SME IN SEARCH FOR FEASIBLE CONCEPTS FOR SYSTEMATIC SOCIAL RESPONSIBILITY IN TIMES OF CRISIS

Alexander Krauss1, Aušra Rūtelionė2, Žaneta Piligrimiene3

1ISOB - Institute for Socio-Scientific Consultancy, Germany, krauss@isob-regensburg.net
2Kaunas University of Technology, Lithuania, ausra.rutelione@ktu.lt
3Kaunas University of Technology, Lithuania, zaneta.piligrimiene@ktu.lt

Abstract

Recently there have been a number of initiatives to motivate SME to adopt the concept of CSR. It showed however that these efforts met a number of obstacles, among them SMEs perceiving CSR as a concept of expensive additional activities, while they themselves are often short on resources.

The paper presents results of comparative analysis on CSR in SMEs in Lithuania, Latvia, Poland, Romania, Bulgaria, Portugal, Spain and Cyprus. The research has been complemented with first hand knowledge and input from 120 experts and target group representatives through face to face interviews either individually or in the context of focus group discussions.

Keywords: corporate social responsibility (CSR), strategic planning, small and medium-sized enterprises, SME, economical crisis, Leonardo da Vinci project

Introduction

The recent decades have shown a remarkable tendency: while there was a world wide growth in wealth and development and new regions like Asia but also Eastern Europe and some countries in Latin America entered the scene as serious competitors to the established club of nations, all of these societies, “old” and new were faced with the challenge to include all of their citizens into the development. The phenomena in the context of the present financial crisis only accentuate a longer lasting trend. Social indicators show gaps in fields like social security, education and societal inclusion as well as persistent discrimination with regard to gender, age and education as well as migration background.

The European Union on a policy level is on the forefront of proclaiming a strategy of balanced development, integration social and economic development or, even more precisely, of making social inclusion and specifically education one of the main instruments of economic competitiveness. It is very clear that this does not mean the comeback of the traditional welfare state. Quite to the contrary what is required is a general model of development that is achieved by the systematic cooperation of economic, social and political actors on all levels from the shop-floor to the society as a whole in flexible and innovative arrangements. It is this general framework in which the idea of Corporate Social Responsibility plays a prominent role. While big companies have drawn most of the attention for their efforts (as well as criticisms like “greenwashing” in fact irresponsible policies), the economic significance of small and medium sized companies (SME) clearly demonstrates that it will be rather a sound social responsibility strategy for those smaller companies that will in fact decide weather the concept will make significant impact or not.

Consequently in recent years there have been initiatives to motivate SME to adopt the concept of CSR. It showed however that these efforts met a number of obstacles, among them SMEs perceiving CSR as a concept of expensive additional activities, while they themselves are often short on resources. Also the term “Corporate” seemed to imply that the concept was made for big companies, but is alien to SME. A closer look at the reality in European SME revealed however that many SME are in fact high performers regarding social responsibility. They are embedded in their region, employ locally, provide training and employment opportunities, interact closely with the community and also often are sponsors of a number of cultural and charitable activities. This however is not perceived by themselves as social responsibility, not publicised and therefore underestimated.

Scholars are also focusing on big corporations for greater engagement in CSR and the possible contribution of SME is simply ignored due to perceived lack of resources (Perrini et al., 2007). Nejati, Amran (2009) has indicated that while CSR has traditionally been the domain of the corporate sector, recognition of the growing significance of the small and medium sized enterprise (SME) sector has led to emphasis on the social and environmental impact of SMEs, illustrated by an increasing number of initiatives aimed at engaging SMEs in the CSR agenda. CSR has been well researched in large companies, but SMEs have received less attention in this area. According to Friedman, Miles (2001) and Jenkins (2006) research
with regard to SMEs has also been quite scant. Still there are several studies related with CSR in European SME (Murillo, Lozano, 2006; Jenkins, 2006; Sweeney, 2007; Pedersen, 2009; Nielsen, Thomsen, 2009, etc.). Thus this research contributes new material to this by analyzing situation on CSR in SME in eight EU countries considering economical crisis.

