



## Rhetoric and Realities: Analysing Corporate Social Responsibility in Europe (RARE)

A Research Project within the EU's Sixth Framework Programme

### CSR in small and medium-sized companies: Evidence from a survey of the automotive supply chain in Hungary and Austria

[www.rare-eu.net](http://www.rare-eu.net)

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# CSR in small and medium-sized companies: Evidence from a survey of the automotive supply chain in Hungary and Austria

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## 1 Introduction

The European Multistakeholder Forum on CSR in 2004 found that “we know relatively little about the scale and impact of CSR amongst SMEs” (European Multistakeholder Forum on CSR 2004: 4). This analysis motivated us focus a part of the RARE Project to the analysis of concrete activities and performance of European small and medium-sized enterprises (SMEs) in the field of Corporate Social Responsibility. This will be done against the backdrop of the specific economic and structural constraints under which SMEs operate. Specifically, our research questions are: What are the processes by which SMEs commit to CSR, include CSR in their planning or strategy building, and implement it? And what is the resulting CSR performance of SMEs and what impacts do SMEs create with regard to society and the environment? The processes are assumed to be preconditions of the CSR impacts which are then assessed. We focus our research on Austrian and Hungarian SMEs from the automotive sector.

The first section of this chapter briefly deals with the definition of SMEs and their role in the European economy. The second section reviews the literature on CSR practices of small and medium-sized enterprises, with special regard to our research questions. In addition, insights on the specific framework conditions of SMEs will be summarized, to the extent that they can be assumed to impact on CSR practices. The review focuses on the EU in a non-exclusive way. Against the state of the art background, we discuss the empirical results of a survey on CSR practices and impacts in SMEs in the main section. The survey, which was carried out in early 2006, focuses in some more depth on the issue areas of environmental protection (climate change, chemicals, and other), gender equality, and countering of bribery. Compared with existing literature, the survey attempts to go beyond stocktaking of what companies do, and inquires about CSR performance and impact. In accordance with the EU-definition of CSR, we focus on CSR as a ‘concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment’ (European Commission 2002) (‘built-in’ CSR) rather than on community activities and Corporate Citizenship (‘bolt-on’ CSR). Finally, we include several comparative perspectives into our research: We analyse CSR in Hungary as an Eastern/Central European and hence transformation country, and hence draw comparisons between CSR in old and new Member States. To some extent, we also compare between corporate responsibility practices by SMEs and by bigger multinational corpo-

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<sup>1</sup> Budapest University of Technology and Economics. We would like to thank Franziska Wolff, Federica Viganò and Sabina Nicoletta for their comments.

rations by referring to results gained in other sector surveys carried out within this project.<sup>2</sup>

Finally, the concluding section proves that SMEs consider CSR to be of strategic importance above all in case of environmental impact reduction, followed by the issue area of countering bribery. The main motivating factors of CSR are linked to cost saving, followed by meeting customer expectations and basic values of the company, as well as contributing to sustainable development. Our respondents consider their primary role in local community as to provide employment. CSR instruments are not well-known or applied generally, e.g. the low reputation of eco-labels lead to a negative conclusion. The most popular instruments in the field of environmental protection are management systems, especially ISO14001. Monitoring employee satisfaction and involving employees into decision making considered to be rather important. The importance of employees is also reflected by the fact that SMEs often accept employee suggestions about CSR. Regarding the four policy fields and environmental protection in general, we observed that mitigating climate change is not considered a priority by SMEs, since they generally affirm that they are not significant contributors to this environmental problem. Concerning other environmental issues, waste management is the most frequently mentioned area of activity. Bribery, despite of its high strategic importance, is usually not tackled by special measures, as well as gender equality. Both issue areas are usually treated in an informal way. Customers, meaning multinational enterprises, usually require the application of quality standards from their SME suppliers, whereas environmental standards were applied only to some Austrian companies. SMEs expect training and assistance from industrial associations and awareness-raising activities among customers and consumers, as well as financial support from the policy makers. There is no significant difference between respondent companies from the two countries regarding the commitment of SMEs for social and environmental issues. Practical implementation, however, is more developed in Austria, CSR instrument are more consciously and professionally applied. The involvement of SMEs in CSR can be fostered by training and assistance, and from policy makers they would welcome awareness-raising among consumers and the business sector as well.

