



Opportunity and Responsibility

How to help more small businesses to integrate social and environmental issues into what they do



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This report is the work of the European Expert Group on Corporate Social Responsibility and Small and Medium-sized Enterprises. The contents of the report do not necessarily reflect the views of the European Commission.

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Foreword

By Vice-President Verheugen

The European Commission has placed growth and jobs at the centre of Europe's political agenda. Only if we rise to the challenges created by a more globalised and competitive economy, and only if we can generate more and better jobs for Europe's citizens, will Europe be in a position to achieve its goal of sustainable development. Economic growth and job creation are necessary conditions for us to be able to defend those values that are so important to us as Europeans, such as social cohesion, environmental protection and a better quality of life for all.

The business sector plays a decisive role in the fulfilment of the objectives of the growth and jobs strategy. The new employment opportunities, and the innovative products and services competitive on global markets that Europe needs, cannot be developed by policy but are created by business. But beyond that, the way in which businesses operate is an important factor in the kind of growth and jobs that are created. That is why the Commission sees corporate social responsibility (CSR) as an important element of the Strategy for Growth and Jobs.

Through their employment diversity policies, for example, enterprises can recruit more people from traditionally marginalised groups and so help to create more integrated labour markets. By investing in cleaner production processes and environmental management systems, enterprises can improve their own efficiency and minimise negative environmental effects. CSR is increasingly a source of innovation, as a focus on societal problems and interaction with external stakeholders lead companies to develop new products, services and business models.

In encouraging the uptake of CSR as part of the Growth and Jobs Strategy, the Commission is determined not to saddle enterprises with new obligations and administrative burdens. We have raised the profile of CSR and we are raising our expectations of what the business community can deliver in this field, but we are firmly committed to respecting the voluntary nature of CSR. Perhaps above all, we want CSR to be recognised as an opportunity: an opportunity for enterprises themselves, for their stakeholders and for society at large.

Small and medium-sized enterprises are a fundamental part of the growth and jobs equation. The figures are well known, but are nevertheless worth repeating: there are some 23 million SMEs in the European Union, providing around 75 million jobs and accounting for 99% of all enterprises. They contribute up to 80% of employment in some industrial sectors, such as textiles, construction or furniture. They are a major source of entrepreneurial skills and innovation, and they contribute to economic and social cohesion.

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Put simply, we cannot achieve the goals of the growth and jobs strategy without SMEs. That is why the European Commission has placed a new emphasis on its policy towards SMEs, with actions in areas such as the promotion of entrepreneurship and skills, improving SMEs' access to markets, cutting red tape and improving SMEs' growth potential.

SMEs have always been very close to what we call today "CSR". Through their typically local anchoring, they are well placed to make a strong contribution to socio-economic development at a local level and act as responsible members of a community. As this report rightly points out, policy-makers and others would do well to give more recognition to what many SMEs already do in this regard.

But it is possible to help and encourage SMEs to go further down the road of CSR. This report draws attention to ways in which that can best be done. It has the virtue of addressing this question from the viewpoint of SMEs themselves and it rightly stresses the need to make CSR relevant and practical.

The work of the European Expert Group on CSR and SMEs is another milestone in the evolution of European policy on corporate social responsibility. If we are serious about our ambition to make Europe a pole of excellence in CSR, then we must pay more attention to the efforts and potential of SMEs in this field. I invite all readers of this report to get inspired and to join in with actions dedicated to the benefit of all of us.

Günter Verheugen

Vice-President of the European Commission



Introduction

What is the aim of this report?

The report aims to increase the quality and quantity of initiatives taken to support the uptake of CSR amongst SMEs. It captures the state-of-the-art in Europe at the present time and should provide ideas and inspiration for new and better initiatives. It is a contribution to the debate on CSR in Europe and it should help to advance understanding and recognition of the particular role of SMEs in the development of CSR.

To whom is the report addressed?

This report is addressed in the first place to persons and organisations that work with and for SMEs: business support organisations, SME or sector representative organisations, trade unions, networks and non-governmental organisations. It is also addressed to policy-makers that deal with SME policy issues, CSR or other policies such as competitiveness, social inclusion, regional development, research and education. Last but by no means least, it should also be of interest to persons and organisations that are specialised in the area of CSR.

A note on definition and terminology

This report uses the European Commission's working definition of Corporate Social Responsibility as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."

Corporate Social Responsibility (CSR) is a term that was created primarily by and for larger companies. It is used in this report with caution, since it is not necessarily a term that is well adapted to the world of SMEs. Alternatives were considered, including "responsible entrepreneurship", but for the purposes of this report it was decided to keep the term CSR because it is widely used and recognised.

What is the background to the report?

This report is the work of the European Expert Group on CSR and SMEs, established by the European Commission in September 2005. The group comprised experts appointed by EU Member States, from a variety of backgrounds: SME and employers' organisations, non-governmental organisations, CSR networks, academics and civil servants. The group was assisted by a number of observers and by additional persons with expertise in particular areas. A full list of all persons involved can be found at the end of the report.

The Expert Group on CSR and SMEs built on a number of previous European initiatives, especially:

- The "SME Round-table" report of the European Multistakeholder Forum on CSR, published in July 2004:
http://ec.europa.eu/enterprise/csr/documents/smes_rt_final_report.pdf
- The collection of CSR good practices in SMEs, published by the European Commission in 2003 :
http://ec.europa.eu/enterprise/entrepreneurship/support_measures/responsible_entrepreneurship/index.htm
- An awareness-raising campaign run by EUROCHAMBRES and UEAPME (European Association of Craft, Small and Medium-sized Enterprises) in 2004-5:
<http://ec.europa.eu/enterprise/csr/campaign/index.htm>

The European Commission is currently co-financing 16 projects in different EU Member States, using a variety of different approaches to increase the uptake of CSR amongst SMEs. Detailed descriptions of these projects can be found here: http://ec.europa.eu/enterprise/csr/ms_sme_projects.htm

How to help SMEs with CSR: some case studies

In conjunction with this report, an illustrative collection of good practices is also being published, describing the critical success factors of different initiatives taken to encourage and support CSR amongst SMEs.

What will I find in the report?

The report starts with a **summary of the key messages**.

There are then 6 chapters addressing the following questions:

1. Awareness-raising and communicating with SMEs about CSR: what techniques work best when communicating with SMEs about CSR, and what should be avoided?

2. Capacity-building for SME intermediaries and business support organisations: what competences do business support organisations need to advise SMEs on CSR, and how can they be acquired?

3. CSR tools for SMEs: what kinds of toolkits, guides, certification systems, and reporting/communication techniques are most appropriate for SMEs?

4. CSR in the supply chain: what is the influence of the CSR requirements that larger companies make on their suppliers, and how should the ideal buyer behave?

5. The business case of CSR for SMEs: what advantages can CSR bring for SMEs, and how important are such advantages as a motivation for SMEs to engage in CSR?

6. CSR, SMEs and regional competitiveness: can CSR be part of a regional development strategy and contribute to socio-economic development at a regional level?



Key messages

1. CSR is not a new concept for SMEs. A large proportion of SMEs have always done things that could today be called “corporate social responsibility”, even if they do not know or use the term themselves. What is new is the growing attention given to CSR by policy-makers, consumers, trade unions and non-governmental organisations. These actors should all give more recognition to what SMEs already do in this field. CSR in SMEs is less formal and more intuitive than in larger enterprises, but that does not make it less valuable. The challenge is to get more SMEs to do more CSR.

2. CSR can bring advantages to SMEs... CSR is not a short-cut to business success, but an investment that can pay off in the longer term. It can bring advantages, for example in terms of staff retention and recruitment, staff development and motivation, customer loyalty and reduced expenditure on energy. In the knowledge economy it can increasingly be a source of innovation and it can facilitate access to and sharing of information. By managing CSR in a more strategic and conscious manner, enterprises can better reap these advantages. CSR is about continuous improvement and should be seen as part of the modern model of business excellence.

3. ...but personal and ethical values are important too. The personal and ethical values of SME owners, managers and employees are a strong motivation for an enterprise to pay more attention to social and environmental issues. Support for CSR in SMEs should seek to build on and respond to these value-based motivations, not to replace or ignore them.

4. CSR is an opportunity to resolve real problems. CSR needs to be kept practical and results-oriented, providing solutions to real problems faced for example by an enterprise, a locality or a sector. All stakeholders should be encouraged to see the opportunities that can arise from engaging SMEs on social and environmental issues. Policy-makers and others actors should not treat CSR in isolation, but rather link support for the uptake of CSR more explicitly with policies such as fighting social exclusion, promoting entrepreneurial mindsets or reducing CO2 emissions.

5. It makes sense to work with SMEs at regional and local level... SMEs usually identify themselves closely with the region or town where they are located. The social and environmental issues of concern to them will probably be local and regional in nature. It is at the local and regional level that the positive impact of having a greater uptake of CSR can best be felt, whether it be in economic, social or environmental terms.

6. ...and through industrial clusters and sectors. SMEs from the same cluster or sector often face common social and environmental issues. Addressing these issues collectively can reduce the costs of action and result in improvements that an individual SME acting alone cannot achieve.

