

Observatory of European SMEs
2002/No 4

**European SMEs and
social and environmental
responsibility**



European
Commission

Observatory of European SMEs
2002, No. 4

European SMEs and Social and Environmental Responsibility

This report has been prepared from information provided by all partners of the European Network for SME Research ENSR (see Annex IV) and was coordinated by Mr. Iñigo Isusi from IKEI, the Spanish ENSR partner.

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OBSERVATORY OF EUROPEAN SMEs

A series of reports submitted to the Enterprise Directorate-General of the European Commission (see also Annex IV to this report) by:

KPMG Special Services and EIM Business & Policy Research in the Netherlands

in co-operation with:

European Network for SME Research (ENSR), and Intomart

For more information on the current series of reports in the framework of The Observatory of European SMEs, see the website of the Enterprise DG at <http://europa.eu.int/comm/enterprise>.

Previous Observatory Reports

In the period 1992-1999 six reports of The European Observatory for SMEs were published (comprehensive volumes of 360 to 480 pages each). Each report gives an overview of the structure and developments of the SME sector and looks into a range of specific areas.

The report published in July 2000 (6th Observatory Report) focused for instance on the markets for products and services, labour market issues, access to both finance and Community programmes, electronic commerce, and associations and foundations in the social economy. It also contained in-depth studies on vocational training for SMEs and new services.

The 6th Observatory Report is published in English, French and German. The report is currently out of print, but a limited number of copies are still available. Please send your request to: ENTR-COMPETIT-BENCHMARK@cec.eu.int.

The first five Annual Reports are still available and can be ordered at: EIM Business & Policy Research, PO Box 7001, 2701 AA Zoetermeer, The Netherlands. Phone: + 31 (0) 79 3413634, Fax: + 31 (0) 79 3415024, E-mail: info@eim.nl.

These are the abbreviations used in this report for the Europe-19

A	Austria	NL	Netherlands
B	Belgium	P	Portugal
DK	Denmark	S	Sweden
D	Germany	UK	United Kingdom
EL	Greece	EU	European Union
E	Spain	IS	Iceland
F	France	LI	Liechtenstein
FIN	Finland	NO	Norway
IRL	Ireland	EEA	European Economic Area
I	Italy	CH	Switzerland
L	Luxembourg	Europe-19	EEA plus Switzerland

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Preface

Enterprises are at the heart of the strategy launched by the European Council in Lisbon in March 2000. Reaching the objective of becoming the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth, more and better jobs and greater social cohesion will ultimately depend on how successful enterprises, especially small- and medium-sized ones, are.

The *Observatory of European SMEs* was established by the Commission in December 1992 in order to improve monitoring of the economic performance of SMEs in Europe. Its task is to provide information on SMEs to policy-makers at the national and European level, researchers, SME organisations and to SMEs themselves.

The reports of the Observatory provide an overview of the current situation in the SME sector in Europe through statistics on the number of enterprises, on total employment and on production by size of enterprise. In addition, the Observatory reports cover a range of thematic issues.

The *Observatory of European SMEs* covers 19 countries: the 15 countries of the EU, plus Iceland, Liechtenstein, Norway and Switzerland.

During 2002, the following reports are planned to be published:

- Highlights from the 2001 Survey
- SMEs in Europe, including a first glance at EU Candidate Countries
- Regional Clusters in Europe
- European SMEs and Social and Environmental Responsibility
- Business Demography in Europe
- High Tech SMEs in Europe
- Recruitment of Employees: Administrative Burdens on SMEs in Europe
- Taxation and SME Growth in Europe
- Highlights from the 2002 Survey

The research for the Observatory reports is carried out on behalf of the Enterprise Directorate-General of the European Commission by ENSR, the European Network for SME Research, co-ordinated by EIM Business & Policy Research from the Netherlands in a consortium led by KPMG Special Services from the Netherlands.

For a description of the activities of the Enterprise DG, see the website of the European Commission: <http://europa.eu.int/comm/dgs/enterprise>. For more information on the Observatory of European SMEs, including how to access or order the reports, see: http://europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory.htm. Information on previous reports of the Observatory may be found there as well.

Summary

- Corporate social responsibility (CSR) can be defined as the voluntary integration of social and environmental concerns in the enterprises' daily business operations and in the interaction with their stakeholders. This CSR concept is strongly linked with the 'Triple Bottom Line' approach, whose main idea is that for an organisation to be sustainable it must be financially secure, it must minimise its negative environmental impacts and must act in conformity with societal expectations. CSR can also be understood as the business contribution to sustainable development.
- The analysis shows that half of the European SMEs are involved, to different degrees, in external socially responsible causes. This involvement is positively related to enterprise size, ranging from 48 % amongst the very small enterprises to 65 % and 70 % amongst the small and medium-sized enterprises, respectively. The involvement does not significantly depend on the sector in which SMEs operate. A North-South European divide can be observed. Involvement ranges from 33 % of SMEs in France to 83 % in Finland.
- Support to sporting, cultural and health/welfare activities are the most common external community activities developed by the European SMEs. Support to sporting activities is the preferred activity amongst SMEs in all enterprise sizes and in nearly all the countries. Environmental activities not related to the firm's own operations are much less frequent (only 12 %). Most of SMEs' external socially responsible activities are occasional and unrelated to the business strategy.
- Though European SMEs mainly state 'ethical reasons' for their involvement in external socially responsible activities, three quarters of them are able to identify business benefits derived from these activities. The main identified benefits include improvement of customer loyalty and better relations with the general community/public authorities.
- Concerning environmental activities, it is difficult to assess whether the activities are voluntary or not. This is because the majority of SMEs are 'vulnerably compliant', in the sense that they do not know enough about environmental legislation to ensure that they are always compliant. Other important reasons for SMEs to engage in environmentally responsible activities include market demands (basically through subcontracting relationships) or the strategic choice to obtain certain competitive advantages in comparison to competitors. 'Ethical' considerations are not a relevant driving reason as far as the environmental domain is concerned.
- The issue of social responsibility is receiving an increasing attention by public authorities. National European approaches to social responsibility show significant differences in terms of scope and intensity.
- 8 % of European SMEs receive some form of public support (tax reductions, subsidies, information, etc.) when they participate in external socially responsible activities.

Chapter 1

Introduction

Enterprises in general and SMEs¹ in particular contribute to the development of their local communities in a variety of ways. It occurs when businesses perform their traditional economic functions of earning profits, expanding employment opportunities, and reinvesting for future growth but also when enterprises develop their communities by enhancing the environment (in a general sense) in which they operate.

During the last few years a new and emerging concept has attracted public and private economic players' attention, that is to say, the concept of 'business responsibility', mainly known under the term 'Corporate Social Responsibility' (CSR). So far, and despite the fact that there is not a commonly accepted definition of CSR, this concept refers to the integration of social and environmental concerns in the enterprises' daily business operations and in their interaction with their stakeholders on a voluntary basis.

CSR is an integral part of the 'sustainable development' concept, and can be understood as the business contribution to sustainable development. Social and environmental responsibilities are not separate but two sides of the same coin, i.e., the responsible business.

This report aims at analysing the issue of CSR from a specific SME perspective, where attention is paid to the external social and environmental responsibility domains. Unfortunately, very little is known of the attitudes and activities of SMEs regarding CSR involvement, especially in comparison to their large scale counterparts or in an international/European comparative perspective.

More research is needed on this issue. This report tries to provide a comprehensive look into the involvement, attitudes, costs/benefits and barriers of SMEs in relation to the responsibility towards their 'external' stakeholders in general. Specific attention is paid to two stakeholder groups, the wider community and the natural environment. CSR activities aimed at the 'internal' stakeholders are not dealt with in this report (see reasons in Section 1.3).

The authors are fully aware that this report is only providing a partial picture of SMEs' CSR activities. Had the 'internal' perspective been taken into account, the results regarding the SMEs' involvement in CSR activities would have been higher. In fact, responsible behaviour towards the internal stakeholders (and especially to employees) is considered in the literature as an integral part of the CSR concept.

This report should be seen as another 'step forward' in the attempt to provide useful information and inputs from an SME perspective for the recent on-going European debate on the emerging CSR issue. It combines a review of the existing literature with first-hand information obtained from a comprehensive survey conducted amongst 7 662 European SMEs, the ENSR Enterprise Survey 2001². It is necessary to underline the importance and unique nature of this survey and of the data obtained from it. This 'uniqueness' lies in several factors, i.e., its scale (it is the first survey conducted on a Pan European scale and including such a large number of enterprises), its scope (it is the first survey solely focused on SMEs) and, finally, its concentration on facts.

1 For an European definition of SMEs, please have a look at the Commission Recommendation of 3 April 1996 concerning the definition of Small and Medium-sized enterprises (SMEs), OJ L 107 of 30.4.1996. For simplification purposes, SMEs are those enterprises with fewer than 250 employed persons.

2 For further details on the ENSR Enterprise Survey 2001, see Annex I to this report: The Set-up and Analyses of the ENSR Enterprise Survey 2001.

The social and environmental responsibility of European SMEs has already been partially dealt with in previous Observatory reports. The third report analysed the job quality issue in SMEs, whereas the fifth report paid attention to health and safety and to environmental issues. The sixth report devoted a chapter to training issues within SMEs.

This report is structured around five main sections.

- Chapter 2 identifies the concept of business responsibility, and provides some preliminary considerations on the issue from a small enterprise perspective.
- Chapter 3 discusses the European SMEs' approach towards socially responsible activities with their external communities.
- Chapter 4 looks into the responsibility issue from an environmental perspective.
- Chapter 5 analyses existing public national support initiatives intended to encourage social and environmental responsibility within SMEs and, finally,
- Chapter 6 draws some conclusions from the research and a number of recommendations for future research and policy actions.

Chapter 2

Approaching the concept of Corporate Social Responsibility

- CSR can be defined as a concept whereby ‘companies integrate social and environmental concerns in their daily business operations and in their interaction with their stakeholders on a voluntary basis’. The CSR concept is strongly linked with the Triple Bottom Line’ approach. The idea is that for an organisation to be sustainable, it must be financially secure, it must minimise its negative environmental impacts and it must act in conformity with societal expectations. CSR can be understood as the business contribution to sustainable development.
- Stakeholders can be defined as those persons or groups who have, or claim to have, an ownership, right or interest in an enterprise and its activities. The literature differentiates between internal and external stakeholders. This report is concerned with the analysis of the SMEs’ responsible activities with their external stakeholders.
- The CSR concept has gained momentum in recent years in the EU policy debate e.g. the ‘Green Paper on Promoting a European Framework for Corporate Social Responsibility’ and the EU Strategy for Sustainable Development launched in 2001.

2.1. Definition of Corporate Social Responsibility

As already mentioned, there is no single, commonly accepted definition of the concept of corporate social responsibility (CSR), a fact that contributes to the confusion about the issues and topics included within the CSR subject³.

Following the recently published European Commission’s Green Paper on CSR⁴, CSR can be defined as a concept whereby ‘companies integrate social and environmental concerns in their daily business operations and in their interaction with their stakeholders on a voluntary basis’. It is important to stress that being socially responsible means not only complying with relevant legislation, but also going beyond compliance and investing more than required into human capital, the environment and the relations with stakeholders. CSR builds on compliance with the legislative framework, which differs between countries, but focuses on the additional contributions from enterprises to meet societal expectations. Obviously, each enterprise is involved in CSR in its own unique way, depending not only on its core competencies, resources and stakeholders’ interests, but also on the cultural and country traditions of the area where the enterprise is located⁵.

Generally, the first interest of any enterprise is its economic survival, simply because the economic sustainability of an enterprise is the first precondition for pursuing any CSR activities. A traditional business view has assumed that the main contribution of enterprises to society is made through the provision of employment and the creation of wealth. Any business involvement in social activities will have a trade-off effect against profitable activity. Additionally, this traditional perspective suggests that enterprises are in conflict with the good of society, so without

3 In fact, the Dutch Social and Economic Council ‘ironically’ defines the concept of CSR as a sort of ‘*container term*’ whose definition may change over time. See Sociaal-Economisch Raad, *De winst van waarden: advies over maatschappelijk ondernemen* (The return of values: Advisory Report on Social Entrepreneurship), Assen, 2001.

4 Commission of the European Communities, *Green Paper for Promoting a European Framework for Corporate Social Responsibility*, COM (2001)366 final, Brussels, 2001, p. 6.

5 This idea has been taken from M. Palazzi & G. Starcher, *Corporate Social Responsibility and Business Success*, paper found in Internet web page <http://www.ebbf.org> (December 2001).

external compulsory measures (i.e. regulation), enterprises will always be looking to shift to others the costs of the damage they cause and will always fail to accept a share of the costs of social problems⁶.

This 'traditional' perspective is being surpassed by a growing theoretical and political debate that establishes a positive relationship between social responsibility and the enterprises' economic performance and protection of its long-term interests. As some authors suggest⁷, social responsibility makes economic as well as social and ethical sense. From a theoretical perspective, enterprises involved in CSR activities may obtain a number of business benefits from these activities. Examples include⁸:

- An enhanced enterprise image and reputation. The enterprise's ability to attract capital, trading partners and customers is enhanced, as well as its ability to access and build contacts with policy-makers and other relevant economic players.
- An increased sales and customer loyalty for the products and services of companies perceived to be responsible with their community and the environment.
- Enterprise efforts intended to enhance supplier networks or improve employee morale often lead to increased productivity and quality and reduced complexity and costs.
- Better control and management of risks in different domains such as finance or customers' attitudes.
- An increased ability to attract and retain employees, resulting in a reduction in turnover and associated recruitment and training costs and a higher motivation amongst employees. This benefit seems to be important, especially at a time when the young generations are a small proportion of the population in some European countries.

This new perception is resulting in a growing number of enterprises, especially large ones, which are paying attention to the CSR perspective within their businesses.

One of the most remarkable recent theoretical contributions is given by the 'Triple Bottom Line' approach, a term coined by John Elkington in 1997⁹. The idea behind this concept is that for an organisation to be sustainable -a long run perspective-, it must be financially secure, it must minimise (or ideally eliminate) its negative environmental impacts and, finally, it must act in conformity with societal expectations.

As it can be seen from this introduction, CSR is an integral part of the 'sustainable development' concept¹⁰, in the sense that CSR can be understood as the business contribution to sustainable development. In this context, social and environmental responsibilities are not separate but two sides of the same coin, i.e., the responsible business. Notwithstanding this, it is also fair to recognise that the business social and environmental perspectives have been traditionally dealt with in a rather 'isolated' way in relation to each other, where business environmental issues have received a greater amount of public and policy attention in comparison to social activities.

2.2. Current development in CSR

There is a growing interest in enterprises' CSR involvement in our Western societies in general and the European society in particular. This interest is explained by a number of different social and corporate trends¹¹:

- Today, consumers are starting to avoid what they see as socially irresponsibly made products or products. Around 25 % of Europeans suggest that the enterprise's social image is a 'very important' factor when deciding the purchasing of a product or service¹². Evidence from the United Kingdom shows that in 1998 up to 17 % of British adults had boycotted a company's product based on ethical grounds, 19 % had chosen a specific product/service because of the companies' ethical reputation, and a further 28 % did both¹³.

6 Von Tunzelmann, A., 'Social Responsibility and the Company: A New Perspective on Governance, Strategy and the Community', Institute of Policy Studies, Victoria University of Wellington, 1996.

7 Cercle d'Ethiques des Affaires, 'La gestion éthique des entreprises accroît-elle leur performance financière ?' (Does ethical management increase companies' financial performance?), in *Entreprise Ethique*, n°11, October 1999.

8 The ideas for this section have been obtained from the web-site resources of 'Business for Social Responsibility' (<http://www.bsr.org>).

9 Elkington, J., 'Cannibals with Forks: The Triple Bottom Line of 21st Century Business', London, 1997.

10 The term 'sustainable development' was made popular in 1987 with the publication of the UN's so-called Brundtland report, where sustainable development is defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

11 The ideas for this section have been obtained from the web-site resources of 'Business for Social Responsibility', <http://www.bsr.org> and from www.ebbf.org (December 2001).

12 Result taken from the 'European Survey of Consumers' Attitudes towards Corporate Social Responsibility'. This survey was commissioned by CSR Europe and supported by the European Commission amongst 12 162 European citizens of Belgium, Denmark, Germany, Spain, France, Finland, Italy, Portugal, Sweden, The Netherlands, United Kingdom and Switzerland. This survey was carried out in year 2000.

13 MORI, 'Winning with Integrity' report, London, 1998.

- Stakeholders are changing their expectations regarding the private business sector, which is increasingly being expected to help the public sector to cope with social and economic issues. The already quoted CSR-Europe survey suggests that around 66 % of the Europeans argue that involvement in social issues is a growing responsibility for private businesses (especially of the largest ones).
- There is a greater mobility of customers and suppliers, which in combination with existing improved communications, makes reputation and business transparency increasingly vital to all businesses.
- Large enterprises are increasingly regarded as responsible not only for their own CSR performance, but also for that of their suppliers. This fact results in a ‘cascading effect’ along the entire supply chain, encouraging suppliers to adopt socially responsible business practices¹⁴.
- There is an irreversible shift from an industrial economy to a knowledge and information - based economy, where human capital and skills are becoming the most important strategic resource.
- Enterprises themselves, and specially the largest ones, are becoming aware of the important business benefits to be obtained from the involvement in CSR activities.
- There is a remarkable growth of socially responsible investment. In the United Kingdom (where this issue is much more developed than in the rest of Europe), around 5 % of the professionally managed investments are related to socially responsible investment, this figure being smaller than in the United States (around 13 %)¹⁵. Many of these investors are using the shareholder resolution process to pressure companies to change policies and increase disclosure on CSR issues.

It is not strange that stakeholder groups ask enterprises for more and more detailed information about their social performance. This trend has given way to a threefold response.

- There is a growing number of organisations that help consumers and businesses with their purchasing decisions by rating companies and products based on social criteria (see Annex III).
- Enterprises themselves (especially the largest and leading ones) are responding with a variety of tools (reports, social audits, websites) and finally,
- Several international organisations (UN, OECD, ILO) are incorporating the concept of CSR as a subject for deliberations.

2.3. Definition of the ‘Stakeholder’ concept

Stakeholders can be defined as those persons or groups who have, or claim to have, an ownership, right or interest in an enterprise and its past, present and future activities¹⁶. There is no agreement on who or what are the stakeholders of a firm¹⁷.

Table 2.1 provides a tentative identification of stakeholder groups, as well as a non-exhaustive list of associated examples of business CSR activities within each stakeholder group.

14 Hurst, R. & M. Arnesen, *Where did that come from? - A study of ethical issues in the supply chain*, Institute of Business Ethics, London, 2000.

15 Data taken from UK Social Investment Forum, a network of stakeholders in socially responsible investment. Its members include investment institutions, banks, independent financial advisers, local authorities, charitable foundations and non-profit organisations. Data from the USA is taken from the ‘1999 Report on Socially Responsible Investing Trends in the United States’. The report is available on the Internet address <http://www.socialinvest.org> (December 2001).

16 This definition has been obtained from M. Hopkins, ‘The Planetary Bargain: Corporate Social Responsibility Comes of Age’, MacMillan Press Ltd, London, 1999.

17 For a discussion on this issue, see R.K. Mitchell, B.R. Agle, and D.J. Wood, ‘Towards a Theory of Stakeholder Identification and Saliency: Defining the Principle of Who and What Really Counts’, *Academy of Management Review*, New York, October 1997.

Table 2.1: Stakeholder groups and examples of CSR activities

Stakeholder groups	Examples of Corporate Socially responsible activities for each stakeholder category
Shareholders and owners	<ul style="list-style-type: none"> – Reporting of socially responsible business practices to shareholders – Definition of a mission that includes non-financial objectives
Employees	<ul style="list-style-type: none"> – Engagement in the empowerment of employees – Prioritisation of employee health and safety issues – Provision of opportunities to share in company growth and profitability – Encouragement of employee/management communication – Support employees' possibilities to balance work, family, and personal development commitments
Customers	<ul style="list-style-type: none"> – Monitoring of quality, safety and environmental impacts of products and services – Prompt response to customer complaints
The natural environment	<ul style="list-style-type: none"> – Commitment to minimising negative impacts and optimising resources – Performance of full life-cycle analysis on all products/services – Incorporation of environmental values into purchasing decisions
The wider community (including public authorities)	<ul style="list-style-type: none"> – Involvement in philanthropic activities that meet community needs – Partnerships with community-based organisations that support business success (i.e. promotion of entrepreneurial initiatives in the region) – Partnerships with community-based organisations that support business success (i.e. promotion of entrepreneurial initiatives in the region) – Partnerships with community-based organisations that support business success (i.e. promotion of entrepreneurial initiatives in the region) – Recruitment practices aimed at disadvantaged groups – Sensitivity to local customs and cultures – Compliance with human rights standards
Contractors/suppliers	<ul style="list-style-type: none"> – Incorporation of social/environmental values into purchasing decisions – Avoiding of business relationships with companies that use illegal practices (i.e. child labour) – Active engagement in supply chain risk management. Checking up of socially responsible practices through the whole supply chain – Prompt response to supplier complaints

Elaboration: Ikei.

