices.

The company size positively influences social responsibility practices in terms of change management, health, safety and workplace hygiene, the community as well as environment issues similar to the certification variable.

The years the company has been in business relates to SME concerns in maintaining relations with the different stakeholders: internal and external. As regards the external, this takes place through the development of mechanisms optimising the relationship with commercial partners and suppliers (economic dimension). Internally, there is the implementation of performance evaluation systems based on objective criteria designed to bring about greater equity and transparency and consequently raise employee confidence. In parallel, there is the existence of support systems such as for example transport and complementary social security schemes. SMEs with longer track records also demonstrate greater concerns in terms of the community (external social dimension), whether in terms of utilisation of products/services from local companies or in the provision of human resources for volunteering or participation in local programs (education, training, employment, environmental policies and urban renovation).

Finally, the sector of activity in which the SME is engaged is the least influential factor in the development of social responsibility practices. However, this does bear a slight influence on consumer education practices (economic dimension) and practices related to recruitment and selection (internal social dimension).

Based on those companies completing the questionnaire, it proved possible to verify that the SME approach to social responsibility is highly practical and associated with business strategy, many CSR practices at SMEs are business oriented. Within this scope, practices adopted foster client relations, for example,

after sales client support, complaints handling systems, adapting the product/service to client needs.

At the level of the internal social CSR dimension, analysis of questionnaire results showed that the internal social dimension is attributed significant importance by SMEs with a high level of practices detailed in answers. More detailed analysis revealed that within this scope fall the fields of workplace health, safety and hygiene and human resource management (HRM). This situation is related to such areas being crucial to regular SME operations and the legal framework in effect (in the specific case of health and safety).

The external social dimension includes a diverse range of practices focused on actors beyond the company. The most common Portuguese SME type of community support is through the practice of "sponsorship and donations" (76%). This is followed by "social employment", undertaken by 53% of companies and the field of "partnerships and cooperation", mentioned by 47% of SMEs. The field of "social cohesion" features the lowest ranking with only 32% of SMEs engaging in this field.

According to the data obtained, SME efforts and involvement in improving their environmental performance are not primarily due to the voluntary integration of such concerns into the daily life of the business but rather about meeting the regulatory framework in effect, market demands and possibly the search for competitive advantage. Analysis of environmental concerns found that SMEs engage in more practices seeking to reduce the impact of "pollution and waste" (90%) than those related with "environmental management systems" (82%).

This diagnosis carried out of mainland Portugal SME social responsibility practices reached the following conclusions. From the SME perspective CSR focuses on the internal dimension within a framework of daily management processes. Within the external social dimension, focusing on the community is weak when compared with other dimensions. The two CSR drivers are unquestionably the economic and the internal social (practices targeting employees) and resulting from the search for greater effectiveness in the management of the resources available. This derives from a focus on the benefit the business may generate through improvements to eco-efficiency or better opportunities and advantages that may result either directly or indirectly. The emphasis is clearly on the adoption of simple measures, easy to implement, cheap and normally resulting in identifiable gains.

SMEs CSR Strategies

Among the specialists, there is a general consensus as to the specific features of SMEs as regards CSR strategies (European Commission 2002). The core question to be faced is the extent to which in reality these different "types" of CSR strategies *(*obligation strategy, reactive strategy, preventive strategy, and voluntary strategy) can be found. It should be noted what positioning Portuguese SMEs took as regards each respective type of CSR strategy. It did not prove possible to identify the presence of a standard model type or its prevailing characteristics.

Considering the conceptual model set out, in the analysis of Portuguese SME CSR practices did find that the "strategy type" model in its "purest state" was not applied. That is, a company does not present across its dimensions a predominant strategy in accordance with the conceptual model proposed. Despite this, it remains relevant to ascertain the patterns of SME behaviour in relation to the "strategy typology" for social responsibility (see Table 10.2).

Indeed, within the Portuguese reality, there is no prevailing pattern in terms of CSR strategies. When considering the variables "regularity of practices", "obstacles" and "types of support", the results point to an Obligation CSR strategy. However, when it comes to "business strategy" and "benefits", a Preventive strategy was identified. Furthermore, a Voluntary strategy was only encountered when analysing the "motivation" category for social responsibility.

Table 10.2 SME social responsibility strategy types

Strategies / Variables		Obligation	Reactive	Preventive	Voluntary
Business Strategy		Cost	Focused	Differentiation	Innovation
Relationship with Stakeholders		Partners Public Entities	Employees Clients Suppliers	Trade Unions Community	Universities, Business Associations
Attitude towards CSR	***Motivations***	Profit	Group pressures	Ethical-Social	Creation of Value
	Benefits	Economic-Financial	Commercial	Communication	Organisational
	Obstacles	Financial	Time	Informative and Knowledge	Cooperation (Social Capital)
	Support Types	Financial	Information	Technical	Knowledge
Regularity of SME CSR practices		Occasional not integrated into strategy	Regular, not integrated into strategy	Occasional, integrated into strategy	Regular, integrated into strategy

In terms of ties with stakeholders, a Reactive Strategy prevails. Despite the relationship with stakeholders potentially indicating a posture of greater interaction with the community and openness to the surrounding environment, in the particular case of Portuguese SMEs this does not take place. In the context of stakeholders, Portuguese SMEs favour above all their relationship with business agents: clients, suppliers and employees and similarly ties with the exterior are highly reduced and that relationships with the community at large, universities and other companies are not a priority. Correspondingly, this is statistically accounted for within the scope of a Reactive Strategy.

In terms of companies falling within the Voluntary Strategy category (via motivation), cross analysis was carried out so as to evaluate how these company behave in relation to other companies as regards other indicators. The purpose here was to understand whether there was a set of companies with a more innovative profile as regards CSR practices.

This did not prove to be the case. Companies falling within the scope of the Voluntary Strategy category behave similar to the majority of other SMEs. They follow the same behavioural pattern both as regards the business strategy as well as the regularity of practices, the relationship with stakeholders, perceived benefits, obstacles and in the types of support necessary for the implementation of CSR practices.

Although it did not prove possible to set out a pure model for strategies, which to a certain extent reflects a need to establish a new typology based on other criteria, the results gathered (see Table 10.3), point to the importance of the Obligation Strategy (present across three dimensions).

Despite the strong presence of CSR practices at Portuguese SMEs across the economic, social and environmental dimensions, theoretically speaking the results certainly prove that for such companies CSR is very much approached out of a need to comply with the legal obligations in effect, perceived from a highly deficient and poorly adapted perspective. In practice, this results from economic imperatives that lead to the adoption of practices that drive the business activity and hence the relevance attributed to the Obligation Strategy, when compared with other types of strategies.

Correspondingly, while the theoretical approach to CSR by SMEs remains broadly associated with legal obligations, within a limited and restrictive sense, such practices are present in the daily management decisions at such companies (Fig. 10.2).

Discussion of Results and Conclusions

CSR has been gaining in profile in the discourse of both the business community and society as a whole. This movement results from an increasing awareness as to the need for companies to actively participate in the search for social equilibrium and environmental protection in addition to bringing about economic growth. As explicitly set out by the United Nations, sustainable development policies can only

Table 10.3 SME social responsibility strategic positioning

Dimensions	Social responsibility strategy	%
	Preventive strategy	
Business strategy	Business strategy based on differentiation (creating unique products/services in terms of characteristics with greatest value to consumers)	38
	Obligation strategy	
Regularity of practices	Occasional activities, non integrated into the strategy	33
	Reactive strategy	
Relationship with stakeholders	Relationships mostly with clients, employees and suppliers	44
	Voluntary strategy	
Motivations	Motivated by the creation of value (consumer and client loyalty, improvement of business partner relationships institutional image)	79
	Preventive strategy	
Benefits	Perception of benefits based on communication (reputation among clients/consumers, business partners and strengthened image)	80
Obstacles	**Obligation strategy** Financial obstacles to CSR practice implementation (financial resources and lack of state support)	54
	Obligation strategy	
Types of support	Financial support for CSR practice implementation (state support and taxation incentives)	44

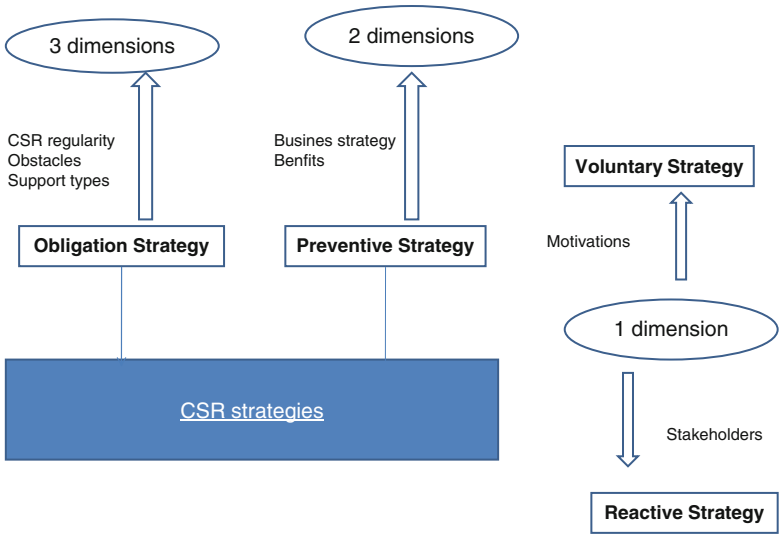

Fig. 10.2 CSR strategies

result in positive effects when their objectives are internalised and assumed by all social actors within the scope of action. Considering the enormous influence that companies hold in the transformation of the environments in which they operate, they become in themselves decisive actors in such processes.

However, beyond this importance as vehicles for the promotion of sustainable development, for a growing number of companies this positioning has become an important resource in the creation of value and competitive advantage. Hence, the relevance attributed to sustainability issues does not result from a simple affirmation of citizenship. It results from interpreting changes taking place in the market and the perception that the adoption of various sustainable principles can result in important gains in organisational development and competitiveness. The dynamics of the new economy require new approaches that decouple the traditional philanthropic aspect of corporate responsibility in favour of an important indicator of good management, rooted in auditable practices evaluated in terms of their effectiveness.

While SME CSR practices represent their own specific reality, this research project sought to identify the dynamics driving their adoption and in particular to map the respective different CSR strategies of SMEs.

As regards the CSR strategy typology, analysis of the questionnaire results demonstrated that across Portugal SMEs do not present any single clear CSR trend. It did not prove possible to propose a pure model even though the Obligation Strategy did attain a relevant level of importance when contrasted with other strategic types. On the one hand, this derives from how the conception remains closely linked to compliance with legal obligations and on the other hand from the emphasis placed on efforts to improve management efficiency resulting from the highly competitive prevailing environment and the struggle for survival in the marketplace. In both situations, CSR strategies tend towards more of an Obligation Strategy than the Preventive or Innovative.

Hence, it is unsurprising that the analysis found that SME CSR activities are carried out in a non structured approach and are occasional in timing. While there is linkage with a spirit of good citizenship, the predominant SME CSR practices target the direct management of the business and its positioning in the market. There is no structured or structuring vision of CSR able to integrate and articulate a business perspective incorporating an active involvement in areas of governance with impact on the surrounding environment. Above all, there is a concern of an individual nature to maximise economic growth and the well-being of employees internally. Nevertheless, this is a responsible business spirit of the type referred to at the European Union level but driven more by internal management imperatives and hence the greater weighting attributed to the Obligation Strategy.

Indeed, it does need to be emphasised that there was strong evidence of CSR practices in effect at Portuguese SMEs, whether in the economic, social or environmental dimensions, even while the results reveal a clear disassociation between theory and practice. As stated, while the theoretical approach to CSR undertaken by SMEs remains generally associated with compliance with legal obligations and correspondingly limited in scope of vision, the practices themselves are present in daily management decisions even if driven by economic imperatives ensuring that

SMEs adopt those CSR practices able to foster gains in business efficiency and effectiveness.

In keeping with the framework detailed earlier, these are clearly first generation CSR practices in terms of the evolutionary typology set out by Simon Zadek (2001). Portuguese SMEs integrate CSR "without knowing it" with corporate social responsibility resulting from a set of management practices contributing towards better economic performance. Formally, CSR is not explicit and remains broadly informal, unstructured and not even always clearly and consciously detailed by the owners or management. Without overlooking the high weighting of CSR practices at SMEs, their implementation is best classified as the Obligation Strategy given that the direct involvement of companies in the search for global sustainability, perceived in the long term, does not yet represent an integral part of the SME strategy within the Portuguese context.

As regards factors considered hypothetically most influential in the development of SME CSR practices, business strategies, stakeholders and attitude towards CSR, the research results differed. It proved possible to verify that there was no relationship between company CSR practices and their respective area of activity or turnover volume. In terms of stakeholder relationships, there proved to be no strong interaction with the community or openness to the exterior. On the contrary, the relationships are almost exclusively within the immediate business sphere: clients, suppliers and employees. Thus, there are only limited ties with third party entities with relationships with the community in general or peer companies not attributed strategic importance. Beyond this, the influence of stakeholders is perceived as of very weak relevance for the implementation of CSR practices at SMEs according to the statistical analysis carried out.

Prominent among factors with greatest influence on CSR implementation is the clear awareness among SMEs that such practices result in greater management effectiveness and improved business performance. Within this scope, CSR motivations fall within the framework of the main benefits that companies consider attainable from implementation. Indeed, such benefits are clearly perceived and function as a positive factor of differentiation encouraging the adoption of such practices. Furthermore, owners and managers do also attribute importance to the need to know about best practices and developing training programs to advance CSR practices. The sector calls for greater state intervention and involvement through the granting of fiscal incentives and support programs. The lack of financial resources is correspondingly pointed to as one of the main factors hindering the development of company CSR practices.

In addition to those factors objectively identified by companies as promoting CSR practices, a series of other influential variables were found but which were only indirectly detectable through the cross referencing of variables. They are: the existence or otherwise of certification, the company size and number of years of operation. These variables positively and significantly correlate with CSR practices while the sector of activity has only a residual impact.

Closer analysis reveals that practices relating to human resource management and environmental issues are driven by certification schemes. Company size particularly

impacts on organisational change management practices and environmental systems. Furthermore, the length of time the company has been in business positively correlates with stakeholder relationships directly or indirectly engaged with the company.

In summary, analysis of the questionnaire results found that SMEs, frequently on the verge of being overwhelmed by limitations on time, financial and other resources, associate CSR with management efficiency: raising employee motivation levels, reducing costs or improving client relationships. It is equally linked with compliance with the legal framework in effect.

Despite unawareness about its broader implications, CSR is already significantly present within the reality of Portuguese SMEs and deemed an important internal management resource. This duality derives from the fact that CSR is currently adopted predominantly out of a logic of obligation: whether legal in nature or perceived as imposed by the laws of the market.

In these terms, its implementation closely reflects a CSR first stage/generation. Informal practices, occasional and unstructured prevail with CSR assumed as the search for better management indicators (relationship with economic variables and an employee focus) within a highly competitive context. Secondarily, it is linked to ethical questions and with good citizenship always present even if often not assumed clearly and consciously with companies engaging in responsible behaviour "without knowing it".

Approaches to CSR as an integral facet of sustainable strategies within a long term perspective or taking up pro-active positions as regards such issues as poverty, social exclusion and environmental degradation within a logic of governance, remains highly incipient and almost non-existent.

However, the sample of SMEs under study does already demonstrate a clear awareness that CSR brings direct economic value and is an important factor in competitiveness. Within this rationale, the notion of ethics and business citizenship emerges linked to the opportunity to create additional business value for the company as they foster greater efficiency in some areas of management and particularly in client relationships, a better company image, employee satisfaction and better quality standards.

That the global understanding of CSR remains restricted and that it has yet to be broadly integrated into management structures, ensures the implementation of a loose set of practices beyond the overall organisational strategy. This thereby limits the development of actions able to bring about further advantages both for the company and its surroundings and prevents implementation of more advanced CSR practices.

Notes

1. (a) Economic Dimensions: incorporating the following sub-dimensions: clients, suppliers and commercial partners products and services; (b) Social Internal Dimensions: incorporating the following sub-dimensions: human resource management, information and communication

social services, organisational change, management employability, health, safety and workplace hygiene; (c) Social External Dimension: incorporating the community sub-dimension; (d) Environmental Dimension: incorporating environmental impact management.

2. Cost Strategy: attaining competitive cost advantages through carrying out activities at a lower cost than the competition. Focus Strategy: centralises efforts around certain products or markets and abandoning alternatives. In the case of companies undertaking various products/services, specialisation takes place through shedding less profitable areas and undertaking market segmentation, Differentiation Strategy: through the creation of a unique product/service in terms of characteristics attributed greatest value by consumers (for example, design, brand, image, client services, among others). This strategy is associated with rising client loyalty and a lower level of price sensitivity, and Innovation Strategy: seeks to introduce new products and services to the market (featuring significant and unique innovations). This strategy is generally tied to a flexible organic structure, with a low division of labour, low degree of formalism and decentralism.

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Part III
Individual Research: Empirical Research

Chapter 11
In Search of Sustainability? SMEs in Brittany, France

Sarah Hudson and Julia Roloff

Corporate Social Responsibility in France: *Développment durable*

In recent years there has been a growing interest in Corporate Social Responsibility (CSR) in France, with the ideas moving slowly from a marginal interest of a few forerunners into the mainstream. CSR activities were from the beginning strongly connected to *développment durable*, sustainable development, as the ultimate objective of these efforts. One of the initial drivers for CSR came from the introduction of the *Nouvelles Régulations Economiques* (www.legifrance.gouv.fr) in 2001 which legislate for mandatory social and environmental reporting for companies quoted on the stock market. The French ex-president also played an active role in promoting the introduction of Global Compact into French corporations (Berthoin Antal & Sobczac 2007) and today over 500 companies, 185 of which are SMEs are signatories (www.unglobalcompact.org). A more recent incitation has come from the government initiative *Le Grenelle de l'environnement*, a multi-partite think-tank on the environment initiated in July 2007 which included representatives of the state, unions, employers, NGOs and local authorities and which led to the definition of the key points of government policy on ecological and sustainable development issues for the coming 5 years (www.legrenelle-environnement.gouv.fr). Although all these initiatives define sustainable development as comprising ecological, social and economic aspects, ecological challenges tend to dominate the public discussion. The strong focus on environmental aspects possibly results from the perception that environmental protection has long been neglected in France when compared to some of its European neighbours. In contrast, France is known for its strong protection of labour rights and its well-developed social security net (Berthoin Antal & Sobczac 2007). Thus, the public discussion is evolving around changes that are still needed and is less vocal about areas that are believed to be sufficiently regulated.

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Reflecting on the assumption that historical, institutional and political particularities of a country influence CSR practice, we investigate how French small and medium-sized enterprises (SMEs) implement CSR and what factors influence this practice.

In France, as elsewhere, SMEs are of great importance for the economy. Companies with fewer than 500 employees produce more than 50 percent of the value added in France; 60 percent of all employees and 65 percent of all people working in the private sector are employed by SMEs (Betbèze & Saint-Étienne 2006). While large corporations are more likely to reflect international policies in their CSR practices and to compare their approach with those of international competitors, SMEs are believed to reflect local and national specificities in their CSR engagement more strongly (Spence 2007; Jamali & Zanhour 2008). If this assumption is true, empirical studies should find a strong link between societal expectations, governmental policy, needs in the local community and SMEs' CSR practices. In order to test this assumption, a qualitative study was done summarizing interviews with 72 managers in Brittany, an economically well-developed region in the West of France. Since the strong emphasis on the importance of CSR and sustainable development for all enterprises is relatively new in France, we analyse not only what French SMEs do in this area, but also what internal and external factors are perceived to drive or brake the implementation. For the purpose of analysis we develop a framework distinguishing different sources of drivers and brakes.

The chapter is organised as follows: In the next section, we shortly elaborate on the literature discussing cultural differences in the interpretation and practise of CSR. The third section is devoted to a summary of empirical research describing social and environmental practices of French SMEs. The fourth part explains the methodology of our study. What kind of CSR activities are implemented and how this takes place is described in the fifth part. The sixth part focuses on the question of which internal and environmental factors facilitate or hinder the implementation of a CSR strategy. Here we distinguish responses from managers who work in companies implementing such activities and those who are not yet active and develop a framework for analysis reflecting on the characteristics of the responses. We conclude with an analysis of the question of to what extent environmental factors influence the CSR approach of SMEs in France.

Cultural Specifics of CSR

In France the conceptualization of CSR is different from the Anglo-Saxon approach which dominates textbooks all over the world. Matten and Moon (2005, 2008) discuss the idea that CSR is more explicitly communicated by companies in the US, where government and the legislation have less influence on the corporate world than in Europe; whereas CSR in Europe has been more "implicit" as they term it. In Europe, the more interventionist legal framework and institutional environment together with the history and tradition of closer links between businesses and societal goals and agendas has meant that many of the CSR policies reported

by US firms are not explicitly called CSR by their European counterparts, since they are obligatory. CSR in contrast is defined, for example in the Green Paper of the European Union, as being "voluntary" in nature (Commission of the European Communities, 2001: 4). Berthoin-Antal and Sobczak (2007) re-iterate this idea in a French context, underlining the strong role played by the state in promoting CSR through legislation and through its explicit support for CSR. Berthoin-Antal and Sobczak discuss the major influence that French labour law, the trade unions and the long-standing obligatory social report, or *bilan social* have had on the thorought application of the 'social' side of CSR as far as employee treatment and rights are concerned.

The French perception of CSR is similar to that of its European neighbours. Perrini concluded after analyzing CSR reports from ninety European companies that "corporate ideas of socially responsible behaviour are mainly still linked to protecting the environment and community, while to a lesser extent taking care of customers and workers" (Perrini 2005, p. 62). This finding supports the idea that labour relations are not considered to be a part of CSR, but as the responsibility of government and the state. However, this does not imply that CSR is so culturally specific that any comparison is in vain. An empirical study of French ratings data (Igalens & Gond 2005) from ARESE (now VIGEO) found that the CSR measures from models developed by Wartick and Cochran (1985) and Wood and Jones (1995) were entirely appropriate in the measurement of CSR in French companies which indicates that Anglo-Saxon CSR models are transferable to different nations despite historical and cultural differences. However, the research of Perrini (2005) and Igalens and Gond (2005) focussed on larger enterprises and their conclusions might not apply to French SMEs. In order to gain a better understanding of the latter, the major results from empirical studies on CSR activities in French SMEs are summarized in the following section.

Research on CSR Activities of French SMEs

In France the awareness of the importance of sustainable development has been growing visibly in recent years. As a result both national and local organisations and institutions are increasing their efforts to inform and aid SMEs at a regional level to engage in social and environmental actions. For example the *DRIRE, Comité 21, IMS-Entreprendre pour la cité, Orée, ORSE*, and the local chambers of commerce are all playing a role in helping SMEs to inform themselves and implement CSR, and numerous local initiatives all over France are being taken to promote social and environmental responsibility in the business communities. In spite of this, research on CSR in SMEs in France is still rather thin on the ground. It is generally assumed that SMEs approach their CSR differently from large and multinational corporations. Summarizing research on SMEs, Spence (2007) points out that their CSR approach tends to be less codified and is often driven by the personal motivation of the owner-manager. SMEs approach CSR issues by addressing the expectations of the local community they are embedded in and of their clients and employees who

are particularly relevant to them (Spence 2007; Jamali & Zanhour 2008). As a result of their limited resources and their dependency on particular clients and stakeholders, corporate social responsibility is dealt with differently in SMEs than in larger organizations, and so ought to be studied separately.

In France, only six empirical studies have been published on the subject (ACFCI 2006; Berger-Douce 2008; Crocis-CCIP 2007; Dupuis et al. 2006; Fray & Soparnot 2007; Simon & Basset 2007). Research into corporate social responsibility in SMEs has mainly been carried out at a regional level. The French chamber of commerce and a related research centre published two studies focussing on the region around Paris (ACFCI 2006; Crocis-CCIP 2007). Both studies pointed out that SMEs tend to approach CSR in a pragmatic manner. A third study focuses on CSR in the social sector such as organisations working with handicapped people (Fray & Soparnot 2007). The only nation-wide study undertaken focused on environmental actions of SMEs such as environmental protection and energy reduction (Simon & Basset 2007). A more comprehensive approach was taken by two surveys that were conducted in 2006 using the same questionnaire (Berger-Douce 2008; Dupuis et al. 2006). One was regional, focussing on companies in Rhône-Alpes (Dupuis et al. 2006) while the second study addressed the 200 most profitable SMEs in France. Despite these differences, both studies arrived at very similar results indicating that French SMEs might be more homogeneous than assumed when it comes to their CSR practices.

Although the majority of respondents claims to consider CSR in its actions (88 percent found by Berger-Douce 2008 and 92 percent in the study of Dupuis et al. 2006), their answers also indicate that few managers are familiar with CSR instruments (both studies: 23 percent) or with organizations that support CSR initiatives (28 percent in Berger-Douce 2008 and 29 percent in Dupuis et al. 2006). The two samples showed some differences concerning the major motivations for engaging in CSR. The personal conviction of the company's owner or CEO ranked highest in both studies (61 percent gave this response in the study of Berger-Douce 2008 and 69 percent in the study of Dupuis et al. 2006). Ranked in place two and three – but in changing order – were anticipated changes of laws and regulations (30 percent in Berger-Douce 2008 and 40 percent in Dupuis et al. 2006) and the assumption that CSR activities enhance the firm's public image (21 percent in Berger-Douce 2008 and 47 percent in Dupuis et al. 2006). Other reasons were pressure from banks (11 percent in Berger-Douce 2008 and 7 percent in Dupuis et al. 2006), cost reduction (10 percent in Berger-Douce 2008 and 31 percent in Dupuis et al. 2006), pressure from civil society (1 percent in Berger-Douce 2008 and 22 percent in Dupuis et al. 2006) and the wish to distinguish the firm from competitors (1 percent in Berger-Douce 2008 and 22 percent in Dupuis et al. 2006). When asked what factors inhibit their CSR engagement the majority blames a lack of time (52 percent in Berger-Douce 2008 and 56 percent in Dupuis et al. 2006). However, the less profitable SMEs ranked economic survival as the firm's priority even higher (with 63 percent in Dupuis et al. 2006 compared to 21 percent in Berger-Douce 2008). Other reasons for refraining from CSR activities were that they generated no profits (11 percent in Berger-Douce 2008 and 5 percent in Dupuis et al. 2006), the lack of relevance for the firm's activities (7 percent in Berger-Douce 2008 and 15 percent in Dupuis

et al. 2006) and the lack of public support (4 percent in Berger-Douce 2008 and 13 percent in Dupuis et al. 2006).

The pragmatic approach taken in these studies still leaves open many questions as to what drives the implementation and application of CSR in French SMEs, what hinders it and how the process actually takes place in the everyday business activity of the small or medium enterprise. In addition, information on the extent to which national policy and regional initiatives influence CSR practice remains sporadic. The following study conducted in Brittany aims to shed more light on these issues.

Methodology

Background

Brittany is a well developed region with most of its companies working in the services sector (36.3 percent) and in the agro-food industry (27.8 percent) (Chambre Régionale de Commerce et d'Industrie de Bretagne 2008). The region is made up of four *départements*: Ile-et-Vilaine, where the most business activity occurs, Le Morbihan, Finistère, and Côtes D'Armor. Micro-enterprises and small and medium enterprises account for 99% of the number of businesses in the region (Chambre Régionale de Commerce et d'Industrie de Bretagne 2007).

No study has been carried out in the region of Brittany, so the aim of the study discussed in the following sections were multiple:

1. To find out the perceptions of CSR amongst managers of SMEs;
2. To assess perceived impacts of CSR on company activities and on results;
3. To discover how CSR is implemented in SMEs;
4. To collect present and future needs of companies in terms of support for the CSR process;
5. To analyse the nature of the drivers and brakes of CSR.

The results from the study revealed a rich variation of CSR activities in Breton (i.e. from Brittany) businesses, and to some degree answer the main question of what influence societal expectations, governmental policy and local needs are having on CSR at a regional level.

Sample

For the sampling the data base of a local consulting firm and a local Agrofood network were used. In order to assure that a sufficient number of respondents already had experience with CSR activities, companies who stated sustainable development policies in their public documents or on their websites were included in the sample in addition to randomly chosen companies. By this, we attempted to include both companies who had a stated sustainable development policy and those who didn't.

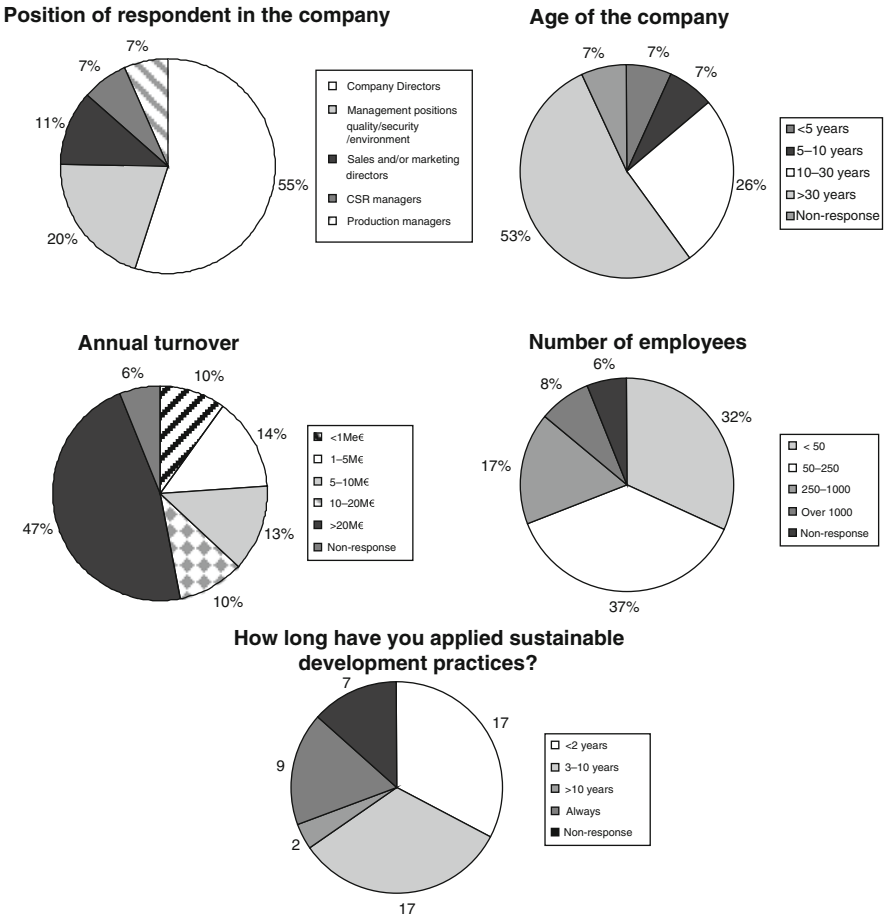

Fig. 11.1 Sample description

The result was a convenience sample of 500 companies ranging in size from 5 to 1000 employees situated in the region of Brittany. An introductory letter was sent by post and the firms were subsequently contacted by telephone. 72 interviews were completed and included in the analysis. Thus, the response rate is 14.4 percent. We assume that sample is biased towards companies who are aware of the issues related to CSR and who implement at least some CSR activities. The composition of the final sample is illustrated in Fig. 11.1.

Methods

Semi-structured interviews were carried out from mid-November to mid January (2007–08) mostly by telephone. The interviews lasted from 20 minutes to an hour, depending on how much time the interviewee was willing to give us, and on how

much they had to say. The interview guideline was divided into four parts. The first part asked about the general perception of CSR, whether it was applicable to companies, what its impacts might be and perceived advantages/disadvantages. They were then asked to state whether they considered themselves to be engaged in a CSR process. Fifty-two considered themselves to be completely or partially engaged and 20 did not. The second part was administered to those who had no CSR process and the third to those who had. They were questioned about the drivers and brakes, how they implemented it (or why not) and the benefits and disadvantages perceived. The final part included general information about the company.

The terminology used in the interview to discuss the issues was *développement durable*, the French term for sustainable development, rather than *responsabilité social de l'entreprise*, the French term for CSR, as managers are more familiar with the former concept. The disadvantage of this approach is that *développement durable* is often associated primarily with environmental matters. The analysis was done in two phases. In a first phase the focus was on what the respondents understood under the above named terms, how they evaluate the effects of CSR engagement and what kind of activities they implement. In the second phase of the analysis all statements that indicated what factors facilitate or inhibit CSR engagement were selected and interpreted. The picture emerging from the two analyses differs to some extent. For example, the advantages and disadvantages of implementing CSR activities do not automatically translate into drivers and brakes, since they were often not labelled as advantages or disadvantages but expressed in more subtle terms.

Results

Manager's Definitions of Sustainable Development

The definitions of sustainable development given by the interviewees emerged into two main categories: (i) those who included three dimensions, social economic and environmental in their definitions (23 cases) and (ii) those who spoke about the environment, either in terms of "leaving the planet in a proper state for our children" or in terms of physical resources management (32 of them) (see Fig. 11.2). Nine interviewees from these two groups included the idea of long-term survival of the firm and the environment in their definitions. So it appears that as found in some previous studies (Lawrence 2006; Perrini 2005), many companies seem to be concentrating on the environmental aspects of CSR. This may be because of the emphasis of the environment in the French media when sustainable development is discussed, or it may be that this is the aspect most easily apprehended by SME managers. It may also be, as discussed earlier (Berthoin-Antal & Sobczak 2007), that the social aspects are not perceived as part of CSR, as they are strongly regulated by the institutional and legal framework in France.

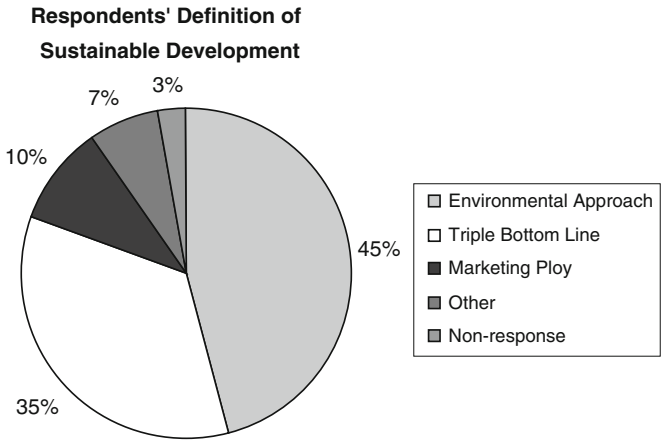

Fig. 11.2 Definition of sustainable development by Breton managers

In the minorities there were seven cases who expressed mistrust and some hostility to the term describing it for example as "a marketing ploy", "used by politicians and greens", "in fashion". Three of them separately used the term "*tarte à la crème*" to describe it, meaning that it looks good but has no substance, or that it is a fuzzy term. Only two interviewees said they did not know the term in a business sense. Although the majority believes that sustainable development is positive in many ways, several interviewees shared a concern that it should not become a simple marketing tool, and that there needs to be evidence of real action taken. As one (convinced) interviewee put it "I don't trust the 'fashionable' aspect" of sustainable development.

Perception of the Impacts of CSR on Company and Its Relationships

Although approximately half of the respondents claim that sustainable development impacts how they manage their firm on various levels, when asked about the outcomes for companies in general they were less enthusiastic. Table 11.1 shows a summary of what managers believe to be the impacts of sustainable development and CSR. Not all the interviewees answered all the questions, which accounts for the missing data.