- 7. Partnerships between stakeholders are crucial.** Most successful examples of supporting CSR amongst SMEs, especially those focused on relations with stakeholders outside the enterprise, involve a combination of different actors, each bringing their own networks and expertise. The importance of a social dialogue approach involving employers and workers' representatives is particularly relevant to the encouragement of CSR in any given industrial sector. Cooperation across different industrial sectors is often important for addressing local and regional issues. Non-governmental and non-profit organisations should be encouraged to further step up their cooperation on CSR with SMEs and their representative bodies.
- 8. Organisations that work with SMEs have a central role to play.** Existing business support organisations and SME intermediaries need to be encouraged and helped to better integrate CSR into the advice and support that they give to SMEs. Such organisations are key channels of communication with SMEs and are qualified to communicate about CSR in a way that is relevant and understandable to them.
- 9. Language and terminology must be appropriate.** The term "corporate social responsibility" is confusing and off-putting to most SMEs. While the term remains useful in policy-making circles, in most languages alternative terms need to be found for the purposes of communicating with SMEs. In some languages the term "responsible entrepreneurship" is a viable alternative.
- 10. We need to better integrate CSR into education.** To convince future managers, entrepreneurs and workers that CSR is an investment in society that pays off in the long term, the social and environmental role and responsibilities of enterprises need to be better integrated into all levels of education. Particular attention should be given to the integration of CSR into education for entrepreneurship and into relevant training for SME managers and staff.
- 11. Not all SMEs are the same...** The fact that SMEs are an extremely diverse group (size, history, sector, ownership, and so on) calls for a range of different approaches and strategies to encourage the uptake of CSR. Adapting the message and the nature of support to the different kinds of SME will be key to success. Amongst other things, tailor-made approaches are needed for small and micro-enterprises in comparison to medium-sized enterprises.
- 12. ...and CSR looks different in different EU countries.** CSR is culturally specific: it varies according to political traditions, the nature of social dialogue, and the degree to which certain social and environmental issues are regulated by law. It is useful to have a common understanding at EU level about the definition and importance of CSR, but ultimately the practice of CSR has to be adapted to the particular circumstances of different nations and regions.
- 13. There needs to be a greater demand for CSR.** An appropriate enabling environment should exist to reward SMEs for more socially and environmentally responsible behaviour. Amongst other things, this means addressing the role of consumers, of public procurement and of large company buyers in the supply-chain. In all cases, the capacities of SMEs need to be considered and care is required to avoid unintentionally discriminating against them.

14. Governments must act responsibly too. One cannot call for a greater uptake of CSR amongst SMEs without also drawing attention to government responsibility in terms of creating the right framework conditions to allow enterprises to grow and to create more and better jobs.

15. We need more academic research on CSR and SMEs. The recent growth of academic interest in CSR and SMEs is to be welcomed. Further research should be encouraged on action-oriented questions such as: the success or otherwise of different policies and techniques to increase the uptake of CSR amongst SMEs; the economic, social and environmental impact of CSR at regional and local level; the usage and utility of CSR tools for SMEs; and a typology of SMEs with regard to their engagement in CSR.

16. The challenge is big and the rewards are great. There are some 24 million SMEs in the European Union. The ultimate aim must be to positively affect the behaviour of a significant proportion of those enterprises. The guiding principle should be to foster small but significant steps by a very large number of enterprises, rather than striving for formal and sophisticated CSR policies amongst a small elite. This will contribute to the positive evolution of European business culture in a way that will enhance Europe's competitiveness and its ability to deliver sustainable development and a better quality life of for its citizens.



Chapter 1: Awareness-raising and communicating with SMEs about CSR

What is at stake?

 Raising the awareness of small and medium-sized enterprises on any issue can be difficult. Their sheer number and diversity, combined with the fact that their owners and managers are often very busy and intensely focused on ensuring the short-term survival of the enterprise, make SMEs a “hard-to-reach” group. On top of this, raising the awareness of SMEs about corporate social responsibility comes with the additional challenge that many SMEs may not see social and environmental issues as immediately relevant to their business.

Key questions addressed in this chapter are: By what means can one reach SMEs in order to talk to them about CSR? What means and channels of communication work best? What terminology is most appropriate? And what aspects of CSR should be emphasised most?

What do we know?

 Awareness-raising needs to take place at all levels: European, national, regional and local. SMEs themselves can usually best be reached at a regional and local level, that is to say through awareness-raising, communication and advice coming from organisations that are as close to the end recipient as possible.

The European, national and regional levels are also important, however, in terms of drawing attention to the importance CSR amongst SMEs. Organisations that work closely with SMEs are more likely to integrate CSR in their work if there is some political consensus on the need to encourage a greater take-up of CSR amongst SMEs. By addressing this issue in public and in private, politicians at all levels can provide the necessary legitimacy and incentive for those organisations, often working at a more local level, that wish to promote CSR amongst SMEs. Public authorities will also often need to provide funding for relevant initiatives. The role of the European Union is important in this regard.

Developing a national consensus to promote CSR

Taking advantage of the small size of the country and the support of the government and the trade unions, measures are underway in Luxemburg to raise awareness on CSR, and to promote convergence and transparency of CSR practices and tools, with a special focus on SMEs.

Luxemburg's small size is an advantage in terms of awareness-raising, and enterprises can be more easily influenced and inspired by their peers.

Trusted SME intermediary organisations provide a vital means of communication with SMEs. Such intermediary organisations include: chambers of commerce; sector and trade associations; business clubs and SME associations at local, regional and national level; business advisors (private and publicly funded); business incubators; banks; accountants; and lawyers. To the extent that these intermediary organisations are or can be convinced of the benefits of supporting CSR amongst SMEs, they have the necessary legitimacy and contact networks to play a very positive role.

Large company buyers can also have a strong influence on their SME suppliers in terms of awareness about CSR. This particular issue is discussed in more detail in chapter 4, which addresses the promotion of CSR through the supply-chain.

Integrating messages and advice about CSR in the work of existing intermediary organisations is likely to prove more successful than creating new organisations just for the purpose of advising SMEs about CSR. Organisations that already exist to provide a service to SMEs are likely to have access to a significant number of companies, to be trusted by their clients and therefore be better able to influence their behaviour.

The ease or difficulty of reaching a large number of SMEs will depend on the national and cultural context. For example, in countries where a high proportion of enterprises are members of chambers, this provides at least one reasonably effective channel of communication with the national SME community as a whole. However, in countries with a lower level of membership of chambers or SME associations, there will be a greater proportion of "hard-to-reach" SMEs. In such contexts, networking and close cooperation between different kinds of existing intermediary organisations take on added significance.

Sector-based organisations and organisations with a strong local or regional focus both have distinct advantages in raising the awareness of SMEs about CSR. Sector-based organisations are well qualified to identify those aspects of CSR which are most important to their particular sector and are therefore able to make CSR relevant to their member companies. This is a major advantage considering that CSR covers a wide variety of issues and can, for that very reason, appear overwhelming or excessively complicated, especially for small businesses. Sector-based organisations may also see possible benefits in encouraging CSR amongst their members with the aim of enhancing the image and competitive situation of the sector as a whole.

Local or regional organisations, such as chambers of commerce or other business associations, should be able to make CSR relevant to particular local and regional issues. They can and often do encourage groups of companies to work together to address social or environmental issues affecting their particular geographical area.

Tailoring CSR to different sectors

respACT Austria has developed a guide to CSR for SMEs that is differentiated between 10 different sectors, making the content as relevant as possible to the needs of different SMEs. Similarly, the organisation MVO Nederland (CSR Netherlands) is advising several Dutch trade organisations on how to stimulate the uptake of CSR among their member companies. One of the first experiences is with Uneto-Vni, the Dutch association of installation contractors and technical retailers, which is also one of the largest employers' organisations in the Netherlands. CSR Netherlands assisted members of this trade organisation to establish their own CSR advisory committee.

Mainstream business advisors are an obvious channel for raising the awareness of small businesses. Many SMEs, however, will have little or no contact with business advisors as such, although they will have frequent and often close relations with banks, lawyers, and accountants. Ideally intermediaries such as these should be encouraged and if necessary trained to integrate relevant aspects of CSR into the advice that they give to SMEs.

Besides the influence of traditional intermediary organisations such as chambers of commerce or small business advisors, consideration should also be given to other, newer forms of networking between enterprises. Web-based communities and small enterprise blogs provide potential channels of communication with SMEs and entrepreneurs that have not been fully explored from the point of view of encouraging CSR.

Also, in some countries there has been a growth in new, more flexible business networking practices, which do not require formal, long term membership of a club or chamber. A good example of this is enterprise "speed-dating" events. If such models become more widespread, then some imaginative thinking will be required to see how messages regarding CSR can best be brought into such fora.

Education (primary, secondary and tertiary) inevitably has a strong effect on the social and environmental awareness of SME staff and managers, as it does on all citizens. The more that ethics, personal responsibility towards society, and awareness of social and environmental issues, are all imparted through the education system, the more one will probably find responsible business behaviour amongst enterprises. Many business schools now incorporate teaching on CSR into their curricula for MBA and other students. This welcome development will have proportionately more influence on large companies than on SMEs, since relatively few entrepreneurs or SME managers study for MBAs.

To reach more people who manage, own or work in SMEs, considerations about CSR need to be integrated into entrepreneurship education and into teaching about enterprises at all levels, including at school level. For this to happen, the “CSR movement” needs to engage more closely with relevant educational establishments and to have a better understanding of what kind of training and education establishments are used by staff and managers of SMEs before and during their professional lives. Business representative organisations should also be encouraged to raise education on CSR when discussing educational needs with public authorities.



What can be done?

For those organisations that decide to encourage CSR amongst SMEs, the following principles will probably increase the chances of success:¹

- Use appropriate language and terminology. It is important to consider whether the term “corporate social responsibility”, “CSR” or the equivalent in the local language is accessible and understandable to SMEs. Often it will not be, in which case alternatives should be sought.

What term should we use for “CSR” when talking to SMEs?

The British website smallbusinessjourney.com provides advice to SMEs on how to better integrate CSR into their work, but avoids using the term “CSR” or “corporate social responsibility” altogether. Instead it talks about how to “realise more value by behaving responsibly.” A paper commissioned by the Spanish government on CSR and SMEs suggests using the term “competividad responsable” or “responsible competitiveness”, as a way of describing how SMEs try to “square a pragmatic goal – to gain competitiveness – with an eminently social one.” The European Commission often uses the term “responsible entrepreneurship” when referring to CSR in SMEs.

