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# Road-CSR

Interreg Europe



European Union  
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## **Making the business case: The effects of corporate social responsibility on SME competitiveness**

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## 1 Introduction

Corporate social responsibility (CSR) is a business concept known around the world. Although its roots can be traced to the 1950s, its global permeation and advancement is related to the spread of globalization beginning in the 1990s (Carroll, 2015). The global economic crisis of 2008 brought company responsibility into the forefront of many policy-making agendas, including that of the EU. Additionally, growing knowledge of climate change and its causes, demands that businesses consider environmental impacts across their value chain. The 2030 Agenda for Sustainable Development and adoption of the United Nations Sustainable Development Goals (SDGs) in 2015 now guide the world's approach to sustainable development. As international business processes and a focus on environmental and social sustainability continue to expand, so too does the expectation, and in some cases the requirement, that companies incorporate and report upon CSR in their operations. Extensive work by organizations, such as the UN Global Compact, Global Reporting Initiative and World Business Council for Sustainable Development, now provide guiding material for companies to capitalize on SDG market opportunities and contribute to meeting their targets.

CSR is defined by the European Commission (EC) as “the responsibility of enterprises for their impacts on society” (EC, 2011). The EC also states that, “to fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical and human rights concerns into their business operations and core strategy in close collaboration with their stakeholders” (EC, 2011).

In Directive 2014/95/EU, the EC mandates that certain companies disclose non-financial information in their reporting, including how they manage social and environmental challenges. While this reporting requirement will help to increase transparency and accountability in European companies, it only applies to about 6,000 large companies, including listed companies, banks, insurance companies and others designated by national authorities as public-interest entities. This leaves out the predominant form of enterprise in the EU – small- and medium-sized enterprises (SMEs). SMEs are essential to achieve the EU's growth and jobs strategy, and should therefore also be considered in the requirements for company responsibility. The Road-CSR Project, funded by the European Regional Development Fund, therefore seeks to help member states incorporate CSR considerations into their Operational Programs for application to both large companies and SMEs.

This report outlines the effects of CSR on SMEs' competitiveness and sustainability, and provides an overview of the business benefits that may be achieved. Chapter 2 gives an overview of some of the main frames of CSR research. These perspectives are essential in understanding the resulting effects of CSR on a company's business model. Specific business

benefits, including improved image and reputation, increased revenue and market share and risk reduction, are presented in Chapter 3. Chapter 4 then explicitly focuses on these benefits in SMEs, considering specific strengths that can be found in SME company structures and values. A stepwise model for integrated SME CSR is also presented and connected to current global frameworks and standards for environmental and social responsibility.

## 2 Frames of CSR research

Before addressing the benefits CSR may provide a company, it is important to have an overview of different considerations taken in CSR research.

### 2.1 Business responsibility

The success of business and society are interlinked. Classical economists, such as Milton Friedman (1962), assert that business' only role is to increase profit for its shareholders. Sustainable development and CSR, however, rest on the fact that a healthy company and economy depend on a healthy society (Porter & Kramer, 2006; Ehrenfeld, 2005). According to a study by Eccles and Youman (2015), the concept of shareholder primacy is only an ideology and *not law* across all nations they have so far studied. They assert, "Since society has granted corporations these special privileges [to manage their money, services and resources], corporations have a moral, if not a civic, duty to think not only of profits, but also of the good of society" (Eccles & Youman, 2015, 3). CSR can help a company secure a socially and environmentally responsible role in society.

Archie B. Carroll, one of the world's foremost CSR researchers, has claimed since the 1970s that companies have the responsibility to deliver upon their stakeholders' expectations. He stresses that CSR should encompass society's economic, legal, ethical and philanthropic expectations of a company or organization, and that companies, along with meeting their economic and legal obligations, should also be ethical and good corporate citizens (Carroll, 1979; 1991). Figure 1 outlines the responsibilities of companies in Carroll's CSR pyramid.

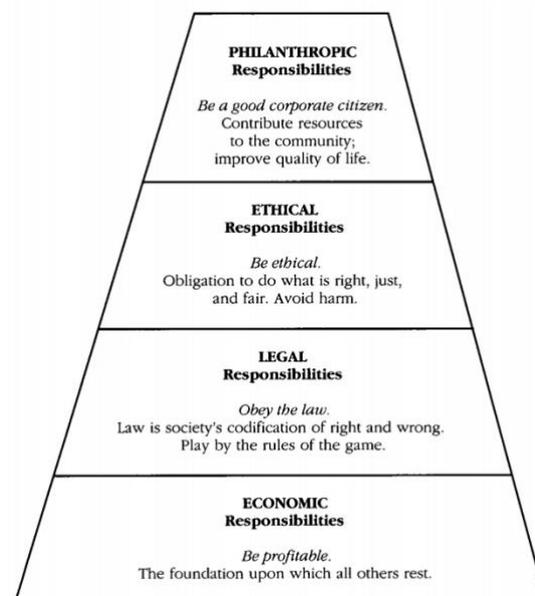


Figure 1: The Pyramid of CSR (Carroll, 1991)

## 2.2 Responsive and strategic CSR

Seeking to meet society's expectations, companies often have different goals when deciding to design and implement a CSR strategy. A distinction can be made between those that seek only to reduce potential risk and meet stakeholder expectations, known as *responsive CSR*, and those that proactively work to reduce negative and increase positive social and environmental impacts, known as *strategic CSR* (Porter & Kramer, 2006). Figure 2 outlines the variances between responsive and strategic CSR.

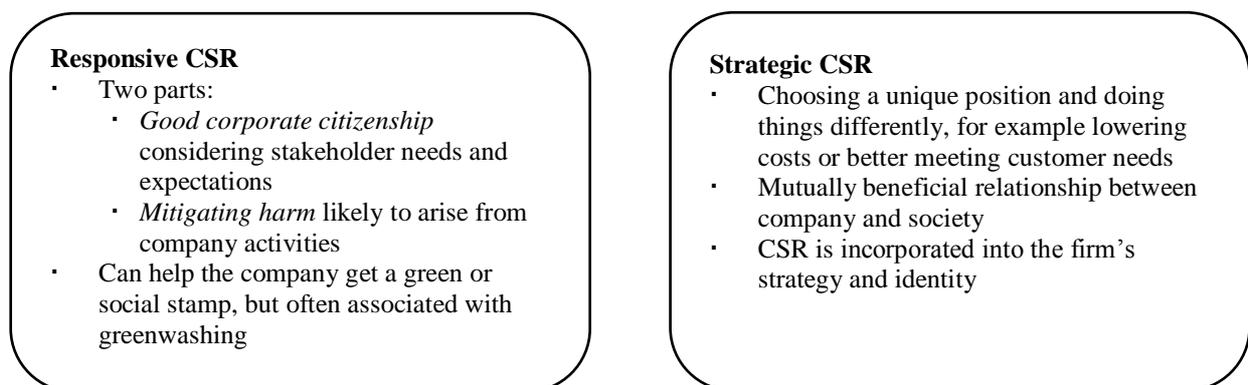


Figure 2: Responsive versus Strategic CSR (Based on Porter & Kramer, 2006)

The difference between the two styles should be noted, since the motivation of the approach – responsive and defensive versus strategic and integrated – heavily influences the degree to which CSR values are incorporated into the company's business model, and therefore, the likelihood of increased competitiveness based on social and environmental responsibility. One should also know that companies are likely to fall somewhere along a scale between the two approaches, with strategic CSR as the goal. Additionally, some firms may focus more on environmental aspects, such as reducing pollution or resource use, while other focus more on social aspects like job training and community programs.