Most of the respondents had a generally positive view of the effect of CSR engagement on the activities of a company and its relationships internally and externally. In particular a strong impact on the image of the company and on innovation was perceived. For some issues, however, the overall perception was less clear cut. On being asked about the effect of CSR on business and societal ethics, some hadn't thought about it, some didn't see what the point of the question was, and even some

Table 11.1 Interviewee perceptions of the impacts of sustainable development

	n/72 Yes	*n*/72 No	Yes/no or don't know	Total answers
CSR is:				
an element of development for a company	48	10	12	70
an integral part of company strategy	58	4	6	68
Has an impact on:				
the internal organisation	44	18	2	64
production	50	6	3	59
input and output cycles	56	4	3	63
perception of the company by the market	45	14	2	61
approach towards stakeholders	43	10	11	64
business and societal ethics	35	16	5	56
innovation	59	8	2	69
employees	46	14	5	65
Opting for CSR in a company:				
enables more efficient management	37	16	3	56
reduces costs	31	27	6	64
contributes to improvement of the image of the firm	56	4		60
can be a competitive advantage	44	14	7	65
can create new market opportunities	34	22	1	57

of those who answered positively mitigated their answers. For example, one interviewee from a company fully committed to CSR and who answered positively had the following to say: "it's more a personal conviction than any visibility of what is around us". It may also be that the perception of sustainable development is so closely linked to environmental issues in the minds of the interviewees, that encountering this question after a series of questions that they felt confident in answering from an environmental point of view made it difficult to switch register.

The impact on stakeholders was also a complex one. The "yes" responses often corresponded to the supplier whom they required to adapt to their own norms in agreement with the findings of Jorgensen and Knudsen (2006). It was also clear that managing all the stakeholders was not evident for all the respondents. As far as the client was concerned, there was a feeling by a significant minority that the client did not really care that much about the issue. This is also reflected in the answers given to "creating new market opportunities" and "perception of the market". In some cases the client could be a local government body, and one person expressed the wish that local government would recognize CSR efforts when putting out contracts to tender.

There was even less consensus about the effect on costs, with some saying it reduced costs, others saying it raised them; some believed that in the long run you break even. On crossing the data with the estimated level of engagement with CSR, we cannot see any clear pattern emerging, i.e. whether they are implementing CSR or not, there are varied opinions in all groups. It is certain that this difference in perception matches the variety of results found in previous investigations of whether

CSR can be correlated with financial results. Some of the interviewees, particularly those who were committed to CSR, said – as found in the study by Lawrence et al. (2006) – that financial gains were not the main aim: "one mustn't think in terms of 'what will it make?' – it's a necessity." This attitude might explain why SMEs engage in CSR despite the fact that less than half of the respondents in our sample were confident of obtaining more tangible advantages than an enhanced corporate reputation.

Perceived Advantages and Disadvantages of Implementing CSR

When interviewees were asked to cite freely the main disadvantages for their own firm in more open-ended questions in the latter part of the interviews, the factor which emerged the most frequently was lack of time. The way the interviewees expressed themselves did not lead us to think that there was a conception of time misspent, more that they wished they had more time. Only two people quoted increased costs as a disadvantage in this part of the interview.

As for the advantages, many were mentioned, such as reduction of waste, improved organisation, a better image/vision of the company, as one interviewee said "it's becoming more like the company we wanted to resemble". Still others mentioned being able to fit into the required (environmental) norms better, and finally, as one respondent said "we're still here". Many of them said that it was too early to say what the advantages were, and felt they would be better able to judge in (at least) a year's time. The largest number of responses, however, fell into one broad category: improved relations between the company and its stakeholders and the local community. It seems that many managers find it difficult to name more concrete advantages, although they are left with a general impression that it is not only the right thing to do, but also beneficial for the company.

How Do Breton Managers Implement CSR?

The following results describe those 52 companies which are engaged fully or partially in CSR. Since not all respondents talked about all aspects discussed below, the number of responses evaluated for each criteria is smaller than 52.

Strategy

Thirty-one of the 52 companies who are engaged in CSR said that they included it fully in their strategic decision-making. As one interviewee stated, "We don't treat it as a separate issue, it is inscribed in our activity". On further investigation, however, it wasn't that clear what was considered to be strategic or not. In response to the question: "Is CSR a strategic issue for you?" One owner/manager said "I have never asked myself the question, but in view of the results, yes it is." Another responded "Yes, in terms of managing costs."

Formalisation of Aims and Practices

One of the common ways of assessing CSR is through company publications, be it reports, contracts and/or charters. Spence highlights the fact that one of the characteristics of SMEs is their informality, "the mistrust of bureaucracy and reliance on informal control mechanisms" (Spence 1999: 165), and argues that externally dictated standards and procedures can run contrary to the needs of small companies. Lawrence (2006) also talks about the fact that small companies don't necessarily report on what they do. In this study we also found some evidence for this, but some differences as well. We questioned the companies that had some CSR actions in place on whether they had written CSR charters, how they used indicators of CSR, and whether they cooperated with any of their stakeholders formally or otherwise. We also asked them if they were certified or had followed any standards (ISO 14001; SD 2001) or guidance through Global Compact or a local initiative called Performance DD.

Codes of Conduct

Most companies do not have a written code of conduct although it becomes more likely with increasing company size (see Fig. 11.3). What is interesting is that 5 of the 17 small companies that answered this question say that they intend to write one in the near future or are in the process of doing so, possibly reflecting a growing consciousness of the usefulness of formalising their CSR.

Measuring Social and Environmental Performance

Just under half of the respondents had financial, environmental and/or quality indicators in place, more so in the larger companies. Four of the small companies said it was a project in progress, and only three had a more complete system of measurement which included all: environmental, economic and social indicators. In this

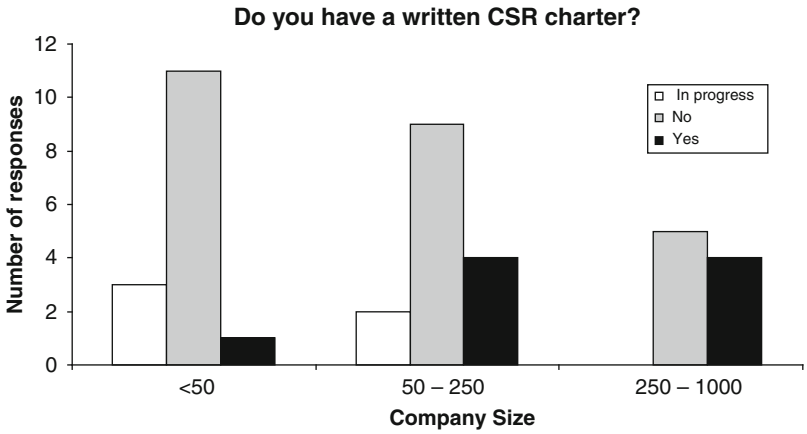

Fig. 11.3 Number of companies who claim to have a written code of conduct in relation to company size (39 respondents)

area, we were able to see a clear perception of the need for environmental and quality measurement. In contrast, no respondent mentioned a need for measuring social activities. A variety of responses were obtained for the question of use of international standards, only four companies were making use of these for the setting of a CSR agenda, and some others were using environmental or ISO quality standards. Some companies had an environmental label (such as *imprim'vert* for the printing industry) and some had ISO 14001 certification. There was a feeling amongst some of the respondents that these, while useful in some cases, could be too complex, time consuming and expensive. In addition, as one interviewee stated "It [sustainable development] is more a state of mind than an ISO certification". In two cases the interviewees explained that they had been concentrating on getting ISO certification, and had put in place all the necessary organisation and now intended to concentrate on including the 'social' side.

We can conclude therefore, that although there is a certain degree of informality in the procedures described in this section, the familiarity with procedure – a certain number of them are ISO 14001 or ISO 9001 certified, or have environmental labels on their products or services – means that many of the French companies questioned do not reject the idea of formalising their CSR processes although there is a clear tendency to associate these with quality or environmental standards rather than a more global CSR approach. This contrasts with the results found by Spence (1999) and Lawrence (2006) to a certain extent, and could be due either to the previously discussed French institutional and legislative influence or to the fact that our sample includes larger companies than in either of the two studies above.

Cooperation with External Stakeholders

Some companies do formally or informally engage to perform in a responsible way with their stakeholders. Partners tend to be more often their customers than suppliers or local organizations (see Fig. 11.4). In many cases, the engagement was in the form of guarantees of environmentally friendly products or services. With suppliers it was sometimes a case of writing in environmental or ethical requirements in the contracts concluded. In some cases, the interviewees spoke of "expectations", leading us to conclude that the engagements discussed may not always be written down formally.

Internal Organisation of CSR

In general there was no special CSR team assigned, and either the director or the quality director ran the process, with or without a general CSR orientation of all the employees. Some of the smaller companies stated that they didn't have the time or resources – as one interviewee put it, "you know, there are only nine of us". Seven firms, however, did have a team dedicated to the issue. Two were large companies (over 250 employees), four were medium sized (50–250 employees), but most surprisingly a small company of under 20 employees actually had a small team (of 4–5 employees) who had volunteered to reflect upon CSR issues within the company.

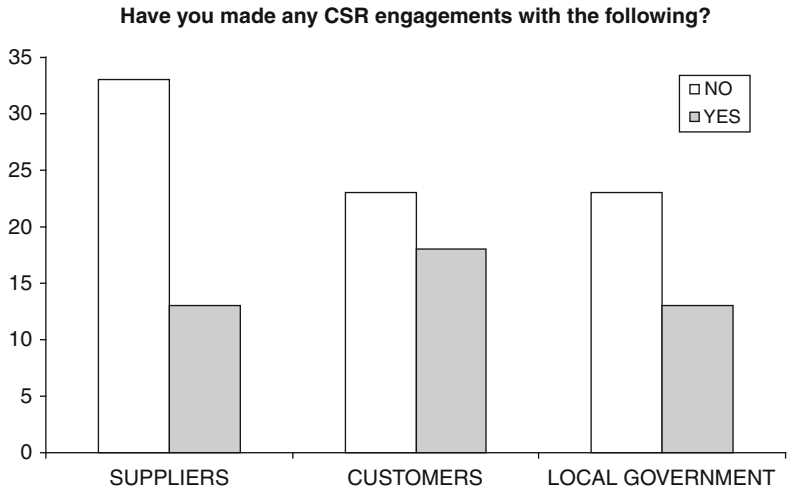

Fig. 11.4 Number of respondents who guarantee aspects of CSR to their external stakeholders

The idea of having a team to reflect and implement CSR seems to be a novelty for most of the other firms. Three of them started recently or were about to get started, one of them had been in existence for only six months, and another was a year old (the other two did not mention how long).

Environmental Action

The move towards cleaner production, with product life-cycle analysis using more environmentally friendly raw materials or packaging, sustainable resources, eco-friendly products, reduction of energy and water use, recycling of some or most of the waste produced is one of the more well-developed aspects of CSR in the firms interviewed. Thirty-five out of the thirty-eight companies who responded to the questions about their products and processes had some environmental action in place. It seems that the respondents are particularly aware of the ecological environment and perceive the necessity of taking action.

Social and Societal Action

Most of the companies with social or environmental policies in place tried to take some action to motivate and involve employees. The action taken ranged from a single presentation at the start of the implementation, through putting in place obligatory action such as recycling, up to a real internal communication effort which included for example an internal CSR company newsletter, participative management, regular training programs and meetings. Seven of the companies said that employees became motivated naturally, with no specific action implemented.

The social or societal side of CSR is a complex one to investigate. In addition to the fact that some had not associated the concept of CSR to human resources, there was the problem discussed by Matten and Moon (2005) of what is "implicit" and "explicit". To illustrate this, one owner-manager was extremely articulate about all the diverse CSR actions taken with respect to the employees, and he associated this with broader community-based societal actions. Some of the points he mentioned are below:

> We go far beyond the norms. . .of course we have equity and parity in recruitment and pay, a safety booklet is distributed to every employee, a unique document with an updated list of possible risks. . . We take into account repetitive strain problems with equipment designed to limit [the number and type of] actions. . ..Seven of our one hundred and fifteen employees are disabled. . ..We subcontract to the [name] house of correction and social re-adaptation centres etc. . .. We get involved with [name] youth associations. . . Between 2001 and 2003 sixty of our employees received training. We have an annual individual evaluation interview with each employee. . .There is an internal newsletter to inform and involve employees. . . We introduced the 35-hour working week before it became law – some employees work a 32-hour week. . . We are involved in several professional associations (e.g. 'Produit en Bretagne') both locally and nationally.

Several of the actions described are in fact quite common company practice, and some are legal obligations. Others are not. The fact that he mentioned them all, however, leads us to believe that in his conception of CSR, the social side is taken as a whole, and that all activities in this area should fit within a holistic vision of what a responsible company does. Other interviewees may not have bothered to talk about equity and parity in recruitment, or employee training or the annual interview because it is implicitly embedded in common company policy and/or the French legal framework. So although many of the respondents talked about CSR and the social side, we suspect that there is a lot which was not revealed in the course of the interviews due to the implicit nature of employee and societal issues in the French corporate world.

In sum, the implementation of CSR varied within the sample, reflecting diversity concerning firm size, industry, stakeholder expectations and the manger's interpretation of CSR. Although there is a tendency that larger SMEs approach CSR in a more formal manner than smaller ones, exceptions to the rule can be found.

Present and Future Needs of Companies in Terms of Support for the CSR Process

Several ideas were put forward when managers spoke of what would help them in the implementation process. In particular, a need for advice and information was expressed. As one person put it:

> The term 'Sustainable Development' is rather general and we don't really know exactly what it's about.

Others said that they felt there was a need for established norms and standards in order to provide a common basis for action. According to one of the respondents:

> (We need) a national or international system of evaluation because at the moment everyone is just going ahead doing it their own little way.

A significant number of the interviewees also thought that business networks and exchange of best practice among peers would be of great help, and a wish for "improved relations and communication with local authorities" was also mentioned. Finally, many surprisingly expressed themselves in terms of hope rather than in concrete measures as expressed by one respondent:

> That all companies, local authorities and individuals move together in tshis initiative.

Drivers and Brakes of CSR

Companies with No CSR Activities in Place

Among the 72 SME representatives who participated in the study, 20 said that their company does not engage in CSR. However, ten of them intended to move towards CSR in the future. The reasons why they might or might not make the change, the potential drivers and barriers are the subject of this section.

Internal factors and external factors are cited in about equal numbers as contributors to change by companies that do not yet engage in CSR activities. The contribution can be positive (a driver) or negative (a brake). In general, external factors are cited as potential drivers of change much more frequently than as brakes (34 vs. 3). For example client demand was often cited, either as a brake

> If my largest client said, OK now I must have a product with different features, I would have to go that way. But for the moment my clients only ask about the price.

or as a driver

> Our customers are asking us about (CSR), it's impossible to answer them, so we're trying to put something in place.

In contrast, internal factors are much more frequently perceived as brakes to change rather than drivers (26 vs. 12), as one manager put it:

> There are just so many other things to do, it's a question of managing priorities –putting a quality process, putting in place an international strategy . . . CSR is not in our top three priorities in the coming year.

In sum, managers emphasize the difficulties of implementing changes in their own firm as a major reason why the company has refrained from CSR so far, although they perceive that their environment would welcome and potentially support such an engagement. Table 11.2 presents the factors cited the most frequently for this group.

Table 11.2 Perceived potential drivers and brakes of CSR for companies not engaged in CSR

	Internal		External		
In order of number of times cited	Drivers (+)	Brakes (–)	Drivers (+)	Brakes (–)	Total
Individual	7	5	1		13
Director (+/–)					
Need for person to implement it (–)					
Children(+)					
Organizational	5	21	17	3	46
– Client/market demand (+/–)					
– Difficulties of organization (–); Employees (+/–)					
– Financial risk (–); Knowledge (+/–); New markets (+); Supplier (+/–); Competition (+/–)					
– Size (–); Time (–); Product (+/–)					
Macro			16		16
– Environmental concerns (+)					
– Societal change; "When we′re obliged to" (+)					
– Legislation (+);Global competition (+); Certification (+)					
Total	*12*	*26*	*34*	*3*	***75***

On a closer analysis, individual factors were quoted several times as potential agents of or impediments to a move towards CSR. Internally, the individual most referred to in this context was the director. As one interviewee put it:

> It depends on the directors... simply because we follow the leader. We are too involved in our daily affairs. The day that our client insists that we implement CSR it will become vital. We will then be acting through necessity instead of it being a proactive, voluntary process. We are at risk of being seriously held back when we actually have all the resources we need to go ahead right now.

One of the brakes discussed in the sustainability literature is that SME managers believe that SME's have little impact on the environment (Ammenberg & Hjelm 2003; Simpson et al. 2004; Simon & Basset 2007) and that this is a major reason why companies do not engage in environmental programs. In our study which used open-ended elicitation questions, however, not one of the interviewees mentioned this as a brake. This leads us to tentatively propose that although managers of SMEs recognise that the impact of their activity on the environment is comparatively low, it is not clear that this is hindering them from behaving responsibly towards the environment.

Organizational factors, both internal (26) and external (20), featured more frequently than individual or macro factors in the interviews. Usually, internal organizational factors such as financial risk, time, organizational difficulties, size or knowledge are quoted as a brake to a move towards CSR whereas external

organizational factors, for example client demand or market opportunities are predominantly seen as potential drivers of CSR. In contrast, macroeconomic issues such as concern for the environment, legislation, global competition, social change were seen exclusively as drivers of CSR. In conclusion, organizational issues came out as the dominant force in the change process, with internal forces broadly being seen as impeding the process and external forces driving it.

Companies with a CSR Policy in Place

In the 52 companies with some CSR in place, external factors are cited much more frequently than internal factors. In general external factors are cited as potential drivers of change much more frequently than as brakes (62 vs. 23), whereas internal factors are quoted as driving and braking CSR activities in about equal proportions (38 vs. 33). Table 11.3 presents the main factors our respondents referred to.

When we take a closer look at the internal factors cited as driving CSR, we see that they are clearly individual in nature (23 vs. 15). Many interviewees cited the personal values of the director as the spark that really began the process. When internal obstacles or brakes such as employee resistance to change or lack of time were discussed, however, these were all expressed at the organisational level. External organizational forces such as client demand and competitiveness were seen more as positive forces for a move towards CSR (18 vs. 6). Macro forces were seen mainly as a push factor towards CSR, the protection of the natural environment in particular. However, the media was considered to be a double edged sword: important for positively influencing and informing businesses, but also seen to tarnish or deform the whole concept of CSR with worries expressed about a "militant" image or "political correctness" taken too far.

Summing up the wide range of answers received, we conclude that although many refer to economic, ecological and social aspects when defining CSR, the protection of the natural environment is dominating the current discussion. When analysing the impulses that lead companies along the path to CSR, and aspects that are holding them up, we find multiple and complex forces influencing the change process in SMEs. The indirect macroeconomic, social and ecological environment is playing a major role in driving CSR, whereas the internal context of the company is often throwing up obstacles to the change.

Comparison of Companies With and Without a CSR Policy

From the analysis as to what had triggered the move towards implementation of CSR in the case of the companies who were engaged and the beliefs of what *might* trigger the introduction of CSR in those companies who were not engaged, a picture has emerged, illustrated in Fig. 11.5, which seems to find a place for morality of the manager as a driver.

Table 11.3 Perceived drivers and brakes to implementation of CSR in companies with some CSR engagement

	Internal		External		
In order of number of times cited	Drivers (+)	Brakes (−)	Drivers (+)	Brakes (−)	TOTAL
Individual	23		11		34
Directors′ values **(+)**					
Family, friends & personal life **(+)**					
Employee & Director′s will **(+)**					
Education (of respondent) **(+)**					
Quality auditor **(+)**					
Author **(+)**					
Organizational	15	33	18	6	72
Financial **(+/−)**					
Employee related **(+/−)**					
Clients **(+/−)**					
Organization **(−)**					
Time **(−)**					
Competitiveness/differentiation **(+)**					
Knowledge **(+/-)**,technology **(+/−)**, innovation **(+)**					
Image **(+)**					
Suppliers **(+/−)**					
Shareholder/stakeholders **(+/−)**					
Product **(+/−)**					
New construction **(+)**					
Company Values **(+)**					
Macro			33	17	50
Press/Media/Image **(+/−)**					
Environment **(+)**					
Concern for humanity & community **(+)**					
Government & Legislation **(+/−)**					
Unclear guidelines **(−)**					
Business Network **(+)**					
NGO **(+)**, Global Compact **(+)**, Industry **(+)** philosophy **(+)**					
Energy Costs **(+)**					
Total	*38*	*33*	*62*	*23*	***156***

The fact that personal values and environmental concern are cited relatively more frequently among those companies with CSR in place, and that organizational factors such as the markets and competition are more prevalently cited for those companies not engaged in CSR activity gives rise to the intriguing possibility that we *imagine* that the market will pressure a company into CSR, but what triggers action *in reality* is often more complex and definitely include the personal values of the director and top management.

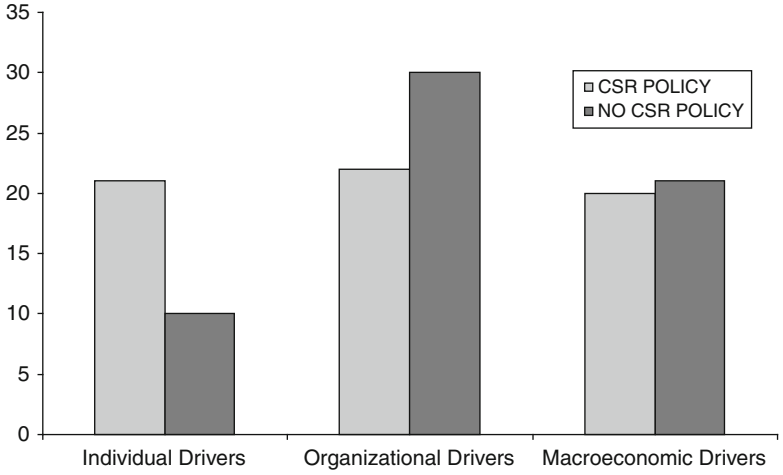

Fig. 11.5 Proportion of times factor cited as a driver of CSR

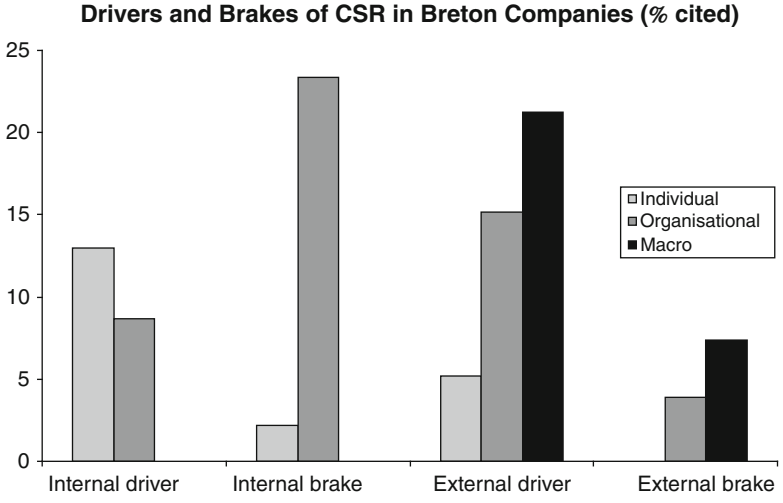

Fig. 11.6 Drivers and brakes of CSR in Breton companies

Overall it seems that where companies can have an influence, i.e. internally, the strongest driver is at the individual level, and the main obstacles come from organisational difficulties (see Fig. 11.6).

When it comes to external forces, macro factors, mainly the state of the natural environment are having a positive influence. It is interesting to note that NGOs were hardly mentioned at all, and legislation was seen equally as a driver and a brake,

some managers perceiving French and European law as entirely sufficient (in some cases too restrictive), and others feeling that more legislation was necessary. There was similar disagreement about the role of certification and norms, a few feeling that they were useful guides to implementation and others thinking that they were complex and were going to be too heavy a burden to bear, particularly for smaller companies.

Governmental Policy, Societal Expectations and Needs in the Local Community – What Is Driving the CSR Movement in France?

The purpose of this article has been to investigate how SMEs in France engage in CSR and what factors help or hinder the engagement. The results of our study suggest that governmental policy is playing a role through multiple mechanisms. Its influence is pronounced because of the fact that CSR and sustainable development are perceived to be a growing trend and that many companies have only recently taken these concepts on board and are, thus, still searching for ideas and guidance how to implement CSR in an adequate manner. The most important mechanisms that mediate governmental policy are, firstly, the press and the media in general which raise awareness of the subject, secondly, the legislation aimed at larger companies which seems to be having a trickle-down effect into SMEs, either through mimicry or through the application of the norms from large client to small supplier and, thirdly, local authority and institutional support for this type of venture.

The increasing awareness of these issues due to governmental policy is not limited to corporations, however, and the media buzz around 'Le Grenelle de l'Environnement' combined with general public education and access to the media who all carry the same message of urgency around environmental issues are contributing to increased societal expectations towards companies. Indeed, many of the interviewees spoke of the influence of individuals in their close circle, either personal or business networks, clubs and associations. Others cited the growing interest of consumers in the issue and many spoke of how society is changing, as one person said,

> There is a general awakening of our conscience and this is having an influence at the level of the employees as well as at company level.

The needs of the community were also having an effect. Relations with local authorities, the necessity of keeping a viable local environment, and some actions for the less fortunate were cited. In addition, Breton managers often spoke in terms of their attachment to the region and the responsibility they felt towards the environment and the people:

> We have a superb rural environment and employees who live in a local context. It seemed normal that the company should inscribe itself in this environment so that there was harmony between the global environment and the enterprise.

In conclusion, we can say that the factors which are driving sustainable practice in Breton SMEs are multiple and complex, with a major impulses coming from the beliefs and values of top managers and from societal expectations, governmental policy, and needs in the local community. In general, internal and external factors that originate from the individual, organisational or macro level can be identified to help or hinder CSR engagement. This distinction within the framework of analysis has proven to be useful for revealing different perceptions of drivers and brakes among companies that engage in CSR and companies that are not yet committed to CSR. Since the CSR practice among Breton SMEs covers rich and varied environmental, social and societal actions, the framework proved itself to be flexible enough to be applicable to all cases, while remaining meaningful enough to allow conclusions and to enable recommendations for policy-makers and supporting institutions. In Brittany, for example, we discovered a need for more information and exchange on best practices as well as a need for funding CSR activities. Future research should investigate whether the framework is applicable for the analysis of SMEs in other countries and whether similar patterns of drivers and brakes emerge or whether they vary – as our research suggests – in accordance with the political, social and economic environment.

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Chapter 12
Corporate Social Responsibility and Stakeholder Relations – The Perspective of German Small and Medium-Sized Enterprises

Simone Klein and Kristin Vorbohle

SMEs – The Hidden Perspective

Corporate Social Responsibility (CSR) has become one of the most prominent expressions in business literature recently. Supported by the aftermath of globalisation, the local and global responsibility of corporations and their stakeholder management have become increasingly discussed. Nearly all well-known, large multinational companies react by publishing CSR reports, sustainability reports, or introducing campaigns underlining their CSR activities. Theoretical and empirical research is mainly focused on multi-national enterprises (Siegel and Vitaliano 2006; RESPONSE study 2006; Crane and Matten 2007; Carroll 1979, 1991, 1998). Small and medium-sized enterprises (SMEs) are lacking the media presence (Spence et al. 2003) and sometimes SMEs are regarded as a small version of big companies (Tilley 2000). Since the "grandness" of small businesses is hidden by the focus on the activity of big multinational companies, more research is required about how SMEs approach CSR-topics, as well as their impact on society (Morsing and Perrini 2009). SMEs are the backbone of their environment (Habisch 2004), as they create new management instruments and strategies to cope with environmental and social topics (Spence 1999).

European surveys show that SMEs are engaged in social and environmental activities (Forsa 2005; IfM Bonn 2002; European Commission 2002) and a great deal of CSR potential is assumed (European Commission 2006: 11 f.). In Germany as well as on the European level, few surveys exist, but some to be named are the "Institut für Mittelstandsforschung" (research institute for SMEs, IfM) (2002, 2007a), or the Forsa institute (2005), the ASU-query (2007), the GILDE-Study on behalf of the European Commission (2007), the Observatory of European SMEs (European Commission 2002) and Hamann et al. (2009).

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The lack of specific research is surprising because according to the European Commission, 99% of all companies in the European Union are SMEs. These some 23 million enterprises employ around 75 million people (European Commission 2003) and their "aggregate achievements gave a major effect worldwide" (Jenkins 2006; 242). In Germany 99.7% of all companies are SMEs, employ 70.6% of all employees and account for 37.5% of all companies liable to tax on sales (IfM Bonn 2007b).

In addition to the immense economic power of SMEs, the specific owner-structure offers new insight into the CSR debate. The vast majority of SMEs are managed by the owners themselves (Spence 1999; Jenkins 2006; Hauser and Wolter 2007). Their personal value systems are integrated into the business practice and influence the understanding of CSR in a stronger way than is possible for managers of multi-national enterprises (a literature overview is given by Hamann et al. 2009). Even more, SMEs believe that large companies engage in CSR only as a reaction to stakeholder demands, and not on account of an integrated management perspective. The manner of CSR in SMEs is a question of the managers` personal values and mindset (Hamann et al. 2009). SMEs are characterized by the congruence of ownership and control in one person leading to the owners` autonomy deciding on CSR strategy and activities.

Due to the significant difference between SMEs and multi-national companies (Spence 1999, 2007), various questions arise: What is the SMEs' understanding of CSR? What is its engagement and motivation? And which role do employees play in the CSR debate? Along with these issues, the researchers want to generate a deeper insight into the understanding of CSR and its consequences, combined with the focus on stakeholder relations of SMEs.

To answer these questions we start by embedding the stakeholder concept into the debate on CSR (Section "Stakeholders and the CSR Debate"). From the results of the empirical study on CSR and SMEs (Section " CSR in SMEs – Empirical Findings"), we will derive a modified stakeholder concept with employees as key stakeholders (Section "The Employee as a Key Stakeholder"). We will conclude by giving implications for further empirical research in the last section.

Stakeholders and the CSR Debate

The term CSR is not universally defined (European Commission 2006, Crane and Matten 2007). When discussing SMEs, it is often used synonymously with Corporate Citizenship (CC). In this chapter, the term CSR will be defined in contrast to CC and embedded into the stakeholder model.

Because enterprises are part of society, they should make the same contribution to society as citizens (Crane and Matten 2007: 67; Habisch 2003). Unlike CSR, the civil engagement within the scope of CC goes beyond the purely economic activities of an enterprise (Westebbe and Logan 1995: 45; Carroll 1991, 1998) and usually has a strong direct impact on the local environment of the company. Forms of CC include Corporate Giving and Corporate Volunteering (Carroll 1979).

This study is based on the European Commission's definition of CSR. In its Green Paper, CSR is defined as a "concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (European Commission 2001: 6; a similar definition gives Hamann et al. 2009: 39). Focal points of this definition are the voluntary approach, its scope (ecology, economy, society), as well as the interaction with stakeholders.

The CSR debate is in general strongly connected to the stakeholder model conceptualised by R. Edward Freeman. According to this concept, stakeholders are "any group or individual that can affect or is affected by the achievement of the organization's objective" (1984: 46). Freeman (1984: 47) considers the stakeholder concept as "an umbrella for strategic management" (1984: 47) that reveals the stakeholders' demands, which should be part of the daily business agenda (Crane and Matten 2007: 62). Consequently, if companies fully recognise stakeholders' interests, "there is simply no need for a separate CSR approach" (Freeman 2004: 231). In contrast to big companies, SMEs depend on relationships with all stakeholder groups, and generate social capital by interacting with them (Spence et al. 2003). In Freeman's stakeholder concept all stakeholders are equally located around the enterprise. The frequently used metaphor to describe the relationship between an enterprise and its stakeholders shows the number of stakeholders as circulating satellites around the company. Further analysis will show that this model can only be transferred to SMEs, if special attention is paid to employees as key stakeholders.

CSR is a means for differentiation in the competitive environment, just like working conditions or higher productivity (Spence and Lozano 2000; Murillo and Lozano 2006). However, in order to use CSR as a differentiation tool, communication is a necessity. Nielsen and Thomsen (2009: 83) state that "communication of CSR in SMEs is unsystematic and handled on an ad hoc basis". The lack of resources leads to missing communication strategies and tools. The CSR activities of SMEs are based on the personal values of the managers or owners. For them, CSR is not a strategy which needs to be communicated externally, rather it is an intrinsically motivated action based on moral and ethical reasons inherent in the company culture (Jenkins 2006). This can also be described as an inside-out approach to CSR (Nielsen and Thomsen 2009: 88). However, to gain a better competitive position, SMEs need to communicate with their stakeholders.

CSR in SMEs – Empirical Findings

Research Questions and Methodology

The aim of this study is to contribute to the empirical CSR research, concentrating on the perspective of SMEs, and by doing so, focusing additionally on the owner's perspective as well as on regional factors influencing a company's engagement. This study concentrates on the metropolitan region of Hamburg, as it is considered to be

one of the most productive regions in Europe (Kropp and Niebuhr 2006: 15). The central research questions are:

- How do owners of SMEs define their responsibility and what do the corresponding activities look like?
- Which stakeholders do they have in mind when discussing CSR?
- What is their motivation for any engagement in CSR?
- Do regional traditions influence the definition of CSR, and if so, how?

The methodology chosen for this study follows a qualitative two-stage design. This allows a more holistic approach to the little-known perspective of the owners of SMEs. As a first step, 11 interviews with specialists in the field of CSR or SMEs were conducted (academics or practitioners). These results permitted a deeper insight into developing the interview guideline for the owners of SMEs and contributed to our theoretical framework. As a second step, 33 semi-structured interviews were carried out with owners of SMEs and provide the basis of the study.[1] The understanding of SMEs in this research project follows the guidelines of the European Commission (2003). Therefore only companies with fewer than 250 employees and less than 50 million Euros annual turnover (or 43 million annual balance sheet total) were considered. In addition, the criteria of autonomy of SMEs is applied, i.e. no more than 25% of the enterprise's capital or voting rights belong to one or several other enterprises which themselves do not meet the definition of a SME (European Commission 2003).

The selection of the interviewees follows the criteria of SMEs and their business activities. Enterprises from the following industries were analysed: maritime & logistics, media & IT, aircraft and life science. If differences in CSR behaviour can be traced back to a specific industry it is mentioned in the text. Otherwise no differences are observed. 157 companies were addressed via mail or telephone calls (rate of return 22.93%) and 36 interviews were conducted, whereby 3 had to be excluded. 33 interviews were analysed and build the data base of this qualitative study.

Results

Understanding of CSR

The owners of SMEs pointed out, that they see their main responsibility towards their employees and emphasised the strong focus on this relationship. Recognising employees as key stakeholders, the main motive is social security by offering safe employment positions and good innovative working conditions. Furthermore, there is not only a strong feeling of responsibility towards the employee, but also towards the entire family of the employee. The family is what Spence calls "significant others" (2007: 548). They are "those officially outside the firm in legal organizational terms, who nevertheless have an impact on what goes on within it" (ibidem). An example of how far this responsibility can reach is the scenario where an owner

cares so much about the private financial situation of an employee, that he negotiates with the employee's creditors in order to help the family.

The strong appreciation of the employee also becomes visible in the type of leadership style, which was very often described as open, innovative and team-oriented; almost family-like. Additionally, they regard themselves and their company as a part of society and therefore take their responsibilities seriously and want to give something back to society. According to the interviewees, that can be realised by paying taxes, providing long term job positions, offering job training positions for young people and employing older persons. Also any kind of support for the local environment expresses their idea of giving something back to society. To realise this as well as the sustainable existence of their enterprises, owners were particularly concerned about the economic situation of their company. Only economically "healthy" enterprises are able to maintain not only their own working place and the quality of life of their family, but also their employees' lives and those of their families.

Recently environmental issues have become quite important within the CSR debate. Surprisingly, environmental issues were not mentioned at all in connection with the CSR definition.

CSR Activities

The mentioned activities of the owners were dedicated to the three dimensions of CSR: Work place, society and environment.

Work Place

The main topic for the owner was the work-life balance of their employees. The personal situation of the employee is taken into account (for example children, family members in need of care, volunteering activities) by finding flexible working hours or reducing the working hours temporarily. Additionally, individual activities regarding professional training are mentioned as an activity. Due to the long term perspective employment retirement arrangements were reached. In some cases, even the costs for childcare were covered by the company. The important position of the employee becomes particularly evident in the following statement of one interviewee:

> Enterprises consist of people. Without people they would not exist. Hence, people have priority.

Hamann et al.'s (2009) research supports our results by identifying that the employees were the most important stakeholder group to whom the owners and managers address a responsible behaviour. Beyond that, Murillo and Lozano (2006) underscore the thoughtfulness of SMEs towards the employee and their families when engaging in CSR.