- Use examples of what other SMEs have done. CSR often only begins to make sense when looking at the experience of an individual enterprise. An SME manager will probably be most influenced by examples from enterprises that are similar in some way to his or her own enterprise: similar size and maybe the same region or sector of operation. Many SMEs are, however, reluctant to seek publicity and it can be hard to find SMEs that are willing to share their experiences in an open manner. There is a need to encourage more SMEs to better publicise and communicate their actions in the field of CSR.
- Encourage SMEs to start with small steps. Because CSR covers such a potentially wide number of issues, it can appear overwhelming. There is no need, however, for a company to try to address all aspects of CSR from the beginning. For example, an initial focus just on simple measures to reduce costs and environmental impact or on involving the enterprise in local schools and education, could be good ways to start.

Starting with small steps

CSR does not have to be complicated and there are simple steps that almost any enterprise can take. To illustrate this, EUROCHAMBRES and UEAPME (the European Association of Craft, Small and Medium-sized Enterprises) produced a questionnaire as part of an awareness-raising campaign financed by the European Commission. Each of the 26 questions hints at a relatively easy and cheap action that an SME could take. The questionnaire is available in most European languages.

See:

http://ec.europa.eu/enterprise/csr/campaign/documentation/index_en.htm

- Try to integrate CSR into advice and training that is given on related subjects, for example health and safety, personnel management or environmental issues. Managers and other staff from SMEs are unlikely to have the time to participate in long discussions or training sessions focused exclusively on CSR.
- Be aware of potential business advantages and opportunity. It is important to be able to cite some possible business advantages of CSR, preferably with reference to real case studies. It may often help to consider CSR as one way to address a particular that the SME faces, for example staff retention and motivation.
- But don't just focus on the business advantages of CSR. It would be misleading to suggest that CSR can and will bring immediate financial benefits to every company. It is in any case important to be sensitive to the other motivations that owners and managers of SMEs may have for engaging in CSR, especially their own personal values. Where ethics or personal values are a significant motivating factor, which they often will be, dealing explicitly with CSR might help the company to identify new measures that it has not previously considered.
- Recognise what SMEs already do in the field of CSR. Although they probably do not use the term CSR or see it as a strategic business concept, the fact is that many SMEs already do many things that could be called CSR. By identifying things a company already does, you are more credible when suggesting other things that they could do.

Various techniques can be used to communicate with SMEs about CSR and to raise their awareness about the concept, including:

- Awards and prizes: giving public recognition to pioneering companies in the field of CSR, perhaps as one category in an award scheme that covers various aspects of business practice.
- Use of media: positive news coverage of CSR-related activities at local, regional or national level, and also specific articles on CSR in specialist publications for SMEs, especially trade magazines. Experience suggests, however, that most media have a strong preference for news about bad rather than good company behaviour. Greater dialogue with the media industry and training for journalists on CSR might bring positive results.

¹ This list draws on "Do's and Don'ts for helping smaller businesses to run their business for people, profit and planet", David Grayson.

See http://ec.europa.eu/enterprise/csr/documents/mainstreaming/ms_sme_topic4_grayson.pdf

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- Printed publications: short and practical brochures or guides, either for SMEs generally or for particular kinds of SME (for example, for start-ups or for individual sectors). In spite of the availability of web-based documents, it is still often beneficial to have “something to touch.”
- Websites: either websites developed with the purpose of assisting SMEs on CSR (which could help those SMEs already convinced that CSR is worthwhile), or the integration of messages and advice about CSR into online sources of more general advice for SMEs (which has the potential to raise the awareness of a larger number of SMEs).
- Clubs and associations: by coming together in “responsible business clubs” or equivalent associations, like-minded SMEs convinced of the value of CSR can help and inspire each other, and also function as “peer advisors”, inspiring other companies to follow their example.

More information

-  Material from EUROCHAMBRES training session on how to advise SMEs about CSR (September 2006):
<http://www.eurochambres.eu/activities/CAESAR.htm>
-  “Do’s and Don’ts for helping smaller businesses to run their business for people, profit and planet”,
David Grayson
http://ec.europa.eu/enterprise/csr/documents/mainstreaming/ms_sme_topic4_grayson.pdf



Chapter 2: Capacity-building on CSR for SME intermediaries and business support organisations

What is at stake?

Experience from many EU countries suggests that organisations working with and for SMEs (so-called “SME intermediary organisations”, or “intermediaries”) can play an important role in mainstreaming CSR amongst SMEs. That being the case, there is need to know more about how intermediaries can develop the skills and competences necessary to fulfil this role. Amongst the key issues addressed in this chapter are:

- What experience do we have of capacity-building for SME intermediaries in the area of CSR, and what can we learn from those experiences?
- What skills and competences might an intermediary organisation and its personnel need in order to play a constructive role in mainstreaming amongst SMEs?
- How can the capacity of relevant intermediaries best be strengthened?
- How can CSR be integrated into relevant education or training for entrepreneurs and SME staff?

For the purposes of this report, the definition of intermediaries is as wide and as inclusive as possible, covering all persons and organisations that work with or for SMEs, such as: chambers of commerce; SME associations and federations; trade and sector associations; trade unions; support and advice centres for SMEs and start-ups; business advisors (public and private); relevant training and education institutions for SMEs; potentially also, banks, accountants and legal firms.

What do we know?

To date only a very limited number of initiatives have explicitly sought to build the capacity of mainstream SME intermediary organisations to promote CSR amongst small businesses. This therefore appears to be an issue that would justify considerably more attention from those with an interest in increasing the uptake of CSR amongst SMEs.

Amongst the **skills and competencies that staff of an intermediary organisation might need** in order to support CSR amongst SMEs are:

1. An **understanding of what CSR is** and what it looks like when practised by SMEs. This implies at least a basic knowledge of the main dimensions of CSR, such as employees, community relations, environment, market-place issues, and ethics. It would be useful to have a mental list of real-life examples illustrating different CSR issues.
2. Credibility in the eyes of SMEs, meaning above all an **ability to communicate about CSR** in a concrete, down-to-earth manner that makes sense to SMEs. This also means demonstrating an awareness of the obstacles SMEs may face when dealing with CSR. (Communicating with SMEs in an appropriate manner, awareness of the constraints under which they operate, and a minimum knowledge of business management and of issues relevant to different sectors, should in any case all be core competences of staff from intermediary organisations).
3. An awareness of the possible **business advantages of CSR** for SMEs, backed up with some real-life examples. This might also mean being aware of the risks that an SME may run by not considering certain CSR-related issues.
4. A sensitivity to the **different motivations** that SME managers and employees might have for engaging in CSR. Many will be as motivated by personal or ethical considerations (“doing the right thing”) as they will be by business or profit motivations.
5. A knowledge of some simple, **relatively inexpensive measures** that almost any SME could take in order to engage in CSR for the first time.
6. A knowledge of the **social and environmental legislation relevant** to an SME in the given national or regional context.
7. An ability to **identify and use appropriate opportunities** for raising CSR considerations in the course of giving advice to SMEs on other issues (e.g. cost savings, staff recruitment, winning new customers, health and safety, environmental management).
8. An ability to **direct SMEs to other sources of advice and support** available in the particular regional or national context.
9. An ability to **accompany an SME over time**, helping to identify priorities and to assess progress towards the achievement of goals. This may also imply an ability to guide SMEs in the use of relevant guides, management tools, certification systems etc, as well as being aware of the strengths and weakness of such guides and tools, and being able to adapt them as necessary.

10. An ability to **facilitate local and regional level networking** between enterprises and other stakeholders with a view to developing partnerships that address relevant economic, social or environmental issues.

This could be considered as a useful checklist of issues to be included in possible training modules on CSR for SME intermediaries.

Training staff from chambers of commerce

In September 2006 EUROCHAMBRES (the European Association of Chambers Commerce) ran an intensive two-day training course on CSR for staff from chambers in different European countries. The course included sessions on the business benefits of CSR for SMEs, communicating with SMEs about CSR, and top tips to help socially responsible entrepreneurs. Course participants are then expected to test out what they have learned by visiting and advising at least four SMEs each. Using that experience, EUROCHAMBRES will produce a manual of practical guidelines for chambers staff. See <http://www.eurochambres.be/activities/CAESAR.htm>

Factors likely to influence the success of capacity-building initiatives include:

The commitment of intermediary organisations themselves, especially of the board and management. Different kinds of intermediary might be motivated by different aspects of CSR, for example: a trade association might have an interest in improving the image of its particular sector; a chamber of commerce might have interest in exploring how CSR can better contribute to local social and economic development; an independent small business adviser might see CSR as an innovative aspect of modern business practice, on which he/she wants to be able to advise SME clients; and a bank might want to explore whether and how discussions about CSR with SME clients can strengthen bank-client relationships and reduce credit risk. Motivations may vary especially between “profit-driven” intermediaries (such as banks and private consultants), and non-profit intermediaries (such as chambers of commerce or government-funded advice centres).

Cooperation and communication between organisations. Capacity-building for SME intermediaries is likely to be most successful when it brings together the combined knowledge and interests of mainstream SME intermediaries with organisations more specifically dedicated to the promotion of CSR. This will also help to identify persons with the right mix of experience to provide appropriate training and advice. The involvement of professional training bodies is also likely to be beneficial. Cooperation between organisations can create economies of scale, reducing the costs of capacity-building. Because this area is still relatively new, there is much to be gained from communication and sharing of experience between different organisations.

Tailoring capacity-building to the needs of different intermediaries. The particular competencies needed will vary according to the kind of intermediary and the national or regional context in which it operates. In Member States where CSR is well known, it may be more important to start with awareness-raising for intermediaries, before moving on to capacity-building per se. In any case, messages concerning CSR need to be relevant to the specific cultural, social and economic characteristics of any given state or region.

Integrating CSR into relevant professional qualifications. The integration of CSR competences into relevant professional qualifications, for instance for business advisers, would be a significant advance. The group was only able to identify one (still incomplete) example of this, from the Institute of Business Advisers in the UK. Other examples may exist, however.

