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Big challenge for small business: sustainability and SMEs

- ◆ Challenges and opportunities
- ◆ Tools and approaches
- ◆ SMEs as models
- ◆ Role of supply chains



Contents

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◆ Sustainability and SMEs

- 3 Editorial - The spotlight is turning towards smaller enterprises
- 4 Small and medium-sized enterprises and sustainability: facts and figures
- 7 Challenges for SMEs in a globalized world economy – *by Michael Kuhndt, Justus von Geibler and Andreas Villar*
- 10 CSR in the Netherlands: changing consumption and production patterns – *by Jelle Blaauwbroek*
- 13 L'approche collective, de nouvelles solutions pour les PME – *by Jean-François Vallès*
- 14 Evolution of a popular SMEs tool: Efficient Entrepreneur calendar becomes The SMART Entrepreneur
- 15 Networks and tools for SMEs
- 16 Increasing environmental performance in SMEs with environmental product declaration (EPD) indicators – *by Lennart Piper, Mikael Stenius, Maria Carty, Ruth Hillary and Scott Wilson*
- 18 Environmental risk considerations for commercial lenders working with SMEs – *by Chris Bray*
- 20 A business model for clean-energy SMEs: small companies' role in eradicating energy waste and energy poverty – *by Philip LaRocco*
- 24 How chemical industry initiatives contribute to environmental, safety and health protection in SMEs: an example from BASF – *by Carolin Kranz and Ingo Sagasser*
- 26 Cleaner production challenges in Brazilian SMEs – *by Ricardo L.P. de Barros, Maria de Fátima F. de Paiva and Cristina L.S. Sisinno*
- 29 SMEs and the environment in Hungary – *by Gyula Zilahy*

◆ Other topics ◆ Autres sujets ◆ Otros tópicos

- 32 Sustainable development : improving community relations – *by Mindy Hadi*

◆ News ◆ Actualités ◆ Actualidades

- 35 World News
- 38 Industry Updates
- 41 UNEP Focus
- 46 Books and Reports
- 49 Web Site Highlights

The spotlight is turning towards smaller enterprises

Major international companies tend to occupy the spotlight with respect to economic news and discussions of corporate environmental and social responsibility (CESR). Until recently it has been too easy to overlook small and medium-sized enterprises, but this is changing.

SMEs were cited as a target for awareness-raising efforts and information dissemination at the June 2003 meeting in Marrakech, Morocco, on the development of a ten-year "framework plan" for improving consumption and production patterns (as mandated at the Johannesburg Summit).

In many countries SMEs are the fastest-growing part of the economy: they account for major shares of exports and the bulk of new jobs. This is one reason these companies have recently received greater attention. SMEs have long accounted for the vast majority of businesses (by number) and at least half of all jobs. While most SMEs are in the service sector the one-quarter or so engaged in manufacturing produce an important share of industrial waste. SMEs are particularly strong in sectors characterized by high intensity of resource use and by polluting emissions.

Another reason SMEs have recently received considerable attention is that far too often they do much less (individually or as a group) than large businesses to address their negative environmental impacts, even if many big firms are far from perfect in this regard. The reasons are numerous and are, for the most part, quite understandable. A vast majority of SMEs are micro enterprises; many of them, especially in developing countries, suffer from relative lack of training, know-how, technology and money. In a number of countries SMEs are not covered by occupational health and safety laws.

In both the developed and developing world many SMEs fall into the grey area known as the "informal sector". In that sector in particular, SMEs are often run by women, who confront more obstacles than male entrepreneurs. Only now are special initiatives being developed concerning corporate environmental and social responsibility for small companies. Thus the business case for SME CESR is still imperfectly understood.

SMEs are under less pressure from consumers and NGOs than are big firms with respect to their operations' sustainability. They also receive less information regarding their sustainability and how to achieve it. For most SME managers, upgrading technology, management and marketing to meet stiff price competition has the highest priority. If they know about CESR at all, managers probably perceive it as a burden rather than an opportunity.