## 2.3 Developing a strategic approach to CSR

Companies can be motivated by their responsibilities to society. Although CSR is often framed around a tension between business and society, their interdependence is undeniable (Porter & Kramer, 2006; 2011). Moving beyond a defensive CSR strategy that only responds to stakeholder expectations and risk mitigation, allows a company to recognize opportunities and benefits that may stem from an integrated approach. These opportunities will be discussed in Chapter 3, but it is first important to outline some of the aspects a company must consider when developing a strategic CSR policy.

A company must consider both its effects on society, and society's impacts upon it. If society has good government and strong law, a company benefits through their own protection from exploitation. Similarly, strong education and healthcare systems create a productive workforce that companies can depend on. Utilizing these assets, a company can provide jobs, wealth and innovation to a society, improving the standard of living and social conditions. Alternatively, a weak company provides smaller wages and lost jobs, negatively impacting the community. Porter and Kramer (2006) term these interactions inside-out and outside-in linkages. To develop and implement a strategic CSR policy, a company must map its *inside-out linkages*, its value chain effects on society, and its *outside-in linkages*, the effects of the context in which the firm operates on its activities.

When mapping inside-out linkages, the company should look to all its value chain activities and identify both the positive and negative effects they may have on the environment and society. This requires the analysis of the firm's support activities like infrastructure, human resource management, technology development and procurement policies, and its primary activities, including resource supply and logistics, operations, transport, marketing and sales and after-sales services (Porter & Kramer, 2006). Figure 3 demonstrates the mapping of aspects to be considered in a company's CSR strategy across its value chain activities.

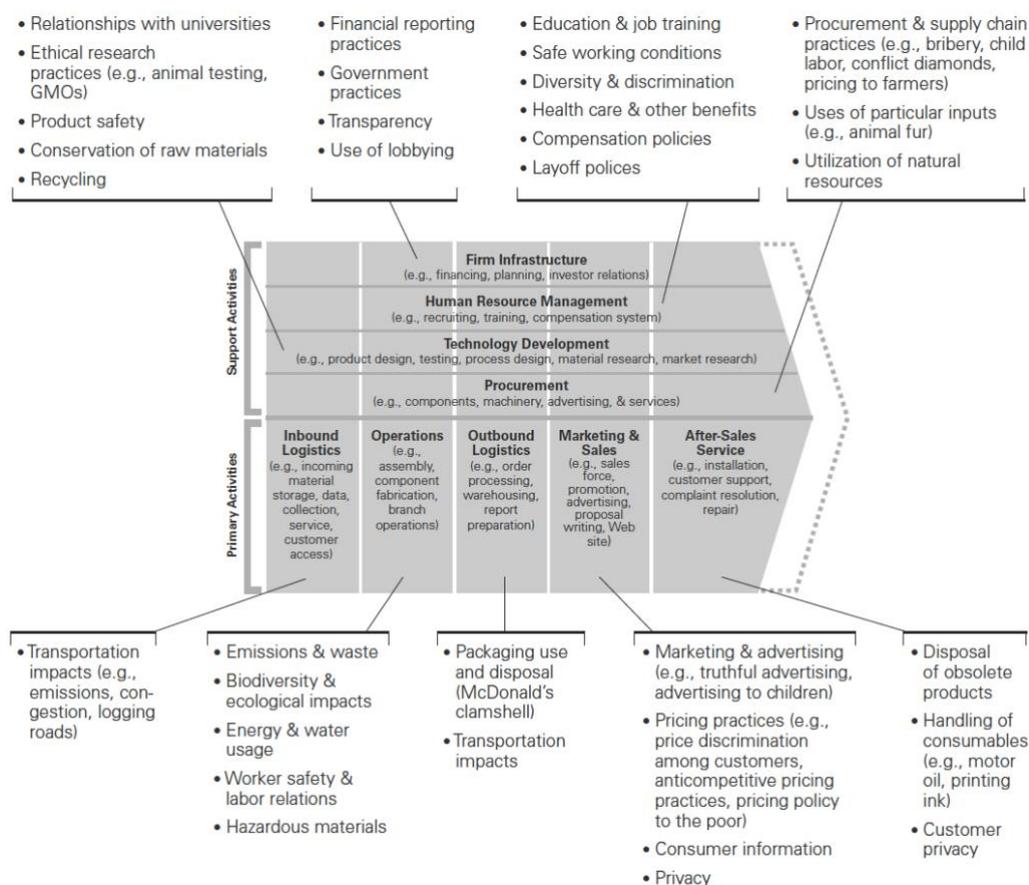


Figure 3: Inside-out linkages (Porter, 1985 as printed in Porter & Kramer, 2006, p. 8)

The company must also be aware of the effects of society on its operating context. To understand its outside-in linkages, the firm should assess the interactions between four components: the context for its competitive strategy (firm rivalry), local customer needs and demands, the inputs available to the firm, e.g. human resources and technology, and the supporting industries available to the company. Figure 4 outlines the many outside-in linkages to be considered.