## **2 The definition of SMEs and their role in European economy**

We consider the recognised EU definition for Small and Medium Sized Enterprises as the basis of our research and company selection for the SME survey. Since January 1st 2005, SMEs have been defined as enterprises which employ fewer than 250 persons and which have either an annual turnover not exceeding 50 million Euro, or an annual balance sheet total not exceeding 43 million Euro (see Table1).

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<sup>2</sup> These other surveys cover CSR in multinational corporations from the European oil, banking and fish processing sectors. Cf. [www.rare-eu.net](http://www.rare-eu.net)

Table 1: The definition of SMEs

Enterprise category	Headcount	Turnover or		Balance Sheet Total
Medium-sized	<250	<50 M Euros	or	<43 M Euros
Small	<50	<10 M Euros	or	<10 M Euros
Micro	<10	<2 M Euros	or	<2 M Euros

Source: European Commission (2005: 14)

Considering their role in the economy of the European Union we can state that SMEs are very important actors: 99% of the companies are SMEs in the enlarged EU. The share of SMEs is not homogenous across sectors, as company size depends on the production/service process. The role of larger companies is more important in the extraction, energy and manufacturing sectors (Observatory of European SMEs 2003: 29.). As Günter Verheugen stated: ‘Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment’ (Günter Verheugen in European Commission 2005: 3).

Table 2: Basic facts about SMEs and large enterprises in Europe-193, 2003

	SMEs	Large enterprises	Total
Number of enterprises (1.000)	19 270	40	19 310
Occupied persons per enterprise	5	1 052	7
Turnover per enterprise (Million €)	0.9	319.0	1.6
Employment (1.000)	97 420	42 300	139 710
Share of exports in turnover (%)	12	23	17
Value added per occupied person (1.000 €)	55	120	75
Share of labour costs in value added (%)	56	47	52

Source: Observatory of European SMEs (2003: 9)

SMEs in Europe-19 (i.e. the EU-15 plus Iceland, Liechtenstein, Norway and Switzerland) employed about two third of employees in 2003. In average, they work slightly more labour intensively, but the value added per occupied person is less than half than in case of large enterprises (Table 2).

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<sup>3</sup> EU-15 plus Iceland, Liechtenstein, Norway, and Switzerland

Table 3: Role of SMEs in Acceding and Candidate Countries and in Europe-19

	<b>Micro</b>	<b>Small</b>	<b>Medium-sized</b>	<b>Total</b>	<b>Large</b>	<b>Total</b>
Accession countries – 2001 (new Member States from 2004 on, plus Bulgaria, Romania)						
Enterprises (1.000)	5670	230	50	5950	10	5970
Occupied persons (1.000)	10210	4970	5350	20530	10150	30670
Occupied persons per enterprise	2	22	107	3	919	5
Europe-19 – 2003						
Enterprises (1.000)	17820	1260	180	19270	40	19310
Occupied persons (1.000)	55040	24280	18100	97420	42300	139710
Occupied persons per enterprise	3	18	98	5	1052	7

Source: Based on the Observatory of European SMEs (2003: 11)

The above figures did not change significantly with the EU enlargement in 2004, because in accession countries the role of SMEs was similarly crucial: SMEs make up the majority of businesses in Central and Eastern Europe.

