RESPONSIBLE ENTREPRENEURSHIP

Engaging SMEs in Socially and Environmentally Responsible Practices

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Introduction

The explosive growth of interest in the role of business in society has focused on large companies and multinationals. In so doing, entrepreneurs have been largely ignored. But this is beginning to change. At its Lisbon Summit in March 2000, the European Union heads of state adopted the strategic goal of becoming by 2010, 'the most competitive and dynamic knowledge-based economy in the world, capable of sustained economic growth with more and better jobs and greater social cohesion.' In July 2002, the European Commission presented a strategy to promote CSR entitled *Corporate Social Responsibility: A business contribution to sustainable development*. One of the principles in this strategy is attention to the needs and characteristics of SMEs. In other words, the CSR concept, practices and instruments should be adapted to suit the specific situation of SMEs. This is the context in which this paper has been developed. At the World Summit on Sustainable Development in Johannesburg, it was noted that environmental and social performance of SMEs is one of the major challenges in achieving progress towards sustainable development. As a result the theme of Responsible Entrepreneurship is being increasingly promoted in recognition of the potential for engaging more SMEs in socially and environmentally responsible business practices.

These notes summarize the conclusions of some research carried out by the European Baha'i Business Forum (EBBF) on this theme. The first section defines 'Entrepreneurship' and 'Responsibility', two terms which are subject to varying interpretations and whose meaning tends to be elusive. At the same time it emphasizes the values which underlie these two concepts. The second section discusses SMEs and some significant segments which tend to be more responsible and thus probably more responsive to actions intended to engage them further. Then a number of cases of responsible practices are presented and some of the ways in which SMEs are being engaged in social and environmental business practices are discussed. The fourth section presents a compelling business case for responsible entrepreneurship. Section five discusses some of the ways that SMEs are being engaged in responsible practices. Finally, some conclusions are drawn.

1. DEFINING RESPONSIBLE ENTREPRENEURSHIP

In this first chapter, the two core themes of this paper, Entrepreneurship and Responsible, are defined.

What is Entrepreneurship?

The term entrepreneurship is often associated with new start-ups. The term is also used loosely, and in the author's judgment wrongly, to cover *all* small and medium sized enterprises. Also, entrepreneurs are often seen as solely motivated by profit. Such common beliefs ignore the essence and real meaning of entrepreneurship. A brief history may help to clarify this misunderstanding.

The term "entrepreneur" originated in French economics as early as the 17th and 18th centuries[1]. In French, it means someone who undertakes a significant project or activity. The French economist most commonly credited with giving the term this particular meaning is Jean Baptiste Say who, around the turn of the 19th century, put it this way, "The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield." In other words, entrepreneurs create value, and in this case economic value.

In the 20th century, it was Joseph Schumpeter who highlighted the importance of entrepreneurship as innovation which drives the creative-destructive process of capitalism. Entrepreneurs became the change agents in the economy by serving new markets or creating new ways of doing things.

Peter Drucker developed this focus on entrepreneurs as change agents[2] "the entrepreneur always searches for change, responds to it, and exploits it as an opportunity." He found that starting a business is neither necessary nor sufficient for entrepreneurship, nor does it require the profit motive. Howard Stevenson, a leading theorist of entrepreneurship at the Harvard Business School, added the role of mobilizer of resources and defined the heart of entrepreneurial management as 'the pursuit of opportunity without regard to resources currently controlled."

All of these definitions support the conclusion that entrepreneurship is essentially about the creation of either economic or social value or both. This distinction becomes clearer as we look at what the entrepreneurial process involves:

- Innovation, which is the heart of the process
- Creation of economic and/or social value and wealth
- The taking of uninsurable risks
- The gathering of resources (human, financial and other)
- Being market-driven

And the characteristics of an entrepreneur include:

- Visionary
- Intense personal commitment in pursuit of this vision
- Hard worker
- Able to live with and cope with uncertainty and disappointments

- Seeks excellence
- Accepts and learns from failures
- Pragmatic and action oriented, not perfectionist
- Intolerant of authority
- Believes strongly in himself or herself
- Moral integrity and trustworthy, able to develop enduring relationships

Charles Handy, based on in-depth interviews with 29 entrepreneurs, underscored the defining characteristic of entrepreneurs as passion: they were all passionate about their businesses. He went on to say that profit is the by-product of success in the market place, not the reason for the passion.[3]

What does "Responsible" mean?

Much of the research on SMEs seems to agree that "CSR" is not a meaningful term to use with owner/managers of SMEs and entrepreneurs. The word "Corporate" turns them off immediately, as does " Social Responsibility." Further the term "voluntary" which is an essential part of the European Commission definition of CSR, is confusing in the context of SMEs, many of whose managers are not even aware of many regulations and cannot distinguish between mandatory and voluntary, especially for environmental regulations. They resist standards and formal codes, but they care about their employees and communities and are quite customer and market-oriented.

Inevitably, SMEs display different levels of consciousness concerning social and environmental responsibility. According to Peter Rosen, Commercial Director of Bovine, a medium sized printing firm in the UK, "Rather than looking at it as a costly exercise, people should view 'responsibility' more as a path and begin by implementing a few simple, internal practices and broaden the programme progressively."

So one possible working definition of Responsible Entrepreneurship is:

"**Responsible Entrepreneurship is a concept and a process whereby entrepreneurial enterprises integrate social and environmental concerns in their business operations and in their interactions with their stakeholders."**

So what drives entrepreneurs to act responsibly? There are five major drivers:

- The values of the owner/manager
- Cost savings (e.g. eco-efficiency)
- Supply chain engagement and business customers' requirements to reduce their own reputational risks (codes, monitoring)
- Potential to increase revenue and attract new business/customers
- Attracting/retaining/motivating employees

Values

Values are the inspiration and underpinning of any discussion of social and environmental responsibility. But which values? The Institute of Global Ethics (www.globalethics.org) has been conducting focus groups around the world asking people to list the five values that they would like to see over the door to a new school in their community. As David Grayson has written[4] these five values are remarkably similar across continents and cultures and are quite relevant as drivers of behaviour of responsible entrepreneurs.

- HONESTY: operating with transparency and integrity in all business dealings, trustworthy.
- FAIRNESS: treating employees and suppliers as one would like to be treated, including concern for providing meaningful work and good workplace practices and conditions.
- RESPECT: respecting individuals, their human rights, and their contributions irrespective of gender, race, faith, disability, age or sexual orientation.
- RESPONSIBILITY: recognizing the need for sustainable development and acting accordingly.
- COMPASSION: sharing success with those less fortunate both internally within the company and externally through involvement in the community.

These company values are rarely formalized by SMEs in written codes of conduct. Rather they are living values practiced by owner-managers and/or founders.

Reputation

The extent to which these values are practiced has a very direct effect on a company's reputation, which can be defined as the overall esteem in which stakeholders hold a company. A company's reputation represents an emotional reaction – good or bad, weak or strong – of customers, employees, investors, and the general public to its name. For example, The Body Shop, Ben & Jerry's, Danone and Johnson & Johnson might be said to have an excellent reputation whereas Enron now has a bad reputation. There are many important benefits of having a good reputation: premium prices for its products and services, lower prices from suppliers, ease in attracting the best talent, greater loyalty from customers and employees, to name a few.

2. SMALL AND MEDIUM SIZED ENTERPRISES (SMEs)

More often than not, entrepreneurs end up creating one or more small or medium sized enterprises through which they exercise these characteristics and achieve their goals. Thus while executives in larger organizations, whether private or public, may act as entrepreneurs, these notes focus on SMEs.

SMEs are of overwhelming importance to the economy and employment. For example, in the European Union countries, they number over 20 million; they represent 99% of all enterprises; they provide 65 million jobs, or 66% of the total employment in the private sector, and perhaps 80% of new jobs being created.

SMEs are a terribly diverse and heterogeneous group. Stereotypes of those who succeed in setting up new businesses are extremely popular. In reality, certain generalities do apply in so far as the motivation of entrepreneurs is concerned, e.g. they tend to be achievement oriented. But experience shows that they come in all sorts of shapes, sizes, ages, levels of education, and the like. They do not fit any standard mold and have very different goals.

While difficult, it is important to segment this very diverse universe. If we take size as a criteria, they vary widely by size and range from the single proprietorship without any employees to micro entrepreneurs, small and medium sized companies.

The European Union has defined SMEs by size groups as follows:

Criteria	**Micro-enterprise**	**Small**	**Medium**
Number of employees	< 10	< 50	< 250
Annual turnover or Total balance sheet	< € 2 m <€ 2 m	< ¤ 10 m < ¤ 10 m	<¤ 50 m < ¤ 43 m
Independence	---	*	*

* No more than 25% of the capital or voting rights held by one or more enterprises which are not themselves SMEs.

