

## **A ‘business opportunity’ model of Corporate Social Responsibility for Small and Medium Sized Enterprises.**

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### **Abstract**

In their book ‘Corporate Social Opportunity’ Grayson and Hodges maintain that *‘the driver for business success is entrepreneurialism, a competitive instinct and a willingness to look for innovation from non-traditional areas such as those increasingly found within the CSR agenda’*. Such opportunities are described as *‘commercially viable activities which also advance environmental and social sustainability’*. There are three dimensions to Corporate Social Opportunity (CSO) – innovation in products and services, serving unserved markets and building new business models.

While SMEs have traditionally been presented as non-entrepreneurial in this area, this paper demonstrates how SMEs can take advantage of the opportunities presented by CSR, and maximise the business benefits from making the most of such opportunities. Using data from 24 detailed case studies of UK SMEs from a range of sectors the paper explores the numerous CSR opportunities that present themselves to SMEs, such as developing innovative products and services and exploiting niche markets.

There are inevitably challenges for SMEs undertaking CSR, but by their very nature they have many characteristics that can aid the adoption of CSR, the paper explores these characteristics and how the utilisation of positive qualities will help SMEs make the most of CSOs. Integrating CSR into the core of a company is crucial to its success. Using the case studies to illustrate key points the paper suggests how CSR can be built in to a company’s systems, and become ‘just the way we do things’.

There are a number of factors that characterise the CSO ‘mentality’ in an organisation, and Grayson and Hodges’s book describes seven steps that will move a company in the direction of a ‘want to do’ CSO mentality. This paper adapts these steps for SMEs, and by transferring and building on knowledge from the 24 detailed case studies the paper will begin to develop a ‘business opportunity’ model of CSR for SMEs.

## Introduction

Business has come under increasing pressure to demonstrably engage in activities which are described as corporate social responsibility (CSR). Whilst many such activities come under legal compliance, such as environmental legislation, business is encouraged to go beyond this and assume roles previously occupied by the public sector, such as supporting education and becoming involved in the governance of communities (Curran *et al.* 2000). CSR has traditionally been associated with large companies, but recognition of the growing significance of the Small and Medium sized Enterprise (SME)<sup>1</sup> sector (Fuller, 2003) has also led to an emphasis on their social and environmental impact. While SMEs rarely attract national media attention and may not have a significant impact individually, like large corporations (Spence *et al.*, 2003) they constitute a significant part of the UK and European economy and society. For example, at the start of 2004 SMEs accounted for 99.9% of all UK enterprise and more than half of employment and turnover<sup>2</sup>. Given the significant scale of small business in nearly every economy, their aggregate achievements have a major effect worldwide. Researchers are now also recognizing the importance of business ethics and social responsibility as they apply to small firms (see Quinn, 1997; Vyakarnam *et al.*, 1997; Spence, 1999; Spence and Rutherford, 2000; Tilley, 2000; Spence and Schmidpeter, 2003; Spence *et al.*, 2003, 2004; Jenkins, 2004).

While SMEs have traditionally been presented as non-entrepreneurial in CSR, this paper demonstrates how SMEs can take advantage of the opportunities presented by CSR, and maximise the business benefits from making the most of such opportunities. Using data from 24 detailed case studies of UK SMEs from a range of sectors the paper explores the numerous CSR opportunities that present themselves to SMEs, such as developing innovative products and services and exploiting niche markets. The paper begins by exploring what is known about the characteristics of SMEs and how CSR might emerge as a process in them. The results of the research study are briefly discussed, and then the concepts of Corporate Social Opportunities (CSO) and competitive advantage are introduced. The paper looks at the characteristics of companies that are ready to realise CSOs, and discusses the managerial mechanisms that need to be in place to capitalise on them and develop CSR strategies that allow a company to gain competitive advantage.

## CSR and SMEs

Conventional approaches to CSR are based on the assumption that large companies are the norm and have been predominantly developed in and for large corporations (Jenkins, 2004). Another assumption is that SMEs are 'little big companies' (Tilley, 2000) and that advances to engage companies in CSR can simply be scaled down to

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<sup>1</sup> The EU defines SMEs based on employee numbers, turnover or balance sheet total and ownership. An SME-

- Has fewer than 250 employees, and either
  - An annual turnover not exceeding ECU 40 million, or
- An annual balance sheet total not exceeding ECU 27 million, and is an independent enterprise, i.e. 25% or more of the capital or voting rights cannot be owned by large enterprise/s.

<sup>2</sup> Small Business Service (2005) see [http://www.sbs.gov.uk/SBS\\_Gov\\_files/researchandstats/SMEStats2004.pdf](http://www.sbs.gov.uk/SBS_Gov_files/researchandstats/SMEStats2004.pdf) [accessed 12/01/2006].