Source: Cana Business for Social Responsibility, modified.

A detailed analysis of the different groups of stakeholders allows one to distinguish two main categories of stakeholders:

- Internal stakeholders, e.g. employees, shareholders and managers/owners.
- External stakeholders, e.g. business partners and suppliers, customers, local communities, as well as the natural environment itself.

This report is mainly interested in the analysis of those activities carried out by SMEs in relation to their 'external' stakeholders, where two stakeholder groups, the wider community and the natural environment, are chosen.

Two main reasons can be given for explaining this report's focal point. On the one hand, it was agreed with Commission's services to focus specifically on the 'external' stakeholder perspective. On the other hand, previous Observatory reports have dealt, at least partially, with some CSR aspects from an internal perspective.

2.4. The social and environmental responsibility issue from a European perspective: the activities of the European Institutions

The CSR concept has gained momentum in recent years in the EU policy debate. Thus, the first EU official declarations on Corporate Social Responsibility have been made during the Portuguese Presidency of the Council of the EU, where the Presidency Conclusions in March 2000 made for the first time 'a special appeal to companies' corporate sense of social responsibility'.

From then onwards, several initiatives have been taken up in the CSR domain. The Social Policy Agenda¹⁸ adopted by the EU in June 2000 stressed the importance of CSR, essentially in terms of the employment and social consequences of economic and market integration and the adaptation of working conditions to the new economy. Meanwhile, EU enterprise policy has a key role to play in achieving the EU's strategic goal set out at the Lisbon European Council¹⁹, which is based on the three pillars of competitiveness, social cohesion and sustainable development²⁰. Through its Multi-annual Programme for Enterprise and Entrepreneurship 2001-2005²¹, EU enterprise policy will contribute to these objectives and will foster the integration of sustainable development²².

In July 2001 a 'Green Paper on Promoting a European Framework for Corporate Social Responsibility'²³ has been launched, with the aim of encouraging a debate on all aspects of corporate social responsibility with all partners involved. This Green Paper takes up the 'triple bottom line' concept. The Green Paper is a joint Commission document elaborated by DG Employment and Social Affairs and Enterprise DG.

It is also worth mentioning the first conference on the matter of corporate social responsibility on the European social policy agenda, organised jointly by the Belgian presidency of the European Union and the European Commission²⁴ in November 2001. This conference has pursued a number of goals, such as the gathering of all players affected, the development of existing tools and practices, the initiation of an European convergence process between procedures and standards and the improvement of partnerships between affected partners.

The EU approach to CSR is also integrated in the broader context of various international initiatives related to trade and development co-operation. Examples include the UN Global Compact (2000)²⁵, the ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (1977/2000)²⁶ or the OECD Guidelines for Multinational Enterprises (2000)²⁷. Thus, the European Commission is committed to the promotion of the OECD guidelines, as well as to foster the observance, monitoring and compliance of the core ILO labour standards.

CSR is closely related to the concept of sustainable development, which is one of the EU's main objectives (see Article 2 of the EU Treaty²⁸). At the June 2001 Gothenburg Summit, the EU launched its Strategy for Sustainable Development²⁹, which is based on the idea that in the long run economic growth, social inclusion and environmental protection should go hand in hand. The environmental dimension of the Strategy is set out in the EU' forthcoming Sixth Environment Action Programme³⁰, which will cover the time period 2001-2010. This programme also takes into account of the SME dimension and suggests the need to both develop a scheme to encourage SMEs to self-audit their compliance and to improve SMEs' participation in the Community's EMAS programme³¹.

18 Commission of the European Communities, Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions, Social Policy Agenda, COM(2000) 379 final, Brussels 2000.

19 That is to say, 'to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion' (Presidency Conclusions, Lisbon European Council, 23/24 March 2000).

20 Commission of the European Communities, Report from the Industry Council to the European Council on the integration of sustainable development into European Union industry policy, 09.11.1999; Commission Staff Working paper on Sustainable Industrial Development, SEC (1999) 1729, Brussels, 25.10.1999.

21 Council Decision (2000/819/EC) of 20 December 2000 on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005). OJ L 333/84, Brussels, 29.12.2000.

22 The term 'sustainable development' was made popular in 1987 with the publication of the UN's so-called Brundtland report, where sustainable development is defined as development that meets the needs of the present without compromising the needs of future generations.

23 Commission of the European Communities, Green Paper for Promoting a European Framework for Corporate Social responsibility, COM (2001)366 final, Brussels, 2001.

24 The Belgian presidency of the EU, in addition to the organisation of this conference, has supported the creation of an European platform intended to monitor CSR activities. One of the main working issues proposed for this platform is related to the social index issue.

25 For further information see www.unglobalcompact.org (December 2001).

26 For further information see www.ilo.org (December 2001).

27 For further information see www.oecd.org (December 2001).

28 Official Journal C 340, 10.11.1997, Treaty on European Union, Brussels, 1997.

29 Commission of the European Communities, A Sustainable Europe for a Better World: A European Union Strategy for Sustainable Development (Commission's proposal to the Gothenburg European Council), COM(2001)264 final, Brussels 2001.

30 Commission of the European Communities, Sixth Environment Action Programme of the European Community, 'Environment 2010: Our future, Our choice', COM (2001) 31 final, Brussels, 2001.

31 Regulation (EC) No. 761/2001 of the European Parliament and of the Council of 19 March 2001, allowing voluntary participation by organisations in a Community eco-management and audit scheme (EMAS).

2.5. CSR from an SME perspective: Some preliminary considerations

From an enterprise size perspective, most of the existing key concepts and tools addressing CSR issues have been developed by and in the context of large enterprises. Several reasons can be suggested for explaining this fact. On the one hand, large enterprises have a higher public profile that generates more interest about their CSR activities. On the other hand, large enterprises are more easily accessible³².

According to several authors³³, research on CSR from an SME perspective is significantly different from the research based on large enterprises' practices. SMEs are subject to a number of distinctive and intrinsic characteristics that make them different from their larger counterparts³⁴, therefore affecting the contents, the nature and the extent of the SMEs' CSR activities. In essence, some of these characteristics - the more present the smaller the enterprises are- include:

- In most small firms, ownership and management/control are usually concentrated in the same hands, so the entrepreneur plays a central and key role in the development of an SME that allows him/her to make personal choices about appropriate ways to allocate funds³⁵. Thus, the personal preference of top management and owners is the most influential factor affecting the type and extent of SMEs' external community involvement³⁶.
- Small business managers/owners are strongly embedded in their local communities. Thus, SMEs rely much more than large enterprises on the health, stability and prosperity of the local communities in which they operate, since most of their clients and the majority of their employees come from the surrounding area. Therefore, the reputation of a company at its location, its image as an employer, producer or actor in the local scene, certainly influences its competitiveness³⁷.
- SMEs often lack personnel, financial and time resources. On the one hand, SMEs are more economically vulnerable than large enterprises, a problem that implies that long-term investments in, i.e. CSR activities not clearly related to the core business, are regarded as secondary by owner-managers and very often are therefore postponed. Closely linked to this point, SMEs' CSR activities are more likely to be affected by the state of the economy than large enterprises' ones, so these activities fluctuate through times of recession and boom³⁸. On the other hand, SME managers/owners are very likely to suffer from important time and task pressures³⁹, which leave them with little time and energy to reflect strategically and plan on future activities, especially if they are regarded as 'beyond' the usual business activities.
- Personal relationships and close individual contacts are more frequent in smaller businesses. The enhanced possibilities of personal contacts between the owner-manager and employees, financing partners, suppliers, customers and, sometimes, even competitors very often help to build trustful and open business partnerships in a way impracticable in larger firms⁴⁰. However, if things go wrong, the existence of a personal relationship may add pressures to both sides.

32 These reasons can be found in J.K. Thompson, and L. Smith, 'Social responsibility and small business: suggestions for research', *Journal of Small Business Management*, January, 30-44, 1991.

33 Tilley, F., 'Small Firms' environmental ethics: how deep do they go?', in *Business Ethics: A European review*, Vol. 9, number 1, p. 31-41, January 2000.

34 Hollidays, R., *Investigating Small Firms: Nice Work?*, Routledge, London, 1995.

35 EIM & ENSR, *Fourth Report of the European Observatory for SMEs*, Zoetermeer, 1996.

36 Stibbard, H., *Connecting SMEs with the Community: A research report on the Involvement of Small and Medium-sized Enterprises in Community Causes*, Business Community Connections Research, London, 2000.

37 Commission of the European Communities, *Green Paper for Promoting a European Framework for Corporate Social responsibility*, COM (2001)366 final, Brussels, 2001.

38 Vyakarnam, S., A. Bailey, A. Myers, and D. Burnett, 'Towards an understanding of ethical behaviour in small firms', in *Journal of Business Ethics*, 16:15, 1625-1636, 1997.

39 Obviously enough, this situation will depend on a number of variables such as the number of employees or the propensity of managers/owners to delegate.

40 Spence, L.J., 'Does size matter? The state of the art in small business ethics', in *Business Ethics: A European Review*, Vol. 8, number 3, July 1999, pp 163-174, Blackwell Publishers Ltd, Oxford.

Chapter 3

The social responsibility of SMEs to their external community

- Half of the European SMEs are involved, to different degrees, in external socially responsible activities. An enterprise size perspective shows that this involvement is positively related to the size of enterprises. Involvement does not significantly depend on the sector in which SMEs operate. A North-South European divide can be observed.
- SMEs' external socially responsible activities are concentrated in three main fields, i.e. sport, cultural and health/welfare activities not aimed at the SMEs' own employees. Support to sporting activities is the most preferred activity by all enterprise sizes and in nearly all the countries.
- The most popular way of SME involvement is through donations, either in cash or in kind, conducted on an ad-hoc or irregular basis. The European SMEs' activities are in most cases occasional and unrelated to the business strategy. Most of the SMEs involved focus their activities and interests at a local level.
- The main reason behind the SMEs' involvement in external socially responsible activities is related to 'ethical reasons', where ethical considerations are especially relevant for the smallest enterprises.
- Around three quarters of the European SMEs involved in these activities are able to identify business benefits derived from them. No significant difference by enterprise sizes can be detected. These benefits include among others an improvement of customer loyalty and better relations with the general community/public authorities.
- 'Attitudinal' reasons are more important for SMEs in comparison to 'lack-of resources' reasons for explaining the SMEs' inactivity in external socially responsible activities. In this sense, around a quarter of SMEs 'have never thought about getting involved', which shows a marked lack of awareness. These 'attitudinal' barriers are more important amongst the smallest enterprises.
- The majority of SMEs engaged in external socially responsible activities are expecting to either continue or even increase their participation in the next three years (73 % and 14 %, respectively).

3.1. Introduction

One of the key aspects of CSR is what the specialised literature identifies as 'community involvement'. This concept refers to a wide range of actions taken by enterprises in order to maximise the impact of their donated resources (money, time, products, services, influence, management knowledge or any other resources) on the external communities in which they operate⁴¹. Examples of these actions include the donation of cash, products or services to a local charity, sponsoring activities, the setting up of employee-volunteering schemes or the 'loaning' of executives and managers.

From an enterprise size perspective, SMEs are involved in socially responsible activities in general and in 'community involvement' activities in particular. This chapter intends to investigate the European SMEs' involvement in these activities⁴², specifically on the following issues:

- The existing levels of SME involvement in community causes
- The SMEs' activities in which they get involved

⁴¹ Definition taken from the web-site resources of 'Business for Social Responsibility' (<http://www.bsr.org>).

⁴² As it can be seen, this section is not focusing its attention on other socially responsible activities that SMEs may get involved with other external stakeholders (i.e. customers, suppliers or the natural environment, dealt with in a subsequent section).

- The main characteristics that define these activities
- The driving reasons behind the SMEs' involvement
- The main advantages and benefits identified by SMEs from these activities
- The most important barriers for SMEs to become involved and, finally,
- The future expectations of SMEs concerning these activities.

This chapter is just providing a partial picture of SMEs' CSR activities as it excludes the activities towards internal stakeholders.

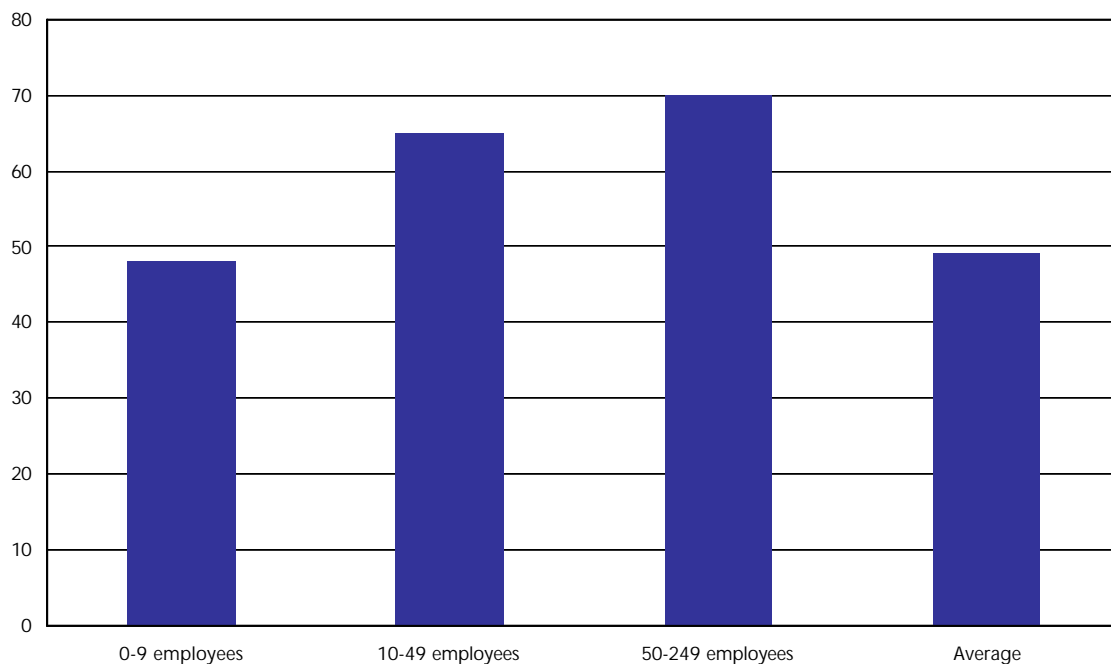
From a methodological perspective, the information included in this chapter combines a review of the existing literature on the topic with first-hand information obtained from the ENSR Enterprise Survey 2001⁴³, conducted amongst 7 662 European SMEs.

3.2. Degree of involvement of SMEs in socially responsible activities

Enterprises may develop a number of activities and relationships with the external communities where they are located. From an SME perspective, it is fair to recognise that many SMEs already take up their social responsibility, particularly through community involvement, even though these activities are not explicitly disseminated or 'marketed' to the community.

According to the ENSR Enterprise Survey 2001, half of the European SMEs are involved, to different degrees, in external community causes⁴⁴. An enterprise size perspective shows that this ratio ranges from 48 % amongst the very small enterprises (0-9 employees) to 65 % and 70 % in the case of the small (10-49 employees) and medium-sized enterprises (50-249 employees), respectively (see Figure 3.1).

Figure 3.1: Percentage of SMEs involved in external social activities, by enterprise size



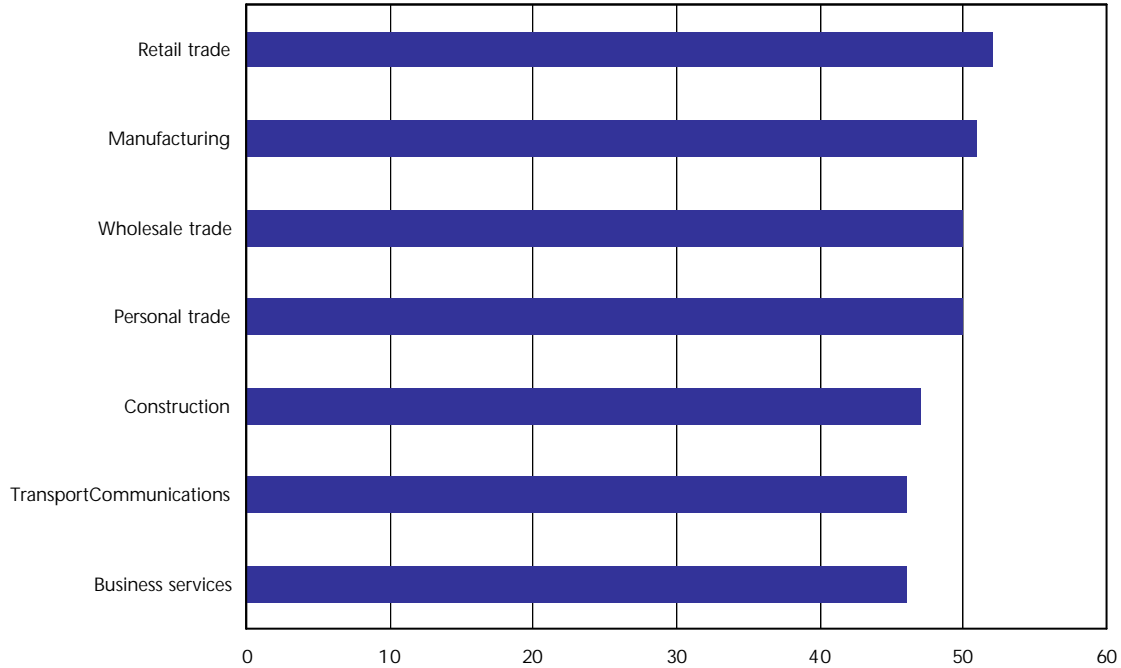
Source: ENSR Enterprise Survey 2001.

⁴³ For further details on the ENSR Enterprise Survey 2001, see Annex I to this report: The Set-up and Analyses of the ENSR Enterprise Survey 2001.

⁴⁴ According to the authors, this percentage is high. Two possible explanations can be given in this respect. On the one hand, it should not be forgotten that the number of examples of socially responsible activities suggested to enterprises is rather broad (see Table 3.2). On the other hand, this may be a classic example of a question that evokes 'socially desirable' answers, which somehow foster positive replies from enterprises.

A sector perspective shows that involvement in external community causes does not significantly depend on the sector in which SMEs operate (see Figure 3.2). According to the available data, those SMEs belonging to the trade and the manufacturing sectors show the highest involvement, whereas the lowest SMEs' involvement corresponds to the transport and business services sectors. However, these differences do not seem to be significant. Gender considerations show that there are no differences in the percentage of male or female SME owners concerning their relative participation in external community causes.

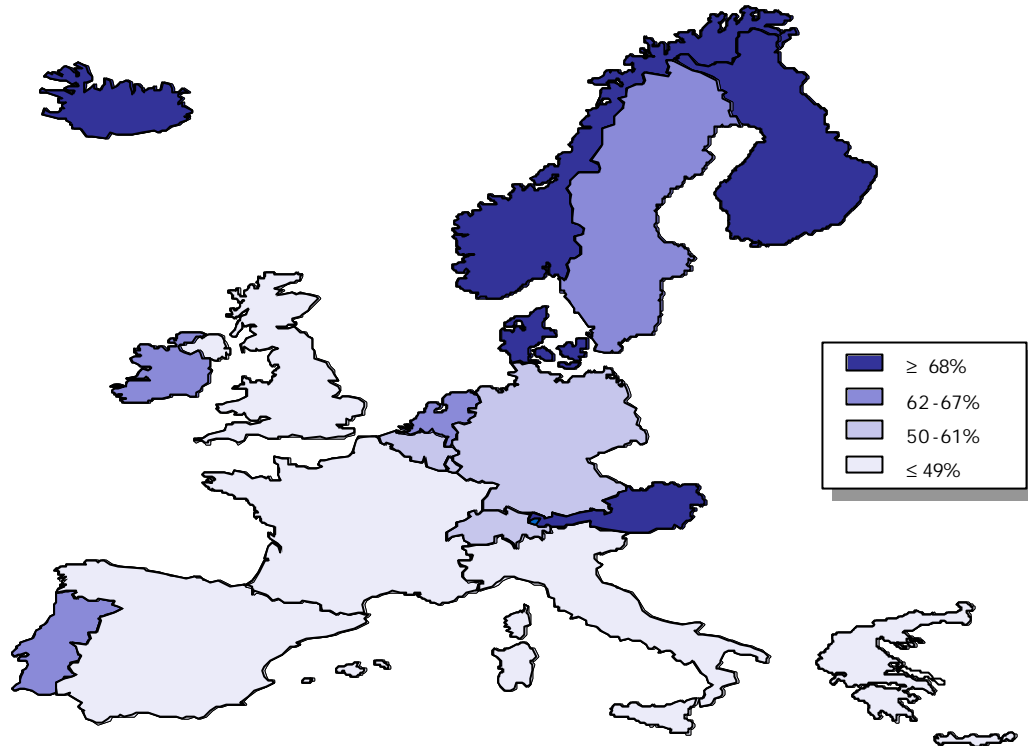
Figure 3.2: Percentage of SMEs involved in external social activities, by sector of activity



Source: ENSR Enterprise Survey 2001.

