

# Small and Medium-Sized Enterprises (SMEs) and Corporate Social Responsibility: A Discussion Paper<sup>1</sup>

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## 1. Introduction

From an individual street hawker to a complex multinational enterprise, every business entity has its stakeholders and its impacts on society, both positive and negative. The concept of corporate social responsibility (CSR), broadly defined as the overall contribution of a business to sustainable development (SD), should therefore be equally valid for large and small enterprises. But when CSR is discussed in policy circles, academia, the media, and wider civil society, the focus tends to be on the largest companies. Small- and medium-sized enterprises (SMEs) are often overlooked.

Some related policy debates, however, do address SMEs. Programmes on enterprise development and business development services (BDS) often focus particularly on ensuring an enabling environment for SMEs and microenterprises. The justification is that a vibrant SME sector can form the bedrock on which all economic activity is built, and that SMEs can be the mainstay of an economy, particularly in terms of employment.

This paper seeks to examine this apparent dissonance between the SME/CSR agenda and the SME/SD agenda. We explore future lines of enquiry that might help to reduce this dissonance. In doing so, we take the position that CSR is a useful entry point from which to consider SMEs. We assume that there remains scope for reforming the CSR agenda to be more relevant to SMEs, and we explore how this might be achieved.<sup>2</sup>

Before going any further, it is important to make a note on terminology. Although the term 'SME' is frequently used, it is seldom defined – yet this is essential to understand the significance of the sector, and the implications for and limitations of CSR in relation to it. What constitutes a small, medium or large company is by no means clear or uniform, even within individual countries. The SME and micro-enterprise (ME) sector encompasses a very

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<sup>1</sup> Written by Tom Fox of IIED. The paper also draws on a joint paper produced with AICC, DA, IISD, IUCN and RIDES as part of a collaborative project addressing the implications of CSR standardisation (AICC et al., 2004), and discussions in an internal IIED workshop on SMEs and sustainable development, held November 2004.

<sup>2</sup> This position does need to be revisited in any further work on CSR and SMEs – the orientation of the existing CSR agenda towards large companies may be so firmly established that it makes more sense to bypass it completely, and use a different approach to consider the needs of SMEs and how their contribution to SD can be enhanced.

broad range of firms, from established traditional family businesses employing over a hundred people to 'survivalist' self-employed people working in informal micro-enterprises. While the upper end of the range is comparable across developed and developing countries, SMEs in the latter are concentrated at the lowest end. The picture is blurred further by the distinction between the formal and informal sectors. The term SME usually refers only to firms operating within the formal (legally registered) economy, and attempts to relate the CSR agenda to SMEs are likely to be restricted to these enterprises. Micro enterprises may be in either the formal or informal sector. However, it is not unusual for statistics to group these enterprises together, where data is available. The informal sector is particularly significant in many developing countries. Given this variation between types of SME, and the difficulties of classification, we must draw policy conclusions with some caution.

## **2. SMEs and sustainable development**

SMEs are the lifeblood of most economies. On average, they represent over 90% of enterprises and account for 50-60% of employment at a national level (Luetkenhorst (2004)). Luetkenhorst (2004) argues that SMEs are particularly important in supporting economic growth and livelihoods in developing countries, because they (*inter alia*):

- tend to use more labour-intensive production processes than large enterprises, boosting employment and leading to more equitable income distribution;
- provide livelihood opportunities through simple, value-adding processing activities in agriculturally-based economies;
- nurture entrepreneurship; and
- support the building up of systemic productive capacities and the creation of resilient economic systems, through linkages between small and large enterprises.

Evidence from elsewhere on the relationship between the relative size of the SME sector, economic growth and poverty is more equivocal. Using a sample of 76 countries, Beck *et al.* (2003) find a strong association between the importance of SMEs and GDP per capita growth, but the data does not support the hypothesis that SMEs exert a causal impact on growth. Neither do they find any positive evidence that a larger SME sector reduces poverty.

Beyond hard economics, whether SMEs are inherently more socially beneficial than larger companies is a matter of opinion. They are perhaps more likely to contribute to social capital in the localities of their operations, as they are more likely to be embedded in their communities.<sup>3</sup> But they may also be less likely to be subject to rigorous inspections in relation to labour or environmental standards. In either case, there will be exceptions, and it may be that these arguments run more closely along the dividing line between the formal and informal economy than according to size alone.