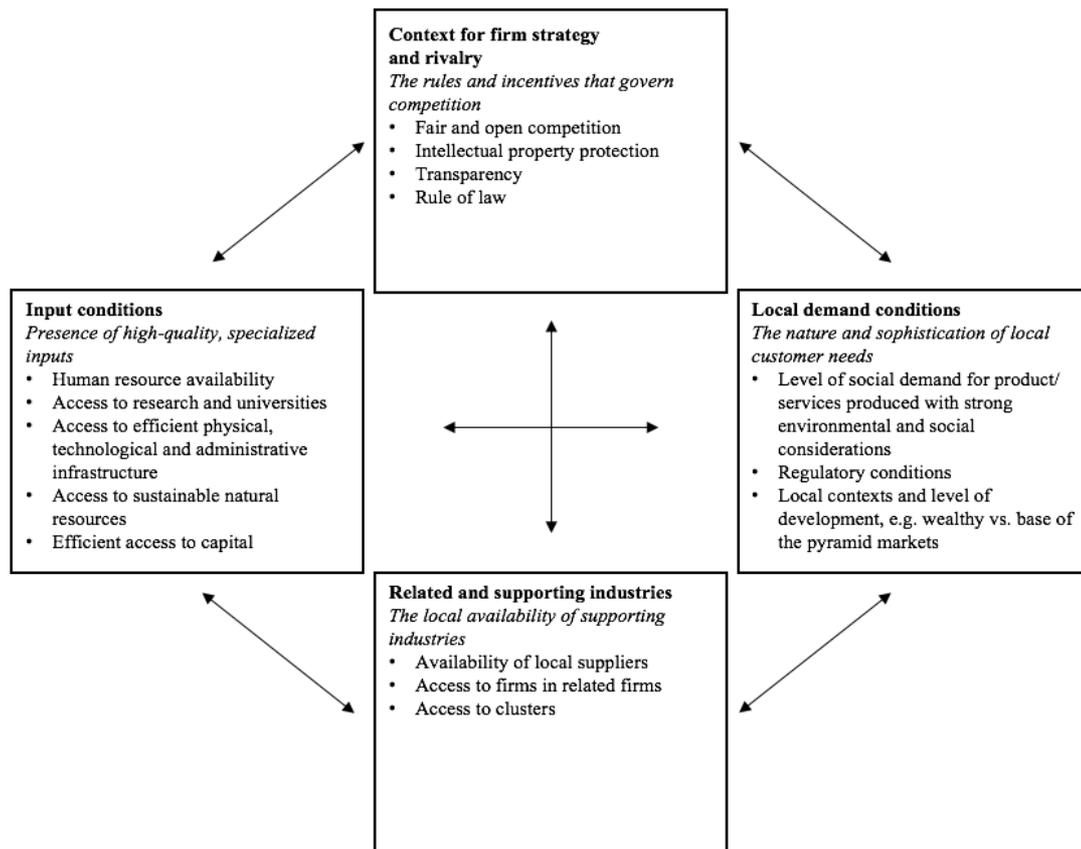


Figure 4: Outside-in linkages  
(Author's adaptation from Porter, 1990 as printed in Porter & Kramer, 2006)

Mapping both the inside-out and outside-in linkages gives a company insight into the areas in which it can create economic, environmental and social value through a strong CSR strategy. The following chapter will discuss competitive advantages that can result from implementing CSR in an organization.

### 3 Making the *business case* for CSR

Theoretical and empirical research generally point to a positive relationship between CSR and company competitiveness (Weber, 2008). Although the direct relationship between financial performance and CSR can be debated (Margolis & Walsh, 2003), the implementation of CSR-related values has been shown to provide benefits to a company. These business benefits can be monetary and non-monetary, and may result from a reduction of negative impacts and/ or an increase in positive contributions. CSR benefits contribute to establishing the competitive advantage of a company, as the socially responsible perspective can help a company develop a unique and differentiated approach to integrating social and environmental concerns into its business model (Carroll & Shadana, 2010).

The business benefits of CSR are often grouped into categories surrounding their effects on the company, or reasons the company may want to pursue a CSR strategy. There are many different categorical groupings, based on both theoretical and empirical research, but they tend to overlap across factors such as reputation, employee motivation and competitive advantage (Weber, 2008; Carroll & Shabana, 2010; Zadek, 2000; Kurucz, et al., 2008; Schaltegger & Wagner, 2006). The next section will discuss the beneficial impacts of CSR on a company, namely:

- image and reputation,
- employee motivation and retention,
- cost savings,
- revenue and market share, and
- risk reduction (as grouped in Weber, 2008).

#### 3.1 Company image and reputation

With growing sustainability concerns permeating society, the incorporation of environmental and social aspects into a company's business model provides value to customers and stakeholders. Because of a CSR policy, a company may gain trust and legitimacy from its customers, employees and investors (Smith, 2003). Customers may be attracted to a product or service if they know the company has taken social or environmental concerns into their activities. A company's social performance has been shown to positively impact brand loyalty (Pivato, et al., 2008). CSR has also been shown to improve a company's standing with external stakeholders, resulting in increased financial performance (Orlitzky, et al., 2003). Similarly, employees may be more interested in working for a company with CSR, and investors may be attracted because of the reduced risk of a company with outward-looking and long-term views.

The legitimacy of a company can have great impact on its sustained competitiveness. A CSR policy shows customers that a company is concerned about stakeholder interests, recognizes the mutual relationship between society and the company, and can operate while adhering to social norms (Carroll & Shabana, 2010). A company may undertake certain activities within its CSR policy to increase its legitimacy. These include transparent sustainability communication and philanthropy (Ibid.).

*CSR communication and reporting* is an essential component in any CSR policy. To inform its stakeholders and competitors about its activities, a company should report on its sustainability actions. This can be done through a stand-alone CSR or sustainability report, or by integrating non-financial (i.e. social and environmental) information into the company's annual financial report. CSR reporting is beneficial to a company because it enables it to measure, manage and communicate its performance, supporting the building of trust in the company. Further legitimacy can also stem from following a standardized reporting framework such as the Global Reporting Initiative (GRI) or United Nations Global Compact. These standardized formats can reduce confusion and help a company clearly communicate its strategy, increasing its legitimacy in national and global arenas.

*Philanthropy* is another activity a company may participate in to increase its legitimacy through its CSR policy. Hosting charitable events or campaigns demonstrates that the company is focused on more than keeping its profits for itself. Philanthropic activities may be designed based on a company's perception of societal areas of need (e.g. charitable donations to people in need or community involvement), showing its understanding of the people and area where it operates (Carroll & Shabana, 2010). Other activities may be developed based on a company's internal competence so as not to distract from the core business (e.g. a consulting company providing free services to local businesses, or a construction company helping to build low-income housing). Companies may also design charitable projects or events to make up for areas where they have poor environmental or social performance (Ibid.). Such activities fall under the responsive CSR strategy, however, and are designed to respond to negative perceptions, rather than present a cohesive and forward-looking approach. Philanthropic activities demonstrate that the company recognizes the value of a healthy society, and can improve stakeholders' perception and trust in its actions.

### 3.2 Impacts on employee motivation, retention and recruitment

Demonstrating concern for social and environmental aspects may help a company attract and keep dedicated employees. Employee attraction to companies with strong CSR policies may

start from the perception of a positive company image and reputation, or from the desirability of working for a company with fair labor standards, good wages and employee benefits. CSR positively influences employee engagement, performance, commitment, attitude and identification with their company (Aguinis & Glavas, 2012).

