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Taking Stock of CSR & SMEs in development

Soeren Jeppesen
BDS Working Paper series no. 9



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Abstract:

The international literature on Corporate Social Responsibility (CSR) has focused on large firms, in the North, mostly applying normative, universal and positivist approaches. However, over the last 10-15 years increasing attention has been directed towards micro, small and medium-sized firms, SMEs. While the focus on CSR in SMEs mainly has been confined to a Northern context, limited, though growing, focus has been on CSR in SMEs in a Southern or developing country context. The paper assesses the contributions on CSR and SMEs in Development. It does so by presenting three dominant and conflicting perceptions of SMEs in the CSR literature (SMEs as problems vs. SMEs as innovators; SMEs as miniature versions of large firms vs. SMEs in their own right; SMEs responding to voluntary approaches vs. SMEs responding to state regulation). The paper then takes stock of what we know about CSR, SMEs and Development (concerning environmental issues; labour, safety & health; global supply chains; and finally CSR and SMEs in Clusters) and what we don't know. The paper finally argues in favour of a critical research based on a) focus on Southern perspectives, b) SMEs in their own right, and c) application of context-sensitive approaches. It advocates the key issues of a critical CSR in SMEs in Development research agenda should be focused at the interface between SME, CSR and Development issues. It presents four main parts or areas of such an agenda and three suggestions concerning policy initiatives, before it briefly concludes on the changes that the field has undergone over the 10-15 years observed.

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Taking stock of CSR & SMEs in development¹

Unpacking SMEs and CSR

The present interest in CSR & SMEs is an outcome of a range of factors (politically, economically, socially and so on), the most important being the neo-liberal policies pursued in most countries around the globe and the emphasis on the potential of the private sector in solving the bedevils of contemporary capitalism, among others unemployment, inequality/poverty, environmental degradation and latest various social issues due to the financial crises (Jenkins et al. 2002 and Blowfield and Frynas 2005, Newell and Frynas 2007). CSR and the large firms (often Transnational Corporations, TNCs) has been in focus for long, but a reorientation has taken place over the last five to ten years towards an interest in the role of the vast majority of firms, the micro, small and medium-sized ones, the SMEs (Hillary 2000, Spence et al. 2004, Blackman 2006, Moore and Spence 2006, Morsing and Perrini 2009).

SMEs (small and medium-sized firms – in some cases small, micro and medium-sized firms) have been viewed as the panacea to development, as ‘dynamic, innovative, job-creating and economic development’ enhancing entities, which should be able amend the present inability to secure decent living conditions to many in the South. As UNDP expresses in its ‘Unleashing entrepreneurship’:

“Entrepreneurship flourishes perhaps most in small and medium firms with significant potential to grow and innovate. This dynamic segment is typically the hotbed of entrepreneurship and innovation. It can drive economic growth, create jobs and foster competition, innovation and productivity.” (UNDP 2004, p.9)

However, in the Corporate Social Responsibility (CSR) debates SMEs are often viewed in a rather different light, as being responsible for up to 70% of total industrial pollution, not caring about social and environmental responsibilities and being ‘laggards’ with regard to uptake of CSR practices (see Hillary et al 2000). I’ll seek to shed some light on these seemingly contradictory perceptions of CSR in SMEs and the changes that have taken place over time with more dynamic and nuanced contributions emerging, witnessed by Blackman 2006 in comparison to Hillary 2000.

Many perceptions of CSR are found based on stakeholder, ethical, business and other perspectives, and in this article the debates on CSR & SMEs are viewed as expressions of the business and society relationship that we find in any given country. In line with Blowfield and Frynas, CSR here refers to a broad group of perspectives – an ‘umbrella’ term – which tends to include:

“(a) that companies have a responsibility for their impact on society and the natural environment, sometimes beyond legal compliance and the liability of individuals; (b) that companies have a responsibility for the behaviour of others with whom they do business (e.g. within supply chains); (c) that companies need to manage their relationship with wider society, whether for reasons of commercial viability, or to add value to society.” (Blowfield and Frynas 2005, p. 503).

¹ This BDS Working Paper was first presented at the BDS Workshop in Humlebaek, Denmark September 11-14 2007. Thanks to the BDS members, in particular Peter Newell and Peter Lund-Thomsen for constructive comments. The responsibility for the text is obviously my own.

The current interests about CSR & SMEs have multiple dimensions, advanced by many actors with different agendas. However, Northern perspectives dominate, while a view - or rather views from the South mostly are lacking (Prieto-Carron et al 2006, Newell and Frynas 2007), and if represented, then often in a mono-dimensional way.² More so, from an academic view point the contributions draw on various assumptions and theoretical perspectives in a number of cases without clarifying this. Accordingly, the CSR & SMEs in Development field consists of relevant, but fragmented contributions, with few attempts to synthesise these contributions in a coherent, critical research agenda. My ambition here is to map the main bodies of literature, their key focus areas and on the backdrop of that to present a critical research agenda on CSR & SMEs in Development.

I have two main lines of arguments. First, that SMEs are highly different and that CSR practices and business-society relations are context specific. Following from this is that we need to apply Southern perspectives at the intersections of CSR, SMEs and Development in order to grasp the dynamics in the field. Second, as the CSR & SMEs in Development is a relatively young and emerging field, we have little and fragmented knowledge on many of the pertinent issues. Accordingly, a key element in moving ahead is to build a more coherent knowledge foundation through solid and robust investigations derived from a critical research agenda.

The remainder of the article is structured in the following manner. I start out by presenting what I view as key areas of interest in the CSR and SMEs at national, regional and international levels. These different sets of interests represent three main – and different – streams of thinking on this field, which I discuss in the next section. Then I turn to an assessment of what we know or rather the little we know about CSR & SMEs in Development outlining four areas where some contributions are found. The focus is this section and the following is on the more concrete issues about CSR & SMEs, where CSR is understood in relation to certain practices (working conditions, occupational safety and health, resource utilisation and environmental impact, relations to communities). I argue where we need to know more by outlining key elements of a critical research agenda in the field along with key elements of a policy agenda. I finish with short concluding remarks.

Why all the attention about CSR & SMEs?