Once SMEs are persuaded of the benefits (to themselves and to society at large) of providing products and services that require smaller amounts of materials and energy, they have an important job to do in changing the way consumers' needs are met. Some SMEs are even better positioned than large companies in that regard. This is especially true of the most innovative businesses in areas such as chemical management, energy efficiency services and renewable energy supply.

Many tools and approaches have been shown to be environmentally and economically beneficial to businesses, including SMEs. The problem has been to persuade SMEs to adopt them. However, for many small companies moving towards sustainability is becoming a necessity. SMEs must increasingly cope with sustainability demands from the large companies to whose supply chains they belong. As environmental risks become a factor in obtaining access to capital, it seems likely that smaller firms in particular will be affected. Micro finance donors are increasingly aware of the environmental implications of loans for small industry.

Government, businesses, financial institutions and business development services should be actively involved in providing SMEs with triple-bottom-line tools and approaches. Flexibility will therefore be required. It is fair to ask whether SMEs can be – or should be – expected to file full-scale sustainability reports, with comprehensive coverage of environmental matters, e.g. including impacts on biodiversity. When it comes to certification, SMEs may not be able to afford to comply with systems as complex as ISO 14001. Special tools for SMEs could be needed. However, small businesses (by virtue of their staff size, closeness of staff relations, and their position in their communities) may be well suited for activities and reporting related to sustainability's social aspects.

Issues such as these are being addressed in a number of ways – from national initiatives to multilateral activities by UN bodies including UNIDO, which is responsible for SMEs under the Global Compact, and UNEP with its capacity building tools for SMEs. "SME-friendly" environmental management systems are being developed in some countries to help introduce SMEs to integrated management systems and certification schemes.

UNEP DTIE played an active role at the Marrakech meeting in June. It will continue to be active in the subsequent "Marrakech Process" – especially where work regarding SMEs is concerned. This issue of *Industry and Environment* is part of that work. The articles address barriers and opportunities facing SMEs in their drive towards sustainability, as well as many of the available tools and approaches. ♦

Small and medium-sized enterprises and sustainability: facts and figures

In most countries – large and small, developed and developing – the vast majority of businesses are small and medium-sized enterprises (SMEs). These businesses provide at least half of all jobs.

Big business is often perceived as the “backbone” of national economies. In that case, SMEs are the flesh and sinews. We have become accustomed to being concerned about the social and environmental impacts of the largest companies. However, in many countries the cumulative impacts of SMEs are just as great if not greater.

Definitions

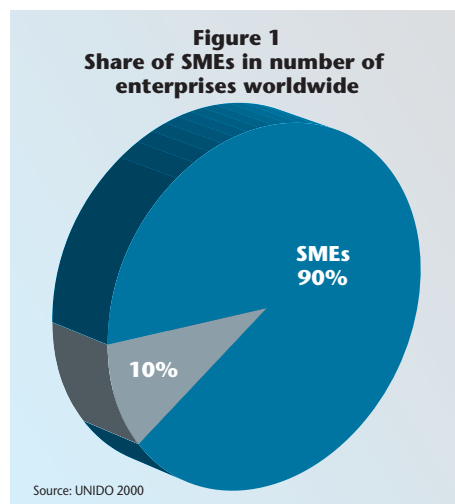
Use of the term “SMEs” is often restricted to non-primary enterprises (i.e. it does not include farming, fishery or the extractive industries). This is generally how the term is used in this issue of *Industry and Environment*. Nevertheless, small-scale fishery and mining operations, for example, are very important economically in many countries, especially developing ones.

How small is “small”? Definitions vary according to countries and regions. The European Union categorizes SMEs as “micro” (one to nine employees), “small” (up to 49) and “medium-sized” (up to 249). For the OECD, companies with up to 19 employees are “very small,” those with up to 99 are “small” and those with 100 to 499 are “medium”.