Another approach to segmentation is to identify categories of SMEs that tend to be more responsible and that can be reached and engaged through various professional associations specific to each sector. These companies are thought to be more responsive to appeals for further engagement. They include:

- Women entrepreneurs: manage differently, growth may not be a primary goal.
- Youth entrepreneurs: emerging with distinct social values, more environmentally conscious.
- Family-owned businesses: family values; employees all-important, family legacy often shapes goals; driven by founder’s values.
- Social entrepreneurs: almost by definition this segment is closely identified with responsible entrepreneurship.
- Cooperatives: have a long tradition of social responsibility.
- Part of a value chain (large customers may impose codes of conduct, suppliers may be closely monitored)
- Micro entrepreneurs: of great significance for social and economic development.
- Growth-oriented and fast growth enterprises: represent no more than 5 to 10% of SMEs;

since seed capital and reputation are important, they adopt responsible practices more rapidly to enhance their reputation.

Several other important segments demonstrate values, cultures and management styles that are more conducive to responsible business practices. For example, some research shows that businesses in consumer-oriented industries, like retail, services, finance, real estate and insurance, show higher levels of social responsibility (Lerner and Frycell, 1988).

Women Entrepreneurs

According to Global Entrepreneurship Monitor, women represent about one-third of entrepreneurs in the twenty-nine countries they monitor. (www.gemconsortium.org) Are women entrepreneurs more responsible than their male counterparts? Research is showing that feminine ways of managing are different from those of men and lend themselves particularly well to start-ups and managing service and knowledge based businesses. As we analyse female ways of managing we may also surmise that they tend to be more responsible.

As developed in the EBBF publication, *Women Entrepreneurs: Catalysts for Transformation* by Diane Chamberlin (www.ebbf.org), there is a considerable difference between male and female owner-managers in the way they manage their businesses, in terms of managerial style, in organizational structure and in the degree of delegation within the organizations. Do men and women entrepreneurs think about and manage their enterprises differently? According to one study, male and female entrepreneurs think similarly but their leadership styles differ. Entrepreneurs, whether men or women, emphasize conceptual thinking in acquiring information.

Where gender differences do show up is in decision-making: men strongly emphasize logic or left-brain thinking; women tend to balance logic with right brain thinking – that is, feelings, intuition, relationships, sensitivity, and values.

Clear differences emerged also in management and leadership styles. The characteristics of their styles reflect important differences in adult male and female development. Distinguishing traits of male development are autonomy, independence, and competition; those of women are relations, interdependence, and cooperation.

Particularly significant are women's skills in and approach to negotiation. Men and women differ in negotiating styles and objectives. Having been conditioned to compete and win in games and sports, men approach negotiations with the objective of coming out best, that is, winning. Some believe that male developmental characteristics and the male objective of winning lie at the root of many of the problems in business and the world in general. Women, on the other hand, approach negotiations with long-term, mutually beneficial and collaborative relationships in mind. They seek mutually satisfactory, win-win outcomes that make for lasting relationships.

So, one might ask, how do women deal differently with various stakeholders? Are they more "responsible?" And are they more successful than male entrepreneurs?

- With employees: Do they offer more meaningful work? Do their enterprises have lower turnover, higher motivation, more creativity and innovation, greater loyalty, better quality?
- With suppliers: do they have longer relationships? Better service?
- With customers: greater customer satisfaction? Loyalty?
- On the environment: are women more caring and 'greener'? More open to eco-efficiency measures? Lower costs?
- In local communities: more active involvement? Encourage employees to volunteer?
- Owners and shareholders: better information? More dialogue?

There is very little research on these questions about the extent to which different characteristics of women as leaders actually translate into different and better management of relationships with stakeholders and, if so, whether they really make a difference. *Ethical Corporation* reports that in one study, women owned businesses are more likely to emphasize social responsibility because they tend to focus attention on education and the community.

In her handbook, *The Seed Handbook: the feminine way to create business*, Lynne Franks builds upon some of the above characteristics and goes much further in encouraging a 'feminine spirit in business'. Just read some of the elements of the SEED manifesto:

- Constantly plant seeds as well as pick the blooms.
- Put values, including integrity, compassion, and love at the centre of the enterprise.
- Remember the three R's: respect for self, respect for others, responsibility for all my actions.
- Keep humour and laughter as vital ingredients of the business plan.
- Welcome in mentors and mentor others in return.
- Give people more than they expect.
- Listen as well as talk.

Looking ahead, it is quite likely that male entrepreneurs, especially in the services and knowledge-based sectors, will adopt more feminine leadership styles and fewer command-and-control approaches to management.

Youth Entrepreneurs

There are currently over 300 million unemployed and underemployed young people aged 18 to 30 years around the world. At least 20 per cent of these young people have the potential to become entrepreneurs, yet less than 5 percent do. A number of organizations are involved in encouraging and promoting youth entrepreneurship: Shell LiveWire, Youth Business International, The National Foundation for Teaching Entrepreneurship (NFTE), Junior Achievement, International Youth Foundation, International Reward Scheme, International Organization of Employers, and the United Nations.

Shell LiveWIRE: For the past 20 years this programme has been encouraging young people to start and develop their own business. It has enabled over 400,000 young people to consider becoming entrepreneurs. Following its success in the UK, similar schemes have been set up in twenty other countries with similar results. Of great importance for this article, it has been the first youth enterprise service to work with young people to introduce sustainable

development to all aspects of their business planning and operation.
(www.shell-livewire.org/about/)

Youth Business International: YBI is working in over twenty countries and has assisted over 50,000 young people in starting a business through a range of outreach services, including business mentoring, provision of start-up capital and the exchange of best practice among young entrepreneurs. The objective of YBI is to mobilize the global business community to help young people unable to find help elsewhere to become entrepreneurs and set up their own businesses. In the UK, YBI is helping 4,500 new start ups each year with its 7,700 mentors. Over 60% of YBI start ups in the UK survive into the third year compared with only 32% which borrow from banks in the UK. The distinguishing features of their approach are:

- Outreach - helping young people to prepare for self-employment
- Business mentoring - mobilizing volunteer businesspeople to help young people through the first few years of their new business
- Business support networks - providing specialized help and advice through a business support network
- Information and communication technology
- Flexible access to finance - ensuring start-up finance is accessible
- Quality - exchange of best practice and performance criteria

(www.youth-business.org)

The National Foundation for Teaching Entrepreneurship (NFTE) NFTE is an international, non-profit organization founded in 1987, with headquarters in New York. It has offices in the U.K., Belgium and Austria. It is an academic and life skills curriculum that teaches young people business start-up skills. The programme is supported by a full range of teacher and student materials, including a new internet based self-teaching programme, Biz Tech, developed and sponsored by Microsoft exclusively for the NFTE. NFTE places particular emphasis on reintegrating socially excluded and disaffected young people.

All of this activity to reduce youth unemployment is of course of great social significance. Corporations and executives contributing time and financial support are clearly demonstrating social responsibility. But, and this is a big but, it is not clear what, if anything, is being done in these and other programmes to engage young entrepreneurs themselves in communities and in socially and environmentally responsible actions?

Family owned businesses

Family-owned businesses (FOBs) are the foundation of the economies of many nations. The numbers are large. According to one study, 75% of all firms worldwide are FOBs. There are 194,000 FOBs in the Netherlands, or 55% of the total number of enterprises. Also, in numbers of employees, Dutch FOBs employed 2.1 million or 45 percent. In Germany, 70% of all firms with over €1 million sales are FOBs. In 80% of these, families own 100% of the companies. In Canada alone, FOBs generate 45% of the GNP, employ 50% of the labour force, and account for between 70 and 85% of the new jobs created (Café, 2000). Turning to Italy, 45% of enterprises are controlled by families. Fiscal and social laws seem to make it easier for family businesses to succeed in Italy, as do the habits and culture. Two relevant quotes: “77% of Italians visit their mother at least twice a week” and “One never knows in Italy where enterprise begins and family ends”.

A key issue is maintaining an appropriate balance in responsibility to the family and to the business. “Founder centrality” is a common phenomenon: the founder often determines the managerial mindset, motives, values, goals and attitudes that are central to the organization. The culture of the enterprise is inexorably influenced by the personality, values, attitudes about people and beliefs of the founding generation. He or she is thus the dominant influence concerning social and environmental responsibility.

FOBs are companies in which there is both significant family ownership and significant family involvement in management. Also a family business anticipates that leadership and control will be passed to future generations. Significant ownership implies that a family owns all or a controlling portion of the business and plays an active role in setting strategy and in operating the business on a day-to-day basis. Family firms differ from non-family firms with respect to patterns of influence, organizational climate, and organizational processes. Managers of FOBs use a more personal approach, trust their employees more, and rely less on formal written policies. Also, family firms are more stable and have a more conservative attitude towards the business, show slower growth and participate less in global markets, and tend to have a longer-term commitment horizon. Some research shows also that FOBs tend to stick to the values, visions and missions laid down by their founders. Family values affect resource allocation priorities.

FOBs are often more conscious of survival, family harmony, and family employment opportunities than they are of maximizing profitability and market position. Research has shown that a key element of a strong family culture is a commitment to achieving some higher purpose. Family members' concerns about continuous involvement and leadership in local community affairs or the family's positive local community/societal visibility may be judged by some as important as financial performance.

Founder centrality exists when members of top management always seek advice or approval from the founder before making decisions of strategic importance. Identifying founders' value systems is very relevant to understanding the founders' influence on their businesses. Values tend to be different if there is a founder team rather than a single founder. In cases where there were several founders, or a team, there is a prevalence of values that express a business orientation. In cases where there was a single founder, family orientation and hard work are found to be dominant values.