Irrespectively of whether we talk about 'just' 80-90% of all firms - or more than 98% as we find in some countries, attention has been directed to SMEs from many quarters (policy makers, ministries, economic entities, international organisations & donor agencies, researchers, NGOs and so on) with many agendas. Nationally, for example in Denmark CSR & SMEs used to be viewed through the social/labour market angle of securing work for 'disabled' (Morsing 2006), while a second, first minor and now main discourse has been the competitiveness angle in terms of securing the well-being of the Danish economy (see e.g. Joergensen and Knudsen 2005, EGOS 2005a/b/c, and The Danish Government 2008).

² This as a consequence of lack of participation of Southern actors in multilateral development initiatives, including SMEs. A tendency which is also reflected in a number of the contributions on CSR in development. like Visser et al. 2006.

Regionally, the EU-approach³ to CSR & SMEs has mainly focused on competitiveness as a means of ensuring employment within the EU-countries (EU 2001, EC 2002 and 2004). A growing emphasis has been placed on the 'positive contributions by SMEs to society' (Spence et al 2004 and Morsing & Perrini 2009) where the linking of entrepreneurship, innovation and economic growth is another important discourse. A discourse, which in a global development context, is displayed in, among others, the UNDP 'Unleashing Entrepreneurship' (2004), World Bank (2004), Luetkenhort (2004) and Accountability 2006. The dominant discourse among many bilateral donor agencies with regards to Private Sector Development assistance (see e.g. the Canadian Development Agency CIDA at <http://www.acdi-cida.gc.ca/CIDAWEB/acdicida.nsf/En/JUD-1118141247-QJJ>, Danida 2005 plus www.pppprogramme.com) concerns economic growth and poverty, often closely linked to competitiveness and upgrading. The same discourse is found in many Southern government policy papers, like in the South African debate (DTI 2001, p. 13 and the Presidency, 2006), though in the South Africa situation, a competing and dominant CSR discourse concerns the so-called 'Black Economic Empowerment'.⁴

The same ambitions – or wishes – are found in the literature on upgrading of developing country firms, including SMEs, through collaboration with TNCs. Or phrased slightly different: How relationships to other firms can act as means to enhance the CSR practices. One stream focuses on the linkages between TNCs and local firms, including SMEs, viewing closer types of relationships as avenues to upgrading of SMEs (Altenburg 2002) – and at the same time improving working conditions, reducing environmental impact and so on. A second stream deals with the global supply chains and the options for SMEs when being part of such chains (Humphrey 2002) and again how CSR practices can be enhanced (World Bank 2003), including the impact of codes of conduct (Jenkins et al 2002). Others are much more sceptical about the prospects of the linkages and/or participation in global supply chains, in particular concerning the impact on working conditions in the facilities (Raworth 2004, Barrientos & Smith 2007 and Dolan & Opondo 2005).

The perceptions of SME are as many as of CSR, spanning a broad range of quantitative and qualitative definitions and understandings. The quantitative definitions dominate, however with substantial differences among the statistical sources, varying between national, regional (e.g. EU) and international organisations. The range of definitions basically all defines SMEs as firms with a certain number of employees (in some cases up to 100, in other 200, in other 250 and in yet other 300 or maybe up to 500), a certain level of turnover and a certain amount of assets. On the qualitatively side we find further differences, including ownership characteristics (male-female, young-old, ethnicity, class, clan), owner-manager vs. manager, management capabilities, owner-employee relations, company culture (see e.g. Whalley 2000 and Jenkins 2004, 2009 and Blackman 2006a).

Irrespectively of definition, SMEs constitute the vast majority of firms in any economy. In most countries at least 80-90% of the firms can be categorised as SMEs, and some times more than that. It means that the SME label covers a massive number of firms; of different sizes; with different kinds of ownership; different cultures; across all sectors; all geographical settings or regions having impact on macro, meso and micro levels of the

³ Mainly carried out through the work of the CSR section of DG Employment, Social Affairs and Equal Opportunities.

⁴ See e.g. Ponte et al 2006 on the BEE, now Broad Based BEE, history and critical issues of implementation.

economies (Blackman 2006b, Moore 2006, Moore and Spence 2006, Sachdeva 2006).⁵ Furthermore, the need to include context, here broadly speaking as time and space, add yet other dimensions to the complexity.

In this article, I do - for practical reasons - understand SMEs as firms with less than 200 or 250 employees. As we are talking about 90% of all firms in an economy, clearly a huge variance should be expected and accordingly it is impossible to talk about 'the SME-Business Case for CSR'. We need to keep this in mind when we link to contemporary and pertinent CSR themes, like Bottom-Of-the-Pyramid (B-O-P), Impact Assessment or Labour conditions (Prieto-Carron et al 2006). For in-depth analyses and attempts to gain a thorough understanding of the CSR & SMEs issues, a combination of quantitative and qualitative dimensions is needed.

Streams of thinking

The various contributions on CSR & SMEs reflect certain perceptions of SMEs and particular scientific positions. I see three main streams of thinking or maybe more precisely three main lines of division in perceptions. The first concerns the role and impact of SMEs concerning their 'ecological foot print', the second whether SMEs are 'small versions of large firms' or entities in their own right and the third relates to whether CSR issues should and can be advanced through voluntary initiatives or (state) regulation.

Starting with the perceptions of the SMEs regarding their 'ecological foot print', a major part of the literature views the SMEs as a 'problem'. This perception is e.g. reflected in Hillary 2000 and UNEP 2003 (see Jeppesen 2004, chapter 2 for a discussion and Jeppesen 2006). If we take the 'environmental impact/pollution debate' as an example, Hillary argues that it is 'estimated that SMEs might contribute with up to 70% of total industrial pollution' (Hillary 2000, p. 11). She continues by saying that little research have been carried out to support this claim, nevertheless she and numerous other contributors go on to say that the 70% is a sign of SMEs being reactive and passive. They are the laggards in the field, they are not interested in environmental issues, in CSR etc, they don't abide to law, and they are difficult to get in touch with.