The paper aims to present results of comparative analysis on CSR in SMEs in Lithuania, Latvia, Poland, Romania, Bulgaria, Portugal, Spain and Cyprus. Results are based on the outcomes of the Leonardo da Vinci transfer of innovation project “Sustainability and social responsibility through learning in SME (SOCIALSME)” (No. LLP-LdV-TOI-2008-LT-0021).

Research methods. The research has been complemented with the first hand knowledge and input from experts and target group representatives through face to face interviews either individually or in the context of focus group discussions.

Literature review

Concept of Corporate Social Responsibility

Much has been said about corporate social responsibility (CSR) in the fast few decades, and there have been numerous attempts made to identify the business case for CSR. Pedersen (2009) basing on researches Margolis, Walsh (2003), has indicated that between 1972 and 2002 no less than 127 empirical studies were published on the relationship between corporate social performance and corporate financial performance. There have also been efforts to define the concept of CSR, which has repeatedly been labelled as being ambiguous (McWilliams, Siegel, 2001).

Sweeney (2007) basing on researches of Carroll (1979) and Panapannan (2003) is supporting that one of the factors contributing to the ambiguity of CSR is the lack of consensus as to what the concept really means. Although the acronym of CSR is now well established in business lexicon, what the term actually means remains the subject of much debate.

Beliefs and attitudes regarding CSR have varied over time with most recent definitions describing CSR though the lens of stakeholders theory (Jones, 2005). Thus, despite the absence of a universally accepted definition of CSR, much recent research suggests it concerns the way a company governs the relationship between firm and its stakeholders (Sweeney, 2007). The European Commission defines “Corporate” Social Responsibility 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. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing ‘more’ into human capital, the environment and the relations with stakeholders [3].

In general, there are quite many conceptual and empirical studies analysing different CSR aspects. Some of them try to clarify the meaning of concept (Smaiziene & Jucevicius, 2009; Enderle, 2009; Wang & Juslin, 2009; etc.), others analyse influence of CSR on competitive abilities of corporations (Juscius & Snieska, 2008), the role of CSR as the driver of deepening relations between different stakeholders (Tafel-Viia & Alas, 2009). Much research is done on the theme of relations between corporate social responsibility and other factors, such as organizational culture types (Ubius & Alas, 2009), or analyses the importance of knowledge (Jasinskas & Simanaviciene, 2008) or corporate reputation management (Smaiziene & Jucevicius, 2009) in the context of social responsibility. Dalshrud (2006) reviews no fewer than 37 definitions on CSR. It is concluded that the concept can be described along five broad dimensions: 1) stakeholders; 2) social; 3) economic; 4) environmental; and 5) voluntariness.

CSR in SME: extant literature

It has been argued that all organizations have an impact on society and the environment through their operations, products and services and through their interaction with key stakeholders and therefore CSR is important in all firms, large and small (Sweeney, 2007). However, literature on CSR has traditionally focused attention on larger firms. Sweeney (2007) basing on research of Vyakarnam et al. (1997); Schaper & Savery (2004); Spence et al. (2000) confirms that little is known empirically about the type and extent of social responsibility in small firms. While articles have been calling for research on CSR in SMEs since the 1990s, the work to date has been limited and there is a considerable amount of research needed (Spence et al., 2003).

According to Wilkinson (1999), the focus of research on large firms assumes that CSR as it is understood from a large firm perspective is universally applicable to all firms. However, it has recently been argued that CSR such as it is understood for large companies cannot simply be “cut and pasted” onto the SME reality (Jenkins, 2006). Large and small firms are different in nature (Spence & Lozano, 2000), for
example, they have different structures and management styles which can affect the content, nature and extent of their CSR activities.

According to Sweeney (2007), a key difference between large and small firms is that in small firms, ownership and management are not separated to the extent that they are in large multinational firms. Thus, control remains in the hands of one of the owners, potentially enabling him or her to make personal choices about the allocation of resources (Spence, 1999). Thus, in SMEs, the acceptance of CSR is largely a factor of the personal attitudes of the owner/manager.