Stable ownership is one of the advantages of FOBs, while restricted access to capital markets is a disadvantage. In recent years, younger founders tend to aspire to build capital for their owners (including themselves) more quickly than in the past, rather than building the traditional "family" business to hand on to the next generation. This creates an erosion in family values and even threatens the disappearance of traditional FOBs.

Family businesses enjoy several distinct advantages in the current climate of corporate mistrust:

1. Stakeholders are increasingly focusing on trust and integrity. These advantages of FOBs include reputation, organizational efficiency, greater trust, and longevity.

2. Reputation: this advantage stems from generally better quality of life and environment in the workplace, stronger ethical rules and more social responsibility (Neubauer & Lank, 1998; Vries, 1996). In part this changed perception is a result of the perceived decline in integrity in publicly owned corporations.

3. Longevity and pride: FOBs tend to have a longer-term focus due to their longer CEO tenure, ownership, interests of board members, and compensation arrangements.

4. Organizational efficiency: Family businesses have been shown to outperform non-family owned firms on a variety of financial measures (Brokaw, 1992; McConaugh, 1994). Also, in large companies, the recent ethical and legal failures are likely to add greater complexity, inefficiency, and bureaucracy to corporate governance.

5. FOBs have a unique capacity for developing and sustaining trust among stakeholders. There are four unique perspectives: customers, business partners, employees, and shareholders and other suppliers of capital. Customers tend to believe that family businesses are more concerned with

longevity than with immediate financial returns and focus more on issues of product quality, customer satisfaction, and service. Key customers may be likely to feel more confident dealing with family managers bearing the name of the business (Brokaw, 1992) Relationships that family businesses cultivate with suppliers, distributors and other partners tend to be stronger, more value laden, and have greater longevity (Lyman, 1991). Employees are also likely to trust family businesses to a greater extent than they are non-family firms. Family businesses are shown to pay higher wages to employees. (Goffee & Scase, 1985)

Social Entrepreneurs

The segment which is most closely aligned to the concepts of responsible entrepreneurship is that of social entrepreneurship. Well-known social entrepreneurs such as Muhammed Yunus (Grameen Bank), Anita Roddick (The Body Shop) and Bill Drayton (Ashoka) share the characteristics that typify entrepreneurs in all walks of life. They excel at spotting unmet needs and mobilizing under-utilised resources to meet these needs; they are driven and determined, ambitious and charismatic, driven by a social mission rather than by the pursuit of profit or shareholder value. And they are very innovative in developing new services and creating new organizations.

At the same time, they are social in several senses. Their output is social: they promote health, welfare and well-being. Their core assets are forms of social capital: relationships, networks, trust and co-operation, which in turn give them access to physical and financial capital. The organisations they found are social, in the sense that they are usually not owned by shareholders and do not pursue profit as their main objective.

The designation "social entrepreneurship" is relatively new and implies a blurring of boundaries among the public, private and voluntary sectors[5]. In addition to innovative not-for-profit ventures, social entrepreneurship can include business ventures with a dominant social mission, such as for-profit community development banks, and hybrid organizations mixing not-for-profit and for-profit elements, such as homeless shelters that start businesses to train and employ their residents.

Social entrepreneurs are one species in the genus entrepreneur. They are entrepreneurs with a social mission, which means that adding social value is of greater importance than adding economic value and creating wealth. The social mission is central and explicit. It is difficult to define as precisely as business entrepreneurship, where market discipline helps to define the efficiency and effectiveness with which resources are being utilized. The following definition emphasizes the crucial role social entrepreneurs play as change agents in the social sector:

- Adopt a mission to create and sustain social value (not just private value)
- Recognize and relentlessly pursue new opportunities to serve that mission
- Engage in a process of continuous innovation, adaptation, and learning
- Act boldly without being limited by resources currently in hand
- Exhibit a heightened sense of accountability to the constituencies served and for the outcomes created.

This is clearly an idealized definition, and social entrepreneurs will exemplify these characteristics in different ways and to different degrees. A few examples will help to clarify this definition:

> Furniture Resource Centre in Liverpool is a hybrid which employs 150 people, often written off by other employers, to restore and resell second-hand furniture. The business sells a product and uses commercial practices but, in so doing, creates a social good: better-trained, more confident and capable people.

Centrica: a company which has developed an innovative and viable work placement scheme for disadvantaged people (disabled, long-term unemployed, lone parents). This is a partnership in the UK of business, charity and the public sector.

GrameenPhone is a nationwide cellular network in Bangladesh to provide telephone access to all, including the rural poor, by adding cellular telephony to village-based micro-enterprise organized by the Grameen Bank. It is an initiative of a consortium of the Grameen Bank, Telenor, Marubeni Corporation and Genofone.

There are other definitions. A more restrictive one is “a viable business model with a social purpose”.

Social enterprise is capturing the hearts of a new generation of MBA students both in Europe and in North America. Several years ago, only one top graduate of INSEAD, the leading business school in Europe, was interested in working in a social enterprise. This year, with trust and benevolence scarce in the market place, more MBA students aim higher. Net Impact, a San Francisco based NGO which arranges internships for MBA students in socially responsible companies, received 2,500 applicants for 75 positions. Harvard Business School, the cradle for traditional business practices, now has a distinct faculty department for Social Enterprise and teaches a number of courses in both the MBA and executive education programs. The Social Enterprise Club is the largest and most active club on the HBS campus; it arranged more than 50 internships last year, and special scholarships were offered to students accepting full time employment with substantially lower salaries.

Social entrepreneurship can be expected to grow along with the increasing social needs and the shifting in the boundaries between business, government and non profit organizations. Government funds for public services are diminishing, businesses are recognizing that social and community involvement make increasingly good business sense, and purely voluntary organizations are turning more and more to for-profit services and products to finance their growth. It is not surprising then that one finds an increasing number of partnerships among players of the different sectors and a need for a common language and common approaches in order to seize the opportunities opening up.

Cooperatives

Cooperatives, mutuals and associations, being membership-led organisations, have a long tradition in combining economic viability and social responsibility. The cooperative movement is quite large and widespread. It consists of about 750,000 enterprises which employ nearly 800 million people,. It is particularly active in the following sectors: agriculture, funeral homes, small merchants, florists, pharmacies, consumer goods retailers. Cooperatives tend to add value in several areas: in marketing, in purchasing, and in lobbying.

The very nature of the cooperative movement and the rationale for its existence would indicate that member companies are favourably disposed to both socially and environmentally responsible practices and more so than most SMEs. The movement began in 1844 in the UK with weavers who sought to create more fair and just enterprises. They were and are very ethically based and exhibit a high degree of cooperation. From the beginning they adopted sound environmental practices. Another strong driver has always been the codes of conduct and the twenty-nine basic coop principles which are followed worldwide. Coops tend to promote enlightened human resource policies and practices such as employee ownership and profit sharing. They exhibit distinct customer orientation built on trustworthiness, truth in advertising and promotion, quality and reliability, and service. Brand reputation is all important among coops and this leads members to build trust within the cooperative and with customers and communities. Community involvement is also strongly encouraged.

The reason for the above segmentation and descriptions of selected categories of entrepreneurs is to encourage thinking about how they might become more engaged in social and environment practices and which organizations specific to each segment might play a more active role in convincing them to do this.

3. RESPONSIBLE PRACTICES

Practically speaking, what are entrepreneurs doing to put these values into practice and to integrate social and environmental concerns in their business operations? The following examples first focus on the primary stakeholders for entrepreneurs: employees and customers and are followed by examples of involvement in their communities and reducing environmental impact.

In the Workplace.

Responsible entrepreneurs are first and foremost good employers. They recognize the importance of employee commitment and loyalty. Further, the fact that nearly one-half of SMEs are family-owned businesses leads to treating all employees often as family members with great concern for retention and reluctance to lay off employees. Numerous cases exist to illustrate what companies are doing to improve the quality of life in the workplace and the business benefits of doing so.

> In a small factory making kettles in Tanzania, the investment of US$100 to install fans and enlarge windows so improved working conditions that production increased from 450 to 650 kettles a day. Daily profits increased by over $200.

Some of the practices are: improving the work/life balance, fostering the health and well-being of employees, flexible time sharing, doing everything possible to avoid having to lay off employees, and increasing diversity. A recent book[6], describes practices in twelve specific companies that enhance "spirit" in the workplace. These practices include the following:

- Practicing servant-leadership; listening, lack of strong egos, balance between male and female characteristics and ways of managing.
- Applying the Golden Rule: "Do unto others as you would have them do unto you." Showing respect for and caring for people whether they be employees, customers, distributors, suppliers or others. One notes a high degree of well-being and happiness and at the same time high levels of excellence and quality in all areas.
- Having a greater purpose over and above short term profit and shareholder value, bringing out virtues of generosity, compassion, doing the right thing, caring about the wider community.
- Treating employees as assets to be developed, not costs to be reduced. Demonstrating a commitment to ongoing growth and development of employees.
- Valuing highly the development and maintenance of relationships.
- Recognizing interdependence, practicing teamwork, encouraging collaboration.
- Doing everything to avoid firing when business turns down, showing compassion for others in the event of downsizing and layoffs.
- Recognizing the importance of profit, educating employees on firm finances and business plans and practicing profit sharing,
- Not tolerating backbiting, gossip or blaming others. Admitting mistakes and learning from them.