'fit' SMEs. The SME sector is often perceived as homogeneous, the defining characteristic explaining its behaviour being size (Wilkinson, 1999). Whilst size is a factor, and many SMEs may conform to such views, there are other internal and external dynamics that explain their behavioural characteristics. SME behaviour is often understood in terms of the psychological characteristics of the entrepreneur or 'owner-manager', as Bolton (1971) noted SMEs tend to have a personalised style of management and lack formal management structures with specialised staff. These characteristics vary widely depending on individual personalities and differing ownership structures, and will influence the company's approach to CSR. The most common form of SME is the owner-managed firm where ownership and control lie with the same person. This lends legitimacy to the personal decisions made on how to use company resources, such as on CSR related schemes, and allows a degree of autonomy in how CSR is approached.

The SME manager may be responsible for several business tasks at once (Spence, 1999) and awareness of issues beyond the day to day running of the business may be low (Tilley, 2000). SMEs can be difficult to regulate as they are both reluctant to adopt voluntary regulation but are also distrustful of bureaucracy (*ibid.*), and are less responsive to institutional pressures e.g. legal, competitor benchmarking, government agencies, public and private interest groups (Dex and Scheibl, 2001). But, SMEs can also "*be very adaptive, swiftly adjusting their trading capacities according to changing market opportunities*" (Goffee and Scase, 1995, p.18). This flexibility means that they can respond quickly to changing circumstances; SMEs may be able to rapidly take advantage of new niche markets for products and services that incorporate social and/or environmental benefits in their value (Jenkins, 2006).

Notions linked to SMEs, such as 'community' and 'small business owner' (Burns, 2001) have become more complex (Curran *et al.*, 2000) suggesting a fragmented, far from homogeneous sector operating in numerous economic spheres, in a dispersed supply chain, with differing managerial styles and ownership structures. Thus, the notion of the profit-maximising, rational economic entrepreneur as the standard image of the small business owner-manager is likely to be false (Spence and Rutherford, 2000).

Evidence suggests that the majority of SMEs believe that organisations like themselves should pay significant attention to their social and environmental responsibilities (Southwell, 2004). SMEs play a crucial part in investments in social capital that can help to overcome common problems in society, but they tend not to reflect on their own social practice as they are frequently motivated by personal moral convictions not business reasons (Habisch, 2004). Recent trends show that there is some growth in the engagement of SMEs in the CSR agenda (Joseph, 2000; MORI, 2000; DTI, 2001, 2002; EC and Observatory of European SMEs, 2002; Grant Thornton, 2002; Irwin, 2002; EU, 2004). The CSR agenda may not always be a business threat and cost burden to SMEs, rather it could provide significant scope for competitive advantage (Tilley, 2003). However, the motivational pressures that may engage SMEs in CSR are not the same as for large companies.

While the growing visibility and global impact of large companies and brands has heralded calls for greater transparency and accountability, SMEs remain largely invisible and unlikely to see CSR in terms of risk to brand image or reputation

(Jenkins, 2004). For SMEs, issues closer to home are far more likely to hold their attention such as employee motivation and retention and community involvement. Realistically, 60% of SMEs are simply content to survive (Baker, 2003), as long as they are making a decent living there is little need to reduce the bottom line with CSR related schemes. Another way of looking at this is that it is precisely because of a desire to protect a personal ethic that some small firms are simply content to survive. Graafland *et al.* (2003) suggest that the most popular instrument for organizing CSR used by SMEs is to let one member of the board be answerable to ethical questions, and they are less inclined to use formal instruments (such as codes of conduct) to foster ethical behaviour within the organisation.

There are basic CSR issues that all SMEs have a responsibility for, amongst them the creation of a good working environment where diversity is encouraged, the fair distribution of wealth in a community, and the protection of the environment. SMEs are often portrayed badly in relation to such basic responsibilities (Gibb, 2000; Hillary, 2000; Bacon *et al.* 1996) and are frequently seen as a problem within the CSR debate, because of their failure to become engaged with it. An alternative interpretation is that so far, it is the CSR debate that is the problem, because of its failure to engage SMEs (Jenkins, 2004a).

### **Corporate Social Opportunities (CSO) and competitive advantage**

One way to engage SMEs more effectively in CSR is to demonstrate how they can achieve added value and competitive advantage through realising and maximising the opportunities presented by CSR; this of an often neglected dimension of SME performance management. In their book 'Corporate Social Opportunity' Grayson and Hodges (2004, p.9) maintain that '*...the driver for business success is entrepreneurialism, a competitive instinct and a willingness to look for innovation from non-traditional areas such as those increasingly found within the CSR agenda.*' These are termed corporate social opportunities and are described as '*...commercially viable activities which also advance environmental and social sustainability...The goal is to be able to create an environment where numerous CSOs are possible.*' (*ibid.* p.11).

The companies in the research study sought increased profitability and growth, but these were not their only goals and this was not their only motivation; they were also willing to look for competitive advantage by seeking opportunities in less traditional ways i.e. through CSR. There are three dimensions to CSO – innovation in products and services, serving unserved markets and building new business models. These will be elaborated on further in the paper using examples from the study companies.

