Size Matters

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Does CSR only apply to sizable corporations?

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Corporate social responsibility (CSR) is largely associated with big companies. They are more high profile and thus attract more media attention and they are particularly concerned to protect and enhance their reputations with the broader public as well as key stakeholders. They are also often better-resourced and more able to invest in CSR. However, CSR is important for small and medium-sized enterprises as well (SMEs are organizations of up to 1,000 employees). Size matters, not so much in *whether* an SME should engage in CSR but in relation to *why* and *how*? To appreciate the relevance of CSR to SMEs, we need first to examine the meaning of CSR and why companies give attention to it; we can then turn to what CSR means to SMEs given their characteristics and how they differ from large corporates.

There are many definitions of CSR. Fundamentally, however, CSR refers to the obligations of the firm to society or, more specifically, the firm's stakeholders—those affected by corporate policies and practices. The EU's widely-disseminated definition stresses that CSR is voluntary, goes beyond what the law requires, and is an integral part of the business: it is "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis. It is about enterprises deciding to go beyond the minimum legal requirements and obligations stemming from collective agreements in order to address societal needs.” This is a recent definition, but it is not a new idea.

Not a New Idea

The idea that business has societal obligations was evident at least as early as the nineteenth century. Visionary business leaders in the aftermath of the Industrial Revolution built factory towns in the U.K. and in the United States, such as Port Sunlight near Liverpool (founded by William Lever in 1888 and named after the brand of soap made there) and Pullman on the outskirts of Chicago (founded by railroad car manufacturer George Pullman, also in the 1880s). These towns provided workers and their families with housing and other amenities when many parts of the newly industrialised cities were slums. The motivations of these benevolent capitalists were mostly intrinsic, but enlightened self-interest was also often a factor. Industrial unrest was common in the big cities; the founders of factory towns hoped to reduce labour problems by looking after their workers.

Enlightened self-interest is also a factor when a company such as Swire Beverages Ltd., a Coca-Cola bottler in China, invests in water conservation measures in its bottling plants. Swire Beverages strives hard to reduce its water use ratio, the ratio of the volume of water consumed in the plant (including water used in cleaning) to the volume of beverage produced. Swire reports a ratio of 1.75:1, a reduction of 39 percent since 2004, in its 2010/11 sustainability report. This represents billions of litres of water saved in a country where there is a growing water crisis. Consistent with the EU definition of CSR, Swire is acting voluntarily beyond what the law requires and on an issue that is at the core of its business. While addressing its social and environmental obligations, Swire is also mitigating a business risk, both with regard to the availability of a key resource necessary for the production of its product and in terms of its reputation and license to operate. No doubt Swire’s water conservation strategy is informed by the controversy faced by a Coca-Cola bottler in the Indian state of Kerala, which was closed down for allegedly abusing water resources and contributing to a water shortage.

These examples highlight why companies give attention to CSR. They [their managers] may well be intrinsically motivated—wishing to do the right thing—but the rise to prominence of CSR of late is driven primarily by a strengthening of the "business case". The CSR business case comes in many different forms. In essence, however, it rests on the recognition that attention to corporate social and environmental responsibilities is generally in the long-term economic interests of the firm. Managers have a responsibility to consider those affected by company actions; equally, however, those stakeholders are often able to exert pressure on a company if it does not—even to the extent of shutting down the business, as Coca-Cola found in Kerala. This is particularly true for large companies subject to intense media scrutiny.

CSR is not Philanthropy

There are still today plenty of companies who have yet to move beyond the idea of CSR as philanthropy—in some cases, at their peril, as the Coca-Cola case illustrates. When companies implement "strategic CSR" they can find there are many benefits, including strengthened corporate and brand reputations and enhanced trust with key stakeholders (customers, employees, regulatory agencies, suppliers, and investors), improved risk management, increased revenues from innovation to identify new business opportunities, and reduced costs from efficiency improvements.

What does this mean for SMEs? Very simply, at its roots, the same motivations for attention to CSR apply. There can be intrinsic motivations and more instrumental, "business case", motivations. However, there are some important differences in motivations and in CSR practices, reflective of the characteristics of SMEs.

Firstly, SMEs are generally managed by their owners, who are also often their founders. This can lead to profound differences in commitment to corporate purpose. Few successful entrepreneurs start businesses solely with the intent of making money. This was true of William Lever when he founded the business that became Unilever—selling soap saved lives. Today's founders of start-ups also often have some societal need in mind. This close involvement of owners and founders in SMEs means that commitment to purpose is much easier to engender than in a large, publicly-held corporation. Indeed, they may not call it CSR (and William Lever didn't when he built Port Sunlight), but SMEs for this reason can be *more* socially responsible than their much larger counterparts.

Secondly, with SMEs, it is more personal. Personal relationships are often key to their success. Internally, employees are likely to all know each other and be well-known to management. While it is not unknown for large companies to refer to employees as "family", this term is more evident and arguably more authentic when used in the SME context. This may well mean that their employees are treated better than those in larger companies.

Personal relationships also figure externally, with SMEs often deeply involved in their local communities. They may contribute substantially in terms of providing employment and they may also rely heavily on business relationships with customers and suppliers and others based in the local community. Again, for this reason, SMEs can prove to be more socially responsible than big corporates. In one extreme and ultimately ill-fated example, Aaron Feuerstein, the CEO of Malden Mills in Massachusetts, continued paying the salaries of his workers while the factory was being rebuilt after a fire. While ill-fated because the company ended up in bankruptcy, the story reveals a depth of commitment not only to employees but also to the local community. More typically, given their embeddedness, SMEs can be expected to invest in the local community to a much greater extent proportionately than larger companies, with contributions ranging from protecting jobs, to skills development, to infrastructure improvement.

Thirdly, SMEs are likely to be less well-resourced than big companies. One beneficial consequence might be that while they give attention to the substance of CSR, they are less likely to focus on the trappings, such as CSR communications. More generally, however, it is likely to mean that less funds are available to invest in initiatives that might be socially or environmentally beneficial, especially if the economic pay-off is less obvious or longer term. As important, there are fewer people to give time to CSR, especially where, in some cases, companies are operating hand-to-mouth. Yet finding the people and the time may be critical. For example, SMEs increasingly find that they are part of a value chain where a large company downstream (for example, a major brand or a retailer) is demanding attention by suppliers to sustainability metrics and performance.

The Case for CSR in SMEs

Some of the business case considerations for CSR may carry less weight with SMEs, at least in terms of their own operations. For example, while reputation is important for any business, there are typically greater reputational risks for large companies. Similarly, license to operate, in the broad sense of corporate legitimacy, is also more of a concern for a larger corporate than an SME. Consider the recent Rana Plaza tragedy in Bangladesh, where over 1,100 workers died in the collapsed factory building. What keeps the CEO of a large branded apparel company awake is the possibility of the brand being exposed as having sourced from a factory with unsafe labour conditions—with its labels found amongst the ruins of the factory (as happened to many major brands in this instance). The reputational pressures are less for an SME. However, pressures on the larger corporates will inevitably translate into pressures on their suppliers, including SMEs.

SMEs might also be less able to bring to scale the efficiency gains that can come from attention to CSR or exploit the business opportunities that might come through innovation in the form of new, more sustainable products. However, these business case considerations for CSR remain present. Indeed, new start-ups are being established right now exploiting green-tech opportunities. In sum, while size matters, not least in what gets done, SMEs have many of the same reasons for engaging in CSR that large companies have, both in avoiding downside risk and in exploiting upside opportunities. In many cases, they may also be more intrinsically, if not better motivated, to give CSR attention.

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