- Sacred space – creating a work environment that impacts people's well-being and effectiveness. Appreciating beauty.

- Taking measures to counter 'workaholism' and practicing work-life balance by recruiting people with breadth of interests, encouraging community involvement, setting a good example, flex-time and family friendly policies.

- Creating a sense of family or community within the enterprise, having long standing strong relationships internally and externally.

- Showing appreciation of people's individuality, building on strengths, positive encouragement.

- Welcoming diversity in the workforce, recognizing its importance for innovation.

As an experiment in diversity, the U.K. chain B&Q opened a Supercentre in Macclesfield staffed entirely by personnel over 50 years old. After six months, results showed that the Macclesfield store outperformed other stores in nearly all aspects. Profits were 18% higher; staff turnover 6 times lower; absenteeism 39% lower; customer perceptions of service were higher and staff skills were higher than average. [7]

Happy Computers, a London based consultancy, has grown 20% during the past two years in a declining market. Henry Steward, Chief Executive, argues that responsible internal policies have played a key role in this success. For example, HC has created a no blame policy which encourages taking risks and individual growth. Suppliers are always paid on time and all the staff have considerable flexibility in working hours. In terms of environment, all paper is recycled, generous donations are made to the Rainforest Foundation and only Fair trade coffee and tea is used. The CEO attributes the low staff turnover of 5% per year to these and other responsible practices.

Bovince, another UK SME, has always placed its employee policies and a loyal and committed workforce at the heart of its business. They pay their staff well, give them job security, communicate well, and work hard at getting employees to buy into their vision. The average tenure is ten years. They also are involved in community projects such as London Childrens' Project which collects scrap and waste paper from businesses, recycles it and gives it free to local schools. These policies and activities have contributed to steadily increasing profit even though revenue has remained steady.

In the Marketplace.

Building and maintaining reputation is all-important to business success in many small businesses just as in larger companies. Responsible business practices are important for building and maintaining reputation. Reliability in respecting commitments, honesty in advertising and labelling; fairness in pricing; quality and safety in products and services, are all basic to developing and maintaining customer loyalty.

One way to build better relationships with customers is through "cause-related marketing". This can enhance customer appreciation of the product or service while raising awareness of important social issues.

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

Involvement in the Community.

It is no longer enough to say that businesses contribute to communities primarily by producing goods and services and thereby creating jobs and wealth. Many entrepreneurs feel an obligation to pay back something to the communities in which they work. In more cases than not, these activities or contributions are not motivated by direct business benefits. Furthermore they tend to be local in scope, occasional in nature and unrelated to business strategy. One survey of 7,662 European SMEs, the ENSR Enterprise Survey 2001, indicated that almost one-half of European SMEs are involved in some form of external socially responsible activities. This ratio ranges from 48% amongst very small enterprises (0 to 9 employees) to 65% and 70% of small (10-49 employees) and medium sized enterprises (50-250 employees).The most frequent types of social activity included support to sporting, cultural and welfare activities. Encouraging employees to engage voluntarily in community activities and projects often has very positive effects on morale and can contribute to development of skills that can be transferred to the workplace.

> Juan Eduardo Neuenschwander of Autobahn is one of Chile's leading philanthropic entrepreneurs. Juan Eduardo is dedicated to improving the quality of life for the underprivileged in Chile and supports more than five non-profit foundations that help combat urban and rural poverty, improve education and provide treatments for ailing children. Founded in 1983, Autobahn is Santiago's leading installer of automobile electronics and accessories. (Source: *Endeavor* Impact Report 2000)

Respect for the Environment.

Our research has shown that there is a lack of reliable and quantitative data on the environmental impacts of SMEs in Europe. There is a consensus however that many SMEs, particularly micro and small enterprises, lack environmental awareness, motivation and time to develop and implement sound environmental practices. A recent report carried out for the European Commission concluded that "The existing evidence suggests that SMEs' environmental management activities remain low, especially in comparison with their larger counterparts.[8]" As a result, SMEs are believed to pollute disproportunately. In the UK, according to UNIDO, SMEs generate about 60% of commercial waste and are responsible for 80% of industrial pollution incidents. Their level of awareness of their impact is said to be low, and few have environmental management systems in place or are aware of relevant environmental legislation.

There are reasons for this neglect. By necessity management attention in small companies is directed particularly to primary processes of production and selling and to short-term issues. Environmental problems – and opportunities – tend to be viewed as long term. As a result potential opportunities for cost savings and the development of new products and markets receive low priority and attention. These smaller manufacturing companies do not usually have the dedicated staff with the knowledge and expertise to address environmental problems. Regulation does not seem to have much impact since there exists little contact with regulators.

Yet several factors are increasing SME awareness of environmental opportunities. First, entrepreneurs are learning from their peers that it makes good business sense to reduce costs by reducing consumption of raw materials, energy and water; by recycling; and by reducing pollution and waste. Second, the integration by large companies of environmental management into their business strategies and their adoption of Environmental Management Systems is having a cascade effect in their value chain. Third, in the public sector, governments are developing "green" purchasing policies. Some countries, such as Denmark, have defined a national strategy for environmental supplier requirements. As a result, an increasing number are adopting formal environmental management systems (e.g. EMAS, ISO 1400), eco-labelling, life cycle assessments, and cleaner production.

4. THE BUSINESS CASE FOR RESPONSIBLE ENTREPRENEURSHIP

Doing good can be good for business. There is a wealth of studies and examples of the business benefits of socially and environmentally responsible business practices. These can be found in environmental management, social and environmental reporting, human resource management, human rights and community involvement as well as other areas. But most of these studies have been carried out with large companies. What is more important is to develop a business case that is relevant to SMEs and covers activities frequently carried out by entrepreneurs. The benefits of this business case include:

- **Operational cost savings**. Investment in environmental efficiency measures such as the reduction in consumption of energy and raw materials, waste reduction, and recycling often yield significant savings. Reductions in absenteeism and staff turnover and reduced health-care costs as a result of responsible and enlightened workplace and personnel practices also are reflected rapidly on the bottom line.

- **Increased revenue.** Responsible entrepreneurship can help companies strengthen loyalty with existing customers and gain new customers and contracts with large companies provided they are competitive on price, product quality and service. New markets which are accessible to SMEs include eco-tourism, organic farming, "green" wood products, and eco-services. There are also opportunities to take more ecological approaches to product design and even to market services such as floor covering rather than simply selling rugs.

- **New partnership opportunities.** SMEs can establish new or closer links with large companies with which they share values and/or for which they respect codes of conduct, purchasing standards of performance or certification requirements.

- **Increased ability to recruit, develop and retain staff.** These benefits can be direct effects of introducing 'family friendly' policies and using volunteering programmes to develop skills. They may also have indirect effects such as improved morale and loyalty towards company that employees feel proud to be part of. Further, employee loyalty, which can also be enhanced when their workplace has ethical practices, often translates into customer loyalty and thereby increased sales and profits.

- **Improvements in productivity and quality.** Greater efficiency and better management, supported by responsible practices, can help improve the quality and productivity of output as well as customer satisfaction.

- **Learning and innovation**. Implementation of responsible practices can help companies find new ways to work, develop skills, manage risks, seize opportunities and solve problems.

A number of studies of large company CSR practices show a positive correlation with profitability, and we can assume similar results would be shown from a study of SMEs. However, sceptics reply that good CSR practices are generally synonymous with good management, that is, companies with good management are more responsible, and that it is the overall good management practices that produces the better financial results. In other words, correlation yes, but causality is often difficult to prove.

However, studies of specific practices under controlled conditions have shown that these practices can reduce costs, enhance employee loyalty and productivity, reduce absenteeism and turnover, and improve quality - all of which should increase profitability. For example, eco-efficiency is a term invented by the World Business Council for Sustainable Development in 1992. It is defined as being "achieved by the delivery of competitively priced goods and services that satisfy human needs and bring quality of life, while progressively reducing ecological impacts and resource intensity throughout the life cycle, to a level at least in line with the Earth's estimated carrying capacity." It involves such actions as reducing material intensity, reducing energy intensity, reducing dispersion of toxic substances, enhancing recycleability, maximizing use of renewables, extending product durability, and increasing service intensity. Inevitably such actions have a positive and immediate impact on financial results.

Various studies have shown that such management practices as creating a high performance work place (see EBBF publication[9]), improving the work-life balance, introducing more family-friendly practices, and programmes for volunteering in the local community can affect results both directly and indirectly. Some recent studies by the International Labour Office in India, Vietnam and Sri Lanka have demonstrated that improving job and workplace quality and adhering to ILO labour standards can substantially improve productivity and product quality, sales, and profits of SMEs producing products ranging from bronze household articles to textiles.