Two observations. Firstly, as we don't know the level of impact (the ecological foot print) of SMEs, we should maybe try to find out or at least move a bit closer to a qualified understanding (see Blackman 2006a and 2006b for further discussion)⁶. The World Bank suggests a thorough methodology in its IPPC (Industrial Pollution Prevention and Control) programme: that one can assess the impact of businesses in a given area, if we know a) the size distribution of the firms, b) the sector distribution (as the environmental impact varies considerable from sector to sector), and c) the pollution impact per unit of waste material (World Bank 1999). And following this, the Bank argues that while SMEs often will pollute more per unit of waste material, the number of SMEs is often so limited that total pollution is less than the large firms. So, the policy argument is that developing country governments should target large firms if they aim at pollution abatement as the large firms

⁵ See e.g. Landström (2005) for a historical overview of the Small Business Research field, and Acs et al. 1999 for an account of key research areas of SMEs and economic development.

⁶ See Lanjouw 2006 for a detailed case study applying such a methodology in practice in the manufacturing sector.

in urban areas count for the lions share of the waste volume and up to 60% of the environmental impact (World Bank 2000 and Dasgupta et al. 2002).

Second, in term of being laggards, reactive etc it is interesting that other contributions like UNEP tells us that some 4-5000 of the 77000 TNCs (as recorded by UNCTAD) have formal CSR systems (Codes of Conduct (like the Global Compact), ISO 14001, SA8000 and similar) in place (UNEP 2003, p. 4). The uptake of certifications and systems has increased since and is higher among large firms compared to SMEs. However, it seems awkward to label large firms as 'proactive' on the basis of the six-seven, or maybe 10 % of the TNCs that have engaged in these voluntary initiatives. Rather the situation is that of a (very) modest number of large firms with CSR standards and systems in place, which is generalised from and then used to advance a flawed position of 'all large firms are doing fine, while SMEs are not'.

Tied to this perception, is the second stream or perception on 'SMEs as miniature version of large firms' (Jenkins 2004 and 2009, Kumari 2008 and Sachdeva 2006). SMEs are, of course – following the quantitative definitions - smaller versions of large firms size wise, but the underlining universal, positivist understanding is that SMEs should be expected to function the same way, have the same interests and do the same things as the large firms. Functioning in the same way of the large firms means both in terms of operation, procurement and sales and in terms of CSR activities, where the large firms are portrayed as being proactive, typically measured by having a CSR strategy or policy, employing CSR managers, being ISO 14001 certified (World Bank 2000), joining the Global Compact, implementing GRI and so on like in the mentioned UNEP publication. When most studies conclude that SMEs often do CSR activities differently, e.g. on an ad-hoc manner, with out specifying the responsibility of certain positions, not being certified or joining Global Compact (Jenkins 2004, Sachdeva 2006, Morsing & Perrini 2009 (introduction)), the main point derived from the 'SMEs as miniatures of large firms' position is that SMEs are doing less on CSR than among large firms. While the dominant explanation is that this is because SMEs have fewer resources (human and financially), the conclusion is (similar to the 'SMEs as problems' contributions) that SMEs are laggards, and that SMEs are not interested in CSR and so on.⁷

The opposing view to the 'SMEs as miniatures' literature is presented by another set of contributions, which instead view the SMEs in their own rights and as a 'resource', a group of firms that could do x, y and z, like creating jobs, being innovative, ensuring economic growth and to some also ensuring a more equal distribution of wealth. Here SMEs are perceived as (pro) active as the UNDP quote above illustrates. Luetkenhorst summarises these – positive – elements:

'..... The development contributions of SMEs are varied and can be found at the intersection of economic and social dimensions; SMEs foster economic cohesion At the same time, SMEs foster social cohesion by reducing development gaps and disparities, thus spreading the gains of economic growth to broader populations segments and backward regions.' (Luetkenhorst 2004, p. 159)

⁷ Kumari points out that actually a number of similarities can be found in the way that large firms and SMEs deal with CSR issues. However, precisely reporting, formal hiring of employees to handle CSR-positions and implementation of formalised systems is where the most pronounced difference between large firms and SMEs are (Kumari 2008, p. 7).

This stream of thinking relates to the ‘discovery’ of SMEs as part of the private sector and an important source in the neo-liberal quest for the private sector emphasising ‘innovation, economic growth, competitiveness and upgrading’. While perceiving SMEs as proactive, a major flaw is the understanding of SMEs as a homogeneous group of firms and little consideration regarding the importance of the different sizes and sector relations. A growing number of contributions, e.g. like Fox 2005, Blackman 2006a, Kumari 2008, and more generally Jenkins 2004 and 2009, argue in favour of a more open and nuanced SME-agenda. The emphasis on ‘SMEs in their own right’ also reflects a distinction between contributions, which incorporate an understanding of universalism, seek generalisations and (often) are normative, and contributions, which emphasise sensitivity to context, seek complexity (differences in sizes, formality and sector focus) and (often) are realistic in perspective (Jeppesen 2004, chapters 2 and 3).

Third and finally, the contributions have different understandings on how to advance the CSR agenda among SMEs and whether self-regulation and voluntary instruments or (state) regulation is the way to go. The majority of the literature entails the notion (as part of the definition of CSR) that voluntary approaches are the only options to change to promote an agenda of bringing more CSR into the SMEs. Often this position is based on the correct observation that there is a lack of enforcement of government regulation in most Southern countries (see Blackman 2006b, Blackman et al 2006, Blackman and Bannister 2006 and Vincent & Sivalingam 2006). However, the position – which is similar to the just mentioned position in the mainstream literature and the perception of SMEs vis-à-vis large firms – is (also) problematic. In contrast, an increasing amount of studies ask about the benefits, in any, of the voluntary, beyond compliance approaches and argues that CSR is more about compliance with regulation in the first place. Further more, we are reminded about the importance (or should we say negligence) of regulation by Fox 2005, or like Fig et al 2007, p. 3:

‘Until business in South Africa learns to implement its voluntary initiatives in a systematic, transparent, accountable, consultative and verifiable manner, the need for competent and thorough-going regulation will remain.’