An increasing number of employees are now considering their prospective employer's relationship with the local community and environment in their search for jobs (Kim, et al., 2017). The quality of working life (QWL) offered by a company clearly influences employees' perception and representation of a company since such a large amount of their time and energy is spent at work (Ibid.). QWL encompasses the economic, social and psychological relationships between an organization and its employees. Employees that are better compensated, both financially and socially, are likely more committed and productive in the long-term than those that are exploited. CSR strategies often include strong human resource management, and therefore directly benefit employee QWL through, for example, on-the-job training, child care, job security and health and safety considerations (Ibid.).

The indirect effects of CSR on QWL also impact a company's financial performance. For example, a company that does not incorporate social or environmental concerns in its business may face opposition from angered stakeholders or local communities. On an extreme level, these pressures could develop into large social demonstrations or government sanctions that disrupt the companies functioning, and therefore, the stability and QWL of its employees (Kim, et al., 2017). CSR policies that focus on providing fair and inviting work environments can help protect companies from such destruction.

### 3.3 Cost savings

There are also cost savings that can result from CSR. These may include efficiency gains, time savings or improved access to capital (Weber, 2008).

In terms of *efficiency*, the introduction of a CSR or sustainability policy often initiates the analysis of material and energy resources used, and ways to reduce them for both cost reduction and environmental benefit. For example, the decision to switch from a fossil based to a renewable energy source may reduce cost in the long-term. Similarly, the decision to redesign packaging with reduced material use can save a company financial resources previously spent on greater material purchases. A company may even begin to employ a circular business model because of their CSR mindfulness, and turn material and resources previously viewed as waste into valuable input to their company (Bocken, et al., 2014).

Engagement in a CSR policy requires that a company is in touch with societal norms and values. As a result, such companies are likely to communicate with many groups of stakeholders, including regulators, civil society and other groups that drive legal requirements and public opinion. Collaborative relationships with such groups may provide the company financial savings in the *avoidance of fines* due to unawareness of regulation, or a lessened chance of lawsuits coming from wronged stakeholder groups (Weber, 2008). These savings will be discussed further in the section on risk reduction and management.

The global adoption of the SDGs and 2030 Agenda for Sustainable Development has focused both governments and finance institutions on the need for more integrated sustainability strategies. Resultantly, there has been a movement for more *socially responsible investment*. Companies with ingrained CSR policies are therefore more likely to be able to attract capital from institutional investors with a focus on sustainable companies and returns. Greater efficiency, the reduced chance of having to pay for negative impacts and a more attractive arena for investment are all potentially cost saving benefits for a company with CSR.

### 3.4 Increased sales and market share

CSR can also help companies increase their sales and market share (Weber, 2008). The impacts of increased legitimacy and reputation, stakeholder and employee satisfaction and customer loyalty may directly benefit the company's position in the market. Such is an example of non-monetary aspects making monetary impacts. Customers may be willing to pay more for a product or service that is, for example, produced organically or under fair trade practices. CSR reporting and communication is essential to spread this awareness to the customer.

In 2014, the Nielsen Global Survey on Corporate Social Responsibility found that 55% of the 30,000 consumers they surveyed across 60 countries were willing to pay more for products and services from companies with a positive social or environmental impact. In Europe, the study found that 40% of those surveyed were willing to pay more (Nielsen, 2014). This willingness contributes to an increase in sales by companies that integrate CSR objectives in their business model.

More directly, a company may also decide to offer a product or service that specifically addresses a social or environmental problem. Growing sustainability concern means that consumers are increasingly engaged and aware of the need for a change in our current consumption and production patterns. Companies that address these problem in the core of

their business may therefore attract consumer focus, and gain trust through their mutual and comprehensive understanding of the relationship between business and society (Carroll & Shabana, 2010). Meeting customer needs through stakeholder and engagement and CSR can therefore help increase the sales volume, as well the amount customers are willing to pay.

### 3.5 Risk reduction and management

As demonstrated in the previous sections, CSR can help a company reduce and manage risks associated with negative social or environmental impacts (Weber, 2008). Interaction with stakeholders and local communities helps companies understand local needs and regulations, decreasing their risk of overstepping social boundaries. This can prevent negative press for an organization, and the chance of social unrest or company boycotts. Additionally, having a system in place for the company to measure and follow up on its environmental impacts, such as an environmental management system, can help to reduce environmental destruction and prevent crises. A forward-looking and systemized CSR policy therefore protects a company from having to scramble to solve problems when they occur, and ultimately saves it money in reducing the chances of activities that may harm its reputation. Incorporating environmental and social values into a company reduces the risk of it falling behind or performing poorly on sustainability aspects. Taking a long-term CSR perspective provides companies a way to systematically reduce and manage potential risk.

### 3.6 Competitive advantage

The five categories of CSR business benefits described above help build the competitive advantage of a company. Uniqueness and differentiation stem from the recognition of stakeholder perspectives and demands as opportunities, the investment in employees and communities as an increase in human capital and the incorporation of environmental friendly technology as an investment in the future stability of the company.

Weber (2008) has mapped the business benefits in a CSR impact model, showing how both monetary and non-monetary benefits and capital provide competitive value to a company. Each of the benefits discussed above can be found in one of the four quadrants of the impact model presented in Figure 5. Along the vertical axis, CSR benefits are divided between those that provide direct monetary impact (e.g. revenue increase and cost decrease) and those that contribute non-monetary value (e.g. improved customer attraction and reputation). The non-monetary benefits also contribute to financial gain, but in an indirect manner, as presented in the sections above. CSR benefits are also divided by the way they are measured, either

qualitatively or quantitatively, along the horizontal axis. To report and communicate on CSR, companies must monitor and measure their activities against defined qualitative and quantitative indicators. Benefits like increased trust and legitimacy (license to operate) and greater access to capital are measured qualitatively, while revenue, brand value and customer increases are measured in numerical terms. The combination and scope of these CSR benefits then contributes to the level of competitive advantage for a company, and its resulting economic success.