In the UK, the Corporate Survey II, The Ultimate Win-Win and the Game Plan Consumer Research carried out by Business in the Community (UK) showed that:

- 86% of consumers have a more positive image of a company they see doing something to make the world a better place, and

- 66% of consumers agree they would switch from one brand to another, price and quality being equal.

Another part of the business case is that SMEs are more deeply imbedded in the local community: they depend on people who live there, whose children go to school there, who are more likely to understand the problems in the local community. They are more dependent on the economic health of the area and on the human capital, physical infrastructure and environment.

5. ENGAGING SMEs

It is of course obvious that there is no such thing as a "totally" responsible entrepreneur or a totally irresponsible SME. It is safe to say that all SMEs are doing something which would fit some elements of our definition of being responsible, and moreover few of them recognize such actions as being socially or environmentally "responsible". They often act naturally in a more intuitive way without formal policies or codes. So there is a real need to publicly recognize what owner-managers of SMEs are already doing and have been doing internally and externally.

One of the things which distinguishes SMEs is that the personal values and priorities of the owner-manager determine the involvement of their companies in socially and environmentally responsible practices. For many, the quality of relations with employees is among their major concerns. Care for health, welfare and maintaining employment far exceed that shown by most large companies. Contributions to charity and support to the local community are said to be much more significant as a percentage of sales or profits than large companies. Furthermore, the direct involvement of owner-managers makes them far more responsive to the changing needs of important customers.

Having said this, a great deal remains to be done to engage SMEs which, to remind the reader, represent over 99 percent of enterprises, over half the working population, and a disproportionate share of industrial pollution in the world. There are a number of pressures on SMEs to adopt responsible business practices; in fact we might view it as a galaxy of stakeholders that impact SMEs in some way and contribute to engaging them. Foremost among these 'planets' in the galaxy are large companies, which will be the focus of this section. In addition, we will mention the roles played by financial institutions, governments and inter-governmental organizations, partnerships and multistakeholder initiatives, civil society and non-governmental organizations, and education.

The SME Galaxy is complex

SMEs

Large Companies
Financial
Institutions
International
Business Associations
Intergovernmental Organizations
Professional
Trade Associations
Partnerships &
Multiple Stakeholder Initiatives
Civil Society
Organizations
Governments

Plus: Business support organizations, consumer activists, educational institutions, media, employees . . .

Large companies: value chains, buyers, customers, franchisees . . .
International business organizations: ex: CSREurope, BSR, IBLF, WBCSD, BitC . . .
Professional trade associations: tourism, chemical . . .
Partnerships and multistakeholder initiatives: ex: Ethical Trading Initiative, Global Reporting Initiative . . .
Financial institutions: traditional banks, ethical banks, microfinance, ethical purchasing, institutional investors, pension funds, credit unions . . .
Government: national, regional, local: to encourage, incentivize, legislate, monitor, enforce, procure responsibly, raise awareness . . .
Intergovernmental organizations: UN, Global Compact, ILO, UNDP, UNIDO, UNECE, UNRISD, EU/EC, OECD + national partners, World Bank Group /IFC . . .
Civil society organizations: NGOs, trade unions, civic organizations . . .

LARGE COMPANIES

Large companies represent the most direct and probably significant influence on SMEs through their business relationships as customers, suppliers, and mentors of SMEs. These relationships can be direct business linkages with SMEs, through the management of value and supply chains, through responsible restructuring initiatives, and through professional associations, partnerships and multistakeholder initiatives.

Direct business linkages:

Large companies often develop business relationships with SMEs that involve the transfer of business knowledge, skills and technology. These relationships may result in such responsible benefits as local community development, capacity building, improved workplace conditions, and eco-efficiencies. The motivations for large companies are numerous: to enhance reputation and the company's licence to operate, to demonstrate local community commitment; to create new markets and supply sources; to strengthen distributor networks, to name a few. Two other motivations are discussed separately below: responsible restructuring and strengthening supply chain performance. Also the actions involved vary widely: outsourcing support, capacity building, workplace reorganisation, transfer of skills and technology, loans, and new business start up assistance. The important conclusions of a study carried out by the International Business Leaders Forum[10] are that there are many examples of successful business linkages that had positive impacts on local stakeholders; that large companies involved benefited in many ways (business case clear), and that rarely do these actions get noted by those that oppose TNCs and globalisation.

BP Poland initiated a partnership program, *Clean Business*, with the Polish Environmental Partnership Foundation and Groundwork. The program focuses on ways for SMEs to improve their business and environmental performance and allow them access to other large companies operating in Poland.. It operates in more than 60 areas in Poland, responding to requests for help from around 12,500 businesses, offering more than 35 workshops on business, environment and regulatory topics. (Source: IBLF)

Value and Supply Chain Management

The value chain describes the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and inputs of various producer services), delivery to and use by final consumers, and final disposal. Production per se is only one of a number of value added links, and often not the most important. Large companies that are serious about sustainability know that they must not only change their own practices, but must also change those of their business partners as wel. They can expect increased legislation to this effect.

There are a number of examples of companies providing various forms of training assistance to their customers, distributors and franchisees. This is also an opportunity to communicate company policy with respect to social and environmental practices.

> A small subsidiary of United Parcel System (UPS) is making a big impact on behalf of its customers through the deployment of computer software that allows precise planning of its mail delivery routes. This sophisticated software is offered to customers such as grocery stores, beverage bottlers and snack food companies, among others, to shave miles off their delivery networks and in so doing reduce CO2 emissions. In fact the 1,300 customers of UPS Logistics saved an estimated 250 million miles during calendar 2003, equal to 250,000 tons of CO2 emissions eliminated from the environment. "The solution is a good example of how smart business and environmental practices go hand-in-hand" says Mike Kerr, UPS environmental affairs manager.

One of the most significant ways that SMEs become "engaged" is the pressure from large customers, subcontractors and buyers to respect certain standards as conditions for purchasing or distributing as in the case of distributors and franchisees. Compliance by SMEs can be both a burden and a source of competitive advantage for those who embrace the responsible social and/or environmental performance criteria.

A recent study in Italy[11] indicated that 24% of SMEs systematically required their suppliers to have a "social correctness certificate" from their own suppliers and another 10% required suppliers to do so in some cases. One-third of SMEs themselves say they must produce certification always or sometimes. This social certification within supply chains is said to be a very recent requirement and to be growing.

Increasingly suppliers, often SMEs, are being required to comply with a variety of different requirements relating to labour rights and conditions, human rights, health and safety, and environment. Also, the growth of NGOs and popular movements targeting global producers is leading to increasing demands for more transparency and triple bottom line reporting and the need to achieve minimum environmental and social objectives. This has led to the development of standardized business processes and the use of process-packages such as ISO quality and environmental standards (ISO 9000 - quality and 14000 - environmental), SA 8000 (labour) and industry-specific standards. Multinationals are increasingly integrating global production systems with compatible processes and procedures through the global chains.

In this increasingly competitive global market, innovation and the capacity to upgrade are important for survival. It is an important incentive to adopt more responsible practices in human resource management (diversity, communications, work-life balance), workplace conditions, community involvement, eco-efficiency, and customer relations.

> It was buyers' specifications from European supermarkets that drove the adoption of integrated pest management (IPM) in South Africa's renowned citrus industry. IPM not only reduced pesticide consumption but also radically improved worker health and environmental quality and distinguished their fruit from competitors.

Codes of Conduct: According to the BSR Issue Brief "Codes of Conduct", the goal of a code of conduct is to motivate one's business partners, whether suppliers, distributors or franchisees, to commit to uphold the same or a similar standard as oneself. Often a signed agreement of compliance is requested from suppliers and may be a condition for continuation of their business relationship. Most commonly, these codes address high visibility issues such as child labour, forced labour, harassment, discrimination, freedom of association, right to bargain collectively, wages and benefits, health and safety, work hours and the environment. It will set a minimum compliance level that the supplier must uphold in each of these areas. The choice of words in such codes is very important and should permit measuring compliance. Most codes stick to "safe" discrimination statements, which are broad in nature, such as "discrimination for reasons of sex, race, skin colour, religion, political conviction or social background is prohibited." ILO standards have universal recognition and many countries have ratified ILO conventions on standards concerning child labour, forced labour, minimum wages, health and safety, etc.

Putting environmental and social issues into big companies' tendering requirements may seem like an "easy win" but it may backfire if the small firm supplier sees this as yet more bureaucratic regulation. Good practice suggests that if big businesses are going to introduce these issues through their supply chain, they need to explain carefully to their SME suppliers why they are doing so – and offer training and advice in how to comply in ways that will benefit the small firm too. One UK research found that in the preceding 122 months, 60% of SMEs had been asked by big business customers about their safety policies and practices; 43% had been asked about environmental policies and practices; and 17% about social and community issues.

According to one recent report, over half of UK retailers have codes of conduct for their suppliers (*Ethical Performance,* July 2003). The best performers audited suppliers against a published code, reported the results and had a fair trade scheme for some products.