Support and cooperation from public authorities. Public authorities at all levels (EU, national, regional, local) can play an important role in articulating the need to encourage CSR amongst SMEs and thereby helping to shape the agenda of intermediary organisations. And some public funding will often be necessary to finance capacity-building in intermediary organisations. The EU may be able to play a significant role, both in regard to funding and in encouraging national authorities to address the issue of CSR in SMEs. The role of the EU is potentially most important in those Member States where the CSR agenda is less developed and where national authorities have to date shown less interest.

When addressing SMEs themselves, it is probably best to integrate CSR into other topics (such as health and safety or human resource management), rather than to deal with it as a separate topic on its own. This raises the question of whether capacity-building for intermediaries is also best integrated into other training courses, or alternatively, whether it should be dealt with as a stand-alone topic. It would certainly seem appropriate to try to integrate the question of CSR into existing capacity-building programmes for intermediaries on issues such as the environment and health and safety.

A CSR training manual for trainers

The Portuguese Vocational Training Centre for Trade (CECOA) has developed a manual with the objective of guiding professional training organisations in the development and delivery of training activities focused on CSR. CECOA works in particular with SME clients. The manual contains 6 modules: Introduction to CSR, Business Ethics, Workplace, Environment, Marketplace and Community. CECOA and its project partners have also sought to share this tool through national and European professional training networks, including REFERNET (European Network of Reference and Expertise).

The integration of CSR into education and training programmes for SMEs is an issue that requires further attention. It implies identifying those training and education establishments that are used by SME managers and other employees, and exploring in more detail the opportunities for integrating CSR considerations into such courses. There has been significant progress along these lines with regard to business education generally, but comparatively little work with regard to education and training specifically for SMEs and entrepreneurs.

What can be done?

- The exchange of experiences between organisations involved in capacity-building should be promoted. This could be done using the internet, and ideally should also include staff exchanges between EU countries. A particular effort should be made to involve persons and organisations from countries where the CSR agenda is less advanced. The European Commission may be able to play a role in this regard.
- The basic checklist of issues to be included in CSR training modules for SME intermediaries and the list of critical success factors should be further developed in the light of experience.
- Capacity-building initiatives should be carefully adapted to the cultural, social and economic environment, and to the interests and motivations of the SME intermediary concerned.
- Political and financial support from public authorities (including the European Commission) may be necessary if a significant number of capacity-building initiatives are to be undertaken.
- There should be more dialogue and cooperation with mainstream training institutions used by SMEs, in order to explore possibilities for the integration of CSR into the courses they offer.

More information

-  “Building the capacity of intermediary organisations: experience from Scotland”, presentation by John Leitch, Scottish Business in the Community:
http://ec.europa.eu/enterprise/csr/documents/mainstreaming/ms_sme_topic3_leitch.pdf
-  “Presentation of a Leonardo da Vinci project: CSR/SME - Promoting social responsibility in small and medium sized enterprises”, Cristina Dimas, Vocational Training Centre for Trade (CECOA), Portugal:
http://ec.europa.eu/enterprise/csr/ms_sme_topic3.htm
-  “Building the capacity of intermediary organisations: experience from the UK”, Sara Williams, Liverpool Chamber of Commerce, UK:
http://ec.europa.eu/enterprise/csr/documents/mainstreaming/ms_sme_topic3_williams.pdf
-  Some of the projects selected for co-financing by the European Commission under the “Mainstreaming CSR for SMEs” programme directly address the issue of capacity-building for intermediaries, notably those implemented by EUROCHAMBRES, Maribor Chamber of Commerce and Industry (Slovenia), EIC Viborg (Denmark), Scuola Sant’Anna (Italy), Institute of Business Advisers (UK), GILDE GmbH (Germany), Sustainability North West (UK), Hellenic Network for CSR (Greece), and the Irish Exporters Association. See http://ec.europa.eu/enterprise/csr/ms_sme_projects.htm for more details of each project.



Chapter 3: CSR tools for SMEs

What is at stake?

SMEs that make a conscious decision to engage in CSR may have a need for formal tools to assist them. Such tools might consist of simple introductory guides, or more ambitious management systems. Some SMEs may also seek to formalise their commitment to CSR through certification, or may wish to report on, or communicate about, their CSR activity in some way. This chapter examines the importance and relevance of such tools in the case of SMEs, and identifies key factors in their success.

This analysis is not based on a complete survey of all European or other CSR tools. Rather it is based on lessons drawn a number of different tools that were examined by way of example. The term “CSR tool” is taken to cover the following: awareness-raising documents and simple introductory guides; self-assessment toolkits; management systems; certification schemes and standards; labels; codes of practice; and reporting systems.

What do we know?

Simple guides and awareness-raising tools

CSR in SMEs is usually informal and intuitive. As a result, contrary to what happens in large companies, CSR in SMEs rarely finds expression in terms of formal tools, management systems, certifications and reports.

The kind of CSR tool that has the potential to be used by the largest number of SMEs, therefore, is the relatively simple guide that also serves an awareness-raising function. This kind of guide is aimed primarily at SMEs that have not previously considered CSR to be a relevant and strategic business concept. Although the level and content of such guides will vary, this is not a management system as such, and would not usually require or result in any kind of certification. While often first and foremost a tool for awareness-raising, ideally such guides should also serve as a more long term point of reference for those companies that are keen to take conscious steps towards the greater integration of CSR in to their business.

Successful guides of this kind may have some or all of the following characteristics: short; SME-friendly language, without complex terminology; specific to a particular sector of business; specific to a particular size of enterprise (e.g. micro-enterprise, small enterprise, and medium-sized enterprise); drafted in full knowledge of the day-to-day reality of life and work in an SME; suggest relatively simple actions as first steps, encouraging an incremental approach; cite examples of SMEs that have successfully engaged in CSR; break CSR down into more concrete issues (e.g. energy use, diversity policy, community relations etc.) that can be addressed individually; suggest further source of help and advice. They may also include simple tests for self-assessment.

Not many SMEs use formal CSR tools

In France there are four quite well established CSR tools for SMEs: Performance Globale, Bilan Sociétale, the French version of the SME-Key, and SD21000, a sustainable development standard produced by the French Association for Standardisation (Association Française de Normalisation - AFNOR). It is estimated that a total of about 1000 SMEs use these tools, out of about 2.4 million SMEs in France. This is not to suggest that French SMEs are more or less responsible than SMEs in other countries. However it does illustrate the fact the vast majority of SMEs do not use formal and sophisticated CSR tools, even when they are available

The success of such guides will also depend crucially on what organisations are involved in their development, and on which and how many organisations are committed to disseminating it. The content and format needs to be strongly informed by persons and organisations that work closely with SMEs on a range of different issues, not just CSR. And mainstream SME representative organisations, as well as business advisors, are likely to be important channels for distribution and dissemination.

Only a small minority of SMEs will seek to use CSR tools that are more sophisticated than a relatively simple introductory guide. Therefore, if the aim is to influence the maximum number of SMEs, including those in the small and micro-enterprise categories, then the main focus should be on this kind of tool.

Management systems and certification

 Nevertheless, it is important that those SMEs that seek to formalise their commitment to CSR should have access to the necessary tools if they want them, such as management systems or certification schemes. Generally speaking, the kinds of SMEs most likely to be interested in these more ambitious tools are: larger SMEs (medium-sized enterprises as opposed to small and micro-enterprises); SMEs that already use quality management or other formal and verifiable management systems; growth oriented SMEs that actively seek improvements in processes and more cost-efficient resource allocation; and SMEs in a supply-chain that receive CSR-related requirements from buyers.

The success of CSR management systems for SMEs will be influenced in particular by:

- **Cost.** Management systems that are expensive to buy or to implement are likely to see a lower uptake. Medium-sized enterprises are more likely than small and micro-enterprises to pay for a CSR management systems, but even for medium-sized enterprises this will be rare and, in reality, the question of public subsidies for participating enterprises may arise.
- **Simplicity.** The best CSR management systems for SMEs will be those that are simple and not excessively time-consuming to operate.
- **Degree of integration into other existing systems.** Ideally a CSR management system for SMEs should be linked to or even integrated into other existing management systems, for example for quality or environmental management.

Linking CSR and quality management tools

The Xertatu:Adi CSR management system has been developed to help Basque SMEs. It is based on and fully compatible with the European Foundation for Quality Management excellence model, which is very popular among SMEs in the Basque Country (adopted by around 700 SMEs with less than 50 employees).

Some SMEs may seek to formalise their commitment to CSR through certification. Sometimes this will be linked to a management system, for example in the case of the environmental management certifications ISO 9000 or the European Eco-Management and Audit Scheme (EMAS). In many cases, relevant certification schemes in fact cover one particular issue, such as community involvement or gender equality, rather than the complete spectrum of CSR issues. For the great majority of enterprises, this is in any case a more realistic and more appealing approach than an attempt to achieve comprehensive certification on all CSR issues at the same time.

Making certification attractive and useful to SMEs

The MPS certification scheme, based in the Netherlands, has been developed specifically for the cut flower sector. Most participating companies are SMEs. It is not a comprehensive CSR certification, but rather offers different options (environmental and social), and also different levels, allowing enterprises to progress. MPS is also used by SMEs in the Belgian cut flower cluster, where peer group pressure has been a significant factor in its uptake. Examples of SME friendly certification schemes that address individual aspects of CSR include the French Equality Label, which focuses on gender equality, and Community Mark, a British scheme which recognises enterprise engagement with local communities. See:

www.femmes-egalite.gouv.fr/grands_dossiers/dossiers/egalite_en_entreprise/label_egalite.htm

and

www.bitc.org.uk/take_action/in_the_community/community_investment/measuring_and_reporting/communitymark.html

Motivations for achieving certification will vary. For some SMEs it will be a commercial question, for example when it is known that buyers (typically large companies or public authorities) require assurance of performance on certain environmental and/or social issues. However, certification can also be driven by the peer group (within the sector and/or within the region or locality), or it can be seen as a way of motivating employees and better acknowledging their commitment to a particular issue.