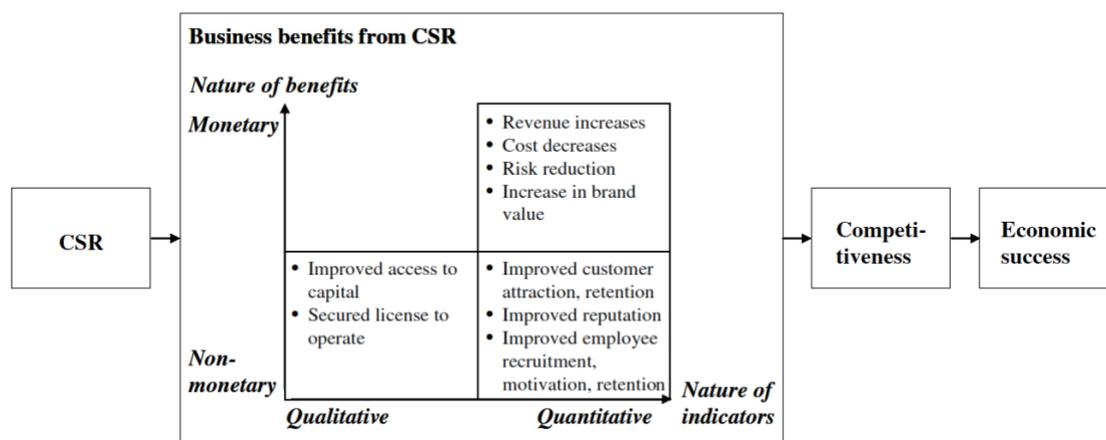


Figure 5: CSR impact model (Weber, 2008, p. 250)

## 4 SME competitive advantage

CSR can provide many business benefits to a company. The greatest competitive advantage stems from a strategic approach to CSR in which company values are aligned with its CSR goals and focus on environmentally and socially sustainable aspects (Porter & Kramer, 2006). Emphasis on CSR values across the stakeholder, social, economic, environmental and philanthropic or voluntary dimensions of a company helps to motivate companies to continue to meet their responsibility objectives (Carroll & Shabana, 2010). Additionally, the ‘uniqueness’ and reputation afforded to company through its CSR activities contributes to a differentiated place in the market, providing the company opportunities for competitive advantage (Porter & Kramer, 2006; Carroll & Shabana, 2010). Although most theoretical research focuses on the business case for CSR for large companies, many of the business benefits described in the previous chapter also apply to SMEs. Furthermore, the structure and relationships of SMEs can also lend strength to the uptake of opportunities from CSR (Jenkins, 2006; 2009).

Before discussing these opportunities, it is important to note the many company variances between SMEs. They are grouped and classified based on their size, however the structures and internal and external behaviors of SMEs make the category very heterogeneous (Jenkins, 2009). Jenkins (2009) explains that because of this diversity, “SME behavior is often understood in terms of the psychological characteristics of the entrepreneur or ‘owner-manager’... These characteristics vary widely depending on the individual personalities and differing ownership structure, and will influence the company’s approach to CSR” (p. 22). It should be noted that just as the structures of SMEs vary widely, so too do their approaches to CSR.

### 4.1 Business benefits for SMEs

Accepting the variety of SMEs and keeping them in mind throughout the analysis, one can generally acknowledge that the most common form of SME is the owner-managed firm, where the same person owns and controls the company (Jenkins, 2009). This is different from a large corporation where the owners may have little to do with day to day operations and focus only on maximizing shareholder profit. The SME owner-manager can instead make decisions based on personal values and responsibility, and may have more freedom in the approach and uptake of CSR (Ibid.). The notion that SME ownership is rooted so closely to the community in which it operates, means that the response to local needs can be addressed more quickly or directly.

The closeness between a SME and local society affects the motivation for CSR activities and the stakeholders they address. In terms of *company image and reputation*, a SME may be less worried about its need for CSR as protection from risk or stakeholder opposition than a large company with a global image to protect (Jenkins, 2009). Similarly, it may also be less receptive to institutional or legal pressures than a large company, which could be penalized on the global scale for corruption or environmental or social damage (Ibid.). Without having to worry about the potential cost savings from avoiding risk, a SME can instead focus more on internal benefits, such as *employee motivation* and QWL and *integrating social and environmental needs into the core of its product or service*. Although SMEs may have fewer resources to commit to a grand CSR image or sustainability report, they are awarded the opportunity for more strategic and integrated approaches to CSR.

Along with CSR opportunities comes the need for a commitment to continual improvement and CSR learning in a company. It is widely documented in the CSR literature that integrated CSR requires commitment from top-management and awareness and training for all employees, including internal training courses and external instruction (Porter & Kramer, 2006). Jenkins (2009) applies this assertion to the more intimate organizational and managerial structures of SMEs and focuses on the importance of CSR learning and training within them. He states, “It is unlikely that competitive advantage can be created or sustained in the longer term without a commitment to learning across the organization” (p. 28).

In addition to learning, SMEs should also take advantage of collaboration and networking opportunities. Due to their size, impact on the larger market is more difficult than for large companies. Therefore, to make market impacts or increase individual competitiveness, SMEs should work with other local companies to share information, co-market, acquire new skills, build their supply chains and distribution networks and train together (Jenkins, 2009). Closer communication within and between organizations, and with different stakeholder groups, gives SMEs an eased approach for collaboration.

#### 4.2 Organizational and managerial characteristics as strengths for SMEs

When developing a new CSR strategy, companies, small and large, must dedicate resources to its progress. The tension between daily operation and profit, and long-term sustainability, again comes into play here, especially for SMEs. With limited resources, SMEs may lack the ability to look toward long-term sustainability goals, and instead focus on staying afloat in the current

market. As a result, SMEs may have less developed managerial procedures or time to spend on CSR planning. Fewer employees may mean all effort is focused on operations, rather than sustainability management. Although these limitations may restrict the uptake of CSR in SMEs, there are also several advantageous characteristics that can positively impact SME competitive advantage resulting from CSR (Jenkins, 2009). Some of these benefits have already been introduced, but are expanded in the section below. This section is based largely on the work of Jenkins (2009), and his findings from a study of detailed case studies of SMEs in the UK. Table 1 summarizes the advantageous characteristics of SMEs for implementing CSR.

Table 1: SME strengths for recognizing CSR opportunity (based on Jenkins, 2009, p. 29)

Characteristic	Effectuated strength(s)
Owner-manager or top management is close to the day-to-day operations of the company	Value and culture of the company is more easily influenced; Gap between rhetoric and implementation is smaller
Communications are more fluid and dynamic	Values embedded across the organization easily; Effects (benefits) of undertaking actions are felt more immediately and permeate the organization more quickly
Leaner and less hierarchical management structures	All employees can be involved in the CSR program; Benefits of actions are felt more immediately and permeate the organization more quickly
Flexible and adaptable	Can respond quickly to changing circumstances, and, for example, take advantage of niche markets
Often more creative and innovative	Can be applied to the design and uptake of CSR strategies

The integration of sustainability values in SMEs largely drives their commitment. Proximity to local needs and problems, innovative business culture, and less hierarchical structures, support the creation and appreciation of shared economic, social and environmental capital within local communities. This increases the potential for more strategic and integrated CSR strategies, and depends largely on the commitment and values of SME top management. Having fewer employees and a flatter hierarchy, means that decisions can be made more quickly and effects felt more immediately.