### **3 CSR in Small and Medium-sized Enterprises - findings from a literature review**

Although CSR practices are generally adopted by multinational enterprises, the role of SMEs is not negligible considering their economic role and social embedding, their primarily relation with the local communities. As it is declared in the Green Paper, CSR practice has so far primarily been the domain of large multinational enterprises, but “its wider application in SMEs including micro businesses is of central importance, given that they are the greatest contributors to the economy and employment.” (European Commission 2002). Companies in general and “SMEs in particular contribute to the development of their local communities” (Observatory of European SMEs 2002: 9) in several ways. Environmental responsibility of SMEs is similarly of high importance because “social and environmental responsibilities are not separate but two sides of the same coin, i.e., the responsible business” (Observatory of European SMEs, 2002: 9) and since SMEs individually are proportionally not big polluters, their environmental performance is usually less monitored and transparent than that of big companies. Therefore their voluntary, beyond compliance responsibility taking is in a way more crucial than in case of MNEs.

In the following we give an overview of existing literature and research projects, focusing on information relevant to our research questions. This includes the structural restrictions that SMEs meet with regard to CSR, concrete CSR activities they carry out, and CSR performance/ impact by SMEs. We attempted to integrate insights on these issues specific to CSR carried out by SMEs in Central and Eastern European Countries, but the respective literature is still comparatively scarce.<sup>1</sup>

#### **3.1 Restrictions of CSR in SMEs**

Restrictions of CSR in small and medium-sized companies typically include costs, capacities and attitudes, as well as the “supply side” of existing CSR instruments. Costs may be perceived or actual, and resource pressures include the lack of time to identify and involve main stakeholders (Canadian Business for Social Responsibility 2003). A study into SMEs participating in the Global Compact found out that barriers to compliance with the GC most highly ranked include the inability to obtain credit, finance and insurance (UNIDO 2004). As regards capacities and attitudes, many studies observe a lack of know-how and know-who (Multistakeholder Forum 2004), a lack of awareness of business benefits, and fear of bureaucracy (DTI/BITC/IOD/BCC/Accountability 2002). On the other hand, in the DTI et al. survey among UK SMEs, 91% of respondents described their businesses as already socially and environmentally responsible. Finally, on the “supply side”, the Multistakeholder Forum (2004) analysed that the design of existing CSR tools, measurement and verification processes is oriented towards

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<sup>1</sup> As Csonka et al. (2004) observe for Hungary, “There is no history of CSR in SME on a major or even organised scale in Hungary”.

large businesses. One of the consequences of these barriers is that SME activities are usually not regular and typically not related to the company strategy (Observatory of the European SMEs 2002). Often, the SMEs are engaged without being fully aware of it being CSR (DTI et al 2002)

### *3.2 CSR activities by SMEs*

A lot of SME activities are oriented towards the community. For example, the Observatory of the European SMEs (2002) report about a sample of 7600 European SMEs that approximately half of the SMEs surveyed were involved in external CSR activities. While there are little differences with regard to the industry sectors, there are some with regard to geographical location (more activities in SMEs in Northern European countries, less in Southern European countries). Most frequently, the SMEs supported sport, culture and welfare activities, while environmental activities were less frequent. The UNIDO (2004) study with its global scope found that external activities frequently related to education within the community, environmental protection and philanthropy, while internal CSR issues included employee satisfaction, health and safety issues, education/training. Zooming in on individual countries, results from Britain as one of the European forerunner nations with regard to CSR are interesting: In the survey of Jenkins (2004) environmental management was a key area in which SMEs were involved, along with employee issues, the community, and the supply chain. In these cases, obviously, SMEs were committed to built-in CSR along with the bolt-on types of community activities. Among the environmental activities, climate and chemical issues as well as other environmental impacts were accounted for (cf. Starkey 1998). Among the employee issues, however, none of the issues relevant for our project – countering of bribery, increasing gender equality – were prominently tackled by SMEs. A study on sustainable business among German SMEs (ISO Institut/ Öko-Institut 2001) found that CSR could be even more ‘built-in’: sustainability is also practiced through long-term innovation management and development of new, more socially or environmentally responsible products and services.