So, the opposite position, though in minority, argues that the focus rather should be on public regulation. Firstly, because the general situation is that most firms (large and small) do not adhere to the present regulation, and that we have little indication of willingness to do so in a situation with out regulation. Secondly, that developing country governments should intervene, assist, help, support etc the SMEs on CSR issues. Some argue in favour of such support with the aim of the SMEs then being able to undertake voluntary self-regulatory initiatives, while other argue that public regulation is important (see above). And, this is seconded by SMEs because they would like to have the government ‘levelling the playing field’ as I will give an example of later in this paper (see also Bombay Chamber 2006).

In sum, the CSR literature focuses on large firms, in the North, mostly applying normative, universal, positivist perspectives, in a number of cases scientifically poor (spill over from a lot of ‘grey literature’ by consultants/practitioners)⁸ (see Jenkins 2004, Jeppesen 2005, Fox

⁸ Spence makes the points that the CSR and SME literature is weak and/or absent in the fields like methodology and theory development (Spence, undated/2006, p. 5-6)

2005, Sachdeva 2006, Kumari 2008).⁹ Among the growing number of contributions on CSR and SMEs, three sets of discourses – or stream of thinking – with each their different views of SMEs have been detected. Further more, the dynamics in the field seem to have led to a movement towards a more nuanced understanding of CSR and SMEs over time with increasing emphasis on the difference among SMEs and viewing them in their own right as table 1 below indicates. This again has led to more realistic pictures of the SMEs and more complex too.

Table 1. Major and important differences among SMEs.

Level of formalisation	From informal to formal
Ownership	From individual, to family, group and business partner
Size	From one person, family to 200 employees
Market	From local/village, to town/city, regional and international/global
Strategies	From survivalist to mainstream business
Involvement	From part time/seasonal to full time/fully paid
Sector	From rural/agriculture to manufacturing to service and urban

Source: The author

Moving to the substantive CSR topics that the academic literature on CSR and SMEs addresses, Spence suggests that we know something about CSR & SMEs in areas like (nature of) ethics; employment relations; environment, and on ‘good examples’¹⁰ (Spence, undated/2006, p. 1-2 and Moore and Spence 2006). Our knowledge is more limited – or even close to nothing on topics like community involvement, the role of owner-managers, policy influence, supply chain relationships, CSR tools; social performance; competitor relationships and developing countries (Spence undated/2006, p. 2-4, Moore and Spence 2006). I guess that the way to put this in simple terms is to say: What we know is that we know little! The next part concerns what little we know in a Southern context.

What do we know about CSR & SMEs in development

The little we know about CSR and SMEs in a development context concerns two of the areas that Spence highlights (see above); a) environmental issues, b) labour, safety & health, and two additional areas c) CSR, SMEs and Clusters, and d) linkages to global supply chains through TNCs (see above and Blackman 2006, Jeppesen 2006, Sachdeva 2006 and Lund-Thomsen and Nadvi 2009 for overviews). The mentioned contributions along with the contributions mentioned below highlight the attention to the area of CSR, SMEs and development, but still constitute rather few contributions in relation to the large and rapidly expanding literature on CSR and large firms.

Concerning the environmental impact, Wheeler et al (2002), Scott (2000), Dasgupta et al (1997 and 2000), Dasgupta (2000), Naumann (2001), Blackman (2006b), Lanjouw (2006) and Vincent and Sivalingam (2006) have investigated SMEs in selected ‘heavy polluting’ sectors (kiln making, furniture, textiles, electroplating/galvanising) in different countries (Mexico, Brazil, Zimbabwe, India, South Africa and Malaysia). The main points are a) that SMEs certainly pollute, but the total impact is difficult to or cannot be estimated, b) that the

⁹ The literature also tends to apply approaches and models, derived from studies of large firms, as conceptual frameworks.

¹⁰ Though the knowledge tends to be from practitioners work.

pollution per unit of production (often) is higher than that of large firms in similar sectors, and c) whether SMEs are the main polluters compared to large firms depends on the concentration of SMEs. Jeppesen has investigated the environmental practices of manufacturing SMEs in South Africa, finding major differences among sectors, and major differences among micro, small and medium-sized firms (Jeppesen, 2004). A similar point highlighted by Blackman (2006b).

Concerning working conditions (labour, safety and health issues) few studies solely focuses on SMEs, however, quite of a range of studies, which investigate codes of conducts in global supply chains, contain parts, which concerns SMEs. Studies by e.g. Barrientos et al 2003, Dolan and Opondo 2005, Barrientos and Smith 2007 show that a) working conditions are bad – in spite of implementation of codes of conduct, b) the more informal (and typically the further away from the urban areas and possibilities of monitoring) the worse conditions, c) female workers being exposed to worse conditions compared to men. A number of sectors have been investigated (cut flower, textiles and garment, wine production, fruits, leather tanning, soccer balls among others¹¹), in Eastern and Southern Africa and in selected countries in Asia (China, India, Bangladesh, Pakistan, Indonesia and Vietnam). Comparison with large firms hardly exist.¹²

More directly related to the global supply chains, parts of the literature (Humphrey 2002, World Bank 2003, Luetkenshorst 2004, and Ahmed 2006) seem to be based on the assumption that demands and pressures from TNCs lead to implementation of codes of conduct and of CSR systems among SME suppliers, which in turn improves CSR conditions in SMEs (Accountability 2006, p. 9). As mentioned, this is contested with investigating working conditions. In contrast to the World Bank and others, other authors argue that little or insufficient changes take place. To some, it is because the changes are not monitored, meaning that the new systems and improved practices quickly are forgotten, because firms (both the SMEs, but in particular the TNCs) are not held accountable (Barrientos et al 2003, Dolan and Opondo 2005, Barrientos and Smith 2007). Nevertheless, some argue that this will lead to upgrading of skills and capacity and then increase the competitiveness of SMEs. Moreover, few systematic studies exist. Luken and Staren (2005) investigate this among 22 small Asian firms in India, Pakistan, Sri Lanka and Thailand mainly in leather & tanning and textiles industries. While the authors argue that supply chain pressure has 'potential' to ensure improved CSR practices, the findings stem from sponsored interventions by international organisations and the assessment that SMEs with international linkages seem more willing to improve compared to others. However, no investigations had taken place of pressure and demands channelled through the supply chains from the buyers (the international firms). In some situations, the participation leads to improvement of certain conditions in the SMEs, however, the relationship to the TNC simultaneously increases production speed, prolongs working hours and hence worsens the working conditions (Lund-Thomsen 2007). Other argues that SMEs are squeezed by the TNCs when the SMEs spend funds to receive a certification, but not necessarily are obtaining any orders (Bombay Chamber 2006, Ward forthcoming and Lund-Thomsen and Nadvi 2009). A growing trend is as it entails substantial work and

¹¹ For overviews see, Jenkins et al. 2002, Seidman 2007 and Lund-Thomsen & Nadvi 2009.