These debates are somewhat academic. In pragmatic terms, it is clear that SMEs as they stand are a major economic force, upon which large numbers of people in developing countries depend for their livelihoods. At the very least then, CSR practices should be shaped in a way that does not adversely affect the economic viability of SMEs in developing countries. As we will discuss below, one of the most challenging critiques of CSR tools, particularly codes of conduct and supply chain standards, is that they can exclude SMEs in developing countries from lucrative markets, thus harming livelihoods.

But the SME/SD agenda takes us one step beyond this. As would be expected from such a large body of economic actors, the cumulative social and environmental impacts of SMEs are highly significant, even though their individual impacts are small. This is not simply due to the large number of enterprises and their overall economic significance, but also because SMEs are often over-represented in industrial sectors with high environmental impacts, and

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<sup>3</sup> MacQueen (2005) sets out this case in some depth.

because they may not be subject to the same regulatory and enforcement processes that can mitigate the negative impacts of large companies. There is therefore the potential for significant progress towards sustainable development if SMEs' social and environmental performance could be ratcheted up.

This logic leads to two conclusions in relation to CSR and SMEs. Firstly, that it makes sense to identify existing CSR-related incentives for SMEs to adopt higher social and environmental standards, while ensuring that flanking measures are in place to assist in this transition and to protect livelihoods. And secondly, that we should look for new ways to make CSR more relevant to SMEs. We return to this below.

### **3. SMEs and Corporate Social Responsibility**

As noted above, we can view CSR as the overall contribution of business to sustainable development.<sup>4</sup> Hence, the CSR agenda relates to the theory and practice of attempts to maximise the positive contributions of businesses to sustainable development, while minimising their negative impacts. There have been various other attempts to define CSR, many of which limit the concept to activities that go beyond compliance with legal requirements.<sup>5</sup> The arguments for avoiding such a 'voluntary only' definition are covered in some detail elsewhere, and will not be repeated here.<sup>6</sup> But in the context of SMEs, it should be noted that a balanced approach to eradicating bad (socially irresponsible) behaviour while encouraging responsible activities is most likely to be successful through a combination of market-driven and regulatory interventions, and it would therefore be counterproductive to ignore the potential of the latter.

#### **3.1. Existing approaches to CSR and SMEs**

The CSR agenda has almost entirely focused on large enterprises. The tools, frameworks and justifications for responsible business activity tend to cater for large companies, particularly those that can benefit from investing in measures that reduce reputational risk. Where it does touch on small- and medium-sized enterprises (SMEs), this is usually in a reactive or indirect sense, either as suppliers to larger companies, or as the beneficiaries of larger companies' philanthropic initiatives.

CSR discourse has frequently identified the challenge of making the CSR agenda more relevant for SMEs. For example, the World Bank Institute ran an e-conference in early 2004 on "the possibilities and challenges of CSR among SMEs". One of four themes within the recent EU Multi-Stakeholder Forum on CSR is 'fostering CSR amongst SMEs'.<sup>7</sup> There has also been a specific focus on the implications of the CSR agenda for SMEs in developing countries. In particular, the work of UNIDO's Small and Medium Enterprises Branch produced a seminal report noting that "ensuring that CSR supports, and does not undermine, SME development in developing countries is crucial to meeting its goal of improving the impact of business in society".<sup>8</sup> This and subsequent work<sup>9</sup> by UNIDO has stressed the importance of creating strong 'business linkages' between export-oriented SMEs and larger companies.

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<sup>4</sup> A variety of other terms are also used to denote the same concept, including corporate responsibility (CR) and corporate citizenship. These terms are used interchangeably in this paper.

<sup>5</sup> A prime example is the definition adopted by the European Commission in its 2002 Communication on CSR, which described CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (European Commission, 2002).

<sup>6</sup> See Ward (2003) and Fox, Ward and Howard (2002).

<sup>7</sup> [http://forum.europa.eu.int/irc/empl/CSR\\_eu\\_multi\\_stakeholder\\_forum/info/data/en/CSR%20ems%20forum.htm](http://forum.europa.eu.int/irc/empl/CSR_eu_multi_stakeholder_forum/info/data/en/CSR%20ems%20forum.htm).