The notion of competitive advantage is a crucial component of CSO. Companies can gain competitive advantage by capitalising on the CSOs offered by CSR. Many 'large-firm' concepts such as CSR and stakeholder management are directly relevant to owner-managers trying to improve their firms' competitiveness although how this is approached will be different in SMEs than in large, well-resourced companies (Jones, 2003).

## **The research project**

### *Methodology*

This paper is based on the findings of a UK wide study of socially responsible SMEs. The 24 companies studied were chosen as 'exemplars' of CSR in SMEs; the aim of this study was to progress understanding of both the limitations on and opportunities for CSR in SMEs through the exploration of exemplary characteristics in the study companies.

A collective case study approach was used and qualitative data was derived from in-depth semi-structured interviews with 24 SMEs from across the UK. The case study approach allows an investigation to retain the holistic and meaningful characteristics of real-life events (Yin, 1984), such as the organisational and managerial practices studied here. The use of exemplars allowed the researcher to investigate individual instances of good practice, and build them into a body of knowledge that may be transferable to other SMEs. The research was conducted at the micro-level i.e. it was grounded in the perspectives of owner-manager/managing directors, whose personal values often influence the strategic direction a company takes (Burns, 2001), and shows how CSR is balanced with the daily activities of a company.

The geographic coverage of the study was largely determined by the locations that the award-winning companies happened to occupy, but in practice this resulted in a good spread of companies throughout the UK. The definition of SME size itself has proved complicated and problematic. With no universal definition of an SME, research is based on varying interpretations, making comparisons between studies difficult. In order to minimise variability due to size, companies were selected within a middle range of 25-120 employees. This research was not intended to be industry specific so companies were drawn from a variety of industries. Key areas of investigation were CSR terminology, the influence of managerial values, the nature of SME CSR activities, motivation for and benefits from engaging in CSR, and the challenges faced.

### *Discussion of results*

Although some companies expressed difficulty in understanding the concept of CSR, all could define what it meant specifically in the context of their company. CSR was seen as an 'all embracing' idea that concerns having an awareness of the impacts of the business, and wanting to have a positive impact on a wide range of stakeholders through the business decisions that are made. Common themes that emerged while discussing CSR as a concept were that CSR must not be an externality, but should be incorporated and integrated into every element of the business, and CSR is about having an ethos and values as a company; such principles were frequently expressed in the company vision or goals, which often reflected the given definition of CSR.

Companies felt that they were being socially responsible simply by supporting the local economy and community by being profitable and successful companies and employing people; but they also recognised the importance of other responsibilities. Key stakeholders that companies engaged with were the environment, employees, community and the supply chain, the relative importance of whom varied from

company to company. Companies undertook a wide range of CSR activities such as environmental management initiatives, community projects and employee development programmes. The companies' CSR programmes were all at different stages of strategic development and a spectrum emerged from a completely *ad hoc* approach to all CSR activities, to the development of a CSR strategy.

While all companies could find business reasons for CSR and realised business benefits, fundamentally this isn't why they do it. The majority used moral and ethical arguments to justify why CSR was important to them. Interviewee responses suggested that internal drive rather than external pressure was their main motivation for CSR. Companies could begin to make a business case for CSR and listed numerous benefits that they had realised, such as improved image and reputation, better market position, more business, increased employee motivation and cost savings and increased efficiency.

Many of the companies were uncomfortable with the idea of promoting their CSR activities. It was seen as a 'big business' thing to do and there was a belief that many large companies only undertake CSR for the PR benefits. Companies didn't feel comfortable with 'boasting' about the social aspects of their CSR activities as they were undertaken for moral not business reasons. Small firms are unlikely to employ individuals in marketing or PR roles and therefore are not likely to consciously pursue goodwill from their CSR activities for commercial exploitation. This discomfort did not transfer to the notion of encouraging other companies to adopt CSR, most companies were very happy to promote the CSR agenda and encourage others to become more socially and environmentally responsible

The paper looks at the characteristics of companies that are ready to realise CSOs, and discusses the managerial mechanisms that need to be in place to capitalise on them and develop CSR strategies that allow a company to gain competitive advantage. SMEs are well placed to utilise such characteristics in a beneficial way and have many characteristics that can aid the adoption of CSR. Grayson and Hodges (2004) describe seven steps that will move a company in the direction of a 'want to do' CSO mentality. This paper adapts these steps for SMEs, and by transferring and building on knowledge from the 24 detailed case studies the paper will begin to develop a 'business opportunity' model of CSR for SMEs.

### **Characteristics of a CSO company**

How can a CSO mentality be achieved and what are its characteristics? According to Grayson and Hodges (2004, p.13) '*...the answer lies in achieving alignment of business values, purpose and strategy with the social and economic needs of customers and consumers, while embedding responsible and ethical business policies and practices throughout the company.*' Table 1 outlines the key characteristics of a corporate social opportunity company; it focuses on vision and values, communication, top-level management commitment, effective tools and mechanisms and stakeholder engagement.