¹² Kumari 2008 being one of the exceptions.

resources to monitor a large number of small suppliers, TNCs prefer concentrate their supplies from a lower number of large suppliers.¹³

Finally, and to some extent related to the global supply chain literature, is the emphasis on CSR, SMEs and Clusters. While the field clearly has been driven by a policy concern and major initiatives undertaken by UNIDO, ILO and bilateral donor agencies (see www.weplayfair.com as a key example), numerous investigations have been based on solid methodologies, hence providing an growing, interesting body of literature. One point of departure has been the potential benefits of joint action among SMEs in relation to the demands, e.g. regarding CSR, raised by large, predominantly foreign buyers (TNCs). While the studies highlight that joint action can improve the CSR practices of SMEs, the findings also point to the complexity in each cluster and the limitations due to differences in interest among the SMEs, the strength (or lack of same) among business associations, local government, service providers, and vulnerability of gains over time (e.g. Kennedy 2006, Sachdeva 2006, Bomby Chamber 2006, Lund-Thomsen 2007, Sachdeva and Panfil 2008, Kumari 2008, Lund-Thomsen and Nadvi 2009, Ward forthcoming).

Surprisingly, while the literature tends to take it for granted that SMEs are on good terms with the local communities, because SMEs do good to the community by providing jobs, income, products and services. However, as the relatively few studies show, and other studies tend to assume, it is because the SMEs are a part of the community in the sense that the firms are physically situated adjacent to the community and/or owners, managers and employees come from the community (Sachdeva 2006). Interestingly, in spite of some studies indicating a high level of pollution from SMEs, no discussion on the impact on the local communities is mentioned (Blackman 2006a). And, hardly any studies deals with philanthropically issues, so we have little indication of whether or not SMEs do or do not give donations or other types of support to the local community (one exception is the CSR in Uganda study by Katamba et al, 2008).

In sum, confirming Spence's assessment of the knowledge concerning SMEs and CSR few studies focusing on a limited number of topics exist on developing countries. Even compared to what Spence outline regarding the limited knowledge on SMEs and CSR in the North on ethics, employment relations, and best practice, further more issues like community relations and involvement, owner-manager, policy, social pressure and competitor relations have not been addressed in the South either. Geographically, the majority of the studies deal with countries in Asia, fewer on Latin America and (very) few on Africa.¹⁴ Sectorwise, a limited number of (heavy) polluting sectors have been investigated. In addition, the perspectives employed are Northern and business, competitiveness oriented (TNC-SME linkages, global supply chain, private sector development) as Prieto-Carron et al. 2006 and Newell and Frynas 2007 also have argued.

We find few examples of concerted efforts pertaining to effects of CSR practices in SMEs, e.g. impact of enhancing/promoting such practices compared to improvement of general

¹³ Personal communication with several managers of Southern African SMEs in the textiles and clothing industry; with Peter Lund-Thomsen regarding the soccer ball industry in Pakistan and India and Anita Chan regarding the situation in the Guangdong province in China. Another example is the Danish TNC LEGO which a couple of years ago announced that it would cut its supplier base from 12.000 to 2.000 firms!

¹⁴ This also counts for Africa in general. See Visser et al 2006 as an exception. Tesfayohannes 2006 along with Jeppesen 2004, 2005 and 2006 are some of the few studies on CSR and SMEs in Africa.

business practices are found. On conventional development issues like poverty and inequality, the focus has tended to be on formal SMEs, due to their linkages to TNCs and/or participation in donor-driven private sector development programs. None the less, the vast majority of SMEs is found in the informal sector where very few initiatives so far have taken place – when we disregard the indirect effect of many international development assistance projects. One could ask the question: Which SMEs are the right entities to focus on? A rough estimate of the distribution of SMEs among 1-person/survivalist, micro, small and medium-sized enterprises, would lead to the conclusion that at least 95% or more of the SMEs are locally oriented and not included in export or being part of global supply chains. If we asked what the key CSR-issues are to this vast majority of the private sector, we would get a different agenda compared to the present.¹⁵

Where we need to know more & how we get there

Given the limited knowledge in the field, clearly there are many areas and topics on which we need to know more. I start out by discussing two general types of conditions; the implications of taking a perspective from the South, and how to do get to know more. I then outline a critical research agenda on CSR and SMEs and the key issues to address. Finally, I turn to important issues of a policy agenda, which has significant importance given the influence and impact of Northern governments, bilateral and multilateral organisations.

A Southern Perspective

Following Prieto-Carron et al. call for Southern perspectives in CSR in Development, and here my call for a Southern CSR and SME perspective, I see four main implications of such a view. The first is that it will enable us to investigate how SMEs perceive the notion of CSR – and how the business-society notions are reflected among SMEs. In this article, I have taken it for granted, though arguing that contrary to e.g. the EU-definition, CSR in the South is more about being compliant with existing regulation than going beyond. Furthermore, in line with Blowfield and Frynas and the importance of the context, a more concrete perception of CSR can only be derived from SMEs in particular countries, in certain geographical areas, in particular sectors. Or put different, the Northern notions of CSR do not make much sense to Southern SMEs (see e.g. Lund-Thomsen 2007). Secondly, and related to the first point, given the economic situation in most Southern countries, the CSR & SMEs discussions have to be more linked to the issues about poverty and inequality (see Blowfield 2008). CSR has to sustain the amount of jobs provided by SMEs and hence support the importance of SMEs for income and local resources. And along with this, CSR should simultaneously support improvement of labour and gender issues – and create a ‘win-win situation’. Accordingly, it is a ‘win-lose situation’, if the impact of CSR is that standards are raised, working conditions improve, but the amount of jobs goes down. However, finding ‘win-win-situations’ is a complex matter, which rests on several conditions, and we certainly want to avoid lose-lose situations with fewer jobs and worse working conditions (Bombay Chamber 2006, p. 12).