<sup>8</sup> Raynard and Forstater (2002).

<sup>9</sup> Luetkenhorst (2004).

The 'business linkages' theme is also emerging as an element of the CSR agenda for large companies operating within developing countries. The aim is to use local suppliers and outsourcing where possible, in order to maximize the transfer of assets and skills to local communities, and to create a multiplier effect that increases local business activity, employment and income. Business linkages are generally made in the form of supply chains comprising procurement, outsourcing or subcontracting of activities between large and smaller firms (ESCAP 2001). They can take various forms, including supply contracts; marketing, franchising or technology licensing agreements; partnerships or joint ventures; and informal arrangements such as collaboration in market information or technology transfer networks (Stanton and Polatajko, 2001).

There has also been some attention to a CSR agenda for SMEs in particular countries in the South. For example, the 2003 annual conference of the British/Indian NGO Centre for Social Markets focused on CSR and SMEs in India. In Chile, the Inter-American Development Bank has provided US\$1.25 million for a project to support the adoption of CSR by SMEs, particularly in relation to access to export markets.<sup>10</sup>

Teixidó et al. (2002) note three ways that SMEs can engage with CSR – as providers of employment, in their relations with the public, and as providers of goods and services to large companies. The first two could be regarded as 'independent' CSR, with the primary actor being the SME itself. But the entry point for most formal attempts to bring SMEs into the CSR agenda has been through the third mechanism - the supply chain requirements of large companies, particularly in export sectors in which approaches to ethical trade have been pioneered, such as garments, toys and food. This could be described as 'dependent' CSR – the primary focus is on the responsibilities of the large company and hence the ethical issues within its supply chains. In response, the large company seeks to identify and mitigate negative social and environmental impacts by introducing requirements of its suppliers, and in some cases of its suppliers' suppliers, and so on.

This mechanism means that the nature of trading relationships between SMEs and buyers, and how market power is exercised within such relationships, are central to the CSR agenda. This leads to one of the most challenging critiques of the current CSR agenda – that such supply chain standards can exclude SMEs in developing countries from lucrative markets. Indeed, surveys suggest that the most likely reason for SMEs to introduce an environmental management system is "when it becomes essential to secure and retain business", either with local or international clients.<sup>11</sup> In this sense, the notion of such standards as 'voluntary' can be misleading. It may more appropriate to consider them as 'market entry requirements' or 'economic imperatives'.

For SMEs that face such supply chain pressures, either from local or international buyers, there are a number of challenges, mostly related to affordability and applicability (Box 1). Given the importance of SMEs to employment and livelihoods in developing countries, there are concerns that unless these challenges are addressed, the CSR agenda will continue to be inherently biased against SMEs. Much of the work in relation to CSR and SMEs has therefore been directed at increasing their access to voluntary standards.<sup>12</sup>

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<sup>10</sup> The project is carried out by the 'Vincular' centre, part of the Catholic University of Valparaíso. The objective is to enhance Chilean SMEs competitiveness through the implementation of CSR initiatives, increasingly demanded by international markets. The project lasts 4 years and is expected to involve around 150 SMEs from key economic sectors, starting in 2004 with fruits, wine and manufactures.

<sup>11</sup> Flourie (1996). Of 11 possible answers, securing business with local clients was the most-cited reason, and securing international business was in fourth place. Of course, it is possible that the local clients were themselves contractors to international businesses.

<sup>12</sup> See for example the work of the ISEAL Social Accountability in Sustainable Agriculture (SASA) project at <http://www.isealalliance.org/sasa/>, which has examined mechanisms for enhancing access to social and environmental certification for smallholders; and the Ethical Trading Initiative's working group on smallholders at <http://www.eti.org.uk/Z/actvts/exproj/smlhldr/index.shtml>.