<b>Key characteristics of a corporate social opportunity company</b>
1. Organisation aligns and articulates explicitly its purpose, vision and values consistent with responsible business practice.
2. Leadership fully believes in and lives those values and purpose.
3. Purpose, vision and values are continuously communicated throughout the organisation and beyond.
4. Purpose, vision and values are constantly reinforced through culture, processes and rewards.
5. Effective mechanisms for whistle-blowing on any 'values gaps'.
6. Effective tools and processes for scoping and prioritising risks and opportunities associated with CSR and a framework for ensuring consistency of decisions and values.
7. Decision-making processes at the top of the organisation.
8. Effective stakeholder engagement processes.
9. Ethical code governing relations with stakeholder partners to determine the fair share of risks and rewards.
10. Appropriate measurement and reporting of company's performance.

**Table 1. Key characteristics of a company or organisation taking corporate social opportunities (adapted from Grayson, D and Hodges, A., 2004, p.14).**

There are a growing number of highly successful businesses that are passionately committed to people, wisdom and service. These are high-performing companies where commercial success grows out of their commitment to values and to the human spirit (Lamont, 2002). It is important for the company to develop an understanding of CSR and translate this into business principles. CSR is the practical implementation of a company's 'ethos'. The first step towards developing a CSO mentality is to set values and principles for the company, usually the role of the business owner/s, and align the company's understanding of CSR to this. For example, the principle 'respect and value our colleagues' in CSR translates into improving the work-life balance of employees or providing excellent training and development opportunities. Important principles of a 'spirited business' include trust, vision, courage, creativity, patience, integrity and community (Lamont, 2002). Many of the study companies espoused such principles when discussing what CSR meant and the principles behind their business. One advertising firm based in London had a philosophy and vision based on five key principles- integrity, humanity, diligence, enthusiasm and openness, and everything that it did was marked against those touch-stones. The crunch between improving the bottom line and committing to CSR may be overcome by tapping into the core motivating factors of the company and using these to underpin the company's business strategy.

Table 2 outlines some of the key aspects of a 'spirited' business and illustrates them with examples from the study companies. Such pointers can be used as a basis for getting a CSR culture ingrained into the company.

<b>Aspects of a 'spirited business'</b>	<b>Case study example</b>
Values provide a template for decision making- need a vision, and to base the company's understanding of CSR on this .	For one architecture company CSR is about making the World a better place, creating better spaces, putting something back into local community and wider World and encouraging staff to grow as people.
Human beings matter- need to create a positive, nurturing, supportive environment for employees to maximise the capacity for human creativity.	This printing firm is dedicated to providing its staff with a good work-life balance. The company developed a work-life balance policy and a 'people policy' dedicated to employee's training and development needs.
Include and listen to the marginalised- bring every employee into the centre of the company and get	One IT Training company always looks for ways to enable people to push back their personal limits

them involved in CSR.	and to reach their full potential and believes that if it treats its people excellently then it will receive excellent work in return.
Draw on diversity- difference is necessary to success, no one person or perspective is adequate to respond to the complexity of today's world/CSR issues.	This recovery and recycling firm has a company CSR strategy that is 'guarded' by a team made up of a cross section of staff.
Creativity- instead of balking at hurdles when a difficulty arises a company may think 'how does this provide us with an opportunity to find new ways of working'?	One company, who's main employee drain is people leaving to go travelling, set up a scheme where employees were sent abroad to train people in developing countries, thereby providing employees with experience and broadening their horizons, and disadvantaged people with access to training.
A holistic approach- it's impossible to separate what is going on in the world and in employee's lives from business and finance etc. SME owner-managers usually find it impossible to make this separation anyway, this can lead to an opportunity for maximising the applicability of CSR schemes to the outside world- 'people bring the whole of themselves to the business'.	The owner-manager of this manufacturing firm believes that operating the company in a socially responsible manner is no different to how he as an individual would behave. CSR is about operating and managing the business in a way that is sensitive to the external world- employees, the environment, and shareholders.
Community- a sense of well-being, when each person feels valued and part of a whole, but can also express their individuality. For CSR, feeling part of a wider community is also important.	The owner-manager of this recruitment services company believes that staff enjoy getting involved with the community and want to work for a caring company.
Wealth- generating wealth is vital to the well-being of the UK, without wealth companies can't exist and they would be unable to provide the jobs and services they do. CSO companies take the business of generating wealth very seriously and they do so successfully; CSR is pointless if your business is failing. However, while profit making is crucial to the success of CSR, profit maximisation does not have to be the sole raison d'être of the firm.	Many of the case study companies have strong goals alongside growth and profit maximisation, such as the Property development company with urban redevelopment and regeneration at the core of this company's philosophy since its inception and the recovery and recycling firm that has environmental education as one of its key goals.