Society

The majority of the interviewed SMEs assumed their social responsibility in the local environment. Mainly schools, kindergartens and voluntary associations like

the fire brigade or the local football club are financially funded by SMEs. Some of them even organise company events for the local community, or support local events by human or financial resources. In addition, local participation and charitable donations for national and international organisations were mentioned. Noteworthy is the personal contact between the company and the benefit recipient in order to ensure the proper use of donations. Seldom mentioned were sponsoring activities and activities connected to the business practice. Only one IT-company reported transferring their IT-know-how to teachers free of charge. For some owners, the paying of taxes and job security are viewed as already important corporate contributions to society. Many interviewed owners are also privately engaged in volunteering associations. According to Habisch (2003), the type of engagement – or Corporate Volunteering – depends very often on the type of engagement family members are actively involved in.

Environment

The few examples concerning environmental issues were mainly industry-sector specific. For example, the harbour & logistic branch focuses on fuel reduction and ensuring safety in storage, and media & IT companies try to reduce their electric power and paper consumption.

The fact that environmental issues were strongly neglected by interviewees when asked about their voluntary engagement for society has to be interpreted in the light of the very strong German regulation concerning environmental issues. The high amount of legal regulation in Germany makes companies already extremely environmentally sound by simply abiding to law (sneep 2007).

Intrinsic Motivation

The interviews made clear that corporate engagement is mainly intrinsically motivated. The strongest influencing factor is the personality of the owner and his personal value system. Similar results are found by Murillo and Lozano (2006). Many owners emphasised their educational background and the family traditions. Furthermore, the owner regards himself as a role model for the employees and the company's reputation, as the following citations demonstrate:

> We cannot expect that employees make an effort to do something that I and my family are not feeling up to do.
>
> My father taught me to take care of every single employee.

According to the personal motivation of the CSR activities, the owners see no need to communicate their social activities. The majority did not communicate their activities, neither to their stakeholders, nor to the public. The reasons for this non-communication were usually mentioned as follows:

> We don't communicate our engagement, because we do it out of conviction and not to gain a PR effect.

Regarding the internal corporate communication, nearly the same results became obvious. Only sometimes are the employees informed about the CSR activities of the company via staff newsletters or in-house magazines.

Regional Specifics

The study was conducted around the region of Hamburg. Specific for the way of doing business in this area is the tradition of the "honourable business person" (for example "Ehrbarer Kaufmann"). The phenomenon describes the business practices of the Hanseatic business person, which includes being honest, offering fair conditions, and not requiring written agreements due to the faith in handshakes.[2] Part of this concept is the principle of not discussing social engagement. This understatement is what Hanseatic business people consider as honourable, which might also lead to the fact that the English term CSR is not accepted by the majority of Hamburg's SMEs. British SMEs also denied the term CSR, as the word 'corporate' is considered inappropriate, as Jenkins (2006) discovered.

The Employee as a Key Stakeholder

Within Freeman's stakeholder model (1984, 2004) employees represent one out of many other stakeholders addressing the company with demands. One of the main results of this study is the evidence of the exposed role of employees within the CSR discussion of SMEs. The results show the specific situation of employees within the stakeholder wheel. Employees can be considered as playing a *double role*: On the one hand they are the recipient of the corporate engagement (in their role as a stakeholder) and on the other hand they represent the company towards other stakeholders (in their role as part of the enterprise). This double function explains the important role of employees, in particular within SMEs, where the human resources are the most valuable resource (Klein and Vorbohle 2008; sneep 2007). Our modified stakeholder model represents the results by emphasising the particular role of employees within the stakeholder wheel and the relations between the stakeholders.

Andrew Crane and Dirk Matten pointed out that the definition of Freeman already indicates that "the range of stakeholders differs from company to company, and even for the same company in different situations, tasks and projects" (2007: 58). Here the employees obtain their specific position, almost independent from the tasks and situation of the company. Nonetheless, the case might be different for extremely small enterprises with less than three employees. In those cases the sphere of employees overlaps strongly with the owner of the enterprise (Klein and Vorbohle 2008).

Another critique of the traditional stakeholder model is given by Beschorner (2004: 256). He questions the independence of the different stakeholders from each other and proposes to take the relations between the different stakeholders into consideration (which is visualised by the dashed connection between the different stakeholders in Fig. 12.1). Moreover, Rowley (1997) suggests a network model of the stakeholder theory by adding the stakeholders of every stakeholder to the model.

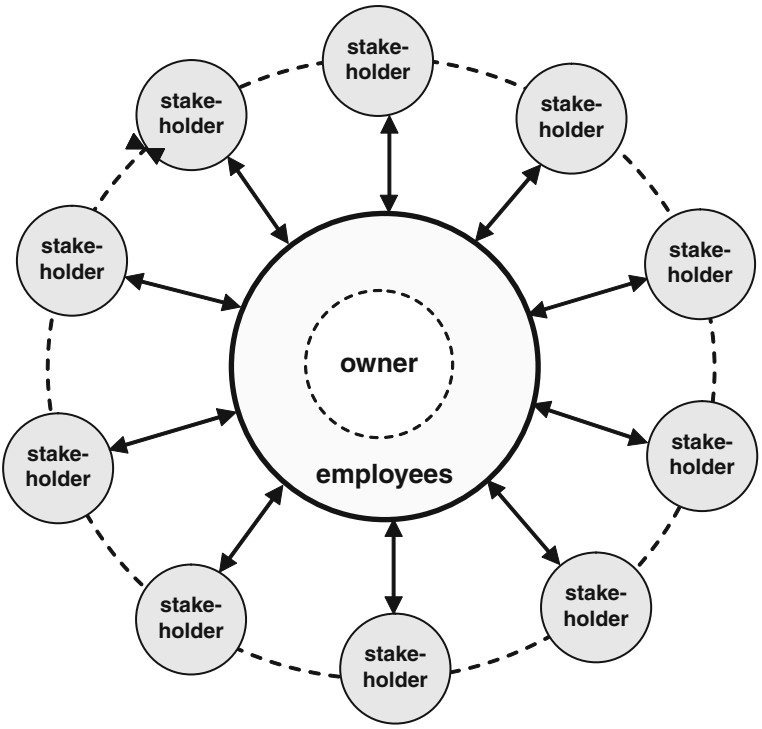

Fig. 12.1 Employees and their position in the stakeholder model (Klein and Vorbohle 2008)

Referring to the CSR definition of the European Union, which focuses on the integration of stakeholders' demands on business, SMEs do consider their stakeholders when doing business. In particular, the relation to their employees is characterised by strong appreciation and they are often regarded as "part of the family". The intensive dialogue between the owner and the employee leads to a climate of respect, loyalty and trust (Spence 1999: 165; Holzborn 2006: 60). According to the European Commission (2007: 13), "70% of the SME regard their employees as their main stakeholders" (similar results were found by Jenkins 2006; Roberts et al. 2006; Bader et al. 2007; Hamann et al. 2009). [3] In contrast to the employees, all other stakeholders have no significant influence on the responsible behaviour of SMEs. They are served mainly on a philanthropic level by receiving donations (sneep 2007; European Commission 2002).

Conclusion

The survey shows that social consciousness of the owners of SMEs is not only very distinct, but also implemented into practice through a wide range of activities. The main focus of activities is on work place topics and social issues, such as donations

to non-profit-organisations. Astonishing is the fact that SMEs do not connect their social activities to their business or core competencies. Resources involved in CSR engagement were mostly limited to financial contributions. This confirms the view that CSR is understood first as a practice (Nielsen and Thomsen 2009: 88) and secondly as a strategy. This hints to the lacking strategic implementation of CSR to the companies` overall strategy. Furthermore, the corporate engagement has a strong regional aspect: the SMEs regard themselves as part of the local community and want to give something back to (the local) society. Hamann et al. (2009) showed that the personal values of the managers were first oriented towards employees, then towards customers and society. This study supports the superior position of the employee within the stakeholder wheel and reveals an existing link between the treatment of employees and the definition of CSR. The focus and manner of CSR are mainly driven by the personal motives of the owner. The engagement of owners of SMEs is strongly bound to the intrinsic motivation and double role of employees showing that owners of SMEs are not primarily interested in profit maximisation (Spence 2007).

The fact that employees are in the centre of the SMEs' CSR activities puts a different light not only on Freeman's stakeholder model, but also on CSR theory referring to SMEs in general. The holistic view of owners towards their employees is based on an empathetic attitude that incorporates the well-being of the employee (and even *their* families) into the well-being of the owner. A means to achieve this well-being is the endorsement of an economically, socially and environmentally sustainable enterprise. SME owners regard CSR as a practice and not something which is formally implemented in the companies` overall strategy. The interview partners emphasized the "hands-on" principle of CSR. SMEs do not discuss CSR like large companies do, since they do not consider it as important to do so – neither internally nor externally.

The result of the study emphasises the importance of the family on both sides, the family of the owner and the employee. The owner feels responsible not only for the employee but also for the family of the employee. The role of the family on the managers' side arises when the respondents stress the values of their own family and argue that they transfer these traditional values into the value system of the company. The role and values of the family within the CSR and stakeholder debate about SMEs should be stressed more intensively in future research. More detailed cross-country comparisons should allow further implications about regional and cultural differences, influencing the business and CSR understanding of the owners of SMEs.

Notes

1. Since German SMEs were in the focus of this study, the German term "unternehmerische Verantwortung" (entrepreneurial responsibility) was used during empirical research instead of CSR.
2. There is an association "Versammlung des ehrbaren Kaufmanns e. V." that has been engaged in business ethic topics for more than 500 years in Hamburg (www.veek.de).

3. To be exact, the different definitions of SMEs applied in the studies of the European Commission (2007), by Bader et al. (2007) and Jenkins (2006) are mentioned. In these two studies enterprises with up to 500 employees are considered as SMEs. Thus a direct comparison between the studies cannot be drawn, though these studies (as well as the above mentioned) underpin not only the results of the illustrated study, but also the conclusions drawn from it. Therefore, the results of this analysis are not limited to Hanseatic or German SMEs, but to a certain extent valid for all SMEs in Europe.

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Chapter 13
The Alignment Between Social Responsibility and Business Strategy: Implications for Social Responsibility Value Creation in Spanish SMEs

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Introduction

Social Responsibility (SR) has been subject to increasing academic and managerial interest. Nevertheless, as Perrini and Minoja (2008) point out, a theoretical knowledge gap persists due to three main reasons: preferential emphasis on large firms; stress on the relationship between SR and financial performance and lack of rigorous empirical evidence. In this study, we aim to address these existing gaps by empirically analysing the relationship between a strategic SR approach and SR business value in small and medium enterprises (SME).

The SME is the predominant form of enterprise in all developed economies (number of firms, contribution to GDP, contribution to employment); more than 90% of businesses have fewer than 50 workers, so they clearly are a relevant analytical unit (EC 2003). Unlike larger companies, SMEs are subjected to much less pressure both from institutions and interest groups to undertake the management of SR (Dex and Scheibl 2001), basically because individual SME impact is low. Therefore, until SR is applied extensively in SMEs, it cannot be said that SR has consolidated itself. Researchers have started to look with increasing interest at SR in SMEs (Vyakarnam et al. 1997; Spence and Lozano 2000; Tilley 2000; Spence and Rutherfoord 2003; Spence and Schmidpeter 2003; Jenkins 2006).

A lot of empirical studies have analysed the relationship between SR activities and business performance in different contexts and following different methodologies, but there is no consistent conclusion about this issue (Griffin and Mahon 1997; Roman et al. 1999; Margolis and Walsh 2001; Orlitzky et al. 2003 and Vogel 2005). Besides, the factors that underlie the effects of an SR approach and the linkages between SR and firm performance are still unexplored. Different authors, like Burke and Logsdon (1996), Husted and Allen (2000), Quazi and Brian (2000),

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McWilliams and Siegel (2001) and Husted and Salazar (2006), have considered SR to be a strategic issue and have defended the fact that a strategic approach to SR would generate more value for the firm and social output for the society. According to Vogel (2005) and McWilliams et al. (2006) there are numerous unresolved theoretical and empirical issues related to the strategic implications of SR. Also, Perrini and Minoja (2008) consider that one of the greatest challenges for academics is the integration of SR into business strategy.

Our general framework for study is that of the basic decisions in the business organization's strategic management process (Hax and Majluf, 1996) and, therefore, this report is concerned with how the firm performs its "social function". In a similar vein to Burke and Logsdon (1996), Husted and Allen (2000) and McWilliams and Siegel (2001), we focus on the strategic approach of SR; therefore we consider that SR must contribute to the firm's core activities and help the firm to achieve its mission. Moreover, we believe that this strategic perspective of SR is crucial in the SME case. As Quazi and Brian (2000) established, SR is a strategic element of the SME, where the stakeholders' relationships are critical for firm's survival.

In particular, in this study we empirically analyse in SMEs the integration of SR practices in business strategy and its effect on the creation of value for the business itself. Rationalization of SR and its convergence with firm performance made the SR concept much more attractive for managers and helps the diffusion of SR among firms (Vogel 2005).

The empirical evidence obtained would not only support theoretical development about SR and SMEs but is also relevant to practice (Ghoshal 2005). The study of how SR must be developed in order to generate value for the firm, helps SMEs to engage more effectively in SR and generate incentives for the stable, coherent and long-term development of this kind of activity.

The paper is organized as follows: in the next three sections, we analyse SR in SMEs, the value creation of SR and the question of SR strategic alignment; in the fifth section, hypotheses are presented; in the sixth section, methodology and data are described; next, the most relevant results are presented and finally, the discussion and conclusions are focused on the theoretical and managerial implications of this research.

Social Responsibility in SMEs

There are many definitions of SR and there is no single interpretation, and this fact hinders SR's theoretical and measurement development. In fact, according to Starik and Carroll (1990), one of the most basic difficulties in SR research is the definition of the SR construct itself.

Recently, some definitions have been established. McWilliams and Siegel (2001) define SR as the actions that appear to further some social good, beyond the interest of the firm which is required by law. In addition, the European Commission (2002a)

defined SR as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

However, until now, most of the concepts and methodologies that relate to SR have been developed for and within the context of large firms (Enderle 2004; Murillo and Lozano 2006; Roberts et al. 2006; Aragón et al., 2009). SMEs present a number of intrinsic characteristics that are different to those of large firms. These particular features of SMEs affect motivation, the level of formalisation, contents, strategic nature and scope of the SR activities they pursue (Longenecker et al. 1989 and 2006; Vyakarnam 1997; Spence 1999; Spence and Lozano 2000; Spence et al., 2003; Habisch 2004; Jenkins 2004; Longo 2005). Therefore, the analysis of the characteristics of SMEs that condition the responsible behaviour of these firms is an essential prior step in order to build a valid SR construct for SME (Aragón et al. 2007); these characteristics must guide the design of the SR construct for SME (Table 13.1).

Apart from these critical issues, "Environment" and "Local Community" are relevant SR dimensions for SMEs. Regarding "Environment", many authors state that a lot of SMEs have responsible environmental management even though they are not familiar with the SR concept (Observatory of European SME 2003; Jenkins 2006; Murillo and Lozano 2006; Williamson et al. 2006). In addition, the "Local community" dimension which emphasizes the link with the nearest local surroundings is particularly important for the SME, as long as they are close to the community and traditionally have local roots. Several authors emphasize that links with the local milieu are particularly important to SMEs, involving clients and suppliers, or other agents of the community (Burns 2001; Spence 2004). Jenkins (2006) argues that SME relations with their stakeholders are more informal and based to a large extent on trust, which means personal relations and proximity to the community are particularly important. Furthermore, SR action taken by SME tends to be local in scope, which justifies the inclusion of this dimension (European Commission 2002a).

Therefore, we have identified six relevant dimensions in the SR construct for (SMEs): Internal community of people, Good governance, Responsible relationships with value-chain agents, Business Revitalisation, Local community and Environment. Along with the study of SME characteristics, the definition of an SR construct for SMEs is conditioned by these four propositions:

1) The definition of SR activities must take into account the current day- to- day operational context in which SMEs are involved. According to the European Commission (2004), SR is about the core business activities of a company. SMEs tend to be largely unfamiliar with the SR concept (European Commission 2002a), managing their social impact by following their own intuition and applying socially responsible practices informally; for them, socially responsible behaviour is just a result of their way of understanding firm management. Therefore, the language is an important issue; SR questions must be

communicated to firms in a language they understand (European Commission 2007; European Commission 2004; Amaeshi and Adi 2007; Roberts et al. 2006). The study by Murillo and Lozano (2006) recommends a careful analysis of the underlying language and motivations involved in the current SR practices in SMEs.

2) One of the main objectives of a SME is to create value for its stakeholders (Perrini 2006), although the identification of its critical stakeholders is a relevant question in the case of SMEs due to their limited human and financial resources. In this sense, and regarding the stakeholder groups, literature has envisioned stakeholders on different levels. According to Lantos (2001), first we found the general macro-environment, the economic, social, political, financial forces of society at large. Second, the firm's microenvironment, here there are the partners that develop exchange relationships with the firm (customers, suppliers, distributors, local community, competitors. . .). Third, the stakeholders within the business organization (employees, directors, owners. . .) and finally, the other significant business decision makers (peers, family, friends, etc. . .). Nevertheless, this general framework also has to be adapted for the SME case. Not all these levels are relevant from an SME perspective. SR in SMEs must include the stakeholders that are critical for the firm's survival and competitiveness. As Lepoutre and Heene (2006) explained, small business owners are particularly sensitive to activities related to their immediate stakeholders such as employees, customer and suppliers.
3) SR is a multidimensional concept but SMEs must "select" the SR questions that need to be tackled by its organization. This selection must imply a strategic approach of SR in the SME that enhances the business value of their socially responsible behaviour (Ortiz and Kühne 2008). According to Porter and Kramer (2006), each company can identify the particular set of societal problems that it is best equipped to help resolve and from which it can gain the greatest benefit.
4) The SME environment is not an homogeneous reality (Longeneker et al. 1989), there are significant behavioural differences in SMEs due to the existent size heterogeneity and the variety of business strategic attributes. These factors condition heavily SR behaviour in SMEs. Regarding firm size, and according with the European Commission (2002a), SR involvement is positively related to the size of enterprises and ethical considerations are the main reason for SME involvement in external community activities for all enterprise sizes, but particularly the smaller the enterprise size is. Besides, larger SMEs are more aware of the business benefits deriving from their involvement in socially responsible activities in comparison.

Therefore, the SR construct for SMEs must be developed based on SME characteristics. It must be designed as a multidimensional framework made up of meaningful SR activities upon which the SME could apply a strategic approach in order to obtain business value along with the social benefits inherent in any SR activity.

Table 13.1 Critical issues in SME social responsibility

SR critical issues	Characteristics	Authors
SME: a community of people	Networks of close personal relationships	Brass et al. (1998), Burns (2001), Huse (1996), Jones (1991), Spence (1999), Spence (2004)
	SME culture and value standards	Chittenden et al. (1998), Haugh et al. (2004), Spence (1999)
	Strong links with the local community	Comisión Europea (2002), Curran et al. (1994), Informe Bolton (1971), Jenkins (2004), Rutherfoord et al. (1997)
	Networks of family relations	Jones (1991), Tagiuri y Davis (1996)
	Sharing of a culture and family values	Amat (1998), Berry (2005), Dyer (1986), Forsberg (2006), Graafland (2002), Gallo et al. (2004), Otteson (2002), Quinn (1997), Kets de Vries (2004), Sathe (1983)
	Family and business spheres mixture	Cabrera et al. (2001), Gallo et al.(1995)
Good governance	Need for independence and high concentration of power	Jenkins (2004), Scase et al. (1980), Spence (1999)
	Transparency and release of information about business	European Commission (2002a), EIM (2001), Jenkins (2004), Johnson (1990)
	Family and business spheres mixture	Cabrera et al. (2001), Gallo et al.(1995)
	Concern for reputation and good name	Aronoff and Ward (1995), Tagiuri and Davis (1996), Lyman (1991), Smith (2003)
	Need for continuity and long-term orientation	Amat (1998), Cadbury (2000), Donelly (1964), De Visser et al. (1995), Cadbury (2000), Sharma et al. (1997), Ward (1997)
Responsible relationships with value-chain agents	Less power among external agents	Bolton Report (1971), Jenkins (2004)
	Personal and informal relations with third parties	Johnson and Scholes (1997), Ram (1991), Jenkins (2004)
	Strong links with the local community	European Commission (2002b), Curran et al. (1994), Bolton Report (1971), Jenkins (2004), Rutherfoord et al. (1997)
	Shortage of resources	Vyakarnam et al. (1997)
	Networks of close personal relationships	Brass et al. (1998), Burns (2001), Huse (1996), Jones (1991), Spence (1999), Spence (2004)

Table 13.1 (continued)

SR critical issues	Characteristics	Authors
	Sharing of a culture and family values	Amat (1998), Berry (2005), Dyer (1986), Forsberg (2006), Graafland (2002), Gallo et al. (2004), Otteson (2002), Quinn (1997), Kets de Vries (2004), Sathe (1983)
	Concern for reputation and good name	Aronoff and Ward (1995), Tagiuri and Davis (1996), Lyman (1991), Smith (2003)
Business revitalisation: a need for survival	Need for independence and high concentration of power	Jenkins (2004), Scase et al. (1980), Spence (1999)
	Limited strategic vision and dependence on results	European Commission (2002), Hutchinson et al. (1994), Jenkins (2004), Keasey et al. (1993), Spence (1999)
	Need for continuity and long-term orientation	Amat (1998), Cadbury (2000), Donelly (1964), De Visser et al. (1995), Cadbury (2000), Sharma et al. (1997), Ward (1997)
	Concern for reputation and good name	Aronoff and Ward (1995), Tagiuri and Davis (1996), Lyman (1991), Smith (2003)
	Transparency and release of information about business	European Commission (2002a), EIM (2001), Jenkins (2004), Johnson (1990)

Source: Aragon et al. (2007)

SR Value Creation in Business

A relevant measurement of the impact of SR activities in SMEs is the value they create for the firm. Therefore, the effects of SR activities in business performance have to be measured. According to Burke and Logsdon (1996), as long as SR activities create demonstrable benefit for the firm, there is business value creation from the SR approach. McWilliams and Siegel (2001) criticized some methodological aspects of the studies that aim to measure the effects of SR; they consider that the empirical contrast should include variables that reflect, not only firm results, but also firm behaviour and environmental context.

Vogel (2005) conducts a review of the literature dealing with the relationship between SR and profitability. Like other authors, including Orlitzky et al. (2003) and Margolis and Walsh (2003), and due to the weaknesses in some of the methodologies applied, he concludes that the business case for SR still has little empirical basis. Nevertheless, he argues that the business case is strongest for firms that have made SR part of their strategy for attracting and retaining customers, employees and investors. Furthermore, McWilliams et al. (2006) considered that researchers need to use more direct methods, such as interviews and surveys, to improve the precision of measurement of private and social returns from SR.

The use of firm economic and financial results indicators reflects the general firm performance affected by lots of environmental and company factors, and not only by its socially responsible activities. Moreover, the need to identify the factors that underlie a superior business value of SR recommend measuring the SR outputs obtained by the firm.

According to the European Commission (2002a), only around a quarter of European SMEs effectively involved in external activities are unable to identify any business results deriving from these activities, whereas the remaining three-quarters do identify different business results. Interestingly enough, the smallest enterprises have more difficulties in perceiving these benefits. Different authors have identified the business advantages deriving from SR activities (Tencati 2004; Chahal and Sharma 2006). In the case of SMEs, improvements in trust and reputation; better market positioning; employee satisfaction and retention, and better relationships with other agents have been identified, among others, as the main results of SR behaviour (Miller and Besser 2000; Jenkins 2006).

SR Strategic Alignment

In terms of Slater and Olson (2000), business strategy is concerned with how businesses achieve competitive advantage. In 1980, Porter defined the generic strategy types: cost leadership and product differentiation. As Thornhill and White (2007) recall, other similar strategic typologies exist. Among them, Treacy and Wiersema (1995) develop a typology of operational excellence, product leadership and customer intimacy. Miles and Snow (1978) developed a comprehensive framework with the alternative approaches of product-market domains and structure and

processes of the organization (prospector, analyser, defender, reactor). Generally, the generic strategy typologies developed by strategy researchers have broad similarities (Campbell-Hunt 2000). All theorists include cost and efficiency, and there is less convergence in the other strategy, which is variously labelled product leadership/customer intimacy, exploration, prospector or differentiation/non price buyer value (Thornhill and White 2007).

Regarding SR behaviour, the European Commission states that SMEs do not obtain the same benefits as large firms from their social commitments. In order to encourage SR in SMEs, the EC considers that they need help in adopting a more strategic approach in their SR related actions. Almost half of European SMEs are involved in some kind of social responsible activities, but these social activities are in most cases unrelated to the business strategy (European Commission 2002a; Perrini 2006). Moreover, 81% of Spanish SMEs consider that SR external social activities are unrelated to their strategy, much higher percentage than the European one, 68%. Also, regarding firm size, European SMEs related to business strategy SR activities become more common as the firms get larger.

In order to prevent SR from being merely an aggregation of uncoordinated actions that are not always effective, neither for the most relevant business stakeholders nor for business competitiveness, the alignment between business strategy and SR actions is needed for SR value creation. Therefore, if we intend SR to be a valuable factor for businesses, it needs to be situated at the business strategy level. McWilliams and Siegel (2001) suggest that SR activities must be included in strategy formulation. Furthermore, Lantos (2001) identified along with "ethical SR" and "altruistic SR", a third strand of SR, "the strategic SR", defined as good work that is also good for business. According to Zadek (2005), strategic socially responsible practices is a stage necessary towards full implementation of SR. Integrating SR in the core activities of a business is a basic requirement for success (Jenkins 2004). According to Porter and Kramer (2006), businesses should use the same models that guide their business decisions in order to analyse SR.

This strategic approach of SR is still more necessary in the case of SMEs. According to Perrini and Minoja (2008), while many firms are assigning more and more importance to SR issues, few of them consciously integrate it into their business strategies. Taking into account the limited human and financial resources that hinder SR engagement in this kind of firm (Lepoutre and Heene 2006; Mandl et al. 2007), an SME is virtually incapable of taking SR actions that are not firmly rooted in its business activities, however socially laudable these actions may be. Therefore, in the case of SMEs, the alignment of the social activities with the business strategic vision is becoming a necessity. To take advantage of the opportunities presented by SR, it is important to develop a business strategy that aligns the company's business goals with a strong commitment to SR (Jenkins 2006; Toro 2006; Husted and Salazar 2006).

If the firm's social strategy is anchored in its particular business strategy, SR actions represent an opportunity to create value for society and for the business. Therefore, rather than regarding SR as a cost or hindrance, SMEs must discover their potential as a source of opportunities, innovation and competitive advantage.

From the SR viewpoint, every company should identify the issues that represent an opportunity to create value for society and for the business itself. Hillman and Keim (2001) empirically tested that there was a positive relation between firm performance (market value added) and SR "strategic" activities (stakeholder management) and a negative one between altruistic SR and firm performance. The wisdom of taking the fundamental strategic nature of SMEs as the starting point for defining socially responsible actions now becomes clearer and allows for efficient implementation of SR in this kind of firms and consequently, for the generation of a greater value for the business. According to Vogel (2005), the business case of SR is stronger for firms that made SR part of their strategy.

Besides, the European Commission's Communication on SR (2002a) shows that a positive correlation between the business strategic options of SMEs (firms geared to innovation, quality and growth) and their socially responsible activity, which evidences more involvement of those firms in present and future social commitments. The link among SME strategic options and SR behaviour is in many senses an unexplored question that could give us relevant hints about the development of a strategic approach to SR.

Hypotheses

Regarding these issues presented in the previous sections, first, we proposed the following four hypotheses, in order to analyse the SR behaviour and SR strategic alignment of SMEs according to two dimensions: the size of the firm and its strategic options.

*Hypothesis 1 – SR behaviour is related to firm size: "*In the SME, SR intensity grows as the SME gets larger".

*Hypothesis 2 – SR strategic alignment is related to firm size: "*In the SME, the alignment between SR and the business strategy grows as the SME gets larger".

Hypothesis 3 – SR behaviour is related to the strategic options of the firm.

*Subhypothesis 3.1: "*SMEs most geared to innovation develop more socially responsible behaviour".

*Subhypothesis 3.2: "*SMEs most geared to quality develop more socially responsible behaviour".

*Subhypothesis 3.3: "*SMEs most geared to growth develop more socially responsible behaviour".

Hypothesis 4 – The strategic alignment of the SR activities is related to the strategic options of the firm:

*Subhypothesis 4.1: "*SMEs most geared to innovation show greater SR strategic alignment".

*Subhypothesis 4.2: "*SMEs most geared to quality show greater SR strategic alignment".

Subhypothesis 4.3: "SMEs most geared to growth show greater SR strategic alignment".

And finally, we propose our main hypothesis, to contrast the relation between SR strategic alignment and SR business value:

Hypothesis 5 – SR strategic alignment is related to the business value obtained from SR activities: "In the SME, the SR business value grows as the SR strategic alignment becomes greater".

Therefore, via the first group of hypotheses (H1-H4) we aim to identify some of the factors (the firm size and the firm strategic options) that may be related to SR behaviour and SR strategic alignment, that is, the alignment between SR activities and the business strategy. And, via the final hypothesis (H5), we aim to contrast to what extent SR strategic alignment is a source of business value.

Among the five strategic dimensions of SR identified by Burke and Logsdon (1996), in this study, we are attempting to analyse two of them: "the centrality dimension" and "the specificity dimension". First, by means of the level of Strategic SR alignment, we are actually measuring what they defined to what extent "the centrality dimension" or the closeness with which social responsibility fits into the firm's strategy. According to these authors, centrality is a critical issue in most definitions of strategy, actions having high centrality are expected to receive priority and yield future benefits. And, secondly, by capturing the business value of SR activities, we attempt to estimate "the specificity dimension" or the ability to capture or internalise the benefits of an SR programme.

Methodology and Data

In order to contrast the previous hypotheses we have developed reliable and valid scales to measure the different SR elements that we need to capture: the SR activities that are actually developed; the level of alignment of SR activities with the business strategy and, finally, the business value of the SR approach.

The Development of an SR Scale for SMEs

The SR construct for SMEs must be developed based on SME characteristics, and it must be designed as a multidimensional framework made up of meaningful SR activities for SMEs around the critical SME stakeholders (Table 13.1). Based on this conceptual framework, existing instruments for measuring SR (Igalens and Gond 2005; Xertatu 2005; ESADE 2007) and following the recommendations to develop scales in the field of social sciences (Churchill 1979; Schwab 1980; Morales 1988; Rahman 2002), we developed a reliable and valid scale that measures SR in SMEs.

We initially identified six dimensions of the SR construct: Internal community of people, Good governance, Responsible relationships with value-chain agents, Business revitalization, Local community and Environment and for each one of these six dimensions, we defined a corresponding construct. Following the recommendations made by Churchill (1979), for each one of the constructs a battery of items has to be set out. In our case, we included 54 items in the initial scale due to the exploratory nature of the study and to the multidimensional nature of the SR construct. In order to verify the validity of content of these items, and to check that the formulated items are suitable for the dimensions that we wished to measure, the scale was put before five experts in the field so that they could judge this suitability. In some cases, and following the suggestions made by the experts, the writing of some items was improved. Once the set of items had been decided, the questionnaire was passed to a convenience sample of ten SMEs to carry out a pre-test. After this pre-test, the questionnaire was improved and passed on to a representative sample of the population via a self-administrated mailing with telephone reinforcement.

Once we had obtained the data from the sample and in order to refine our proposed scale and obtain a final reliable and valid scale, we followed the steps of the procedure suggested by Churchill (1979) for creating good tools to measure constructs in social sciences:

1. Identify the underlying dimensions with a principal components analysis (PCA), in order to reduce all the information to a limited number of factors. From this analysis we directly obtained a small number of new, non-observable variables that explained the maximum variance.
2. Evaluate the scale reliability. The reliability of the scale is the degree to which the measurement lacks random error and, therefore, gives congruent results. As a reliable measure, Cronbach's alpha, or level of internal consistency was used.
3. Build the final version of the scale: principal components analysis (PCA) in order to reduce all the information to a limited number of factors.
4. Validate the scale. The validity of content and the validity of construct (convergent validity and discriminate scale validity) were analysed.

After this refining process, we obtained a ten factor scale: Responsible ownership, Environment, Local community, Innovation, Internal community of people, Investments for competitiveness, Responsible relationships with value-chain agents, Cooperation networks, Equality and Good governance, with a total of 39 items. None of the six initial dimensions was left out of the scale, so all of them are crucial issues for SR activities in SMEs. In fact, four of them split into two new issues, helping to explain the critical issues of SR for SMEs more specifically.

The psychometric properties of this final scale were verified and we concluded that the reliability and validity of the final scale were more than acceptable. These ten factors explain 64.2% of the total variance and, due to the multidimensional character of the SR behaviour, the weight among them is very balanced since the first factors explain a very similar percentage of this variance (9.237, 9.083, 8.091,

7.813…). In Narvaiza et al. 2009, a complete description of the development of the SR Scale is shown.

After verifying that the 39-item SR scale for SMEs (see Annex 1) complied with the requirements of reliability and validity, we were able to put it forward as a validated multidimensional scale for measuring SR activities in SMEs seeking to act in a socially responsible way, which was our main objective.

The Measurement of SR Strategic Alignment

According to Venkatraman (1989a and 1989b), we have defined SR Strategic Alignment as the fit between SR activities and business strategy, and we have hypothesized that alignment is a key ingredient in the search for greater value from SR. Despite a sense that strategic alignment is the key to success, its conceptualisation and measurement is not fully dealt with. This is, in part, due to the unobservable nature of alignment and to the complexity of the measurement of SR and business strategy.

Business strategy was approached through the measurement of a set of strategic attributes on which the strategy of the company leans. Taking into account the typologies of competitive strategy described in Section 4, a relevant set of strategic attributes was identified: "Excellent human team", "Market share leader", "Best economic supply", "Product quality and excellence", "Leaders in innovation", "Excellent customer service" and "Socially responsible firm", and a scale to measure the impact of SR behaviour on the business strategy was developed. Following the previously described methodological approach for scale development, the acceptability of the psychometric properties of both scales was verified.

Based on this scale, we have measured the level of alignment between business strategy and SR activities by the means of three different indicators. In all of these three indicators, the greater the value, the greater the difference in means, and therefore, the lower the level of strategic alignment of SR.

In the first place, the simple level of alignment indicator (SUMDIF) measures the level of alignment between the importance of the strategic attributes in the business strategy (BSi) and the impact of the SR activities developed (SRi) in each strategic attribute.

$$\text{Simple Alignment Indicator (SUMDIF)} = \sum \text{abs(BSi-SRi)}$$

Nevertheless, alignment is not just about matching, but more specifically the right match, given the specific mix of attributes that comprises the business strategy. Therefore, secondly, the weighted level of alignment indicator (WSUMDIF) measures the level of alignment among business strategy (BSi) and SR activities (SRi) in all strategy attributes considered, although each difference is weighted by the importance of each attribute in the business strategy.

$$\text{Weighted Alignment Indicator(WSUMDIF)} = \sum \text{BSi}^{*}\text{abs(BSi-SRi)}$$

Finally, the idea is to align only in the really strategic elements of our strategy. Therefore, the third indicator, the priority level of alignment indicator (PSUMDIF); measures the level of alignment between business strategy and SR activities only in the attributes of the strategy considered important or very important by the firm.

$$\text{Priority Alignment Indicator (PSUMDIF)} = \sum \text{i} > 3 \text{ BSi} / \sum \text{BSi}^{*}\text{abs(BSi-SRi)}$$

The Measurement of SR Business Value

As noted above, we aimed to measure the business value created by an SR approach, i.e. the potential valuable effects SR activities have on business performance. Given the complexity of the issue and the limitations of studies relying purely on a selection of business performance variables, we decided to create a scale to measure the value generated by SR behaviour.