**Box 1: How supply chain requirements can discriminate against SMEs**

- The standards may themselves be inappropriate or particularly challenging for SMEs. For example, pollution prevention measures stipulated by environmental standards may require investment in technology that is not viable for SMEs. Particularly in developing countries, SMEs often find it difficult to access the new technology, environmentally friendly materials, credit, information and training that would help them to meet CSR standards.
- The process of demonstrating compliance with the standards may be a barrier. SMEs are less likely to have formal systems for measuring, recording and managing their impacts, and they may not have the capacity to deal with demanding paper trails.
- The cost of audits and certification can be prohibitive. This is often the same however large the company, so large companies are able to spread the cost across their entire operations. Standards therefore often have a significant scale effect, which works against SMEs. In many developing countries, the high cost of certification is also in part due to a lack of local certifiers. Certification often acts as an 'entry ticket' to markets, rather than a source of a premium, and even where there is a premium, this is unlikely to cover the cost of certification for SMEs due to low volumes.
- As buyers adopt a CSR approach, they may prefer to rationalise their supply base, sourcing from a smaller number of larger suppliers in an effort to reduce the risk of social or environmental problems being uncovered within their supply chains, and the transaction costs of audits and inspections across more disparate supply bases.

But these attempts relate only to a small fraction of SMEs in developing countries – those that are directly or indirectly involved in those few export markets in which such supply chain mechanisms have been introduced. The vast majority of SMEs do not supply customers who are themselves subject to such CSR concerns. These include those that operate in the majority of domestic markets; in export markets that have not had to respond to scrutiny on ethical issues; and in industries in which production and trade is so fragmented that there is no traceability. For these SMEs, the 'economic imperative' of improving social or environmental standards is not provided by buyers' requirements. The incentives, or 'business case' for doing so must be found elsewhere.

**3.2. Creating a business case for CSR among SMEs**

The need to prove the 'business case' for responsible enterprise is one of the most common refrains within the CSR agenda. Unfortunately, the agenda as a whole has often been blind to the reality that the drivers for responsible business are more likely to exist for certain companies than others – and to the associated reality that even if an enterprise gains business benefits from responsible actions in one area of its activities, there is no reason that this will be the case across the board. The business case for particular actions differs according to various factors, including the enterprise's visibility, location, size and ownership structure, and the sector and market segments in which it operates. This has led to false assumptions about the transferability of insights and approaches.

This is particularly acute when considering the incentives for SMEs. The most commonly cited elements of the business case for CSR include the pursuit of new business opportunities through social and environmental innovation, cost savings, staff recruitment and retention, access to institutional investment funds, reputational risk management, campaign pressure from NGOs or trade unions, media exposure, regulation and litigation. Of these, it is clear that many are less likely to apply to SMEs than to large companies. In particular, SMEs are unlikely to have the kind of public profile and brand image that larger companies feel the need to protect. They are unlikely to be the target of civil society or media campaigns. They are seldom publicly owned so will not be subject to pressure from institutional investors or stock exchange requirements. Where regulatory authorities are

under-resourced, they are likely to be less of a priority for enforcement than large companies, where the marginal impact of each is greater – and many SMEs operate within or on the edges of the unregulated informal sector anyway. Finally, as discussed above, unless they are directly or indirectly involved in those few export markets in which such ethical supply chain mechanisms have been introduced, SMEs operating in developing countries are unlikely to be subject to pressure on CSR from their customers.

A number of the conventional drivers for CSR are therefore likely to have relatively little or no relevance to most SMEs. But there are some examples of drivers that are more likely to exist for SMEs than for larger enterprises. As noted above, SMEs can engage with CSR not only as providers of goods and services to large companies, but also in their own right, as employers and in their relations with the public. Indeed, it is argued that by nature SMEs are closer to and more dependent on their customers, employees, neighbours and other key stakeholders than larger, more impersonal enterprises, and so need to be more responsive to those stakeholders. For example, an SME is likely to be more reliant on a handful of key employees who are required to carry out a larger number of tasks, which means that preventing rapid turnover of staff is a high priority, creating an incentive for responsible labour practices.

There may also be stronger drivers based on a sense of rootedness within a particular community or geographical location, or other social and cultural norms and expectations. These may not affect what might be referred to as ‘core business activities’ – they are often embodied in philanthropic activities, e.g. donations to local charities and religious organisations, or sponsorship of cultural or sporting events. The ownership model of many SMEs can also be influential – rather than the separation of owner and manager that characterises publicly listed companies and many other large enterprises, many SMEs are managed by their owners. This increases the opportunities for the personal ethics of the owner-manager to be integrated into and embodied by the enterprise’s activities.