Reporting / communication

 For many larger companies, the production of a publicly available CSR or sustainability report has become an important aspect of their CSR policy. A very small number of SMEs have followed the same path, but it is unlikely that CSR reporting will become general practice amongst SMEs as a whole. The reasons for this include the perceived costs, the limited demand from stakeholders (compared to larger companies), and, in some cases, a fear of attracting negative or unwanted attention from the press and others. At least one EU country has in fact witnessed a decrease in the number of SMEs willing to make a formal report on their CSR performance.

There may, however, be more scope for SMEs to participate in reporting if it can be done collectively at a cluster or sector level. There is a potential for economies of scale, in terms of the cost of reporting and the improved image of the sector or cluster as a whole, that cannot be realised by one SME on its own.

SMEs reporting together

The Global Reporting Initiative is exploring different ways of engaging SMEs in the process of sustainability reporting. One approach is to work with clusters, such as the wine and fruit growers in Chile, helping them to report jointly on sustainability. This offers them the opportunity to reduce potential burdens linked to reporting and to improve the international competitiveness of the cluster. A similar logic is driving a joint initiative by employers and trade unions to develop a CSR reporting guide for SMEs in the Italian leather goods sector.

For individual SMEs it will usually make more sense to talk in terms of “communication” about CSR rather than about “reporting” as such. Communication within SMEs and between SMEs and their stakeholders is in any case often informal. SMEs are likely to be more receptive to the idea of communicating their values or aspects of their CSR performance by simpler means than a written report, such as: letters to clients, internal emails and meetings with employees, newsletters, brochures or meetings with local NGOs.

International instruments

It is not realistic to expect a significant number of SMEs to read and study major international instruments and reference texts on CSR, such as the ILO declarations, the UN Declaration of Human Rights or the UN Global Compact. CSR tools produced specifically for SMEs can help to bridge this gap by incorporating relevant aspects of such instruments, even if they are not mentioned by name. Care must in any case be taken not to undermine the basic standards established in relevant international instruments.

There is an ongoing debate about the desirability of developing a set of common standards for CSR tools, potentially allowing such tools themselves to be certified in some way. There may be a risk that the existence of too many tools and standards is confusing for enterprises and for other stakeholders. On the other hand, the development of a set of common standards could restrict the development of tools that are created for specific groups of SMEs (defined by sector, size, location or other characteristics).

What can be done?

- Consider the development of CSR tools for geographical and industry-specific clusters of companies.
- Ensure better dissemination of information about existing tools, within countries and sectors, and also on a European-wide basis. This would be particularly welcomed by countries with less developed CSR support programmes in place.
- CSR tools for SMEs are not an end in themselves and should not be imposed on enterprises. Rather, they should be developed and judged according to the added value they bring to the enterprise and its stakeholders in terms of being better able to integrate CSR into business practice.
- Explore possibilities to better integrate CSR into existing quality management systems, such as the European Foundation for Quality Management (EFQM).

More information

- Overview of German and international CSR tools and instruments for SMEs, drafted by Bundesinitiative "Unternehmen: Partner der Jugend" (UPJ) (in German):
http://www.verantwortliche-unternehmensfuehrung.de/am_download.php?assetId=110882
- Discussion of and links to some relevant CSR tools for SMEs, by Novethic (in French):
<http://www.novethic.fr/novethic/site/article/index.jsp?id=87418>
- Guide for SMEs on communicating about CSR, produced as part of an awareness-raising campaign on CSR for SMEs implemented by EUROCHAMBRES and UEAPME:
http://ec.europa.eu/enterprise/csr/campaign/documentation/download/guide_en.pdf



Chapter 4: CSR in the supply chain

What is at stake?

An increasing number of large companies and public authorities make environmental and social requirements on their suppliers. Attention to social and environmental issues in the supply chain has become an important aspect of the CSR of many large companies, and a means by which public authorities can further pursue policy goals, in particular the goal of sustainable development.

Buyer requirements in the social and environmental fields are a possible way of promoting a greater uptake of CSR amongst SME suppliers. This chapter explores ways in which that potential can best be realised. Part of the answer lies simply in more buyers making social and environmental requirements on their suppliers. The focus of this chapter, however, is on the qualitative aspects: how can such requirements be managed in a way that is sensitive to the capacities of SMEs and that is most likely to have a positive influence on SME behaviour?

What do we know?

Buyer requirements relating to social and environmental issues are increasingly common. A recent study of Danish enterprises found that 60% of SMEs reported receiving such requirements². Some buyers take a holistic approach to CSR requirements. However it is more common to find requirements just on certain specific issues, especially environmental issues and others such as health and safety.

For many SME suppliers, CSR-related buyer requirements are first and foremost an increased administrative burden. In order not to lose out on contracts SMEs will often state that they meet buyer requirements, but in reality such requirements may have little or no real effect on the actual practices and policies of the SME concerned. The lack of resources is often cited by SMEs as the biggest barrier to a more thorough implementation of buyer requirements. Many SME suppliers also remark that more stringent social and environmental requirements are often in contradiction with other buyer requirements regarding price and delivery times.

² "Sustainable Competitiveness in Global Value Chains: How do Danish Small Firms Behave?" The Copenhagen Centre, 2006. Many of the points made in the following paragraphs draw on the conclusions of that report.

Although buyer requirements are generally not contractual or subject to verification, the degree of formalisation does have a large influence on how SMEs manage these requirements. In particular, if SMEs receive requirements that are contractual and/or verified, they are more likely to pass on such requirements to their own suppliers.

The aforementioned study of Danish SMEs suggests, however, that the influence of buyer requirements on the uptake of CSR amongst SMEs should not be overestimated. For Danish SMEs, buyer requirements are only of secondary importance as a motivating factor for their social and environmental commitment. What is more, CSR buyer requirements can only directly affect SMEs that supply large companies and public authorities, which is not the majority of SMEs.

Helping suppliers to learn from one another

The steel making company Arcelor Mittal works closely with its suppliers and contractors on health and safety issues. The group created a tool for progress called REX ("returns of experience"), which consists of collecting about 200 experiences of incidents per year and sharing them with all sub-contractors in the different countries. The initiative also puts a strong emphasis on coordination, through common actions of "shared vigilance", implying a two-way relationship between the group and its sub-contractors. Recognition is given to SMEs through the "Arcelor contractor health and safety award".

The CSR of large company buyers should not be judged simply on the basis of whether they seek to pass on social and environmental requirements to their suppliers. Attention should also be paid to how this is done. If buyers are simply outsourcing their own responsibility and liability, then it could even be inconsistent with what many observers would consider good CSR practices.

There is already quite a large body of experience showing how buyers can work constructively with their SME suppliers and support them on CSR issues. This has often taken the form of "mentoring" of SME suppliers by large company buyers, including training programmes and the encouragement of good practice exchange between suppliers.

What would the "ideal" buyer do?

 Below are a series of points that an "ideal buyer" should address if it wishes to have a greater impact on the actual behaviour of its SME suppliers. This list has been drafted from the point of view of SMEs. It aims to challenge and inspire buyers to adapt some of their practices or adopt new ones.

This list is conceived mainly with European SME suppliers in mind, but many points will also be relevant to suppliers in developing countries. Some of the points apply to public authorities in their role as buyers, as well as to large company buyers. However, private companies have reasonable freedom to develop deeper and longer lasting relations with suppliers. Public authorities are constrained in this respect by public procurement rules.

1. **Explain to the SME supplier how CSR buyer requirements can represent a long term opportunity for both parties.** CSR may bring direct advantages to the SME supplier, for example by leading to improvements in its own management systems. Dialogue between suppliers and buyers on CSR issues can lead to longer lasting and deeper commercial relationships.
2. **Establish an open dialogue with SME suppliers about all aspects of CSR buyer requirements:** the reason for them, the opportunity they represent, the capacity of the SME to meet them, and, importantly, whether and how such requirements may contradict other requirements, especially those regarding cost and delivery time.
3. **Ensure that all aspects of purchasing policy and practices are consistent with the principles and aim of CSR policy.** This will require training and awareness-raising for purchasing managers, and part of such training should address the specificity of CSR as it is practiced by SMEs. Purchasing managers should also be rewarded on achievements with regard to the CSR performance of suppliers, not just on cost and other measures of efficiency.
4. **Help to provide adequate awareness-raising and training on CSR in SME suppliers.** As far as possible this should involve all workers in the supplier, not just managers, and it should be done in a way that is sensitive to the needs of SMEs (for example, by carrying out training at the SME place of work).

The importance of partnership and communication

Within the framework of the EICC (Electronic Industry Code of Conduct), Hewlett-Packard Company has developed a supplier engagement model based on continuous improvement. When partnering with SME suppliers on CSR, the company puts an emphasis on several key elements: the imperative of explaining the business case for CSR to SMEs, the importance of building awareness and capacity among SME managers, the commitment of time and resources by HP and its larger first tier suppliers, the importance of practical and effective communications with workers and the adoption of a partnership approach.

5. **Recognise that both SME suppliers and large company buyers can learn from each other** in the field of CSR. It is a two-way process, not simply a question of the large company teaching smaller companies.
6. **Focus on a limited number of relevant and well-defined issues** when establishing requirements. Consider being flexible in the definition of requirements, maybe even tailoring requirements to suit the size and circumstances of individual suppliers.
7. **Give more recognition to the kind of CSR practices that are common amongst SMEs,** such as their role in the local community. Allow the SME supplier a certain freedom to express its own CSR practices, rather than simply having to meet a list of criteria predetermined by the buyer. Remember that personal values and pride in their own enterprise are often the main motivations for SMEs to engage in CSR.