**Table 2. Aspects of a 'spirited business' (adapted from Lamont, 2002).**

## Values

A key aspect that underpins the ability of companies to take advantage of CSOs is the importance of values to the owner-manager and to the company. In order for CSR to work in a company it must have an internal champion; top-level management commitment is crucial to its success. In a large company, top-tier managers may support CSR, but it is usually driven by champions at the middle-tier working in departments such as human resources or external relations. In SMEs, the owner-manager is often both the driver and implementer of values. Managers exhibit their personal values through the exercise of managerial discretion (Hemingway and Maclagan, 2004) and SME owner-managers have the autonomy to exercise such discretion. Values and operational priorities e.g. profit making or profit maximising are important considerations in the way in which new ideas are implemented and competitive advantage is realised. Values nourish the organisation and enhance the spirit of entrepreneurialism (Lamont, 2002).



In all of the companies interviewed the owner-manager or senior partner was directly responsible for directing the CSR principles and activities of the company and moulding the company culture in their own personal values and beliefs. All interviewees felt that their values were essential and a powerful driver of ethics and standards in the company. This also led many to be external champions of CSR, promoting the agenda because they truly believed in it.

### **Competitive advantage**

*'Competitive advantage...stems from the many discrete activities a firm performs in designing, producing, marketing, delivering, and supporting its product. Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation.'* (Porter, 1985, p.33). From a CSR perspective 'cost position' may be seen as adding value to the company through innovative approaches and 'differentiation' as CSOs that set an SME apart from competitors. Competitive advantage for owner-managed SMEs need not necessarily be linked to increased turnover and profits, but should focus on supplying better value for customers, and other stakeholders through maximising CSOs.

The way in which ideas are implemented will be contingent on a range of factors including the skill, knowledge and motivation of owner-managers and their employees as well as the competitive environment in which they're operating (Jones, 2003). Dynamic capabilities are described by Teece *et al.* (1997) as the ability of managers to create innovative responses to a changing business environment e.g. CSR. The organisational and managerial processes with the creation of dynamic capabilities are:

1. The co-ordination and integration of internal and external activities e.g. integrating CSR into core business activities.

This involves developing a CSR strategy that is closely aligned with the company's business strategy.

2. Learning e.g. learning about CSR and new ways of doing business.

Training is required to achieve the necessary skills to take advantage of the CSOs presented by CSR. This includes in-house training of employees, training from external specialists, business school courses as well as mentoring, secondments and partnering and networking with other companies to share best practice *'...the root cause of competitive advantage is a company's relative ability to learn...'* (Gibb, 1997, p.17).

It is unlikely that competitive advantage can be created or sustained in the longer term without a commitment to learning across the organisation. For example, one manufacturing company felt that a lack of education and training development in their employees was becoming a barrier to company progress, so they introduced an employee training and development scheme to try to improve matters. *'About five years ago my brother and I basically did everything and ran everything, and decided on everything, so this culture of the employees always looking upwards for decisions and not sorting things out for themselves was becoming quite a barrier to our*

*progress*' (manufacturing company, 100 employees, Yorkshire). The company took several important steps forward:

1. The recruitment and formal recognition of a senior management team, leading to greater delegation of important responsibilities.
2. All senior management (including the owners) were sent on a business management course.
3. Every single member of staff attended an NVQ course on world class manufacturing (all but one passed).
4. Company achievements were recognised by a Management Learning Award.
5. Set up a culture of 'limitless achievement' in the company and encouraged employees to 'raise the post' for their own ambitions.

*'...it's just raising the post a little bit as regards people's ambition. It's definitely having an effect on a lot of people... and you can see the stars starting to emerge that previously might have been somewhat subdued by the management systems...'*

3. Reconfiguration and transformation that is based on surveillance of market and technological markets e.g. taking advantage of CSOs.

SME owner-managers are much less able to influence the competitive environment than larger firms (Jones, 2003), but are more able to do so if they collaborate with their peers and other stakeholders. The competitiveness of SMEs is strongly influenced by the extent of interfirm collaboration (Rosenfeld, 1996); 'hard' networks include SMEs joining together to co-produce, co-market, co-purchase or co-operate in new product or service development, 'soft' linkages involve sharing information or acquisition of new skills (*ibid.*).

Indeed, in this way competitors and peers may be seen as key stakeholders to an SME (see Spence, 2001 for a more detailed discussion on this). The study companies showed a strong preference for learning about CSR through peer networks and were happy to share information. There are also opportunities for SMEs to collaborate in hard linkages to develop CSR related products and services; collaboration is in itself a CSO. Viewing the firms' business networks as a 'learning environment' is central to performance improvements and SMEs have an advantage in doing this as there should be fewer communication barriers to sharing knowledge about such activities (Gibb, 1997).

SMEs experience advantages and disadvantages when seeking competitive advantage. A well documented disadvantage is a lack managerial resources leading to poorly managed activities (Jones, 2003). Much has been made of the resource limitations of small firms and its effects on its ability to get to grips with concepts such as CSR, but there are a number of positive characteristics that SMEs possess that can help them to minimise limitations and realise opportunities from CSR.

- SMEs are flexible and adaptable, and can therefore respond quickly to changing circumstances. For example, SMEs may be able to rapidly take advantage of new niche markets for products and services that incorporate social and/or environmental benefits in their value.