Nike International was one of the first companies to introduce a Code of Conduct as early as the mid 1990's covering labour standards (Source: www.nike.com):

- The manufacturer does not use forced labour in any form.
- The manufacturer does not employ any person below the age of 18 to produce footwear or below 16 for apparel, accessories or equipment.
- The manufacturer provides each employee with a statutory minimum wage or the prevailing industry wage, whichever is higher.
- The manufacturer provides each employee all legally mandated benefits
- The manufacturer complies with legally mandated work practices
- Management of Environment, Safety and Health (MESH) codes are in place.
- The manufacturer maintains on file all documentation needed to demonstrate compliance with this Code of Conduct.

Yet, many NGOs and government officials remain skeptical about the real impact of these actions. For one thing they say that not enough is being done to implement and monitor compliance with these codes. For another, they say that even if it is true that 500 or 1,000 companies have formal codes of conduct, this is a small percentage of the more than 63,000 transnational corporations (TNCs) in the world. Over one half of these companies are headquartered in EU countries and most, yes most, are SMEs themselves.[12]

The result of these codes can be dramatic and very positive, particularly for SME suppliers and subcontractors in developing countries. Supply chain pressures are proving to be a more powerful force for social and environmental change than local regulation.

Proctor and Gamble has over 100,000 suppliers. It has sent 10,000 of these which they consider to be 'mission critical suppliers' a booklet containing its CSR guidelines. It has also modified contract language to require compliance with local labour law. The company has programmes for internal monitoring and corrective actions.

Monitoring supply chains: Monitoring involves performing four types of activities: (1) visually inspecting workplaces (and dormitory facilities where applicable) primarily for health and safety and visually noticeable violations; (2) interviewing management to understand workplace policies and practices; (3) reviewing wage, hours, age, health, safety and other records for completeness and accuracy; and (4) interviewing workers to determine if workplace policies and practices are being complied with and to detect potential areas of discrimination, harassment, and other less visually identifiable violations. (See BSR Issue Brief "Monitoring of Global Supply Chain Practices)

Chiquita Brands International Inc. U.S.-based Chiquita, the world's top banana grower, uses the SA8000 standard, and includes union representatives and NGOs on its SA8000 assessment teams. The company also publishes a detailed annual sustainability report that openly shows the progress the company has made and where it has fallen short. Chiquita also relies on independent monitors to certify its plantations for the Better Banana Project, which calls for curtailing use of toxic chemicals, controlling pollution, conserving soil and water, and protecting the health and safety of workers.

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But external monitoring and audits have their limits both in terms of cost and effectiveness. As one person asked, "Who audits the auditors?" More effective are correction action, education and training efforts

Training: Good supply chain management also encompasses training and mentoring of SME suppliers. Many large companies are finding that simply having formal codes and monitoring systems is not enough and, in fact, perhaps less important in the long run than training suppliers to incorporate more sustainable practices and acting as mentors.

In summary, some of the specific actions that large companies might initiate to move this agenda forward include:

- Introduce clear policies and practices on integrating social and environmental considerations into business strategy and supply chain management.

- Review internal performance management and reward systems for buyers to properly take into consideration not only price, quality, and delivery reliability but also actions to improve the social and environmental performance of their suppliers.

- Train and coach suppliers on how to meet the social and environmental requirements and policies of their customer(s).

- Introduce reward sharing – a business model in which customer and supplier share financial benefits to reduce consumption of raw materials, energy, water and waste.

- Organize supplier fairs. These open days for suppliers allow them to learn about the company's policy, codes, goals, and future trends in supplier policy. They also allow suppliers and customers to network and build closer relationships.

Responsible Restructuring

There are numerous cases of large companies engaging SMEs in the process of enterprise restructuring. As described in a Joint Working Paper of the ILO and EBBF on "Socially Responsible Enterprise Restructuring", these *responsible* large companies seek to minimize the impact of plant closings or staff reductions on stakeholders through such actions as job creation, training, assistance to departing employees in new enterprise start ups, attracting new businesses to the area, and site regeneration. For example, outsourcing activities to SMEs offers opportunities to communicate the business case for responsible practices.

> The restructuring policy of the Group Danone is to ensure that all employees affected find suitable employment, that an equal number of new jobs is created to maintain employment in the community, and every effort is made to find alternative uses for the plant.

International Business Associations

A number of international business associations, primarily of large companies, are at the forefront of initiatives to engage SMEs through their influence with their adherents. Among them are CSR Europe, the International (Prince of Wales) Business Leaders Forum (IBLF), Business in the Community (BitC), the World Business Council for Sustainable Development (WBCSD), and Business for Social Responsibility (BSR). Their actions are often amplified through independent national partner organizations.

- The SME Key campaign led by CSREurope has resulted in the development, translation and adaptation of a self-diagnostic tool in a number of countries (www.csreurope.org). However even simplified versions are considered too complex or time consuming for some SMEs.

- BSR has collaborated in studies of supply chain management and in training for sustainability.

- BitC has carried out a study of SME engagement in the UK and coordinates an SME Consortium sponsored by CSREurope.

- WBCSD works directly with its 170 member companies and partner organizations to exchange codes of conduct, green procurement practices, greening supply chains, and community involvement. It is also creating learning modules on climate and energy, eco-efficiency, CSR and sustainable livelihoods.

Professional Trade Associations

Several studies have indicated that owner/managers of SMEs are more influenced by their peers in and through professional trade associations than by other institutions. This is certainly also true in seeking ways to engage SMEs.

> Tour Operators Initiative for Sustainable Tourism. In collaboration with UNEP, ILO, and Conservation International, this professional association developed a 24 page "Practical Guide to Good Practice: Managing Environmental and Social Issues in the Accommodations Sector" which describes how tour operators, many of whom are SMEs, can manage their supply chain and improve performance in the ten key environmental and social issue areas critical to long-term success of the accommodations sector. For each issue, for example energy management, it defines the issue, why it is important, what the owner/manager can do, where there is more information, and examples of good practice. For example, a hotel in Jamaica uses low-flush toilets and urinals which use only 5.7 liters of water per flush, aerators and low-flow devices on faucets, water-saving showerheads and ground care water-saving techniques to reduce water consumption by 28.6 percent.

> The Chemical Industries Association (UK) has decided to set social and environmental goals for its 180 member companies, which include SMEs. They are expected to include targets on human rights and workplace conditions as well as improved consultation with communities near chemical plants.

Project ACORN. BSI (British Standards Institute) has completed a two-year pilot program working with 250 UK SMEs toimprove environmental performance through a step-wise, certifiable approach to Environmental Management Systems (EMS) which has resulted in a new British Standard (BS 8555) Large companies provide a mentoring role for SMEs in their supply chain through the program. The European Union (EU) has funded similar projects in Spain, Hungary, Germany, and Ireland. In Spain, the Fundacion Entorno has adapted Project Acorn's staged approach to ISO 14000 for SMEs in Spain and translated and delivered it to over 300 Spanish SMEs.

Project SIGMA (Sustainability – Integrated Guidelines for Management) is a partnership between BSI, Forum for the Future, and Accountability. It aims to provide clear, practical advice to organizations promoting sustainable development. It has developed a set of Guiding Principles, a Management Framework, and a Toolkit consisting of guides and case studies.

Partnerships

Partnerships and Multistakeholder Initiatives (MSIs) are considered to be an increasingly important form of "civil regulation" and represent a recent attempt to fill a large gap in regulatory or governing structures. During the past decade, a number of MSIs have been created. They include such organizations as the Global Compact, the Global Reporting Initiative, the Ethical Trading Initiative, the Forest Stewardship Council, the Clean Clothes Campaign, the Fair Labor Association, AA1000, ISO 14001, the International Cocoa Initiative, and the Worldwide Responsible Apparel Production. One of the objectives of these MSIs has been to improve the quality of codes of conduct, standard setting, reporting, auditing, monitoring and certification. They have also sought to harmonize codes of conduct and to fill some of the gaps in self-regulatory codes related to labour rights, the responsibilities of suppliers, and provisions for independent monitoring.

The recently created International Cocoa Initiative brings together the major manufacturers of chocolate products, industry associations, labour unions, and NGOs to work towards elimination of the worst forms of child and forced labour in growing and processing cocoa beans and their derivative products.

Critics of MSIs in general note that these efforts of a few hundred or thousand companies remain insignificant in relation to the 64,000 TNCs in the world with more than 800,000 affiliates and millions of suppliers (Global Inc. estimates). In response, since 1,000 largest TNCs account for 80% of the world's industrial production, many of the regulatory and voluntary measures mentioned in this paper could have a significant impact on their tens of thousands of affiliates and suppliers as well. These same critics point out also that the mechanisms for ensuring compliance are weak at best and that this permits a certain degree of "green washing" and "blue washing"; that is companies may adhere largely to enhance their image and reputation. Another observation is that some major stakeholders are often not included in their governance structures such as labour, NGOs, and suppliers in the Third World. (Utting, 2002)

OTHER PLANETS IN THE GALAXY

There are many other planets (stakeholders) in this vast galaxy of institutions that can contribute to engaging SMEs in more responsible practices. They include financial institutions, government, intergovernmental organisations, civil society organizations, business development services, and schools.