Many of these activities are unlikely to be labelled as CSR or linked with a formal CSR strategy. This can lead to the claim that SMEs are often ‘doing CSR’ without knowing it. This does not make these activities any less significant. But equally, it does not mean that advocates of CSR can simply ignore SMEs, based on the assumption that they will be treating their employees fairly, protecting the environment in which they operate, and so on. Raynard and Forstater (2002) warn that there is a need to ensure that SMEs don’t represent a ‘blindspot’ in which exploitative and environmentally destructive practices flourish. They argue that this means creating sufficient incentives for CSR that are applicable to SMEs.

In considering how to create such incentives, it is important to recognise the vulnerable nature of many SMEs, for whom Luetkenhorst (2004) notes that “the bottom line of short-term economic survival is more pressing [than for large corporations]”. SMEs are often forced to prioritise short-term survival over longer-term strategic measures, and they often have few managerial and financial resources to invest in such measures. Many of the investments that CSR requires will simply not be undertaken by a business that is not confident that it will still exist in the near future. Focusing on long-term incentives is therefore likely to be of little use, and there should be an emphasis on measures that create financial gains in the short-term, or that help to mitigate SMEs’ vulnerability. Given that access to affordable finance is often an issue for SMEs, finding ways to link this with social and environmental improvements would be a useful area to explore.<sup>13</sup>

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<sup>13</sup> The scope for such an approach is being explored under a joint WWF/International Finance Corporation initiative examining ‘Better Management Practices’ for a number of commodities. Information on the initiative can be accessed via [www.ifc.org/ifcext/enviro.nsf/Content/CCF-Where](http://www.ifc.org/ifcext/enviro.nsf/Content/CCF-Where).

In summary, current CSR approaches are only applicable to SMEs in a limited and patchy sense. In some respects, CSR tools may even be counterproductive, where their application threatens SME-based livelihoods. At the root of the problem is the lack of incentives for SMEs to adopt socially responsible practices in a systematic and comprehensive way. Many of the oft-cited elements of the 'business case' for CSR are unlikely to apply to SMEs, while others may be overlooked, as they are specific to SMEs. Luetkenhorst (2004) therefore calls for "deliberate public action seeking to reshape markets and strengthen drivers for the adoption of CSR practices". One crucial element of this will be to ensure that the capacity of regulators is sufficient to create a framework of good governance and a level playing field for all enterprises, whatever their size.

#### **4. Bringing the two agendas together: Future lines of enquiry**

The preceding discussion describes a faultline between the SME/CSR and the SME/SD agendas. If CSR is to fulfil its potential role in improving the overall impact of business, we must find new ways to reduce this dissonance. This means examining what other potential levers could be used to bring these currently 'invisible' SMEs into the CSR agenda, by creating incentives for SMEs to adopt CSR practices, and building their capacity to implement them. In this section, we discuss three ongoing policy debates, which offer the potential to bring the CSR/SME and the SME/SD agendas closer together.

##### **4.1. Bottom of the Pyramid**

There is increasing interest among some business academics and large companies in the notion of 'doing business with the poor'<sup>14</sup>, and the 'fortune at the bottom (or base) of the pyramid (BOP)'.<sup>15</sup> A recent report of a UN Commission on the Private Sector and Development underlines an interest in such approaches at a policy level.<sup>16</sup> But much of this interest focuses on the opportunities for large, multinational enterprises:

*Improving the lives of the billions of people at the bottom of the economic pyramid is a noble endeavor. It can also be a lucrative one. ... Everyone knows that the world's poor are distressingly plentiful. Fully 65% of the world's population earns less than \$2,000 per year—that's 4 billion people. But despite the vastness of this market, it remains largely untapped by multinational companies.*<sup>17</sup>

A similar philosophy is being promoted by a number of current NGO initiatives. The World Resources Institute (WRI) ran a conference in December 2004 entitled 'Eradicating Poverty through Profit'<sup>18</sup>, a theme also being promoted by Chatham House as 'Tackling Poverty through Profit'. The World Business Council for Sustainable Development (WBCSD), a coalition of 170 international companies, currently runs a project entitled 'Sustainable Livelihoods'. This is based on the observation that "the poor crucially lack two things: 1) the opportunity to earn a better living and thereby increase their purchasing power, and 2) a tailored supply of products and services that adequately respond to their needs and that are appropriate in their design and price". The project "seeks ways by which business can extend the benefits of the market to serve people, address their needs and allow companies to develop their business sustainably and profitably". The subtitle of a recent output from the project is "Learning Journeys of Leading Companies on the Road to Sustainable Livelihoods Business".<sup>19</sup>

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<sup>14</sup> WBCSD (2004).