- SMEs are often creative and innovative, which can be applied to the development of innovative approaches to CSR.
- The owner-manager is closer to the organisation so can more easily influence the values and culture of the company and champion CSR throughout the company.
- Communications in SMEs are more fluid and open allowing values to be embedded across the organisation and CSR information to be rapidly disseminated.
- Leaner, less hierarchical management structures should facilitate the involvement of all employees in CSR programmes.
- The benefits of undertaking any action are felt more immediately, particularly those relating to personal satisfaction and motivation.
- Companies may experience difficulties in making CSR operational, there often seems to be a gap between rhetoric and implementation (Grayson and Hodges, 2004). But in SMEs this gap may be smaller, due to the closeness of the owner-manager to the day to day operations of the company, and therefore easier to overcome.

Viable sources of competitive advantage in SMEs include:

- Output flexibility (Fiegenbaum and Karmani, 1991) e.g. adapting to changing work environments by adopting CSR.
- Innovation (Lefebvre and Lefebvre, 1993) e.g. developing innovative products and services with CSR credentials.

The companies in the study showed numerous examples of innovation by developing products and services that incorporated social and/or environmental benefits, one dimension of Grayson and Hodge's (2004) CSOs. Some of these examples also reflect elements of the other two dimensions i.e. serving unserved markets and building new business models, particularly those who had chosen to focus a sizeable proportion of their business on serving charity markets, capitalising on the upward growth curve of the UK voluntary sector.

CSR activities in this category, innovation in products and services, are market-driven while at the same time addressing important societal conditions (Kramer *et al.* 2005) such as environmental protection, sustainability, education and ethics. Such products and services are often too specialized to attract large, global companies, and therefore appear to offer attractive opportunities for SMEs. Examples of such innovations include:

- The construction company developing and promoting sustainable timber construction.
- The printing company that has developed a special environmental printing route which customers can choose.
- The publishing company that publishes travel guides that highlight culturally and ethically aware tourism.
- The IT training company where 45% of the company's clients are charities, 30% are other not for profits.

- The company that recycles waste toner cartridges and mobile phones. From its inception the company has had environmental education as one of its key goals- educating the public about the reuse potential of commonly used products such as mobile phones and the benefits of limiting natural resource use. A large part of their business is providing substantial revenue streams to charities, NGO's, schools and community groups.
- The property development company intent on stimulating broader regeneration of our urban communities.

### A 'business opportunity' business strategy

A crucial part of profiting from the opportunities presented by CSR is to develop a business strategy that aligns the company's business goals with a strong commitment to CSR values and principles. The subjective judgement of the owner-managers has a strong influence over the strategic direction of SMEs. In SMEs the 'change agent' is usually an individual entrepreneur (the owner-manager) or the original founding team. The modes of strategy-making related to CSR depend on the strategists' social characteristics and the social context in which the operation exists (Whittington, 1993). In an owner-managed SME the CSR direction taken will depend much on personal values and context, as is shown by the case studies. However, SMEs often don't link this with the overall business strategy i.e. the direction of the company, and fail to gain the maximum competitive advantage from it. The study companies did not undertake CSR because of the business case; rather it was motivated by moral reasons and the values of the owner-manager. However, some companies did recognise the competitive advantage to be gained from CSR and began to align CSR and business strategy more closely and therefore seek CSOs from it.

A key aspect of realising CSOs is identifying key stakeholders and prioritising key areas where the company can really make a difference. Stakeholders can be critical to business performance and engaging with stakeholders is crucial for capitalising on specific business strategies designed to exploit possible CSOs (Grayson and Hodges, 2004). Stakeholder engagement calls for ongoing commitment to be made at the highest level and embedded across the whole organisation.

A strategic framework for a company that incorporates CSR should have:

1. A change agent i.e. a business champion for CSR. Change processes should be guided by the owner-manager, but operationalisation may be delegated i.e. to a team of employees with the support of senior managers '*...change-agents...should have the necessary interpersonal skills to build both internal and external networks to help identify, access and disseminate new knowledge and skills...need autonomy to operate effectively...activities must be guided by requirements set out in the strategic plan.*' (Jones, 2003, p.28).

CSR practices in organisations can often take a great leap forward when championed by a senior manager. In SMEs this would commonly be the managing director or owner-manager. Peters and Waterman (quoted in Gray and Smeltzer, 1989, p. 66) refer to champions as '*individuals within the organisation who pioneer new products or concepts and are given the freedom to try out these ideas...*', in this case the

concept is CSR. SME managing directors/owner-managers need to show strong leadership if they are to champion CSR in their company. They are helped by their relative freedom in being able to set the agenda, values and principles for their company; even so, leadership must be effective if these values are to be pushed throughout the organisation.

2. External networks- a willingness to draw on external knowledge sources is crucial to have access to all the skills and information needed to adopt CSR practices and realise CSOs.

There is an issue here for SMEs that needs to be addressed if external networks are going to be effective in helping SMEs to adopt CSR and realise CSOs. While SMEs are keen to learn about CSR from peers and to network with them, SMEs don't often seek CSR related support as it is seen as patchy, isn't coming from the right sources, confusing, overlapping or isn't the right kind of support. External stakeholders that would potentially be a great source of information and learning for SMEs, such as banks, aren't promoting CSR as much as they could.