¹⁵ And, it could lead us to the interesting question of how we get answers to the raised issues - in a situation where we know little about this group.

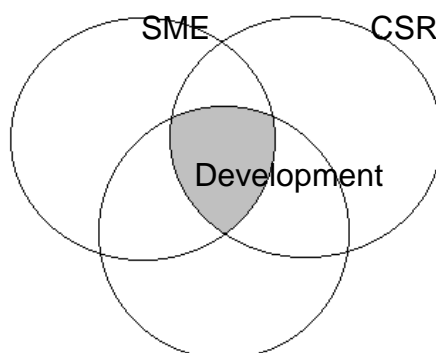
Thirdly, the SMEs, the local community and the government have all their interests, which by no means necessarily are uniform. An illustration is the 'SMEs', which is not a uniform entity in itself as owners, managers, middle managers and employees/workers all can and do have different interests. And still, if we talk about 'SMEs', as already mentioned we talk about very different firms in different situations. On the one hand, the interests of the relatively few (often the larger among the small firms and the medium-sized firms) SMEs linked to global supply chains evolve around sorting out how to handle CSR demands from TNCs. The complications arise in the ever more present situations today, where deliveries are being more and more frequent, order sizes smaller and smaller, quality demands higher and higher, and prices lower and lower. In terms of how to cope and be able to change processes in order to stay in the chain, a key question concerns if it is fair that all costs are placed on the shoulders of the SMEs, in particularly the burden of implementing different codes of conduct (see e.g. Sachdeva 2006, Lund-Thomsen and Nadvi 2009 and Ward forthcoming)? If not, who should then pay or assist – the local government, the donors or the TNCs? On the other hand, we have the interests of the many SMEs (the 'smaller' of the small firms and the micro enterprises) that most often not are linked to global supply chains or engaged in export, but produce or provide services for the local markets only. In a context where little attention is given to safety and health, working conditions, environmental issues and so on from local government and local customers – or as we know from India and Pakistan, if CSR does not reflect local needs and priorities - how should we expect SMEs to respond? Again, we come back to the issue of enforcing regulation (and levelling the playing fields) and/or undertake programmes, which support local economic development. Again, the role of the developing country governments is key and the recognition that we have conflicting interests among the involved (see Blackman 2006a for a collection of interesting contributions).

Fourthly, and related to the third point, is the issue of relevance among the smallest of SMEs, the micro enterprises, which most often are found in the informal sector. The issues just mentioned and more or less all the literature mentioned regard the relatively few SMEs in the formal sector, while the (vast) majority of these SMEs is in the informal sector, e.g. in many countries in Africa constituting up to 80% of the economic activities. The largest category is the one-person or family based survivalist entities, which undertake many different activities as part of a multi-prong survival strategy. These are temporary and seasonal activities, which are activated when in need or when resources are available. It seems to be of little relevance to discuss (western and/or formal) CSR in relation to these entities. One can term their activities 'voluntary', however 'based on needs' is more precise. Instead, the role of the developing country governments is crucial and in particular the right kind of incentives and support for these entities, like providing financial assistance (credit) in periods of need, in particular to female-led entities.¹⁶ Further more, it would seem highly relevant to have governmental regulation of certain activities, e.g. to make sure that these survivalist are not harassed when being active.

My argument is that the key issues to address are found at the interface between SMEs, CSR and Development issues, sketched below in Figure 1 by the grey area in the middle (see Figure 1 below).

¹⁶ Also rural-urban aspects, which are not dealt with here.

Figure 1. The interface between SME issues, CSR issues and Development issues in the South¹⁷.



Source: The author

How

Given that we apply a Southern perspective and that we know relatively little, the major question 'how we get to know more about CSR and SMEs in the South' is first of all about having and/or acquiring in-depth local knowledge and emphasising the importance of context. This is similar to well-known approaches in development studies, as argued by e.g. Mayoux and Chambers 2005. Secondly, in addressing the private sector issues, we need to recognise the complexity of the private sector in a given country. This means not just talking about SMEs and CSR, but e.g. specifying whether we are talking about micro, small or medium-sized firms – because size matters, whether we refer to the formal or informal sector – because level of formalisation matters too; and/or refer to primary, secondary or tertiary sector, domestic versus foreign markets – because sector and market orientation matter too (Schulpen & Gibbon 2001 and table 1 above).

Well-planned and thoroughly executed studies (like Jeppesen 2004, Blackman (ed) 2006, Oliveria 2006, Vives 2006, Sachdeva and Panfil 2008) in selected countries in Latin America, Africa and Asia would be valuable to make up for the 'lack of knowledge' found in the international literature (see also the special issues of Journal of Corporate Citizenship on Asia, Latin-America and Africa, issues 18, 21 and 28)¹⁸. Such studies would also make important contributions in terms of discovering the development issues, including the 'real private sector'.

Focus in the future – research and policy

Given the growing academic and practitioner's attention to CSR and SMEs in development, two somewhat different, though still related types of agendas provide potential avenues for future work. The first is a more theoretical and conceptual one, while the other is a more policy and practical one and they should obviously stimulate each other. Given the attention to the field from development, business and economic studies, it is – for both agendas - of value to look into the existing SME-literature, in spite of the

¹⁷ Thanks to Peter Newell for the inspiration.

¹⁸ Though the number of articles on – and hence attention to – SMEs is limited.

Northern bias in the literature. Considerable amount of work has been conducted in e.g. Sweden and North America and has been critically summarised by authors like Landström (2005) and Acs et al (1999). These contributions could fertilise a discussion regarding both 'conceptualisation of SMEs' and possible roles of SMEs in local (economic) development. Similarly, the findings from the Global Entrepreneurship Monitor (GEM) could be of inspiration as the annual surveys are conducted in an increasing number of developing countries, also including microenterprises (Acs et al. 2008).