From a geographical perspective, and looking into the percentage of SMEs that suggest to carry out any social activity with their external community, a clear North-South European divide can be observed (see Figure 3.3 & Table 3.1). The highest percentages correspond to some of the Northern (Finland, Denmark, Iceland and Norway) and of the central European countries (i.e. Austria, Liechtenstein). Meanwhile, it is possible to identify a heterogeneous group of countries (The Netherlands, Ireland, Sweden, Portugal, Belgium, Luxembourg, Switzerland, Germany and Portugal) that occupy an intermediate position in the European context. Finally, it is in most of the Southern countries (Spain, Italy and Greece) as well as in France and the United Kingdom where social involvement is less common amongst SMEs. Key factors for explaining these national differences may include different cultural traditions on the role of enterprises in society, different expectations from the general public on the enterprises' social involvement or different public welfare traditions.

Figure 3.3: Classification of European countries according to the percentage of SMEs involved in external socially responsible activities



Source: ENSR Enterprise Survey 2001.

Interestingly also, and from an enterprise size perspective, it is possible to identify a direct relationship between enterprise size and percentage of enterprises involved in external social activities in nearly all countries (see Table 3.2). The only exceptions to this are given by Sweden and Finland, as well as the Southern countries of Greece, Italy, Portugal and Spain. In all these countries, small enterprises have got a higher percentage in comparison to their medium-sized counterparts.

Table 3.1: Percentage of SMEs involved in external social activities, by enterprise size and country

	Countries																	Total		
	A	B	DK	FIN	F	D	EL	IS	IRL	I	LI	L	NL	NO	P	E	S		CH	UK
0-9 employees	68	61	74	82	31	53	43	73	62	46	66	60	63	67	65	45	62	57	45	48
10-49 employees	72	62	80	96	52	62	68	85	80	66	83	55	84	87	79	65	71	71	62	65
50-249 employees	80	73	82	94	63	74	64	---	88	50	---	---	87	95	78	61	70	85	69	70
Total	68	61	74	83	32	54	44	73	64	47	71	60	66	68	66	46	63	60	46	49

The number of observations for medium-sized enterprises (50-249 employees) for Luxembourg, Iceland and Liechtenstein is too small to allow percentages to be computed. These results are not presented here.

Source: ENSR Enterprise Survey 2001.

Other available empirical studies that deal with this issue also show a high degree of SME involvement in socially responsible activities with their external communities⁴⁵:

- The MORI research⁴⁶ shows that one in six UK SMEs says that it is involved in external socially responsible activities to ‘a great deal’ (16 %) and over two in five are involved to a ‘fair amount’ (45 %). This result is

45 Direct comparisons between the results from these studies is not possible due to methodological reasons.

46 MORI, SMEs’ Attitudes to Social Responsibility, research commissioned by Business in the Community, July 2000.

in contrast to more than a third who consider themselves to be 'not very/not at all' involved (38 %), of which the majority (28 %) is 'not very' involved.

- Dutch evidence⁴⁷ illustrates that up to 51 % of the Dutch enterprises are involved in socially responsible activities, where this percentage goes from 44 % amongst the small enterprises to 77 % and 93 % amongst medium and large enterprises.
- A German survey⁴⁸ on 'corporate citizenship' shows that around 16.5 % and 5.8 % of the German enterprises are active in sponsoring and employees' temporary engagement activities, respectively. These percentages are positively related to enterprise size considerations.
- Finally, a French report⁴⁹ suggests that sponsorship activities are no longer the action of large enterprises, so if in 1987 SMEs represented 36 % of the total activities, this percentage has increased to 58 % in 1996 and 65 % in 1998.

3.3. Description of socially responsible activities developed by SMEs

Referring to the concrete activities developed by those SMEs involved in external community causes, the ENSR Enterprise Survey 2001 shows that these activities mainly concentrate in three fields, the support to sport, cultural and health/welfare activities not aimed at the SMEs' own employees. Considering only those SMEs effectively participating in social activities, up to 47 %, 33 % and 33 % carry out activities in the previously suggested fields, respectively. Other fields receive a lower degree of attention from SMEs (see Table 3.2).

Table 3.2: Percentage of SMEs involved in external social activities, by type of social activity and enterprise size

External social activities	Enterprise size			Total
	0-9	10-49	50-249	
Support sporting activities (not own employees)	46	52	59	47
Support cultural activities (not own employees)	31	34	43	33
Support health and welfare activities (not own employees)	31	32	39	33
Support education and training activities (not own employees)	21	28	31	20
Support environmental activities (not related to firms' own operations)	13	15	17	12
Give preference to personnel from socially deprived groups when recruiting	6	11	14	6
Participate in public affairs or political process on behalf of the enterprise	6	9	13	8
Contribute in any other way	10	11	11	10
Do not know/No answer	1	1	3	1

More than one answer allowed.
Data referred exclusively to those SMEs participating in social activities.

Source: ENSR Enterprise Survey 2001.

The available data also suggest that there is a positive relationship between the size of enterprises and their degree of involvement in the different types of external social activities. The order of preference for different types of activities is equal in all size-classes (see Table 3.2), as well as if the SME owners' gender considerations are considered.

From a national perspective, it is interesting to notice that the support to sporting activities is the most preferred type of external social activities by SMEs in nearly all the surveyed countries, although some exceptions can be identified (see Table 3.3). Thus, Greek and Portuguese SMEs seem to pay special attention to the support of cultural activities, whereas Icelandic and British SMEs devote particular attention to the support of health/welfare and to education/training activities not aimed at their own employees, respectively. However, support to sport is ranked as the second most common social activity developed by SMEs in these four countries. In Denmark, Sweden and Ireland particularly, SMEs seem to focus their resources more on sporting activities in comparison to the

47 EIM, 'Ondernemerschapmonitor 2001' (Entrepreneurship Monitor, 2001), Zoetermeer, 2001. SMEs are defined as those with less than 100 employees.

48 Clemens, R & Maass, F 'Corporate Citizenship im Mittelstand - eine empirische Studie über Bürgerschaftliches Engagement kleiner und mittlerer Unternehmen in Deutschland' (Corporate Citizenship- An empirical study on social involvement amongst the small and medium-sized enterprises in Germany), Bonn, 2001.

49 Association pour le Développement du Mécénat Industriel et Commercial, 'Bilan du Mécénat-1998, Une Année de Mécénat' (Taking stock of company sponsorship 1998 - a sponsorship year), Paris, 2000. In this study, SMEs refer to enterprises with less than 500 employees.

remaining activities, followed although at some distance by The Netherlands, Luxembourg and France. In this sense, empirical evidence from Sweden⁵⁰ suggests an increasing sponsoring during the last ten years of activities carried out by cultural organisations, international aid organisations and social activities, although sport continues to be the most common supported activity.

Table 3.3: Percentage of SMEs involved in external social activities, by type of social activity and country

Variables	Countries																		Total	
	A	B	DK	FIN	F	D	EL	IS	IRL	I	LI	L	NL	NO	P	E	S	CH		UK
Sport	51	61	77	73	45	43	41	66	58	51	70	58	52	64	52	50	63	45	33	47
Culture	42	48	38	34	24	28	50	37	22	28	63	37	27	61	53	41	33	40	24	33
Health and welfare	36	41	32	60	9	30	30	67	31	43	39	20	29	55	44	24	35	20	33	33
Education and training	32	15	22	34	21	23	11	29	33	15	25	22	24	22	17	13	13	20	35	20
Environment	17	11	7	18	9	15	16	19	16	15	24	12	11	32	12	9	14	15	11	12
Deprived groups	4	7	9	8	3	9	11	1	16	4	7	10	8	4	9	2	10	8	7	6
Public affairs	13	5	11	4	3	13	20	8	20	2	23	3	11	28	3	4	6	15	7	8
Other ways	7	10	9	4	15	17	7	0	11	4	4	12	23	9	3	7	3	20	11	10
DK/NA*	3	1	11	0	1	1	0	27	0	0	1	0	1	1	0	3	2	1	1	1

More than one answer allowed.

Data referred to SMEs participating in social activities.

* Do not know/No answer.

Source: ENSR Enterprise Survey 2001.

The most popular way of SME involvement in external social activities is through donations, either in cash or in kind, conducted on an ad-hoc or irregular basis⁵¹. This possibility is slightly more popular amongst the SME female owners in comparison to their male counterparts. The second most selected way is through regular or continued sponsorships, adopted by a 45 % of the surveyed SMEs. By way of contrast, other ways of social involvement such as cause related marketing activities or employee/employer involvement in community activities (always, of course, on behalf of the enterprise) are less common amongst European SMEs (see Table 3.4). It is also worth identifying a positive relationship between the size of the enterprises and the percentage of SMEs involved in the different ways. Sponsorships are the most usual way of involvement of medium enterprises, in contrast to very small and small enterprises, where donations are the most preferred method.

Table 3.4: SMEs' main ways of involvement in external social activities by enterprise size, percentage of enterprises

Variables	Enterprise size			Total
	0-9	10-49	50-249	
Sponsorships (regular, or continuous)	44	49	60	45
Donations (ad-hoc or once only in cash or kind)	56	53	58	56
Cause related marketing/campaigning	15	18	21	15
Employee involvement in community activities (on behalf of the enterprise)	7	12	13	8
Employer involvement in community activities (on behalf of the enterprise)	11	12	17	11
Other	4	4	2	4
Do not know/No answer	1	1	0	1

More than one answer allowed.

Data referred to SMEs participating in social activities.

Source: ENSR Enterprise Survey 2001.

Data disaggregated by country (see Table 3.5) show that donations, either in cash or in kind, are the most typical way of involvement in external social activities in nearly all the surveyed countries, Belgium, Denmark, Ireland,

50 Wijkström, F, 'Svenskt organisationsliv - framväxten av en ideell sektor', (Swedish associations - The development of a nonprofit sector) EFI, Ekonomiska Forskningsinstitutet vid Handelshögskolan i Stockholm, 1999.

51 This preference for donations (either of cash or goods/equipments) is also detected by the Stibbard's study.

The Netherlands and Sweden being the exception to this. In all these countries, regular or continued sponsorships are the most preferred way of involvement, although sponsorships are ranked as the second favourite approach. Cause related marketing seems to be also particularly used in Norway and Austria.

Table 3.5: SMEs' main ways of involvement in external social activities by country, percentage of enterprises

Variables	Countries																			Total
	A	B	DK	FIN	F	D	EL	IS	IRL	I	LI	L	NL	NO	P	E	S	CH	UK	
Sponsorships	43	74	60	62	36	47	34	34	70	45	60	45	63	35	44	35	57	41	43	45
Donations	61	28	38	61	48	56	68	65	55	54	71	48	49	56	80	65	26	47	58	56
Cause related marketing	38	8	7	22	14	28	16	1	10	7	28	15	9	41	24	13	9	18	9	15
Employee involvement	16	9	9	8	7	10	0	6	5	2	19	5	8	14	7	4	11	16	13	8
Employer involvement	31	12	4	16	8	14	11	4	12	2	28	22	14	22	16	4	11	18	17	11
Other	3	2	2	2	6	2	5	3	0	4	3	2	5	8	3	1	9	8	4	4
DK/NA*	2	1	5	0	0	1	0	4	0	2	1	0	0	0	0	2	1	0	2	1

More than one answer allowed.
Data referred to SMEs participating in social activities.
* Do not know/No answer.

Source: ENSR Enterprise Survey 2001.

Results from other sources and referred to specific countries (i.e. Switzerland⁵²) confirm that time and cash are the two predominant forms of support, whereas support in natura (office infrastructures, products, transport capacities, etc.) is less common.

3.4. Characterisation of SMEs' socially responsible activities

This section concentrates on describing what are the main characteristics that define and distinguish the socially responsible activities developed by the European SMEs. In this respect, the ENSR Enterprise Survey 2001 provides several clues:

- The European SMEs' community activities are in most cases occasional and one-off, unrelated to the business strategy. Thus, up to 51 % of the SMEs involved in external community activities carry out these activities on an occasional basis in contrast to the 45 % who conduct them on a regular basis. Additionally, for seven out of ten SMEs, these social activities are unrelated to the general business strategy. In contrast, only a 28 % of SMEs argue that these activities are integrated into the general business strategy. Moreover, the data suggest that regular and related-to-the-business-strategy social activities become more common as the enterprises get larger (see Table 3.6).

Table 3.6: SMEs' strategic approach to external social activities by enterprise size, percentage of enterprises

Variables	Enterprise size			Total
	0-9	10-49	50-249	
Occasional activities, unrelated to business strategy	37	39	35	37
Occasional activities, related to business strategy	14	11	11	14
Regular activities, unrelated to business strategy	32	27	29	31
Regular activities, related to business strategy	13	19	21	14
Do not know/No answer	4	4	3	4

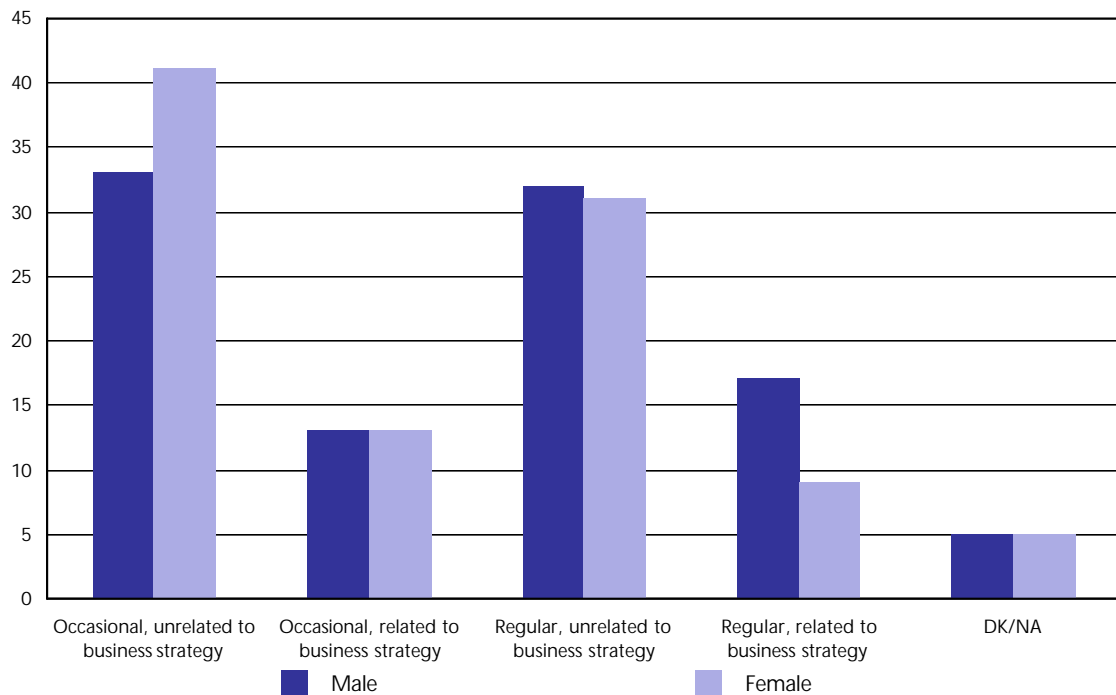
Data referred to SMEs participating in social activities.

Source: ENSR Enterprise Survey 2001.

52 Ammann, H., 'Schweizer Firmen nehmen Freiwilligkeit ernst' (Swiss companies take voluntary work seriously), in Schweizer Arbeitgeber, No. 5/1, pp. 184-187, Bern, March 2001.

- From an owner gender perspective, SME male owners carry out more regular and related-to-the-business external social activities than their female counterparts (see Figure 3.4). Thus, 17 % of the total SME male owners carry out regular, related-to-the-business-strategy activities, where this percentage goes down to 9 % where women owners are concerned. 33 % of SME male owners do conduct occasional, unrelated-to-the-business-strategy activities, well below the 41 % amongst their female counterparts.

Figure 3.4: SMEs' strategic approach to external social activities by SME owners' gender considerations, percentage of enterprises



Data referred to SMEs participating in social activities.

Source: ENSR Enterprise Survey 2001.

- From a national perspective, the available data confirm the Pan-European results (see Table 3.7). Thus, in all the surveyed countries (with some exceptions) external social activities are performed on an occasional basis, unrelated to the business strategy. Exceptions to this are given by the Austrian SMEs (who perform more occasional activities although related to the business strategy than other countries), the Belgian, Icelandic, Portuguese, Spanish and Swiss SMEs (regular/unrelated-to-business-strategy activities) and, finally, the Greek SMEs (regular/related-to-business-strategy activities). Moreover, the available data confirm that social activities have an occasional nature in most of the countries, with the exceptions of Belgium, Germany, Iceland, Liechtenstein, Luxembourg, Portugal, Spain and Switzerland. Finally, in all the surveyed countries with the exception of Austria and Greece, these social activities are unrelated to the business strategy, although this result seems to be particularly relevant amongst the Italian, Swedish, Norwegian, Portuguese and Finnish SMEs.

Table 3.7: SMEs' strategic approach to external social activities by country, percentage of enterprises

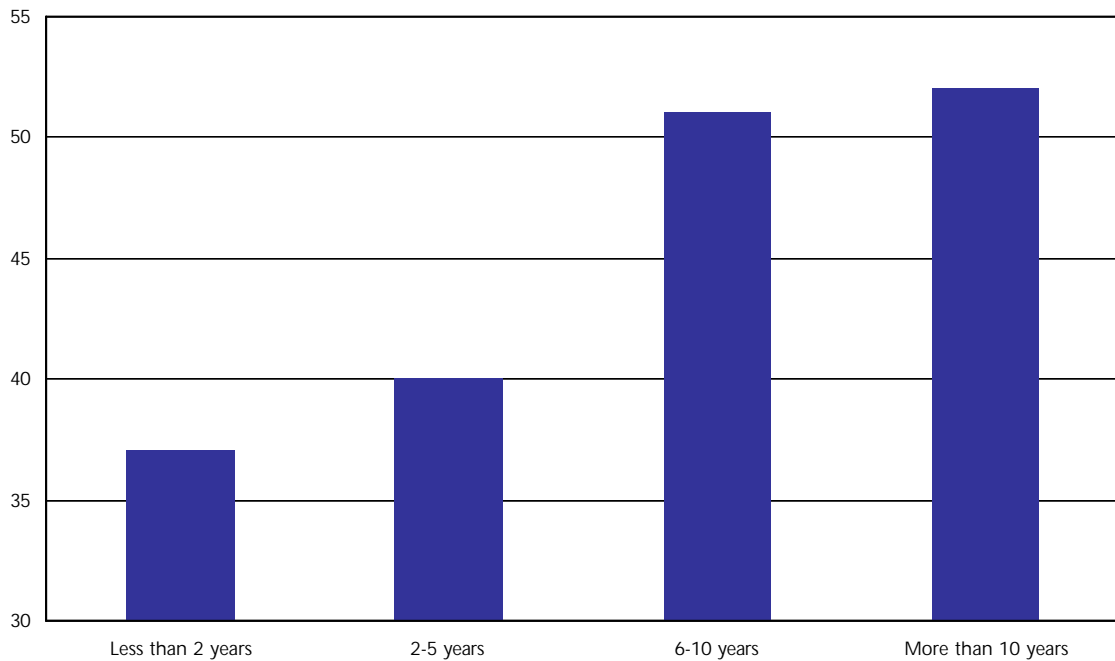
	Countries																				Total
	A	B	DK	FIN	F	D	EL	IS	IRL	I	LI	L	NL	NO	P	E	S	CH	UK		
Occasional/unrelated	20	28	43	64	38	31	28	25	42	49	29	35	37	56	35	27	58	23	36	37	
Occasional/related	29	10	24	13	16	17	21	24	13	5	16	11	10	14	11	15	5	16	18	14	
Regular/unrelated	24	41	16	8	32	27	17	40	20	36	29	30	27	21	44	45	23	26	25	31	
Regular/related	24	18	10	6	10	24	29	10	20	3	26	20	19	4	10	11	9	30	16	14	
DK/NA*	2	3	7	8	4	3	5	1	5	7	1	4	7	5	0	2	5	4	5	4	

Data referred to SMEs participating in social activities.
 * Do not know/No answer.

Source: ENSR Enterprise Survey 2001.

- There is a positive and statistically significant relationship between involvement in external social activities and age of the enterprise, in the sense that the percentage of SMEs involved in these activities increases with the number of years in business operations. More than 5 years in business seems to be a 'point of change' in this respect (see Figure 3.5).

