

## Practising Social Responsibility Without the CSR Label

**By Wayne Visser**

There are flowers to fit every occasion. But if you are celebrating WorldWater Week (26-31 August), you might want to think twice. A single rose – grown in Kenya, as many of the world's cut flowers are – takes around 10 litres of water to produce, with the so-called water footprint, or virtual water export, of Kenya's floriculture industry having more than doubled over the past 15 years, mostly to supply the Netherlands (69%), the UK (18%) and Germany (7%).

Mexico's small and medium sized enterprises account for more than 99% of the four million businesses in the country, generate 52% of GDP and provide 72% of employment. The government's business accelerator programme supports these SMEs by funding institutions that can help the sector grow by improving competitiveness, business opportunities and market scalability.

One such business accelerator is the IDEARSE Center at Anahuac University in Mexico City. The centre's business model for SME acceleration is built around CSR, incorporating environmental impacts, human rights, self-regulation, social impacts and community involvement and stakeholder engagement.

More remarkable still is that, by working with the supply chains of big brands such as Sony, Coca-Cola and Cemex and having trained more than 150 SMEs since 2007, the SMEs achieved sales growth of between 5% and 37% and jobs growth of between 5% and 19%. At the same time SME performance across all six CSR areas has improved between 23% and 46%. These numbers debunk several popular myths, most notably that CSR is not relevant, too expensive or not incentivised for SMEs. Let's look more closely at these myths.

### **Is CSR relevant for SMEs?**

The issue of relevance largely hinges on whether you adopt a very literal and narrow interpretation of CSR. Laura Spence, director of the Royal Holloway, University of London's Centre for Research into Sustainability, says that the terminology of CSR is both inaccurate (as small firms are unlikely to be corporations) and off-putting jargon for SMEs.

"Also since CSR practice is often associated with reporting, SMEs don't stand a chance. They are unlikely to have external financial reports, let alone the time resources or need to produce a glossy CSR report," says Spence.

So first, we need to get the labels and definitions right. The IDEARSE centre, for example, describes CSR as "a permanent and continuous commitment, voluntarily adopted by the business, to respond to the economic, social and environmental impacts of its activities, and to guarantee the sustainable and human development to all its stakeholders." No doubt, it helps that CSR in Spanish (responsabilidad social empresarial or RSE) translates more accurately as socially responsible 'enterprise'.

### **Explicit or implicit CSR?**

The second issue – whether CSR is too costly – is a real concern, but once again, it depends what we mean by CSR. Work by CSR academics Dirk Matten and Jeremy Moon distinguish between explicit and implicit CSR. Explicit CSR refers to many of the formalised practices we associate with large corporates, such as CSR codes, standards, managers, systems, reports and audits. These are resource intensive and mostly not feasible for SMEs.

Implicit CSR, on the other hand, includes informal ethical practices that are not dependent on size or financial muscle. "If you talk about the content of a socially responsible business – integrity, reputation, caring for employees, building relationships, community engagement – that is often simply an everyday part of SME life," Spence says. Many SMEs, thus, are practicing social responsibility without even knowing it or needing to give it a CSR label.

Besides these implicit CSR practices, Itzel Lopez of the IDEARSE centre says that CSR is often crucial for SMEs because it can be "a requirement imposed, not by the law, but by the market itself."

She is referring to the growing practice of large companies in demanding ethical standards of their suppliers. Nike's supplier code of conduct and Walmart's supplier sustainability assessment are two cases that increasingly illustrate the rule rather than the exception.

There is also a middle ground between too costly (explicit CSR) and business critical (supply chain compliance). As with CSR practiced by multinationals, SMEs can often find a business case in cost savings from eco-efficiency, especially from reductions in waste, water and energy. Furthermore, Lopez believes that "CSR strategies can lend prestige and boost consumer confidence. They can also increase productivity by motivating employees and encourage loyalty."

### **Collaboration, values and frameworks**

We should also not totally discount formalised CSR practices among SMEs. One of the things I observed when visiting the sugar plantations of Guatemala was that they had formed a cooperative of farms in order to tackle CSR. Individually, they were too small to justify a sustainable business programme, but collectively, it made sense. This is one of the ways that SMEs can address CSR, through pooling their resources and collaborating.

On the issue of incentives, as most SMEs are owner-managed, the values of the director play a crucial role. My experience has been that most SME owners live in their communities and that responsibility often comes naturally to them. After all, they usually have to personally interact with their customers every day. The exceptions tend to be when SMEs are entirely set up for export and their employees are not also their customers. This not only creates worker dependency, but also low accountability for impacts on the community and environment.

Besides the moral orientation of SME owners, governments can also help to create incentives for CSR adoption. It is no surprise that the IDEARSE centre was selected as one of the business accelerators in Mexico, since the government developed a national CSR standard in 2004 and has subsequently adopted ISO 26000 on social responsibility as a best practice guideline. Local support is also important. For instance, some years back I observed a local government agency in Scotland that had established a dedicated unit to offer free sustainable business advisory services to SMEs.

But there is no denying that SMEs face many barriers – from alienating definitions and weak incentives to prohibitive costs and heavy-handed supply chain audits. But at least perceptions are changing, the evidence of benefits is mounting and helpful tools are increasingly available, such as the recently launched Primer on Business Sustainability for SMEs and ACCA's report on Environmental Aspects of Sustainability: SMEs and the Role of the Accountant.

I look forward to the day when pioneering British economist EF Schumacher's small is beautiful idiom applies as much to sustainable business as to economic activity. If Mexico's example is anything to go by, that day may come sooner than we expect.

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