In Canada, the United States and Mexico, definitions of “small businesses” vary by sector and are based on the number of employees (a maximum of 500 employees is the most common cut-off point) or annual gross income. Brazil defines a “micro enterprise” as one with up to 19 employees and a “small enterprise” as one with between 20 and 99, with a gross annual income under 1.5 million reais in each case.¹ In India a “small enterprise” is one whose total investment in plant and machinery is not greater than 7.5 million rupees.

Definitions that take the number of employees into account could become less relevant in a “new economy” based on information and communications technology (ICT).

In Europe and much of the rest of the world, most SMEs are micro in size. In central and eastern Europe and the former Soviet Union, many private



companies with small-scale operations were created during the privatization and break-up of large state firms.² Only five years after transition began, there were 2.1 million companies in Poland: 92% employed five or fewer people, 6% employed six to 50, and only 2% employed over 50.

Most SMEs are in the tertiary, or service, sector. A 2001 survey by the Observatory of European SMEs (which monitors the 15 EU Member States, Iceland, Liechtenstein, Norway and Switzerland) showed that 25% of SMEs were involved in manufacturing and construction. The remainder were in wholesale and retail commerce, transport and communications, and business and personal services. Many countries have identified

an SME sub-category, “small and medium-sized industries” (SMIs), which generally means manufacturing/construction firms.

The triple impact of SMEs

Economic

Some 90% of all the businesses in the world are SMEs (Figure 1). These businesses are responsible for 50-60% of total employment. In OECD countries 95% of businesses are SMEs and 60-70% of jobs are in these businesses. In 1998, 66% of European jobs and 46% of those in the US were estimated to be in SMEs (Table 1). SMEs employed around 60% of Poland's workforce in 1995.

OECD figures show that SMEs create by far the greatest number of jobs in the rich world. The ILO considers that this is probably also true in the developing world, but figures are difficult to obtain.

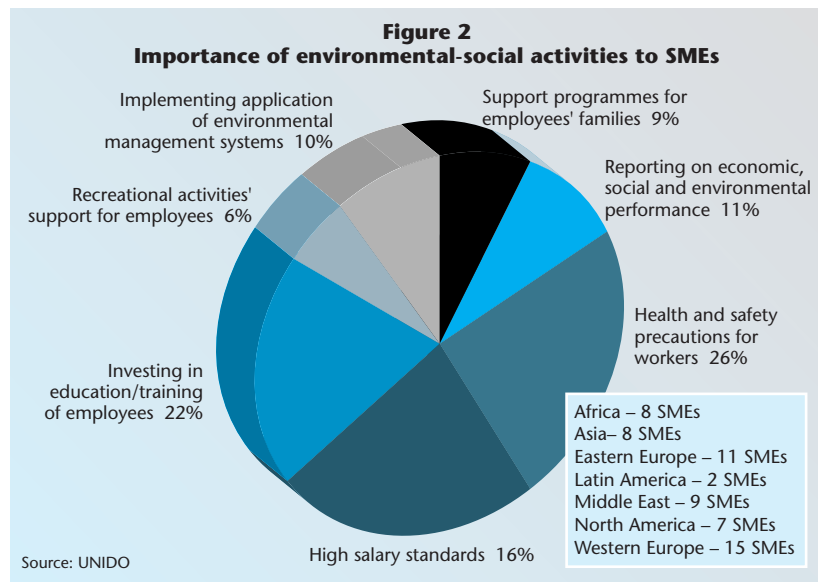
SMEs account for over half of India's GDP. Around 51% of shipped manufactured goods in Japan are produced by SMEs.

Environmental

As the economic significance of SMEs continues to grow, so do their environmental impacts. In India it is estimated that SMEs produce over 65% of industrial waste. In Canada and the United States toxic emissions from facilities emitting 10 to 100 short tonnes of pollution per year increased by 32% between 1998 and 2000, even though overall industrial pollution decreased by 4%.³ These smaller facilities are a cross-section of industry, ranging from metalworking to food processing. As one observer put it, they are “the companies that are in the industrial parks” (of which the two countries have over 15,000).