8. **Give SMEs the opportunity to progress and improve over time**, rather than demanding immediate compliance with a fixed set of criteria. Progressive incentives could be used to reward the achievement of certain objectives.
9. **Consider whether and how the SME supplier passes on requirements to its suppliers**, and provide some guidance in this process. To the extent that buyer requirements are contractual and/or verified, there is an additional responsibility on the buyer to assist SMEs to pass on such requirements through its supply chain.
10. **Ensure the timely payment of SME suppliers**. It is difficult to argue for responsible behaviour from suppliers and to build trust if the buyer itself does not pay on time. Buyers could even consider publishing statistics on the timeliness of their payments.
11. **Work with other large buyers in the same sector, and with other relevant stakeholders** (including SME representative bodies, as well as trade unions and non-governmental organisations), to develop some common CSR requirements and verification methodologies. This should reduce the administrative burden on SME suppliers. There may also be scope for promoting a greater exchange of good practice and learning between both suppliers and buyers in the same sector.
12. **Sponsor and encourage sharing of good practice on CSR between SME suppliers**. This could take the form of awards for CSR performance, the creation of a supplier CSR network or club, or joint training of staff from various SME suppliers.

Do I meet customer CSR requirements?

The Danish Ministry of Economic and Business Affairs, in cooperation with the Confederation of Danish Industries and the Danish Institute for Human Rights, have developed a tool to guide companies on how to handle CSR demands from customers. The CSR Compass enables SMEs to generate an individual declaration to demonstrate their standards within 32 CSR topics – such as child labour, discrimination, corruption, pollution, and waste handling – by complying with Danish law. The declaration furthermore specifies the Danish legal standards within each field and how international conventions are ratified in Danish law. See www.csrkompasset.dk

What can be done?

 Besides the specific recommendations on how to best manage CSR buyer requirements in order to have the most positive effect on the CSR of SME suppliers (see above), a number of other more general recommendations can be made:

- There is a need for more research across different EU countries regarding the nature, extent and real impact of CSR buyer requirements on SME suppliers. There is also a need for more research into when and how SMEs themselves make CSR requirements on their suppliers, and how this can best be encouraged bearing in mind the capacities of SMEs.

- Public authorities should give greater consideration to the specific nature of CSR in SMEs when introducing social and environmental requirements into their procurement policies.
- Public authorities could help to facilitate greater dialogue on these issues at European, national and sector level between SME representative organisations, buyers and other stakeholders, including non-governmental organisations and trade unions. This could lead to public funding for the development of codes of practice for buyers that are sensitive to the capacities and limitations of SMEs and that are most likely to have a positive influence on SME behaviour.

More information

- “Sustainable Competitiveness in Global Value Chains: How do Danish Small Firms Behave?”
The Copenhagen Centre, 2006:
<http://www.copenhagencentre.org/sw12212.asp>
- “Very Large Enterprises and their support for SMEs in the context of sustainable development: Exploiting CSR best practice within the framework of relations between customers and suppliers”,
Observatoire sur le Responsabilité Sociétale des Entreprises (ORSE), September 2003
English: http://ec.europa.eu/enterprise/csr/documents/mainstreaming/ms_sme_topic6_orse_en.pdf
French: http://ec.europa.eu/enterprise/csr/documents/mainstreaming/ms_sme_topic6_or



Chapter 5: The business case of CSR for SMEs

What is at stake?

When talking about the “business case of CSR for SMEs”, we mean the ways in which corporate social responsibility practices can help small and medium-sized enterprises to become more competitive. Increased competitiveness is understood to mean doing something different to one’s competitors in order to produce a different product/service or to offer the same product/service at a lower cost.

This chapter examines the latest thinking on this issue, and explores the implications for the mainstreaming of CSR among SMEs. Some of the most important questions addressed are: how different aspects of CSR might effect the competitiveness of SMEs; how the business case of CSR might vary according to the characteristics of the SME; how the business case of CSR for SMEs is different to the business for larger companies; and the relative importance of the business case as a driver for CSR in SMEs.

What do we know?

The report of the “SME Roundtable” of the EU Multi-Stakeholder Forum on CSR contains a list of possible business-related motivations for CSR in SMEs. This is an expanded and edited version of that list:

- Attracting and retaining motivated and committed employees – especially because the speed of market and technology change increases the need for flexible and engaged staff. Good working conditions achieved by responsible business practices and a participatory management style usually have positive effects on staff morale and lead to a higher job satisfaction and commitment to the firm. CSR may become an increasingly important distinguishing factor for enterprises that face growing competition to attract the best, high-skilled workers.
- Developing and training staff. For instance, the staff or managers of an enterprise can acquire new skills and competences through voluntary engagement with the local community, and this can also result in knowledge transfer and access to new information that benefits the enterprise.

- Winning and retaining consumers and business customers (supply chain pressures and opportunities), especially because economic stagnation means SMEs need to find new markets / revenue streams.
- Being a good neighbour – maintaining a license to operate from the local community.
- Responding to new demands and requirements from banks, insurers and also investors. The strength of this as a motivation for SMEs to engage in CSR is crucially dependent on the extent to which the financial community takes real account of the risks and opportunities that CSR issues represent.
- Reputation – with internal and external stakeholders.
- Changing perceptions of the role of business in society (not only a source of profit), through the media, education, and actions by stakeholders.
- Cost and efficiencies savings e.g. reduced insurance and landfill costs.
- Networking opportunities.
- Product / market innovation, differentiation, and competitive edge; and the need for more sources of creativity and innovation in business.
- Anticipating future legislation, so getting practical experience and helping to ease the burden of compliance, although this motivation is more likely to apply to large companies than to SMEs.

This is a useful checklist of the ways in which CSR could help SMEs to become more competitive. Not all these issues will be relevant to all SMEs, however, and some are more likely than others to result in competitiveness gains.

What do SMEs say about the business advantages of CSR?

SMEs benefit from responsible behaviour in different ways. The European Commission has produced a collection of case studies of CSR in SMEs, taken from across Europe. Each case study includes a section entitled “business benefit”. Many cite increased staff morale and improved reputation. Båtsfjordbruket AS, an SME from the fishing sector in Norway, believes that development of the local community and the industry are intrinsically linked, and mentions the following business advantages: “Improved recruitment and less staff turnover; improved cooperation within industry on issues the companies lacked resources to solve on their own; improved training and worker development locally.” See http://ec.europa.eu/enterprise/entrepreneurship/support_measures/responsible_entrepreneurship/index.htm

Recent research from Denmark suggests that, taking into account the financial costs, two areas of CSR are more likely than others to bring measurable competitive gains in the short-term: environment (reduce costs for energy or waste disposal) and innovation (deriving business from socially beneficial innovations). The study also suggests that the competitiveness benefits of CSR actions related to workforce development were partially measurable and would emerge in the longer-term, and that voluntary social investments to shape the competitive context of an SME (for example by investing in public goods such as education) could bring competitive gains in the longer term, especially if such investments were made jointly with other enterprises on a sector basis. By contrast, CSR activities related to the supply chain, market place and stakeholder engagement seemed to provide no obvious measurable competitiveness benefit for individual SMEs.

Ideally these conclusions should be tested with more SMEs and in different cultural contexts. In particular, the idea that competitive gains from “voluntary social investments” might be greater if groups of SMEs were to make such investments jointly deserves further exploration. The business case of CSR for SMEs is likely to be strengthened by bringing SMEs together to take joint action on a local or sector basis.

SMEs addressing their problems by acting together

“Nørrebro Handelsforening is an association of 77 shop owners in Nørrebro, a section of Copenhagen. Recently, in response to increasing youth violence, the association worked with the Ministries of Education and Integration to design a new apprenticeship program that rebalanced the number of days apprentices are in school. The program [...] is expected to not only help keep youth off the streets and out of crime, but also address a longstanding shortage of apprentice sites in the city while reversing a trend over the past decade of declining availability of educated employees for the retail sector.”

Source: “Competitive Social Responsibility: uncovering the economic rationale for corporate social responsibility among Danish Small and Medium-sized Enterprises”, 2005, the Foundation Strategy Group and Harvard University.

The business case of CSR for SMEs will in any case evolve as markets evolve. Pressure on SMEs for CSR and sustainable practices is increasing from various sources: large company clients, public authorities, banks, competitors and consumers. Through their purchasing practices, public authorities have the opportunity to create a stronger business case for CSR, although great care is required to ensure that this does not in practice result in discrimination against SMEs.

Although downward pressure on costs remains more significant, pressure and expectations for CSR and sustainable practices are more than just a passing trend. They will have a growing impact on operating profit, and so justify SMEs taking a strategic approach to CSR and sustainability issues. One result is that innovation – developing new products and services that help to address societal problems – is likely to become an increasingly important feature of the business case of CSR for SMEs.

The nature of the knowledge economy means that social capital – the quality and quantity of relations developed by an enterprise – is becoming an important factor in competitiveness. Aspects of CSR that

can contribute to social capital, for instance through networking and building trust, loyalty and image, will therefore also become an increasingly important feature of the business case of CSR for SMEs.

Many large companies are at least initially motivated to engage in CSR as a means of managing risks to their corporate image and brand. Similarly, they are often under growing pressure to be transparent and to engage in dialogue with major external stakeholders. For most SMEs these particular risks and pressures do not have the same force as drivers for CSR. Stakeholder engagement or building a reputation for responsible business may, however, be relevant to SMEs in terms of generating opportunities for innovation and the development of niche markets.

Many factors will determine whether there is a business case for CSR for any given SME and what that business case might be. Some of the most important factors influencing the business case are: sector; size; age and history (including whether or not the enterprise is family owned); geographic and cultural context; position in the value/production chain and nature of client relationships. Ideally more research should be done into whether and how these factors affect the business case.

The interplay between these factors is complex, making it difficult to generalise or to provide a reliable methodology for predicting the possible business case of CSR for every SME. The business case, where it exists, will often be unique to an individual enterprise and influenced by the societal context in which the company is working. SMEs and their advisers would do best to be aware of the factors that might influence the business case, and to use these factors to look for the possible competitiveness benefits of CSR on a case-by-case basis, according to the specific characteristics and context of the enterprise in question.