We have developed this Business Value Scale by considering a comprehensive set of SR specific results identified by a relevant selection of authors: improvement of image and reputation, survival in the market, access to public financial aids, improvement of market share, new business opportunities, attractive workplace, improvement of external relationships and cost saving or efficiency improvements (Miller and Besser, 2000; EC, 2003; Tencati et al. 2004; Jenkins, 2006; Xertatu, 2005).

We asked the managing directors of SMEs to evaluate these SR business benefits, along with his or her general perception of the business value generated by SR activities. Following the previously described methodological approach for scale development, the acceptability of the psychometric properties of the scale was verified.

However, on the understanding that subjectivism is unavoidable in perception-based measurements, we also used some relevant indicators of SME performance, obtained from company financial statements[1], in order to estimate the business value variable. These economic performance indicators were ROA (2005) and Sales margin (2005). We also used three different indicators of growth: Growth in assets; Growth in sales and Growth in ROA calculated over two different periods: 2000–05 and 2001–04.

The Database Obtained

The complete questionnaire was answered by a sample of 245 SMEs out of a population of 1317 SMEs, a representative sample with 5.76% margin of error. The Managing Director of the SME was asked to answer the survey. In Table 13.2 we show the summary of the study.

As we have shown before, in the light of the results obtained, the psychometric features of the scales were analysed to obtain satisfactory reliability and validity

Table 13.2 Summary of the study

Population	1317 SMEs (from 20 to 250 employees)
Domain	Guipúzcoa, Basque Country, Spain
Sample size	245
Sample error	+/–5,76%
Level of confidence	95%, k = 1,96, P=Q=50%
Sampling method	Simple random sampling
Field work	October 2007–January 2008

values of SR behaviour Scale; the SR Strategic Alignment Scale and the Business Value Scale.

Also, in order to contrast the impact of firm size, we have used the number of employees of the firm (EC 2003) and, as the European Commission (2002a) states, to evaluate the impact on SR behaviour of the firm's business strategic options (such as their orientation to innovation, quality and growth. . .) we have asked the managing director to value of a comprehensive set of items: "Leaders in innovation", "Product quality and excellence", "Orientation to growth", "Excellent human team", "Market share leader", "Best economic supply" and "Excellent customer service".

Main Results

***Hypothesis 1 – SR behaviour is related to firm size:* "In the SME, SR intensity grows as the SME gets larger".**

In order to evaluate SR behaviour, we have used the summated score of the SR scale obtained by each firm. This summated score could range from 39 to 234. As we can observe in Table 13.3, there is a significant difference between the SR activities developed by the smaller firms in the sample (from 20 to 49 employees) and those of the bigger firms in the sample (from 50 to 249 employees). Therefore, we can confirm the proposed hypothesis: SR intensity grows as the SME gets larger.

Table 13.3 Social responsible behaviour according to firm size

	20–49		50–249		Total		
	Nº of firms	Average	Nº of firms	Average	Nº of firms	Average	Sig.
SR Behaviour	171	145.81	72	157.59	243	149.1	0,002(**)

(**) Significant to a 5% margin of error.

***Hypothesis 2 – The strategic alignment of SR activities is related to firm size:* "In the SME, the alignment between SR and the business strategy grows as the SME gets larger".**

To contrast this hypothesis, we have measured the level of strategic alignment of SR activities using the three different alignment indicators already described. As we can observe in Table 13.4, the strategic alignment grows as the firm gets larger; however, no great difference has been detected and only in one out of the three alignment indicators, the priority alignment indicator, the difference between the two size categories is significant.

Table 13.4 Indicators of level of alignment according to firm size

	20–49		50–249		Total		
	Nº of firms	Average	Nº of firms	Average	Nº of firms	Average	Sig.
Simple alignment indicator	176	5.75	51	4.875	227	5.553	0.127
Weighted alignment indicator	184	25.36	55	21.483	239	24.468	0.19
Priority alignment indicator	184	1.139	55	0.776	239	1.135	0.038(**)

(**) Significant to a 5% margin of error.

As we have explained before, the priority alignment indicator is the one that captures the alignment of SR only in terms of the main strategic attributes of the firm. This finding implies that the larger firms focus their SR activities on their main strategic attributes, and so the SR strategic approach is more accurate.

Hypothesis 3 – SR behaviour is related to the strategic options of the firm

In this hypothesis, we aim to contrast whether the selection of certain strategic options conditions the intensity of SR activities. As we can observe in Table 13.5, significant differences in SR activities have been detected among growth oriented and non-growth oriented firms. Besides, firms that heavily rely on "excellence in the human resources" and, to a lesser extent, firms that consider themselves as "leaders in innovation", evidence a significantly higher level of social responsible awareness.

Therefore, we can confirm the subhypotheses 3.1 and 3.3: firms oriented to growth and firms oriented to innovation evidence better SR performance. This fact is also contrasted in the firms that consider "the excellence of the firm human resources" as a strategic option.

***Hypothesis 4 – The strategic alignment of SR activities is related to the strategic attributes of the firm:* "SMEs most geared to innovation, quality or growth show greater SR strategic alignment."**

In this hypothesis, we aim to determine whether the strategic options of the firm are related to the strategic alignment of SR activities and therefore, we have

Table 13.5 SR behaviour according to firm's strategic options

Strategic options		SR behaviour	
Variable	Categories	Mean	Sig.
Leaders in innovation	Low	3.59	0.069 (*)
	High	3.84	
Product quality and excellence	Low	3.78	0.345
	High	3.77	
Growth orientation	Non-growth	3.59	0.012 (**)
	Growth	3.94	
Excellent human team	Low	3.11	0.000 (**)
	High	3.92	
Market share leader	Low	3.63	0.187
	High	3.83	
Best economic supply	Low	3.78	0.433
	High	3.75	
EXCELLENT CUSTOMER SERVICE	Low	3.79	0.968
	High	3.78	

(**) Significant to a 5% margin of error; (*) Significant to a 10% margin of error.

measured the level of strategic alignment of SR activities and the three different alignment indicators already described.

In Table 13.6, among the strategic options, attention should be drawn to the fact that firms that heavily rely on the "excellence in the human resources" evidence

Table 13.6 SR strategic alignment according to firm's strategic options

Strategic options		Simple alignment indicator		Weighted alignment indicator		Priority alignment indicator	
Variable	Categories	Mean	Sig.	Mean	Sig.	Mean	Sig.
Leaders in innovation	Low	5.52	0.722	22.55	0.562	1.19	0.215
	High	5.61		25.45		0.96	
Product quality and excellence	Low	6.06	0.670	21.04	0.857	2.09	0.019
	High	5.53		24.62		1.01	(**)
Growth priority	Non-growth	5.81	0.333	25.74	0.364	1.30	0.003
	Growth	5.34		23.46		0.85	(**)
Excellent human team	Low	5.66	0.000	21.98	0.000	1.41	0.000
	High	5.38	(**)	24.02	(**)	0.94	(**)
Market share leader	Low	5.91	0.599	23.39	0.680	1.34	0.001
	High	5.39		24.77		0.88	(**)
Best economic supply	Low	5.61	0.812	23.25	0.510	1.08	0.191
	High	5.51		25.94		0.97	(**)
Excellent customer service	Low	6.16	0.751	24.48	0.550	1.28	0.000
	High	5.49		24.19		0.96	(**)

(**) Significant to a 5% margin of error.

greater SR strategic alignment in the three alignment indicators calculated, and the differences detected are significant. Those SMEs that highly rely on human resources evidence significantly greater SR alignment with the strategy.

Furthermore, we have found significant differences in one of the alignment indicators, the priority alignment indicator. As it has been explained before, the priority alignment indicator is the one that captures the alignment of SR only in terms of the most important strategic attributes of each firm. In this indicator, we can observe that the level of SR alignment is significantly higher if the firm is focused on the aforementioned strategic options: "oriented to growth", "excellent human team", "leaders of market share"; "leaders in product quality" and "leaders in service ".Therefore, subhypothesis 4.2, SMEs most geared to growth show greater SR strategic alignment and subhypothesis 4.3., SMEs most geared to quality show greater SR strategic alignment have been confirmed. In conclusion, this finding implies that firms with a high strategic relevance of certain business options such as excellent human resources, growth, market positioning and quality in product and services evidence significantly greater alignment of their SR activities with business strategy.

***Hypothesis 5 – SR strategic alignment is related to the business value obtained from SR activities:* "In the SME, the SR business value grows as the SR strategic alignment becomes greater".**

As we can see in Table 13.7, only 26% of SMEs state that they obtain high or very high business value from SR activities, specifically improvement of reputation (27%) and attractive workplace and improvement of external relationships (22%), and a third of SMEs consider that SR activities report nothing, very low or low value for the business itself.

Comparing these results with those reported by the Observatory of European SMEs, 2002, we can observe that 25% of Spanish SMEs consider that "Customer loyalty" is the main output deriving from its SR activities, followed by 12% that

Table 13.7 Benefits of SR activities

	None -very low-low (%)	Medium (%)	High- very high (%)	Total (%)	Average
Improvement of image and reputation	31	41	27	100	3,9
Survival in the market	49	34	17	100	3,4
Access to public financial aids	73	17	10	100	2,7
Improvement of market share	81	11	8	100	2,6
New business opportunities	71	21	8	100	2,8
Attractive workplace	39	40	22	100	3,7
Improvement of external relationships	46	33	22	100	3,5
Cost saving/efficiency improvements	59	26	15	100	3,2
Business value of SR activities	33	41	26	100	3,9

Table 13.8 Correlations among level of strategic alignment of SR and business value

	Pearson correlation		
	Simple alignment indicator	Weighted alignment indicator	Priority alignment indicator
Improvement of image and reputation	−0.292 (**)	−0.279 (**)	−0.317 (**)
Survival in the market	−0.243 (**)	−0.259 (**)	−0.271 (**)
Access to public financial aids	−0.236 (**)	−0.245 (**)	−0.272 (**)
Improvement of market share	−0.227 (**)	−0.204 (**)	−0.245 (**)
New business opportunities	−0.287 (**)	−0.260 (**)	−0.253 (**)
Attractive workplace	−0.238 (**)	−0.216 (**)	−0.303 (**)
Improvement of external relationships	−0.266 (**)	−0.278 (**)	−0.301 (**)
Cost saving/efficiency improvements	−0.266 (**)	−0.260 (**)	−0.263 (**)
Business value of SR activities	−0.187 (**)	−0.190 (**)	−0.317 (**)

(**) Significant to a 5% margin of error.

consider that economic performance and a remarkable 54% stating that they have no perceived results from their SR actions. In keeping with these results, Orlitzky et al. (2003) affirm that the social responsibility indicators that show the greatest correlation with economic results are corporate reputation indicators.

Regarding the correlation analysis, all the perceived benefits are significantly negatively[2] correlated with SR Strategic Alignment (Table 13.8). These results mean that the greater the SR Strategy correlation, the greater the perceived specific benefits obtained from the SR approach. Besides, and regarding the analysis of the general impact of alignment on the overall business value perception, we can observe that all indicators of the level of alignment among business strategy and SR activities are negatively[3] linked to Business Value.

Furthermore, we have estimated the Business Value item with other variables obtained from the financial statements of the firms such as: ROA (2005) and Sales Margin (2005) and three different indicators of growth: Growth in Assets; Growth in Sales; Growth in ROA; over two different periods(:) 2000–05 and 2001–04. However, no significant correlation has been found. In a similar vein to Aupperle (1990), firms which attempt to integrate social issues into their strategic planning are not necessarily more profitable.

Therefore, there is a significant relationship between the SR strategic alignment of SR activities and the generated business value of the SR approach, which means that the greater the SR strategic alignment, the greater the business value generated.

In the search for a more conclusive result, an ANOVA analysis has been carried out in order to check whether firms that obtain high SR business value show more level of alignment in their SR approach. As we can observe in Table 13.9, the firms with the highest SR business value also have significantly greater levels of SR strategic alignment.

Now the question is whether SR strategic alignment conditions the business value obtained by SR activities. The simple regression analysis conducted indicates that

Table 13.9 Differences in SR strategic alignment according to business value

	SR business value		
	Mean		
	High	Low	Sig.
Simple alignment indicator	5.2466	6.3404	0.038 (**)
Weighted alignment indicator	22.8039	29.1182	0.022 (**)
Priority alignment indicator	0.8808	1.488	0.000 (**)

(**) Significant to a 5% margin of error.

Table 13.10 Simple regression analysis between SR business value and SR strategic alignment

	Non-standardized coefficients		Standardized coefficients	T	Sig.
	B	Tip. Error	Beta	B	Error tip.
Regression (1)				25.065	.000
(constant)	4.217	.090		46.651	.000
PSUMDIF	−.287	.057	−.317	−5.006	.000

(1) R square = 0.096

Table 13.11 Multiple regression analysis of SR business value

	Non-standardized coefficients		Standardized coefficients	T	Sig.
	B	Tip. Error	Beta	B	Error tip.
Regression (1)					
(Constant)	.297	.631		.471	.638
PSUMDIF	−.130	.058	−.144	−2.238	.026
Number of employees	.141	.142	.063	.992	.322
Industry	−.201	.132	−.098	−1.528	.128
Environment	−.058	.058	−.070	−1.005	.316
Good governance	.108	.075	.097	1.443	.151
Local community	.253	.087	.247	2.916	.004
Innovation	−.046	.071	−.050	−.653	.515
Internal community of people	.217	.082	.184	2.655	.009
Investments for competitiveness	.047	.083	.043	.573	.567
Responsible relationships with value-chain agents	.191	.080	.166	2.380	.018
Cooperation networks	.075	.051	.107	1.489	.138
Equality	.068	.067	.067	1.014	.312
Responsible ownership	−.050	.056	−.060	−.894	.372
Growth orientation	.315	.132	.153	2.379	.018

(1) R square = 0.348

a significant linear relationship exists between SR Business value and SR Strategic Alignment. That is to say, that the SR strategic alignment explains in a significant form the SR Business value. As is appraised in Table 13.10, SR strategic alignment explains 9.6% of the variation presented by SR Business Value.

The inclusion in this regression model of another set of relevant variables would improve the explanatory power of this model. In Table 13.11, the results of a multiple regression analysis are shown and the set of independent variables included in the model (firm size; firm industry; the ten dimensions of the SR scale for SMEs and the firm's growth orientation) explain 34.8% of the variation presented by SR Business Value. The firm's growth orientation is one of the more influent variables in the SR business value.

Nevertheless, as we proposed in the fifth hypothesis, we can affirm that SR strategic alignment is related to the business value of an SR approach and we see that a lower level of alignment has a negative effect on SR business value.

Conclusions

Most of the concepts and methodologies related to SR have been developed for and within the context of large firms (Enderle 2004; Murillo and Lozano 2006; Roberts et al. 2006). SMEs evidence a number of intrinsic characteristics that are different from those of large firms (Longenecker et al. 1989; Vyakarnam 1997; Spence 1999; Spence and Lozano 2000; Spence et al. 2003) and affect motivation, the level of formalisation, contents, strategic nature and scope of the SR activities they pursue.

A relevant measurement of the impact of SR activities in SMEs is the value they create for the firm. However, taking into account the limited human and financial resources that hinder SR engagement in this kind of firms (Lepoutre and Heene 2006; Mandl et al. 2007), an SME is virtually incapable of taking SR actions that are not firmly rooted in its business activities, however socially laudable these actions may be. To take advantage of the opportunities presented by SR, it is important to develop a business strategy that aligns the company's business goals with a strong commitment to SR values and principles (Jenkins 2006).

Regarding these issues, first, we have analysed the SR behaviour and SR strategic alignment of SMEs according to two dimensions: the size of the SME and its strategic attributes. Additionally, we have contrasted the existence of a significant relationship between SR strategic alignment and the SR business value obtained, in the case of the SME. We note that among SMEs, the smaller firms significantly develop fewer SR activities and these activities are less aligned to their business strategy. Regarding the firm strategic attributes, we have detected that the firms more oriented to growth or to the excellence of their human resources obtain better results in terms of SR intensity and SR strategic alignment. Finally, we have found that the strategic alignment of SR is associated with the business value generated by SR activities, which means that the greater the SR strategic alignment, the greater the value that SR generates for the business.

From these results, we can conclude that there is a need to promote SR among SMEs, especially among the smaller firms, and this promotion is closely linked to the perception that SR benefits the business. Therefore, SR needs to be embedded in the firm's strategy and applied in the light of the interests of the stakeholders that directly affect the company's survival and its competitiveness as a business.

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Notes

1. The economic performance indicators were obtained from the UDESTE database. UDESTE is a database created and maintained by a the research team of the ESTE-Universidad de Deusto and Orkestra – The Institute of Kompetitiveness + Development IK+D and it includes a number of different sources such as: SABI, Amadeus, Civex (Basque Industrial Exporters Catalogue-Basque Government), Dirae (Directory of Businesses in the Basque Autonomous Community – IVE. Eustat) within the research project included within the Science, Technology and Innovation Network of Gipuzkoa, of the Department for Innovation and Knowledge Society of the Provincial Council of. Gipuzkoa, and financed by the European Union.
2. In all of our SR alignment indicators, the higher the value (the difference in means), the lower the level of alignment.
3. In all of our SR alignment indicators, the higher the value (the difference in means), the lower the level of alignment.

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Annexe 1 – SR Behaviour Scale for SMEs: Items' Description

Final dimension	Items	Item original dimension
Responsible ownership	53. Company decisions are subject to the owners' needs, circumstances and preferences	Good governance
	55. The proprietors frequently demand a distribution of dividends over the advisable level for the business, and usually transfer personal non-business expenses	Good governance
	50. There is resistance to allocating the financial resources needed to renovate business	Business revitalization
	58. The company has limited the careers of capable managers in order to guarantee the presence of owners or members of their families in key management positions	Good governance
	54. Company decisions are not always taken following market criteria	Good governance
	52. The owners of the company personally make and execute day-to-day decisions, besides managing the company	Good governance
	30. The company seeks to obtain maximum short-term yield in each commercial agreement, without evaluating the long-term consequences for the business relation	Responsible relationships with value-chain agents
Environment	8. The company allocates resources to environmental issues despite there being no economic sanctions	Environment
	11. The company allocates resources to projects to reduce atmospheric emissions and/or acoustic pollution, beyond the established legal minimums	Environment
	10. The company allocates resources to projects to reduce waste, to reuse and recycling, beyond the established legal minimums	Environment
	9. The company has ISO-14000 or equivalent environmental certification, or is in the certification process, to guarantee their environmental quality	Environment
	12. The company allocates resources to projects to optimize energy use: water, electricity, use of clean and renewable energies, etc, beyond the established legal minimums	Environment

Annexe 1 (continued)

Final dimension	Items	Item original dimension
Local community	37. The company knows the community it works in, evaluates the impact of its activities and participates in the solution of problems	Local community
	36. The company supports social and beneficial activities: it sponsors local sports teams, organizes activities (contests, prizes,. . .), directly or by giving support to workers involved in them	Local community Responsible relationships with value-chain agents
	35. The company works with local agents and institutions on e.g. educational campaigns and/or initiatives of public interest in the community	Responsible relationships with value-chain agents
	33. The company participates actively in networks or programmes for negotiations and joint transaction of materials or services	Responsible relationships with value-chain agents
	34. The company participates actively in networks or programmes for joint innovation in processes or products and/or to establish business interests in new markets	Business revitalization
	24. The company has an ethical commitment it publishes and communicates to its clients	
	45. The company has entered new social and environmental-related businesses	
Innovation	41. The company has begun to sell in new client segments	Business revitalization
	40. The company has begun to sell in new geographic markets	Business revitalization
	42. The company has marketed new or improved products or services	Business revitalization
	43. The company has developed innovations in key internal processes that improve competitiveness	Business revitalization
Internal community of people	16. The company invests to make the job a place of personal and professional development and has improved staff satisfaction and boasts rates of absenteeism lower than the average in the sector	Internal community of people Internal community of people
	15. The company seeks to give employees job stability and has obtained rates of rotation lower than the sector average	Internal community of people
	17. The company reviews wages and salaries in line with the degree of staff members' professional development	

Annexe 1 (continued)

Final dimension	Items	Item original dimension
Investments for competitiveness	49. The company has undertaken new investments needed to maintain or improve its competitive position	Business revitalization
	46. The company has made important investments to renew the business	Business revitalization
	47. The company gives priority to its continuity and long-term competitiveness, even though it means economic and personal sacrifices for the owner	Business revitalization
Responsible relationships with value-chain agents	26. The company gives priority to suppliers that fulfil the criteria of safety, environment and product quality	Responsible relationships with value-chain agents
	25. The company satisfies its clients by fulfilling their quality, safety and environmental requirements	Responsible relationships with value-chain agents
	27. Company relations with clients and suppliers are characterized mainly by mutual trust that enables them to be more informal and flexible when necessary	Responsible relationships with value-chain agents
Cooperation networks	31. The company belongs to business or sector associations	Responsible relationships with value-chain agents
	32. The company participates actively in networks or programmes to share information, knowledge, experience and to carry out communication actions	Responsible relationships with value-chain agents
Equality	13. When recruiting new staff members, the company avoids gender and age discrimination, relations of friendship, nepotism and other similar practices	Internal community of people
	14. The company applies equality criteria in pay policy and professional career development, eschewing favours to friends or relatives	Internal community of people
Good governance	60. The Board of Directors maintains contact with company management and asks for information frequently enough, and acts as a foil and support to company management	Good governance
	59. The company plans and communicates transfer of ownership of the business for when the owners retire	Good governance
	61. At least a third of the Board of Directors are independent advisors who participate actively	Good governance

Chapter 14
Business Ethics and Corporate Social Responsibility Practice in Small and Medium Sized Enterprises: Sampling from Thailand and Hong Kong

David Bevan and Robert Annop Wynne

Introduction

The overwhelming majority of business ethics writing focuses on the activities of highly-capitalised transnational firms (2005). Let us consider briefly the global fashion industry which occasionally comes to the attention of the public on some ethical concern. While it cannot be claimed that companies other than those which populate the major financial stock markets and indices are unheard of, they are very much in the minority. Smaller companies like Patagonia (www.patagonia.com) feature along with relatively larger clothing firms and major brands such as American Apparel (www.americanapparel.com), Levi (www.levi.com), and The Gap (www.gap.com). But even a relatively small firm like Patagonia still has a turnover of $240million and employs 1,200 people.[1]

It remains nonetheless the case, taking the United States of America as an example, that small to medium sized businesses or enterprises (SMEs) – classified as those which employ fewer than 100 people-represent 99.7% of employers.[2] Slightly more recently, in the UK the number of businesses employing less than 50 people accounted for 99.3% of all employers.[3] It would appear then that at least in two of the world's so-called democratic economies, it is agreed that SMEs represent some kind of token majority of the population. Here we leave others to debate what exactly may denote a SME, and whether the claims for any such figures are precisely accurate on a range of bases. Our concern is to confirm that potentially a substantial majority of business activity is excluded from consideration in the mainstream business ethics context.

In an appreciation of the Anglo-American capitalist system Lyotard (1984) points out that "(i)t is against the nature of force to be ruled by weakness". It would appear that this elegant summary of institutional theory applies also in the case of mainstream business ethics. That is, we are basing our view of orthodox and legitimate

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behaviours in business on the admittedly noisy activities of less than 0.5% of the total population.

All this might be less consequential if business ethics were only descriptive. If we read about systemic ecological (Bateson, 2000) disasters – the Western market crash of 2008; the 2009 earthquake in Haiti – and then as a result of these revelations something improved, that would no doubt be admirable. But – how long is it since the Enron, or Hurricane Katrina – it does not seem to happen like that for business ethics. One reason for this might be found in the institutionalisation of business practices, otherwise known as business-as-usual.

Following a progression discussed in the social constitution of knowledge (Akrich, 1992) and the convenience of semiotics (Akrich & Latour, 1992) we here note a similar tendency in the technical progress of business ethics. A *description* of the business ethics context as in Carroll, (1983), below develops and becomes *inscribed* in a model (Carroll, 1991). In a matter of some indeterminate time the model (irrespective of its accuracy or truth) becomes institutionalised and *prescriptive.* Leading business ethics texts (e.g. Crane & Matten, 2007) are strewn with models which may well have started as descriptive, but which for some reason or another – not least convenience (Bevan, 2008) – have become normative or even prescriptive. Thus in the face of a disaster caused (Stiglitz, 2010) by following the solitary and incompletely read (Jones, 2007; MacAleer, 2003) maxim of Milton Friedman,[4] we find in practice that the prevalent models of business ethics have normatively, if not prescriptively, continued to support such a business-as-usual stance since the beginning of the new Millennium, and longer.

An indicative example of such a model is the pyramid of corporate social responsibility (Carroll, 1991). Carroll establishes the position that "corporate social responsibility involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive" (1983; p. 603). His hierarchical, progressive model inscribes/describes the basis of all business as metaphorically built on the successful discharge of economic responsibilities; successively the discharge of legal responsibilities is built on this; at the next stage comes the discharge of ethical (extra-legal/extra-regulatory and discretionary) responsibilities and then reaching the peak, to offer a dystopian allusion to Maslow (1970), comes the successful discharge of philanthropic responsibilities.

It is not our purpose here to deconstruct again the pyramid when others (Visser, 2006) have discussed its shortcomings. Although we agree that such a model of business ethics represents a "classical American ordering" (Visser, 2006).

We prefer to base any dismissal of such business ethics models on two more scientific positions. Firstly, from the philosophy of science, the principle that all models are incomplete (Heisenberg, 2000) and so therefore categorically flawed. Secondly, from logic and algebra, the principle that such business ethics, (mis)informed by the behaviour of a powerful elite, is an insurmountable impossibility. Such a construction of business ethics will only tautologically reproduce itself, we shall suggest.

As clearly discussed in the work of John Roberts, business ethics is inherently narcissistic (2001) and conflated in practice with corporate social responsibility,

which is at best artificial (2003). Falling back on science, and taking the liberty of regressing from the prescriptive to the descriptive, we rely for our logical insight on the authority Michael Jensen:

> It is logically impossible to maximize in more than one dimension at the same time unless the dimensions are monotone transformations of one another. Thus, telling a manager to maximize current profits, market share, future growth in profits, and ***anything else one pleases*** will leave that manager with no way to make a reasoned decision. In effect, it leaves the manager with no objective.
>
> (Jensen, 2002, p. 237. Emphasis added)

From an exegetic reading of this text, a manager considering business ethics – business and 'anything else one pleases' (idem) – is left with no objective, in a realization of the American ordering of Carroll's model of corporate social responsibility. Alternately, Jensen appears to be in agreement with the language of Roberts (op. cit): seeing ethics in the embrace of business, a monotone transformation of that business. But to be clear, our issue with Carroll and models of business ethics, is not that they are not accurate models of business. Indeed Carroll accurately normalizes the albeit simple dimensions of advanced Western capitalism. Carroll anticipates Jensen's maxim. The pyramid model is a reduction of ethics to business.

We suggest that this provides a liberating and instructive interpretation of the global – Western-perspective dominated - business ethics context. These are not gloomy inferences. Rather, they may reveal why business ethics in the advanced Western economies has had such a hard time gaining traction – or performativity – at least so far. We appreciate how difficult it is shown to be to make money while maintaining an integrated respect for systemic ecology: how in such a condition managers may end up as suffering (Jackall, 2000), even schizophrenic (Deleuze & Guattari, 2004). Can some, potentially more representative, SME managers from Thailand and Hong Kong contribute insights in the context of such a setting?

Method(s)

We begin with no hypothesis and very little methodology. We cannot claim to be presenting case studies (Stake, 1995), narratives (Czarniawska, 1998a) or even a grounded theory (Glaser, 1998). Informed by readings of such approaches we start with methodological opportunism or bricolage. For Derrida this is itself a "discourse of method" (2001, p. 360) and on your behalf, we grasp that structural advantage here. Lévi-Strauss (1966) suggests bricolage as a methodological approach to the development of knowledge. He proposes it as a positive, descriptive potential theorisation of the construction of human knowledge across his dichotomisation of a world divided between science and nature. Otherwise, it is a description rather than any attempt at an explanation (Latour, 2005).

Limitations to such methods are naturally suggested by methodological fundamentalists (House, 2005) which would consider bricolage to be spurious and unscientific on the single qualifying feature that there is only one source of truth

which is the randomised experiment. Or our descriptions would be too partial, or worse subjective. In this context we repudiate the false certainties of management science (Ghoshal, 2005) or reliability (Czarniawska, 1998b), which, as we have indicated above, serve only to stabilise the basis of mainstream models of business ethics.

Research Sites and Interview Protocol

In line with the suggested conflation of business ethics (BE) and corporate social responsibility (CSR) above, we take it/them as such in practice: i.e. BE/CSR without further discussion for the purposes of this chapter. We employ the personal interview as the appropriate basis of explicating individual's experiences of the BE/CSR context (Liedtka, 1992). Revelation is the goal of this exploratory, qualitative research; thus, the research methodology and the collection of data are structured to allow for exploration of topics as they arose. Semi-structured interviews provide a means of identifying and describing the variety of thoughts, feelings, perceptions, and experiences that managers have about BE/CSR in Thailand and Hong Kong.

Some basic interview questions were developed to inform the context and assist in the development and framing of empirical questions (Creswell, 2003). Such questions also acted as a template for guiding an interview based on discussion and experience. The interviews were conducted not solely on the basis of questions made up in advance and were not overly predetermined (Marton, 1994). Marton recommends that questions are allowed to arise naturally from the context and the reactions of the subject. Such semi-structured interviews have two main objectives: to learn about the informant's perspective on the issue at hand and, at the same time, to see whether the informant can confirm insights and information the researcher already holds (Blumberg et al., 2005). Our insights in this instance have been aired in the introduction above.

Semi-structured interviews provide a structure to the interview process while encouraging interviewees to discuss their views and perspectives freely in their own words and allowing the interviewer to probe thoughts as needed (Bernard, 1998). We attempted to speak to, converse with the respondents as individuals rather than functionaries (Roberts, 1991), and in relaxed, natural language (Marton, 1994) in order to elicit more reflexive and revealing answers. Interviews were conducted in the English language and all respondents were fluent in conversational English.

Research sites or participants were selected by reference to convenience sampling – they were available to us "by virtue of accessibility" (Bryman & Bell, 2003, p. 105). Some of the participants were happy to be on record, others were not, we have therefore elected to harmonise the reporting by the terms of the Chatham House Rule throughout. On the basis of these interviews conducted in 2008-2009 and with some scholarly mediation, we will hope to produce a narrative based on the voices of those individuals we have had the pleasure of interviewing on this subject.

For the purposes of this chapter, we have chosen to collect data from small and medium sized businesses which employ less than 250 people in line with the definitions for accounting purposes in sections 382 and 465 of the UK Companies Act 2006.

In Thailand we had seven interviewee respondents of which five (N2, N3, N4, N6 and N7) were male and N1 and N5 female; all of Thai nationality and origin. The Thai sample was among medium sized enterprises among the financial services and hospitality industries. In Thailand we differentiated between respondents who had been educated at a tertiary level (e.g. >18 years of age) and/previously employed in a Western environment. Thailand interviews took place in Bangkok in August 2008.

In Hong Kong we also had seven interviewee respondents , all Western-educated at the >18 level. As to gender among the Hong Kong respondents, R1, R2, R3, R4 are male; R5, R6 and R7 female, all aged between 30 and 65, all permanent HK identity card holders (resident for longer that 7 years). The Hong Kong sample was among management consulting and hospitality industries. Hong Kong interviews took place in Hong Kong (Central District) between August 20 and 31, 2009.

Interviews or conversations lasted approximately 30 minutes in each case. Interviews were recorded, and notes were taken. Subsequently, the recordings were repeatedly sampled for the transcription of the coded fragments (Glaser, 2004) we choose to present. Given the disparity and asymmetry of such a convenience sample we shall make no claims to be generalisable. The purpose here is to reveal something of the context of BE/CSR in Thailand and Hong Kong.

We have presented our research geographically divided and, for reasons which become apparent, the mode of presentation reflects the complexity of the data. In Thailand the managers are far more deferential or respectful of the research process; in Hong Kong the voices are far more unified. While each is in its way harmonious, we have chosen to mediate the Thailand picture as a polyphony from which we need to elicit some common strands. In Hong Kong, as perhaps you will agree, this is less practicable as we find a sample of almost singular homogeneity.

In each case an opening line seeks to manage expectations: “I would like to interview you and record some of your experiences and insights of BE/CSR in Thailand/Hong Kong” was announced. “What do you understand by the term business ethics/corporate social responsibility (BE/CSR) in Thailand/Hong Kong?” was the indicative opening question. From that point on, the variations in the data gathered and presented necessarily reflect not only a range of respondent individuals but also the differing conversational styles of the authors. Here we have chosen not to artificially harmonise our presentations as though seen through the same lens. We suggest these two perspectives are polyphonic and complementary rather than individual and competing. We are not here to lobby for any one more than any other. In reading them they are asymmetrical. The sense they make to you as the reader is discursive and dialogical: we agree that it is this discourse, rather than our multiple subjects, which produces any revelation or knowledge (Foucault, 1980) .

Presentation of Findings

Thailand

In some instances, coinciding in these cases with non-exposure to Western education there were two examples of non-understanding of this opening question:

> *I'm not familiar with this term.*
> (N2, 2008)

> Yeah, what is that?
> (N3, 2008)

On the other hand, all of those Thai managers with exposure to Western culture and society, through education or employment in the West, recognized the term BE/CSR. Several of them also replied with lengthy, well articulated, or personalized definitions of BE/CSR, as the following two examples show:

> Last night before this interview I asked a couple of guys what they thought CSR was. The general responses were 'give back'. In one form or the other, give back to society. I think that's missing the point all together. Give back is a post activity. It's a post reaction. I think CSR is an on-going living entity. It must be for it to have any effect. It doesn't just mean that you throw money at a situation, give funds to philanthropy etc, etc. Even your own employees, building things or whatever. There has to be a greater in-depth awareness where you tell your people to learn how not to use too much of anything. To waste as little material as possible when you produce something. Think about minimalist packaging, air conditioning, lights, turn them off when you don't use them. These are more effective and important. Yes you do provide security to people. Make sure that you are not damaging the environment directly. But there are a lot of minute to minute things that you need to consider which are not just for people who see you doing something you perceive as good for your own personal recognition as such but the world at large. I preach this to my people and all of my children and friends' nephews etc etc. . . Everything you do, do with care to minimize the negative impact on earth and maximize the positive impact you have to the society that you live in. That's what I consider social responsibility. And we practice that as a corporate entity.
>
> (N4, 2008)

> Whatever you do, you have to have ethics. You are dealing with employees. You are dealing with creditors. You are dealing with customers. You have to have ethics. I think that this is the foundation for both corporate governance and CSR. It's a matter of how you deal with your stakeholders.
>
> (N5, 2008)

> BE/CSR are universal principles
> (N1, 2008)

These responses show that these Western-educated managers are not only comfortable with the terms but also have clear and personalized conceptualisations of BE/CSR which they are able to elaborate and expand upon. They then applied these expanded concepts of BE/CSR to their corporate and personal lives.

Non-verbal behaviour including body language was also different in the responses of managers who had or did not have personal exposure to the West. For example, the high level of awareness that N4 (2008) and N5 (2008) have of BE/CSR was not only evident from their verbal reactions as shown cited above but

was also visible in their unspoken reactions. There was a noticeable level of excitement among both these managers when asked if they had heard of the term BE/CSR and when they were invited to share their concept. They both smiled, leaned forward, and spoke readily as if they were eager to speak, suggesting that they were being asked about something they not only recognized but also had an interest in and had already formed opinions about. In contrast to this positive reaction, N3 (2008) and N2 (2008) reacted to the question with looks of puzzlement and a lack of recognition. Even when the term was explained and they could identify BE/CSR related activities within their company (as they all could), N3 (2008) and N2 (2008) appeared less interested in the discussion when compared to N4 (2008) and N5 (2008), suggesting that the concept and term BE/CSR is not yet relevant or fully meaningful to them. However, this is not to say that managers without Western experiences had a negative reaction to the term CSR. It can be suggested that there simply was not yet a developed sense of enthusiasm for the academic definitions and concepts of CSR.