The Foundation for International Training, a Canadian NGO, reports that a recent survey of 116,300 SMEs in China's Jiangsu Province found 67.7% were causing serious pollution and 28.5% moderate pollution. Only 4% appeared to be pollution free.⁴

SMEs are generally prevalent in industries with relatively high resource and emission intensity (e.g. metal finishing, leather tanning, dry cleaning, printing, dyeing, brewing, food processing, fish farming, textile making and chemicals). In Japan, as in much of the rest of Asia, many



SME employees are engaged in traditional occupations.

Smaller businesses are generally concentrated in less capital-intensive sectors or those where economies of scale are not of the greatest importance. Economies of scale could become less important, however, in economies that are increasingly ICT-based. (Small ICT start-ups can be as implicated in e-waste generation as heavyweights in this field.)

SMEs' potential environmental impact might be expected to be commensurate with that of larger companies in the same sector. However, SMEs usually do not have the same levels of technology or employee training as large companies, especially in developing countries.

It should be noted that many companies in what might loosely be referred to as the "sustainability sector" (e.g. eco-services, eco-tourism, triple-bottom-line consulting) are SMEs.

Social

Reasons for the growth of the SME sector worldwide include:

- ◆ regional shifts in employment location, often associated with "downsizing" related to globalization or with the dismantling of large state-run entities (e.g. in the transition economies and China), which may give mid-career employees little choice but to create businesses of their own;
- ◆ growth in franchising;
- ◆ subcontracting and outsourcing by large companies.

In some countries, environmental health and safety (OHS) inspections of SMEs are not required. In others, where SMEs are subject to inspection, inspectors may fail to visit many of those in the "informal sector". Staff turnover can be high in sectors where SMEs predominate.⁵ Following up health and safety and other job-related problems can therefore be difficult, even if inspections have taken place.

The overlap between SMEs and the informal sector complicates efforts to study small businesses, or to communicate and work with them. Most of the informal sector – in most countries – is made up of SMEs. The International Labour Organization (ILO) sees the informal sector as a major source of jobs in poor countries, but it has not proposed a precise definition.

Does the informal sector include one-person micro enterprises? For the ILO the answer is yes – except in the case of "administrative workers, professionals and technicians." But many (perhaps most) countries are likely to classify, say, a self-employed shoe repairer with no employees as a micro enterprise in the formal sector, so long as that person is registered with labour and tax authorities.

Countries and regions vary considerably with respect to whether the informal sector is included in definitions of SMEs. But whatever definitions are adopted, SMEs and the informal sector face similar barriers to the adoption and practice of environmental and social responsibility (Table 2). A recent UNIDO survey of SMEs participating in the UN's Global Compact reveals some of the most important motives for overcoming such barriers,

Table 1
Employment breakdown by company size

	Europe (1998)	USA (1998)	Japan (1996)
	%		
SMEs			
- Micro	34	11	n/a
- Small	19	19	n/a
- Medium-sized	13	16	n/a
- Total	66	46	33
Large enterprises	34	54	67
Number of enterprises	118.3 million	108.1 million	57.3 million
Occupied persons per enterprise	6	19	10

Source: SMEs in Europe, Including a First Glance at EU Candidate Countries (Observatory of European SMEs)

riers, as cited by SMEs themselves. Employee welfare is by far the most significant (Figure 2).

Women in developed countries are responsible for significantly more business start-ups than men, yet they often face worse obstacles (e.g. in obtaining finance for start-up, development and expansion). They are especially active in the informal sector, where there are probably even more women than the rare available statistics suggest.

UNIDO has identified what it calls the "corporate social responsibility paradox" (i.e. is the business case for CSR that applies to larger companies also applicable to SMEs?)

Reponses

Over half the SMEs in Europe take part in social responsibility activities. The larger the size category, the more companies are involved in environmental and social activities. More environmental and social responsibility activities take place in northern than in southern Europe.