Additionally, SMEs by their nature may experience specific barriers to CSR. It has been argued that SMEs are constrained by time and financial resources. Sweeney (2007) stated that a focus on the short term can mean long-term investment projects in CSR are not of immediate concern. On the other hand, it has been argued that being smaller and flatter, SMEs may be better placed than large firms to take advantage of the changing needs of society (Sarbutts, 2003).

There are several attempts to evaluate SME motivations on CSR in European countries in recent years. Nielsen & Thomsen (2009) have studied the attitudes and beliefs of middle managers related with CSR communication, Pedersen (2009) managing CSR in supply chain in Danish SMEs. Jenkins (2006) has researched small business champions for CSR in UK. Lozano & Murrilo (2006) has researching Catalonian SME approach on CSR using business case study method. Perrini et al. (2007) have studied CSR strategies of Italian SME and large firms and has revealed that large firms are more likely to identify relevant stakeholders and meet their requirements through specific and formal CRS strategies and that there is a need to make more research on the relationships between small businesses and CSR.

Research method

The research has been made basing on the purpose of Leonardo da Vinci Transfer of Innovation project to make a comparative analysis on CSR in SMEs in Lithuania, Latvia, Poland, Romania, Bulgaria, Portugal, Spain and Cyprus. The desktop research on the relevant literature on CSR in SME in these countries has conducted. This research focussed on key aspects like the general state of the adoption of the concept of CSR in these countries, government policies regarding CSR, strategies for facing the current economic crisis and their impact on the implementation of socially responsible concepts of managing businesses. Further aspects studied included relevant institutions for CSR implementation in the partner countries, associations and conferences as well as key messages from relevant national research.

This research has been complemented with first hand knowledge and input from 120 experts and target group representatives through face to face interviews either individually or in the context of focus group discussions. In the tradition of the methodology of “action research” (Greenwood, Levin, 1998), a second aim of the research has been to get potential partners in the field test of the project as well as potential members of the advisory committees in the partner countries involved. Research therefore also aimed to inspire dialogue with experts and potential partners to broaden and consolidate the knowledge base concerning CSR in general and the situation in typical SME specifically by first hand knowledge.

Findings

Regional differences and transformation as a common challenges

In general the concept of CSR is present in all countries to a quite high degree. The partner countries can be grouped into two main categories. One group consist of the formerly socialist countries of Lithuania, Latvia, Poland, Romania and Bulgaria. They are characterised by the challenges of a economy and society still in transformation. For all of these countries joining the European Union has been a milestone in this transformation process that on the one hand marked the success of the transformation, but also posed new challenges of adaptation and re-regulation for economy, society and politics. Spain and Portugal represent the states that joined the EU in the early 80ies and wrote a success story of economic growth and progress ever since, albeit from a quite low level of development as a starting point in some indicators like education, health etc. Cyprus has a somewhat special role as a traditional market economy, former British colony and small entity with a successful economy that provides high per capita income and is characterised by small companies and a concentration on some sectors like tourism.