<sup>15</sup> Prahalad (2004). This usually refers to the market represented by the share of the world's population living on less than US\$2 per day.

<sup>16</sup> UN Commission on the Private Sector and Development (2004).

<sup>17</sup> Prahalad and Hammond (2002).

<sup>18</sup> See <http://povertyprofit.wri.org/index.html>.

<sup>19</sup> WBCSD (2004).

Although the expansion of overall business activity within the least developed countries might provide opportunities for SMEs as suppliers or subcontractors, the emphasis of the BOP approach and related initiatives on finding ways for large, multinational companies to connect directly with low-income consumers runs the risk of ignoring the existing and potential role that SMEs play within such markets, and possibly displacing them. The BOP approach has therefore attracted criticism based on two distinct narratives, both of which require reform if the BOP approach is to help to bring the SME/SD and SME/CSR agendas closer together (Box 2).

<b>Box 2: Critiques of BOP and reforms needed to make BOP more relevant to SMEs</b>			
<i>Critique</i>		<i>Basis</i>	<i>Reform</i>
<b>Sceptics:</b>	Many (particularly within the business community) are not convinced of the business case for BOP activities.	There has been too much emphasis on case studies that seek to prove the existence of a generic business case, rather than the recognition of the need to create a specific business case.	Public policy frameworks that align business incentives with social inclusion and poverty reduction, including ways to create incentives for businesses to source from SMEs and for SMEs to improve social and environmental performance.
<b>Cynics:</b>	Concerns that BOP is a smokescreen that will allow multinationals to enter and exploit new markets, displacing local entrepreneurs and SMEs.	There has been too much emphasis on large, multinational companies as the proponents of and the vehicles for BOP business models.	Incorporate SMEs into BOP business models led by large companies, e.g. through supply chain linkages. Actively look for ways to shift the focus of attention to BOP business models of domestic enterprises and SMEs.

#### 4.2. Clusters and linkages

There is significant scope to build on the existing ‘business linkages’ theme, to encourage larger enterprises to source from and build the capacity of SMEs. In order to support the development of such business linkages, Luetkenhorst (2004) argues, “there is a case for an intermediary to intervene and complement market mechanisms in creating sustainable business linkages”. But the large enterprises involved can do much themselves to ensure that SMEs gain maximum benefit, not only financially, but also in terms of training, advice and support. And returning to our earlier discussion of supply chain standards, where large enterprises make demands of SMEs within their supply chain, e.g. on worker safety, environmental protection and employee benefits, there is scope to encourage those large companies to provide incentives and help for SMEs to meet the requirements (Box 3).

<p><b>Box 3: Supporting the certification of SME suppliers, Chile<sup>20</sup></b>          After achieving ISO14001 certification for its own facilities in 1999, the mining company Escondida developed an initiative to support the ISO 14001 implementation of a selected group of supplier companies, including SMEs. With additional support from the government agency CORFO, Escondida supported the SME’s preparatory work and eventual certification process. As expressed by a manager: “We challenged the governing paradigm in the Chilean public sector of ISO 14001 being only appropriate for large companies”.</p>
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<sup>20</sup> Source: Blanco (2003).



If the linkages agenda is to help bring the SME/SD and SME/CSR agendas closer together, it must pay more attention to building the capacity of SMEs to improve social and environmental performance, as well as simply expanding economic activity. It would also be worthwhile looking for ways to consider the relationships within industrial clusters in a way that draws more on human and social capital (Box 4).<sup>21</sup>

**Box 4: Sustainable Local Enterprise Network model<sup>22</sup>**

Based on 40 case studies of successful businesses and their partner organizations in Latin America, Africa and Asia, Wheeler and McKague's work focuses explicitly on the potential for self-reliant, sustainable enterprise to emerge in the developing world with or without the involvement of external actors (such as MNCs). The approach is more asset based (or "resource" based in strategic management terms) and seeks to draw attention not just to market opportunities for large businesses, but also to the capabilities, relationships and other resources that local actors may bring to sustainable enterprise in their own contexts. This approach is captured in the Sustainable Local Enterprise Network (SLE Network) model, which describes how sustainable enterprise in many developing countries can thrive in stakeholder-inclusive networked environments – a phenomenon that is seen as increasingly relevant to business more globally.