Environmental activities appear to be more difficult for SMEs to carry out than those concerned with social responsibility. One explanation is that many SMEs are tightly woven into the social fabric. Relationships with the local community, and with employees and their families, are of basic importance to their survival. Environmental issues can seem less urgent and unnecessarily expensive.

Lack of information is another factor. Smaller businesses generally have their hands full complying with basic regulations, which they may not always completely understand. Indeed, the most pressing need in the case of many small business owners and managers is for capacity building – not so much in environmental management as in business management.

Table 2
SME barriers to adoption of environmental and social responsibility

- ◆ insufficient technology, expertise, training and capital
- ◆ lack of initiatives tailored for small companies
- ◆ inadequate understanding of what the business case is for SME environmental and social responsibility
- ◆ the need to deal with more pressing matters such as upgrading the quality of technology, management and marketing
- ◆ price competition
- ◆ limited consumer pressure

Source: UNIDO 2002

An increasingly common way to overcome barriers to the acceptance of environmental and social responsibility is for SMEs to work together to address issues like waste management and recycling. "Waste minimization circles" have been created in India, as has a network of UNIDO-supported "subcontracting and partnership exchanges" (SPX) where small companies can share technical information.⁶

A Web site with cleaner production and other environmental information targeted to SMEs has been developed by the Canadian Centre for Pollution Prevention.⁷ Other such sites, publicly or privately supported, exist in many countries.⁸

The United States Small Business Administration and a number of individual US state governments offer low-interest loans to help smaller companies adopt cleaner production techniques. Indonesia, with support from Germany, is undertaking a pilot Industrial Efficiency and Pollution Control Project in which SMEs receive loans for investment in efficient production and cleaner technology.⁹

Another approach is to award grants for environmental assessments. The Eco-Efficiency Centre in Dartmouth, Nova Scotia, has a pilot Eco-Efficiency Business Assistance Program that provides funding to SMEs for consultant fees, providing up to 75% (to a maximum of C\$ 6000). Another Canadian programme, in Ontario, estimates that the assessments it has helped fund for 16 SMEs have resulted in an implementation rate of over 90%, total savings of C\$1.2 million per year, and total capital investment by the SMEs of C\$ 1.2 million, with a one-year payback period.¹⁰

There are similar support programmes in Europe.¹¹ At EU level, assistance is based on instruments such as the Community Eco-Management and Audit Scheme (EMAS), the European eco-label, and promotion of cleaner technology and best available techniques.

Several forms of "light" or "SME-friendly" environmental management systems are being developed in Europe. Examples are the recently adopted British standard BS 8555¹² and the Norwegian Eco-Lighthouse programme.¹³ Other European initiatives involve promoting integrated management programmes for SMEs, for example through the Austrian Chambers of Commerce.¹⁴

Financing institutions that offer small business loans and micro-finance can also improve SMEs' sustainability awareness. Concerning micro-

finance in particular, there is growing awareness of the environmental implications of loans for small industry.

Perhaps the strongest influence on SMEs comes from multinational corporations, which increasingly ask their suppliers (including those in developing countries) to meet social and environmental standards as a precondition for doing business. Such standards may be presented as codes of conduct for individual supply chains or certification systems for entire sectors.

Large corporations usually find that their guidelines cannot easily be imposed on smaller firms. Educational and "mentoring" approaches are being developed, often with the cooperation of governments. Such an approach was announced earlier this year by General Motors and automotive suppliers. The Suppliers Partnership for the Environment is a forum where companies can share environmental best practices up and down the supply chain. When GM and the US EPA announced this initiative, they stressed that it was especially designed to benefit smaller companies in the chain.¹⁵

Selected sources (organizations)

- Confederation of Indian Industry (www.ciionline.org)
- Environmental Business Information Center (www.environmental-center.com)
- International Labour Organization (www.ilo.org)