In this research, the Thai managers educated and employed in the West viewed BE/CSR as an (sic) underlying business philosophy that permeated all aspects of their business, while the managers with Thai only experience recognized CSR solely as activities done in addition to conventional business activities.

The quotes from N4 (2008) and N5 (2008) cited above suggest that Thai managers who have been educated and employed in the West not only understand the term BE/CSR but are also able to expand on the academic term by developing their own personal definitions. These managers were very confident when speaking about BE/CSR and defining this notion as they were obviously familiar with various Western BE/CSR terminologies. These expanded personal definitions did not only apply to their specific area of business but were generalized and 'complete' definitions of BE/CSR that could be applied to any industry. Through their personalized definition of CSR, it is clear that the Western educated managers viewed BE/CSR more as a philosophy that underlies all elements of their organization and the way they choose to conduct their business. It is evident that these managers had taken time to apply and modify what they had learned academically and merge this with what they had experienced practically. They were able to split their concept of BE/CSR between practical activities and theoretical philosophies.

By contrast, after being given a basic explanation of BE/CSR, the Thai managers who had been educated and employed solely in Thailand proceeded to list the socially responsible activities that their organizations are engaged in:

> Yes. We are doing these activities. Ok. When we talk about social responsibility maybe we can relate to the activities that we are doing with the other organizations. . .. Encourage and support the hotel to create non smoking areas, to be friendly to the environment, prevent from using Styrofoam things, protecting the environment by not having the wild life and wild animals in the hotel. We encourage our guests to save water and energy in the sense that we make the signage saying please help us saving water. If you don't need to wash towels please hang it on the rack but if you need to have your towel washed please throw it in the bath. . .
>
> (N3, 2008)

> Yes. We make donations but mainly just money
>
> (N2, 2008)

These constructions tend to reduce BE/CSR from a business philosophy, that underlies an organization and guides its conduct, to a set of simple activities the organization is engaged in which happen to have a socially responsible element. The activities mentioned were also limited in scope, suggesting that these managers did not have a broad and generalized concept of BE/CSR, but rather that their concepts of BE/CSR activities were rather narrowly focused on particular areas.

One striking difference in level of awareness and definition of BE/CSR between managers who were educated and employed in the West and those who were not reinforces the finding of the literature review that BE/CSR is a concept that developed in the West and where it still studied and reported on primarily within the context of Western businesses. In this research, the managers who knew the Western academic definitions for BE/CSR were able to use this knowledge as a basis for developing their own descriptions of socially responsible business conduct. Those managers who did not have the exposure to and knowledge of an academic definition for BE/CSR were limited by this and were unable to give expanded and personalized explanation of the term CSR, even when the term was explained to them. However, the above quotes show that even managers without extensive Western experiences still were able to discuss basic socially responsible behaviour in business.

When asked if socially responsible behaviour in business is important, all seven Thai managers agreed that it was important as well as beneficial to both businesses and society. Note the following three examples – the first two are from managers educated and employed solely in Thailand and the last is from a manager with extensive exposure to Western culture and society.

> I can confirm that social responsibility is very important in Thailand. . .
> (N3, 2008)

> I think it is important to be responsible.
> (N2, 2008)

> Frankly, it doesn't matter if it is the wrong reason or the right reason so long as they are doing it.
> (N4, 2008)

> BE/CSR is central to Thai culture we just do not call it the same thing.
> (N1, 2008)

These seven Thai managers, despite their different educational and employment backgrounds, also agreed on a basic level that businesses who act responsibly towards social issues would benefit from these actions. It seemed almost unquestionable to them that businesses should act responsibly. This was also reflected in their body language and non-verbal behaviour. They each emphasized their belief in the importance of socially responsible business conduct in Thailand with direct and firm non-verbal signals, including steady and direct eye contact with the interviewer and unwavering posture.

All the Thai managers in this research, whether familiar with the term BE/CSR or not, viewed socially responsible behaviour in business as a growing trend in Thailand.

Regardless of their educational or employment background and their level of familiarity with BE/CSR related terminologies, all Thai respondents agreed that socially responsible behaviour in business is a growing trend in Thailand. This is illustrated by the following two quotes, the first from a manager who has been educated and employed solely in Thailand and the second from a manager who has had extensive exposure to Western culture and society:

> It's a trend in Asia. I can confirm that it is a trend.
>
> (N3, 2008)

> I think there has to be growing awareness of BE/CSR in Thailand in the future. . .. The society at large seems to want to learn.
>
> (N4, 2008)

Evidence of the growing trend toward BE/CSR in business in Thailand can also be found in the fact that the Stock Exchange of Thailand is promoting BE/CSR amongst its listed companies. Respondents in this research mentioned this and reflected upon the possible motivations for this sort of promotion:

> The stock exchange has recently established a BE/CSR Institution to promote and support BE/CSR activities for listed companies. . .. A new terminology for Thailand is corporate citizen. When you operate your business, you have to give back to the society. . .. Thai newspapers are beginning to have columns about BE/CSR.
>
> (N5, 2008)

> I think that there will be more growing awareness of this concept of BE/CSR in Thailand in the future. As far as I know the Stock Exchange of Thailand are promoting BE/CSR. They are probably promoting it with the interests of the stock market in mind. Investors are starting to look at these issues and taking them into consideration when they invest in companies.
>
> (N6, 2008)

The above quote from N6 (2008) suggests that there may be a growing tendency among investors to be more aware of BE/CSR and more demanding of business to have BE/CSR practices. Although the respondent failed to mention if these investors were Thai nationals or foreigners, the quotes above both suggest that there is increased awareness of BE/CSR in the broader public arena as well as in business circles.

Although all of the Thai managers in this research appear to appreciate the importance of socially responsible behaviour in business, their motivations for engaging in the practices of BE/CSR vary widely.

We found a great range and diversity in the motives Thai managers gave for engaging in the practices of CSR. The seven interviewees cited at least seven different reasons for instituting their practices of CSR, ranging from personal peace of mind and social good to corporate benefit. These varied responses did not correlate with managers' personal experience, or lack of experience, with Western education or employment. For example, one manager stressed the responsibility of business to contribute to solving problems of society and the environment.

> It comes back to the problems that we are facing. Corruption. Environmental Issues. Social Issues. I don't think that this is just the role of the government.
>
> (N5, 2008)

Another manager said he was motivated to undertake BE/CSR by personal concern and rewarded by the feeling of satisfaction he received through contributing positively to society, and ultimately peace of mind was his motivation.

> Perhaps the benefits of CSR cannot be quantified but more on the fact that when you do something good you feel happy about it. You have peace of mind and this is the greatest benefit of all. I do CSR because I want to do it. I am not forced to do it.
>
> (N6, 2008)

Other managers gave reasons for engaging in BE/CSR that reveal how contact with the West shapes and motivates their BE/CSR practice. This finding supports a study, which suggests that BE/CSR in Thailand is largely a function of the increased activity of Western businesses with Thailand (Chambers, Chapple, Moon, & Sullivan, 2005). However, the motivations suggested by these responses are also highly diverse and somewhat dependent on industry. For example, Western customer preferences motivate BE/CSR for the following hotel manager:

> Especially the guests from Europe appreciate it. They are more socially aware and concerned about the environment.
>
> (N3, 2008)

While several of the answers link BE/CSR to the success of a business in commercial terms, this does not necessarily mean corporate profits for shareholders only. For the manager of an agricultural enterprise quoted below, commercial success translates into social benefits, since greater corporate profits are passed along to primary providers in the form of increased income and improved livelihood:

> We let our clients know [about CSR]. This is for commercial reasons. We figure that if they know that we are doing the right things then they will be happy to buy from us. But that filters down to the people that we work with. We work with hundreds and hundreds of farmers. So, when the people overseas want to buy our products because we are socially responsible, our success filters down to the people that make the products for us.
>
> (N4, 2008)

For the following manager of a shipping company, BE/CSR is a requirement for entry into Western ports and markets, but not necessarily something the company would do in the absence of Western pressure:

> BE/CSR is one of our top priorities because in Europe, as well as in the US, they are very very strict. We have to comply with all of the requirements. Otherwise we could get into big trouble with the US coastguard. Even though in the Far East they are much more relaxed, we have to follow their standards. . .. [CSR] has become compulsory in the shipping market. Every shipping company has to have this so-called ISM. Commercial ships that sail around the world have to have this certificate. Part of the ISM is CSR. It requires for us to be environmentally friendly. For example, if you are sailing to the Baltic Sea, the bunker has to have a certain limit of lead. . .. We fly the green flag on our ships to let the inspectors know that we have met all the requirements. . .. If my ships only sail in Far Eastern waters and do not go over to European and US ports, I may not be able to convince my people to pay as much attention on BE/CSR as they are doing and have done.
>
> (N7, 2008)

Another manager mentioned corporate image and reputation management as a major motivation for engaging in BE/CSR practices:

> I think that managing reputation and corporate image is one of the biggest benefits of CSR.
> (N5, 2008)

Finally, in the following quote, this manager of a Thai manufacturing company saw BE/CSR in terms of the tax benefits it could bring to the company:

> I know that companies like to do these sorts of social activities because they can avoid paying the tax.
> (N2, 2008)

Western academic literature pointing out the "business case" perspective of BE/CSR often argues that commercial benefits, especially reputation management, are the major reason why many corporations engage in the practice of CSR (Deegan, 2007). The responses of the Thai managers in this research, however, did not confirm this finding entirely. Instead, the reasons given for BE/CSR were highly diverse and included a wide range of practical, financial, personal and social factors, as well as the management of company reputation. This suggests that Western academic literature does not necessarily take into account all the possible reasons for practicing BE/CSR in Thailand (as discussed further below).

BE/CSR practices in Thailand mentioned by interviewees in this research were primarily focused on community involvement and environmental issues. The results from these interviews with Thai managers suggest that BE/CSR practices in Thailand are most commonly expressed as either community involvement or care for the environment. The respondent cited below stated that environment and community are the focus of BE/CSR especially for energy companies, whom she saw as a business leader for BE/CSR in Thailand.

> I think that it is now expanding to environmental and social issues. It is starting from the big corporations especially in the energy sector, they have to be so-called 'Green' companies and they are not just dealing with pollution, they have to deal with the communities that are living in the compound of their location. Their plant location and their mine location. If you look at the list of companies that have very deep thinking about CSR. It is mostly energy companies.
> (N5, 2008)

The manager of a Thai shipping company, cited below, discussed the possible double benefits of BE/CSR through the giving of scholarships for merchant marine training. This form of BE/CSR combines community involvement with corporate benefit, by securing a trained labour force for the company in the future.

> We give out free scholarships. There is a merchant marine institute here in Thailand. There are many students who want to get in but they don't have the money. It is quite expensive, even though it belongs to the government. What we do is every year we give out free scholarships to needy people or people who don't have a strong background financially. The course is 3 years or 5 years. They don't have to pay us back the money, but we require that if they take the 3 year course they come and work for us for at least 3 years after graduation. If they take the 5 year course, then they have to work for us for at least 5 years. They will get a full salary just like everyone else in the company.
> (N7, 2008)

Other respondents gave environmental examples, such as planting trees, and community involvement, such as building schools for the community. The following respondent acknowledges the difference in scope between Thai and Western style CSR.

> (name of firm), a banking and finance company, just put up a picture in the newspaper the other day about how they have helped to grow forests for the past 20 years. There are many campaigns and projects like this one and make donations also. Many of the companies are helping the community like this in Thailand. . .. In Thailand BE/CSR is mainly donating money, caring about the community, and caring about the environment. This I know is not complete BE/CSR in Western terms. Thai companies are not used to the legal concept like companies in the US. Many Thai companies are still breaking the law but things are changing now. The Thai framework is different from the Western framework.
>
> (N6, 2008)

Many studies on Asian BE/CSR (Chambers et al., 2005; Ratchinda, 2006; Welford, 2005) support an idea that community engagement is the most common focus of BE/CSR in Thailand. The quote from N6 (2008) directly above shows his recognition, however, that caring about the community and environment is not 'complete' BE/CSR in Western terms and that compliance with the law is a large part of a corporation's social responsibility in Western society that has yet to be officially recognized in Thailand.

The national framework and the corruption that exists in Thailand make BE/CSR practices more difficult for Thai firms, managers seem to believe. Within Western society, there is generally an agreement that socially responsible corporations have to, at the very least, conduct their business activities within the boundaries of the law (Carroll, 1991). In this research, it is seen that the Thai managers interviewed feel that Thailand's national framework and acceptance of corruption act as barriers to achieving socially responsible business goals and practices of more 'complete' BE/CSR as defined in a Western context.

> There is not a national framework from the government here to support CSR.
>
> (N5, 2008)

> I think that corruption is one of the worst parts about Thailand. . .many people do wrong because of corruption. . .this is something that Thailand has not been able to overcome.
>
> (N6, 2008)

And in one case suggesting a stark cultural contrast between the two contexts:

> In the West there is much more bureaucracy. In Thailand there is corruption.
>
> (N4, 2008)

These quotes suggest that standing up to corruption is one potential area where Thai firms are least socially responsible. This, however, is something that is very likely out of the control of individual firms operating in Thailand. Breaking the law, paying bribes, and other actions of corruption, in order to succeed in the business environment, are strong and accepted practices in Thailand. This point complements the Welford (2005) survey and the Fukada (2006) report, which found that

BE/CSR practices regarding internal issues is least developed in Thailand, especially in the areas of employee rights and non-discrimination which in the West are usually covered by legal obligations.

The Thai managers in this research view Thai BE/CSR practices as derived from Thai culture and Buddhist practice of making merit. The Ten Perfections is a doctrine in Theravada Buddhism. It teaches the ten practices that Buddhists should follow to attain enlightenment. The practices of generosity and donation come first on the list of important practices, according to this doctrine. The Thai managers in this research all say they believe that corporate practices of community involvement or care for the environment in Thailand, specifically in the form of giving donations, is derived from Thai culture, especially from Buddhism which is not only the dominant religion in Thailand but also the national religion.

> The universal, developed financial market system approach does not fit with Asian values. The Rajadhamma – the ten principles are our expression of what you are heading in the direction of with your BE/CSR. Rajadhamma is rule by righteousness and not by power. Different to your way.
>
> (N1, 2008)

This supports the research revealing the extent that Buddhism influences Thai socially responsible business practices (Welford, 2006). Most of the managers interviewed in this research stated that Buddhists tend to prefer donations as a way of doing good in society. In this view, the modern business practice of BE/CSR is linked to age old traditions and values of Buddhism in Thailand, such as the collection of merit, rather than derived from Western ideas that were brought to Thailand. This is illustrated by the following three quotes:

> The consumer movement is not strong here so it does not drive CSR. . .. Unlike the West, I think that BE/CSR is very cultural in Thailand. BE/CSR is built into the culture, and giving is very much part of Thai culture. . .. Thai people especially like to help the community when it comes to temples. Thai people upcountry grow up with the temples. Temples are the place where you educate your children. . .. In our business we think about what we can do for the temples and any part of the communities. I know that a lot of management in many companies thinks about how they can get involved with these issues personally.
>
> (N6, 2008)

> I know a lot of other companies that make donations like we do.
>
> (N2, 2008)

> Thai people like to give money and make donations. We are also a Buddhist country and this is part of the culture. People donate money to build temples and build schools in temples. If you call this BE/CSR then BE/CSR has been around for a long time in Thailand. I think now we have to expand this scope and current thought of CSR.
>
> (N5, 2008)

These voices suggest that the practice of giving money to temples or building temple schools has been a long standing practice for Thai businesses and can be seen as one of the original forms of Thai CSR. This is very different from the West where BE/CSR tends to stay away from the religious sphere and is explained only in secular terms. Because the Buddhist religion is such a strong factor in the culture of Thailand, even businesses that do not necessarily have a religious affiliation still

use the practice of temple donations as a form of CSR. This speaks to the importance of BE/CSR being recognizable to the societies in which it is practiced so that businesses can receive the main benefit of reputation enhancement, as distinguished elsewhere (Pearce & Doh, 2005; Yager, 2005). This shows that for BE/CSR practices to have a positive affect on a company's reputation, the practices have to be recognized by members of that society, an idea that is very clearly presented in Western BE/CSR literature.

The quote from N5 (2008) above, in particular, acknowledges that the main type of BE/CSR practice in Thailand, monetary donation, is limited in its scope when compared to more Western academic definitions of BE/CSR practices. This is not to say that donations and other forms of giving in Thailand are not 'genuine' BE/CSR practices. However, it does indicate that this form of BE/CSR practice in Thailand has been moving only very slowly, for a long time now, towards the hegemonic Western academic definitions of BE/CSR and that current practices are not there yet.

This finding in particular may explain why academicians and theorists may fail to consider Thai BE/CSR practices as adequate. To the extent that the practices do not match the more 'complete' Western definition of BE/CSR and that the Western definitions do not include their cultural context, Thai BE/CSR practices are not well recognized in the current BE/CSR literature. Western views on CSR, according to Carroll's (1991) BE/CSR Pyramid model, for example, see philanthropic responsibilities such as donations to the community of peak but not primary importance.

Thus, if one is looking at BE/CSR from a Western perspective, most of the BE/CSR practices in Thailand will indeed confirm existing if rarely accessed research (Chitsomboon, 2006; Henderson, 2007; Kraisornsuthasinee & Swierczek, 2006) which asserts that BE/CSR in Thailand lags behind the West and is still at an initial stage. This is arguably a reason why BE/CSR efforts and practices in Thailand are still widely underreported within the global business community. In addition, the reporting of BE/CSR that is done on a global level is not designed to take into account the cultural and religious traditions which form the basis for the main BE/CSR practices in Thailand.

Hong Kong

In Hong Kong all the participants have been exposed to Western education and employment, they all recognise the opening question and respond individual(istica)ly if in a rather truncated manner.

> Well BE/CSR here is very much about the deal. Making the deal, getting things achieved is THE thing.
>
> (R1, 2009)

> BE/CSR? It's the bottom line man – that is it. The only ethic.
>
> (R3, 2009)

> CSR that is about good relations with the people who work for me.
>
> (R4, 2009)

> BE/CSR . . . it's about the freedom to choose and here there is a great choice.
> (R5, 2009)

Some are prepared to extend slightly and comparatively:

> Compared with what I think it's like in Europe or Australia, BE/CSR is underdeveloped here. BE I am not sure that I know what that means here: CSR is a very narrow interest here –I think we see it as about being good to our staff. Outside of that, so to speak, it's very much an environmental focus.
> (R6, 2009)

And from one of our female respondents and born in Hong Kong:

> CSR/BE yes of course there is a Hong Kong way – the business ethic here is about nourishment: everyone has to eat. We all have to have our bowl of rice.
> (R7, 2009)

Among the Hong Kong respondents we found an immediate and easy gregariousness and a willingness to talk openly. The subject of BE/CSR does not cause any one to balk or appear surprised. There is a confident ease about the statements (or opinions) offered. The observation and notation of body language thus goes unnoted save to say that R7 is somewhat stagey and, for some audiences, might appear politically intemperate. All the Hong Kong managers in this research reacted positively towards BE/CSR and seemed to confirm that socially responsible behaviour in business is important and beneficial to businesses, as well as society.

Having said we will not artificially balance our data, at this point the Hong Kong data takes us in to broad categories of interest: the profit motive; a potential predilection for environmental dimensions of BE/CSR; some volunteered cultural relativism; the governance vacuum; and reflections on change.

The most common strand in all Hong Kong respondents seems to reflect what some might characterise as crude rehearsal of Milton Friedman's maxim(s) referred to, but not quoted by present authors' choice, earlier:

> The business of business is business and more especially so in times of uncertainty or recession – such as now. While we are reassured this is now over, the business ethic motif remains unaltered. Business is about profit, the bottom line; survival.
> (R1, 2009)

> BE/CSR is about making money, being profitable of course.
> (R2, 2009)

> It is very Hong Kong to be focussed on making a buck. It's a money place.
> (R3, 2009)

One is more precise for the inextricable and particular concerns of any BE/CSR in the SME context as carefully compared by the respondent with what he imagines to be the 'big company' position:

> "Running a small business – this will be true also outside of Hong Kong – is about managing cash-flow. Or dealing with **cash not flowing** as has been the case since about June 2008, and getting no easier at the moment. I spend most of my day chasing money for work I have already delivered, and quite a lot of the rest of it juggling resources, so that the most important payments get paid. The most important ethic in my business is paying my staff at

> the end of the month – is that an ethic? It does not matter how I do it, but it has to be done. I have had this business for 11 years and it remains the single most important item. Large businesses do not have this problem – they just write the cheque.
>
> (R2, 2009)

A potential predilection for environmental dimensions of BE/CSR is noted in a number of cases. Does this suggest green-washing (Livesey, 2002) perhaps? The terms are not precise or professional, but a clear environmental nuance is made explicit in certain cases:

> Of course we have the language of CSR/BE – I suppose I identify it most clearly in particular in Hong Kong, as you see from the desperate state of the air (pointing through a window at the view of a pall of pollution hanging over Victoria Harbour) environmental responsibility is a particular concern.
>
> (R1, 2009)

> Are we ever green? Green harbour, clean harbour. No idling engines, gas driven taxis. Green building, clean building. Green events, clean events. We are green and mean and clean.
>
> (R7, 2009)

There are some volunteered cultural observations one of which appears to strike an antipathy with what seems to be characterised as a Western approach:

> In business you do not try to wring the last cent out of every deal – that is the American way. Here we honour each other, we allow our neighbour to have his bowl of rice. The US ethic is different – their buyers come over to us for quotes. They not only want the cheapest, the meanest, prices, they also want the worst delays in payment, but they then want me to share in their loss if they fail to sell what they ordered. I will not work with US – no business ethic there whatever.
>
> (R7, 2009)

Others are complacent in different directions:

> If I cannot find the price, item, labour, I want here then I will look further afield to Thailand, Nepal, Vietnam. That is the market I work in.
>
> (R4, 2009)

The governance vacuum – the idea that the government is a stakeholder, and sometimes not a particularly proactive one – features among certain Hong Kong respondents:

> We would probably like the government to do more to intervene, but they will not confront the big companies over anything: building regulations, recycling, energy.
>
> (R1, 2009)

One even gets close to indicating the dimensions that Friedman (2002) identified (idealistically perhaps) in an ideal market state:

> The taxes on individuals and businesses are low compared to Europe and America; and there is little government interference beyond regulations about filing returns promptly.
>
> (R4, 2009)

Strands of individualism are touchingly, widely-deployed with explicit notions of personal/individual responsibility:

> Well I am ethical about my wife and children – I work so that we have a reasonably good life, but an unreasonably good life would be most welcome. I work for myself because I think I give myself a better job than any one else would.
>
> (R2, 2009)

One of whom extends a lyrical, almost 'motherhood and apple-pie' interpretation including diverse allusions to *Mille Plateaux* (Deleuze et al., 2004):

> People, individuals have a personal ethical position but they are torn. I actually think small business operators and managers are torn about the subject of business ethics. There is a conflict for individuals here. As individuals we all see the environmental damage done by local and mainland businesses large and small. We all want our children to breathe clean air but when we get to work what happens to that aspiration? Nothing: we just carry on doing what we did yesterday. There is like a schizophrenia – schizoethica maybe . . . is there such a thing? – here. We are torn – as individuals we believe or know one thing. Managers have to deliver according to the market needs. But they have an individual ethic or standard, and a managerial one. The two are not the same, and quite often radically different.
>
> (R1, 2009)

Social activism – another neglected, or largely unpronounced, stakeholder constituency – is held in high value as something clearly related to personal responsibility by one or two Hong Kong respondents. The earlier observation from R6 on environmental priority seems to hold here:

> Most small businesses are involved in one or more of the commercial interest environment groups through a chamber of commerce or local special interest group. We try to get things like glass recycling going here but it has not really come to anything. We don't even recycle effectively as far as I can see.
>
> (R1, 2009)

> One of the first things I notice about here is the way people campaign for more or better regulation. There is a government or regulatory vacuum – the companies want to be cleaner, the consumers want to be cleaner.
>
> (R6, 2009)

Some with miscellaneous reflections on the likelihood of change:

> As individuals enjoying living in Hong Kong we wish things were cleaner and more sustainable, or greener. But there is like a madness that keeps us doing the same thing, and so things do not really change.
>
> (R1, 2009)

And a faintly cynical enjoyment of "things as they are" perhaps:

> Hong Kong is a deal town. And then when you have done the deal, go shopping or go away: shopping malls and transportation that's what we have here. It works brilliantly.
>
> (R2, 2009)

> This is a consumer focused society – a city of huge consumption. How many shopping centres are there here? They just keep building more. The only choice on offer at the moment is to buy more or not.

Reflection

So that is it. By far the most important contribution here is the witness of those we have interviewed. Our purpose has been to tell something of BE/CSR in, or from, the under-reported context of SMEs in Thailand and Hong Kong. Our opening contextualisation provides a frame or perspective from which to reflect on, or understand, the things people have said. Our method was an insight into the way in which we set out to compile this overlooked constituency, but there is no conclusion for us to draw in such a setting. The mediation of the texts is a way of narrating the interviews we had, rather than just dumping the transcripts in as raw texts and leaving you to work it all out. Nonetheless there are many possible comparisons within the mediation which we have left deliberately unmade.

All research is nonetheless normative in some way, and it would be disingenuous to foreclose on this point. These scripts may have just as easily been uttered by people working in very large, even global firms, but they are not. Of course they are still people and so while we did not set out to generalise, we can make the claim that scripts like this do not generally appear in the mainstream media from top 500 firms. Perhaps this data is insignificant even boring or mundane, and certainly we make no statistical claims for it one way or another. It is small talk in that sense that it is 14 conversations in ordinary language with people who have something to say. And it is illuminating small talk. Does it sound true? Like someone you know? Does it mean something to you? Or do you prefer to hear the reassuring blandishments of expensive propaganda from the mainstream?

Notes

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Part IV
Individual Research: Case Examples

Chapter 15
Fostering Corporate Social Responsibility in Small and Medium Size Enterprises. Recent Experiences in The Netherlands

Henk van Luijk and Lobke Vlaming

Recent Developments

Some recent developments have changed the range of attention paid to topics in the field of business ethics quite sensibly, as there are the turn from 'business ethics' to 'corporate social responsibility' (CSR), and the shift of focus on large corporations to small and medium size enterprises. The first development influenced the ways of approaching normative issues in business, the second proved to be an extension of the field, enlarging the agenda and multiplying the number of parties involved.

The transition from business ethics to CSR was partly semantic, partly operational in nature. Originally, business ethics as a discipline started 30 years ago in the classroom as the careful analysis of single moral cases in business. From there it gradually found its way to the executive suite as well as to the work floor of real world corporations. On the work floor interest grew in operational devices to tackle normative issues. It resulted in ethical codes of conduct, training sessions to improve moral competence, social audits, reports, and ethical and compliance officers to stimulate and manage the operations. Concomitantly in the executive suite, often under the semantically new heading of 'CSR', discussions were initiated on corporate policy and strategy, raising questions about 'how to do the right thing and stay in business', what exactly was deemed to be the right thing, and why we should care. The trajectory from analytical competence to social practice predominantly took place inside large corporations that saw themselves confronted with a growing variety of normative questions at home and abroad. Little by little, however, the horizon widened toward small and medium size enterprises also. Not immediately, and not automatically. Not immediately. In 1990, the Third Annual Conference of the European Business Ethics Network (EBEN) was dedicated to 'Market Morality

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and Company Size', but it took 10–15 more years before 'Ethics in SMEs' became a fully fledged subject on conference agendas. And not automatically either. Some 'inconvenient truths' were required to make social responsibility into a regular part of policy making in business, to generate the recognition that care for the Triple P of 'People, Planet and Profit' was a major responsibility not only for governments and politicians, but for citizens and business as well. Subsequently the insight arose that corporate responsibility can be expected not only from large and internationally operating corporations but with equal stringency from that part of the social fabric that in many countries represents more than half of the gross national product and over 80 percent of the workforce, the small and medium size enterprises. It proved one thing to raise the issue of an overall corporate responsibility, another to apply that responsibility to SMEs. How to go about it?

A country in which the theme of CSR in SMEs recently gained a foothold is the Netherlands. We list some facts and figures, and try to find out whether they lead to conclusions and prospects that possibly reach beyond the Dutch borders.

CSR/SMEs in the Netherlands: Facts and Figures, Means and Methods

In 1999, the State Secretary of Economic Affairs then in office in the Dutch government asked the Social Economic Council (SER) to prepare a report on CSR and on the role that national and local governments, business, and private civil organisations could be expected to play. SER is a national and independent advisory body of the government, composed of representatives of employers' associations, trade unions and independent experts. The report was published in 2000 (Sociaal-Economische Raad SER 2000), followed by an English version in 2001 (Sociaal-Economische Raad SER 2001). It was widely spread, and caused an acceleration of the debate on CSR in the Netherlands.

Two elements in the report deserve our special attention. First, the report implicitly proposed a definition of CSR by describing an enterprise as a *value-creating entity, supposed to be active in the three dimensions of People, Planet and Profit, in an open dialogue with all parties involved, and prepared to give a reasonable account of its operations to all those that legitimately can claim access to this information.* With some minor variations the definition has become standard in the Netherlands. And second, the report recommended the establishment of a knowledge and information center for CSR, financed by the government but largely independent in its operations. The government accepted the recommendations of the report, including the one concerning the establishment of the knowledge centre.

In 2004 the center *MVO Nederland (= Maatschappelijk Verantwoord Ondernemen Nederland, CSR the Netherlands),* opened its doors. Deliberations with various parties had made clear that the accent of the activities should be on SMEs, the argument being that with regard to CSR large companies can be supposed to take care of themselves, while SMEs, of comparable importance in number of people

involved and in social impact, lagged behind, at least in the public feeling, the sector being less familiar with the subject, less knowledgeable of what it possibly could imply, and often not prone to engage in what might turn out to be an uncertain adventure. There was pioneering work to do for the newly founded center.

Right from the start *MVO Nederland* aimed at being a multi-stakeholders project rather than a subsidiary of the government. By presenting itself as an independent intermediary organisation it strove at gaining trust from the part of business as well as from the government and from NGOs. Soon 100 organisations registered as partners of *MVO Nederland*, being a partner standing for being committed to integrate CSR into the core business of the own organisation, and being prepared to share one's experiences with other parties. Early in 2008 the number of partners had risen to 600, 50% of which coming from business. The overall goal of *MVO Nederland* is to stimulate and enable as many Dutch businesses and organisations as possible, and preferably those that are active in the area of SMEs, to make CSR into a natural part of their business strategy.

At the end of 2005 the centre had developed a stringent strategy, based on the idea that, in order to effectively reach SMEs, it would prove indispensable to co-operate with strategic partners that clearly represent or predominantly focus on SMEs, such as intermediary business institutions, trade organisations, chambers of commerce and local administrations, together constituting a large and immediate basis for contacting SMEs. The strategy gradually was labelled as 'an institutional approach'. The approach proved to have three advantages. First, by focussing on already existing intermediaries it becomes possible to contact large numbers of SMEs. Second, business institutions and branch organisations commonly possess relations of trust with SMEs, knowing the language and how to communicate with entrepreneurs within their area, and being continuously informed about their problems and needs. And third, by focussing on specific sectors, supply chains, or regions, it becomes possible to translate CSR to the specific context of a branch or industry. So in the construction sector the emphasis may be put on sustainable building, whereas in the textile sector it may lie on the prevention of child labour or the use of chemicals in the production of cottons.

Working along these lines *MVO Nederland* has been able to reach in a 2 years period more than 5,000 SME's, stimulating them to integrate CSR into their core business. Working together with twenty trade organisations the center reaches 40,000 entrepreneurs with specific CSR information. Visits to the center's web site (www.mvonederland.nl) are increasingly frequent, with 126,000 unique visitors in 2007, and so is participation in the annual event called 'Het Nieuwe Ondernemen' ('The New Entrepreneurship'), that aims at raising the issue of CSR in SMEs, and that in 2007 was held for the third time, attracting that year over 1,000 representatives of business, NGOs and governmental agencies.

Given the results hitherto and the positive feedback issued by many parties involved, the Dutch government has recently decided to continue its supporting subsidy and to raise it even for the next 5 years to € 1,500,000 yearly. *MVO Nederland* now intends to structurally contact 100,000 SME's in 2012 by working together with 75 intermediary organisations.

Four years of explorations and contacts since the start of the center have yielded a host of findings and observations. A warning is in place, however. The experiences collected should not be read as the results of a systematic research project based upon carefully developed hypotheses. The material represents facts and insights collected in shared activities and deliberations of staff members of *MVO Nederland* mutually and with representatives of SMEs. The results should be seen as the provisional outcome of an ongoing action research.

We collect some basic findings, followed up by comments and reflections.

Findings in Practice and Literature

First among the basic findings is the fact that *the* SME does not exist (D'Amboise and Muldowney 1988). SME is a generic noun for a collection of enterprises, varying in size, branch, products and services delivered, strategies (oriented toward price, quality, niche markets), position and vision of the manager/owner, legal and institutional embedding, and clients expectations. For an attempt to foster CSR in SMEs this finding implies that differentiation is required and must lead to strategic adaptations.

A next observation is related to the *motives* to pay attention to issues of CSR. The SER report distinguishes three kinds of motive: CSR because it pays, CSR because it is the right thing to do, and CSR because it is inevitable, given current social expectations. 'It pays' as a motive often implies an element of innovativeness, as it arises out of an alertness for new opportunities, but basically the motive is economic in nature, as it stands for the expectancy of new profits, at least in the long run. 'It is the right thing to do' is of a more personal and moral nature. Often it represents the personal conviction of the owner/manager that he or she, and his of her firm, should behave as a steward of this earth 'that has been entrusted to us to take care of as a pledge, not as a private property'. The third motive, 'CSR because it is inevitable', is probably the most pragmatic one. Here installing a CSR policy means that we cannot, unpunished, go on exploiting natural resources, poisoning the atmosphere, and neglecting basic needs of the unfortunate. Enterprises that do not move voluntarily in the direction of CSR sooner or later will be forced to do so, by legal prescriptions, by social expectations and institutional pressure, or by their own employees. Experience teaches that the 'it pays argument' rarely is absent whenever an enterprise commits itself to some form of CSR. The 'it is the right thing to do argument' proves to be the most solid and enduring one, most persistent also in overcoming obstacles. The 'inevitability argument' for its part stands for the mixture of pragmatism and social awareness that characterises modern varieties of citizenship.

The three motives do not exclude but rather strengthen each other. The 'right thing to do' argument more readily will be found where a leader shows the capability to make his or her personal convictions into an integral part of the firm's culture, a situation that more easily will be the case in manager-owned small and medium size firms. The 'it pays' motive on itself appears to be a strong incentive for CSR policy,

but equally often serves as supplementary to corporate decisions of 'the right thing to do' or the 'inevitability' type. Mixed motives and motivational fluidity are no exception in matters of morality, but few CSR policies will prove to be stable and sustainable when a feeling for the right thing to do is patently lacking. At the end of the day it seems to be moral sensitivity that guarantees the quality of the motives.

Fact-finding in the real world of SMEs is one source of insight, recent literature is another. After a long period of sparse supply, studies and research reports on CSR in SMEs are now growing in number and quality. We look at some recurrent themes, grouped under the headings: obstacles to CSR policy in SMEs, stimuli, and shifting perspectives.

Obstacles to the development of CSR in SMEs commonly are classified as lack of time, of knowledge, of money, and of negotiating power, lack of factors, that is, that are deemed indispensable to initiate a fully fledged CSR policy (Lepoutre/Valente 2007; Lepoutre/Heene 2006; Murillo/Lozano 2006). Obstacles are sometimes summarised as lack of 'discretionary slack', lack of mental space for innovation and social initiative, a form of bounded rationality due to the limited width of functional areas covered by the enterprise, to the restricted depth of formation of the staff members, and the paucity of opinions allowed to exist next to the convictions of the owner (Lepoutre/Heene 2006, 263).