Financial Institutions

There are many opportunities for financial institutions to play a much more active and positive role in engaging SMEs. Whether it be banks, insurance companies, investment firms, microfinance institutions (MFIs), SRI rating agencies, pension funds, or institutional investors, all can and should promote more responsible practices in their normal business relationships with large companies as well as directly with SMEs. The integration of sustainability criteria into lending and credit policies and in their investment decisions and advisory services seems evident, but are used too rarely.

Further, all financial institutions could use their own purchasing policies and procedures to engage their suppliers more frequently.

A set of new criteria is being proposed by FTSE4Good to exclude companies in selected sectors (household goods, textiles and food) from its family of ethical indices unless they have public policies covering supply chain labour standards backed by management systems to handle policy breaches and regular progress reports (Ethical Performance vol 5 issue 8)

Some "traditional" commercial banks have positioned themselves strategically and have built brand images and reputations based on responsible and ethical policies and practices. Examples include the Cooperative Bank in the UK, the Vancouver City Savings Credit Union in Canada, and Banco Ethica in Italy.

> The Cooperative Bank in the UK is well known for its ethical policies and practises. Around one-third of its potential new customers are turned down each year because of conflicts with the bank's social and ecological policies. For example, one SME was turned down because it sourced raw materials from rain forests in an 'unsustainable fashion'. The bank's decisions on selection of its 400 suppliers are similarly linked to ethical criteria. Contract tenders request social and environmental information from suppliers. Many suppliers now report benefits from increased awareness of these policies and from economies from more recycling and reduced consumption of raw materials, energy and water.
>
> The Brazilian affiliate of ABN AMRO has integrated social and environmental considerations and criteria into the lending and credit risk assessment process as well as purchasing. All branch managers have gone through training on how to integrate these criteria into their own operations.
>
> Vancouver City Savings Credit Union, a Canadian financial services business seeks to ensure all its suppliers conform to its ethical policy. Each year VanCity places around US$70 million of business with 1500 suppliers. It has begun training employees to apply the policy which commits it to actively seek suppliers that practice progressive employee relations, contribute to the well being of their communities, and respect the environment.
>
> Barclay's Bank is helping credit unions in the UK to improve their growth prospects in advance of regulation that will make it easier for the financially excluded to gain access to low-cost finance. The work is part of its wider support for those who have difficulty accessing financial services. (IBE: EP Best Practices)
>
> Insurance and investment firms are increasingly offering clients socially responsible investment products.
>
> Storebrand, the Norwegian insurance and investment company, claims that nearly 50 percent of its equity holdings are now subject to SRI criteria. The firm says now that it "will promote CSR as an integral part of the group's fundamental values' with a focus on employees, customers, shareholders and suppliers.
>
> Rabobank, a Dutch cooperative, was founded as an alternative solution for entrepreneurs with little access to traditional financial markets. They provide special services and products geared toward the needs of SMEs, and favour ones with strong sustainable development principles.

Business angel networks also give SMEs access to new sources of finance. These former entrepreneurs invest in start-up companies and provide advice based on their own experience.

In addition, there are social or ethical banks or community-based economy financial instruments created primarily to promote community development and to finance social enterprises. Crédit Alternatif in Belgium; Merkur in Denmark; Ecos Capital Riesgo in Spain; and South Shore Bank of Chicago are examples.

Pension Funds are another channel for engaging SMEs. *BusinessWeek* says U.S. labour unions with their collective $350 billion in pension funds are increasingly using their power as shareholders to effect change within U.S. companies regarding labour issues such as employee healthcare benefits and job outsourcing. The article cites the shareholder activism example of the Service Employees International Union, which has convinced about 12 public pension funds to adopt "responsible contractor' policies and invest only in real estate where janitorial staff is allowed to unionise or offered 'fair' wages and benefits." (BusinessWeek, November 24, 2003)

Government

Governments play a vital role with respect to the engagement of SMEs. Whether international, national, regional or local, these bodies can serve to encourage more responsible and sustainable business practices, provide appropriate incentives, pass laws, define standards and monitor and enforce them. At the international level, the recent actions of the European Commission (EC) highlight the importance being given to encouraging the development of responsible practices in SMEs.

> The European Commission plans to establish a Tourism Sustainability Group composed of corporate, governmental and civil society groups to develop and monitor sustainability guidelines for tourism and holiday companies.
>
> The EC Directorate General – Enterprise recently published and disseminated a portfolio of SME good practice cases and their direct business benefits[13]. CSR Europe and the UK Small Business Consortium are also preparing publications on good practices.

In countries like the United Kingdom, Denmark and Spain a great deal has been done by government authorities at all levels. These and other countries finance bilateral agencies that sponsor SME programmes (e.g. USAID, Canadian International Development Agency, Swedish International Development Cooperation Agency.) At the same time, several recent studies have highlighted the fact that many regulations are not respected and are not enforced by authorities. One study concluded that local governments need to take more responsibility for enforcing existing standards and regulations in such areas as pollution and workplace practices and that this would be by far the most effective way to engage SMEs.

A noteworthy initiative of the Department of Trade & Industry in the U.K. was the Acorn Project, now British Standard 8555. This project aimed specifically at SMEs provides high quality modular training and support for a six stage model for improving environmental performance. Large companies play a mentoring role for SMEs in their supply chain. SMEs obtain certification at each stage and work towards ISO 14001 or EMAS. It has been extended to other countries through the support and encouragement of the EC. (www.theacornproject.org)

Intergovernmental Organizations

A number of the agencies of the United Nations (UN) are studying and carrying out programmes aimed at more responsible entrepreneurship. They have also been involved directly in a number of recently created multistakeholder initiatives. An example is the recent initiative of Kofi Annan, Director General of the UN, to create the Global Compact with corporations which adhere to nine basic principles. It now involves more than 1,000 companies. A Global Compact Policy Dialogue on Supply Chain Management and Partnerships was held at UN Headquarters on 12-13 June 2003 which discussed ways of improving supply chain management.

The International Labour Office (ILO) actively promotes its regulations covering labour and human rights in the workplace and conducts research and training sessions on the business case for responsible practices such as job quality and healthy work places. Most of these initiatives are in developing economies. Other UN agencies including UNDP, UNEP, UNIDO, UNECE and UNRISD are involved in various ways in promoting responsible practices in SMEs and in the management of supply chains. UNIDO, for example, through its Business Partnership Programme, aims to build multi-sector partnerships and strategic knowledge alliances with TNCs, SMEs, business associations, and other organizations in order to integrate SMEs into value chains. UNEP and UNDP manage a network of National Cleaner Production Centres, which serve mainly SMEs in developing countries in improving environmental practices. UNRISD has carried out a great deal of research in the areas of supply chain management and multistakeholder initiatives.

Both the World Bank Group and the OECD are actively involved in promoting responsible practices in ways that affect SMEs. The World Bank has been active in multistakeholder initiatives such as the Global Alliance for Workers and Communities in which it worked with companies like Nike and Gap in improving workplace initiatives throughout their supply chains. A recent report sponsored by the World Bank and Business for Social Responsibility (BSR) highlighted the importance of supply chain management in encouraging SMEs to be responsible. The World Bank has established an SME Linkage Program, which aims to develop viable local financial and non-financial intermediaries to support SMEs. Its affiliate, the International Finance Corporation (IFC), is heavily engaged in promoting SME activities in member countries. The OECD promotes SME development and shows an ongoing interest in supply chain management as one of the mechanisms for implementing the OECD Guidelines for Multinational Enterprises[14].

Civil Society Organizations take many forms, including NGOs, trade unions, and civic organizations such as Rotary and Lions. Some NGOs have shown real leadership in bringing buyers and suppliers together in respecting more responsible practices.

> The Forest Stewardship Council's (FSC) forest certification scheme is one of the longest-running and most widely implemented ethical sourcing schemes in the world. It has been most successful in the Do-It-Yourself sector.

Some NGOs represent vital partners in efforts to engage SMEs both directly and indirectly through other stakeholder groups. They are active in many of the multistakeholder initiatives and partnerships discussed above.

> The International Network for Environmental Management (INEM) is a non-profit federation of national associations and clean production centres for environmental management and sustainable development. INEM offers various services to help SMEs improve their environmental and economic performance including good practice cases, publications, a tool kit with guides and check lists.(www.inem.org)

We can also expect more activism from unions and their pension fund managers on companies in which their funds are invested.

Business Development Services (BDS): perform a wide variety of non- financial services such as labour and management training; consultancy and counselling; marketing and information services; and technology development. These services form an important part of the "market support structure" that contributes to SME competitiveness.

The feedback on the overall effectiveness of various forms of BDSs is mixed. Some find that accountants, consultants, incubators, and other providers of services to SMEs, when demand driven, are quite credible and listened to by owner/managers of SMEs. Other studies signal that BDSs that are highly subsidized and whose services thus tend to be very general and supply-driven are less relevant and not very effective compared with those that are demand-driven. In both cases, however, there is little evidence that BDSs promote responsible practices. Perhaps they too should be better informed of the business case for sustainability.

Education: Business schools and vocational training schools should be integrating social and environmental considerations into their curriculum. But to date few business schools seem to integrate these concepts into courses on strategy, entrepreneurship, human resource management, supply chain management, logistics, and marketing, nor do they promote concepts of life-span responsibility for products and services for larger companies. As consumers become more vocal about their concerns for *how* goods and services are produced (i.e. workplace practices, respect for labour and human rights, child labour, and the environment), students themselves may bring pressures on schools to integrate these concerns into their courses.