Figure 3.5: Percentage of SMEs involved in external social activities*, by number of years in operation of the enterprise

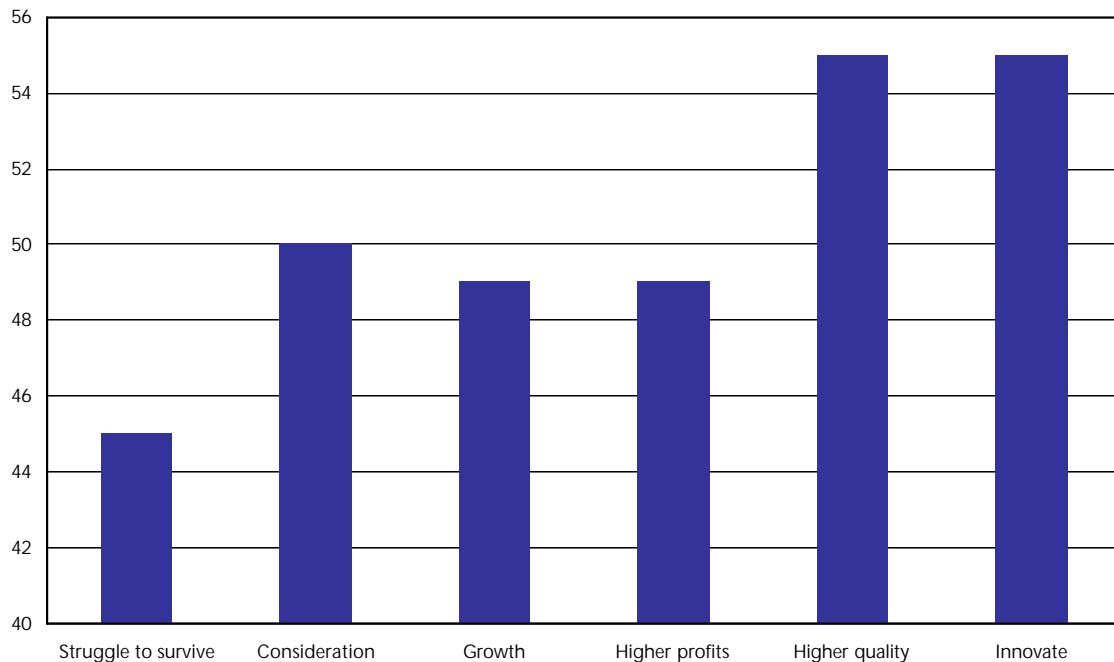


* Data referred to SMEs participating in social activities.

Source: ENSR Enterprise Survey 2001.

- The enterprise strategy focus seems to have an influence on the SMEs' decision to become involved in external social activities. Those SMEs 'struggling to survive' have the lowest percentage of enterprises involved in these activities in comparison to the rest of enterprises. This difference is particularly important in comparison to those SMEs engaged with pursuing high quality and innovation strategies within their enterprises (see Figure 3.6).

Figure 3.6: Percentage of SMEs involved in external social activities*, by enterprise strategy focus



* Data referred to SMEs participating in social activities.

Source: ENSR Enterprise Survey 2001.

Additional studies conducted in different European countries allow a more complete picture of the characteristics that define the European SMEs' involvement in socially responsible activities to be obtained. Thus:

- British⁵³ and Norwegian⁵⁴ evidence confirms the uncoordinated, occasional and unrelated-to-the-business-strategy nature of most of the European SMEs' community activities, already shown by the ENSR Enterprise Survey 2001.
- Most of the SMEs involved in community causes focus their activities and interests at a local level. According to one UK survey⁵⁵, around 94 % of the SMEs active in this field concentrate their activities at a local level. Similar preference for local level activities can be identified in the German example⁵⁶. Some authors suggest that SMEs' knowledge of the local situation make them ideally placed to help tackle community issues⁵⁷.
- Only a minority of SMEs involved in community causes publishes any information about their organisation's involvement⁵⁸, a fact that contributes to the poor perception of the general public on the SMEs' activities in this field⁵⁹. Notwithstanding this, SMEs are also aware of the importance of communicating their social and community involvement, although SMEs also suggest that no significant amounts of money should be devoted to that⁶⁰. Additionally, the lack of generally accepted certification in this field also increases the difficulties in communicating socially responsible activities⁶¹.

53 Tibbard, H., Connecting SMEs with the Community: A research report on the Involvement of Small and Medium-sized Enterprises in Community Causes, Business Community Connections Research, London, 2000.

54 Græsholt, T., 'Sponsoring - en strategisk analyse av sponsormarkedet for Kolbotn IL' (Sponsorship - a strategically analyses of Kolbotn Sport Club's market for sponsorships), in Teamoppgave- Sivilmarkedsførerstudiet ved Norges Markedshøyskole, Oslo, 1995.

55 Tibbard, H., Connecting SMEs with the Community: A research report on the Involvement of Small and Medium-sized Enterprises in Community Causes, Business Community Connections Research, London, 2000.

56 Rühl, W., 'Kulturförderung und ihre Finanzierung' (promotion of culture and financing), in: Heinze, T.: Kulturfinanzierung. Sponsoring - Fundraising - Public-Private-Partnership, Hagerer Studien zum Kulturmanagement (Culture financing. Sponsoring - Fundraising - Public-Private-Partnership, Hagerer studies with respect to culture management), Heft 1, Münster, 1999.

57 Joseph, E., A Welcome engagement: SMEs and Social Inclusion, IPPR, London, 2000.

58 EIM, 'Ondernemerschapsmonitor 2001' (Entrepreneurship Monitor, 2001), Zoetermeer, 2001.

59 Interestingly, this result is fully supported by a number of identified European experts. See national contributions to this report.

60 MORI, SMEs' Attitudes to Social Responsibility, research commissioned by Business in the Community, July 2000.

61 Kylling, A., B. Hans, & K. Morten, Virksomhedernes social engagement - en interviewundersøgelse i mindre virksomheder (Corporate Social Responsibility- A Survey in Small Enterprises), Formidlingscenter Aarhus, 1995.

- French information⁶² suggests that those small enterprises providing patronage expenses make a stronger effort than their larger counterparts in terms of the donated amounts in proportion to turnover.
- Very few SMEs measure the effectiveness of their social involvement. UK results⁶³ show that up to 91 % of SMEs involved in community causes do not monitor or evaluate the effectiveness of their involvement. In any case, it is worth bearing in mind that the measurement of this involvement is also difficult for large enterprises, probably linked to the lack of a precise and agreed definition of the concept.

Finally, and referring to the extent to which SMEs carry out external social activities in isolation or in collaboration with other firms, the very scarce data on the issue⁶⁴ show that the majority of enterprises carries out CSR activities in isolation in comparison to around one fifth of enterprises that carries out these activities in co-operation with other firms. In any case, it is possible to argue that many SMEs are not aware of possible social initiatives developed by, for instance, sector associations. In fact, CSR issues are still not a priority on the agenda of trade associations representing SMEs' interests, although the key potential role of trade associations in raising the awareness of the CSR business case and promoting good practices should be recognised⁶⁵.

3.5. Rationale/reasons for the involvement in external socially responsible activities

According to the ENSR Enterprise Survey 2001 results, and referring only to those SMEs involved in external community activities, the main reason behind their involvement in external social activities is related to 'ethical reasons', probably linked to the desire of entrepreneurs to 'give something back to the community'. 55 % of the SMEs suggest this reason, well above other frequently quoted reasons such as 'improve public relations with the community/public authorities' and 'improve customer loyalty' (pointed out by 33 % and 26 % of SMEs, respectively)⁶⁶.

Enterprise size considerations are a very important explanatory factor in this respect. Thus, ethical considerations are the main reason for SMEs' involvement in external community activities for all enterprise sizes, although this reason seems to be particularly important the smaller the enterprise size is. For the remaining reasons, the opposite enterprise size relation can be detected. This result would suggest that larger SMEs are more aware of the business benefits derived from their involvement in socially responsible activities in comparison to the smallest ones.

Meanwhile, SME owners' gender considerations reinforce the importance attributed to ethical considerations. This reason is suggested as the most important irrespectively of the gender of the SME owner, with no significant differences amongst both groups (51 % and 52 % for men and women, respectively).

62 Malet, J., 'Le mécénat des entreprises en France 1987-1996' (Companies corporate sponsorship in France 1987-1996), study realised by the Fondation de France, Paris, 1998.

63 Stibbard, H., Connecting SMEs with the Community: A research report on the Involvement of Small and Medium-sized Enterprises in Community Causes, Business Community Connections Research, London, 2000.

64 For instance, EIM, 'Ondernemerschapmonitor 2001' (Entrepreneurship Monitor, 2001), Zoetermeer, 2001.

65 Taken from R. Bodo, Promoting CSR in SMEs: Position paper, Input to the EC Presidential Conference on CSR, Brussels 27-28 November 2001.

66 Notwithstanding the importance of this 'ethical' side for the European SMEs, it is also true that a significant share of European SMEs (up to ¾ of the total) are able to identify economic benefits from being involved in social activities (see next point 2.4).

Table 3.8: Main reasons and motivations for carrying out external social activities by enterprise size, percentage of enterprises

Variables	Enterprise size			Total
	0-9	10-49	50-249	
Ethical reasons (mainly altruistic)	55	48	49	55
Improve relations with the community/public authorities	33	38	41	33
Improve customer loyalty	25	28	26	26
Improve relations with business partners and investors	15	21	28	15
Improve employees' job satisfaction	14	17	23	14
Improve economic performance	13	13	17	13
Apply code of conduct	8	8	11	8
Pressure from third parties	4	3	4	4
Use existing public incentives	4	6	8	4
Other	6	4	4	6

More than one answer allowed.
Data referred to SMEs participating in social activities.

Source: ENSR Enterprise Survey 2001.

This importance of the 'ethical' side amongst the European SMEs seems to be the main reason in all the surveyed countries, with Belgium, Finland and Ireland being the only exceptions to this general rule. For these countries, the improvement of customer loyalty and relations with the community are more important (see Table 3.9). However, it is worth underlining that ethical considerations are particularly important in those countries where SMEs' involvement in external community activities is lower (i.e. Greece, Spain and France), whereas SMEs seem to suggest a wider array of reasons in those countries where SMEs are more involved in external community activities. This result is important, since it shows that business considerations are more important in countries with a higher SME activity in external community activities, whereas in countries with a low involvement, SMEs associate this type of activities with business benefits to a lower degree.

Table 3.9: Main reasons and motivations for carrying out external social activities by country, percentage of enterprises

Variables	Countries																			Total
	A	B	DK	FIN	F	D	EL	IS	IRL	I	LI	L	NL	NO	P	E	S	CH	UK	
Ethics	44	35	50	44	60	58	64	59	37	52	54	57	44	51	44	74	44	46	51	55
Relations with community	43	35	23	39	29	29	34	24	47	33	43	30	24	48	39	31	28	35	40	33
Customer loyalty	38	47	33	67	9	27	28	16	26	19	40	21	34	43	29	15	18	22	33	26
Relations with business partners	29	23	11	51	10	24	15	7	22	2	30	26	8	16	18	5	14	24	24	15
Employees' satisfaction	25	20	16	57	10	14	18	15	13	3	31	9	10	27	17	5	15	12	27	14
Economic performance	27	13	16	46	12	14	15	14	20	3	21	20	9	25	17	8	9	15	18	13
Code of conduct	17	11	2	44	5	5	11	9	2	4	19	7	9	18	20	6	6	15	11	8
Third parties' pressure	10	13	4	6	0	2	2	5	10	2	7	1	1	8	17	3	5	5	5	4
Use incentives	12	8	3	20	1	4	10	0	9	2	3	8	5	4	7	3	3	8	4	4
Other	2	6	5	1	4	3	6	24	10	13	1	2	13	5	4	3	9	6	4	6

More than one answer allowed.
Data referred to SMEs participating in social activities.

Source: ENSR Enterprise Survey 2001.

Complementing the previous results, some authors⁶⁷ suggest that the average British small businessmen are motivated in their social activities by considerations that are social as well as financial. Thus, these small businesspersons have a strong sense of partnership through their commitment to the support of co-owner's livelihoods, although they do not see themselves as guardians of ethical or moral values. This sense of partnership can be especially important for enterprises located in rural areas, where the social pressure from the local community is felt as stronger⁶⁸.

Meanwhile, Irish evidence⁶⁹ shows that only for medium-sized enterprises (those with 100 employees and more in the study), explicit corporate policies towards social involvement are an important reason to become engaged in community contribution activities. According to some authors⁷⁰, the existence of conduct codes in SMEs does not necessarily affect the SMEs' ethical and social behaviour since the foundation of ethics in most SMEs is in the mind of the owner/manager⁷¹.

The ENSR Enterprise Survey 2001 has shown that the European SMEs do not seem to be particularly affected by any 'pressures from third parties' (including those from large enterprises through their supply chains) for effectively engaging themselves in external community activities. In fact, supply chain pressures coming from large undertakings have so far worked in the environmental/quality domain⁷², although they are expected increasingly to influence the social domain (i.e., employment standards of suppliers) in the future⁷³. Thus, several European large groups are beginning to request SA8000 standards⁷⁴ to their suppliers, such as Promodes, C&A, Coop Italia, Otto Versand or WE Europe⁷⁵.

3.6. Benefits identified by SMEs from their involvement in socially responsible activities

The available empirical evidence from the ENSR Enterprise Survey 2001 suggests that, generally speaking, SMEs are quite aware of the benefits derived from being involved in external community activities. Only around a quarter of the European SMEs effectively involved in external activities are unable to identify any business benefit derived from these activities, whereas the remaining three-quarters do identify different business benefits. Interestingly enough, the smallest enterprises have more difficulties to perceive these benefits, although differences are not much by enterprise sizes or if SME owners' gender considerations are taken into account.

The two main benefits identified by SMEs include an improvement of the loyalty of customers and better relations with the general community/public authorities (35 % and 28 % of SMEs involved in external social activities point out these benefits, respectively). Other benefits seem to be less perceived by the European SMEs⁷⁶.

67 Spence, L.J., *Priorities, Practice and Ethics in Small Firms*, report published by the Institute of Business Ethics, London, 2000.

68 Idea suggested in the Austrian contribution and mentioned by Mr Rudolf Wimmer, an Austrian expert on CSR.

69 Sia Group, *Community Gains*, report for the Dublin Chamber of Commerce, Dublin 2000.

70 This idea has been taken from Marnburg E, 'The Behaviour effects of corporate ethical codes: Empirical findings and discussion', in *Business Ethics: A European Review*, Vol. 9 Number 3, pp. 200-210, July 2000.

71 Dragosits, A., 'Unternehmensethik unter Berücksichtigung der Unterschiede zwischen Klein- und Mittelbetrieben und Großunternehmen' (Company Ethics in consideration of differences between SMEs and large-scale enterprises), Vienna, 1994.

72 Frederiksen, J., *Small Enterprises Can Do It Too*, in *Corporate Social Responsibility*, a discussion paper from the Danish Confederation of Trade Unions, Copenhagen, 2001.

73 Hurst, R. & M. Arnesen, *Where did that come from? - A study of ethical issues in the supply chain*, Institute of Business Ethics, London, 2000.

74 For a description of this standard, please see Annex III.

75 Quoted in *Business Week*, May 31, 1999 issue.

76 In this sense, it should not be forgotten that some of the external social activities identified in this report (i.e. support to sport activities) can be also categorised as genuine marketing activities.

Table 3.10: Main benefits derived from the enterprise' involvement in external social activities by enterprise size, percentage of enterprises

Variables	Enterprise size			Total
	0-9	10-49	50-249	
Improved relations with the community/public authorities	28	30	31	28
Improved customer loyalty	35	41	36	35
Improved relations with business partners and investors	15	22	26	16
Improved employees' job satisfaction	17	19	26	18
Improved economic performance	15	15	18	15
Other	7	4	3	7
No perceived benefits	28	22	24	27
Do not know/No answer	1	3	3	2

More than one answer allowed.
Data referred to SMEs participating in social activities.

Source: ENSR Enterprise Survey 2001.

Interestingly also, and perhaps with the exception of customer loyalty, the remaining benefits are identified more often by the larger enterprises, especially as far as better relations with business partners/investors and improved employees' job satisfaction are concerned.

The previous data allow one to reach a very interesting conclusion, in the sense that the business benefits of social activities, hitherto assumed to lie exclusively in the domain of large companies, are in fact also present in the SME sector⁷⁷. However, this important result should be contrasted with the fact that, as already mentioned, only a minority of SMEs involved in community causes monitors the effectiveness of their involvement.

From a national perspective (see Table 3.11), the percentage of SMEs that perceive possible benefits from their involvement in external community activities surpasses the percentage of those SMEs who do not in nearly all the surveyed countries. Exceptions to this general perception can be found in a number of countries. Thus, the Icelandic, Spanish and Swedish SMEs have the highest difficulties in perceiving possible business benefits, although these difficulties are perceived also (although to a lower extent) by the Dutch, Norwegian and British SMEs. Meanwhile, improvement of the loyalty of customers is seen as the main benefit in nearly all the remaining countries, with the exceptions of the French and Portuguese SMEs who pinpoint the improved relationship with the general community/public authorities.

Table 3.11: Main benefits derived from the enterprise' involvement in external social activities by country, percentage of enterprises

Variables	Countries																			Total
	A	B	DK	FIN	F	D	EL	IS	IRL	I	LI	L	NL	NO	P	E	S	CH	UK	
Relations with community	27	24	7	25	35	25	37	24	23	36	37	32	17	31	40	27	7	29	24	28
Customer loyalty	49	49	46	73	29	43	45	11	32	40	47	41	36	31	33	20	25	40	28	35
Relations with business partners	28	21	21	57	16	25	19	4	22	2	27	24	11	11	20	4	7	33	22	16
Employees' satisfaction	25	16	27	59	20	24	18	12	17	5	25	16	9	19	15	11	9	23	26	18
Economic performance	27	18	19	52	15	20	19	7	22	6	24	20	11	16	15	9	12	26	15	15
Other	2	6	2	4	2	3	3	5	9	19	1	1	11	10	3	0	1	4	6	7
No perceived benefits	24	21	30	14	21	26	31	49	25	11	22	21	37	32	36	47	54	17	30	27
DK/NA*	1	1	8	0	1	2	0	7	0	1	1	0	0	4	0	3	1	1	3	2

More than one answer allowed.
Data referred to SMEs participating in social activities.
* Do not know/No answer.

Source: ENSR Enterprise Survey 2001.

77 Joseph, E., A Welcome engagement: SMEs and Social Inclusion, IPPR, London, 2000.

To conclude this part, Irish empirical evidence⁷⁸ shows that business benefits derived from media coverage are more identified as the size of the enterprise increases.

3.7. Existing barriers to the involvement in socially responsible activities

Previous sections have shown that the European SMEs are able to identify a number of reasons and benefits underpinning their involvement in external social activities. By way of contrast, this section is interested in looking into the main barriers that impede/hinder SMEs' activities in this field.

The ENSR Enterprise Survey 2001 results provide some insight into the European SMEs' perspective on these barriers⁷⁹ (see Table 3.12). Thus, the main reason suggested by SMEs for not getting involved is simply because they have never considered the possibility of engaging in such activities (24 % of responses). This result is complemented by the fact that up to 17 % of the total respondents argue that external social activities are 'not related to the enterprise's activities'.

Table 3.12: Main reasons and motivations for not carrying out external social activities by enterprise size, percentage of enterprises

Variables	Enterprise size			Total
	0-9	10-49	50-249	
Never thought about it	25	19	18	24
Not related to the activities of my enterprise	17	17	20	17
No business benefits expected	8	9	13	8
Lack of time	18	21	21	19
Lack of money	16	12	11	16
Lack of public support	1	3	0	1
Other reasons	13	12	10	13
Do not know/No answer	2	8	8	3
Total	100	100	100	100

Data referred to SMEs not participating in social activities.

Source: ENSR Enterprise Survey 2001.

Around 19 % and 16 % of SMEs respectively, identify the lack of time and financial resources as their main barriers for involvement. Only 8 % of SMEs argue that the main reason underpinning their inactivity is because they do not expect any benefits from these activities, whereas a minority of 2 % sees the lack of public support as the main reason.

The previous results show that, generally speaking, 'attitudinal' reasons (no consideration, lack of relation to business activities and no benefits expected) are more important for SMEs in comparison to 'lack-of resources' reasons (lack of money/time) for explaining the inactivity of SMEs in external social activities. Meanwhile, SME owners' gender considerations do not affect significantly the previous results.

Data by enterprise size suggest that whereas the lack of consideration about these activities is the main barrier amongst the smallest enterprises (quoted by 25 % of them), small and medium-sized enterprises point to the 'lack of time' as their main barrier (21 % of responses in both cases). Interestingly also, the data suggest the existence of a positive relationship between size and importance of the different reasons suggested, particularly as far as time resources and expectations of benefits are concerned. Two main exceptions can be identified to this general rule, the importance of financial constraints and the basic consideration of these activities.

Available national studies provide complementary data. British evidence suggests that the two most important barriers identified by SMEs are money and time considerations⁸⁰, whereas fewer SMEs suggest other barriers such as 'bureaucracy/red tape' or lack of awareness and understanding of social responsibility. Some authors consider

78 Sia Group, Community Gains, report for the Dublin Chamber of Commerce, Dublin 2000.

79 Data is only referred to those SMEs not involved in external social activities.

80 MORI, SMEs' Attitudes to Social Responsibility, research commissioned by Business in the Community, July 2000.

that social responsibility is often treated as a cost, whereas in fact it should be more effectively treated as an investment, much like, for instance, quality management⁸¹.

Meanwhile, other national studies emphasise the importance of the attitudinal barriers amongst SME managerial staff in order to render difficult their involvement in socially responsible activities. For instance, Dutch empirical evidence⁸² shows that a very large percentage of small enterprises (nearly half of them) argue that they are too small to become involved in any CSR activity. Also for a significant number of SME managers/owners, socially responsible activities do not mix with business activities⁸³.