3. Internal networks- acquiring new knowledge must be accompanied by mechanisms for dissemination.

SMEs have the ability to communicate well, but often have difficulty getting employees involved in CSR. The 'make a difference where you can' concept is important here, whereby companies look at their greatest area of impact and developing targeted CSR activities. If CSR strategy is to be effective it is important that it is targeted efficiently.

4. Flexibility- SMEs have a major advantage in that they are able to respond more rapidly to changing signals in the marketplace.

As has previously been demonstrated SMEs may be able to rapidly take advantage of new niche markets for products and services that incorporate social and/or environmental benefits in their value.

5. Innovation- innovation is a process rather than a single event; it can be incremental in SMEs and doesn't necessarily involve the adoption of radical new technology or the introduction of major new products, services or processes.

Innovation can take many forms. For example a printing company based in the East Midlands employing 39 people needed more flexibility of skills from its employees, so provided flexibility in hours in return. The company developed an innovative work-life balance policy and a 'people policy' dedicated to employee's training and development needs. The company now has 26 work patterns for 39 employees.

6. Competitive advantage- this doesn't necessarily mean getting bigger and making more profit if this isn't a company's main or only goal.

For example, a recycling and recovery company based in Scotland employing people had a core vision based around environmental education, and having a profound

impact on the environment and society by making recycling easy. For this company CSR is seen as just something 'you build into your business', it's all about the 'big picture, pulling lots of components together into a coherent strategy'. This company exemplifies the strategic approach to CSR:

- It has a dedicated change-agent or 'champion' in its owner-manager whose own values have influenced the direction and strategy of the company.
- It engages with a number of external stakeholders and partners to achieve its business goals.
- Everyone in the company is aware of the company's commitment to CSR and the CSR strategy is 'guarded' by a team made up of a cross section of staff.
- The company has recognised the potential in new markets for recycled and recovered products and is flexible enough to adapt when a new market opens up e.g. mobile phones.
- The company has developed innovative collection programmes, providing revenue streams for charities, NGO's, schools, community groups and commercial organisations.
- The company has capitalised on the CSO presented by recycling, recovery and environmental education and has realised a competitive advantage. It is a fast growth company and an international leader with strong social and environmental values at its core.

### **Conclusions: a 'business opportunity' model of CSR for SMEs**

Grayson and Hodges (2004) note that CSR must be built-in to a company's systems, and not bolted on as an externality. They suggest seven steps to integrating CSR into business strategy- identifying the triggers, scoping what matters, making the business case, committing to action, integration and gathering resources, engaging stakeholders and measuring and reporting. Their model is cyclical in nature; given the heterogeneous nature of SMEs in terms of size, motivation and level of CSR awareness this paper suggests that a step by step approach to realising CSOs for CSR is a more appropriate methodology for SMEs. Figure 1 is one suggested business opportunity model of CSR for SMEs. Each of the five steps is related to the important organisational capabilities and characteristics discussed in previous sections.

Step 1 requires a company to develop an understanding of CSR and translate this into business principles. This involves setting down the values and principles of the business, a task usually led by the business owner-manager or change-agent, and build the business's understanding of CSR around this vision. For example, the principle 'respect and value our colleagues' in CSR translates into improving the work-life balance of employees or providing excellent training and development opportunities. The principles laid out in this vision should reflect the eight key themes of values, human beings matter, every employee involved, diversity, creativity, holistic approach, community and wealth generation.