- Japan Small and Medium Enterprise Corporation (www.jasmec.go.jp/english)
- Observatory of European SMEs (http://europa.eu.int/comm/enterprise_policy/analysis/observatory.htm)
- Organisation for Economic Co-operation and Development (www.oecd.org)
- North American Commission for Environmental Cooperation (Taking Stock reports) (www.cec.org/takingstock)
- United Nations International Development Organization (UNIDO) (www.unido.org)
- United States Small Business Administration (www.sba.gov)

Selected publications

- *Corporate Social Responsibility: Implications for Small and Medium Enterprises in Developing Countries*. UNIDO, Vienna, 2002.
- Hillary, Ruth, *Small and Medium-sized Enterprises and the Environment: Business Imperatives*. Greenleaf, Sheffield, UK, 2000.
- Wafta, Nabil T., Saeed Awan and Rodger Goodson. Chemical risk assessment and occupational hygiene preventive measures in small and medium-sized enterprises. Paper for the ILO Action Programme on Safety in the Use of Chemicals at Work. International Labour Office, Geneva, 1998.

Notes

1. See article in this issue by Ricardo L.P. de Bar-

ros, Maria de Fátima F. de Paiva and Cristina L.S. Sisino, "Cleaner production challenges in Brazilian SMEs" (p. 26).

2. See article in this issue by Gyula Zilahy, "SMEs and the environment in Hungary" (p. 29).

3. See the annual pollution emission report by the NAFTA Commission for Environmental Cooperation (www.cec.org).

4. In Jiangsu Province 62% of all enterprises were non-state owned SMEs, or "township village enterprises". See <http://www.ffit.org/SMEEP/Menu/Frames/main.htm>.

5. For example, retailing and construction. See *Industry and Environment*, Vol. 26, Nos. 1 and 2-3.

6. See <http://wmc.nic.in/chapter4.asp>.

7. See www.c2p2online.com/smep2.

8. See page 15 of this issue.

9. See www.unescap.org/drpad/vc/conference/ex_id_45_iep.htm.

10. See www.oceta.on.ca/TORSUS/home.htm.

11. Examples from Austria, Belgium, Finland, Germany, the Netherlands and the UK are presented on <http://europa.eu.int/comm/environment/sme/smestudy.pdf>.

12. See www.theacorntrust.org.

13. See www.eco-lighthouse.com.

14. See www.eval.at.

15. See www.epa.govt/oppt/suppliers/pressrelease.htm. An article about the retailer Swiss Coop and its work with smaller companies all along the supply chain appeared in *Industry and Environment*, Vol. 26, No. 1. ◆

Challenges for SMEs in a globalized world economy

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Summary

SMEs are increasingly expected to take responsibility for their own environmental and social impacts (just as multinational companies are), to understand different stakeholders' interests and demands, and to demonstrate responsible behaviour through greater transparency. A number of factors can either hinder or drive adoption by smaller companies of strategies promoting corporate environmental and social responsibility. To overcome barriers to the adoption of such strategies, available tools need to be adaptable to small and medium companies' requirements. Promising initiatives along these lines have been initiated in some areas, with transnational corporations a key stakeholder group.

Résumé

On attend de plus en plus des PME qu'elles assument la responsabilité de leurs impacts environnementaux et sociaux (à l'instar des multinationales), qu'elles comprennent les intérêts et les attentes des différentes parties prenantes et fassent preuve d'un comportement responsable par une plus grande transparence. Plusieurs facteurs peuvent soit dissuader, soit encourager les PME à adopter des stratégies favorisant la responsabilité environnementale et sociale de l'entreprise. Pour surmonter les obstacles à l'adoption de ces stratégies, il faut que les outils disponibles puissent être adaptés aux besoins des PME. Dans cet esprit, des initiatives prometteuses dans lesquelles des entreprises transnationales jouent un rôle majeur ont été prises dans certaines régions.

