

Executive Summary

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Opportunities and risks of CSR for Small and Medium-sized Enterprises

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The Corporate Social Responsibility (CSR) management system transfers sustainable and socially responsible action into business success. Therefore a systematic application of CSR is significant, but not yet sufficient. The reason: CSR involves inherent risks. In addition to the general risks attributable to any kind of investment, opportunism is a threat for companies that are committed to CSR. Doubt on the credibility of information and the misconduct of (market-) partners can jeopardise the CSR-policy of a company and lead to competitive disadvantage. The study reveals on the basis of eight business examples – among them large as well as small and medium sized enterprises – how to manage these risks.

Association membership can reduce procurement risks

CSR is a concept used by companies to secure long-term access to raw materials, primary products and other external resources. If the standards of the external resource providers are outside of the company's control, it becomes difficult to organise procurement according to own CSR-criteria. In this case companies are at risk of achieving inputs of minor quality. In order to ensure success, CSR-active companies of every size choose suppliers who are themselves members of specific production and marketing alliances in which CSR-standards are common. The membership itself is a strong signal for one's commitment to social and environmental principles and requirements. Smaller companies in particular use their personal contacts to make sure that CSR-standards are being followed among a group of market partners.

False perception of staff ambitions puts the success of CSR at risk

Furthermore, CSR is a promising approach to human resources policy. It is often adopted to motivate employees and to attract new staff with specialised human capital. CSR will only reach its goals when the preferences of all staff members are well known and respected by the personnel management. Therefore especially large companies conduct employee surveys and initiate ideas competitions. Smaller companies use more often the closer personal contacts they cultivate and involve their employees in the decision-making processes of the firm.

Network contacts minimise the risks related to CSR-sales strategy

CSR is often used as a selling argument. However, some competitors present themselves as more sustainably than they really are. In the face of increasing greenwashing, even liable companies can fall into discredit. To prevent these negative side effects, companies set explicit signals to demonstrate the depth of their commitment. They use quality management systems standards to make visible to outsiders that the company meets the requirements. In addition, companies form co-operations with other users of CSR to establish standards and control mechanisms. Other companies make use of their social capital to show integrity. In particular smaller ones activate their network connections mostly in the region and make use of their personal good contacts to customers. Large companies more often achieve credibility by external verification of a sustainability report. Furthermore, some large companies conduct voluntary industry agreements establishing codes among businesses.

Voluntary civil involvement is undermined by free-riders

Civic involvement in arts, culture, education and nature calls for agreement and co-operation among various socio-economic partners. These protagonists face free-rider problems by those who continue to enjoy the benefits while no longer participating in the activities to achieve these values. With a growing number of participants the need for planning and coordination increases as well. To respond to these risks the initiators limit the number of participants and choose partners from existing networks. In such networks potential partners have put their willingness to cooperate and their sense of fairness already to the test. In order to create more incentives to perform and to establish control mechanisms, some groups found an association.

Regulatory intervention is not necessary

Companies that make use of CSR are facing substantial control and coordination problems, leading to risks of opportunism. The study shows that all the arising risks can be solved by the enterprises themselves without government intervention. The analysis describes the methods that can be implemented to minimise the risks associated with CSR. Solution strategies can be used by large enterprises and SMEs alike.