Underlining this, some authors⁸⁴ suggest that the continued separation of social responsibility from business performance may generate a small business culture that has difficulties in integrating non-economic responsibilities into the business. In fact, some studies⁸⁵ have shown a low percentage of SMEs who are convinced that a business involved in the community will improve its long-term commercial performance. Finally, it should not be forgotten that national cultural traditions can also have an influence in the enterprises' engagement in external social activities. Examples include the Swedish opinion of what should be dealt with in private and what in public (following the Nordic tradition of extensive welfare state) or the French and German public opinion's reluctance to enterprises' external reporting on ethical issues as a commercial strategy⁸⁶.

3.8. Future expectations on socially responsible activities amongst SMEs

Concerning the SMEs' future expectations on their involvement in social activities, the ENSR Enterprise Survey 2001 shows that an overwhelming majority of those SMEs currently engaged in this type of activities are expecting to either continue or even increase their participation in the next three years (73 % and 14 %, respectively). By way of contrast, only 7 % confess that they intend to reduce their participation (see Figure 3.7).

Meanwhile, the picture does not seem to be so optimistic where SMEs not participating in social external activities are considered. Only 2 % of them are currently planning to start participating in these activities in the next three years, whereas around 10 % are considering the possibility to participate. A majority (82 %) of SMEs not involved expects to continue as they are in the next three years. No specific size enterprise differences can be detected in either case.

81 This idea has been taken from M. Palazzi, & G. Starcher, Corporate Social Responsibility and Business Success, paper found in Internet web page <http://www.ebbf.org> (December 2001).

82 EIM, 'Ondernemerschapmonitor 2001' (Entrepreneurship Monitor, 2001), Zoetermeer, 2001.

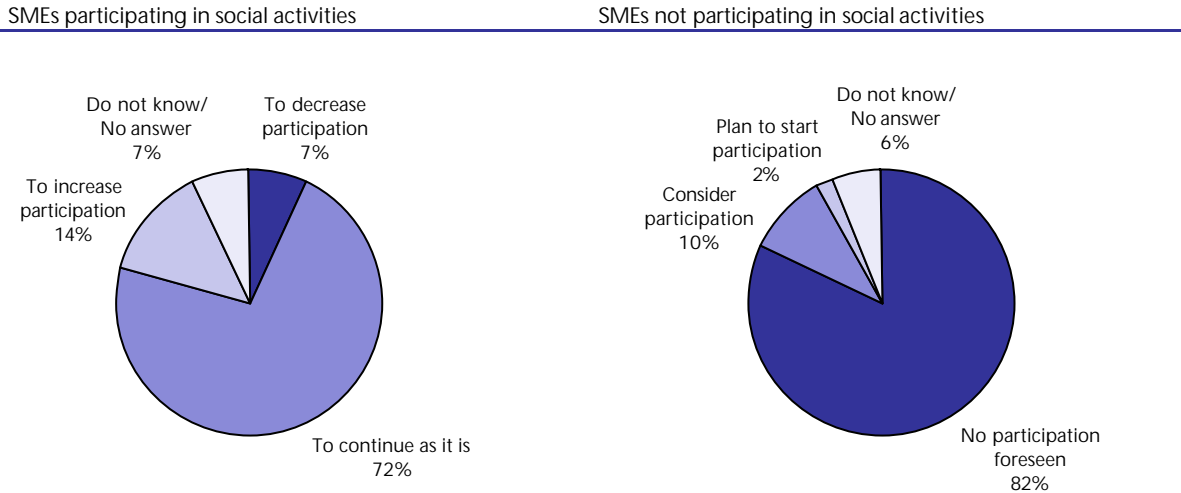
83 Russel, I.M.J., Principle and Profit: a Partnership for Growth, Paper presented at the 21st ISBA national Small Firms Conference, November, Durham 1993, quoted in F. Tilley, 'Small Firms' environmental ethics: how deep do they go?', in Business Ethics: A European review, Vol. 9, number 1, p. 31-41, January 2000.

84 Joyce, P. et al., 'The Social and environmental challenge to small firms: managing the transition to social responsiveness', paper presented at the 19th ISBA national Conference, Birmingham, 1996.

85 Stibbard, H., Connecting SMEs with the Community: A research report on the Involvement of Small and Medium-sized Enterprises in Community Causes, Business Community Connections Research, London, 2000.

86 Quoted by Swedish expert Harry Goldman at Jobs and Society, French expert Yvon Pesqueux at CNAM/IESTO and by German expert Dr Gerd Mutz at Institut für Sozialforschung, respectively.

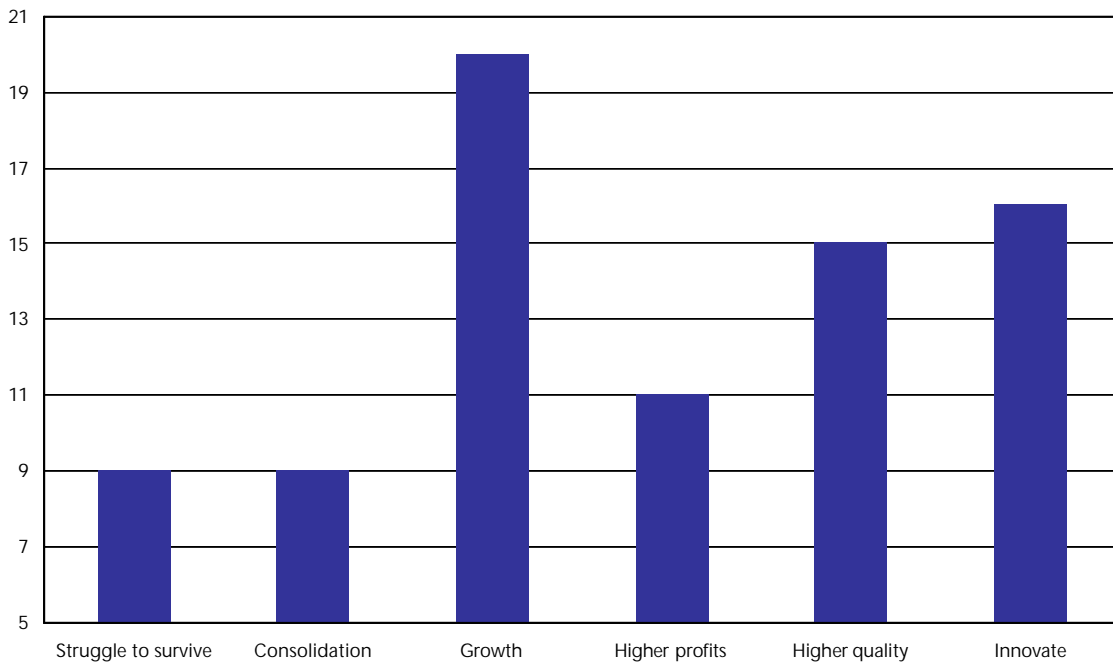
Figure 3.7: SMEs' plans regarding participation in social activities for the next three years, percentage of enterprises



Source: ENSR Enterprise Survey 2001.

The survey also shows a significant relationship between expectations of future increased participation in social activities and the enterprise strategy focus (see Figure 3.8). Thus, the percentage of SMEs expecting to increase their participation is the lowest amongst those SMEs 'struggling to survive' or in a 'consolidation' phase. In contrast, the highest percentages can be found amongst those SMEs pursuing 'quality' and 'innovation' and especially amongst those following 'growth' strategies.

Figure 3.8: Percentage of SMEs expecting to increase their participation in social activities* during the next three years, by enterprise strategy focus



* Data referred to SMEs participating in social activities.

Source: ENSR Enterprise Survey 2001.

Finally, the available data show a number of different situations amongst countries concerning the expectations of SMEs with regards to their participation in external community activities in the coming three years⁸⁷ (see Table 3.13). In all the surveyed countries only a minority of SMEs foresees to decrease their participation in these activities, although this situation seems to be particularly relevant amongst the Norwegian, Finnish, Icelandic and Austrian SMEs⁸⁸. By way of contrast, the Luxembourg, British, Italian, Swiss and especially Greek SMEs manifest the highest percentage of enterprises intending to increase their participation in social activities.

Table 3.13: SMEs' plans regarding participation in social activities for the next three years, percentage of enterprises

	A	B	DK	FIN	F	D	EL	IS	IRL	I	LI	L	NL	NO	P	E	S	CH	UK	Total
To decrease participation	14	9	8	18	8	6	5	15	4	2	8	6	5	27	5	2	11	7	10	7
To continue as it is	68	67	80	69	73	84	53	74	76	72	75	73	70	65	70	88	67	68	61	73
To increase participation	14	9	5	10	9	8	39	9	16	18	15	20	16	6	15	6	13	18	20	14
DK/NA*	4	16	8	4	10	2	3	3	3	8	1	1	9	2	10	3	9	7	9	7

Data referred solely to SMEs participating in social activities.

* Do not know/No answer.

Source: ENSR Enterprise Survey 2001.

87 Data only referred to SMEs participating in external community activities. There is no sufficient number of cases for desegregating the data by countries amongst those SMEs not participating in these activities.

88 Precisely, some of the countries with the highest involvement in social community activities in Europe.

Chapter 4

Environmental responsibility of SMEs

- The ENSR Enterprise Survey 2001 shows that only a minority percentage of SMEs involved in external socially responsible activities (12 %) do support environmentally responsible activities not directly related to the enterprises' own operations (i.e. support to environmental NGOs, involvement with public authorities in programme definitions, etc.).
- The partial existing evidence seems to show that the European SMEs' engagement in environmentally responsible activities directly related to the enterprises' own operations is limited.
- There is a positive relation between enterprise size and availability of a formal environmental management system or an ad-hoc environmental policy. A geographical North-South division can be again detected.
- The majority of SMEs are 'vulnerably compliant' as far as the existing legislation and regulations are concerned, in the sense that they do not know enough about environmental legislation to ensure that they are always compliant.
- Beyond the mere compliance with environmental legislation, important reasons for SMEs to engage themselves voluntarily in environmentally responsible decisions include market demands (basically from customers and especially through subcontracting relationships), as well as some other more pro-active reasons such as the desire to obtain competitive advantages. 'Ethical' considerations do not seem to be a relevant driving force behind SMEs' environmentally responsible activities.
- Voluntary action beyond compliance may entail important business benefits, for instance through cost and resource reductions, improved reputation, market niche expansion, etc.
- SMEs face internal and external barriers to become involved in environmentally responsible activities. The internal barriers have the more significant role in impeding progress.

4.1. Introduction

Chapter 2 of this report has shown that the natural environment is one of the main external stakeholder groups for an enterprise, where Table 2.1 has provided several examples of business CSR activities within this stakeholder group.

The traditional view of environmental responsibility has placed a major emphasis on compliance with all applicable government regulations and initiatives related to recycling/energy efficiency issues. However, and during the last years, many citizens, environmental organisations and leadership enterprises are enlarging the concept of environmental responsibility towards a comprehensive approach encompassing all operations, products and facilities of an enterprise, so environmental responsibility is integrated on a voluntary basis as a core business value at all levels of the enterprise's operations⁸⁹.

The previous discussion on socially responsible activities has shown that, according to the ENSR Enterprise Survey 2001 (see Table 3.3), only a minority percentage of SMEs involved in external social activities (12 %) do support external environmental activities not directly related to the enterprises' own operations (i.e. support to environmental NGOs, involvement with public authorities in programme definitions, etc.).

This chapter is interested in analysing the extent of the European SMEs' involvement in environmentally responsible activities that are directly related to the consequences of the enterprises' own operations. Examples of these

89 This idea has been obtained from the web-site resources of 'Business for Social Responsibility' (<http://www.bsr.org>).

activities refer to those voluntary actions that go beyond the mere compliance with environmental laws and regulations, such as the elimination of waste and emissions, maximisation of the efficiency and productivity of all assets and resources or the environmental assessment of the enterprise's business products, processes and services.

There is a certain accord amongst researchers and policy makers on the SMEs' specific environmental situation, so it is fully assumed that SMEs can not be treated just as smaller versions of large enterprises⁹⁰. Later parts of this section will deal with some of these SMEs' environmental specifics in more detail. In any case, it is possible to anticipate that most SMEs are characterised by a number of common attitudinal and behavioural features in relation to the environment⁹¹, such as:

- Lack of recognition of the environmental challenges they face.
- Assumption that their business activities have a negligible impact on the environment.
- Insufficient and partial knowledge of relevant legislation and support programmes, where very often these companies are on the sidelines of the environmental debate.
- Environmental behaviour is usually governed by regulation or public pressure and not by an environmental ethos.
- Lack of integration of the environmental activities within the business's core business activities.
- Higher vulnerability to environmental risks due to lower diversification and limited management capabilities for prevention.

Specifically, this chapter will concentrate its attention on:

- The degree to which SMEs integrate the environmental concept into their daily activities
- The main reasons/actors behind SMEs' involvement in environmental activities
- The main business benefits identified by SMEs from these activities
- The existing barriers that SMEs identify for getting engaged in environmental activities

4.2. SMEs' involvement in environmentally responsible activities

Generally speaking, the public's perception of the SMEs' contribution to pollution and waste suggests that the effects of individual SMEs on the environment are smaller in comparison to their larger counterparts.

However, and in some cases, these individual effects can be very important within local environments and communities⁹². Moreover, SMEs' collective contribution can be very significant, due to the cumulative effect derived from the large amount of existing SMEs. There is very little statistical information on this, although available estimates from The Netherlands⁹³ and the United Kingdom⁹⁴ suggest that the commercial and industrial waste coming from SMEs represent on average around 50 % of the total. This percentage obviously varies amongst economic sectors⁹⁵.

There is very limited empirical information on the degree of involvement of SMEs in environmental practices. Nevertheless, the existing evidence suggests that the European SMEs' environmental management activities remain low, especially in comparison to their larger counterparts. Several interesting indicators can be mentioned in this context:

- A good 'proxy' indicator of environmental performance is given by the degree of adoption of formal environmental management systems (i.e. EMAS⁹⁶ or ISO 14001). Here, the availability of comparable information from different countries allows a comparative 'proxy' picture of the involvement of enterprises in environmentally responsible practices (see Table 4.1). Focusing on the ISO 14001 indicator (significantly more popular amongst enterprises with the exception of some countries, i.e. Austria or Germany), the data shows that the countries with more certified sites are United Kingdom, Sweden and Germany, followed by The Netherlands and France. However, and when looking into the relative presence of certified

90 Confederation of Finnish Industry and Employers, PKT-yrittysten ympäristöhaasteet (Environmental challenges in industrial SMEs), Helsinki, 1997.

91 An interesting discussion on this can be found in Tilley F, Small Firms Environmental Ethics: How Deep do They Go, in Hillary R (ed), Small and Medium-Sized Enterprises and the Environment: Business Imperatives, Greenleaf Publishing, Sheffield, 2000.

92 Suggested in ECOTEC, Professional Education and Training for Sustainable development Relating to SMEs, report submitted to the European Foundation for the Improvement of Living and Working Conditions, Dublin, 2001.

93 TNO Institute of Environmental Sciences, Energy Research and Process Innovation, Extent and nature of environmental pollution from smaller installations not covered by EC-IPPC directive, report prepared for RIZA, Institute for Inland Water Management and Waste Water Treatment, Apeldoorn, 1997.

94 UK Environment Agency, Interim C&I Survey, London 2000, quoted in ECOTEC Research and Consulting, Report on SMEs and the Environment for the European Commission, Directorate General Environment, Brussels, 2000.

95 For a discussion on this please refer to KPMG Environmental Consulting, 'The Environmental Challenge and Small and Medium-Sized Enterprises in Europe, The Hague, 1997.

96 EMAS stands for Environmental Management and Audit System, and the European Commission promotes it.

sites per 1,000 enterprises, the countries with the higher presence of certified enterprises are the Nordic countries of Denmark, Sweden and Finland, as well as Liechtenstein and Switzerland. By way of contrast, the opposite is true in the case of the Southern European countries of Spain, Italy, Portugal and Greece.

Table 4.1 Number of ISO 14001 certified and EMAS validated sites in Europe-19, December 2000 and January 2002, respectively

	Number of ISO 14001 certified sites (December 2000)	Number of EMAS validated sites (January 2002)	Number of ISO 14001 certified sites per 1 000 enterprises	Number of EMAS validated sites per 1 000 enterprises
Austria	203	362	0.71	1.27
Belgium	130	14	0.25	0.03
Denmark	580	171	3.87	1.14
Finland	508	36	2.42	0.17
France	710	35	0.31	0.02
Germany	1 260	2 662	0.36	0.76
Greece	42	7	0.07	0.01
Ireland	163	8	1.92	0.09
Italy	521	83	0.13	0.02
Luxembourg	9	1	0.60	0.07
Netherlands	784	24	1.74	0.05
Portugal	47	2	0.07	0.00
Spain	600	175	0.24	0.07
Sweden	1 370	212	3.56	0.55
United Kingdom	2 534	76	0.69	0.02
Total EU	9 461	3 868	0.49	0.20
Iceland	2	n.a.	0.07	n.a.
Liechtenstein	19	n.a.	6.33	n.a.
Norway	227	64	1.11	0.31
Total EEA	9 709	n.a.	0.50	n.a.
Switzerland	690	n.a.	2.88	n.a.
Total Europe-19	10 399	n.a.	0.52	n.a.

Source: ISO, The ISO Survey of ISO 9000 and ISO 14000 Certificates, Geneva, 2001, EMAS Helpdesk and Sixth Report of the European Observatory for SMEs.

- Meanwhile, and from an enterprise size perspective, SMEs are taking an increasing interest in formal environmental management systems, mainly due to market pressure from customers through the supply chain (especially as far as ISO 14001 is concerned). According to several recent estimations⁹⁷, only 18 % of EMAS registrations in the EU correspond to SMEs, although important variations may exist within the different EU countries. Meanwhile, available national data for ISO 14001 in some countries shows that the percentage of certified SMEs varies from 80 % in the Swiss⁹⁸ case to 36 % and 25 % in the Swedish⁹⁹ and British¹⁰⁰ cases. Empirical evidence from Spain¹⁰¹ also illustrates the existing relationship between enterprise size and availability of a general environmental management system. Thus, only 4.2 % of the enterprises with less than 50 employees have an environmental management system in comparison to 10 % and 16 % amongst those enterprises with 50 to 100 employees and those with 101 to 250 employees, respectively (see Figure 4.1).

97 Results can be found in R. Hillary, M. Gelber, & V. Biondi, An Assessment of the Implementation Status of Council Regulation (No. 1836/93) Eco-management and Audit Scheme in the Member States, Final Report for the European Commission Directorate General XI, Brussels, 1998.

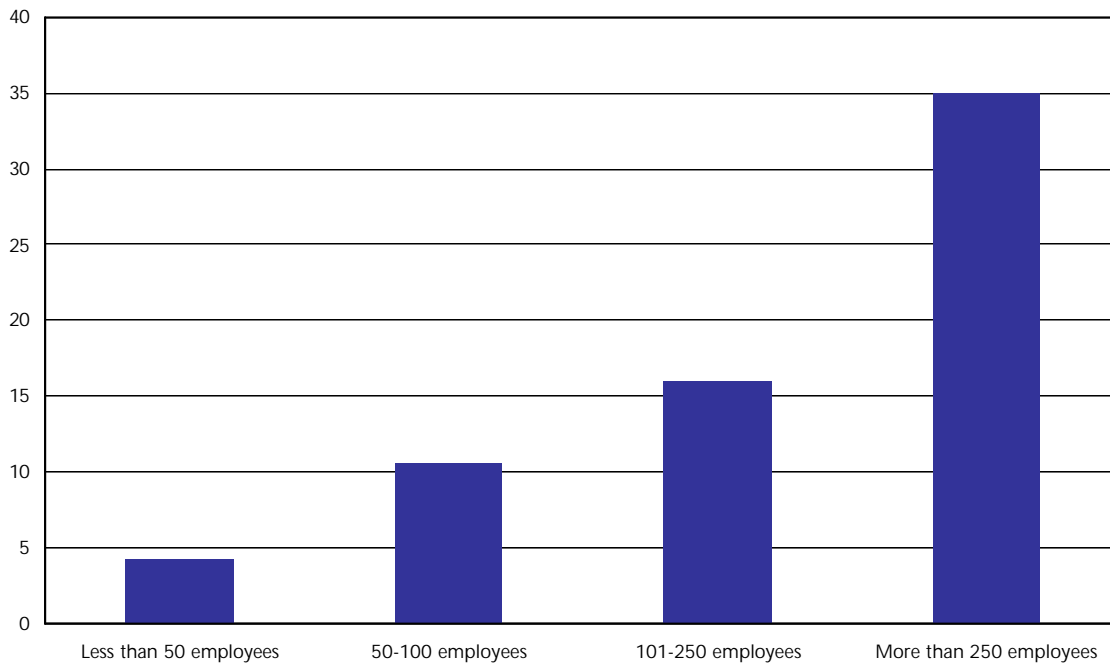
98 Institut für Wirtschaft und Ökologie-Universität St.Gallen, ISO 14001-zertifizierte Schweizer Unternehmen - Stand 30.09.01 (ISO 14001-certified companies in Switzerland as of 30-09-01), St.Gallen, 2001.