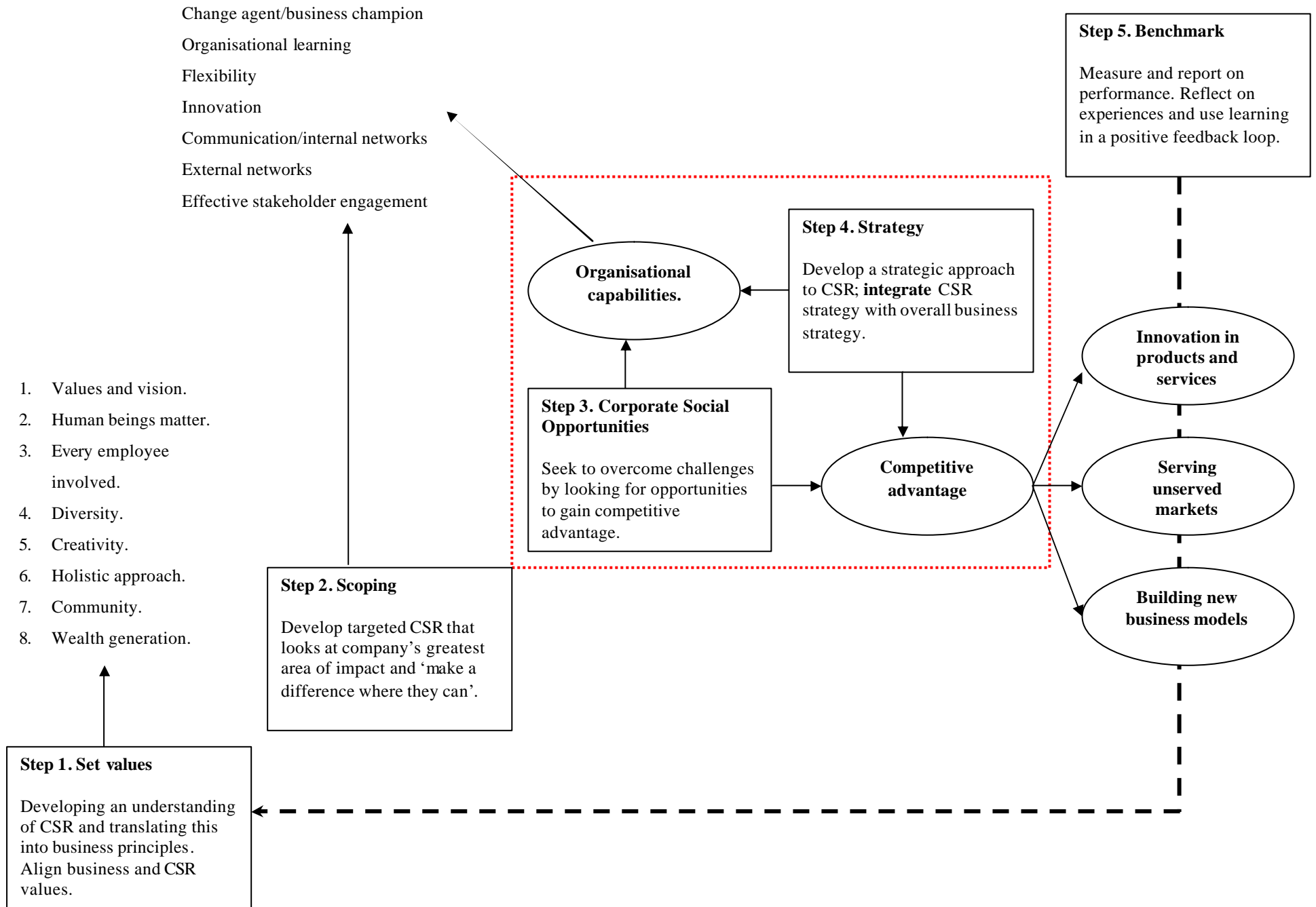


Figure 1. A 'business opportunity' model of CSR for SMEs

A common starting point for the companies in the research study was to look at their greatest level of impact as a business and hope to make a significant difference by aiming their CSR efforts there. Step 2 entails companies scoping 'what matters' to their company with respect to CSR, doing so effectively means that CSR can be targeted efficiently and potential CSOs may emerge from this process. It has been suggested that SMEs often rely on dialogue strategies whereby they try to learn from new situations and from what external parties communicate (Graafland *et al.*, 2003). SMEs should therefore engage with stakeholders to learn which aspects of CSR are key to their company. The companies in the research study found that employees were more interested in CSR if they could be involved in schemes that directly related to their job and that provided them with opportunities for training and development.

Steps 3 and 4 are the crux of achieving competitive advantage from CSR. Step 3 takes the scoping process one stage further by suggesting that companies actively look at what CSOs from CSR may be realised. This may often involve overcoming any challenging aspects of CSR by being innovative and flexible and seeking market-driven which at the same time address important societal and environmental conditions. While many SMEs are motivated to undertake CSR for moral reasons most are also pragmatic and recognise the need for it to be mutually beneficial if it is to succeed in a business context. Educating SMEs about the competitive advantage to be gained from CSR may be one of best ways to encourage SMEs to undertake CSR.

Developing a company CSR strategy is something that most SMEs would find difficult, indeed only a few study companies had reached this stage. However, those companies that had developed a CSR strategy stressed that CSR had to be integrated into all aspects of business operations and not be seen simply as a costly externality. By placing social responsibility at the core of everyday business decisions CSR becomes less of an 'add-on' and more 'just the way we do things'. In order to successfully develop such a strategy certain organisational capabilities, such as learning, networking and innovation are necessary.

Similarly, most SMEs are unlikely to externally report on their CSR performance. They are more likely to produce internal measurements (for example Key Performance Indicators) from which they can learn and that can be used in a dynamic feedback loop to improve company and CSR performance. However, those companies that do produce external reports or benchmark themselves externally e.g. by entering award schemes, may find that this could be a source of competitive advantage. The companies in the research study that had taken this step found that it helped them to make sense of their CSR activities and rationalise what they were doing- and from this strategies and policies also began to emerge. It also helped to raise their external profile and improve their market position.

This model allows companies to build a CSR strategy from simple beginnings through a process of learning and networking, one that many companies in the study had been through, and for companies to start at different levels depending on their size and experience of CSR. In this way a model may be more generic, rather than only suitable for medium sized companies or those who already have a high level of CSR awareness.



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