In a SME, CSR values can be both driven and implemented from top management, and engrained fully in the organization (Jenkins, 2009). Studies show that in many cases of strategic CSR in SMEs, the owner-manager or senior partner is directly responsible for managing the CSR policy and activities of the organization, and in so doing, shapes the company culture along their own values (Ibid.). This shows the enormous power and responsibility awarded to SME top management.

Similarly, due to size and structure, communication in SMEs can occur more dynamically. This allows the whole company to participate in developing new activities along the firm's values. Impact is also felt more directly because managers are involved in daily operations, and employee values are aligned with company values. The importance of CSR training should again be highlighted as an essential part of engaging the full organization in CSR objectives.

These characteristics increase the competitive advantage of SMEs through their impact on *output flexibility* and *innovation* (Jenkins, 2009). Often owned and managed by the same person, SMEs can make their own decisions on areas to focus, and are not as likely to be bogged down by the concerns of shareholder profit maximization. They can therefore capitalize on providing products or services that solve environmental or social problems.

#### 4.3 A model for SMEs to capitalize on CSR advantage

The limitations placed on SMEs due to size and resources mean that an integrated approach is necessary to capitalize on advantages. While a flatter hierarchy, eased communication and manager engagement may influence the speed to which material is integrated in a company, it may also limit the breadth of CSR activities across environmental, social and cultural domains. Localized focus may ignore other necessary considerations for SME responsibility. Just as in large companies, it is important for SMEs to apply an integrated approach to the design and follow-up of their CSR policy. Jenkins (2009) has therefore designed a model based on his case study analysis and the unique strengths of SMEs. The model, introduced in Figure 6, includes five steps to help SMEs capitalize on the 'business opportunity' available to them through CSR.

*Step 1* in Jenkins' (2009) model is for a SME to develop its understanding of CSR, and develop its own business principles in line with environmental and social values. This includes the many dimensions of CSR – environmental and social, and internal and external. An SME, for example, could use the ten principles outlined in the United Nations Global Compact to make sure to cover all its social responsibilities to employees, stakeholders and future generations.

Figure 7 maps these principles across human rights, labor, environmental and anticorruption values. Similarly, a company could also use the eight points suggested by Jenkins (2009) specifically for SMEs that include values, human beings matter, all employees involved, diversity, creativity, holistic approach, community and wealth generation.

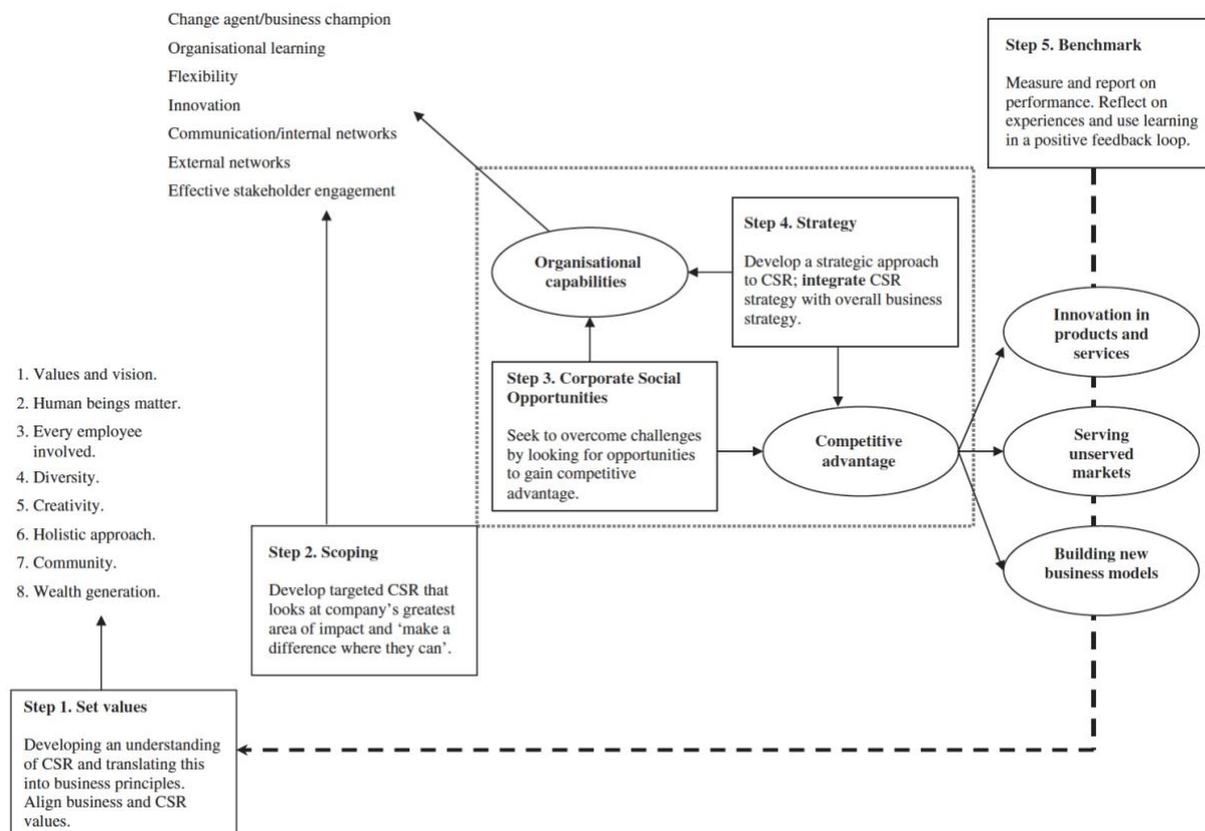


Figure 6: A 'business opportunity' model for CSR for SMEs (Jenkins, 2009, p. 33)

*Step 2* requires a SME to scope which values and dimensions of CSR matter most in its operations and impact. An essential part of this step is engaging with stakeholders so that the company is aware of local needs and requirements. If the company operates in a community with lacking jobs, for example, it may choose to focus on making sure employees are provided good QWL in their positions. If the SME works in a sensitive natural environment, it may want to focus on reducing its environmental impacts in the area.

Furthermore, in its scoping of CSR values, the company may want to apply goals and values set in global sustainable development frameworks, like the UN SDGs. With their global

commitment, the SDGs provide a framework of values that the company can be assured will remain pertinent for at least the next 15 years. Based on its operations and values, the company can select those SDGs that it has the most impact on, and use them to guide its CSR strategy. Figure 8 provides an overview of the SDGs grouped across environmental, societal and economic dimensions.