### *3.3 CSR performance/ impact by SMEs*

Studies are less common that go into small businesses CSR performance and the resulting positive impacts on society and the environment. One general caveat made by the Multistakeholder Forum (2004) was that many SMEs may not be (fully) aware of their environmental and social impacts. Especially micro-businesses frequently do not measure and record their performance.

In accordance with this, empirical data is scarce on how CSR commitment results in social and environmental improvement. Studies are more frequent concerned with environmental performance. For example, Friedman/Miles (2002) show that within a British environmental initiative aimed at SMEs, individual businesses made significant environmental improvements, and Ammenberg/Hjelm (2003) register environmental improvements following the establishment of a joint environmental management system

among 26 small and medium-sized enterprises in a Swedish industry district. The study of Medina-Munoz/ Medina-Munoz (2000) explores economic, socio-cultural and environmental contributions of SMEs to communities on the Canary Islands. The UNIDO (2004) study on SMEs' compliance with the Global Compact principles is broader as regards issue coverage and scope (78 survey respondents). The priority given to compliance is highest with regard to the protection of internationally proclaimed human rights (high priority for 79% of respondents), to labour principles (over 78%), and decreases with regard to the GC's environmental principles (ca. 68%) and freedom of association and collective bargaining (55%).

#### 4 Empirical results on CSR in small and medium-sized enterprises in the automotive supply chain

The aim of our empirical study is to contribute to the better understanding of SMEs' CSR activities. We look into several aspects that go beyond earlier research, and apply the methodology developed in the RARE project to CSR practices of small and medium sized enterprises. Our study focuses on the processes by which companies commit themselves to foster CSR, by which they integrate CSR into their strategies, and to implement their social and environmental responsibility. We analyse then how the implementation of CSR activities influences the companies' social and environmental performance and what are the external impacts on the environment and society. The two main research questions are: what are the success factors of CSR, and what measurable impacts that SMEs' CSR has on society and environment.

The study followed the same logic applied to the sector surveys among multinational enterprises, with several simplifications and slight modifications.<sup>2</sup>

Figure 1: Survey structure



Source: RARE Project

Since CSR is a concept that originally emerged in the context of multinational enterprises, and SMEs are less active in this field, our survey focuses on companies with some experience in related activities, e.g. environmental management, support of NGOs, donation or sponsorship. In order to represent the differences between old and new Member States (that joined the European Union in 2004), it was decided to involve

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<sup>2</sup> Among others, the title and content of the second section was changed to “strategy/planning”, as strategy development is not as evident in case of SMEs as in case of MNEs.

in the survey companies from both groups of countries. Two countries were selected: Austria<sup>3</sup> and Hungary.

The automotive sector was selected, since it is a significant sector in both countries and SMEs in this sector are typically suppliers of MNCs. Furthermore, the characteristics of this sector proved to be very relevant to the policy fields analysed in RARE project. This allows to some extent a comparison between practice of corporate responsibility in SMEs and in the multinational corporations analysed within the RARE project.

The selection of companies to include into the survey was based on a set of criteria. We tried to identify companies that were active in the fields of CSR, sustainability or environmental protection both through contacting intermediary organisations<sup>4</sup> and directly through screening of company databases. Information on the companies' CSR activities were mainly accessed through the companies websites. Altogether, 28 Austrian and 25 Hungarian companies were selected to be included in the survey. The questionnaires were sent out to them as of April 2006, after telephone or e-mail contacts had been established.<sup>5</sup> 10 out of 25 (40%) Hungarian and five out of 28 (17.8%) Austrian companies answered our questionnaire. The companies that participated in the survey answered basically all questions. Our survey results are not representative, especially regarding Austria, but can give us a good qualitative impression. Comparison of the two countries is possible only to a limited extent because of the small sample in the case of Austria. Also, from Austria 60% of the respondents were medium sized and 40% small companies, while from Hungary, 40% were medium sized and 60% small.