6. SUMMING UP

The preceding chapters have highlighted both the importance of engaging SMEs in more socially and environmentally responsible business practices and the complexity of the problem. SMEs are large in number, extremely heterogeneous, constantly coping with other challenges, and often on the brink of bankruptcy. There are many actors and a large number of initiatives to engage these SMEs, some more successful than others. So, what general conclusions and observations can we draw from this labyrinth?

First, large companies are the most important single influence for more responsible behaviour by SMEs through their normal business practices and relationships. There is convincing evidence that efforts to engage SMEs both directly and indirectly through the management of value chains can contribute importantly to economic as well as social and environmental sustainability. But efforts to date have only scratched the surface. The vast majority of large companies ignore these issues; internal management practices rarely reward managers for their contributions; and often stakeholder relations are adversarial rather than collaborative.

Pioneer large companies in CSR can play an important role through their leadership in international business associations, professional trade associations, and multistakeholder initiatives. They can recognize social and environmental problems in their value chains and cooperate with NGOs, unions, and host and home governments in finding enduring solutions. Yet another thing large companies can do is to comply with laws wherever they operate. While legal standards in some developing countries are not necessarily low (Chinese labour laws are said to be as high as those in OECD countries), they are often not enforced.

Yet another way in which large companies can engage SMEs is to favour longer term relationships with their suppliers and business partners and apply sustainability criteria as well as price, quality and reliability in selecting suppliers and in evaluating and compensating purchasers.

Second, financial institutions represent a largely untapped source of engagement for SMEs. Greater consideration of sustainability criteria and practices in lending to and investing in both SMEs and large companies could have a significant impact on the engagement of SMEs. One should not minimize the impact which microfinance institutions can have on millions of microentrepreneurs if they apply social and environmental criteria in their lending practices.

Third, another potentially very important contributor in engaging SMEs is trade associations in which SMEs are members. These bodies, in frequent contact with their members, can promote and increase awareness of ‘good practice’ and the business case. They can also promote and facilitate certification schemes.

Fourth, partnerships between business, government, international agencies and civil society organizations are increasingly vital to engaging SMEs particularly in developing countries. Through these partnerships large companies can enhance their reputations and competitiveness and contribute to human rights, labour standards, and social and economic development. Also partnerships among companies in the same sector can bring much greater pressure on suppliers for responsible practices.

Fifth, governments must assume their responsibility as the primary regulators and legal enforcers. According to the Business and Industry Advisory Committee of the OECD, “the primary means for promoting environmental and social protections is the implementation and enforcement of national laws and regulations." According to some experts, better enforcement of these regulations and encouragement and assistance to SMEs represent the most immediate opportunities especially in third world countries. An equally important area for engaging SMEs is through more ethical procurement policies for government agencies and intergovernmental organizations which should specify standards for labour and human rights as well as environmental issues. In parallel various forms of capacity building and awareness building programs could facilitate adherence to such standards.

Concerted action by and through these major stakeholder groups: large companies, financial institutions, trade associations, and governments, and through partnerships, can go a long way toward engaging SMEs. At the same time, similar actions can be envisaged by the many other stakeholder groups discussed in this paper as well as through local, national and international organizations representing selected segments such as women entrepreneurs, youth entrepreneurs, owner/managers of family-owned businesses, social entrepreneurs and cooperatives.

Annex A

List of the main global standards being developed

The Global Reporting Initiative: a long-term multi-stakeholder, international undertaking whose mission is to develop and disseminate globally applicable sustainability reporting guidelines for voluntary use by organizations reporting on the economic, environmental and social dimensions of their activities, products and services.

Social Accountability 8000: Social Accountability International developed a standard for workplace conditions and a system for independently verifying factories' compliance. This standard (SA8000), and its verification system draw from established business strategies for ensuring quality (such as those used by the international standards organization for ISO 9000) and add several elements that international human rights experts have identified as essential to social auditing.

Ethical Trading Initiative Base Code: a global standard on employment and working conditions, linked directly to ILO Conventions and the UN Declaration of Human Rights and Rights of the Child. The Code is a partnership consisting of companies, unions and NGOs. Members of ETI are expected to sign up to the code.

AA1000: an accountability standard developed by the Institute of Social and Ethical AccountAbility, focused on securing the quality of social and ethical accounting, auditing and reporting. It is a foundation standard, and as such can be used in two ways: a) as a common currency to underpin the quality of specialized accountability standards, existing and emergent; b) as a stand alone system and process for managing and communicating social and ethical accountability performance.

ISO (esp 14000 and 9000): The International Organisation for Standardization (ISO) is a world-wide federation of national standards bodies from 130 countries. ISO administers over 11,000 standards covering 97 categories (one of which covers management). The ISO standards mainly focus on customers, staff and suppliers in the delivery of quality systems for product (ISO9000) and environmental (ISO14000) management.

The OECD Guidelines for Multinational Enterprises: are recommendations addressed by governments to multinational enterprises. They provide voluntary principles and standards for responsible business conduct consistent with applicable laws. The Guidelines aim to ensure that the operations of these enterprises are in harmony with government policies, to strengthen relations between enterprises and relevant societies, to help improve the foreign investment climate and to enhance their contribution to sustainable development.

What is the European Bahá'í Business Forum (EBBF)?

EBBF is a network of nearly 350 business people residing in 50 countries throughout the world. EBBF is drawing increasing attention in Europe through its promotion of responsible and ethical business practices, its collaboration with other networks with similar values, with various United Nations agencies, and its active involvement with business schools and international student associations like AIESEC.

History. EBBF began in 1990 as an informal network of men and women in business and management. In 1993, EBBF was registered in Paris, France as a non-profit association. Its membership is open to men and women of all faiths and all nationalities who have a legitimate interest in business and who recognize the importance of socially responsible and ethical practices in management.

Vision and Mission. Members of EBBF have endorsed the following statement of vision and mission:

> Vision: to enhance the well-being and prosperity of humankind.
>
> Mission: to promote ethical values, personal virtues and moral leadership in business as well as in organizations of social change.

To carry out this mission, EBBF:

- Provides a forum for business leaders to explore ways and means of applying ethical and moral values in their daily professional lives.
- Seeks to be a constructive force for change and innovation in management practices, with a focus on relating moral and ethical principles to business success.
- Initiates and publishes scholarly works in the field of management.
- Organizes and participates in seminars and conferences on subjects relating to its core values.
- Focuses many of its efforts on tomorrow's leaders (students of management and economics) through its partnership with AIESEC and lectures in various business schools.

Core Values. EBBF seeks to promote seven concepts described in its publication, *Emerging Values for a Global Economy*. These core values or principles are:

1. Business ethics
2. Corporate social responsibility
3. Sustainable development
4. Partnership of women and men
5. A new paradigm of work
6. Consultation in decision making
7. Value based leadership

Membership. EBBF members represent nearly all countries in Western Europe and many of the emerging democracies in Eastern and Central Europe. EBBF members also reside in the Americas, Asia and several African countries. This diversity is enhanced by the members' varied professional fields and interests. While the focus of membership development has been on decision makers, ranging from entrepreneurs to top executives in large companies, present members also include consultants and academics as well as students of business and economics.

For information about EBBF, see web site www.ebbf.org or contact the Secretariat at info@ebbf.org.

SOME RELEVANT PUBLICATIONS OF EBBF
(to read and download, see www.ebbf.org)

The Role of Business in Enhancing the Prosperity of Humankind
The Challenge of Sustainable Development and Prosperity by Arthur Dahl
Entrepreneurship: An Introduction by George Starcher
Entrepreneurship and Ethics: An Oxymoron? by George Starcher
Women Entrepreneurs: Catalysts for Transformation by Diane Chamberlin
The Spiritual Dimensions of Microfinance: Towards a Just Civilization and Sustainable Economy by Barbara Rodey
A Global Dialogue on Microfinance and Human Development by Barbara Rodey

About the Author

George Starcher received a Bachelor of Arts Degree, Magna Cum Laude, in Mathematics from Yale University and an MBA Degree from Harvard Business School, with Distinction (Baker Scholar). After twenty years with McKinsey & Company, a leading international management consulting firm where he was Senior Partner in the Paris and Milan offices, he founded his own management consulting practice. He is a member of the Board of Directors of, and consultant to, the European Centre for Continuing Education (CEDEP) at Fontainebleau, France since 1972 and a member of the International Advisory Council of AIESEC International.

He is co-founder and presently Secretary General of the European Bahá'í Business Forum, a network of 350 socially responsible business people in 50 countries. He is author of several articles and publications on business ethics, corporate social responsibility, and entrepreneurship. More recently he directed a project which led to the publication by the International Labour Office of the *Joint Working Paper of the International Labour Office and the European Bahá'í Business Forum on Socially Responsible Enterprise Restructuring* and wrote the EBBF publication of this same title. He has lectured on this theme at the ILO International Training Centre in Turin and at Ethics Day at INSEAD.

Endnotes:

(Endnotes)

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