Stimuli can consist in laws that create a level playing field and that reward CSR initiatives, and in good examples and best practices of others, especially of important clients, next to activist behaviour of consumers, and social awards and prizes (Spence and Rutherfoord 2001; Jenkins 2006). Important proves stimulation of basic capabilities that are supportive to a culture of CSR, as there are *network building* capability to create social capital, *collaborative* capability to exploit relationships, *institutional* capability to defy traditional norms and practices and to build alternative ones, and '*organicity*', organisational flexibility and adaptability (Lepoutre/Valente 2007). One might remark that these capabilities are needed in almost all processes of innovation, not only where CSR is at stake. True as that may be, it does not diminish their meaning in our specific case, as in matters of CSR in SMEs often innovative courage and inventiveness are needed, especially at the start.

With regard to *general perspectives* literature shows a certain twist. Twenty years ago ethical studies on SMEs put a clear accent on how to behave in a morally correct way with regard to work conditions and product reliability within the informal and closely-knitted system of the small shop or firm (Harvey, van Luijk and Corbetta 1991; van Luijk 1993). 'Ethics in the small enterprise' was modelled after the moral customs of a rural community, with the advantage of the close relations that typify life in the village, but with the disadvantages of the tacit 'submission agreement' that urges people to stay within the boundaries of the local way of life. Gradually, however, a shift became visible, not primarily affecting the *nature* of small and medium size enterprises but the *institutional configurations* within which they were supposed to operate. Today SMEs are facing the inevitability of a new type of entrepreneurship, marked by requirements concerning transparency, environmental consciousness and social responsibility as

part of its core business, requirements concerning CSR, that is. It may be true that a coherent theory on how to conceptualise CSR in SMEs and how to foster its development is still under construction (Lepoutre/Heene 2006) and that the standard handbook on CSR in SMEs yet has to be written. But prospects for a solid theoretical underpinning seem prosperous (Crane, Matten & Spence 2008; Crane & Matten 2007, 3 Vol.).

Relevant in this respect is a document of the European Expert Group on CSR and SME, entitled *Opportunity and Responsibility – How to help more small businesses to integrate social and environmental issues into what they do (2007).* The document stresses the importance of co-operation and partnerships on the local and regional level and among branches and sectors. It states that public authorities too have to assume an appropriate responsibility, and that more scientific research is needed. It ends by proposing as a guideline that, instead of an elite that develops a formal and complex CSR policy, preferably a very great number of enterprises should take small but valuable steps – a plea for what we may call 'the Gulliver principle' that says that many small hands can achieve as much or more than a few big ones. The suggestions sound sensible and stimulating, but more reflection is needed. In three respects notably.

Comments and Reflections

A first issue deserving further comment is the point we already raised of the different motives to engage in CSR. We registered 'it pays', 'it is the right thing to do', and 'it is inevitable' as factual drives. Fair enough as an observation, this does not explain, however, why people choose one of these motives, or a combination of two or three of them, as an action guide for their entrepreneurial behaviour, or, put more broadly, why many people inside and outside of the field of business most of the time feel a certain urge to behave in a moral way, and why some others do hardly or not at all. These questions primarily belong to the realm of individual moral psychology, but they also give rise to some new questions on the level of corporate policy and the shaping of corporate decency. Is CSR a matter of morality? Is morality predominantly a matter of individual motivation? What is the action space persons or corporations need to engage in fostering CSR, and how to motivate people to do so? By raising a moral appeal? By using a policy of carrot and stick? By providing elaborate information and telling examples? By facilitating contacts between people and organisations that have the same questions and that are eager to share experiences? By finding out where in a given constellation power is located, whose vocabularies are dominant, which institutional arrangements are extant, and how to use them strategically? In its attempts to foster CSR in SMEs *MVO Nederland* effectively makes use of all these approaches. Pragmatically this proves to be an effective policy, but it leaves open the normative question whether some motives or strategies deserve a higher moral standing than others. People often think they do. Choosing an action because it is the right thing to do earns a higher public esteem than becoming active because it pays. Rightly so?

Yes, but to a certain extent only. If 'morality' and 'acting morally' can aptly be defined as 'taking into account the rights and interests of all parties involved', then both acting because 'it pays' and because 'it is the right thing to do' belong to the realm of moral behaviour, as long as in both cases the rights and interests of all parties involved are properly respected – what, after all, is the minimum requirement for any action to be qualified as morally legitimate. Now every once in a while actions exceed this minimum level, being 'beyond the call of duty', as it is called in the ethical jargon, highly laudable but not morally obligatory. Although witnessing people perform such other-directed acts is a stimulating experience, such behaviour can seldom be constructed as a moral requirement. So it is after all not the dichotomy of either 'enlightened self-interest' or 'unselfish behaviour' that matters most in qualifying moral attitudes'. Something more profound is at stake in the simultaneity of divergent motives for action. At stake is a basic shift in perspective, from moral individualism, interested primarily in individual intentions and motives, to forms of social morality as a mixture of pragmatism and social awareness, the contemporary combination of moral consciousness, inner normative strength, feeling for current societal needs and expectations, and the insight that most valuable actions take place at the social level. At stake is that today we find ourselves involved in a process of *socialisation of morality*, the shaping of our responsibility for the substance and format, regularly to be re-invented, of 'the good society and its basic institutions'. People who think that, in this context, 'morality' is too high-flying a concept may use terms like 'civility' or 'social decency' that will do the job as well, as all terms express that, at the end of the day, to commit oneself to CSR is to accept civil responsibility. However, people who insistently think that to present CSR in SMEs as a moral duty amounts to a form of moral overdemanding, stretching too far what society can reasonably expect from single individuals or enterprises, are clearly right in so far as nobody is morally obliged to take single-handedly the burden of the world upon his or her shoulders. But the story of morality does not end with this statement. Ethicists introduce here the 'displacement principle' (De George 1990), which says that moral duty does not come to an end where a specific individual or a single firm patently lacks the power to stop what needs to be stopped, or to change what deserves to be changed for the better. Then a displacement of duties is due, to a level where co-operation can achieve what individuals or single firms cannot bring about. Single-handedly improving the world is not a moral duty, but contributing to an effective co-operation to make change possible definitely is.

The moral displacement principle is an important guide for SMEs that face a situation in which to leave things unchanged is unacceptable, and to proceed alone is a dead-end. The principle helps to lift CSR out of the realm of private preferences and convictions into a higher level in the social fabric. CSR in SMEs is a social project of co-operation. This brings us from basic moral motivations to basic institutions, a second theme that deserves reflection.

An important question for SMEs when engaging in CSR as a social project is: 'Who are my allies?' In the present context allies are all those who are seriously willing to contribute to CSR, all those individuals, groups and institutions that are in a position to actively support the CSR policy of an enterprise. They should not be

equated with ‘stakeholders’, another central category in business ethics. In ‘stakeholders’ the accent is on rights, interests, and legitimate claims, whereas ‘allies’ stands for facilitating and co-operative capabilities. Stakeholders are important because they have rights, allies because they represent power.

Characteristic for many SMEs, so we saw, are short and personal lines of communication with a multitude of parties, as members of the personnel, clients, suppliers, the local community, and, in a wider circle, professional colleagues, banks, and regional and national authorities. But are they all potential allies? Not necessarily. Members of the personnel can act as allies in CSR as long as there is an ongoing exchange and a basic consensus about CSR between the personnel and the manager/owner. Clients, suppliers, the local community, but also parties within the wider circle can act as allies only to the extent that they are sufficiently organised, and are triggered by issues of CSR. Being organised can take the form of local or regional chambers of commerce, industrial or professional associations and branches, communal or district councils, up to trade unions, political parties and governmental agencies. With all these parties fruitful exchange and co-operation are possible that greatly facilitate the emergence of a pattern of shared responsibilities.

In sum, CSR in SMEs rarely will be a solo performance. For a social project co-operation is indispensable. This especially obtains when co-operation is aimed at between, on the one hand, parties operating in the private sphere, and potential allies in the public sphere on the other hand, for example an intended CSR-co-operation between an enterprise or a private industrial association and a communal council, a regional chamber of commerce, or a governmental agency. Projects here require, next to serious negotiations about mutual intentions and objectives, an overall institutional analysis of the involved parties, the distribution of power, the dominant vocabularies in use, and the representative and treaty-making authority of the participants. These requirements are primarily situated on the strategic level. But finding allies includes also normative exigencies. Two specifically. The first one we encountered already speaking about the displacement principle where we found out that searching for effective allies in CSR is not only a strategic operation but a moral decision as well. The second normative requirement is to search not just for single allies, but also to develop an explicit and well-equilibrated pattern of responsibilities among the different parties. Indeterminacy regarding the pattern of everybody’s responsibility causes vagueness and fluidity in any moral project. Reaching an early consensus in this respect is a first moral achievement.

Firm motives and institutional configurations are also the two main pillars under the policy of *MVO Nederland*. They buttress a number of activities, as organising encounters of groups of front runners, presenting CSR to branches, chambers of commerce and communal councils, entertaining a web site and publishing a regular newsletter, next to contributing to effectuating the resolution recently proclaimed by the Dutch government to have reached within 5 years a situation in which all its procurements are made sustainable. Also activities to inform SMEs about risks and possibilities of setting up business in specific emerging markets belong to the spectrum of possible initiatives. The activities are highly divergent. They partly take profit from specific features of present-day Dutch society. Among

them are a lively culture of public debate, openness for corporate, environmental, and social responsibilities, a tradition of consensus-seeking that includes public and political as well as private parties, and a meticulously structured set of institutions that covers the main areas of public life and results in an exceptionally raked society (Spence, Jeurissen and Rutherfoord 2000). The question remains open, however, to what extent all this can be transplanted to areas beyond the Dutch borders. Here only future experiments and experiences can provide an answer.

An explicit reflection should be devoted to the issue of *institutions* and their importance in daily practice. Institution are commonly described as normative social rules, the rules of the game in a society, enforced through law or through other mechanisms of social control that shape human interaction' (Mantzavinos 2001, 83). Institutions are sustainable social structures, containing symbolic elements, social activities and material resources that provide consistency to social systems. They are composed, in varying dosage, of regulative, normative and cognitive elements (Scott 2001). *Regulative* aspects play a role in situations where utility, rules and sanctions are predominant. Behaviour is legitimate when it stays within the rules and laws of the system. *Normativ*e aspects come to the fore in systems in which mutual social obligations, binding expectations, and recognized appropriateness of behaviour are active, whereas *cognitive* aspects become manifest in shared frames of thought, tacit assumptions and schemes that provide meaning, insight and transparency. Important is also the *level* on which institutions are operative, as there are the level of the *world system*, covering what 'we all' deem evident and appropriate, the conviction, for instance, that welfare should not be distributed selectively, next to the level of the *specific society that we are part of* and its acceptance of human rights, or the level of the *organisational fields* in which we find ourselves, as there is the educational system, or the labour market system, the trade unions or the mass media, and ultimately the level of the *single organisation*, its culture and subsystems of staff, line, and leadership. Equally clarifying is the distinction between *formal* and *informal* institution, the former coming close to an organization that can be founded and directed, as the ILO and the WTO, popular with economists and political scientists, the latter more free floating, active on the terrain of soft power, as the local or national rise of semi-structured fundamentalist aspirations or environmental initiatives, institutional appearances that are popular with sociologists, and gradually also with ethicists.

Increasingly attention is paid to single institutions and their impact. So in a recent study on the many institutions that affect the behaviour of workers and employers in imperfect labor markets, as there are minimum wages, employment protection, unemployment benefits, active labour market policies, working time regulations, family policies, collective bargaining, early retirement programs, and educational and migration policies, an institutional complex in which formal and informal institutions all play a part, complementing, and sometimes seriously hampering each other (Boeri & van Ours 2008).

An intriguing issue rises in institutional theory when it comes to the question how institutions, meant to provide stability and structure to a social system, can become

subject to *change*. Is institutional change an endogenous process or triggered from the outside? By what causes? Is institutional change evolutionary or revolutionary, and what is the time frame within which it occurs? Why do some changes take centuries, as the origin of capitalism, why do others take decades, as the transition to a well-functioning stock exchange, and why can a new type of capitalist enterprise, say a hedge fund, be developed in a few years time (Greif 2006)? Are only instruments the subject of change, or also ends? Are institutional changes always path-dependent, can ideas change institutions, and if so, under what conditions? Are marked actors needed? Generally speaking, institutional change proves to be a process of constrained innovation (Campbell 2004), and yet institutional revolutions take place every once in a while. So what can we count upon?

For business ethics as a discipline, but also for CSR as the operational side of business ethics, the shift to institutional analysis opens new perspectives, directing our view toward the thick environment in which actors, also moral actors, are embedded, providing insight in institutional *fields* that consist of a set of institutions, practices, understandings and rules, next to a network of organizations, that together 'do not simply generate constraints on agency, but, instead, provide a platform for the unfolding of entrepreneurial activities' (Garud, Hardy & Maguire 2007, 961). Earlier we noticed a process of socialization of morality. What institutional analysis introduces in business ethics and CSR may be characterized as a *sociologization* of morality. Institutional analysis can prove to be a real enrichment of our understanding of the complexities at stake in the construction of moral positions. It will prove to imply an impoverishment, however, when we fail, on top of that, to form normative judgments on the moral quality and legitimacy of the factual institutional settings that we face. Made appropriately visible, structures and fields are not an excuse for staying outside the moral arena ('It is not my fault, it is the field that causes all this'). Insight in institutional fields can very well serve as platform for *critical* actorship.

In our findings and experiences with fostering CSR in SMEs there is one more issue that requires explicit comment. It follows from the sociological study of social *movements* that has developed 'a conception of fields as politically contested terrain' (Levy & Scully 2007), and from concomitant evolutions in the concepts of democracy and politics. What we face since some decades is a diffraction and pluralization of representative democracy (Rosanvallon 2006), together with a distrust in politics. Diffracted are the forms of representation of the political. Next to procedural representation via elections, other forms of representation have become prominent, as there are a functional representation on the basis of expertise, and a moral representation, claimed by social movements and NGOs. The evolution multiplies the agents of the political, and makes political legitimacy diffuse. Civil society in its multiplicity has developed into one of the possible faces of political society. 'We are moving bit by bit to more disseminated forms of civil democracy' (Rosanvallon 2006, 235), an 'indirect democracy', formed by 'a whole congeries of efforts – through informal social movements but institutions too – intended to compensate for the erosion of trust by institutionalizing distrust' (ib. 238). Indirect democracy is active in 'the exercise of mechanisms of oversight, the creation of independent institutions, and

the formation of powers of rejection (ib. 239). Of Hirschman's three 'responses to decline in firms, organizations and states', Exit, Voice, and Loyalty (Hirschman 1970), the 'loyalty' of the classical citizen who represents general interests of society is firmly seconded, if not superseded, by the 'exit' of individuals and groups building independent representations of their particular interests, and the 'voice' of distrusting experts.

Should, and could, this blend of 'democratic *effects* and unpolitical *activity*' (ib. 247) be challenged, or even turned out? To reject a 'growth of social power linked to forms of hollowing of the political' (ib. 249) is in itself a political decision, implying a re-politicization of indirect democracy, toward political activity conceived as 'the continuous action of society on itself and not simply as a series of episodic interventions, (. . .) [efforts] 'to make democratic progress connect with the deepening of the exigency for social justice' (ib. 249–251).

From a different angle Chantal Mouffe arrives at a similar conclusion (Mouffe 2005). She appears strongly opposed to what she sees at the current 'post-political vision' in which 'the political is played out in the '*moral register*' (2005, 5) instead of recognizing that 'agonism' is at the heart of the political, agonism understood as a we/they relationship in which each of the conflicting parties accepts the legitimacy of the position and convictions of the other. Within agonism parties see each other as opponents, but not as enemies. As Elias Canetti stated: 'The counting of the vote ends the battle' (Canetti 1960, 220). Or in Mouffe's weightier words: '. . .acknowledging the ineradicability of the conflictual dimension in social life, far from undermining the democratic project, is the necessary condition for grasping the challenge to which democratic politics is confronted' (ib. 4). Fair conflicts of power, not 'dialogue' and 'deliberation' are the parameters of the political order. Deliberation is for diplomats. Basis for a solid and effective solidarity among parties is the mutual acceptance of conflict, without denial of the legitimate existence of the opponent. It is at this point, in skepticism regarding dialogue and consensus, that Mouffe and Rosanvallon find each other. So where the latter remarks: 'What defines the nation is a community of redistribution, based on a "solidarity of citizenship". That solidarity differs greatly from a simple "solidarity of humanity" (. . .) that involves a comparatively minimal debt' (2006, 229), and helps them stay out of the heath of the political battle. Current literature on 'the political role of the corporation' and 'Marktwirtschaft als politische Gestaltungsaufgabe' (tr. 'Market-economics as an assignment to accept political responsibility') (Scherer & Palazzo 2008; Büscher 2008) seems to move in the same direction.

After 4 or 5 years of existence, *MVO Nederland* appears to be a stimulating and promising project at the operational level. Equally promising are the reflections and comments to which it gives rise. On the basis of what hitherto has been raised we register four clusters of upcoming insights.

1. Business ethics as a discipline and CSR as a set of initiatives to implement the Triple P in the core business of enterprises constantly need each other, the discipline standing for the identification and the normative underpinning of problems

and dilemmas in business, and the initiatives standing for making valuable social and moral ideas taking root in the fertile soil of daily practices.
2. Being active in the field of CSR is not purely a matter of voluntariness or individual preferences, but a social project, supported by different motives, all of them explicitly or implicitly of a moral nature, and by social expectations and a shared awareness of what it takes to contribute today to 'the good society'.
3. For both business ethics and CSR approaching their subject in an appropriate way, a well-founded institutional analysis is required of the environment in which social and moral problems arise, and of strategic as well as critical responses that are available or can be created. This counts for the area of SMEs as much as for large corporations.
4. In line with these insights, serious attention paid to moral implications of being in business, and being active in the field of CSR', is not simply a laudable behaviour 'beyond the call of duty'. It is part of the basic political responsibility of every single corporate citizen.

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Chapter 16
Small Business Social Responsibility in the Supply Chain: A Literature Review

Francesco Ciliberti, Pierpaolo Pontrandolfo, and Barbara Scozzi

Introduction

The aim of this chapter is to investigate how Small and Medium-sized Enterprises (SMEs) deal with Corporate Social Responsibility (CSR) along the supply chains they belong to. By means of a literature review on SMEs, CSR, and Supply Chain Management (SCM), we explored the following issues: (i) the role played by SMEs when dealing with CSR in the supply chain, both as buyers and suppliers, (ii) the practices implemented by such firms, (iii) drivers, (iv) risks, (v) barriers to small business social responsibility in the supply chain, and (vi) the means to overcome such barriers.

CSR can be defined as *"the voluntary integration, by companies, of social and environmental concerns in their commercial operations and in their relationships with interested parties"* (Commission of the European Communities 2001, p. 7). Based on that definition, we use the expression 'social responsibility' to refer to the social, environmental and economic attitudes, behaviours and practices adopted by firms.

In the rest of the chapter, we use the expression 'SME' interchangeably with 'small business', since references to small business usually incorporate firms with up to 250 employees (Spence 2007).

There is a growing number of studies that have recently investigated small business social responsibility in the supply chain (e.g. Jenkins 2004, 2006; Spence 2007; Perrini et al. 2007). Investigating such a topic is relevant for at least three reasons. First, SMEs account for 99% of all EU enterprises. They contribute up to 80% of employment in some sectors, such as textiles, construction, and furniture. Similarly, in the United States small businesses represent more than 99% of all employers (Spence 2007). Second, according to the European Commission, the concept of CSR *"was developed mainly by and for large multinational enterprises"* (Commission of

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the European Communities 2002, p. 11). CSR practices in large companies are significantly different from those implemented by SMEs, due to the peculiarities of such firms (e.g. Lepoutre and Heene 2006). For example, most SMEs are directly managed by owners, are strictly linked to business partners and to the local community, and lack resources and support to implement CSR. Third, several benefits can be achieved by a company that behaves in a socially responsible way, among them: the improvement of financial performance and the reduction of operating costs; the enhancement of the corporate image and reputation; and the increase of customer loyalty and sales (Blowfield and Murray 2008). Such benefits go beyond the boundaries of a single firm and involve wider communities. To be effective in terms of CSR, companies need all firms in their own supply chain to act in a socially responsible manner (e.g. Roberts 2003; Enderle 2004).

Despite the growing number of studies, to our knowledge there are no general frameworks or literature reviews on small business social responsibility in the supply chain. Our work thus tries to fill a gap in the literature.

The chapter is organized as follows. Section "Corporate Social Responsibility in Supply Chains" provides an introduction to CSR in supply chains. Section "Results" reports the results of the literature review on small business social responsibility in supply chains. Section "Conclusions" reports the main conclusions and Section "Research Agenda and Managerial Implications" draws up a research agenda.

Corporate Social Responsibility in Supply Chains

In this section an introduction to the theme of CSR in supply chains is reported. The first part deals with CSR in supply chains, whereas the second one focuses on small business social responsibility in supply chains. Despite the long history of CSR (Carroll 1999), studies on CSR (and sustainability) in the supply chain context have only emerged in the last years (e.g. Roberts 2003; Spence 2006; Seuring et al. 2008).

Sustainable SCM is defined as the management of supply chains that takes into account the three dimensions of sustainability, namely the economic, the environmental, and the social one (Seuring et al. 2008). The literature on CSR in supply chains mostly focuses on the practices adopted by large companies. Supply chain relationships are absolutely critical in a global world: to take advantage of low labour wages, companies (especially large and multinational ones) more and more frequently outsource business activities to developing countries (Wolters 2003). The companies that adopt sustainable SCM principles hold themselves accountable for the social and environmental impacts arising along the supply chains. However, when supply chain relationships involve developing countries, companies must take responsibility for the well-being of small upstream producers that work in those countries (Wolters 2003).

An increasing pressure by stakeholders, mainly consumers and non-governmental organizations (NGOs), is placed upon companies to engage in sustainable supply chain practices (Green et al. 1996), and specifically to

implement social – e.g. Social Accountability 8000[1] (SA 8000) – and/or environmental management systems (e.g. ISO 14001 or European Eco-Management and Audit Scheme) along the supply chains. Indeed an increasing number of organisations are including environmental and social criteria in their procurement processes, which has a positive influence on the CSR behaviour of suppliers (Roberts et al. 2006). By encouraging their suppliers to adhere to pre-defined requirements, such organizations also play a role in educating their supply chain partners (European Multi-Stakeholder Forum on CSR 2004). As to the social and/or environmental management systems, companies involved in the implementation often require the adoption of similar standards by their suppliers. Management systems can thus be used to transfer socially responsible behaviours along the supply chain (Maloni and Brown 2006), in particular to affect the practices of the business partners and to provide a baseline of social and environmental principles to be fulfilled (e.g. Emmelhainz and Adams 1999; Kolk and van Tulder 2002). The ability to implement such a strategy depends on the relative market power of individual companies, which typically reflects their size (Jenkins 2004).

Investigating how small businesses deal with CSR along the supply chain is gaining more and more relevance due to the following reasons. First, SMEs often form critical parts of the supply chains with larger organizations, especially when they are located in developing countries (Seuring et al. 2008). Relevant opportunities exist to influence the operating practices and technologies of SMEs so as to involve them in environmental and social initiatives (Côté et al. 2008). Taking advantage of such opportunities to diffuse sustainable practices can be very effectively achieved through sustainable SCM (Seuring et al. 2008; Walker and Preuss 2008).

Second, SMEs increasingly understand the need to extend CSR behaviours along the supply chain and encourage their supply chain partners, i.e. customers and suppliers, to do the same (Perrini et al. 2007). Together with the environment, employees, and the community, supply chain partners represent key stakeholders for SMEs (Jenkins 2006). Several scholars have already reported examples of companies that encouraged supply chain partners to improve their social or environmental performance (e.g. Azzone and Noci 1998; Green et al. 1998; Corbett and Kirsch 2001). Some SMEs even define CSR itself as *"about ensuring that ethical issues are considered in the supply chain"* (Roberts et al. 2006, p. 281).

Results

Some library databases (i.e. Ebsco, Caspur, Scopus) were adopted to perform the literature review. The paper search, that covered the period in between 1990 and 2008, was conducted by using the following groups of keywords: (i) 'supply' or 'supplier'; AND (ii) 'small business' or 'SME' or 'small firm'; AND (iii) 'CSR' or 'social responsibility' or 'environmental responsibility' or 'sustainability'. In particular we searched by using the combinations (i)+(iii) and (ii)+(iii). Results were further selected to identify studies dealing with the excluded group of keywords. By using, for example, the combination (ii)+(iii), we selected papers that dealt with

CSR in SMEs. Among them, we further selected those also dealing with supply or supplier relationships.

Based on the mentioned criteria we retrieved 34 papers, of which 15 give equally high relevance to each of three topics that represent the focus of this paper, namely SMEs, CSR, and supply chain. Such papers are reported in Table 16.1 wherein a description of the adopted research methodology, the focus, the goal, and the main findings of each paper are briefly reported.

The other papers devoted only a marginal attention to one of the three topics. For example, Kolk and van Tulder (2002) dealt with CSR in supply chains but focused on large companies so the topic of SMEs was only marginally discussed.

Table 16.2, which includes all the retrieved papers, shows details on four of the investigated issues, namely drivers, risks, barriers and means to overcome them. For each issue, the authors of the attendant papers and the main findings are also reported.

Most of the papers are published within journals such as the Journal of Cleaner Production (three papers) and the Journal of Business Ethics (three papers as well) because of the publication of some special issues on sustainability and supply chain management, and on responsibility and small business, respectively.

Small business social responsibility in general is the focus of 11 papers.

The role of SMEs as suppliers of larger companies rather than buyers from upstream suppliers is usually investigated. For example, an overview of CSR issues in supply chains made up of small suppliers and large customers is reported in Roberts (2003) and Spence (2006). Supply chains wherein SMEs do not act only as suppliers of large customers are analyzed by Ciliberti et al. (2008) and Côté et al. (2008). Please refer to Table 16.1 for more details.

Papers on small business social responsibility in the supply chain mostly use multiple case studies (three out of the four papers) as research methodology.

The results of the literature review, organized according to the issues described in the Introduction, are reported below. Sub-sections discuss only the most cited issue for each category.

Role and Practices

This sub-section describes the roles and practices adopted by SMEs along their supply chains, both as buyers and as suppliers. When SMEs act as suppliers, they often represent the most critical part of the supply chain. Consequently their involvement in CSR affects the social and environmental performance of their downstream supply chain partners. Their supply behaviour is thus driven by their customers, especially large businesses and public authorities, as we will show in sub-section ”Drivers”.

When SMEs act as buyers, results proposed in Perrini et al. (2007) and Ciliberti et al. (2008) show a surprisingly positive attitude among them in the management of CSR strategies along the supply chain. SMEs pursue a management strategy towards suppliers that combines both the compliance with requirements and the

Table 16.1 Literature review

Authors	Methodology	Focus	Goal	Main findings
Jørgensen and Knudsen (2006)	Survey	Small business social responsibility in the supply chain	Examining the role of SMEs with respect to sustainable supply chain management in global value chains.	Many buyer requirements in the value chain seem to be latent in that they are neither contractual nor subject to verification.
Ciliberti et al. (2008)	Case studies	Small business social responsibility in the supply chain	Analyzing the practices adopted and difficulties experienced by SMEs to transfer socially responsible behaviours to suppliers that operate in developing countries.	Although the companies experience shortage of capital and time to more effectively manage CSR issues along their supply chain, they encourage supply chain partners to become more socially responsible.
Côté et al. (2008)	Case studies	Small business social responsibility in the supply chain	Exploring the opportunities to improve the environmental performance of SMEs linked in supply chains.	SMEs have difficulties in allocating resources to initiatives that are not viewed as directly related to their core function.
Walker and Preuss (2008)	Case studies	Small business social responsibility in the supply chain	Examining the opportunities for fostering sustainable development through public sector sourcing from SMEs.	Sourcing from local small businesses can in itself make a contribution to sustainable development at a regional or local level.
Petts et al. (1999)	Survey	Small business social responsibility	Reporting some of the findings of the UK Economic and Social Research Council (ESRC) Global Environmental Change Programme project, which considered the attitudes of individuals in SMEs towards the environment.	SMEs are 'vulnerably compliant' due to a mismatch between climate and culture.
Hamann et al. (2005)	Case studies	Small business social responsibility	Discussing the concerns that were raised in South Africa in 2004, in response to plans by ISO to develop an international management standard for CSR.	Highlighting the risk that an ISO standard could act as market barrier and cost burden to SMEs in South Africa.
Jenkins (2006)	Case studies	Small business social responsibility	Understanding both the limitations on and opportunities for CSR in SMEs.	SMEs prefer to learn through networking and from their peers. This would require strong leadership or 'championing'.

Table 16.1 (continued)

Authors	Methodology	Focus	Goal	Main findings
Roberts et al. (2006)	Survey	Small business social responsibility	Describing the research carried out into SMEs and CSR in the Northwest of England during Phase I of Responsibility Northwest, a partnership programme designed to increase the CSR of the region.	Support services have to be joined up and require the involvement of policy makers, business support organisations and networks, and specialist CSR organisations.
Vives (2006)	Survey	Small business social responsibility	Investigating CSR in SMEs located in Latin America.	Major motivations are religion/ethics, the desire to have a motivated workforce, build relationships and increase profits. The main obstacles were lack of resources, lack of knowledge and the perception that there is no environmental impact.
Yu and Bell (2007)	Survey	Small business social responsibility	Providing insight into how Chinese SMEs perceive and practice sustainability.	There is an apparent contradiction in the current status of Chinese SMEs towards sustainability: a high level of concern and a low level of engagement.
Roberts (2003)	Case studies	CSR in the supply chain	Looking at the effectiveness of codes of conduct for managing supply network sustainability issues in three supply networks (branded clothes, do-it-yourself wood products and branded confectionary).	Four supply network characteristics affect the propensity to introduce a code of conduct: •Number of links between supply network members demanding a code of conduct and the stage of supply network under scrutiny; •Diffuseness of the stage of supply network under scrutiny; •Reputational vulnerability of different network members; •Power of different members of supply network.

Table 16.1 (continued)

Authors	Methodology	Focus	Goal	Main findings
Pesonen (2001)	Case study	CSR in the supply chain	Illustrating how network dynamics could be helpful in finding new solutions to holistic management of environmental impacts, i.e. life-cycle management.	Active co-operation with suppliers and subcontractors increases the main contractor's control and information about the whole value chain and reduces the risks associated with the environmental burdens of the products.
Walker et al. (2008)	Case studies	CSR in the supply chain	Exploring the factors that drive or hinder organisations to implement green supply chain management initiatives.	Internal barriers include costs and lack of legitimacy, whereas external barriers include regulation, poor supplier commitment and industry specific barriers. Organisations seem to be more influenced by external rather than internal drivers.
Noci and Verganti (1999)	Case studies	Environmental innovation in SMEs	Investigating whether green product innovation may occur and may have strategic implications not only in large firms but also in SMEs.	Some SMEs are highly committed to the development of environmental innovations.
Hall (2001)	Case study	Environmental innovation in SMEs	Proposing a model that describes why firms should invest in environmental supply chain innovation.	Large high-profile companies are under pressure from a wide range of stakeholders to improve their environmental performance. In contrast, small supplier firms are under less pressure but are highly influenced by the demands of their customers.

Table 16.2 Results of the literature review

Issue	Authors	Main findings
Drivers		
Supply chain pressure	Noci and Verganti (1999), Bowen (2000), Hall (2001), Jenkins (2004), Hamann et al. (2005), Jenkins (2006), Jørgensen and Knudsen (2006), Lepoutre and Heene (2006), Roberts et al. (2006), Vives (2006), Worthington et al. (2006), Spence (2006), Yu and Bell (2007), Ciliberti et al. (2008), Walker et al. (2008)	High pressure from large customers (e.g. food retailers, manufacturers of furniture, automobiles, and electronic devices), especially in tendering processes. Low or no pressure from end customers or other stakeholder groups on smaller suppliers.
Legislation	Jenkins (2006)	Low pressure from legislation.
Innovation	Nelson (2004)	Some small businesses could use their innovation potential to stimulate their customers to behave in a more sustainable direction.
Risks		
Exclusion from supply chains	Roberts et al. (2006), Walker and Preuss (2008), Ciliberti et al. (2008)	SMEs that do not implement CSR can be excluded by their large customers from supply chains.
Increased exposure	Jenkins (2004), Walker and Preuss (2008)	Risks can increase both for SMEs and for their supply chain partners. For SMEs pushed by large customers, there is the danger of over reliance on only one large customer.
Barriers		
Low power	Petts et al. (1999), Tilley (2000), Doh and Guay (2006), Lepoutre and Heene (2006), Ciliberti et al. (2008)	Due to a lack of power, small businesses are more dependent upon the CSR behaviour of their supply chain partners than larger firms.
Time, competences, and financial resources	Wycherley (1999), Hervani and Helms (2005), Côté et al. (2008), Ciliberti et al. (2008)	SMEs have limited time, financial resources and technical expertise.
Understanding of regulation	Roberts et al. (2006), Ciliberti et al. (2008), Walker et al. (2008)	Considerable efforts generally have to be undertaken to research the relevant legislation. SMEs often do not know enough about legislation in developing countries.

Table 16.2 (continued)

Issue	Authors	Main findings
Monitoring costs	Kolk and van Tulder (2002), Ciliberti et al. (2008)	Monitoring the whole subcontracting chain can be very complex and expensive, especially in the garment industry. Due to high costs, SMEs are often forced to rely on third-parties, e.g. NGOs or multinational companies, in order to monitor suppliers.
Lack of proactive perception	Ciliberti et al. (2008), Côté et al. (2008)	In some cases, SMEs must manage social and environmental issues (e.g. greenhouse gas emissions and solid waste) through proactive analysis and planning. Although the benefits that would be gained from the implementation of any of the individual actions are small, the cumulative benefits would be substantial.
Fragmented industry	Roberts (2003), Walker et al. (2008)	When industries comprise a myriad of small suppliers (e.g. the confectionary industry), it is difficult to engage such suppliers in the green or social agenda. This situation embodies the problem of communicating and collaborating with a high number of suppliers.
Communication gaps and lack of information	Hamann et al. (2005), Ciliberti et al. (2008)	Gaps especially in ICT implementation. Lack of information especially at suppliers' sites in developing countries.
Pressure to cut costs	Bhide and Stevenson (1990), European Multi-Stakeholder Forum on CSR (2004)	Heavy demands placed on SMEs at the end of long supply chains can translate into pressure to cut costs in such a way that CSR is jeopardised.
Lack of sustainable resources available in the market	Noci and Verganti (1999)	If there are no players in the market that supply sustainable resources, this might be a situation that a small business cannot change by itself.