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<sup>3</sup> In Austria, SMEs are very active in external socially responsible activities, as it is appointed by the Observatory of European SMEs (Observatory of European SMEs 2002: 20)

<sup>4</sup> KÖVET-Inem Hungária in the case of Hungary, and Cleaner Production Center Austria GmbH, Institut für Ökologische Wirtschaftsforschung Austria AC Styria Automobile Cluster, Automobile Cluster, Vienna Region and Automobile Cluster, Upper Austria in the case of Austria.

<sup>5</sup> The first contacts were the owners, top managers or environmental managers. Some of the Hungarian companies contacted answered that they were under liquidation and could not participate in the survey. Another problem was to find the appropriate contacts. Personnel contacts were more easily to be made in case of Hungarian companies.

## 4.1 Survey results

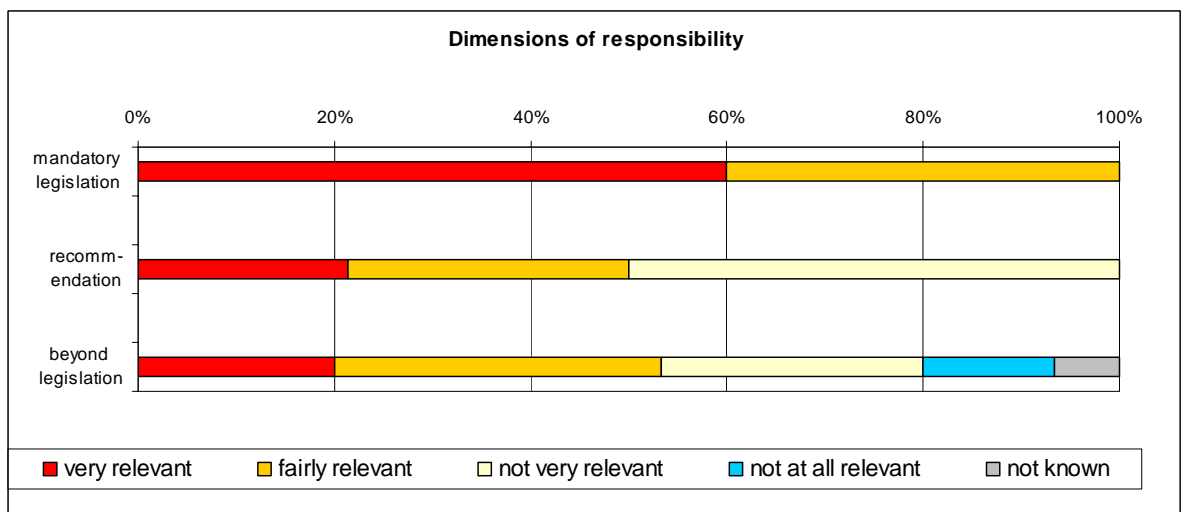
The survey results will be presented according to the structure of the questionnaire, as outlined above. When the results between Hungarian and Austrian companies differ significantly, we describe them separately. If there is no major national variance, we refrain from breaking down the results nationally.

### 4.1.1 Commitment

The first section concerns the commitment of the respondents to CSR. This includes the companies' understanding of their voluntary commitment, their motivation for carrying out CSR, and their view on the benefits in relationship with the local community.<sup>6</sup>

We were first interested in how the voluntary-mandatory dimension of CSR was perceived by the company. We hence asked how relevant compliance with mandatory legislation was, as opposed to meeting non-binding governmental recommendations and carrying out beyond compliance activities.