 Most surveys tend to conclude that ethical and moral considerations are the main driver of CSR amongst SMEs.³ Some entrepreneurs and SME owner/managers may even be offended by the very suggestion that their responsible business behaviour is motivated by anything other than moral and ethical considerations. As a general rule, the smaller the enterprise, the greater the relative role of ethical and moral considerations as drivers for CSR.

Surveys also reveal, however, that SMEs are motivated by the perceived business benefits of CSR, even if in the majority of cases this is not the first or most important motivation. According to some surveys, the importance of the perceived business benefits as a motivating factor for engaging in CSR tends to increase with the size of the enterprise.

The possible business case of CSR is likely to make more sense to SMEs if it is discussed in terms of “risk and opportunity”. It may also make sense to identify and focus on just one area of potential competitive gain, rather than trying to address all CSR related issues immediately. A document produced for the Spanish government on this issue suggests that CSR “should be viewed as the opportunity to build on existing strengths and make viable improvements that may not have been sufficiently considered in the past.”

It is unrealistic to expect that the business case of CSR for SMEs will ever be definitely proven in way that applies to all SMEs in all contexts. The most advisable approach is rather to demonstrate the business advantages of CSR when and where they exist.

³ See for example: Observatory of European SMEs, 2002, “European SMEs and Social and Environmental SMEs”; Danish Commerce and Companies Agency, 2005, “Mapping of CSR activities among SMEs”; Camera di Commercio Milano e Formaper, 2002, “CSR among SMEs”.

What can be done?

- Look for and construct the business case according to the unique characteristics of each SME, rather than applying the same formula in all cases. Consider how the precise nature of the enterprise and the context in which it operates might affect the possible business case.
- Do not assume that the “business case” will always be the main motivation for an SME to engage in CSR. Be sensitive to motivations based on values: use the potential business case to reinforce and complement values-based motivations, not to replace them.
- Do not insist that CSR will always lead to short-term competitiveness gains. Explore and describe how it may make for a stronger and more sustainable enterprise in the longer term.
- Areas that seem especially worth focussing on when looking for possible competitive gains from CSR are: costs savings from environmental measures; opportunities from addressing societal problems with innovative products or services; making a product or service more attractive to public authorities or large company clients; attracting, retaining and motivating staff by offering a good and stimulating working environment; enhancing image, loyalty and trust amongst internal and external stakeholders; and networking and accessing new information.
- Consider whether there may be additional competitive gains from joint action with other enterprises (and other stakeholders) in the same sector, locality or cluster.

More information

-  Report of the “SME Roundtable” of the EU Multi-Stakeholder Forum on CSR (2004), especially pp.7-8: http://europa.eu.int/comm/enterprise/csr/documents/smes_rt_final_report.pdf
-  “Uncovering the economic rationale of CSR among Danish SMEs” (2005), study commissioned by Danish Companies and Commerce Agency: http://europa.eu.int/comm/enterprise/csr/documents/mainstreaming/ms_sme_topic2_people.pdf
-  Materials from the seminar the European Commission seminar “The business case of CSR”, 2004: http://europa.eu.int/comm/enterprise/csr/business_case.htm
-  “The role of Government in Fostering CSR among SMEs: Business Case” (2005), Ministry of Industry, Tourism and Commerce, Spain: http://europa.eu.int/comm/enterprise/csr/documents/mainstreaming/ms_sme_topic2_gobiernos_en.pdf
-  “Corporate Responsibility and Competitiveness”, Corporate Governance Journal, Special Issue 2006 www.eabis.org/resources/journals/cgj2006/



Chapter 6: CSR, SMEs and regional competitiveness

What is at stake?

Competitiveness is dependent on the productivity that a country, region or group of businesses (“cluster”) active in any given territory draws from the human, financial and natural resources at its disposal. Productivity influences standard of living (salaries, return on capital, profits derived from the natural resources). Countries and regions are competitive insofar as they offer an optimal platform for business productivity. The setting up of a competitive regional economy depends amongst other things on a willingness on the part of the public authorities to cooperate with the private sector and other stakeholders in order to maintain and increase their region's competitiveness.

Regional competitiveness is about supporting economic growth in the medium and long term, not only in the short term dictated by economic circumstances. Investigating the link between regional competitiveness and CSR means asking whether regional development policies that include CSR promotion can contribute to a given region's competitiveness and, if so, in what ways and what are the lessons to be drawn from experiences in this field to date.

What do we know?

The links between CSR and regional competitiveness

Social and economic actors increasingly see potential for the promotion of CSR to make a positive contribution to regional competitiveness strategies. At EU level, the European Commission has identified CSR as an important part of the business contribution to the European Growth and Jobs Strategy. There are also a number of European regions (the focus of this chapter) that are trying to integrate CSR into their regional development strategies.

According to the information available, there does seem to be a correlation between a region's competitiveness and the “responsible” nature of its economy and of the businesses in that region.⁴ Although the direct causal link between CSR and regional competitiveness remains largely unexplored, the two can be said to be mutually beneficial, the former likely to attract the most dynamic businesses, the latter's strength being an ability to enhance these businesses' competitiveness.

⁴ See *Measuring Responsible Competitiveness: A regional index for Yorkshire and Humber*, by Alex MacGillivray and David Mackie 2005: http://ec.europa.eu/enterprise/csr/documents/mainstreaming/ms_sme_topic1_yorkshire.pdf

Among the various factors vitally important to competitiveness and which could be enhanced by CSR are: innovation, training and human resource development, and social capital. Social capital, broadly equivalent to “trust” and to the quality and quantity of relationships between different actors in society, has particularly important implications for regional competitiveness. It can reduce transaction costs, facilitate adaptation to change, and assist the acquirement and sharing of knowledge, thus contributing to economic growth and well-being. By concentrating on CSR, regions may be able to increase their attractiveness as an investment location and positively affect the risk analysis of a given investment.

Actually measuring the effects of CSR on regional competitiveness is important, but, like trying to measure the competitiveness effects of CSR on an individual company, it is a difficult task. The choice of indicators both for the uptake of CSR and regional competitiveness is a complex matter. Ideally, however, indicators should be developed to assess the correlation and potential causal links between regional competitiveness, social cohesion and the uptake of CSR among SMEs. In particular, common indicators should be clarified to enable a “relative performance” comparison that takes all performances into account and to focus on the progress that still has to be attained. This exercise promises to be long and complex. Some certain experiments have already been carried out, however, which could provide a basis for the development in the medium term of more standardised indicators.

 If CSR can contribute to regional competitiveness, this implies a need to focus on the CSR practices of SMEs, the businesses most closely associated with the regions and territories where they operate, and, in the case of a single business predominant in a region, on the interaction between this business and the SMEs in the region. It is important to recognise, however, that there needs to be a critical mass of companies engaged in CSR in a region for them to exert a real influence on regional competitiveness.

This poses a significant challenge: it is not sufficient to focus on a few SMEs that are sympathetic to CSR, but rather it is necessary to reach and convince a larger number of “normal” or mainstream businesses. The advantage, however, is that because SMEs usually identify themselves closely with the regions and territories where they operate, the regional level is a particularly appropriate level at which to involve them in CSR initiatives.

Clusters – that is to say the concentration of enterprises from one sector or value chain in a particular geographical area – appear to provide significant opportunities for engaging SMEs in CSR in way that enhances competitiveness. A cluster approach can help to lower the costs of CSR through the deployment of economies of scale, especially if it comprises a mixture of administrative facilitation measures and indirect financial aid measures (taxation). It actually gives SMEs the chance to establish collaborations and complementarities with businesses in the same sector or in adjacent sectors. In addition, if it is believed that CSR can provide SMEs with a comparative advantage, then particular attention must be paid to economies of scale with regard to cost, to the accessibility of CSR instruments and to the exchange of good practices, within the specific context of clusters. In other words, a cluster-based approach to the promotion of CSR and increases the opportunities for turning CSR into a competitive advantage.

Fostering CSR in an industrial cluster

The leathers good cluster of Tuscany in Italy faces strong competition from lower cost producers outside the EU. Through the Fabrica Ethica programme, the regional authorities and key stakeholders, are supporting the uptake of CSR in some 900 leather goods enterprises (mostly SMEs), with the aim of strengthening the “Made in Italy” leather goods brand, and contributing to the global competitiveness of the cluster. The regional authority took strategic leadership by linking CSR to deep and durable regional innovation and by providing tax incentives and public grants for SMEs gaining SA8000 certification. The cluster approach leads to a greater impact on SMEs which are reached more easily through trusted trade associations, and also offers the advantage of tailoring CSR to be directly relevant to SMEs in the leather goods sector. A strong emphasis on partnership between all stakeholders is a key element of the success of the programme. See <http://www2.fabricaethica.it/>

The role of public authorities and other actors

 An examination of the practices, experiences and research carried out in different European regions has highlighted the importance of leadership and strategic vision from public authorities. Public authorities’ first SME-related mission involves improving the general environment in order for SMEs to thrive and function competitively. This requires public policy to strive to free itself from unnecessarily restrictive measures, since the experience of European SMEs clearly shows that excessive regulation can, inversely, have a negative effect on CSR promotion and encouragement.

Public authorities can serve as major catalysts for initiatives to encourage CSR, as has been demonstrated for example in Tuscany, the Basque Country, and in Yorkshire and Humber and the Northwest of England. Their role is especially important in terms of facilitating partnership between organisations (SME associations, sector organisations, trade unions, etc.) or the setting-up of administrative and financial means to facilitate SME access to advice on CSR. Public authorities, like other actors, should adapt their approach to sectoral diversity and company size. The policies and practices of public authority-private sector partnerships, especially those involving universities, have proved successful with regard to SME-adapted CSR. Such partnerships can have a direct influence on regional competitiveness in the way in which they maximise the effects of policy and the benefits of research and studies.