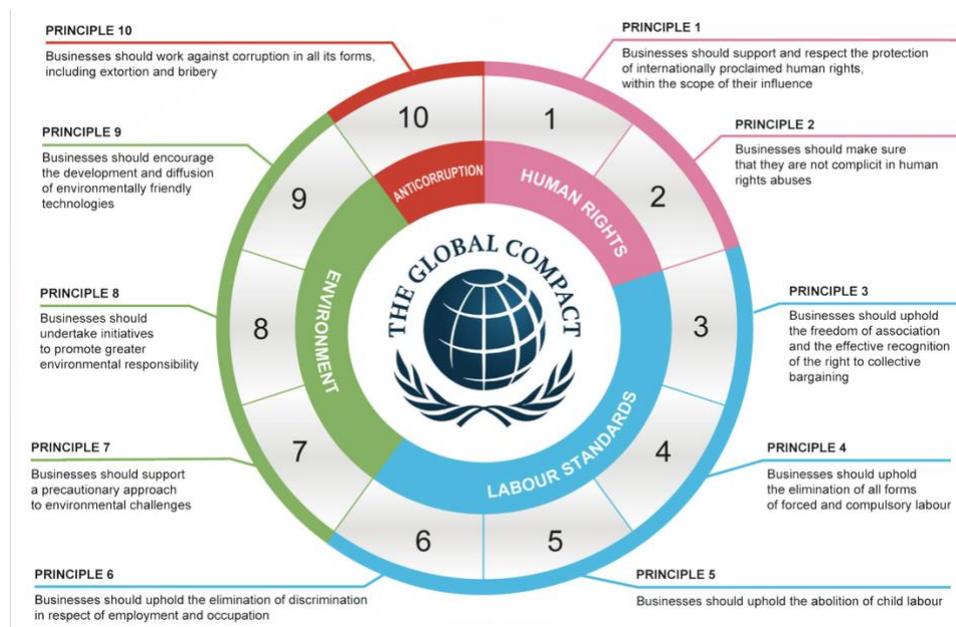


Figure 7: UN Global Compact's 10 CSR principles  
(UN Global Compact, retrieved from [http://www.unglobalcompact.bg/en/?page\\_id=150](http://www.unglobalcompact.bg/en/?page_id=150))

*Step 3* further focuses the values and dimensions selected in *Step 2*, toward the competitive advantages or opportunities that may be gained by strategically addressing them. This depends on the specific capabilities of the SME and its potential for innovative approaches to social and environmental responsibility.

Taking the identification of CSR dimensions another step further, *Step 4* requires the integration of CSR opportunities into the company's business strategy. The SME may use its own creative or innovative approach to both incorporate its values, and the opportunities to be gained from meeting them, into its operations. As shown in the model (Fig.6), Steps 3 and 4 include the application of unique SME organizational capabilities (e.g. flat hierarchy and eased communication and flexibility) to opportunities of product and service innovation, serving unserved markets and meeting local needs, and building new business models (Jenkins, 2009). These two steps can also be met through the application of Weber's (2008) CSR impact model, presented in Figure 5, which maps both monetary and non-monetary benefits of CSR.

In Steps 2–4, a company should look to its impacts on society and society’s impacts upon it. Refer to Figures 3 and 4 for the mapping technique that can be used to identify inside-out and outside-in linkages (Porter & Kramer, 2006), which can guide the SME to identify areas for strategic CSR focus.

Step 5 mandates that the SME measure and report on its performance. This allows for continuous improvement of its CSR strategy, as indicated in the model by the arrow connecting Steps 1 and 5.

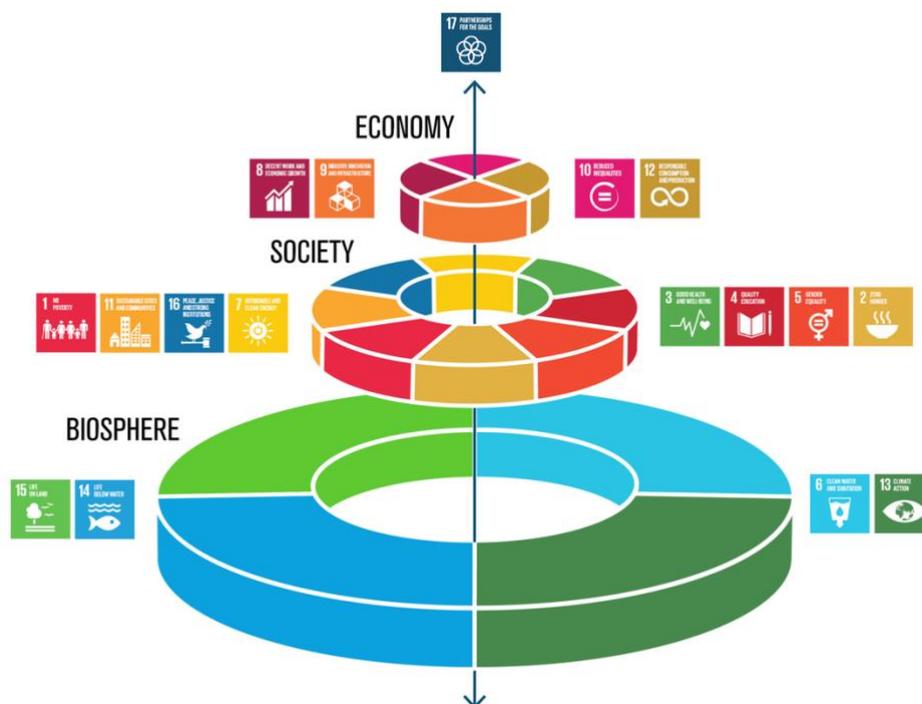


Figure 8: The UN SDGs across social-ecological systems  
(Azote Images for Stockholm Resilience Centre)

Following the steps outlined in this model helps a company to integrate its CSR values into the whole of the organization. Rather than approaching CSR as an ‘add-on,’ the company can take advantage of opportunities for competitive advantage based on its approach to meeting social and environmental needs (Jenkins, 2009; Porter & Kramer, 2006; 2011).

#### 4.4 Examples of SMEs that capitalize on CSR as a business opportunity

The following section presents examples of SMEs that have capitalized on the CSR business benefits and capabilities presented in this report. These examples come from DNV GL's *Global Opportunity Report 2018*.

Figures 9–11 demonstrate two cases of product and service stewardship in which the companies have decided to incorporate social and environmental needs into the design and function of their products/ services. By taking a leading sustainability role in their corresponding markets, the enterprises can capture the value customers associate with their products/ services.