Table 16.2 (continued)

Issue	Authors	Main findings
Low cooperation among supply chain partners	Noci and Verganti (1999)	Some socially responsible action would require the cooperation of all players in the supply chain (e.g. closing material loops through waste recycling).
Lack of trust between supply chain partners	Jenkins (2006)	According to many SMEs, customer companies implement CSR only in a formal way and are not really committed, i.e. they do a 'box-ticking exercise'. SMEs also think that customer companies should improve their CSR before asking SMEs to demonstrate theirs.
Cultural differences	Ciliberti et al. (2008)	Especially in developing countries. More critical when companies try to use a capacity building approach towards suppliers.
Language differences	Ciliberti et al. (2008)	In some developing countries it is very difficult to find people speaking any language different than the local one.
Corruption	Ciliberti et al. (2008)	Especially in developing countries.
Means to overcome barriers		
Partnership	de Bruijn and Hofman (2000), Pesonen (2001), Biondi et al. (2002), European Multi-Stakeholder Forum on CSR (2004), Morrissey and Pittaway (2004), Perrini (2006), Lepoutre and Heene (2006), Roberts et al. (2006), Granek and Hassanali (2006), Ciliberti et al. (2008), Walker and Preuss (2008), Walker et al. (2008)	Transferring relevant CSR practices and instruments to suppliers, especially in developing countries, is an area that calls for partnerships among SMEs, their suppliers and customers, the government, the society, and other relevant stakeholders.
Exchange of experience	European Multi-Stakeholder Forum on CSR (2004), Perrini (2006), Ciliberti et al. (2008)	The exchange of experience between suppliers and purchasers is essential for SMEs to increase transparency in supply chains, and awareness of social, human rights, and environmental impacts throughout the supply chain. When a permissive environmental regulation exists in developing countries, SME managers can promote visits

Table 16.2 (continued)

Issue	Authors	Main findings
		of suppliers to the SME plants or showing suppliers environmental best practices.
Championing	Jenkins (2006), Côté et al. (2008)	A 'champion' could guide social and environmental initiatives along the supply chain, express the importance of those initiatives within the SME, and align resources to ensure that the initiatives would be supported.
Strategies by regulatory authorities	Lagacé and Bourgault (2003), Côté et al. (2008)	Governments at all levels must find a way of sending the right regulatory and financial signals. SMEs can benefit from being part of government manufacturing improvement programmes in pursuing innovation.
Building supplier awareness	Ciliberti et al. (2008)	SMEs could invest more in building awareness of suppliers on critical social or environmental issues.
Developing an industry code	Roberts (2003)	Joint action by a given industry to develop a universal code, influence its suppliers, and organize joint monitoring is likely to be an effective way to overcome barriers due to a fragmented industry.
Forming cooperatives	Walker et al. (2008)	To overcome the problem of fragmented industries, some small suppliers are joining together to form cooperatives to supply larger organizations.
Adopting a different point of view	Ciliberti et al. (2008)	SME managers should adopt the point of view of the people living in host countries to overcome problems concerning skills transfer and cultural differences.

capacity building approaches (Ciliberti et al. 2008). The compliance with requirements approach sets standards for suppliers and tries to prevent non-compliance by a strict monitoring program. If non-compliance is detected, firms terminate the contract with the supplier or stop the business until the corrective changes are implemented (Martela 2005). On the other hand, the capacity building approach aims at building up the supplier's own capacity of handling CSR issues. The continuous improvement philosophy is part of this approach. A prerequisite is building long-term, close relationships with suppliers (Martela 2005). A strict policy is often used to deal with child or forced labour; whereas with other social or environmental issues, firms use a more open approach (Ciliberti et al. 2008). The strong SMEs' owner/managers' relationships with suppliers and customers seem to drive the integration of CSR strategies within the overall business strategy (Perrini et al. 2007). Yet, control and influence on suppliers have generally a limited effect and are restricted to first-tier suppliers (Ciliberti et al. 2008). Formal standards (such as SA 8000) can be used by SMEs to increase the influence. Nevertheless they are not able to address all problems related to supplier monitoring (Ciliberti et al. 2008).

Several CSR practices are adopted by SMEs when dealing with their supply chain partners (e.g. Jenkins 2006):

- defining an open-house policy for customers, suppliers and competitors;
- seeking to develop long-term partnerships with customers and suppliers;
- defining supplier learning schemes;
- measuring key performance indicators and giving feedback to staff, customers, and suppliers;
- supporting and encouraging suppliers to become more socially responsible;
- exerting direct pressure up and down the supply chain;
- acting as a best practice case study;
- giving external CSR-related presentations.

Jenkins (2006) also argues that SMEs, in the perspective of buyers, often find it easier to encourage environmental responsibility than social responsibility among their supply chain partners.

CSR practices sometimes focus on suppliers' employees so as to make the employees' loyalty and motivation increase (Ciliberti et al. 2008). The choice of a practice seems to depend on the vision of the owner/entrepreneur and the socio-economic context wherein the company operates (Ciliberti et al. 2008).

When SMEs act as suppliers, examples of supply chain initiatives that can stimulate the diffusion of CSR are the following (European Multi-Stakeholder Forum on CSR 2004):

- providing advice and training to small suppliers;
- showing a known willingness to use the sanction of switching suppliers on CSR grounds;
- identifying and sharing cost-savings and/or income generation from CSR with suppliers.

As discussed, SMEs implement different CSR practices. However differences by size or sector have not been pointed out so far (Jenkins 2006; Ciliberti et al. 2008).

Drivers

The most mentioned driver is the supply chain pressure. Large customers often dominate the supply chain and dictate conditions to smaller suppliers (e.g. Spence 2006). Conditions may range from seeking assurance that the SME is compliant with CSR standards (e.g. Hamann et al. 2005), to the fairness of the relationship with the supplier (when negotiating terms and conditions, timely payments, etc.), and the use of power in supplier relationships (Cox 2004). In particular, to maintain the relationship, large companies (those that already implemented formal approaches to CSR such as codes of ethics, SA 8000 or the UN Global Compact[2], or standards such as ISO 9001 or ISO 14001) often require their smaller suppliers to provide evidence of the actions undertaken to improve their environmental and/or social performance (e.g. Jenkins 2004). Large companies must take responsibility for their smaller suppliers' actions, as they are more visible (Bowen 2000). Non-organisational stakeholder groups can leverage on that by pressuring such companies to address social and environmental concerns, rather than going after myriads of smaller suppliers (Hall 2001). For SMEs in developing countries, the pressure deriving from supply chain partners (in particular customer companies) that operate in developed countries is the main driver to adopt a socially responsible behaviour (Hamann et al. 2005; Vives 2006). Yu and Bell (2007) stress that often the SMEs citing the supply chain pressure as one of the main drivers of their environmental or social improvements are generally those with a higher level of internationalisation, which are directly affected by the global market. That reflects a very low level of concern for ethical supply chain management in domestic businesses, even in the larger enterprises.

The low level of concern is also confirmed by a survey on Danish SMEs, which found that firms respond to customers on social and environmental requirements but much less frequently apply such requirements to their own suppliers (Jørgensen and Knudsen 2006).

SMEs are generally less visible than larger companies by end customers (Jenkins 2004). Because SME managers rarely have a brand image to protect, they are unlikely to be affected by adverse effects of poor reputation on brand image. Hence they do not take advantage of cause-related marketing strategies that may boost business performance (Jenkins 2004). Such findings are confirmed by Yu and Bell (2007), who found most of the analyzed Chinese SMEs not considering environmental records along the supply chain as an issue. Such SMEs explained that end customers had not pushed environmental pressures when choosing them as a company to trade with. An even worse situation was observed in the social context wherein few firms mentioned supplier pressure, global competition, and/or consumer force as drivers for corporate social improvements.

Risks

This sub-section describes the risks that SMEs and their supply chain partners can run as a consequence of the implementation of CSR along the supply chain. When SMEs are involved in supply chains, large companies may perceive an increase of risk. In turn SMEs may increase their own exposure to risk by becoming partners in a supply chain.

Exclusion from supply chains was the most mentioned risk by SMEs, and it potentially derives from an inadequate implementation of CSR actions. SMEs could perceive the social and environmental criteria defined by organizations in the procurement processes as excluding them from competition (Roberts et al. 2006).

Walker and Preuss (2008) examined the opportunities for fostering sustainable development through public sourcing from SMEs. They studied the purchasing processes of local government and health care authorities in the United Kingdom (UK). Sourcing from local suppliers can improve the local economic situation so having follow-on benefits in terms of well-being and health of the local population. That is particularly true for economically deprived areas wherein the public sector may be the largest economic actor. By sourcing from SMEs the public sector can also contribute to the environmental side of sustainable development, as small companies can also be innovative providers of greener products (e.g. organic food) or technology. However, public sourcing from SMEs can be risky. Smaller firms are seen by many procurement staff as presenting a greater risk than larger firms with an established track record. Also, recommendations that the public sector should aggregate its demand to achieve a greater cost effectiveness could turn into a threat to SME sourcing (Walker and Preuss 2008), so eliminating the environmental potential associated to SMEs.

Barriers

The most mentioned barrier to CSR in SMEs is their lack of power. Smaller size often results in lower negotiation power and leverage to modify environmental forces in the market, with their suppliers and in politics (Lepoutre and Heene 2006). As a consequence of the limited power to transfer CSR behaviours, some SMEs are able to monitor neither the environmental impact of suppliers nor the working conditions at suppliers' sites (Ciliberti et al. 2008).

Small businesses' limited political power is important when they want to contribute to public policy making. When it comes to resolving boundary spanning social problems, small businesses expect a considerable role from the government, giving indications on environmental standards or guidelines (e.g. Tilley 2000), rather than relying on voluntary self-regulation (e.g. Petts et al. 1999). Small businesses therefore often work through employers' organizations or branch organizations that have an institutionalized place in the policy decision-making process (e.g. Doh and Guay 2006).

Means to Overcome Barriers

The most mentioned means to overcome the previously mentioned barriers is establishing partnerships. In order to support partnerships, managerial approaches such as lateral thinking and openness are required (Walker et al. 2008). Partnerships among supply chain actors can give benefits for all the participants. For the main contractor, a partnership means better control over the supply chain. For suppliers, a reliable, long-term relationship offers better opportunities to allocate more efficiently scarce manufacturing and development resources (Pesonen 2001).

SME managers could rely on NGOs or local networks of supporting organizations to address problems in monitoring second-tier suppliers and retrieving information on working conditions and local laws in developing countries. Joining fair trade consortiums can also be useful to retrieve such information as well as to provide more information on CSR and on the means to transfer CSR behaviours to the supply chain (Ciliberti et al. 2008).

A partnership approach is also essential in public procurement processes from SMEs (Walker and Preuss 2008), whose governance now involves a greater range of actors. In addition to supplying more sustainable goods and services, local companies, social enterprises and NGOs can also contribute to sustainability by bringing crucial know-how and linkages to other organisations. Such a finding is coherent with the literature that states that SMEs may benefit from collaboration in regional clusters or networks (Biondi et al. 2002). Walker and Preuss (2008) extend this finding to cover a wider range of actors in the supply chain. Partnerships that involve government agencies, SMEs and other supply chain partners have achieved significant results, i.e. reductions in pollutants and waste generation, and implementation of pollution prevention practices (Granek and Hassanali 2006). In general, partnerships with government agencies can offer more credibility to SMEs (Granek and Hassanali 2006).

Partnerships also have some limitations. de Bruijn and Hofman (2000) found that most pollution prevention projects developed by means of a partnership among SMEs, municipalities, trade associations, consultancy agencies, and research institutes succeed in realising environmental improvements for the participating companies. However single initiatives (as it was for most of the examined companies) prevent SMEs by learning the art of pollution prevention. To be fruitful, partnerships should thus have to be repeated in the course of time. Moreover, in some cases when a partnership approach was taken, small firms have been sceptical about the benefits they would achieve (Morrissey and Pittaway 2004). In order to remove such scepticism, partnerships have to be built with organizations that are valued and trusted by SMEs (Roberts et al. 2006).

Conclusions

The goal of this chapter was to investigate how SMEs deal with CSR issues along the supply chains they belong to. The analysis was carried out by means of a literature review, which aimed at identifying: (i) the role played by SMEs, both as buyers and

suppliers, (ii) the practices implemented, (iii) drivers, (iv) risks, (v) barriers, and (vi) the means to overcome such barriers.

When considering CSR in the supply chain, SMEs can act both as suppliers of large businesses and as customers of both large and small businesses. When they act as suppliers, their involvement in CSR strongly affects the social and environmental performance of their downstream supply chain partners. When they act as buyers, they can be effective to extend the involvement in CSR further upstream the supply chain. However they experience relevant problems, e.g. their influence on suppliers' behaviour is not high and is generally restricted to first-tier suppliers; in addition, although they can use CSR standards to increase their influence, such standards are not able to address all problems related to supplier monitoring. Some CSR practices are identified in the literature, as implemented on one hand by SMEs towards their supply chain partners in order to spread the diffusion of CSR, and on the other hand by such partners in order to involve SMEs in their CSR initiatives.

The most mentioned driver for small business social responsibility in the supply chain is supply chain pressure. Such pressure is generally high from large business customers and low from end customers or other stakeholder groups, since SMEs are less visible than large companies by end customers and other stakeholders. Innovation could also be a potential driver, especially for implementing environmental practices. Legislation is not mentioned as a driver.

We also found that including SMEs in supply chains can increase risks for both SMEs themselves and their supply chain partners, especially large business customers. The most critical risk for SMEs is their exclusion from supply chains wherein large customers set CSR requirements that SMEs are not able to meet. Another risk for SMEs is over reliance on only one large customer.

The most mentioned barrier to CSR in the supply chain is SMEs' lack of power, both in negotiating and in policy making. As a consequence of the low negotiation power, SMEs are often not able to stimulate CSR behaviours in their suppliers. Numerous other barriers were also mentioned in the literature: time, competences, and financial resources; lack of proactive perception; lack of sustainable resources available in the market; low cooperation among supply chain partners; lack of trust between supply chain partners. Some barriers are particularly critical in certain industries, e.g. monitoring costs and the fragmentation of the industry. Others are especially relevant in developing countries, i.e. understanding of regulation; pressure from customers to cut costs; communication gaps and lack of information; cultural and language differences; and corruption.

To overcome the identified barriers, the most mentioned means is represented by partnerships among SMEs and: central or local government agencies and other companies belonging to the same supply chain, especially suppliers; NGOs or local networks of supporting organizations or fair trade consortiums, especially in developing countries; trade associations, universities, and consultancy agencies. However partnerships have some limitations and need to be carefully designed. As explained in Table 16.2, other means to overcome the barriers reported in the literature are: exchange of experience between suppliers and buyers; championing initiatives; strategies designed by regulatory authorities; building supplier

awareness; developing a code of conduct for a given industry; forming cooperatives; and adopting the point of view of suppliers, especially in developing countries.

Supply chain pressure could become an even more relevant driver in the future. As Yu and Bell (2007) revealed, Chinese SMEs under supply chain pressure generally presented a better environmental or social performance than others. For example, most SMEs having certified management systems in place were responding to foreign clients' requirements. Therefore, probably if SCM were adopted widely, supply chain pressure would become more effective in motivating SMEs towards sustainable practices.

Research Agenda and Managerial Implications

Some research questions and propositions would benefit from (further) research.

1. How do the peculiarities of SMEs affect CSR in the supply chains they belong to? In particular, the differences between the approaches adopted by SMEs and large companies in the transfer of social and environmental practices to suppliers should be investigated, so extending the findings proposed in Jenkins (2004) and Perrini et al. (2007).
2. What behaviour towards suppliers is adopted by SMEs? This is another stream of research that calls for more attention because of the opportunities associated to the mainstreaming of CSR by SMEs further upstream the supply chain.
3. How can the behaviour of public authorities stimulate the implementation of CSR by SMEs? Since the potential opportunities of public sourcing on CSR are relevant, further research in this field should be needed. There is also the risk that public sourcing can favour procurement from larger companies, if the aim is to reduce costs only. Additional papers that focus on all the implications of sourcing policies on the implementation of CSR in SMEs are thus needed.
4. Different kinds of partnerships can be built among SMEs and a large number of actors. What benefits could SMEs get from each of the potential partners? Although several studies highlight the benefits a small business could gain from a partnership with local companies or NGOs, no classification of the benefits based on the partners involved has been studied so far.
5. What is the potential associated to less frequently mentioned drivers, e.g. innovation, and means to overcome the barriers, e.g. championing? So far research has mostly dealt with supply chain pressure and partnerships, respectively as driver and means.
6. How can SMEs manage the risk they run when their supply chain partners (both as large businesses and public authorities) define CSR requirements for procurement? Few papers have analyzed also this issue, which seems to be critical for the performance of the whole supply chain.
7. In particular, what is the potential risk associated to supply chain pressure? Most of the papers that analyze the pressure exerted by large customers on small businesses do not consider the effect of such pressure, i.e. they assume

that pressure is always effective in increasing the CSR commitment of small businesses. However there is the risk that such pressure could be counterproductive and result in decreasing the involvement of smaller suppliers, e.g. when requirements defined by large customers are lower than the voluntary initiatives developed by small suppliers. Further research could thus focus on the effect of supply chain pressure on the CSR practices implemented by small businesses rather than only on the intensity of such pressure.

8. Finally, most papers adopt multiple case studies as research methodology. Exploratory findings from these studies could be integrated with the results of wider empirical researches, e.g. surveys, or more in-depth empirical research, e.g. action research. In addition, theoretical papers could help drawing an overall framework.

Our literature review also has some managerial implications, since it:

1. contributes to enhance the awareness of SME owners/managers about small business social responsibility in relationships with their supply chain partners;
2. can be used by SME owners/managers as a reference to understand what has been studied on small business social responsibility along the supply chain, in particular which strategies can be used, which practices can be implemented, which are the potential risks if they do not define proper policies, which are the most relevant obstacles to their commitment, and finally which means can be used to overcome such obstacles.

Notes

1. See http://www.sa-intl.org (accessed 31 October 2008).
2. See http://www.unglobalcompact.org (accessed 31 October 2008).

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Chapter 17
Ethics in Agricultural and Stockbreeding SMEs: An Argentinean Case Study

Norma T. Jáuregui de Pivetta

Introduction

The production at small and medium scale has become a paradigm for the current economy – complex and globalised – basically to combat unemployment, to provide a solution for capital shortage, to strengthen the capabilities of companies and to produce productive flexibility.

According to information provided by the *Comisión Económica para América Latina y el Caribe* (CEPAL, Economic Commission for Latin America and the Caribbean), the presence of small and medium sized enterprises (SMEs) in the economic structure of the region is relevant, because they represent an important percentage of variables such as production, employment and number of companies. Estimations indicate that SMEs are responsible for 25– 40% of employment generation in the region, as well as for 15– 25% of the total production of goods and services. The SMEs role at an export level is lower but meaningful, representing 1– 3% of the total exports of the region. In Argentina, for instance, SMEs generate 57% of employment and 41% of Gross Domestic Product (GDP), while in Chile they represent 37% of employment and 19% of GDP. The small and medium companies of Colombia generate 35% of employment and 30% of GDP, and in Mexico, 29% of employment and 20% of production.

> Latin America presents an evident macroeconomic improvement but, at the same time, it coexists with a great social gap, high rates of poverty, youth unemployment and maternal mortality. In this sense, the companies' commitment has grown, but it is still insufficient (Kliksberg, 2007).

Although the SMEs constitute more than 99% of the companies of the European Union, and more than 50% of its employees, the research efforts and experience in corporate social responsibility focused mainly on large companies, given their

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higher visibility and accessibility. However, the small and medium enterprises differ from large companies in some characteristics that affect the way of understanding and managing the CSR.[1]

Thus, for example, the influence of the owner's personal preferences is clear; their competitiveness is closely related to the conditions of the local communities where they operate; the financial and human capacity is lower; and the personal networking among the different agents involved in the business activities promotes the construction of trust and transparency relationships, which are harder to build in large corporations. In this chapter, we focus on a case study of an Argentine family farm business to illustrate some of these perspectives. After detailing the importance of family enterprises, we introduce the historical background of the region in question which is important in understanding the case study, then go on to detail the business history of a Piedmontese immigrants in Zenon Pereyra from 1870 to the present day.

Family Enterprises Characteristics

The focal point of any economy, whether it be local, regional, national or international, significantly depends on the business system's family enterprises.

The importance of these systems is almost an indisputable fact: estimations on the number of family businesses worldwide show that they represent 65–80% of businesses worldwide (Gersick et al., 1997). Other research at a country level indicates that in the United States 95% of companies, which produce 50% of the GNP and employ 42% of the active population, are considered family businesses (Gallo, 1995). In the same way, other estimations show that 80% of 15 million businesses are family enterprises producing 50% of GNP (de Vries, 1993; McCann et al. 1997). In the same direction, Fröhlich (1991), in research carried out for the STRATOS project, discovered that the average relative participation of family enterprises in Austria, Belgium, Western Germany, Finland, France, United Kingdom, the Netherlands and Switzerland reached 66%. Other studies in Spain, specifically those performed by Gallo and Garcia Pont (1989), estimated that family businesses represented 71% of the companies of the sample with a turnover of 61% and an employment of 62% of the sampled population. Merino de Lucas and Salas (1993) also developed research in Spain at a national level whose results showed a great influence on family businesses in most of all the Autonomous Communities, specifically in Murcia that presented the higher proportion of family businesses with 67.6% (Sabater Sanchez et al., 2003).

There is a large amount of studies showing that family enterprises present a set of unique characteristics in comparison to other kinds of organisations. Despite the previous existence of some studies on the subject, it was during the 80s that most of the literature and theory about this field of knowledge were developed.

Most of that literature affirms that the family organisations are those that own and/or manage the family business themselves (Barnes and Hershon, 1994). Although the family concept has changed and widened during recent years to

include, for example, monoparental and reconstructed families, among others, for the purpose of this study we can affirm that family members are those related by ties of blood in any degree.[2]

Another aspect to take into consideration is the term "enterprise" when we talk about families dedicated to any productive enterprise. Family enterprises do not necessarily have a specific legal form: limited liability companies, corporations, etc., and they may also be a *de facto* business association, which very often occurs. Recent studies also show that these companies adopt a legal form due to legal requirements: tax requirements, employment register requirements (when the company employs non-family members, or for a specific situation of its own members), therefore, the company situation differs from the situation of other kinds of enterprises.

However, these companies' most potent factor is, undoubtedly, the management: at least at the beginning, they are generally managed by the oldest family member (the father in most cases), whose authority is respected though it may not necessarily be shared. It gives the impression that this characteristic replaces the *afecto societatis* present in other kind of companies.

The literature shows that the participation of the family in the enterprise, with their values and characteristics, significantly defines the organizational culture.[3] It is important to emphasise this enterprise culture, or in a wider sense, this *"organisational culture",* because we are talking about enterprises whose origin is based on the work of European immigrants, who brought a different culture and a strong determination regarding their future. *"Hacer la America"* (to make a fortune, in America) was a common expression among the immigrants, whose objective was to save money and return to Europe. Since most Europeans planned to go back to their countries, especially at the beginning, they built real *"ghettos"* (nowadays several communities with a European spirit still exist), in which the original culture was preserved and weddings (an important integration factor) were celebrated only between members of the community.

Geographic Enclave

To analyze the emergence of agricultural and stockbreeding SMEs, it is necessary to go back to the immigration movements and to the places where the immigrants settled. This is particularly important in Argentina, a country where the political thought of its leaders was (at the end of XIX century) *"to govern is to populate"*. Santa Fe experienced a strong immigration movement, and perhaps it was more organized than in other places of the country.

The province has 132,500m^2, a greater area than countries such as the Netherlands and Belgium, similar to the Czech Republic, and less than half the area of Italy, a country which received a large amount of immigrants between the end of the XIX Century and the beginning of the XX. It also is one of the largest and richest provinces of Argentina with a population of 369,589 inhabitants (2001 census).

A great part of the Santa Fe territory is located in the "*pampa húmeda"* region (a wide region of prairies with moderate weather, very fertile, one of the more suitable lands for agriculture and stockbreeding[4]).

At the beginning of the colonial times, Santa Fe was a large and almost unknown territory. Between 1573 and 1810, Santa Fe was under the control of the Spanish regime, though it was a relatively light control due to the characteristics of the local population at that time, mostly composed by nomadic Indians. Until 1720, the main activity of the area was primitive stockbreeding; the economic activities began a slow diversification only after the commercial development of the Santa Fe port.

The Santa Fe Province, with its excellent conditions for sowing and harvesting cereals, witnessed an early development of its agriculture industry. This constituted an important economic driving force that strongly influenced other economic sectors of the region (Gomez, 2005). The Santa Fe industry is the third in importance in Argentina by both the quantity of industrial facilities and the value of the production. Oils, dairy products and livestock, represent a third of the province's industrial gross product, the mining of basic metals and the manufacturing of agricultural machinery and equipment and auto parts (50% of the country). Finally, the province produces substantial amounts of chemical substances and products derived from oil and coal.

After 1810, and perhaps more precisely after 1816 – the year of the Argentinean independence – the country suffered a series of internal fights until the consolidation of national unity in 1854. The Nation found a direction and consequently there were changes in all fields: social, political, the rural-urban relationship and, essentially, in the role the small and medium agricultural producers, who were to constitute the driving force of a brand new Argentina.

An important part of the internal fights took place in Santa Fe, so the control over the Indians, decreased significantly. The stockbreeding was specially affected by the Indians attacks to farms and fields of the province.[5] As a consequence of this situation, an important part of the population had guns for self-defence. Ezequiel Gallo says that starting in 1810, Francisco de Candioti and other stockbreeders from Santa Fe, such as Andino and Larramendi, lost almost all of their livestock due to the indigenous Indian attacks both North and South of the province.

It is necessary to point out the precariousness of the territorial registers and listing of properties, which contributed to worsening the confusion around the boundaries of fields and ownership by the middle of XIX Century. In the decade of 1870, an important part of land suitable for cereal cultivation was incorporated into the Santa Fe economy, thanks to the effort of the provincial government to create the necessary conditions for the development of the agricultural activities.

Ezequiel Gallo says that between 1870 and 1895, the main characteristic of the Santa Fe frontier is the astonishing speed of change of landowners along with a fast subdivision of large properties mainly as a consequence of the agricultural colonies. For example, in the province's central-west border (the current San Cristobal, Castellanos, Las Colonias, Iriondo and Belgrano Counties) out of the 47 owners registered in the 1872 cadastre, there only remained in possession of the land 24 owners and 13 in 1888.

The 80's decade was particularly favourable for agricultural development. First the Santa Fe province, and then Entre Rios and Cordoba, cultivated wheat and corn and used modern machinery in their exploitations. The immigrants, mostly from southern Europe, were the ones who worked in the agricultural activities. Diego de Alvear, who supported the General Roca campaign for President, owned 300,000 hectares in Santa Fe, where his mansion, "La quinta de Alvear", inaugurated the italic style in the Santa Fe architecture.

Several factors promoted the development of the Province's economy: the transfer of public lands to private owners, private property guarantees (precarious until that moment) and the slow but steady disappearance of the Indian threat and the consequent expansion of the agricultural and stockbreeding frontiers (Gallo, 2004).

One of the crucial factors of the expansion of cereal farming was the incorporation of new lands into the provincial economy. In opposition, a negative factor for growth was the chronic shortage of the labour force. The province's governor pointed this factor out as one of the main problems that Santa Fe was facing.

In 1850, the majority group of immigrants was composed by 1156 Italians, 716 Swiss, 653 French, 623 Spaniards, 472 Germans and 303 Uruguayans. This revealed an important participation of foreigners in the commercial and river transportation areas during the decade of 1850. Italians, and more specifically the Genovese, stood out in this last activity.

From 1858 to 1859 a change occurred in the proportion between the rural and urban populations. The population of the urban centres decreased from 46.6% to 41.9%. Even when this was not a great change, it implied an increase of the rural population.

The first national census carried out in 1869 showed a population of 1,830,214 inhabitants. Twenty three years later, that number reached 3,956,000, that is, an increase of more than 2 million people at an average rate of 81,500 inhabitants a year. More than 1 million of that new population were foreigners (they did not exceed the amount of 300,000 in 1869). These immigrants preferred to settle at the edges of the rivers and specially the urban centres. The rural population suffered an important decrease: in 1860 it constituted 65.89% and in 1895 only 57.20%.

Between 1850 and 1914, Santa Fe carried out five censuses in 1858, 1869, 1887, 1895 and 1914. This survey (Table 17.1) shows an overview of the population evolution.

As can be seen, this important population growth was generated by the arrival of immigrants who populated the province and increased the number of inhabitants of

Table 17.1 Santa Fe Province – Population

Year	Argentines	Foreigners	% Foreigners	Total
1858	36,957	4,304	10,43	41,261
1869	75,178	13,939	15,64	89,117
1887	136,117	84,215	38,22	220,332
1895	230,701	166,487	41,91	397,188
1914	583,699	315,941	35,11	899,640

cities such as Santa Fe and Rosario. The amount of native inhabitants is practically insignificant and quickly assimilated the immigrants' culture.

The phase of agricultural colonization and the foundation of communes started in 1856, after the changes in the political conception that favoured the arrival of European immigration with the objective of populating the empty spaces of the inner country. The peak of this process took place between 1880 and 1895. The Swiss immigrants first settled in the new agricultural colonies, followed by the Italians from the Piedmont, Lombardy and other regions, the French, Spaniards and Jewish, among others. After 1852, the government's new approach developed favourable policies for attracting European immigration to settle in the agricultural colonies. This was put into practice on June 15th 1853, with the first colonization contract signed by the province's governor Domingo Crespo and Aaron Castellanos. This act represents the starting point of the social and economic transformation in the Santa Fe province.

Alcides Greca, a historian and writer from Santa Fe coined the expression *"Pampa Gringa"* (foreign praire) to denominate this wide area with the centre in the city of Rosario (Santa Fe Province), that constitutes the most progressive pole in terms of economic, cultural and social aspects.

The Colonia Esperanza foundation in 1856 slowly started the process of colonies foundation, which was promoted by new laws that favoured the colonization. As per the provincial government initiative, the first colonies developed based on artificial immigration (the immigrants were previously hired in Europe) which allowed them to bring their tools and belongings. These groups confronted huge difficulties because the colonizing companies that had government concessions in most of the cases did not have the minimum facilities nor the infrastructure to receive the colonizing families and provide them with plots at a reasonable price.

All these troubles were slowly solved, and this led to the creation of other colonies: Esperanza (1856), San Jerónimo Norte (1858) and San Carlos (1859); these first colonies were populated by Swiss immigrants. Subsequently begins the arrival of the huge mass of Italian immigrants,[6] forced to leave their country for the industrial modernization and the agricultural crisis. Along with the Italians arrived several groups from other countries, with their cultural diversity, settling in a territory that had almost no native inhabitants.

The railway construction began in 1870 and expanded its scope between 1885 and 1895 with the layout of several new lines. The railway connected areas that already had an important development (which strengthened them even more) with other areas where it constituted an important factor for the foundation of new colonies and towns near the stations.

The enormous immigrant mass that arrived to Argentina at the end of the XIX Century was mainly driven by economic reasons. They had the conviction that America would offer unlimited opportunities for those willing to make a strong (Romero, 1959).

The immigrants cut their ties with the community of origin and therefore abandoned the system of norms and principles that ruled their behaviour. They started to move between two worlds: Sarmiento characterized the immigrants when he said

that they longed for their country of origin, which they idealized in their fantasy, while the adoptive country was a "valley of tears" that promised a better life.

However, with the slow introduction of automation and the massive arrival of immigrants, the lack of labour force – which had been a curb for the development of the area – lost its prominence. The immigrants' introduction was promoted through active policies of the provincial government and implemented by commercial companies.

The Small Towns of the Santa Fe Province

The installation of an agricultural colony generated the need for providing the settlers with certain services, generating the creation of urban centres as a part of the colonies. The legislation of 1884 and 1887 for the creation of colonies addressed this aspect.

Shops, groceries, butcher's shops, restaurants bars and cereals' commercialization were the first businesses of the small towns in the province. With its consolidation, the commerce acquires diverse characteristics: Genovese small diners, Neapolitan barber shops, Friulian forges, Galician groceries, Catalan bakeries... In short, a conjunction of working styles from different regions, mainly European (Alcaraz, 2005).

The original archetype that presented the immigrant as a bearer of new moral strengths, working and saving habits, better sociability ways, all values that would transform the atavistic customs of the native population is being reconsidered. This rectification basically derives from the characteristics of the arriving human mass. Most of the newcomers were indigent in their origin country and, along with labourers, soldiers and other kinds of workers, also arrived thieves and criminals, as happened before with the American conquest.

Wilcken (1873), a government employee, agrees with this discreditation, and affirms that the previous life conditions, in which all of the efforts have been focused on the only objective of ensuring survival, affected the settlers in their learning skills and sociability. This presumption arose from a certain diagnosis of the situation. This is due, on one hand, to the fact that an important part of the so-called "farmers" are not real farmers and, on the other hand, where they were, ignorant of the habitat, the weather conditions and the specific pace of the agricultural cycle in this hemisphere (El Ferrocarril, November 19, 1863). This situation does not change significantly during the subsequent years. In 1872, Wilcken (1873) evaluates the colonies' general situation in the country and affirms that there were very few settlers who were real farmers, though most of them had declared to be farmers by trade. Their declaration was forced by the circumstances, by their necessity to work and by the country's need for agricultural workers. This lack of experience and knowledge of the farming work generated poor work performance as a consequence.

Apart from these objections made at a working level, there were others related to the set of values the settlers were supposed to have. Observers pointed out that the families scarcely preserved their own traditions, let alone the fragility of their values.

These tendencies also explain the *"acriollamiento"* (adoption of local customs and attitudes) and the tendency to frequent "the society of the *pulpería*" – a bar were the gauchos and or farmers met to drink, play cards, etc – drunkenness and brawls" (Wilcken, 1873: 307). To overcome the difficulties generated by both situations, the companies and the government devised different strategies. The companies installed model farms with a double purpose: to work both as experimental laboratories – with the consequent knowledge acquisition – and, at the same time, as witnesses for the control of production (Gory, 1947: 119). The official actions included the elaboration of advising materials (brochures, agriculture manuals) and a more specific development of elementary education, developing new agricultural schools. In 1885 the Governor Zavala asked Congress to provide the necessary resources for the installation of such institutions in Esperanza, San Carlos and Cañada de Gómez, so that in the future the settlers descendents did not repeat "the same steps and old practices of their parents in the preparation and cultivation of the land" (Messages of the Governors, 1872: 189).

At the same time, and entering the field of resocialization, both sectors stimulated all the initiatives and institutions that helped to consolidate the culture's Eurocentric vision. Therefore, the colonies began to have mutual help associations, ethnic schools, Catholic and Protestant churches, singing societies, target shooting, and so on.

In opposition to the heterogeneity of the actors – natives or foreigners – to whom policies and practices were addressed, there is a vision that expresses a consensus: to strengthen in the society two essential values of the new order, property and work. Unlike the urban world, in which government actions were combined with those of the private sector to develop practices of *passive welfare* towards the poor and beggars, in the rural environment – in which the eradication of *voluntary inactivity* was essential– operative ways of insertion through work were planned. The indigenous colonies and those located at the frontier, where labelled layabouts and needy, and attempts made to impose a discipline with a double objective: to internalize values and the forcibly retain the subjects.

Predominant Activities: Agriculture and Stockbreeding[7]

Carlino (1976), in one of his publications affirms that before 1852 agriculture as we know it today was practically unknown in the Province. The agricultural activities apparently only were carried out for subsistence purposes at that time.

The first and hard task carried out by the settlers who arrived to the new colonies was to build precarious houses (or huts at the beginning) to settle with their families and as a shelter from bad weather conditions. Afterwards, when the settlers became owners of the plot, they built their houses with walls of bricks and roof of zinc.

They had to prepare the land and uproot trees in some areas, but most of all their labour consisted in destroying scrubs and wild shrubs. In addition, they had to eliminate chinchilla's burrows and anthills, to plough part of the land for the first sowing.

Table 17.2 Santa Fe Province – Sown Hectares

Crop	1875	1884	1888	1895	1908	1914
Wheat	35,857	–	401,652	1,030,898	1,169,837	1,009,814
Corn	16,562	–	60,901	185,898	662,187	1,254,966
Flax	–	36,842	73,009	266,606	582,612	569,542

The production of cereals and oleaginous plants positions the Santa Fe Province as the country's main producer of wheat and flax at the end of XIX century (see Table 17.2).

With the emergence of the cold storage plants starts the farming of cattle, which substitutes native animals. In order to enhance the cattle food the settlers incorporated alfalfa as the main forage plant.

Horse rearing is related to the use of the horses as draught animals for cultivation and in a small percentage as transportation means and supplying army requests.

Piedmontese Immigrants

The development of agricultural colonization in Santa Fe counted on the support of the governors. José María Cullen, Juan Pablo López, Rosendo María Fraga, Pascual Rosas, Patricio Cullen, Nicasio Oroño, Mariano Cabal, Simón de Iriondo, Servando Bayo, Manuel M. Zavalla and José Gálvez stand out in this important task. Between 1856 and 1890 the government promoted the creation of several colonies in the Province, which became prosperous and transformed Santa Fe into a *"Cereal Empire"*.

On the other hand, there were some people who took care of the administrative and legal infrastructure to organize the colonies, some on behalf of the companies and others who divided their land into plots and founded small towns throughout the province. They included Aarón Castellanos, Carlos Beck y Aquiles Herzog (de la Sociedad Beck-Herzog), Guillermo Lehmann, Carlos Casado del Alisal, Ricardo Foster, José Bernardo Iturraspe, Julián de Bustinza, and Eugenio Alemán. As well as individuals, several colonization companies acted in different parts of the provincial territory.