Resumen

La expectativa de que las pymes, al igual que las empresas multinacionales, asuman la responsabilidad de sus impactos ambientales y sociales, comprendan los intereses y las demandas de las diversas partes interesadas, y demuestren un comportamiento responsable a través de una mayor transparencia es cada vez mayor. Hay una serie de factores que pueden obstaculizar o impulsar la adopción de estrategias que promuevan la responsabilidad corporativa en materia ambiental y social en las pequeñas empresas. Es necesario que las herramientas disponibles sean adaptables a las características específicas de las pymes para superar las barreras que impiden la adopción de este tipo de estrategias. En este sentido, se han lanzado iniciativas prometedoras en algunas áreas y las corporaciones transnacionales aparecen como un grupo clave.

In a globalizing economy liberalization, deregulation and privatization continuously redraw the lines between state and market. They also change the basis on which private enterprise is expected to contribute to public wealth. As a result of the growing legal, ethical, social and environmental expectations of various stakeholders, demand for corporate environmental and social responsibility (CESR)¹ is continuously increasing. While pressure grows from a wide range of stakeholders, including governments, consumers, NGOs, research institutions and financial markets, a number of companies are beginning to

implement CESR processes such as public commitment to standards, community investment, continuous improvement, stakeholder engagement, and corporate reporting on social and environmental performance.

CESR has been widely discussed in recent political and academic debates on the implementation of sustainable development in the business sector. Although there is no commonly accepted definition of corporate environmental and social responsibility, it refers to business decision-making linked to ethical values, compliance with legal requirements, and respect for people, especially

workers, employees, local communities and the environment. The aim is to encourage business to operate in such a way that it meets or exceeds the ethical, legal, commercial, public and environmental expectations that society has of it. Currently a number of these issues are being discussed and debated in the public policy sphere: the European Commission has published a green paper on integrated product policy and on corporate social responsibility (CSR); a European Multi-Stakeholder Forum has been initiated; 2005 has been designated the European year of CSR; and the UN Global Compact is bringing together companies and UN agencies to address the topic.

However, the debates and responses concerning CSR's objectives still mainly focus on large transnational corporations (TNCs) serving northern markets but operating in developing countries. Large companies have recently developed and implemented a wide array of tools and instruments including codes of conduct, environmental management systems (EMS) and sustainability reports. These initiatives have been bolstered by a growing body of empirical studies demonstrating that the application of CESR issues tends to have a positive impact on business's financial performance.

Many SMEs remain at an early stage of environmental and social management, limited in most cases to local philanthropic activities such as charitable donations. But due to increased pressure from customers (mainly procurement agencies of large companies demanding standards within their international supply chain, central wholesale organizations and public authorities), environmental and social concern is gradually growing. SMEs are increasingly expected to comply with regulations and sector-wide certification schemes. Nevertheless, CESR initiatives developed by large companies frequently fail when they are adopted by SMEs. In most cases they scarcely suit the particular needs of these SMEs. If this is the case for SMEs in industrialized countries, the question arising in the context of economic internationalization is how CESR issues can best be tackled by SMEs in developing countries and countries in transition.

The aim of this article is to identify efficient ways to promote CESR, considering SMEs' specific conditions and needs. We describe the state of the art of CESR in SMEs, followed by an iden-

tification of drivers and barriers to implementation. We also outline what needs to be done to promote CESR in SMEs.

State of the art of CESR in SMEs

SMEs make up over 90% of businesses worldwide. They account for 50-60% of employment.² Their work is strongly customer-oriented, and they are a source of innovation, employment and competitive entrepreneurial spirit. SMEs are an important source of businesses of the future, and therefore play a crucial role in reaching sustainability targets, e.g. as set out in the Kyoto Protocol to the UN Framework Convention on Climate Change³, the “factor 4/10 concept”³ and the UN Millennium Development Declaration⁴.

SMEs are the backbone of most supply chains. Thus they are of crucial importance in getting supply chains ready to meet future standards. The global trend of larger enterprises to reorganize, downsize and outsource, and the increase in franchising and self-employment, will lead to growth in number of SMEs in the future. Large product chain actors (e.g. TNCs) are continuously becoming more interested in having reliable, flexible and innovative partners that produce high-quality products which are environmentally sound and respect social standards.