Bee's wrap (Fig. 9) has identified the problem of plastics in the ocean while also recognizing the need for food packaging. It designed its main product, bee's wax coated packaging material, for reusable and easy use to solve this problem, and built its company off this mission – integrating environmental concern into the core of the business. This would have been more difficult for a large consumer goods company that produces plastic wrap, as profit would be lost in the short-term from removing the product and spending on R&D. Such demonstrates the increased freedom of SMEs to make decisions for the long-term health of the company and society.



#### NATURAL ALTERNATIVE TO PLASTIC WRAP

Using simple, organic ingredients, Bee's Wrap produces a sustainable alternative to plastic wrap for food storage that is reusable, biodegradable, and compostable.

Bee's Wrap provides its customers with a plastic-free alternative way to keep food fresh. Combining GOTS certified organic cotton, beeswax sourced from sustainably managed hives in the United States, organic jojoba oil, and tree resin, the result is a malleable food wrap, that can be used again and again. At the end of its lifetime, the wrap can be composted or even used as natural and effective fire starters for wood stoves. Unlike plastic wrap, Bee's Wrap is biodegradable and consequence-free for the environment and marine species.

Figure 9: Bee's Wrap (DNV GL, 2018, p. 72)

Recognizing the need to reduce packaging, Algramo, a social enterprise in Chile (Fig. 10), has partnered directly with suppliers to provide bulk packaging that reduces the total packaging

amount and that can also be reused. Other manufacturers are attracted to their product because they know it helps to reduce negative environmental impacts. Additionally, the cost to consumers is reduced, while also supporting a culture of reuse in local communities.



### INTEGRATING REUSE INTO EVERYDAY PURCHASES

**This Chilean social enterprise is dedicated to lowering the cost of food and other essential items for low-income families in Chile.**

Algramo works directly with manufacturers to sell products in reusable containers, often in bulk, which the company estimates can save up to 50% on consumer costs. In cities where recycling facilities are rare, relying on recycling to reduce plastic waste is unrealistic. This B Corp hopes to foster a reuse and recycling culture, in order to make a dent in the use of single-use plastics. An average Chilean family using Algramo's products has the potential to avert around two kilograms of plastic waste per month.

Figure 10: Algramo (DNV GL, 2018, p. 72)

The company, Supplycompass in India (Fig. 11) has developed their business by creating a service to meet growing concerns about responsible manufacturing. With their platform, suppliers can source sustainable manufacturers, meeting consumer interest in product traceability and fairness.



### RESPONSIBLE MANUFACTURERS RECEIVE EXPOSURE

**Mapping and vetting manufacturers according to their business conduct help suppliers to make more sustainable choices throughout their supply chain.**

Unprecedented data availability and changing consumer expectations are driving the demand for more responsibly sourced products. Supplycompass is filling this space with a platform of manufacturers verified as doing responsible business. Manufacturers on the platform are vetted in a three-phase process consisting of a performance data review, verification with inspection visits, including worker interviews, and a final phase where manufacturers sign a code of conduct before being added to the platform. The solution puts the spotlight on socially and environmentally responsible manufacturers in the global supply chain.

Figure 11: Supplycompass (DNV GL, 2018, p. 27)

Figures 12 and 13 demonstrate another approach, in which SMEs recognize material previously thought of as waste, instead as a valuable input. For example, the textile company, Thread in Haiti and Honduras (Fig. 12) recognizes the need to recycle plastic waste, and in turn uses plastic bottles as inputs to its fashion products. Similarly, the Thai company, Kokoboard (Fig. 13), is using agriculture waste to make building materials and other products.



### TURNING TRASH INTO FASHION

**Thread takes trash from some of the poorest neighbourhoods on the planet and transforms it into textiles, providing income opportunities and cleaning the environment.**

In 2010, Ian Rosenberger - founder of Thread - wrote in his journal, "If Haiti can turn trash into \$ = good." This sentence was the foundation of Thread, which employs collectors in Haiti and Honduras to pick up plastic bottles that are turned into fabrics along a 100% transparent supply chain. With Thread, 38.9 million plastic bottles have been removed from streets and canals, significantly reducing damage to the environment and marine ecosystems. In addition to providing thousands of income opportunities and limiting plastic waste, Thread also has an interest-free micro-loan programme to keep its suppliers in business.

Figure 12: Thread (DNV GL, 2018, p. 73)



### TURNING AGRICULTURAL WASTE INTO BUILDING BOARDS

**Kokoboard is turning trash into cash and alleviating rural poverty by upcycling agricultural waste products into building materials and trendy products.**

In Asia, more than 24 million tons of agricultural waste are produced every year, and are mostly incinerated, releasing carbon to the atmosphere. Kokoboard has instead found a use for such waste streams, turning coconut husks, peanut shells, and rice straw into construction boards, sequestering more than 200 tons of CO<sub>2</sub> annually. Based on a mission to improve social and economic well-being locally, as well as protect the environment on which we depend, Kokoboard is also upcycling its products further into trendy lifestyle and homeware goods. In addition, the company sells the plans for its machinery, allowing others to replicate its good work.

Figure 13: Kokoboard (DNV GL, 2018, p. 40)

## 5 Conclusion

This report provides an overview of the business case for CSR, and the competitive benefits that can result from an integrated CSR strategy. Concerns and awareness about global social and environmental needs are growing, and rightfully so. Governments have committed to global sustainable development frameworks, but the goals will not be achieved without contribution from the business community. Large companies are often the focus of such research, but SMEs make up a large share of the market and must also be considered in the transition to a sustainable society.

CSR provides companies, small and large, a way to structure, manage and achieve their sustainability goals and values. If integrated into the values of the company, and not only added on to reduce risk, CSR can help differentiate companies from their competitors. This creates benefits across the sustainability dimensions – increased sales and market share on the economic dimension, and reduced negative and increased positive impacts on the environmental and social dimensions. The common management and organizational structures of SMEs provide them an advantageous position in the uptake of strategic CSR as the permeation of CSR values has a shorter distance to travel than in larger companies. The owner is usually engaged in daily operations, and a member of the local community, making the alignment of company and social values more efficient than in expansive corporate hierarchies.

With these strengths comes also the recognition of smaller SME budgets for dedicated CSR programs, and the need for the company to purposefully identify the areas in which they can have the most social or environmental impact. Whether its focus is on internal factors, such as employee needs and health and safety, external factors like philanthropy and meeting local needs, or an integrated approach aligning sustainability with the core company offering, the SME should strive to meet its legal, ethical, voluntary and economic responsibilities. It can be a difficult task, but long-term company sustainability and profit depends on the systematic implementation of a CSR strategy, and the recognition of the value and significance of healthy societies.



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