Figure 2: Dimensions of responsibility



Source: RARE Project

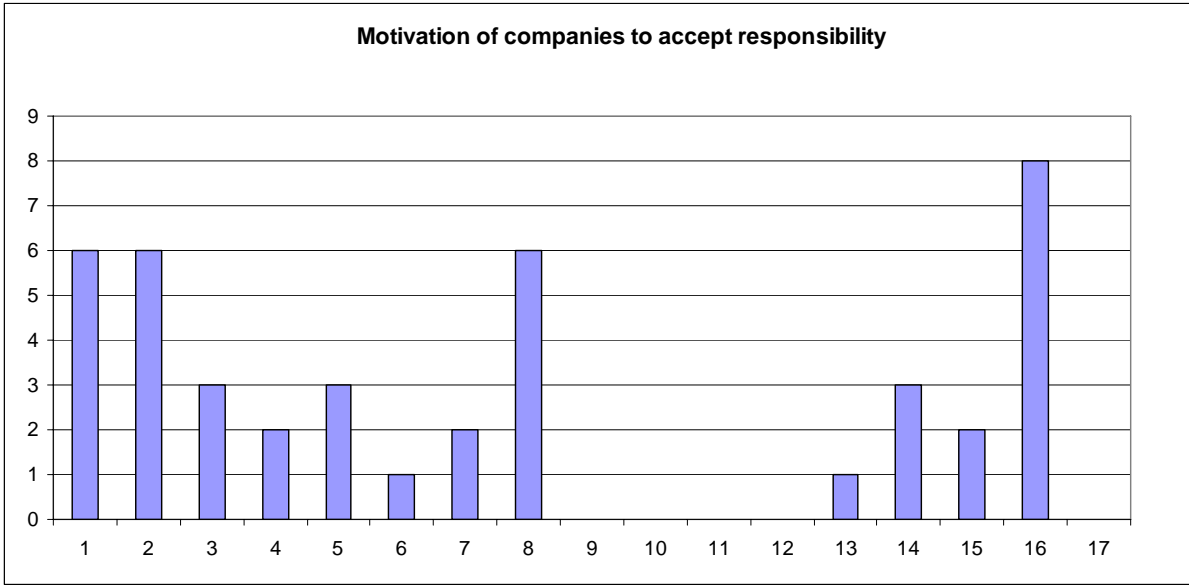
60% of the companies stated that compliance with mandatory legislation was “very relevant” for their social and environmental activities. The remaining companies consider compliance as “fairly relevant”. This might indicate that some companies are not absolutely compliant with legislation, but more likely some of them are not fully aware of the relevant legislation as concluded by the Observatory of European SMEs (Cf. Observatory of European SMEs 2002: 16). All respondents state that they meet non-mandatory government recommendations to some extent. Only 20% of companies re-

<sup>6</sup> The latter issue was not discussed in case of MNEs but local embedding is very important for small and medium sized enterprises.

gard their social and environmental activities to go clearly beyond compliance. However, more than 50% stated that going beyond compliance is very or at least fairly relevant.

Companies were then asked what motivated them to accept a responsibility for society and the environment. The question was outlined in the survey in a form that allowed each company to mark a maximum of three answer options, resulting in the following picture.

Figure 3: Motivation of companies to accept responsibility



Legend:

- |   |   |
|---|---|
| 1. Meet a fundamental value of our business               | 10. Prevent or obviate anticipated legislation      |
| 2. Contribute to sustainable development                  | 11. Benefit from public programmes and subsidies    |
| 3. It's the right thing to do as an ethical company       | 12. Benefit from networking activities              |
| 4. Manage reputation                                      | 13. Trigger innovation of products and services     |
| 5. Reduce risks to our company                            | 14. Expand our customer base or develop new markets |
| 6. Attract, retain and motivate employees                 | 15. Manage resource constraints                     |
| 7. Responsibility to stakeholders and the local community | 16. Generate cost savings                           |
| 8. Meet the expectations of our customers or supply chain | 17. Others  |
| 9. Improve access to capital                              |   |