All of the partner countries insofar are characterised by profound processes of transformation that are boosted by the current financial and economic crisis, that in some of the countries like Latvia, Bulgaria and Romania seems to threaten the basics of the financial system and economy.
What is the situation of CSR given this blackening background? A common characteristic reported by the research reports from the transition countries in Eastern Europe is a relative weakness of the civil society in these countries. The Lithuanian report therefore characterises the state of the implementation of CSR concepts as “society uninterested, state unsure, associations see CSR as zero-sum, companies do random activities”. This assessment is affirmed by the report from Romania and Latvia. Socially responsible activities in the business community are mostly driven by the ethical orientation of business owners, but suffer from a “lack of knowledge and proper guidance”. The Bulgarian analysis underlines the general character of the economy as “wild capitalism” in the transformation society. Nevertheless the Bulgarian correspondent reports a growing level of CSR activity. Drivers are social partners, specifically business associations. Regarding the southern countries in Portugal there is a growing awareness of the concept already since the adoption of the Lisbon strategy, since Portugal lags behind other European countries in some key social economic indicators. The correspondent emphasises specifically the need to further develop the internal dimensions of CSR, as life-long-learning opportunities. In Spain there is a quite comprehensive framework of legal regulations in the fields usually covered by the concept of CSR. Since companies are already struggling to implement these regulations and already complain about over-regulation, there is only limited room for additional voluntary activities. On the whole the situation in all countries shows a high degree of similarities. CSR as a concept is more or less known in the relevant public and there is a certain level of activities, but the concept still has not taken roots in the economy as a whole. This general problem of scepticism about the practical implications of the concept is reinforced by the acute crisis that occupies all of the attention of citizens as well as businesses and politicians. It is still an open question in which direction the public discussion will turn in this crisis. On the one hand the immediate problems are a strong obstacle to additional activities. On the other hand, in the discussion of the causes of the crisis the short term orientation of business strategies like shareholder value as the dominating paradigm of economic policy is discussed more sceptically even by former proponents of the concept. This potentially could turn out to be an opportunity to rethink concepts of business conduct that emphasize sustainability and building strong community and stakeholder relationships in addition to mere market relations.

Common challenges for implementation of CSR in Europe

It is the unanimous judgement of all national reports in the context of the research efforts that participation of SME in systematic and planned implementation of socially responsible business strategies is still insufficient. Should these stumbling blocks in the implementation of CSR/BSR lead to the cynicism about the concept as a whole? We think there are strong reasons to perceive the problems as a challenge for further development and targeted action rather than resignation. The research in all of the partner countries made it very clear, that in one way or the other dramatic change in economies and societies is real and permanent. Taking action therefore is unavoidable. Therefore there was looked at the micro level of the concrete situations SME face in all these countries. This research, based on interviews with more than 120 experts from SME, consultancy, academia, business associations and training providers, in all of the partner countries revealed what we might call the “SME paradox”.

The SME paradox

In addition to phenomena like underreporting of activities and dependency on decisions of SME owners as key persons, our research revealed a much more systematic and therefore critical aspect of the paradoxical position of SME vs. concepts of business responsibility as a strategic management concept. We claim that here a core strategic weakness of many SME is identified. We asked experts involved to give a rating of the most relevant resources of their business or SME in general, the most important problems that SME face. We also asked them to rate the most urgent problems of SME. The discussion with the experts from companies and SME consultants revealed that the results obtained for these three questions show a high degree of awareness of the fundamental strategic necessities for the SME. However SME often find themselves in a fundamental trap: the most important problems for the development and strategic position of the SME are not dealt with, the most important resources of the business are not adequately taken care of, because time and energy of the business is consumed by urgent reactions to external challenges on a day to day basis. Too often SME, contrary to their better insight, find themselves in a reactive survival mode rather than following a consistent strategy, based on their perceived key strengths. We claim that this paradox has the potential to erode the productive capacity of businesses in the long run, but also already in a mid-term perspective.

The detailed analysis of the results of the expert interviews conducted is outside of the scope of this short paper. Therefore only a general synthesis of the main points can be given here. When asked for the
most important resources of SME and most important strategic priorities in principle, respondents in all of the partner countries consistently list points like the competence of SME employees, the readiness of employees to raise their competencies, building of reputation, competent management, up to date technology and market experience. Also the organisational culture and strong relations in the respective region is mentioned. Among “things to do” employee training is the most important issue, but also measures to improve the work environment and a good company image, socially responsible conduct in general and the good relationships with local authorities and communities, change management, partnerships and networks but also employee related topics as flexible work-times and transfer of knowledge from old to young plus securing employment for older workers.

It could be observed that in several cases consultants among the expert interviewed rated training and other strategic issues as the highest priority, while SMEs themselves rated it the lowest. The same is reportedly true for the issue of “strategic orientation” in general. Here a quite big gap in the perception of how to deal with the acute crisis becomes apparent.