**4.3. Bringing CSR into business support services and institutions**

Thirdly, there is a need to develop more comprehensive business support services on CSR for SMEs. There are already well-established structures providing business development support that target SMEs, but few of these seek to integrate social or environmental issues into their activities. There is significant potential to do so, by taking insights from the CSR agenda into the enterprise development field. There is also a need for stronger involvement of business representative organisations such as chambers of commerce in CSR advocacy and awareness raising, and in providing CSR implementation support to their SME members.<sup>23</sup> Any public or private support measures must take account of the national or sectoral context, and be clear about the preconditions for successful implementation.<sup>24</sup>

There is also a need to build mechanisms that allow the coordination and representation of SMEs on CSR issues, which are discouraged by the disparate nature of the SME sector. Where SME associations do exist, they tend to focus on lobbying to resist stricter social and environmental controls, and they are reluctant to engage in CSR initiatives that they would regard as adding to the burdens their members already face. This implies the need for sensitive engagement with such associations, based on a realistic discussion of the benefits and the costs. The need for appropriate organisational mechanisms applies also at the implementation level. For example, approaches to allow SMEs access to supply chain standards generally focus on group certification, which relies on institutional structures that allow internal coordination and control systems. Where cooperatives or equivalent structures do not already exist, significant investments are needed to create them.

**5. Conclusion: Bringing SMEs to the heart of the CSR agenda**

The existing CSR agenda has offered little to SMEs. Most remain untouched by and unaware of CSR at all. Those that have been exposed to CSR have usually been on the receiving end of top-down supply chain standards imposed by large companies, with little prospect of support to meet the standards. A first step towards a CSR agenda for SMEs

<sup>21</sup> It would also be worth considering here the notion of 'civic entrepreneurship', as discussed in RING (2003).

<sup>22</sup> Source: Wheeler and McKague (forthcoming).

<sup>23</sup> Luetkenhorst (2004).

<sup>24</sup> Buhr and Hermansson (2004) point to the importance of taking account of national specificities in the design of CSR support services to SMEs. Their work compares the different needs of the UK and Sweden; it is likely that differences between countries of the North and South, and between developing countries, are even more significant.

would be to ensure that supply chain requirements do not unnecessarily discriminate against SMEs, and to encourage large companies to provide support and advice to help SMEs to adhere to their standards. Otherwise, CSR standards run the risk of acting as a barrier to market entry for SMEs, undermining livelihoods and development.

But this is only a start. SMEs are the mainstay of most economies, particularly in terms of employment and development impacts. In many sectors, their cumulative social and environmental impacts are greater than those of large enterprises. With the continued emergence of the 'business linkages' theme within the CSR agenda, there are signs that large companies operating in developing countries will increasingly be expected to expand their sourcing from SMEs, as part of what it means to be a responsible company. This is to be welcomed and supported. But it is not enough. For real progress towards sustainable development, there is a need to view SMEs as CSR actors themselves, with their own social and environmental impacts. The argument that CSR is unaffordable or irrelevant for SMEs should not be used as a veil behind which to hide or ignore poor social and environmental practices.

Although they require further investigation and elaboration, this paper has identified three promising avenues for efforts to reduce the dissonance between the SD and CSR agendas in relation to SMEs:

- Actively reforming emerging 'bottom of the pyramid' business models in favour of SMEs;
- Ensuring that the linkages agenda pays more attention to the capacity needs of SMEs and makes the most of their endowments of human and social capital; and
- Integrating CSR into existing enterprise development and business support services for SMEs.

Together, these reforms would help to strengthen the overall enabling environment for CSR among SMEs. They would build SMEs' capacity to engage with CSR. But more importantly, they would help to create the drivers for SMEs' engagement with CSR.

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