While leadership from public authorities can be very important, supporting the uptake of CSR amongst SMEs requires the involvement of different actors, especially the natural interlocutors of SMEs, such as chambers of commerce, sector and trade organisations, business federations, business advisors, banks, and accountants, and also trade unions and non-governmental organisations. Partnership between organisations such as these is a crucial element of success, and such partnership can often best be brokered and made operational at local and regional level.

Other examples, like the Round Table on Business and Youth in the German Federal State of Brandenburg, and other programmes aiming at activating resources of different sectors to improve social cohesion through CSR practices in a certain region, show also that there is a growing number of “new” facilitators, which public authorities can support to increase the uptake of CSR.

The challenge of making CSR a regional characteristic

The regional authorities in Northwest England are supporting the uptake of CSR with aim of contributing to the regional development strategy, and increasing the competitiveness and attractiveness of a region historically known for large-scale industrial pollution. The project aims to target a large number of SMEs in order to match the ambition of having a significant impact on regional development. Rather than targeting individual companies directly, the approach is to work with and through existing structures already trusted and used by SMEs, such as Chambers of Commerce, lawyers, accountants, etc. Key focuses of the project are “sign-posting” and “capacity-building”: the aim is to strengthen demand for existing CSR related services and to improve their quality, rather than to create new ones. The development of a Responsible Regional Competitiveness Index is another key element of the project. It allows to measure improvements and contributes to strengthen the link between CSR and regional competitiveness. See <http://www.snw.org.uk/responsibility/>

Many large companies have adopted explicit CSR policies, and they can also be significant players in regional economies, having a large influence as employers and through their logistics systems and their relations with local suppliers. There may, therefore, be scope for better including large companies in regional partnerships to promote the uptake of CSR amongst enterprises of all sizes. Regional incentives to investment, which normally take the form of tax relief, in particular in the regions of the central states of Europe and the East, can reduce the resources at the disposal of public authorities and, indirectly, of SMEs. The impact of fiscal policies of this nature therefore ought to be assessed in its global context.

Exchanges of experience between regions and states on the promotion of CSR should help to enhance the quality of policies in this area and should be a source of innovative regional public policies. Thus, programmes promoting innovation, for example, can play a key role in both the development of competitiveness and in CSR. Such programmes ought to integrate both aspects.

What can be done?

- Regional authorities should explore the potential advantages of having more responsible businesses in their region and consider integrating the promotion of CSR into their regional development strategies. In particular, they should consider integrating the promotion of CSR into regional development programmes financed by the EU structural funds.
- If significant initiatives are undertaken to promote CSR at regional level, establish indicators and a methodology should be established to measure the uptake of CSR by enterprises and progress towards increased competitiveness and other public policy goals such as social cohesion.
- Encourage the development of CSR within SME clusters, making use of their systems of cooperation and dialogue with, on the one hand, the biggest companies around and, on the other, public authorities .
- Involve large businesses – especially those benefiting from investment incentives – in CSR promotion in a way that reflects their cooperation with local suppliers and sub-contractors.
- Establish partnerships between actors with different specialisations and competences: SME intermediary organisations, professional federations, trade unions, non-governmental organisations, secondary schools, universities, colleges specialising in company management, etc.
- Facilitate the exchange of experience between regions on public policy practices and assessments with regard to regional competitiveness and CSR in SMEs .

More information

-  CSR Vaderegio network, facilitating networking between regional authorities wishing to promote CSR: www.csr-vaderegio.net
See also CSR Vaderegio “10 rules of thumb for regional authorities”:
www.csrvaderegio.net/en/role/ten_rules.asp
-  “Corporate Responsibility and Competitiveness”, Corporate Governance Journal, Special Issue 2006
www.eabis.org/resources/journals/cgj2006/
-  “Measuring Responsible Competitiveness: A regional index for Yorkshire and Humber”, by Alex MacGillivray and David Mackie, 07/2005 (project carried out on behalf of Business in the Community, Accountability and Yorkshire Forward):
ec.europa.eu/enterprise/csr/documents/mainstreaming/ms_sme_topic1_yorkshire.pdf

Opportunity and Responsibility

How to help more small businesses to integrate social and environmental issues into what they do



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The following persons contributed to the work of the European Expert Group on CSR and SMEs:

1) Expert Group Members

Maria Balazova, BIC Group Ltd., Slovakia

Evdokia Bazakou, Ministry of Development, Greece

Jana Beton, Ministry of the Economy, Slovenia

Bernedine Bos, MVO Nederland, Netherlands

Janda Campos, Ministry of Economic and Business Affairs, Denmark

Jean-Paul Dorier, Ministère des Petites et Moyennes Entreprises, du Commerce, de l'Artisanat et des Professions Liberales, France

Antoniya Dorosieva, Ministry of Economy Enterprise Policy Directorate, Bulgaria

Martina Funkova, Ministry of Industry and Trade, Czech Republic

Mette Marie Gadegaard, Ministry of Economic and Business Affairs, Denmark

Helen Griffiths, Department of Trade and Industry, United Kingdom

Triinu Gröön, Open Estonia Foundation, Estonia

Mette Haugaard Kristensen, Ministry of Economic and Business Affairs, Denmark

Andreas Henkel, Verein respACT, Wirtschaftskammer Österreich, Austria

Sigrid Hettinga, MVO Nederland, Netherlands

Netty Klein, Union des Entreprises luxembourgoises (UEL), Luxembourg

Peter Kromminga, Bundesinitiative "Unternehmen: Partner der Jugend" (UPJ) e.V, Germany

Erik Lundeby, Confederation of Norwegian Enterprises, Norway

Frank Maass, Institut für Mittelstandsforschung, Germany

Luděk Mazuch, Union of Czech and Moravian Production Co-operatives, Czech Republic

Roman Mesicek, respACT Austria, Austria

Roderick Mizzi, Ministry for Education, Youth & Employment, Malta

Elena Moreno, Ministerio de Industria, Turismo y Comercio, Spain

Birgit Muellegger, Verein respACT, Austria

Jean-Jacques Nay, Ministère des Petities et Moyennes Entreprises, du Commerce, de l'Artisanat et des Professions Libérales, France

Carla Neefs, MVO Nederland, Netherlands

Ritva Ohmeroluoma, Nordia Management Inc., Finland
Antonio Oliveira, Ministério de Economia e Inovação, Portugal
Alessandro Orlandi, SODALITAS, Italy
Sofie Pedersen, Ministry of Economic and Business Affairs, Denmark
Anne Peeters, CEDAC, Belgium
Elina Rääsk, Open Estonia Foundation, Estonia
Tamás Rettich, Hungarian Association of Craftsmen's Corporation (IPOSZ), Hungary
Blanca Revenga, Ministerio de Industria, Turismo y Comercio, Spain
Boleslaw Rok, Centrum Etyki Biznesu, Poland
Edina Santá, Hungarian Association of Craftsmen's Corporation (IPOSZ), Hungary
Andreas Schneider, Verein respACT, Wirtschaftskammer Österreich, Austria
Tomás Sercovich, Business in the Community, Ireland
Herbert Silbermann, Ministry of Industry, Employment and Communications, Sweden
Rūta Skyrienė, Investor's Forum, Lithuania
Radka Soskova, Ministry of Industry and Trade, Czech Republic
Clare Southwell, Business in the Community, United Kingdom
Christina Vasila, Cyprus Employers and Industrialists Federation (OEB), Cyprus
Monica Vazquez, Ministerio de Industria, Turismo y Comercio, Spain
Jean-Michel Vern, Ministère des Petites et Moyennes Entreprises, du Commerce, de l'Artisanat et des Professions Libérales, France
Atis Zakatistovs, Ministry of Economics, Latvia

2) Expert Group Observers

Juliane Bir, European Trade Union Confederation
Pierre Echard, CSR Europe
Luc Hendrickx, UEAPME
Julie Hertsens, EUROCHAMBRES
Agnès Mathis, Cooperatives Europe
Jan Noterdaeme, CSR Europe
Fabrizio Pacetti Bustini, Unioncamere, representing EUROCHAMBRES
Paul Skehan, EUROCHAMBRES
Natascha Waltke, BusinessEurope

3) Other persons who contributed to Expert Group meetings

Mette Andersen, Copenhagen Center, Denmark
Jorge Berezo, Xertatu, Spain
Kai Bethke, UNIDO

Karl Daumeller, HP

Christophe Delcour, MultiServ, Belgium

Giussepina De Lorenzo, Regione Toscana, Italy

Cristina Dimas, Vocational Training Centre for Trade (CECOA), Portugal

Pierre Dutrieu, Caisse Nationale des Caisses d'Epargne, France

Josianne Eippers, Union des Entreprises Luxembourgeoises, Luxembourg

François Fatoux, ORSE, France

Cristina Goyarrola, PCB Precicast, Bilbao, Spain

David Grayson, Business in the Community, United Kingdom

André Habisch, Catholic University of Eichstaett-Ingolstadt, Germany

Peter Lacy, European Academy of Business in Society (EABIS)

Anne-Françoise Lefevre, European Savings Banks Group

John Leitch, Scottish Business in the Community, United Kingdom

Alex MacGillivray, AccountAbility, United Kingdom

Marek Markus, Integra Foundation, Slovakia

Geoff Moore, Durham University, United Kingdom

Jean-Claude Muller, Arcelor

Bonnie Nixon-Gardiner, HP

Patrizia Paloscia, Regione Toscana, Italy

Marc Pfitzer, Foundation Strategy Group, Switzerland

Leontien Plugge, Global Reporting Initiative

Sarah Roberts, Sustainability Northwest, United Kingdom

Thomas Schano, Schano GesmbH - Rückenfreundlich Wohnen, Austria

Wouter Scheepens, Triple Value Strategy, Netherlands

Henk Smeding, ABN AMRO, Netherlands

Isabella Strada, YES for Europe

Dana Van Hes, MPS, Netherlands

Sara Williams, Liverpool Chamber of Commerce, United Kingdom

Giuseppe Cacciato, European Commission

Tom Dodd, European Commission

Claudia Gintersdorfer, European Commission









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