The research (theoretical and conceptual) agenda

Given the limited knowledge, I see many parts of such 'CSR & SME in development research agenda'. However, involving a critical assessment of the already mentioned 'problematic' features in the field and arguing more nuanced approaches including Southern perspectives (drawing inspiration from Prieto-Carron et al 2006 and Newell & Frynas 2007) point to certain key areas as highlighted with Figure 1 above. I see four major themes to be addressed, namely the role of SME & CSR in development, impact of SME, Labour and gender issues, and finally Governance (& Government).

The role of SMEs & CSR (employment, poverty reduction local economic development)

A first basic step is to map how many and which type of SMEs are present in a particular area, and what's their role and contribution to the local (and national) economy, e.g. in terms of employment, income creation and hence poverty alleviation. Further more, what are then the pertinent business-society (CSR) issues? Pollution, poor working conditions, child labour or ...? (see next point too). Without such foundation, solid and relevant reflections, discussions and assessments are difficult to make (Accountability 2006, p. 5). From such basis we can move on and address contemporary issues, like what is the impact of FDI? Are TNCs just crowding out SMEs or placing sound CSR demands which helps raise the conditions in and around the firms. One could also qualify the Bottom-Of-the Pyramid (BOP) discussion and address the problematic features of the BOP-literature, or at least what I will term one of the 'BOP misunderstandings'. An often seen line of argument is that the TNCs focusing on BOP are doing good to the poor as the TNCs bring in products and services which did not exist before (Prahalad 2005 and Wilson & Wilson 2006). This 'misunderstanding' totally overlooks the SMEs that used to be or are present in the area. The same type of problem can be found when evaluating many development projects aimed at 'private sector development' and 'enhancement of SMEs', however, with little or misleading perceptions of the local/existing private sector and the role of SMEs (see Schulpen and Gibbon 2001, chapter 2). Instead, focus needs to be on the different roles of (different) SMEs. Without knowing this, we move around in the dark!

Impact of SMEs & Impact assessment

Key questions concerns what SMEs are doing in terms of CSR activities, and what can be achieved (or not achieved), if they are either regulated or pushed or encouraged to do more in these areas? Here, systematic studies of the environmental impact among SMEs and large firms could shed light on the question of whether SMEs actually contribute to 70% of total industrial pollution, as some claim. Wheeler et al, Dasgupta et al, Blackman, Lanjouw, Blackman et al, Kennedy and are good examples (Wheeler et al 2002, Dasgupta et al. 2000, Blackman 2006b, Lanjouw 2006, Blackman et al. 2006 and Kennedy 2006). And in-depth qualitative studies could bring us somewhat closer to the questions of the

factors that ensures, motivates etc some firms to do something and other not. To what extent does the ad-hoc nature of operations in SMEs impact on this compared to the formalisation in large firms?

Labour and Gender issues

While the mentioned studies by Jenkins et al., Barrientos et al, Dolan and Opondo, Mamic, Barrientos and Smith, Seidman and others have contributed with considerable knowledge in the CSR field, a number of issues relating to SMEs need further investigation, e.g. what kind of working, occupational safety and health conditions are women and men experiencing in SMEs compared to large firms? Is it a problem that SMEs have a lower level of unionisation compared to large firms? E.g. does the level of unionisation explain the quality of occupational safety and health, differences in the wage levels, and differences in standards for men and women? To what extent do these conditions matter in SMEs in urban versus in rural areas? And does the level of formalisation matter in relation to SMEs in informal versus formal part of the economy? The findings in a number of the studies point in the direction of 'yes', however, indepth studies are needed to confirm this.

Governance & Government

The main question to address here is the tendency to assume – and the misunderstanding - that voluntary approaches are 'the only options' to advance CSR among SMEs and/or the assumption that public (government/state) regulation is of little importance in developing countries. This is not only pertinent to the CSR & SMEs debate, but in general to all CSR writings. In line with the Fig et al observation (see above) much is still to be investigated about pros and cons of voluntary (self and market regulation) vs. public (government) regulatory approaches. Research among manufacturing SMEs in South Africa suggests that these firms would like to see the government taking a more visible and proactive role regarding enforcement of environmental legislation. If the SMEs were confident that the business conditions were more equal – or the playing field levelled – a number of them would be much more willing to undertake CSR activities (Jeppesen 2004, p. 150-151). The SMEs have difficulties in viewing the voluntary approach as leading to 'win-win situations. On the contrary, many experience 'lose-win' situations, meaning that the SMEs invest in e.g. ISO 14001 certification and improve their environmental performance, but they don't gain any new customers and an option to reclaim the investment through increasing prices. While the present stage of poorly enforced legislation obviously is a problem, the alternative is not necessarily voluntary approaches. It might work among SMEs which supply TNCs and have to meet particular requirements, but it does not work among the majority of SMEs which only supply the local market. Here, there is a need to investigate 'smart solutions' empowering local government, in cooperation with different stakeholders, to do enhance the present work (see World Bank 2000 for examples).

These research elements tie well with a policy agenda, which is important by itself due to the high level of attention and amount of resources presently being spend on SMEs by national, bilateral and international agenda, but often with meagre outcome. The CSR, SMEs and Cluster initiative by UNIDO is good example of how policy emphasis can be combined with solid research (www.weplayfair.com).

The practical (policy) agenda¹⁹

Due to the numerous and wide ranging issues that ideally need attention, the focus will here be on three areas relating to the 'role of CSR & SMEs (in local economic development)' as these from a development perspective are considered most pertinent due to the potentials of creating employment, income and hence contribution to local economic development and poverty reduction.