This contradiction is enlightened by the reported results concerning the urgent problems of SME. All of the partners describe the current economic crisis in quite drastic terms. Statements like “declining market, declining income and profit, decline in the number of employees”, problems to secure “punctual payments” (Lithuania); “Latvians are desperate”, “surviving” (Latvia); “survival mode”, “lack of financial resources”, “declining export markets” (Bulgaria), “struggle to secure financial commitments” (Portugal and Spain) and “bad cash flow”, “high energy costs” (Cyprus) dominate in reports. In addition to that, complaints are reported regarding regulations and government policy: “sudden change of legislation”, “new rules raise costs” (Lithuania); “disregard of government for SME”, “new regulations by EU” (Bulgaria) and “government bureaucracy” (Cyprus) are mentioned.

It can be concluded therefore that in fact the hypothesis that a SME paradox exists, that there is a contradiction between the real core development needs of SME, often already identified by themselves, and the empirical emphasis of their day to day activities, is verified. Often the most important activities are not done at all, because of a general “survival mode” of management. There is in fact a degree of activities that can be regarded as socially responsible, as building good stakeholder relations and integration to the community. Most important among these is the investment in training and learning opportunities for the employees. Also an awareness of the importance of these strategies exists. But the implementation of these activities is still fragile. In times of crisis and instability SME seem to have a strong tendency to change to “survival mode” and to neglect the strategically important development activities. This is quite understandable, since “in the long run we are all dead” [6] so a focus on short term survival is for sure legitimate. Nevertheless a look on how the persistent engagement in the “important” activities can be strengthened and stabilised seems to be worthwhile.

Conclusions

CSR is a concept that is discussed in all of the partner countries but has not taken deep roots, specifically not in SME. The general economic and financial crisis in all of analysed countries at this moment shapes the perception of companies and the general mood is rather pessimistic. Nevertheless the crisis has also opened a new public discussion about more sustainable way of doing business and corporate governance. This could potentially foster the interest for new paradigmata of business conduct also on the micro level of single companies and renew the debate about creating win-win situations by intensifying relations with customers, employees and the community in contrast to relying exclusively on abstract market relations.

Government policies are supportive to CSR to a certain degree in all of analysed countries. This can be a positive factor for the project even if this commitment seems not to be intense enough to make CSR an unavoidable necessity for all companies. On the other hand especially in times of crisis with the risks of social disintegration governments must be highly interested in the voluntary commitment of companies. Therefore it is not to be expected that the crisis will “kill” the endorsement of CSR by the governments.

Existing research notes a lack of appropriate institutions, guidelines and methodologies to support SME specifically in planning, monitoring and evaluation their SR activities.

On the background of the analysis presented above the intervention strategy that intends to make this recommendation concrete and practicable also in times of crisis has been developed. Only some key points can be mentioned here. It seems to be critical that SME are motivated to reserve some time to deal with the “important” things, the mid- and long-term strategic and structural priorities in addition to the short term
emergency measures. It has confirmed from previous experiences that the help of an external facilitator can be helpful in CSR implementation in SMEs. Thus basing on the research the concept for cooperation between SME and an external facilitator in the format of 6 workshops of 3 hours each to work out an individual BSR strategy together with a strategy of monitoring the implementation of this policy has been developed. The commitment made to an external partner can help to take time to review the situation and set strategic targets. The challenge to meet deadlines and appointments in the context of such cooperation can overcome the danger of postponing strategic priorities again and again. The cooperation with an external facilitator should focus on small, feasible steps of improvement in the strategic key areas identified by the SME. Among them are the key factors of socially responsible business practices, like providing learning opportunities for the employees, thereby fostering their life-long employability as well as the knowledge base of the company. Setting targets short-term, medium-term and long-term targets for these policies can help to follow through on the commitments made. In this sense Business Social Responsibility is not an additional burden, to be skipped in times of crisis. Quite to the contrary, Business Social Responsibility is almost identical with a consistent and sustainable, long-term strategy, with the main resources of SME, well qualified and motivated employees, good customer and community relations and a generally responsible and ethical business conduct at its centre. Such a strategy seems promising especially since it can build on existing activities of SME.

References