Some SMEs have already taken the lead in managing their environmental and social impacts in a well-structured way through implementing EMS, reporting on their environmental and social performance, training and qualifying their staff with respect to environmental and social affairs, and working in cooperation with other firms in the supply chain to reduce the environmental impacts of products and services.

Overall, SMEs tend to be most focused on internal issues. Many of their responsible business practices concentrate on staffing issues, including employee skill development, team-building and motivation within the organization. Even community and environmental initiatives are sometimes focused on or designed to impact on employees. Internal benefits might be the most distinctive feature of SME involvement in CESR activities. By tradition, many SMEs are integrated in the community through their employees and

kind of “inherent business responsibility”, generally through employees and through services they may provide for the community. In reality, this may be a perception of their informal engagement. Often they are unable to articulate what they are doing and so do not have a common basis on which new and innovative approaches and initiatives could successfully be explored according to a more formal CESR definition.

Adoption of CESR in SMEs – influential factors

As highlighted before, SMEs are important for reaching the goal of sustainable development and could be more engaged in CESR. A number of factors influence adoption of CESR strategies in SMEs. The main drivers and barriers for CESR engagement in SMEs are described below, from an SME perspective.

Barriers to SME engagement in CESR

Social and environmental standards are increasingly a precondition for SMEs doing business with large companies. They can take the form of, for example, individual supply chain codes of conduct and sector-wide certification systems. Many SMEs adopting this “big business” framework fear the significant cost of implementing such complex monitoring and certification schemes. Among a large number of SMEs, the perception prevails that these systems are irrelevant or ill-suited to their needs and that they create a counterproductive administrative burden. The “big business” framework may pose a particular threat to SMEs in developing countries. The focus of most issues and standards in such frameworks reflects the concerns and priorities of customers and consumers in the north, as well as prevailing technologies and best practice in countries where the frameworks (e.g. EMS, ISO standards) were developed. The complexity of such certification processes and the financial burdens are often a major barrier to SMEs getting involved in CESR.

Another barrier is the low prices of many raw materials on international markets, which result in margins being too small to make resource efficiency strategies, for example, financially feasible. Intensive price competition and limited con-

ing bureaucracy. In the case of product innovations, demand for R&D finance is high, leaving less or nothing for expertise, technology innovations or CESR training. The staff of SMEs also face the problem of locating (and having the time to locate) good quality advice and information. As SMEs are primarily concerned with short-term economic survival, they are not motivated to ask for – or use – environmental and/or social information or support. Moreover, smaller manufacturing companies often do not have staff with sufficient environmental and social knowledge and expertise to address problems and opportunities related to environmental and social issues.

Another major barrier concerns the corporate culture and its attitudes. SMEs, which have often developed from small, “single fighter” firms, may be unwilling to cooperate and to share information. Some SMEs fear the power of large companies and the threat of acquisition by these companies. Many SMEs are unaware that engaging in social and environmental issues is not just “goodwill”, but an essential part of responsible business practice. They lack awareness of the positive impacts of CESR. In many cases, involvement of employees by top management and internal cross-functional communication are lacking, which results in internal and external communicational barriers.

A general management problem with respect to CESR improvement strategies is the fact that improvement opportunities are often seen as only process-related. Product-oriented CESR strategies, including upgrading the quality of technology, management and marketing, are frequently not within the scope of SMEs. The financial benefits of product management beyond the gate do not seem clear for many SMEs, and CESR may mainly be perceived as cost factor.

Drivers for SME engagement in CESR

A significant driver for CESR seems to be larger businesses as customers of SMEs. Within international supply chains, large corporate customers increasingly ask SMEs to comply with health, safety and environmental practices. To a lesser degree, this is also becoming more evident regarding SMEs’ social or community commitments

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