99 Data referred to enterprises with less than 50 employees. See Miljövärdsberedningen, Tank nytt, tank hållbart! - dialog och samverkan för hållbar utveckling (Think new! Think sustainable! Dialog and co-operation for sustainable development), Stockholm, 2001.

100 Hillary, R., The Eco-management and Audit Scheme, ISO 14001 and the Smaller Firm, in Hillary R, Small and Medium -Sized Enterprises and the Environment: Business Imperatives, Greenleaf Publishing, Sheffield, 2000.

101 Data taken from Fundación Entorno, Empresa y Medioambiente, Informe 2001 de la Gestión Medioambiental en la Empresa Española (Report 2001 on the Spanish Enterprise's Environmental Management), Madrid, 2001.

Figure 4.1 Percentage of Spanish SMEs with an environmental management system, by enterprise size



Source: Fundación Entorno, Empresa y Medioambiente, Informe 2001 de la Gestión Medioambiental en la Empresa Española (Report 2001 on the Spanish Enterprise's Environmental Management), Madrid, 2001.

- As far as the existence of an ad-hoc environmental policy is concerned, data for a number of countries show that, only with the exception of the United Kingdom¹⁰² (where two thirds of the SMEs admit to address their environmental issues either through a formal policy or a business plan), in the remaining countries this percentage is much lower. Thus, 32 % of the Dutch¹⁰³ SMEs had an environmental policy in 1997, whereas this percentage was lower in Italy¹⁰⁴ and Spain¹⁰⁵ (around 17 % in both cases). Enterprise size considerations show a negative relationship between size and existence of environmental policies so, for instance, up to 93 % and 58 % of Spanish and British micro enterprises do not have any formal policy, respectively.

As a conclusion, it is possible to suggest that the proportion of European SMEs that are actually engaged in addressing environmentally responsible activities is limited¹⁰⁶. Notwithstanding this, it is also possible to identify an increasing awareness amongst SMEs about the importance of the environmental perspective to business.

4.3. Rationale/reasons for the involvement in environmentally responsible activities

This section analyses the main reasons why SMEs get involved in environmentally responsible activities. To start with, it is possible to identify a number of internal and external actors (what some authors call 'surrogate regulators'¹⁰⁷) that have an influence on the enterprises' environmental decisions. Thus, internal actors include managers

¹⁰² Smith, A., & R. Kemp, *Small Firms and the Environment: A Groundwork Report*, The Groundwork Foundation, Birmingham, 1998.

¹⁰³ Hoevenagel, R., *Het milieuprofiel van het MKB (The environmental profile of SME)*, 1998.

¹⁰⁴ Frey, M., *'Sicurezza, ambiente e qualità - La gestione integrata nelle piccole e medie imprese industriali lombarde' (Safety, environment and quality - Integrated management in Lombardy's SMEs)*, Il Sole 24 ore, Milan 1999.

¹⁰⁵ Fundación Entorno, Empresa y Medio Ambiente, *Libro Blanco de la Gestión Medioambiental en la Industria Española (White Book on the Spanish Industry's Environmental Management)*, Madrid, 1998.

¹⁰⁶ This conclusion is given by KPMG Environmental Consulting, *'The Environmental Challenge and Small and Medium-Sized Enterprises in Europe'*, The Hague, 1997.

¹⁰⁷ Gunningham, N. et al., *Harnessing third parties as surrogate regulators: achieving environmental outcomes by alternative means. Business Strategy and the Environment*, 8(4): 211-224, 1999.

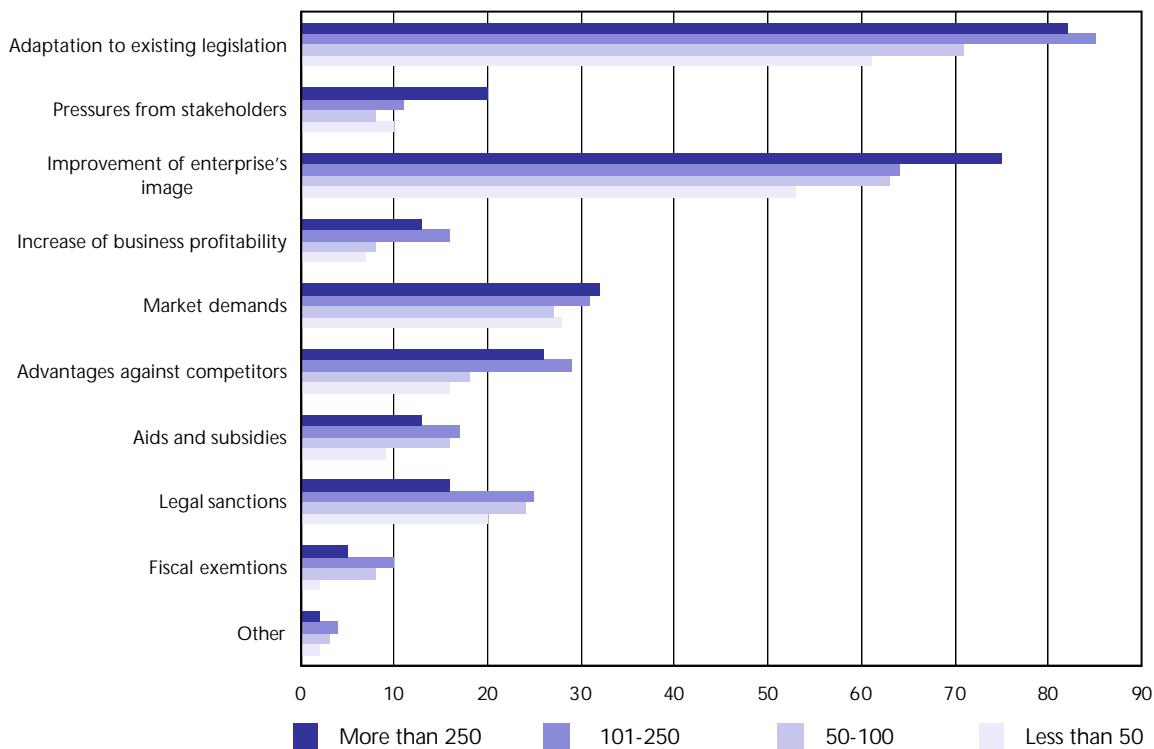
and owners, employees and shareholders, whereas external actors may include environmental regulators, customers, external investors, the media, the environmental conservation groups or, finally, the general public.

Enterprises' motivations to engage themselves in environmentally responsible activities may include a wide array of considerations. According to the existing literature and empirical evidence, the adaptation to the existing legislation and regulations is one of the key driving reasons amongst SMEs for engaging themselves in environmental activities related to the own enterprise's operations, irrespective of enterprise size¹⁰⁸ or country considerations¹⁰⁹.

In any case, SMEs are far from being fully aware of the existing environmental legislation and regulations. Thus, and referring to the British SMEs, the majority of them are 'vulnerably compliant', i.e. they do not know enough about environmental legislation to ensure that they are always compliant¹¹⁰. This fact is aggravated by the SMEs' embarrassment to ask for help¹¹¹.

Notwithstanding this, and following the definitions suggested in Chapter 2 of this report, being responsible (in this case, environmentally responsible) implies going beyond the mere compliance with environmental legislation. In this sense, enterprises in general and SMEs in particular are fostered to become engaged in environmentally responsible activities for a number of more pro-active reasons. Examples include the strategic choice to improve the enterprise's own image or the wish to obtain certain competitive advantage in comparison to competitors. For instance, this former reason is ranked as second by the Spanish enterprises after adaptation to legislation, irrespective of enterprise size considerations (see Figure 4.2).

Figure 4.2 Importance of the different driving motivations for Spanish enterprises to engage themselves in environmental activities, by enterprise size



Source: Fundación Entorno, Empresa y Medio Ambiente, Informe 2001 de la Gestión Medioambiental de la Empresa Española (Report 2001 on the Spanish Enterprise's Environmental Management), Madrid, 2001.

108 Petts, J. et al., The climate and culture of environmental compliance within SMEs. *Business Strategy and the Environment*, 8(1): 14-30, West Yorkshire, 1999.

109 For instance, this reason is quoted in a very environmentally-conscious country such as Sweden and in a low environmentally-conscious country such as Spain. See NUTEK & Naturvårdsverket, *Näringslivets miljöarbete (Environmental activities in the Business Sector)*, Stockholm, 1999, and Fundación Entorno, Empresa y Medio Ambiente, Informe 2001 de la Gestión Medioambiental de la Empresa Española (Report 2001 on the Spanish Enterprise's Environmental Management), Madrid, 2001.

110 Petts, J. et al., The climate and culture of environmental compliance within SMEs. *Business Strategy and the Environment*, 8(1): 14-30, West Yorkshire, 1999.

111 Pedersen, C., Local Authorities in Dialogue with Small and Medium-Sized Enterprises, in Hillary R (ed), *Small and Medium-Sized Enterprises and the Environment: Business Imperatives*, Greenleaf Publishing, Sheffield, 2000.

It is also worth mentioning the increasing importance of market demands (basically from customers and especially from business customers through subcontracting relationships) for adopting environmentally responsible solutions in general and environmental management systems in particular¹¹². Thus, supply chain management is becoming a key environmental driving force since large enterprises are starting to look at and drive environmental improvements along their supply chains, whereas smaller firms are coming under increasing pressure to modify their environmental behaviour¹¹³. In fact, some authors¹¹⁴ even suggest that supply chain pressures are the key driver for the adoption of formal environmental management systems.

Also the relatively important role played by existing public support should not be forgotten. To give one example, Austrian evidence suggests that up to 55 % of the Austrian SMEs that have an environmental management system would not have obtained it without financial support from the public sector¹¹⁵.

Finally, 'ethical' considerations do not seem to be a relevant driving force behind SMEs' environmentally responsible activities. Evidence from the United Kingdom suggests that despite the SME owner-managers' high environmental concern and recognition of the responsibility of businesses to help to protect the environment, this personal attitude tends to be put down on the working agenda of most SMEs¹¹⁶.

4.4. Business benefits for SMEs derived from the involvement in environmentally responsible activities

Referring to the main benefits that SMEs obtain from their involvement in environmentally responsible activities, the literature¹¹⁷ provides many concrete examples of SMEs that have achieved cost and resource reduction - as well as increased competitiveness and market niche expansion - through environmental improvements. However, this 'win-win' situation (both economic and environmental benefits resulting from improved environmental behaviour) is not always guaranteed¹¹⁸.

Generally, the existing business literature¹¹⁹ identifies a number of benefits obtained by those SMEs who effectively adopt an environmental management system. These benefits can be differentiated according to their internal and external nature:

- Internal benefits can be grouped in three main sub-categories:
 - Organisational benefits, basically derived from improvements in the quality of management, improved quality of environmental information, compliance with existing environmental regulations or improvement in the procedures.
 - Financial benefits, such as cost savings from material, energy and waste reductions and efficiencies, which results in improved economic performance.
 - Benefits on the internal employees, such as increased employee motivation and morale, enhanced employees' skills and qualifications or a better company image among employees.
- External benefits again can be grouped in several sub-categories:
 - Commercial benefits, such as new customers/business opportunities, preferred supplier status, clear environmental profile contributing to competitive/marketing advantage or satisfaction of existing customers.
 - Environmental benefits, basically derived from improved environmental performance, increased energy/material efficiencies and recycling and reduced pollution
 - Communication benefits, such as positive enterprise's public image, better relationships with customers, better access to capital from environmentally-sensitive investors or improved co-operation and relationships with regulators and administrative bodies that contributes to reduced regulatory oversight.

112 Charlesworth, K., *A Green and Pleasant Land? A Survey of Managers' Attitudes to, and Experience of Environmental Management*, The Institute of Management, London, 1998.

113 KPMG Environmental Consulting, *The Environmental Challenge and Small and Medium-sized Enterprises in Europe*, The Hague, 1997.

114 Hillary, R., *Evaluation of Study Reports on the Barriers, Opportunities and Drivers for Small and Medium-sized Enterprises in the Adoption of Environmental Management Systems*, report submitted to the UK Department of Trade and Industry, London, 1999.

115 Sebesta, B. et al., *Evaluation der Cleaner Production Programme in Österreich (Evaluation of the Cleaner Production Programmes in Austria)*, report for the Bundesministerium für Verkehr, Innovation und Technologie, Graz, 2000.

116 Quentin Merritt, J., *EM into SME Won't Go? Attitudes, Awareness and Practices in the London Borough of Croydon*, in *Business Strategy and the Environment*, 7, pp. 90-100, 1998.

117 For instance see R. Starkey, (Ed) *Environmental Management tools for SMEs: A handbook*. Environmental Issues Series No. 10. European Environment Agency, Copenhagen, 1998.

118 Baylis, R. et al., *Company size, environmental regulation and ecological modernisation: further analysis at the level of the firm*, in *Business Strategy and the Environment*, 7(5): 285-296, 1998.

119 One of the most comprehensive studies in this field correspond to R. Hillary, *Evaluation of Study Reports on the Barriers, Opportunities and Drivers for Small and Medium-sized Enterprises in the Adoption of Environmental Management Systems*, report submitted to the UK Department of Trade and Industry, London, 1999.

4.5. Existing barriers to the involvement in environmentally responsible activities

The previous section has shown some of the main benefits that SMEs may experience from their involvement in environmentally responsible activities, as well as the role that certain actors and stakeholders play in supporting a proactive environmental strategy within SMEs.

In contrast, this section is interested in analysing the main barriers that impede/render difficult the SMEs' participation in environmental improvements. According to the existing literature, SMEs face internal and external barriers when seeking to address their environmental issues and adopt and implement environmental management systems, although it is the internal barriers that are the ones that initially have the more significant role in impeding progress¹²⁰.

Thus, and as far as the internal barriers are concerned, the most important one is given by a negative company culture towards the environment (despite positive attitudes amongst both employers and employees). Many small firms feel that 'environmental' activity is something to be avoided unless driven by legislative demands¹²¹.

Moreover, a large proportion of SMEs (especially the smallest ones) remains unaware both of the environmental impacts derived from their business activities and of the existing environmental programmes and resources available to them¹²². For instance, a Belgian study¹²³ shows that up to 84 % of the Belgian industrial SMEs do not feel that they contribute to pollution.

Table 4.2 Internal barriers in SMEs that prevent the adoption of environmental improvements by SMEs

1. Resources	2. Attitudes and Company Culture	3. Awareness
- Lack of time to investigate issues or locate support or tools	- Belief that SMEs have a low environmental impact and have no environmental issues to consider	- Low awareness of environmental legislation
- Severe time pressures in small enterprises	- Mismatch between beliefs and actions, i.e. positive attitudes towards the environment do not translate into actions	- Low awareness of support organisations and information sources
- Lack of resource allocation to address environmental issues	- Environment given no status as a business issue	
- Lack of investment in training	- Perception that environment has no relevance to the business	
- Cost constraints on investment	- Inertia of top management and the desire to maintain status quo	
- No employee allocated responsibility for environmental issues	- Economic short-termism	
	- Scepticism about the potential cost savings and market benefits	
	- Unconvinced or unsure that environmental involvement will help meet customer needs	
	- Belief that benefits of environmental improvements accrue slowly but cost quickly	
	- Belief that no improvements in efficiency could be derived from improved environmental performance	

Source: Hillary R, Evaluation of Study Reports on the Barriers, Opportunities and Drivers for Small and Medium-sized Enterprises in the Adoption of Environmental Management Systems, report submitted to the UK Department of Trade and Industry, London, 1999, modified.

120 Hillary, R., Evaluation of Study Reports on the Barriers, Opportunities and Drivers for Small and Medium-sized Enterprises in the Adoption of Environmental Management Systems, report submitted to the UK Department of Trade and Industry, London, 1999.

121 Rutherford, R., and L.J. Spence, Small Businesses and the perceived limits of responsibility: environmental issues, 21st ISBA National Small Firms Conference, 1998.

122 Smith, A., & R. Kemp, *Small firms and the environment: A Groundwork report*. Groundwork Foundation, Birmingham, 1998.

123 Union Wallone des Entreprises, Analyse de la Sensibilisation à l'Environnement au sein de la Structure Wallone (Analysis of the Environmental Sensitizing within the Wallonian Structure), Cahier 4, Convention Région Wallone/UWE, 1997.

In addition to this, SMEs seem to be rather sceptical towards the benefits, cost savings and customer rewards associated with positive environmental improvements¹²⁴. Recent empirical investigations on the Austrian 'Gewerbe' sector¹²⁵ for the time period 1998-1999 show that compliance with environmental duties is perceived by a large percentage of Austrian SMEs primarily as a cost without any benefits. By way of contrast, only a minor percentage observes mainly positive results in company performance (see Table 4.3).

Table 4.3 Effects of environmental conditions/duties by size class in the Austrian 'Gewerbe' sector, 1998-1999 (percentage of companies that agree with the following statements)

Size class (employees)	Mainly positive effects (image, cost reduction, internal organisation, etc.)	Increased costs but also better...* (working conditions for employees, company image)	Total	Only costs	Not applicable/no answer
up to 9	9.2	13.9	25.3	30.8	34.7
10 to 19	10.1	23.8	36.0	38.2	15.7
20+	9.6	26.3	39.0	39.1	12.3

* More than one answer allowed.

Source: Austrian Institute for Small Business Research, Economic Performance Database, 1999.

This attitudinal barrier is aggravated by the economic short-termism of most SMEs, which contributes to the belief that benefits increase slowly but costs amass quickly. The shortages of time, financial and staff resources, together with the lack of technical expertise and skills clearly contribute to the 'sceptical' SMEs' attitude on environmental responsibility¹²⁶. In fact, SMEs do not want to use their scarce resources for non-mandatory investments that they do not fully understand and whose payback periods are unclear¹²⁷.

Meanwhile, and as far as the external barriers are concerned, the available literature suggests a number of important barriers. To start with, the ambivalence of customers to SMEs' environmental performance (especially as far as micro enterprises are concerned) acts as a negative stimulus for SMEs to improve their environmental performance. As some authors suggest¹²⁸, large enterprises are more directly and strongly influenced by customer and employee pressures to adopt environmental policies and practices than their smaller counterparts.

Meanwhile, the existing environmental management tools are in most cases specifically designed for and by the larger corporations, so the absence of well-defined management or organisational structures and systems within many SMEs makes direct transfer of these practices inappropriate or impractical¹²⁹. Moreover, and as Swedish evidence¹³⁰ shows, this situation is aggravated by the relatively higher costs that small enterprises suffer from integrating some of these tools (i.e. ISO 14001 environmental certificates) in comparison to their larger counterparts (see Table 4.4).

Table 4.4 Implementation cost for ISO 14 001 in the Swedish enterprises

Enterprise size	Certification cost (per cent of turnover)	Total implementation cost (per cent of turnover)
< 19 Employees	0.42	2.7
20-49 Employees	0.11	0.9
50-110 Employees	0.05	0.3

Source: Löfqvist H et al, Har små och medelstora företag konkurrensfördelar av miljöledningssystem? (Does existence of an environmental management system in SMEs make it easier to compete on the market?), Lund, 2000.

124 Rubelt, J., E. Wayß, (Hrsg.), Öko-Audit auch für kleine und mittelständische Unternehmen? Chancen, Probleme, Lösungen (EMAS for SMEs? Chances, problems, solutions), Berlin, 1998.

125 Gewerbe' stands for craft and related services.

126 Starkey, R., (Ed) *Environmental Management tools for SMEs: A handbook*. Environmental Issues Series No. 10. European Environment Agency, Copenhagen, 1998.

127 ECOTEC, Professional Education and Training for Sustainable development Relating to SMEs, report submitted to the European Foundation for the Improvement of Living and Working Conditions, Dublin, 2001.

128 Baylis, R. et al., Company size, environmental regulation and ecological modernization: further analysis at the level of the firm, in *Business Strategy and the Environment*, 7(5): 285-296, 1998.

129 Tilley, F., The gap between the environmental attitude and the environmental behaviour of small firms. *Business Strategy and the Environment*, 8(4): 238-248, 1999.

130 Löfqvist H. et al., Har små och medelstora företag konkurrensfördelar av miljöledningssystem? (Does existence of an environmental management system in SMEs make it easier to compete on the market?), Lund, 2000.

Finally, it is essential to recognise that the environmental pressure from public authorities is less for SMEs than it is for larger enterprises¹³¹, so a different approach is required to that which is used to promote environmental management amongst the latest ones.

One possible answer for SMEs to care more about their environmental problems and to overcome some of their main barriers is through networking activities with other enterprises in similar circumstances. There is very limited information on the extension of these collaborative solutions, although Austrian empirical evidence shows that economic motivations linked to cost reductions and stable ways of disposal are the main advantages from which SMEs benefit when they carry out joint environmental activities specifically related to waste-management¹³².

In some cases, some of these solutions are initiated/led by public or semi-public authorities on a temporary basis with the basic goal of sensitising and accompanying local SMEs during their environmental engagement process. In other cases, it is the SMEs themselves who decide to organise themselves for joint mobilisation of existing resources and subsequently save resources.