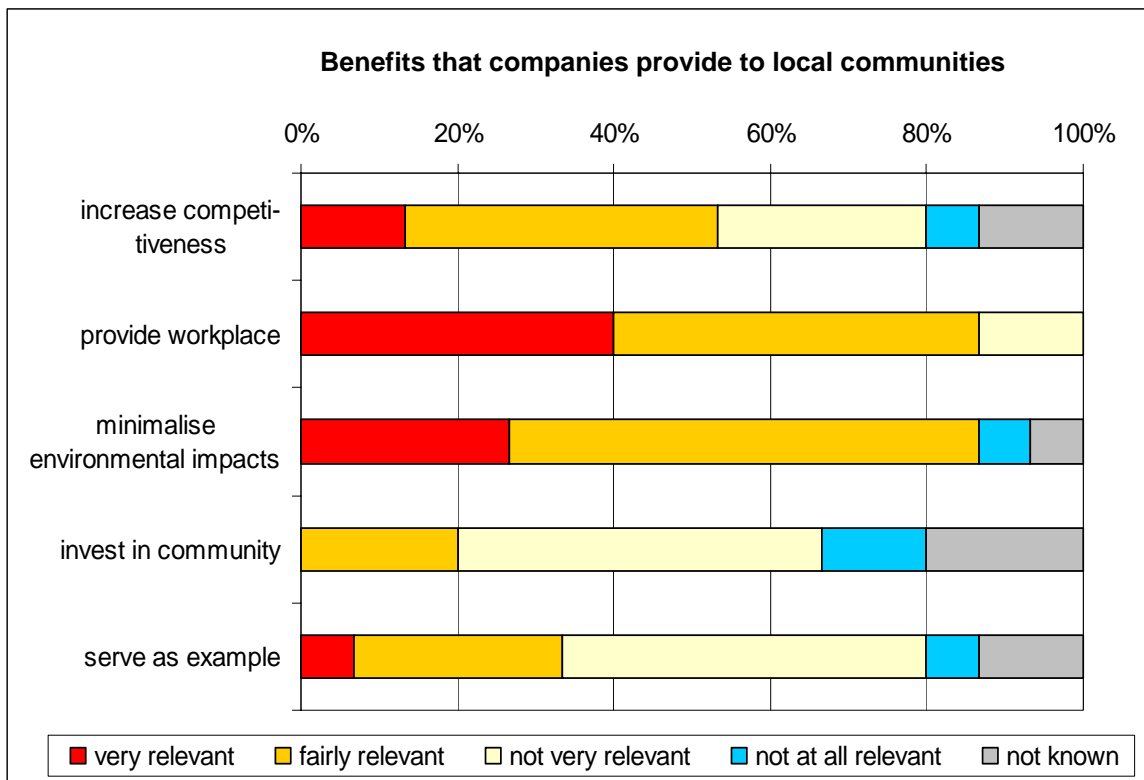
Source: RARE Project

Expected cost savings is the factor that most strongly motivates companies to accept responsibility (ticked by more than half of the companies). It shows that SMEs prefer “win-win” solutions, and that costs are expected to be reduced through CSR. This main motive is followed by “meeting a fundamental value of the company”, “contributing to sustainable development” and meeting customer or supply chain expectations. None of the companies stated as motives improved access to capital, the prevention or obviation of anticipated legislation, benefits from public programmes and subsidies or from networking activities. It is realistic that SMEs cannot influence legislation, especially if

networking is not a motivation factor for accepting responsibility. The latter might indicate that cooperation between SMEs, at least in the field of social and environmental responsibility, does not play a major role. Socially Responsible Investment is also an instrument available only for larger companies, therefore improving access to capital is not a significant motive for SMEs.

When asked what benefits the companies provided to the local communities they operate in, the benefit ranked highest provision of good workplaces, followed by minimisation of environmental impacts. About half of the respondents think that their company contribute to local competitiveness and only one third that it serves as an example for others. Investment in the local community was not seen as very relevant for any of the respondents, and was fairly relevant for 20% (3 respondents).

Figure 4: Benefits provided to local communities



Source: RARE Project

#### 4.1.2 Strategy/planning

After inquiring the companies' commitment to CSR, we investigated how this commitment was integrated into strategies and planning activities – assuming, that such an integration was a precondition for improving social and environmental performance.

