Small businesses can do big things in CSR, too

September 22, 2008

Who ever said that small- and medium-sized businesses (SMBs) cannot handle corporate social responsibility?

There once was a boy as small as a thumb - so small that his parents feared he would not be able to do the things that bigger children could do. Just like the folk tale of Tom Thumb, a similar perception persists that smaller enterprises are incapable of successfully adopting CSR policies.

But is it the prejudices of the small- and medium-sized businesses themselves that tend to stifle these policies - a belief that CSR is limited to the heavyweights?

In "La responsabilidad social de las empresas pequeñas y medianas" ("Social Responsibility in Small- and Medium-Sized Businesses"), Prof. Antonio Argandoña, IESE's "la Caixa" Chair of Corporate Social Responsibility and Corporate Governance, shows that SMBs can, in fact, be socially responsible, and he offers some practical recommendations how.

Characteristics of SMBs

SMBs are subject to considerable restrictions on their resources, not just financial and human, but also in terms of time. Quite frequently, they also lack a clear idea about what responsibilities they must take on. Their primary concern is to keep the business going, and the level of risk they are willing to take is quite low. The future perspective of these companies is generally not long-term, but instead focused on the day-to-day.

However, more than being a disadvantage when it comes to compliance with social

©IESE Business School

responsibilities, the fact that SMBs do not suffer from the usual pressures of the financial markets means they can prioritize other objectives that are compatible with CSR.

More than anything, it is the ethical, social and environmental values of the owners and executives themselves that drive a company to undertake CSR policies. This happens particularly in SMBs, where there are rarely many broad, bureaucratic structures, and the management style marks a clearer ethical and social dimension.

SMBs base their dynamics more on personal relationships than large corporations do. Their most important stakeholders tend to be their employees and the local community, and they will likely develop long-term relationships with them.

What is CSR for?

The issue that seems to concern SMBs the most about CSR is whether social responsibility is profitable for them.

Argandoña points out that there are many positive consequences, including: reduced risk in terms of labor, environment, lawsuits, boycotts and negative publicity; improved governmental relations; potential advantages in the granting of public contracts and concessions; improved media relations; and good image with customers, suppliers and society.

CSR policies also bring about positive effects within the company, since they:

- help attract employees and executives, build loyalty and motivate them;
- create an environment of trust and transparency in labor relations;
- allow for the implementation of good practices, such as a supply chain without any labor or environmental problems;
- cut down on workplace accidents and absenteeism.

All of these effects can translate into:

- higher or more stable sales;
- potential differentiation of the product that allows the company to raise its prices;
- lower labor costs;
- better use of raw materials and energy;
- lower operating costs;
- improved employee productivity and lower turnover, which can materialize into a

©IESE Business School

lower risk premium and, consequently, lower financial costs.

Such benefits usually compensate for the possible costs deriving from social responsibility policies.

How to get started

It is good to start by making a list, even if it is incomplete, of the social activities already carried out by the company. Phrases such as, "We use energy-saving light bulbs," "work schedules are adapted to the needs of mothers and fathers with small children" and "our sales reps ask our customers what their needs are before trying to sell them a product" help to demonstrate that the process is not starting from scratch. Along with the tasks completed, those still pending need to be written down.

To draw up this list of "holes" in social responsibility, it is good to enter into a dialogue with your stakeholders. While the ideal thing would be to do that in a systematic and organized way - by means of customer surveys or periodic meetings with employees, for instance - this formula makes the activity costlier.

In any case, the stakeholders must be identified beforehand, which is not always an easy task. Who is your customer? The company in the supply chain or the end consumer? Who do you need to have a relationship with in your local community? Just the town council or also the residents' association and other organizations?

The best method is to understand what relationships you have with each group of stakeholders - how they affect you and vice versa. Determine what they need, what they request, what they are entitled to receive (which will not always coincide with what they ask for or need) and then decide what each stakeholder brings to the company and to your other stakeholders.

Problems need to be detected and prioritized according to two criteria: the most urgent, the things you do poorly and must fix as soon as possible; and the most important, meaning the things that coincide with your company's mission and strategy.

For instance, if your competitive advantage is quality, then your actions in the area of social responsibility should focus, first and foremost, on creating and maintaining that advantage. Special effort must be made to avoid a separation between the company strategy and its actions of social responsibility.

©IESE Business School

There is a third criterion that should also be taken into account every time: the capacity of your resources, whether in terms of time, money, people, structure or environment.

The objectives must translate into concrete action plans identifying: those responsible for making things happen; the authority they will have for carrying them out; the resources to be used; the stages and deadlines; the expected results and how those will be measured; the control mechanisms that will be put in place; and the information these processes will lead to.

Lastly, in order for the plan to be successful, upper management must be involved. And it is not enough to simply communicate the new policies to the involved stakeholders; your company must get them involved, encourage them and motivate them to take on their part of that responsibility. It is precisely through the participation of stakeholders and having a good action plan where the secret of success lies for a CSR project.

www.iese.edu/insight

©IESE Business School