131 Baylis, R. et al., Sector variation and ecological modernisation: Towards an analysis at the level of the firm, in *Business Strategy and the Environment*, 7(3): 150-161, 1998.

132 Strebel, H. et al., *Externes Recycling im Produktionsbetrieb (External Recycling in the Manufacturing Firm)*, Vienna 1996.

Chapter 5

National support initiatives to encourage social and environmental responsibility within SMEs

- The issue of CSR is receiving, although to varying degrees, increasing attention by public authorities within the different European countries. A large number of European countries are currently engaged in the promotion of CSR public initiatives related to the environmental domain, whereas the social domain has not yet been dealt with so much.
- Referring to the social domain, the existing national scopes seem to differ amongst countries. Public authorities in some countries (i.e. Denmark and the United Kingdom) are developing some of the more active policies in this field. Meanwhile, social responsibility is still low on the priority of the social partners' agenda in several countries, especially the Southern European ones.
- Only a minority of the European SMEs (8 % on average) benefits from some form of public support when they participate in external socially responsible activities. Provision of information is the main form of support.
- Contrary to the social responsibility dimension, there is a large number of public programmes/schemes intended to help SMEs to improve their environmental performance in the European countries.

The issue of CSR is receiving in the last few years, although to varying degrees, increasing attention by public authorities within the different European countries (see Chapter 2 for a description of the EU Commission's initiatives in this field).

Referring specifically to the social domain, some national governments have developed a wide range of policies intended to encourage socially responsible business practices¹³³:

- The Austrian Government has developed several initiatives such as the employment law for disabled people, the award for the family-friendliest business and the Audit Familie und Beruf (Audit Family & Job) initiative, intended to measure and better communicate the family-friendliness of enterprises.
- In November 2001, Belgium adopted a law creating a social label for products imported from developing countries. The five basic standards are those of the ILO: no child labour, no forced labour, no discrimination, right to join a trade union, trade union negotiating rights on working conditions. This label is intended to help consumers to identify whether they buy products that are supporting employment rights in these countries.
- Danish public authorities have taken the lead to inspire enterprises to take on greater social responsibility. The first Danish public activities in this field go back up to 1994, when the Ministry for Social Affairs launched the campaign 'Our Common Concern - the social responsibility of the corporate sector'. Since then, the Danish government has been engaged in a number of activities such as the creation of several advisory bodies (i.e. the Social Council¹³⁴ or the National Network of Business Executives) or the support to partnerships between enterprises and local public authorities¹³⁵. In addition, the Danish Ministry for Social Affairs has developed a 'social index' intended to measure and communicate the degree to which a company lives up to its social responsibilities¹³⁶. Finally, the Danish Parliament has passed in April 2001 an

133 For an interesting discussion on national policy approaches to CSR, please have a look at Aaronson SA & Reeves J, *The European Response to Public Demands for Global Corporate Responsibility*, National Policy Association, Washington DC, 2002.

134 The Social Council consists of members from the Danish Federation of Trade Unions, the Confederation of Danish Employers, the Association of Municipalities, the Association of Counties, the Ministry of Labour and the Ministry of Social Affairs. It advises the Minister on initiatives for an inclusive labour market.

135 Today more than 150 local committees made up of companies, local governments, NGOs and other stakeholder are operating to face the challenge of social exclusion and unemployment at local level.

136 A similar social index has been recently presented in Belgium within the framework of a Law project intended to promote the socially responsible production.

act which enables public authorities to stipulate certain social obligations in relation to enterprises who either provide services for the public authority or are receiving grants from the public authority.

Box 5.1 The Danish Social Index

The Social Index is a tool for measuring the degree to which a company lives up to its social responsibilities. It is a self-evaluation tool forcing the company to reflect on its social commitment and the results. It thus provides a platform for discussion of where the company scores and also where it can make improvements.

All types of companies, both public and private can use the Social Index, and it provides a broad measurement of a company's social responsibility

The Social Index can be used as:

- A management tool, since the Index can be used as a basis for formulating social objectives and measures, along with their follow-up.
- A means of communication with the workforce and the company's environment (e.g. public authorities, customers, suppliers, investors, potential recruits).
- A means of promoting training in the organisation, since greater social awareness may emerge in the enterprise and eventually reinforcing training.
- A tool for comparison with previous years' efforts and results and as a benchmark for the future. The company can then also compare its social efforts with those of its competitors.

Source: English version of the Social Index, to be found in http://europa.eu.int/comm/dgs/employment_social/lisbonconf2000/berrit.pdf.

- The French public sector provides several fiscal support incentives for fostering the enterprises' donations on non-profit organisations. In addition to this, it is possible to identify a number of specific support measures intended to facilitate the insertion of a number of collectives with special difficulties, such as long-term unemployed, disabled, young unemployed. Finally, the French Law now requires companies listed on the stock exchange to describe the social and environmental consequences of their activities in their annual reports¹³⁷.
- In Germany, it is worth mentioning the nation wide initiative 'Unternehmen: Partner der Jugend' (UPJ) (Business in Partnership with Youth). UPJ maintains a network of offices and partners in ten federal states promoting CSR activities in the German enterprises, basically through the provision of information on best practice models of social engagement by businesses. Additionally, UPJ acts as a mediator for new partnerships, accompanying them and offering its expertise and experience to assist the key actors.
- In Italy, the main public policy to support CSR activities amongst enterprises is given by existing fiscal exemptions to sponsorship/patronage activities (National Law n.471/97 art 13)¹³⁸. Meanwhile, the most active partners in this domain are several NGOs, who are currently developing several activities related to promoting CSR activities as an integral part of business excellence. A good example of this is given by Sodalitas, an association for the development of social responsibility in business whose aim is to strengthen the professionalism in the management of the non-profit sector and to encourage the involvement of private companies in social issues.
- In The Netherlands, the key component of the Dutch Government's CSR policy is the OECD guidelines, so any Dutch enterprise wanting financial support for international trade promotion, investment and export credit insurance is required to declare in writing that it is familiar with the OECD Guidelines. The Dutch public policy on CSR specifically refrains from imposing CSR on firms, since it is assumed that CSR is primarily a concern for enterprises themselves. The Dutch government is at most responsible for drawing up preconditions and offering the companies incentives in the form of supervising market mechanisms, competition and transparency, and offering sufficient public facilities such as education, infrastructure and healthcare. Interestingly, the Dutch Government has recently (March 2001) issued a position paper on CSR as a response to an opinion issued by the Social and Economic Council¹³⁹. Finally, the Dutch CSR public support has also aimed at supporting those public-private partnerships in which CSR

137 Taken from Commission of the European Communities, Green Paper for Promoting a European Framework for Corporate Social responsibility, COM (2001)366 final, Brussels, 2001.

138 However, a recent survey amongst 665 Italian SMEs has shown that the existing fiscal support to donations is not working as an incentive since the tax exemptions proposed are too low even for SMEs. See UCID, Banco Ambrosiano Veneto, Federazione Regionale Industriali del Veneto, Conference on the degree of use of fiscal deductibility of donations, Vicenza 28/10/00.

139 Both the Social and Economic Council' opinion and the government's response to the report can be found in Sociaal-Economische Raad, Corporate Social Responsibility: A Dutch approach, Assen, 2001.

plays a role, where the focus is primarily related to employment, social cohesion, intake of ethnic minorities, urban renewal and crime prevention¹⁴⁰.

- In Spain, the existing tax framework includes some fiscal benefits for those enterprises that take part in social activities (i.e. donations, co-operation agreements or expenses incurred for carrying out general interest activities) through foundations. Such benefits are regulated by the Law 30/1994 on foundations and fiscal benefits for the involvement in activities of general interest.
- Finally, the United Kingdom Government has adopted a very wide range of policy initiatives to promote CSR. Several recent examples can be mentioned. The United Kingdom has been the first European country to appoint a Minister for Corporate Social Responsibility, in March 2000¹⁴¹. In March 2001, a first government report on CSR has been published¹⁴², where the government's future plans on the issue are outlined. A web site¹⁴³ has also been launched in order to illustrate examples of good business practice, give sources of information and advice and provide a single point of entry into the full range of government activity on CSR. Specifically referring to SMEs, the government has planned several actions to assist them, such as:
 - Include advice on CSR into services of Small Business Service (SBS)¹⁴⁴
 - CSR training module and seminar for officials
 - Collaboration with private sector/Business Impact Task Force initiative on reporting especially aimed at smaller business
 - Take forward 'Active Communities Challenge' on volunteering
 - Guidance on international development and on sustainable development for pension funds.

From the previous non-exhaustive list it is possible to suggest that national European frameworks supporting social responsibility activities differ significantly amongst them. These results can be complemented by the ENSR Enterprise Survey 2001, which provides, from the demand side perspective, information on the percentage of European SMEs that benefit from some form of public support for participating in external socially responsible activities.

According to the results obtained (see Figure 5.1), around 8% on average of the European SMEs benefit from some form of public support (tax reductions, subsidies, information, etc.), although this percentage varies from 8% in the case of the very small enterprises to 14% amongst the medium-sized enterprises. Also according to the data, provision of information is the main form of support in contrast to tax reductions and subsidies.

140 An interesting discussion on innovative partnerships between businesses and governments and other civil society actors at the local level in order to tackle social exclusion and foster community development can be found in OECD, Corporate Social Responsibility: Partners for Progress, Paris, 2001.

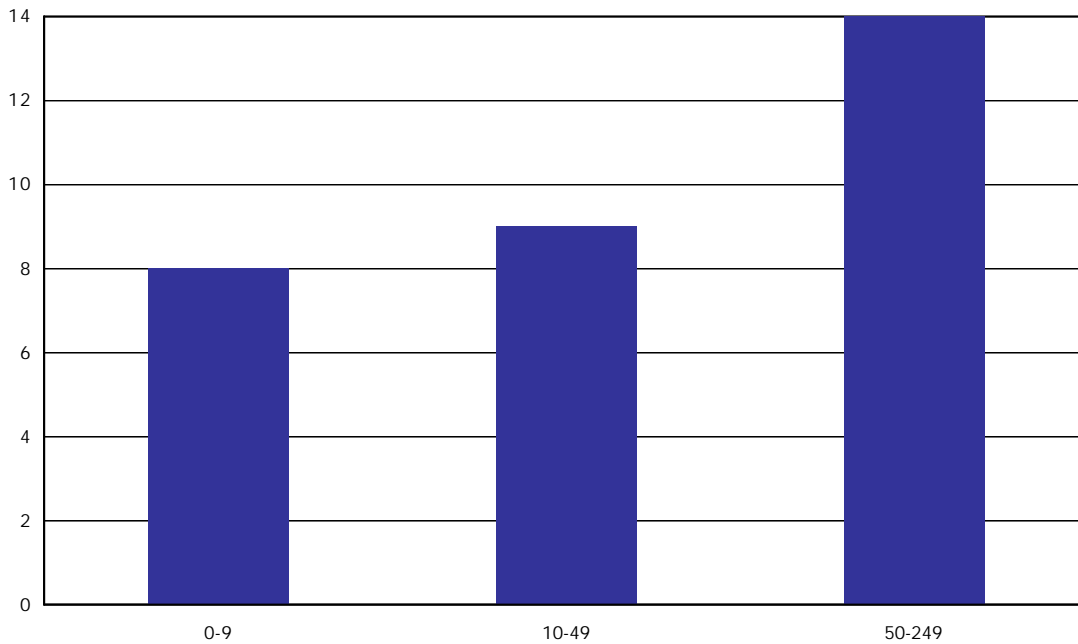
141 The attributions of this post have since changed, and its current holder (Douglas Alexander MP) is Minister of State for ECommerce and Competitiveness, responsible amongst other issues for CSR.

142 DTI, Business and Society: Developing corporate social responsibility in the United Kingdom, London, 2001.

143 See www.societyandbusiness.gov.uk (December 2001).

144 See www.sbs.gov.uk (December 2001).

Figure 5.1 Percentage of SMEs benefiting from public support to participate in external socially responsible activities

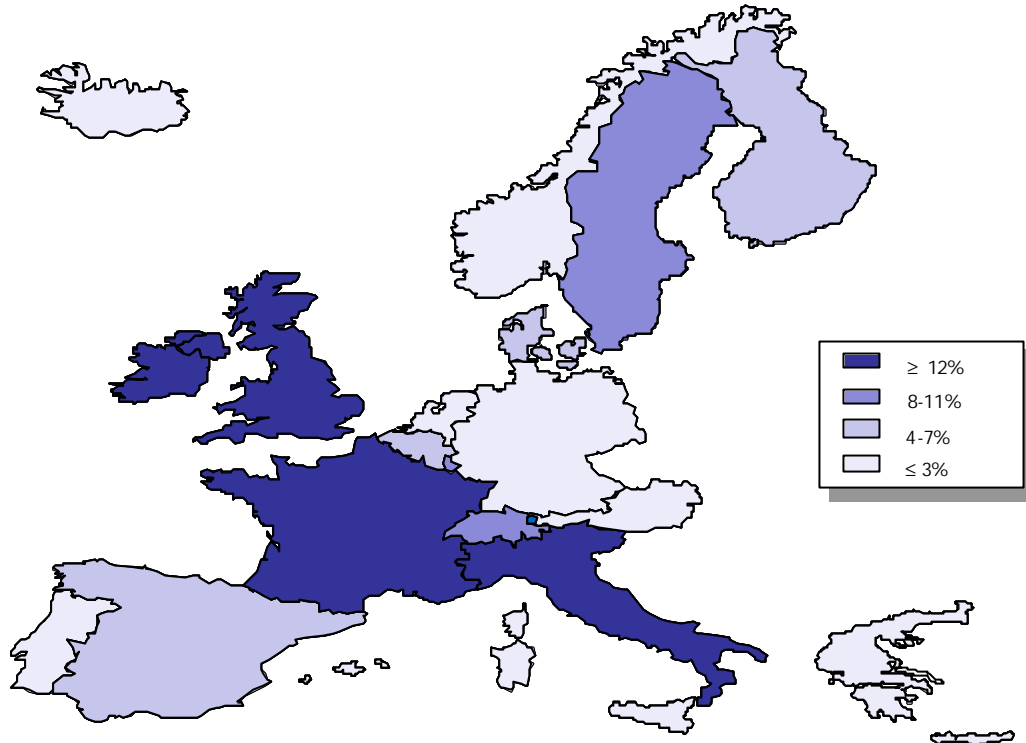


Data referred to SMEs participating in social activities.

Source: ENSR Enterprise Survey 2001.

Country considerations show that the percentage of SMEs benefiting from public support intended to foster their participation in external socially responsible activities vary amongst the different surveyed countries (see Figure 5.2). In this sense, the highest percentages of SMEs benefiting from this support can be found in Ireland, France, Italy and the United Kingdom, ranging from 12 to 16 %. Meanwhile, the lowest percentages correspond to Austria, Germany, Iceland, The Netherlands, Portugal and Greece, where in all these cases the percentage of SMEs benefiting from this public support is less than 2 %.

Figure 5.2 Classification of European countries according to the percentage of SMEs benefiting from public support to participate in external socially responsible activities



Data solely referred to SMEs participating in social activities.

Source: ENSR Enterprise Survey 2001.

From the previous results it is difficult to establish any relationship at national level between those countries with extensive policy supporting activities and those with high SMEs' involvement in socially responsible activities. In fact, and as it was suggested in Section 3.5, the use of existing public incentives has got a very limited influence on the SMEs' decisions to become involved in these activities. Recent research¹⁴⁵ confirms that social responsibility is still a low priority on the agenda of most of the Southern European key social partners, such as employers' associations, trade unions and, specifically, public authorities, in comparison to their Northern European counterparts.

Specifically on the environmental side, and contrary to the social responsibility dimension, in the European countries there is a large number of public programmes and schemes intended to help SMEs to improve their environmental performance¹⁴⁶. These support schemes can generally take two main forms. On the one hand, direct financial subsidies to cover (partially) the costs SMEs incur in improving their performance. On the other hand, support and advice on the advantages of implementing such working practices. In addition to this, public national authorities are also developing several interesting measures in the environmental education/training and the fiscal support domains.

145 This is one of the main results included in an European Commission supported project called 'Citizen labelling and corporate citizenship: benchmarking Northern and Southern European best practices', carried out by Cittadinanzattiva and presented in the International Seminar on Corporate Citizenship, held last 25-26 May 2001 in Rome.

146 A complete description of public national support schemes designed to assist SMEs in the environmental domain can be found in ECOTEC Research and Consulting, Report on SMEs and the Environment for the European Commission, Directorate General Environment, Brussels, 2000. Interestingly also, the European Foundation for the Improvement of Living and Working Conditions has recently published a list of relevant national policy schemes aimed at fostering environmental sustainable production amongst the European SMEs. The fifth online directory can be found in <http://susdev.eurofound.ie/archive/0000/FMPRO047.HTM>.

Box 5.2 Example of a successful environmental policy scheme

The ÖkoBusinessPlan Wien (Eco-Business Plan Vienna) was started in 1999. It includes five environmental sub-programmes: ÖKOPROFIT, EMAS-V, ISO 14001, KLIMABÜNDNIS and UMWELTZEICHEN TOURISMUS. This initiative intends to co-ordinate, organise, promote and support the eco-protection of Viennese enterprises, irrespective of sector or size considerations. The leading actor of the programme is the Department for Environmental Protection of the City of Vienna, although other partner institutional actors also play a relevant role.

The participating enterprises receive financial and practical support in the form of professional advice and consultation. They also receive financial support for eco-investments. Enterprises get between 30 and 40 % of their costs paid. The upper limit of the subsidy is 98 000 Euro per enterprise. The city of Vienna and their partners invest on average 1.24 million Euro per year. Until the year 2002 about 5.1 million Euro will have been spent in this programme. Around 89 % of the participating enterprises are SMEs (217 in absolute numbers).

According to a recent evaluation report of the Department of Environmental Economics and Management (Vienna University of Economics and Business Administration) the eco-business plan is very successful. 86 % of the participating enterprises are satisfied with the programme, and enterprises are able to identify both ecological as well as economical benefits from it.

Source: Österreichisches Institut für Gewerbe- und Handelsforschung (IfGH).

Many of these initiatives are specifically tailored to meet the needs of SMEs, especially small and micro firms. These initiatives cover many topic areas such as formal environmental management systems (EMAS, ISO 14001 or integrated management systems comprising health, safety and environment issues), eco-efficiency or eco-design.

During recent years it is possible to notice an increasing shift in the public environmental support from direct funding or financial support to a wider support scope, comprising aspects related to management capabilities, information flows or training activities for employers and employees.

Chapter 6

Conclusions

Despite no commonly accepted definitions, CSR refers to the voluntary integration of social and environmental concerns in the businesses' daily operations and in their interaction with business stakeholders¹⁴⁷. So far, business environmental issues have received a great deal of public and policy attention, whereas business social activities have received less. Moreover, both perspectives have been dealt with in a rather 'isolated' way in relation to each other.

This report has illustrated that CSR activities referred to social responsibility with the external community are a reality for a large share of SMEs. Thus, half of the European SMEs are already involved, although to different degrees, in external community causes. This involvement seems to be positively correlated with the size of enterprises. Support for sport, cultural and health/welfare activities not aimed at the SMEs' own employees are the most typical causes supported by SMEs. Donations and sponsorships are the preferred ways of involvement.

The report suggests that SMEs are not yet defining social responsibility as an issue to be incorporated into the enterprise's core business activities, so the European SMEs' community activities are in most cases occasional and unrelated to the business strategy. The key motivation for involvement is related to 'ethical reasons'. Larger SMEs and SMEs located in countries with a high enterprise involvement are more aware of benefits on the business. The activities of larger enterprises currently have little impact on the level of SMEs' involvement.

Despite the importance of the 'ethical' considerations, only a minority share of the European SMEs involved in social activities is unable to identify any business benefit derived from them. The two main benefits identified by SMEs include an improvement of the loyalty of customers and better relations with the general community/public authorities. Involvement in social responsibility is more hampered by 'attitudinal' reasons than by 'lack-of resources'. 'Attitudinal' barriers are more important amongst the smallest enterprises. Public support does not seem to have a 'fostering' role in this field. Finally, the report identifies an increasing interest amongst SMEs to incorporate the social perspective within their decisions.

As far as CSR activities related to the environmental domain are concerned, this report suggests that the proportion of European SMEs currently engaged in addressing their environmental problems, beyond compliance with environmental legislation, is limited in comparison to their larger counterparts. However, it is possible to detect an increasing awareness amongst SMEs about of the importance of the environmental perspective.

Despite the fact that the adaptation to existing legislation and regulations is one of the key reasons amongst SMEs for adopting environmentally-friendly decisions, the majority of SMEs can be defined as 'vulnerably compliant'. Contrary to the social domain, supply chain pressures from subcontracting relationships are an important reason, as well as other more pro-active reasons such as the strategic choice to obtain certain competitive advantage. 'Ethical' considerations do not seem to be a relevant driving force behind SMEs' environmentally responsible activities.