At the end of XIX, 12 families from Piedmont, Italy settled in Santa Fe. As was the case with most of the immigrats at that time, they were running away from the war and from the new industrial era in Italy, which enormously marginalized them. America was for them the Promised Land, where a sustained effort over time would lead them to make their dreams become true. The Italians' ease of adaptation and their ability to use the Spanish language were one of the main arguments used by the Foreign Office to discourage English immigration.

In this study we will analyze the case of a particular Piedmontese family, composed of a married couple with three children: two boys and a girl. Unfortunately, the little girl passed away of yellow fever during the trip. The other children were born in Santa Fe.

This family, Catholic[8] and literate, first settled in the Guillermo Lehman colony. They did not have any farming machinery, but they brought some seeds from Piedmont, as well as some turnips and other vegetables. The beginning was extremely hard, so when the government in 1870 gave the settlers a portion of land in Zenon Pereyra they took the opportunity. The government's purpose was double: to impede the Indians and to colonize the territories. These families also received guns: they were given a Winchester rifle for self-defence and to prevent the Indians and villainous gauchos' advances into the land.

Zenon Pereyra, where this family settled, is a commune of the Castellanos Department. According to the last census, its total population is 1941 inhabitants, with an area of 244 km^2 and a density of 8 people per km^2. The commune was founded in 1887 by the Lehman Colonizing Company. It was named after one of its members, Zenon Pereyra, and the patron saint is Saint Justina, the name of Pereyra's wife. Since they did not have any descendents, they adopted a little girl named Esmeralda, the origin of the name of another town located 8 km away from Zenon Pereyra.

During that time, and for a long time after, being a tenant was synonymous with being relegated into second place, because only the land or business owners – who paid taxes to the government – had influence on political opinion and participated in the local government.[9] The election of representatives was an exclusive prerogative of the ranch owners.

Near 1895, the life conditions remarkably improved due to a long prosperous cycle of provincial agriculture that lasted from 1878 to 1892. Nevertheless, every year the army supervised the lands given to the settlers, checking new births, deaths, assaults, the families' situation, etc.

Getting back to the Piedmontese family, as mentioned above they arrived in Argentina at the end of the XIX century, but suffered a rapid disintegration after the mother's death. The father, an alcoholic, gave his eldest daughters into the care of a couple who were friends, owners of a flourmill at El Trebol (there were immigrants from areas where the flour was the main product extracted from the wheat: this activity had a considerable importance because it was the fundamental component of the staples they consumed, such as bread, pasta, etc.).[10]

The girls completed the primary school[11] and received a careful education: they learned to sew, embroider, knit, and administer the house, all attributes of women's education in that place at that time. The youngest girl, Laura, who would later be the founder of the first company we will analyze in this study, married an entrepreneur named Bartolome, who did not have much of a personality, but supported her in all of her initiatives. The traditional values of the XIX century Italian culture assigned the women a passive and dependent role, subordinating them in the first place to the father and brothers and once married, to her husband. In case of widowhood, the oldest son would be the head of the household.

Logically, due to an entrepreneurial spirit (a traditionally exclusively male characteristic) expressed from an early age, Laura was criticized by some family members and friends. Bartolome and Laura had six children, among them Rudecindo and Hilario who lived in the family house until 1930.

As a consequence of the economic crisis of the 30s, and also due to Laura's entrepreneurial spirit, understanding that it was necessary to have an active role in the solution of the economic problems of the family, they moved to the town and started a commercial activity. In 1933, they inaugurated a store and bazaar that also sold construction materials, under the name of *Gaviglio Sociedad Comercial Colectiva*. It is worth pointing out that the commercial activities were carried out empirically, without any previous experience, as a result of the need rather than vocation. The store inauguration did not affect the rural activities, for which they were truly skilled. Bartolome had a shrewd business sense, detecting when it was a good moment for buying and when it was not, but it was Laura who closed the deals with her natural leadership skills.

When they grew up, Rudecindo and Hilario, two of the brothers who were to develop agricultural activities later, share their tasks: Rudecindo remained in the farm with his older brother Antonio, and Hilario, who had completed elementary school, was more dedicated to commercial activities. When Bartolome – the father – died in 1948, his six descendants (5 men and 1 woman) decided to divide the land, and each of them took control of their part. Shortly after that, Laura passed away too.

1st Phase: Start-up and Consolidation of an Agricultural and Stockbreeding SME

The prevailing conditions in the international markets and the increase of institutional stability provided the appropriate framework for the expansive process of the region's activities. However, it was necessary to determine important variables such as: the suitable areas for cereal cultivation, the optimal dimension of the exploitation, the farming machinery to be used, the characteristics of the product to satisfy international demand, etc. None of them were easy to solve. Anyhow, being the owner of a field guaranteed the future and provided responsibility and independence.

As time went by, Rudecindo and Hilario became partners: Hilario took care of the cereal commercialization and the sale of fuel of *Yacimientos Petroliferos Fiscales* (YPF) and Rudecindo administered the inherited lands (approximately 140 hectares) and the family house (also in the legacy). It included a dairy, animal breeding and some agricultural activities. They used to sell their products to the mills of the area, especially those located in Maria Juana, San Francisco and El Trébol.

All these activities were carried out more in an intuitive way, rather than knowing the solution to the mentioned variables. None of them attended any agriculture school nor received any advice from an expert. Moreover, Rudecindo had not even finished primary school. They constituted a *"de facto"* business association and the *Banco Nación*[12] provided the necessary credit for the business. Hilario even had the representation of the said bank, something not so common for one individual.

The results they obtained, after a few years of intense work and strictly keeping their word in the commitments they took, are really remarkable. At the beginning, they had approximately 10 employees, but during the harvest time they

subcontracted the services of a company from Cordoba named *"La Para",* whose employees could remain in Santa Fe for up to two months working in the harvesting activities.

At that time, a rumour went around about the possibility of a new war with Paraguay, and the Army began to acquire horses. According to Dr. N. Avellaneda (former president of Argentina), Santa Fe was the land of the two harvests: wheat and soldiers, the last one due to its aptitude for war. The Gaviglio brothers sold the Army, large numbers of horses, because they not only sold their own, but also bought their neighbours' horses to meet the Army needs. In consequence, they accumulated relatively important capital, which was invested in the acquisition of land. In 1962, they bought 1,600 hectares (10,000 m^2) in Las Petacas[13] (close to Z. Pereyra) from an Englishman named Charles Jewel, financing the purchase with the sale of animals and a long-term loan from the Krafford King finance company with a mortgage on the land. With a big effort and dedication, they started to exploit the land without having a deep knowledge of the subject: since the market conditions were favourable, they first dedicated themselves to the stockbreeding and afterwards to agricultural activities, depending on the evolution of international prices. Rudecindo exclusively took over the exploitation of these hectares, which generated an abrupt separation of the two brothers. At that point, Rudecindo had his own family, with four daughters (two of them, twins). Hilario kept the lands located at Clucellas.[14]

In 1987, Rudecindo started his own cattle consignee business, which he named *Rudecindo Gaviglio Remate de Feria S.R.L.* Until then, he had had a third party representation in that business, but the cattle commercialization reached an important volume, especially with companies from Rosario, and decided to start operating with his own cattle. Rudecindo had important rodeos on his fields and his land extension had risen up to 2,600 hectares, and all these factors contributed to the creation of his own business with a minority partner. The company operated until 1999, and then he closed it down because – again – the meat business was not a good business. Low local and international sale prices, closure of international markets, the cold storage plants did not pay their debts or they did it in an excessive long term, and more expensive supplies led to a difficult economic situation for the company, which could not cover the production costs and – perhaps the most important problem for Rudecindo – this situation exposed him to the impossibility of fulfilling his financial obligations.

Rudecindo incorporated his youngest daughter into the consignee business activities, who developed a great commercial sense.

SMEs: Corporate Social Responsibility

There essentially are three approaches to Corporate Social Responsibility[15]: descriptive (explains how administrators face social responsibilities), instrumental (when CSR is a means for different objectives, for example to create value for the shareholders) and normative (explaining how the company that wants to be socially responsible should act) (Argandoña, 2007).

Responsibility is an act that belongs to the moral category and as such is part of human actions (only people can be subject to moral evaluation). Moral responsibility can also be understood as a duty or a responsibility.[16] The answer of the actors to potential responsibilities leads to responsibility as an attitude or tendency to respond to others demands or needs.

The CSR of this kind of company (Gaviglio's) is included within the last concept, that is, as an attitude or tendency to respond to others' needs.[17] It represents an interesting case of voluntary assumption of obligations that go beyond the law or the social expectations requirements.

Since the origin of commerce, companies, especially the smallest ones, have always had a close relationship with their community and have tried to be good members of it. As a matter of fact, many entrepreneurs instinctively know that acting in the right way, satisfying the customers, motivating the employees, looking after the suppliers, being a good member of the community and protecting the environment are all issues that influence the economic aspects. Lately, other factors have been related to the responsibility concept, such as customers' pressure, local communities, banks, investors, etc. As a general rule, small companies have a great ability for generating these relationships, because they are an integral and visible part of the community in which they operate. On the other hand, these companies' CSR is such a natural aspect of them that they would never dare to talk about it, and for this reason it goes unnoticed from the information point of view.

When this SME started its operations, the CSR or the solidarity concepts were not handled in the current terms. But this human group gave great importance to it and to the empathy with employees from the beginning. Values such as honesty, fulfilling commitments and helping the co-workers allowed them to open *their* way almost without money and in a place where the bank credits or other kind of aid for these tasks were scarce and selective.

On the other hand, despite the political power[18] of the region and communities such as Zenon Pereyra, they have always been managed by allies of the central provincial government, local men also played an important role in a wide variety of activities. Nevertheless, some foreigners[19] had influence in the local political power as well, especially in the justice of the peace and in those places in which the central power was articulated with the communes, in search of some base of collection. The governments tried to establish an autonomous municipal government in the colonies. The neighbours who paid taxes were the ones who voted to elect the municipal positions. Foreigners also could vote.

Within this system, Rudecindo exercised a moral and political leadership in his community: he was elected mayor for several periods (16 years). Influential people, with strong personalities, in this context determined supremacy in political life. Rudecindo had their support. This allowed him to be aware of the community needs as well as to make good contacts with the provincial government, developing in consequence a wider economic and social vision.

The streets pavement project (during rainy season, the mud was – and still is – a huge problem because it paralyses all activities) found in Rudecindo one of its

most active defenders. To prevent the process, he took the decision of paying the corresponding part of some low-income institutions and / or families.

Other examples of Rudecindo's position regarding CSR are: on a daily basis, he donated milk from the dairies (it was, and still is, quite common seeing needy people knocking at his house asking for milk)[20] and, once retired, he donated his pension to a Don Orione nursing home that operated several years in the town.

The organization of the commercial activities and a more rational collection process were some of his main concerns. In addition, he promoted education providing an important support to the primary school both through actions as a government employee and as a private citizen. He built in his field a house for the teachers to stay during school time. More than one employee received a loan for building his house from Rudecindo's own pocket.

Rudecindo was (and still is) a very generous person with his own daughters and with every person and/or institution that may request his assistance. He transported ill people to different towns to secure them better assistance, whether with good or bad weather. Nowadays, there still remain in the people's collective memory[21] his trucks getting their engines blown because of driving in the mud when the roads were not paved (until around 1984). Furthermore, he donated construction materials and/or doors and windowpanes to families with scarce means of support so they could live with dignity.

In 1981, one employee's misbehaviour (fraud) generated an important slump in Rudecindo's mood, because this person had worked many years in the company and was considered a trustworthy person. Her actions were seen as a betrayal to the family due to the close relation the family had with this person. At the time, Rudecindo already was 81 years old and this deteriorated his working spirit, which led to a financial mishandling as a result (in that time, the Argentinean currency changed its denomination and its value, which confused the elderly people). The fields were abandoned or sowed in the wrong season – with a consequent low performance – the animals did not receive their vaccination and were sold cheaply to fulfil the financial commitments. His wife was the first one to alert their daughters about this situation.

This context, along with the lack of information about certain important subjects connected with his business (because of his age, he trusted more in his own experience than in new technologies) and the employee's fraud – which he could never forget – created a situation that really was hard to handle. Even so, when the company management was transferred to his daughters, Rudecindo's spirit was there: he said that he reserved himself the right to come back in case "the girls" didn't do things right.

2nd Phase: Female Enterprise

The succession of family companies from one generation to another is not a minor issue. Statistics show that hardly 30% of these companies have a successful transference from a first to a second generation and only 7% survives until the third generation due to the lack of provision about how to carry the generational

succession. Nevertheless, there exist internal circumstances that influence these companies' lack of durability: there is some confusion about capital ownership and the capability to run a business, the administration of capital resources, lack of professionalism of its components, hiring family members and remuneration policies, among others.

It was not the case of this SME. In 1999, it was decided by common consent between the father and the four sisters that they (the sisters) would be in charge of the company. In 1981, these sisters had received the 1,600 hectares bought in Las Petacas, a few kilometers from Z. Pereyra, and each of them had exploited the land individually (through rent or with their husbands) and at that moment they received the remaining 1,000 hectares also located near Zenon Pereyra, which Rudecindo kept for himself and managed as a limited liability company.[22]

When Rudecindo was the only one in charge of the company, he had nine permanent employees and, depending on the moment's needs, he could also hire temporary staff. One of them, who worked as a foreman, stayed in the company until his retirement. Among these nine persons, five families lived in Rudecindo's field.

At this point, all of his daughters had their own family and children. None of them had direct experience in this kind of business, except the oldest one who integrated with her husband one of the Consorcios Regionales de Experimentacion Agricola (CREA) teams (Regional Consortia of Agricultural Experimentation). But they did not hesitate and accepted the challenge.

All of Rudecindo's daughters married men who had agricultural and stockbreeding businesses or their activities and/or professions were related to it. We point this out because although all of the values and the production and commercialization guidelines they were surrounded by referred to agricultural and stockbreeding business, they did not have any specific formal knowledge or training on the subject.

Being in charge of a company such as Rudecindo's implied not one but many challenges. Even though the administration concepts and practices were not completely unknown to them (they took some administration training courses), they had never run a company before. Keeping in mind the risks, they decided to perform an exploratory mission to determine what the next immediate steps should be.

At the moment they took charge of the company, it had many debts from different sources as well as four employees, two of them living in the field and the other working in the field but two living in the community. The company kept one of these four employees and the other three were replaced.[23] That is to say that, nowadays, they have three employees (with their respective families living in the field), one of them in charge of the agriculture, another responsible for the stockbreeding and a third collaborating with them.

When they started managing the company, they understood the necessity of assessing the starting point and knowing where to go from there. They performed an audit: available resources, debts (personal, banking, tax, social security and other kind of debts linked to the father's previous management), infrastructure, human resources, etc. They also carried out the first physical inventory of the company. The father always had "everything in his head" and never considered it necessary to make an inventory.

Because of all this, the four sisters decided to make a conservative exploitation of the business, especially considering that despite having lived all of their lives in that environment and being immersed in the agricultural and stockbreeding culture, this was the first time they were going to work altogether in these activities without any guidance. Quite a challenge.

The sisters carried out several ordering and cleansing tasks, which may seem minor ones but in fact they constitute essential tasks for the activity, such as replacement of the wire fence, personnel restructuring, changed the vehicles affected to the rural activities, etc. They paid the more onerous debts first. As a pilot experience, they cultivated 200 hectares. In order to avoid wasting resources, they assigned 30 hectares for cattle and the rest of the field was rented to a third party for its exploitation. The new renter also performed sow and harvest activities in the sister's own land.

The weather factor and the change of government policies were always threatening factors to face, putting this female company's leading capacity to the test. They took notice of the CREA[24] operation through the oldest sister and the influence it had in the area, collaborating with other similar companies with good results. The CREA is a group of producers of the same region who share their experience to capitalize their abilities and individual knowledge in order to find better solutions and take the best decisions for their business. They are not unconnected from Corporate Social Responsibility. The parameters *Values and Transparency; Internal Public; Environment; Suppliers; Community; Government and Society* are some of the indicators they propose to assess the agricultural and stockbreeding SMEs that integrate the association. Along with nine other companies, in 2000 they decided to create within the association a group named *"Las Calandrias"* which continues working nowadays.

They prepared and presented a Work Plan. It was an enlightening experience for these four women: human warmth, respect and honesty were the first values they found. Faced with demands and "criticism", they were shown the best path to follow. Once the success arrived, suggestions for staying successful and praise were very common.

All this allowed the sisters to slowly consolidate in a group with an entrepreneur profile that preserved the original characteristics of the Italian family – Piedmontese – with Christian values, generator of the culture of the Santa Fe communities in contrast to the Indian culture.

The activities developed contributed to the company growth in all its aspects, but mainly in the development of training and a very particular CSR. They had a very direct knowledge of the community needs, so they always kept in mind that if they succeed it was their responsibility to give back to the community support and actions to stimulate its development.

It is important to point out that these sisters, direct heiresses from Grandmother Laura, had been raised to be schoolteachers, not to manage an agricultural and stockbreeding business. Furthermore, all of them were linked by marriage to the rural business.

It took a lot of courage and vision to survive the generational change. The best choice they made, probably, was to remain together and seek advice outside of the

family. The first years, with the objective of consolidating the company, they decided not to withdraw any money from the company, which required from them an additional effort. Regarding the production, the international market conditions really favoured them. This external situation, along with good management performance, good market prices and lots of austerity, contributed to the recuperation of the entire estate in 2003, which had been rented to third parties, recovering the totality of the hectares for their own exploitation. The soil quality is excellent and contributed to the harvest success.

In reference to stockbreeding, they continued working with Bradford or Blacks cattle, maintaining the same quality as the father's. Nowadays, the stockbreeding occupies 70 hectares of the field. They replaced the old tools and machinery and bought other new tools that they did not buy before, whether for ignorance or negligence, such as: grain extractors, grain bagging machines, etc.

Finally, they refurnished the family house (adapting it to the needs of an elderly couple) and bought a new vehicle for their parents for safety reasons more than necessity. They currently are refurbishing the offices. Also, they have upgraded the information and management systems.

They acted at every moment with a critical and objective spirit. The selection of contractors was carefully made among the people of the local community, because the company still kept the spirit of a family business. They tried to select good and responsible people and those very proficient in their work.

In this search of excellence, they never overlooked the importance of the human factor, creating a real CSR for their SME. They continued with Rudecindo's tradition of helping anyone who may need it, whether it be an institution, a school, a soccer club, an employee or simply a neighbour. With regard to wages, it is quite common in these kinds of jobs to pay remunerations that are below the minimum wage regulated by law. One of the sisters' first objectives was to adapt and improve the wages until reaching the legal scale and, in some cases, exceeding it. Apart from providing the health care programs regulated by law, they aimed to support the employees in their and their families' health[25] development in an integral way.

Also, education is one of the main concerns of this company (although this legally is an obligation of parents, they do not necessarily take care of it). The company and each one of the sisters themselves promote primary school registration for the employees' children (and collaborate with their school attendance through different activities). They also tried to create awareness among the employees of the importance and value of attending high school.

In addition, several programmes involving the employees' wives in this training process are under development, with the objective of making them feel part of this process and that they participate in the rural life. Since there are many cultural barriers, this is not an easy task because they remain long periods in the field with sporadic contacts with other groups; anyway, these sisters hope that the situation will be improved in the near future.

Although they have not ventured into politics yet, they have the inclination to follow the family tradition: some of them are already planning to jump into the political arena. Their idea is to include in the lists young people who have strong values, in

order to revert situations that in its political aspects have not been satisfactory at all for the community. It is important to remember that Zenon Pereyra is a small town with a small population (2000 inhabitants between the urban and rural areas, located 30 km away from San Francisco de Cordoba, the most important town of the area).

3rd Phase: The Youngest Ones

During all this time, the sisters acquired the necessary skills to manage the company: all the meetings amongst them, with the advisors[26] or, when necessary, with any professional with specific expertise on a subject, are part of the dynamics of this company with the "scent of a woman". They still are members of the CREA group, where they are known ironically as "the girls", because they exceed the average age of the group members.

Currently they are developing expansion projects: the acquisition of lands in a northern province for stockbreeding. They do not forget what their father always says: the livestock is a cheque bearer. However, there are other reasons: since their fields are 1st class quality lands, it is more convenient and profitable to use them for agriculture. Export activities are also in their agenda, and they are analyzing a minimum infrastructure to implement it.[27]

At this point, they all are aware that the new generational change is not far away. For that reason, they have been analyzing and seeking advice on how to find the best way to incorporate the next generation (their descendents) into this exploitation phase.

Although their sons and daughters are still young, this is not an easy task (there existed anything easy for them?), because they already have their professions and have formed their own families. This implies third parties' opinions from outside the original family. Some of them have a vocation and wish to continue, and some others want to sell and dedicate to other activities. If this happens, the effort of those first Italian settlers of the XIX Century could be lost. A new phase is beginning, though the final outcome is still uncertain.

Notes

1. According to the European Network of SMEs, although more than 50% of the European SMEs are somehow involved in their communities, instead of performing systematic actions they mostly do so in a very specific way, generally with donations and occasionally with actions related to the enterprise or strategic needs.
2. Speaking about the family groups that own more than 120,000 Hectares, we read: "The family group is a classificatory group but not an economic unit. In some cases, there may be a close and direct relationship, but in others, it could be so remote that barely exist a relation. And that in the case the relatives share the same last name"(Imaz, 1965).
3. With the expression "enterprise culture", or the widest "organizational culture", we refer to the "set of beliefs, expectations and fundamental or basic principles shared by the members of an organization. These beliefs and expectations produce behavior rules (norms) that strongly

configure the behavior of the individuals and groups in the organization, distinguishing it from other organizations" (Leal, 1991). In consequence, the culture is reflected in the values, norms and habits.

4. In the decade of the 60s the German specialist Burmeister affirmed that the lands in the Pampean region were not suitable for cereal cultivation.
5. The conflict with the native Indians ended in 1879 in the southern border and in 1884 in the northern one.
6. The Italian emigration process was stimulated by a combination of economic and cultural factors that changed with the time and according to the local conditions in the diverse regions of the peninsula. The agricultural crisis in Piedmont, Lombardy and Veneto of the last years of the 70's decade, along with the collapse of the Mezzogiorno economy that took place twenty years later, drove a massive emigration to the New World (United States, Argentina and Brazil) as well as to other European countries such as France, Switzerland and Germany (Silberstein, 1991)
7. Extracted from: The Santa Fe Province 1850–1915. Population, immigration, agricultural colonization aspects and the railway in the provincial development (Alcaraz, 2005).
8. Keeping the faith in these circumstances put the newcomers' convictions to the test. Some of them brought their prayer book but others only what they knew by heart.
9. In the "Cabildo" meeting held in Buenos Aires in 1810 the same happened.
10. The first flourmill was built in Esperanza in 1861 and by 1887, this place already had 8 milling facilities (Alcaraz 2005).
11. According to the 1887 school census in Santa Fe there were 190 schools, 80 of which were mixed, 61 for boys and 49 for girls.
12. Between 1887 and 1890 el Bco. Hipotecario Nacional (National Mortgage Bank) gave 6,500 loans, 870 of which were given in the Santa Fe province. Gallo Ezequiel, 2005).
13. The ranch "Las Petacas" belonged to this English citizen who once came to have 35,000 hectares.
14. Currently, Hilario is one of the biggest producers and exporters of grain in the Santa Fe Province.
15. "The current exigency is to leave mere philanthropy to CSR. The donations are desirable, but it is necessary that the companies support the public policies about poverty, health, education, integration of marginal groups and others". Kliksberg, Bernardo. La Nación 20-9-07.
16. For example when it is said that someone drives in a responsible way to avoid hurting anybody.
17. "I am me and my circumstance and if I don't save it I don't save myself". The man is, in its true nature, a being for the others. Extracted from: "The authentic life" (Fromm 2007).
18. Esperanza was the center of the political activity of the cereal areas and the dominant group was supported by the newspaper "El colono del Oeste".
19. The experience of municipal life seems to have been quite usual in the countries of origin of the immigrants. Edmundo de Amicis after his visit to the San Carlos colony says: "...I was surprised to see those settlers dealing with each other with equity (...) and discussing about politics and administration, as well as about a new project to reform the primary education...". Quoted by Ezequiel Gallo in "The Pampa Gringa" (2004).
20. The first milk pails used to deliver milk still exist, though new ones to continue with this task replaced them.
21. Later, thanks to all the neighbours' collaboration, it was possible to acquire a new ambulance to alleviate the lack of a health centre in the town.
22. Rudecindo is the president of the company, his wife being the vice-president.
23. Two of them took a voluntary retirement and a third one was fired and indemnified for being lazy.
24. Non-profit organization originated in 1957 and founded in 1960 by the Architect Pablo Hary. Integrated and directed by agricultural and stockbreeding producers, its objective is to promote the integral development of farming businessmen to achieve profitable and sustainable

companies in the course of time, testing technology and transferring it to the sector to contribute with it and with the country.

25. For example: a very good employee who was in charge of the cattle with serious sight troubles needed surgery: he was taken to consult the best ophthalmologist in Santa Fe city (the referral town for health troubles of some significance) and the surgery costs were paid by the company. On the other hand, although the agricultural activities demand a complete dedication, the activities have been organized to allow the employees to rotate to have a free weekend a month. This may seem insignificant in the city, but in the rural activities is quite an achievement.
26. They have an agronomist engineer as a permanent advisor, as well as the advisor of the CREA group.
27. The excellent work of Crespo Armengol shows that most of the exporter SMEs are located in four provinces: Buenos Aires (3700), Mendoza (500 SMEs), Santa Fe (400 SMEs) and Córdoba (320). These four jurisdictions have almost 5,000 SMEs.

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Conclusion: The Road Ahead for Research on Ethics and SMEs

It is our contention that this edited volume represents a unique collection of work and, accordingly, a unique opportunity to re-envision the world of small and medium sized enterprises globally. In addition, the perspectives presented here may also challenge us to reconsider mainstream theories on business ethics and CSR as we have come to know it. In this concluding chapter we draw together some of the broader perspectives identified in relation to ethics and SMEs in the global overview chapters and summarise aspects identified for a future research agenda.

The Hidden Territory of Ethics and SMEs

What our research found is that ethical issues that SMEs face remain either hidden, or they are addressed in an informal, unstructured way, which often goes unreported and under-researched. Add to this the fact that the 'solutions' or theoretical models that are used to study SMEs were almost always developed with large corporations in mind, and one can understand why the disciplines of business ethics and CSR do not really speak to the realities of SMEs. This volume goes some way towards addressing this problem, but what our authors often encountered is that SMEs find business ethics terminology frustratingly opaque, and that researchers have not yet developed models or instruments that can assess the SME environment in a meaningful way.

Finding a Language for the Social and Ethical Role of SMEs

The first set of problems is related to how one should describe the ethics of SMEs. In fact, one may argue that the very definition of 'ethics' is at stake here. Our enquiry into how those within SMEs view ethics, may bring us to reconsider how it has come to be understood within our field. Much of the literature in business ethics and corporate social responsibility (CSR) positions ethics as something that can either

This conclusion draws in part on Painter-Morland and Spence (2009)

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limit company liability, or enhance the reputation of the organization amongst its stakeholders and hence yield financial benefits. Though some of this speaks to the reality of ethics within SMEs, we came to the conclusion that SMEs' understanding of ethics is far more all-encompassing. For instance, the way in which those within SMEs speak about ethics, allow us to pose fundamental questions as to why business is pursued in the first place. As such, SMEs may allow us to once again ask the most basic of ethical questions, namely: How should we live? In all 16 of the research chapters in this volume, it is acknowledged that SMEs play an incredibly important role in creating jobs and in so doing, assist in poverty alleviation, providing social safety-nets and community support. Hence, in and of themselves, SMEs make an important social contribution simply by operating. Over and above this they, like large firms, governments, individuals and NGOs alike, have a role as citizens, or proxy citizens if you like, in society. Hence we have an expectation that SMEs will behave in an ethical way and meet social expectations of them.

However there are simple semantic around assigning CSR and ethical expectations to SMEs such that most SMEs, especially those in developing countries, don't describe the role that they play in terms of theoretical constructs such as CSR or business ethics. [Portuguese firms are an exception according to the work presented here by Santos]. Instead, these 'ethical actions' are just contingent aspects of how their businesses operate (Murillo & Lozano, 2006). For instance, SMEs sometimes operate in closer proximity to the communities within which they function, and on whose support they depend. As such, they respond to the needs of these communities on an ad hoc basis, rather than having a well-designed CSR strategy (Besser & Miller, 2001). They have to treat their employees well to retain and motivate them, and build relationships of trust within their supply chain in order to survive. Whereas large firms may describe these in codes of conduct, or publish their accomplishments in CSR reports, SMEs tend to perceive this as a much more intrinsic part of their everyday business. We might understand their actions as ethical business practices, it just has not been labelled as such. In fact, since SMEs are not corporations, the term corporate social responsibility can only be a misnomer in the context of SMEs (Moore & Spence, 2006).

SMEs: Good or Bad?

We came to the conclusion that many SMEs make important ethical contributions, but it is not described and reported in the terms to which we have become accustomed in the field of business ethics and CSR. The question: 'Are SMEs ethical?', may therefore fail to address the realities of business operations within SMEs. The case study of a farm in Argentina presented by Pivetta is a typical example of this. The consistent engagement of SMEs with ethical practices is good news indeed, perhaps even headline news. The popular media view of the back-stabbing entrepreneur is not the standard picture we see of the SMEs presented in this book. The 'good' that SMEs do procure however takes place within a certain context, and it is these realities that make it very difficult to celebrate the ethical contributions

of SMEs in isolation of some of the unethical practices that are part of their reality. Unfortunately, what the chapters in this volume, especially those discussing SMEs in developing countries, make clear is that unethical behaviour of course exists and is just as much the result of the various business relationships that SMEs are part of, as their own behaviour. SMEs often find themselves at the receiving end of relationships, as a relatively disempowered partner, that by no means encourage ethical behaviour (Transparency International, 2008). In the papers generated in developing countries, corruption was mentioned as a stark reality that SMEs face. Fraud, conflicts of interest and unacceptable gifts and hospitality have become characteristic of the environment within which SMEs operate. What was also mentioned is that there is a lack of peer support and organisations, through which SMEs can share insights, discuss joint problems and develop pressure groups that would give them leverage against more powerful government actors or large private firms. Another problem that was identified relates to the fact that Business Ethics' theories and models that aim to address ethical organisational cultures, leadership, and best practice in ethical compliance are all directed at large corporations, and are in most cases not suited to SMEs. There seems to be a real need for the development of ethics management strategies that are flexible and affordable enough to be implemented within small and medium sized organisations.

Influencing SMEs

The influence of interventions can play a positive role in some instances. In the case of New Zealand and Europe, it became clear that the support and structure which governments provided SMEs played a very large role in explaining why in these regions more research is available on the unique challenges faced. This also leads to the development of support structures, peer networks and resources to address these challenges. The number of individual research papers submitted and developed for this volume coming from Europe is testament to the policy investments resulting in research which benefit from those in Europe. The paper by Santos, for example, reports on publicly funded work, and others mention specific national initiatives such as those in Germany and Spain. In the European global overview chapter by Spence and Perrini shows that the support that SMEs received in Denmark and in the UK display important good practice elements that could be used as models in other countries where conditions are similar. While we do not suggest that there is any panacea to enhancing ethics in SMEs, there are indications that some focused initiatives can have a positive effect. These, for example, include a concentration on the business case for ethical practice and the provision of individual case studies (Grayson & Dodd, 2007). This approach, while not without its critics because it assumes that small business owner-managers are profit-maximisers (Spence & Rutherfoord, 2001), has proven to be very popular among policy makers and intermediaries as a way of legitimising social responsibility and ethical activity for SMEs. In Denmark, significant investment by government has been directed towards building public-private partnerships and widespread investment in training

in order to mainstream social responsibility in SMEs. It seems clear that there are no quick fixes for facilitating ethics in SMEs, and that to enable a shift in awareness and practice a major investment is required. It is unlikely that any single approach will achieve this and multiple initiatives at all levels will be needed (Grayson & Dodd, 2007).

The Need to Promote a Developing Country Perspective

As co-editors of this volume, we represent very different contexts from Europe and Africa respectively. What we have learnt, from the group of researchers contributing to this volume, is that there unfortunately still seems to be a kind of north versus south divide when it comes to the realities of SMEs across the globe. In developing countries or what can be termed the global south, SMEs are not receiving the government support and recognition that their peers in Europe, Australia and New Zealand and the US are receiving. The analyses of SMEs in Africa, India and Latin-America highlight the following common problems: (i) a regulatory environment that often hurts more than it helps, both because tax structures and compliance mechanisms place undue financial burdens on SMEs, and because other, real problems, like corruption, are not adequately addressed; (ii) SMEs carrying a lot of the burden of job creation and providing social safety-nets, without being granted the government support they need to play this role sustainably; and (iii) an absence of bodies that represent the interests of SMEs and allow them to draw on peer support and broader resources.

Learning from SMEs

It is not our intention to suggest a story for ethics and SMEs of doom and gloom. Quite the contrary. We are optimistic about the road ahead, both in terms of practice and research. The socially responsive relational dynamics that we encountered within SMEs in this wide range of contexts speak to the potential for an alternative view of ethical business practices. This is the area where big corporations can truly learn something from their smaller compatriots. Within SMEs, ethical responsibilities are part and parcel of business as usual, not something that operates as an 'after-the-fact' check on business. Social responsibility is not something that entails just donating some of the profits that were generated when some reputational value can be had. Instead, for many SMEs social responsibility happens in the *process* of generating value for all involved. This seems to be a much more sustainable way to think about social responsibility. But it will only flourish if the systemic support for it can be created, and it is in this area, that much more needs to be accomplished.

The more integrated perspective on ethics and business practice that SMEs display, may merit a reconsideration of our approach to future research in business ethics. In the first place, bigger organisations can learn something from their smaller counterparts regarding the interrelationships between various ethical dimensions of organisational life. For instance, within larger corporations, corporate social

responsibility and ethics management often operate as completely separate functions. This leaves very little room for a conversation about how the organisation's commitment to values should consistently be displayed internally and externally. As such, the way in which CSR, ethics management, good governance and corruption prevention all contribute to organisational integrity and sustainability often goes unexplored. It may be worthwhile to study how organisational integrity is manifested through SMEs' diverse range of activities and to revisit the arbitrary distinctions between CSR and ethics management that could cause business ethicists to lose sight of the central set of organisational values that inform all these initiatives.

Ethics and SME Researchers: Getting Out of the Corporate Shadow

Researchers focusing on ethics in SMEs may need to find their own focus and depth. In most cases, the models we have come up with to study ethics management practices and CSR in big corporations cannot be used to grasp the unique challenges that SMEs face. In terms of future research, this may have significant implications. We may have to acknowledge that basing our new research on SMEs on what has been done in business ethics based on big corporations may, at worst, be leading us astray. At best it limits our ability to gain in-depth insight into the unique nature of ethics in SMEs. We mention only a few of these challenges: (i) The distinction between values-driven and rule-driven ethics that is used to study ethics management in large corporations can't always address the more fluid organisational realities of SMEs; (ii) The formal CSR processes that have become best practice in large corporations can't be used as a benchmark for SMEs, because they can't adequately acknowledge their more informal social contributions; (iii) Studies of ethical leadership in SMEs have not taken the absence of hierarchy in these organisations seriously; and (iv) We have found that SMEs are not profit-maximisers, but we don't necessarily understand what are they instead are driven by and where financial motivations fit into their approach to social responsibility. Indeed, since the owner-manager is usually so dominant in the organisation it psychological analysis could enlighten our research in this respect. What may also be required is a sociological awareness of the more complex relational influences through which power and control operate in smaller organisations. Add to this the fact that SMEs allow us to study women's leadership in a context that is less fraught with 'glass ceiling' issues. The SME context presents interesting new research opportunities less encumbered by the bureaucratic complexities of large organisations which can obscure the view of the researcher.

In making these suggestions, we realise that we are barely scratching the surface of what we still have to learn from, and about, ethics in SMEs. It is our hope that this collection of essays stimulates further thought and enthusiasm for the very large research task that lies ahead. We invite researchers from around the world to take up this important task, and to build on the work presented here without delay.

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