It means that local economic development (LED) activities directed towards the SMEs (formal and informal), which sell to the domestic market should have CSR components integrated. As mentioned above, this group of SMEs is by far the largest of all firms and positive changes in e.g. working conditions would have profound and positive effect on many workers. This point is tied to the first point about reforming BOP policies, because LED activities would tend to promote the local SMEs, make them more visible to decision makers – and maybe stronger vis-à-vis the TNCs which 'are to come and improve the lives of the four billion poor'. The issue of power and influence is also a part of the situation. SMEs tend to be less influential compared to large firms, as the SMEs as a group often not are as organised as the bigger counterparts, which will have better political contacts, and use Chambers of Commerce, Industry associations and other forums to promote their interests. And such business or industry associations and foras are often set up by large firms, which then define the membership criteria (e.g. high membership fee) and then which activities to undertake and eventually formulate CSR guidelines. Such 'open processes' often led to up front exclusion of SMEs or result in activities that are unattractive to SMEs to take part in nationally and internationally.²⁰

More concrete, the three areas are 'an active BOP policy', 'improving linkages between SMEs and large firms' and 'integrating CSR into existing enterprise development and business support services for SMEs oriented towards the local market'.

An active BOP policy

An active BOP policy means to reform the emerging 'bottom of the pyramid' business models in favour of SMEs, in particular due to the flaws mentioned earlier under the research agenda. Further more, while integrating relevant elements (working conditions, environmental or community aspects), a much more pro-poor approach would be to support the existing SMEs, when providing additional contracts for small local outlets at local development projects. Building capacity among local government, international organisations and local business service delivery institutions provides able scope for enhancing the environment for the SMEs (see the point below on enterprise development and business support service too) and hereby secure – or even expand the amount of - local jobs. And often cited, but still highly relevant example is extension of credit lines to survivalist firms, which mean that these entities can avoid the moneylenders and more increased opportunities for survival. Also the World Bank has recently acknowledged this (World Bank, 2006/undated).

¹⁹ Inspiration from Fox 2005, p. 10, Moore 2006, p. 2+3 and Moore & Spence 2006 is acknowledged.

²⁰ Many national Chambers of Commerce and e.g. the World Business Council for Sustainable Development (WBCSD) are examples of this situation.

Improving linkages between SMEs and large firms, and extending the work on clusters

A key policy element would be to ensure that the linkages agenda pays more attention to the capacity needs of SMEs and makes the most of their endowments of human and social capital. Fox is alerting us to the uncritical trust being placed on e.g. TNC-SMEs linkages as a means to upgrade SMEs and hence enhance competitiveness (Fox 2005). However, little is known about whether the involved SMEs actually experience such development, and what happens to the SMEs that are not able to qualify as such suppliers or distributors. The issue also relates to the global supply chain literature, which indicates (as stated above) that by opening the borders, exposing SMEs to international competition and linking them to TNCs, demands and knowledge will be transferred and practices improved. If we accept this line of argument – which might be problematic – the issue could be how to prepare SMEs for such competition. What do governments and international organisations need to do?

Clearly, the above mentioned growing body of literature on SMEs and CSR in Clusters issues provides a range of valuable information and insights. So far mainly on South Asia (India and Pakistan as highlighted above and at www.weplayfair.com), but hopefully an approach which will inspire other local governments, international donor agencies and researchers to contribute, as the number of clusters is massive.

As mentioned concerning the global supply chain relations, including the expansion of Codes of Conduct, a major issue seems to be that many – and maybe an increasing number of - SMEs are being excluded from the chains. When the Danish toy and entertainment producer LEGO announces that it is striving to enhance its financial performance making the logistics less complex, it sounds like prudent business logic. However, by reducing the number of suppliers from 12.000 to 2.000 the tough developmental issue is that the majority of the suppliers are found in developing countries. In addition, the majority of the 10.000 suppliers losing their contracts will be SMEs, among which again a certain – maybe large - percentage will be forced to sack employees. Employees, which again will have huge difficulties in finding other formal employment and hence a number of families losing key – stable - earnings to sustain their livelihood, leading to vulnerability increasing, and finally leading poverty to increase.

One example of an alternative approach is the ETI smallholder guidelines, which provide four recommendations which illustrates who focus can be shifted towards the SMEs (though here refereeing to smallholders in agriculture):

- Continue to source from the smallholders
- Map and access the needs of smallholders
- Provide support down the supply chain
- Give it time (www.ethicaltrade.org/Z/lib/2005/smhldr-gls/index.shtml)

Integrating CSR into existing enterprise development and business support services for SMEs oriented towards the local market

As mentioned, the majority of SMEs sells in the local market and accordingly not are experiencing pressure from TNCs, so advancing a 'SMEs & CSR agenda' should mean addressing this majority of firms. While I generally agree to the need of such approaches, I find that the approaches needed in order to realise such ambition can draw substantially

on findings from points 2, 3 and 4 above. However, a key premise is that the relevant capacity among local government and providers of business support services exists. Without such capacity it is difficult to move beyond traditional types of support services and hence difficult to ensure that relevant CSR activities are included in the support services.

Conclusion

In sum, tremendous scope for investigating and promoting a 'CSR and SMEs in Development agenda' exists, as also highlighted in Ward (forthcoming), but a couple of key premises need to be in place before it will matter. The last 10-15 years have witnessed an increasing number of contributions in the field and accompanying these contributions a more nuanced understanding of SMEs have emerged, unpacking SMEs as a highly different group of entities or firms, as less of a 'problem' and more of a 'potential' and as of a 'miniature version' of large firms and more of an entity in its own right. While some knowledge has been gathered in certain areas, we basically know rather little on many areas, in particular the most crucial one on the role and impact of SMEs in the local economies.

In advancing a critical research agenda in the field, two prerequisites are needed – that we turn the focus to the SMEs and their reality taking point of departure in 'Southern perspectives' and that we ensure proper methodologies being employed when we conduct the investigations. I have argued in favour of at least four main areas to be part of such a critical agenda: A) addressing the role of SMEs and CSR in local (economic development) issues, B) impact of SME, C) Labour and gender issues, and D) finally Governance & Government issues. As substantial attention is on SMEs from various policy quarters, an obvious way of enhancing the research work is through close linkages with a policy agenda. A policy agenda, which accordingly could address issues like: I) an active BOP policy, II) improving linkages between SMEs and large firms and (continue) to strengthening CSR and SMEs initiatives in clusters, and III) integrating CSR into existing enterprise development and business support services for SMEs oriented towards the local market. Irrespectively of where one starts, academics and practitioners have a huge task in assisting with persuading national and international policy makers and funders about this.

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