This report also identifies several barriers amongst SMEs to become involved in environmentally responsible activities, where the internal barriers have the more significant role in impeding progress in comparison to the external

¹⁴⁷ Commission of the European Communities, Green Paper for Promoting a European Framework for Corporate Social responsibility, COM (2001)366 final, Brussels, 2001.

ones. Examples of these internal barriers include negative company culture towards the environment, unawareness of the environmental impacts of the business, scepticism towards the business benefits associated with positive environmental improvements and, finally, the recurrent shortages of time, financial and staff resources, together with a lack of technical expertise and skills.

From the previous results, it is possible to identify a growing concern amongst SMEs of the importance of the CSR issue, both from the social and the environmental perspective. In this sense, CSR behaviour and communication are increasingly becoming a market advantage for those SMEs who are effectively addressing these activities. Obviously, the correct management of CSR can provide an extra edge to business leadership and business success, whereas mismanagement can undermine a firm's standing¹⁴⁸.

This report has also showed that the analysis of the CSR issue in SMEs has received little attention from researchers in comparison to the CSR issue in large enterprises. This result is especially true as far as the social domain is concerned. This report has been intended as another 'step forward' in the attempt to provide useful information from an SME perspective for the on-going European debate on the CSR issue.

In this sense, further research on CSR activities amongst SMEs is required, particularly as far as the social domain is concerned. Examples of research issues include:

- There is limited understanding of the ways in which small business owner/managers' beliefs and ethical considerations influence their enterprises' involvement in CSR activities. More research is needed on the impact of different cultural traditions and expectations on their influence on the enterprises' involvement in CSR activities.
- There is limited information on the way SMEs report/communicate their CSR activities to their stakeholders. More information is required concerning the relationship between SMEs' CSR activities and reporting and access to external finance, especially in the context of growing importance of the so-called ethical funds and social investment.
- There is limited information on the extent to which SMEs carry out CSR activities in isolation or in collaboration with other enterprises. More information is required on the CSR activities carried out by trade or sector associations, as well as on the specific economic consequences derived from the involvement of SMEs in CSR activities.

From a policy perspective, public authorities have a role in encouraging and supporting social and environmental involvement of SMEs. Options for public support may include:

- Public authorities can increase the existing knowledge of the characteristics and the levels of CSR involvement amongst SMEs through surveys, so these data can provide basic information both to the European/national authorities and to benchmarking activities.
- Public authorities can publicise to the SME sector the success and failure stories of SMEs involved in CSR activities, stressing the main successful business results obtained from this involvement and the lessons learned from the failures. Governments can also foster the knowledge of CSR in the business community through several additional tools such as forums, mentoring and publications or through special prizes awarded to relevant SMEs' experiences.

148 Idea taken from Business Impact Task Force, *Winning with Integrity*, London, 2001.

Annex I

The set-up and analysis of the ENSR enterprise survey

I.1. Objective

The ENSR Surveys on small and medium-sized enterprises (SMEs) carried out in the framework of the Observatory of European SMEs, should contribute to the knowledge of the actual state of affairs in the business sector in Europe and foster understanding of developments taking place in various fields. Running a survey among more than 7 600 SMEs across Europe, enables issues such as access to and use of the Internet to be studied, by providing comparable data covering nineteen countries and allowing analyses by basic characteristics of enterprises which are collected simultaneously.

The data are used in the production of the Enterprise Scoreboard by the Enterprise DG as well as in the in-depth analysis of the various reports of the Observatory. In addition, the data will be made available to a wider audience by means of the European Observatory CD-Rom (forthcoming).

I.2. Set-up

The size of the sample was determined by considering the need to report on characteristics of enterprises at country and size class level simultaneously, with reasonable accuracy and confidence. Estimates at the country or size class level separately are of course *much more precise* at the same level of confidence, as there are many more respondents at these levels.

The 2001 ENSR Survey on SMEs uses a Computer Assisted Telephone Interviewing (CATI) system to collect data from entrepreneurs and managers within SMEs, all being independent private enterprises with less than 250 employees in all sectors of industry and in 19 countries (EU plus Iceland, Liechtenstein, Norway and Switzerland)¹⁴⁹.

The 2001 ENSR Survey on SMEs was carried out from May-August 2001. Highlights from the survey were published in a separate volume¹⁵⁰.

I.3. Questionnaire

In total the questionnaire contains 9 sections with questions numbered from X1 to X60. As one question was deleted after the pilot test the questionnaire actually contains 59 questions. The questions in Sections 6 are designed in particular to provide inputs to this report.

Section 1	Screening questions (5 questions)
Section 2	General characteristics (5 questions)
Section 3	Internationalisation (5 questions)

¹⁴⁹ In order to allow conclusions at various levels of aggregation, a minimum number of interviews was aimed at in each of 399 strata defined by 19 countries, 7 sectors and 3 size classes. The three size classes distinguished are defined in terms of the number of employees: micro (0-9), small (10-49) and medium-sized (50-249) together labelled SMEs. Large-scale enterprises (LSEs) are those enterprises employing 250 persons or more (for the definition of SMEs see also the Recommendation of the Commission in: Official Journal of the European Communities No. L 107/6, 1996).

¹⁵⁰ European Commission, Observatory of European SMEs; *Highlights from the 2001 Survey*; Report submitted to the Enterprise Directorate General by KPMG Special Services, EIM Business & Policy Research, and ENSR; Brussels, 2002.

Section 4	Entrepreneurship and management (4 questions)
Section 5	ICT and e-commerce (4 questions)
Section 6	Social and environmental responsibility of SMEs (10 questions)
Section 7	Administrative burdens when hiring employees (11 questions)
Section 8	Taxation and SME growth (12 questions)
Section 9	Stock options (3 questions)

In the survey report a selection of the data collected has been presented.

Selected questions from the questionnaire, used in this report.

X25

Aside from the normal business activities, enterprises may contribute to external social objectives, or participate in external social activities.

Did your enterprise do this in one of the following ways in 2000? Do not include activities for or support to your own employees.

(Read out; more answers allowed)

- Support sport activities (not own employees)
- Support cultural activities (not own employees)
- Support health and welfare activities (not own employees)
- Support education and training activities (not own employees)
- Support environmental activities (other than directly related to consequences of the firms' own operations)
- When recruiting workers, giving preference to personnel from socially deprived groups (ethnic minorities)
- Participate in public affairs or political process on behalf of the enterprise (in local or regional community)
- Contribute in any other way
- (Do not read) None → X33
- (Do not read) Don't know/no answer → X35

X26

Could you indicate which have been the major reasons or motivations for contributing to external social goals or activities?

(Read out; more answers allowed)

- Ethical reasons (mainly altruistic)
- Improve relations with the community / public authorities
- Improve customer loyalty
- Improve relations with business partners and investors
- Improve employees' job satisfaction (easier to retain or attract employees)
- Improve economic performance (reduce costs / increase sales)
- Apply code of conduct (standard on socially or environmentally responsible business practices)
- Pressure from third parties (i.e. clients, competitors, governments)
- Use existing public incentives (tax incentives, subsidies, others)
- (Do not read) Other
- (Do not read) None
- (Do not read) Don't know/no answer

X27

In practice, which have been the major benefits for your enterprise?

(More answers allowed)

- Improved relations with the community / public authorities
- Improved customer loyalty (better image)
- Improved relations with business partners and investors
- Improved employees' job satisfaction (easier to retain or attract employees)
- Improved economic performance (reduce costs / increase sales)
- Other
- No perceived benefits
- Don't know/no answer

X28

In which way has your enterprise supported social activities during 2000?

(Read out; more answers allowed)

- Sponsorships (regular, or continues)
- Donations (ad-hoc or once only in cash or kind)
- Cause related marketing/campaigning (e.g. advertisements dealing with social issues)
- Employee involvement in community activities (on behalf of the enterprise)
- Employer involvement in community activities (on behalf of the enterprise)
- Other
- (Do not read) None
- (Do not read) Don't know/no answer

X29

Did you receive any public support or encouragement to participate in social activities during the last three years?

- Yes
- No → X31
- Don't know/no answer → X31

X30

What type of public support did you receive to participate in social activities during the last three years?

(Read out; more answers allowed)

- Tax reduction
- Subsidies
- Provision of information
- Other
- (Do not read) None
- (Do not read) Don't know/no answer

X31

Is your involvement in these social activities occasional or regular?

And is it related to your business strategy or not?

- Occasional activities, unrelated to business strategy
- Occasional activities, related to business strategy
- Regular activities, unrelated to business strategy
- Regular activities, related to business strategy
- Don't know/no answer

X32

Are you planning to decrease or to increase the firm's participation in social activities over the next three years?

- To decrease participation
- To continue as it is
- To increase participation
- Don't know/no answer

→ X35

X33

What is the single most important reason for not performing any of these actions?

(Only one answer allowed)

- Never thought about it
- Not related to the activities of my enterprise
- No benefits expected
- Lack of time
- Lack of money
- Lack of public support
- Other reason
- Don't know/no answer

X34

Do you have plans to participate in *external* social activities over the next three years?

- No participation foreseen
- Consider participating
- Plan to start participation
- Don't know/no answer

I.4. Sample Obtained

In total 7 662 checked and approved interviews are available. The non-weighted distribution is shown in Table I.1, by sector and size class. Size class refers to the number of employed persons in 2000 as recorded during the interview.

Table I.1: Number of SMEs interviewed, by sector and size class

Main activity	Number of employees, 2000			Total
	0-9	10-49	50-249	
Manufacturing	370	507	438	1 315
Construction	407	422	257	1 086
Wholesale	372	392	228	992
Retail	574	263	260	1 097
Transport/communication	290	281	338	909
Business services	558	299	202	1 059
Personal services	640	317	247	1 204
Total	3 211	2 481	1 970	7 662

Source: Unweighted data 2001 ENSR Survey on SMEs.

The overall structure by sector and size class is shown in Table I.2, applying weights to correct for the non-proportional sampling. These weighted data are used in this report in Section 2, which presents selected results.

Table I.2 shows that, in terms of number of enterprises, SMEs are dominated by micro enterprises (0-9 employees). Small enterprises (10-49) make up only 6 % of the enterprise population, while medium-sized enterprises (50-249) account for a minute fraction (see also the explanatory note to Table I.2).

Statistical data show that the nineteen countries have in total about 20 455 000 enterprises, of which over 19 million are micro (93 %) and 1.2 million are small (6 %). There are only 170 000 medium-sized enterprises (1 %) and only 40 000 large-scale enterprises (0.2 %). The economic importance of the different size classes is of course quite different. By employment, the following distribution arises: micro 34 %; small 19 %, medium-sized 13 % (SMEs in total account for 66 %), and large-scale enterprises 34 %¹⁵¹.

Table I.2: Percentage of SMEs, by sector and size class, weighted sample overall percentages

Main activity	Number of employees, 2000			Total
	0-9	10-49	50-249	
Manufacturing	9	2	0	11
Construction	13	1	0	14
Wholesale	7	1	0	8
Retail	20	1	0	21
Transport/communication	5	0	0	6
Business services	20	1	0	21
Personal services	19	1	0	20
Total	93	6	1	100

Note: In each sector, the size class 50-249 employees contains only around 1 % of all enterprises, except in manufacturing where this figure is about 3 %. As a percentage of all enterprises in Europe-19 this is still less than 0.5 %.

Source: Weighted data 2001 ENSR Survey on SMEs.

¹⁵¹Table 2.1 in: European Commission, Observatory of European SMEs, *SMEs in Europe, including a first glance at EU Candidate Countries*; Report submitted to the Enterprise Directorate-General by KPMG Special Services, EIM Business & Policy Research, and ENSR; Brussels, 2002 (forthcoming). The sampling and weighing scheme of the 2001 ENSR Survey on SMEs is actually based on the data available at the time of preparing the fieldwork from the Sixth Report of The European Observatory for SMEs (2000). However, the structure remains basically the same.

Annex II

Glossary of terms

Business Ethics: In the context of this report, ethics can be defined as the entrepreneur's ideas about what is good and bad, right and wrong. Ethics can be related to values, where values signify an enduring belief in a special way of action or a final preferred future state.

Codes of conduct: a formal statement of the values and business practices of a company and sometimes its suppliers. A code is a statement of minimum standards together with a pledge by the company to observe them and to require its contractors, subcontractors, suppliers and licensees to observe them.

Community involvement: Actions taken by enterprises in order to maximise the impact of their donated resources (money, time, products, services, influence, management knowledge or any other resources) on the external communities in which they operate. In the report, this concept is referred to as 'social external responsibility activities'.

Corporate social responsibility (CSR): Integration of social and environmental concerns in the enterprises' daily business operations and in the interaction with their stakeholders, mainly on a voluntary basis.

Environmental management system: This concept refers to the way enterprises manage their production while taking into account the environmental damages caused and the initiatives taken to reduce these negative impacts.

Environmental and Social report: a document communicating the findings of an environmental/social impact assessment.

Ethical investment: Ethical investment seeks to invest in companies which make a positive contribution to the world and seeks to avoid companies which harm the world, its people or its wildlife. It is difficult for an individual investor to judge whether a particular company is ethical or not. Therefore, most ethical investments are held through a managed investment fund such as a unit trust or life insurance or pension fund.

Monitoring: the process of regularly collecting information to check performance against certain criteria.

Stakeholders: Those persons or groups who have, or claim to have, an ownership, right or interest in an enterprise and its past, present and future activities. Two main categories of stakeholders can be identified, that is to say, internal stakeholders (i.e. employees, shareholders and managers/owners) and external stakeholders (i.e. business partners and suppliers, customers, local communities, as well as the natural environment itself).

Standard: A widely agreed set of procedures, practices and specifications. In recent years, several social and environmental standards have been developed (see Annex III).

Sustainable Development: The term 'sustainable development' was made popular in 1987 with the publication of the UN's so-called Brundtland report, where sustainable development is defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. This concept is also based on the idea that in the long run economic growth, social inclusion and environmental protection should go hand in hand.

Triple Bottom Line: The idea behind this concept is that for an organisation to be sustainable -a long run perspective-, it must be financially secure, it must minimise (or ideally eliminate) its negative environmental impacts and, finally, it must act in conformity with societal expectations.

Annex III

External social and environmental standards

During the last few years, and parallel to the development of the social and environmental responsibility consciousness by society, enterprises in general are increasingly confronted with the need to show to the general public their own and their suppliers' involvement in this type of activities.

This fact has given birth to several external voluntary standards intended to respond to this need. It is important to stress that, in the case of social standards, they are very recent in time, resulting in a lack of agreement about 'best regarded' ones. In this sense, no single objective method has yet emerged by which enterprises might be judged against some sort of international standard. Business, non-governmental organisations and scholars in Europe, the United States and elsewhere have approached this problem in a variety of ways, but a single set of agreed indicators is still being researched¹⁵². In addition to this, some of these external standards just cover some of the issues related to social responsibility.

Meanwhile, and from the environmental perspective, it is possible to suggest a longer-standing tradition in standards, where laws and regulations from international, national, regional and local public bodies are the most obvious environmental standards. In addition to this, some public bodies and trade/business associations have also set voluntary standards beyond their legal requirements, affecting specific product(s) or process(es).

The most important social and environmental standards are presented next:

- Social standards
 - The Ethical Trading Initiative Website (ETI) is an alliance of companies, non-governmental organisations (NGOs), and trade union organisations committed to identify and promote good practice in the implementation of codes of labour practice, as well as the monitoring and independent verification of the observance of code provisions. The ETI has developed a code of labour practice based on the most relevant international standards with respect to labour practices. ETI member companies are expected both to adopt this code and to require suppliers to meet agreed standards.
 - The AccountAbility 1000 (AA 1000) standard provides both a framework that organisations can use to understand and improve their ethical performance and a means for others to judge the validity of ethical claims made. The AA1000 standard was launched as an exposure draft in November 1999 by AccountAbility. AA1000 is focused on securing the quality of social and ethical accounting, auditing and reporting. AA1000 is a process standard. A revised version of AA1000 (the so-called AA2000) is expected to be launched as a fully designed exposure draft in early October 2001 and as full release in Spring 2002.
 - The Social Accountability 8000 (SA 8000) is a standard that specifies requirements for social accountability to enable a company both to develop and maintain policies and procedures that it can control and, on the other hand, to demonstrate to third parties that policies, procedures and practices are in conformity with the requirements of this standard. This standard covers several labour issues related to child labour, forced labour, disciplinary practices, non-discrimination, wages and

152 Taken from Hopkins M, 'The Planetary Bargain: Corporate Social Responsibility Comes of Age', MacMillan Press Ltd, London, 1999.

benefits, working hours, health and safety, freedom of association and collective bargaining, and management systems.

- The Caux Round Table (CRT), comprised of senior business leaders from Europe, Japan, and North America, has produced 'Principles for Business'. This document seeks to set-up a world-wide standard for ethical and responsible corporate behaviour for dialogue and action by business and leaders world-wide. The principles include, amongst other things, the social impact of company operations on the local community, a respect for rules and ethics, the respect for the environment and 'avoidance of illicit operations'.
 - The Sunshine Standards for Corporate Reporting to Stakeholders, proposed in 1996 by the Washington, D.C.-based Stakeholder Alliance -- an association of individuals and organisations from environmental, consumer and religious organisations. These standards cover a very wide spectrum of information needs for different stakeholders including customers, employees, community and society.
 - The Social Venture Network's Standards of Corporate Social Responsibility contains nine principles, addressing areas including ethics, financial returns and environmental protection. SVN is a network of business and social entrepreneurs. SVN's standards include an environmental protection principle that encourages businesses to promote sustainable development with products, processes, services, and other activities.
 - The Keidanren Charter for Good Corporate Behaviour comes from Keidanren, the Japanese Federation of Economic Organisations, a nation-wide business association. This charter underlines the role of corporations for being, besides economic entities engaged in the pursuit of profit through fair competition, useful to society as a whole. Keidanren members agree to follow the spirit of the charter as the criterion of their corporate behaviour.
- Environmental standards
 - The Global Reporting Initiative (GRI), established in 1997 with the goal of designing globally applicable guidelines for preparing enterprise-level sustainability reports including both social and environmental indicators. The GRI is convened by CERES (Coalition for Environmentally Responsible Economies) and incorporates the active participation of different public and private organisations from around the world.
 - International Organisation for Standardisation (ISO) 14000 is a series of voluntary guidelines designed to create uniform environmental standards among products, companies, industries and nations. ISO 14001 and 14004 govern the policies, procedures and organisational structure for a company's environmental management system. Additional standards address auditing (ISO 14010, 14011 and 14012) and environmental labelling (ISO 14024). Meanwhile, standards for life-cycle assessment (ISO 14040) and environmental performance evaluations (ISO 14031) remain under development. It is important to stress that a draft of a new joint ISO standard for auditing both ISO 9000 (quality) and ISO 14000 (environmental) management systems is now publicly available since May 2001, where the fully fledged International Standard is expected in 2002. This new standard (to be called ISO/DIS 19011) will replace six existing ones in the ISO 9000 and ISO 14000 families.
 - European Community's Eco-Management and Audit Scheme (EMAS) is a site-based registration system designed for use throughout the European Community. For registration, enterprises are required to have an operating environmental policy fully supported by senior management. Some of the required provisions include the publication of the company's environmental policy and activities, as well as quantifiable information on current emissions and environmental impacts by the enterprise.
 - The International Chambers of Commerce, Business Charter for Sustainable Development contains a number of principles of environmental responsibility appropriate for enterprises of all sizes. The charter fosters continuing improvement in environmental management and practice, progress measurement, and internal and external reporting of this progress. The charter encourages integration of environmental management from the highest level of companies to employees, suppliers, and other stakeholders.
 - The CERES Principles were created by a coalition of environmental groups, socially responsible investors and public pension administrators. The ten principles cover protection of the biosphere, sus-

tainable use of natural resources, reduction and disposal of wastes, energy conservation, risk reduction, safe products and services, environmental restoration, informing the public, management commitment, and audits and reports. CERES signatories are expected to publish publicly available annual statements disclosing their progress on meeting these 10 principles.

In addition to the previously quoted social and environmental standards, it is worth mentioning the activities developed by the European Foundation for Quality Management (EFQM) through the EFQM Excellence Model and the 'European Quality Award', firstly launched in October 1991. Specifically for SMEs, the EFQM did developed a SME Model in 1996, although this model is being reviewed in 2000/2001, basically with the aim of unifying the existing models into just one but with separate guidelines for SMEs. This SME model establishes nine criteria (leadership, strategy & planning, people management, resources, quality systems & processes, customer satisfaction, people satisfaction, impact on society and, finally, business results), where each criterion has a different weightings.

As it can be seen, this EFQM Excellence Model takes into account the 'stakeholder' approach, in the sense that it defines a number of actors and activities affected by the business activities (customers, suppliers, employees, society in general, etc.). Just to give an example, the criterion of 'impact on society' relates to the impact the organisation is making on the community in which it operates. Addressed areas include reduction and prevention of noise/pollution/effluents, reduction and prevention of health and safety risks, reduction of waste and usage of recycled materials, active involvement with communities, charities, schools, voluntary groups and, finally, the community's views of the organisation obtained through surveys or other means.

Annex IV

Names and addresses of the consortium partners

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More information on Enterprise DG

Additional useful information on the work of Commissioner Erkki Liikanen and the Enterprise Directorate-General is available through printed publications and on the web.

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Enterprise DG on the web:

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CORDIS (Community Research and Development Information Service):

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