The introductory question aimed at gaining information about the “most important social and environmental issues” for the company's operation. The question was open, i.e.

issues were not specified. The respondents specified that reduction of energy and resource use, or cost saving<sup>7</sup> were the most important issue areas (mentioned by 5 companies). Although based on a low number of respondents, this result suggests that although economic benefit is not the only motive for adopting CSR, when talking about concrete areas, companies frequently mention those that implicate cost savings. Providing good workplaces and raising environmental awareness among employees were mentioned as important issue areas by two companies each, and improving workplace safety by one respondent. The relevance of workplace issues may indicate that employees are important for SMEs in general and that they are also crucial actors in SMEs' CSR engagement. This is also in harmony with the fact that SMEs believe their most important role in the local community is to provide good workplaces.

Another important conclusion of this part of the survey is that companies that operate ISO 14001 were more active in answering this question and their answers are more specific than answers by the rest of the companies. Management standards seem to be useful in defining targets and mainstreaming them within the company.

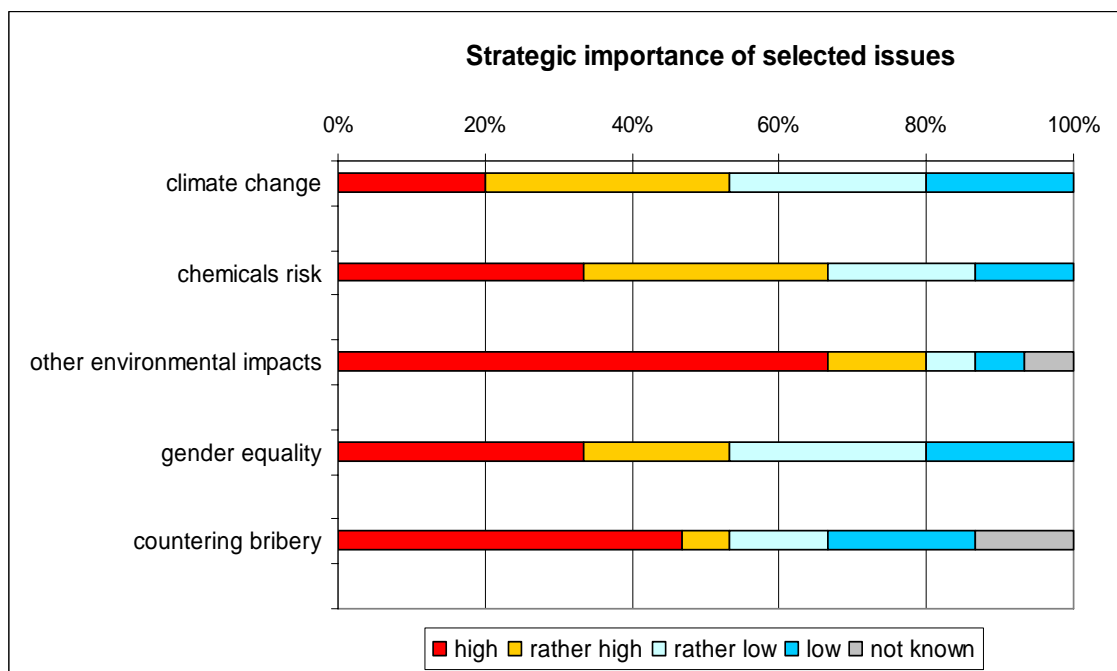
In addition to having companies specify which issue areas they rank as most important, we were interested in knowing how strategically relevant they consider the sustainability issues focussed on within the RARE Project – climate change, chemical risk, other environmental impacts,<sup>8</sup> gender equality and countering bribery.

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<sup>7</sup> Although “cost saving” is not an environmental/social issue, some respondents still named it when answering this question, presumably referring to environment related costs.

<sup>8</sup> The aggregate issue area of “other environmental issues” beyond climate and chemicals issues was included as we assumed that various environmental activities were a significant area of SMEs' CSR activities.

Figure 5: Strategic importance of selected issues

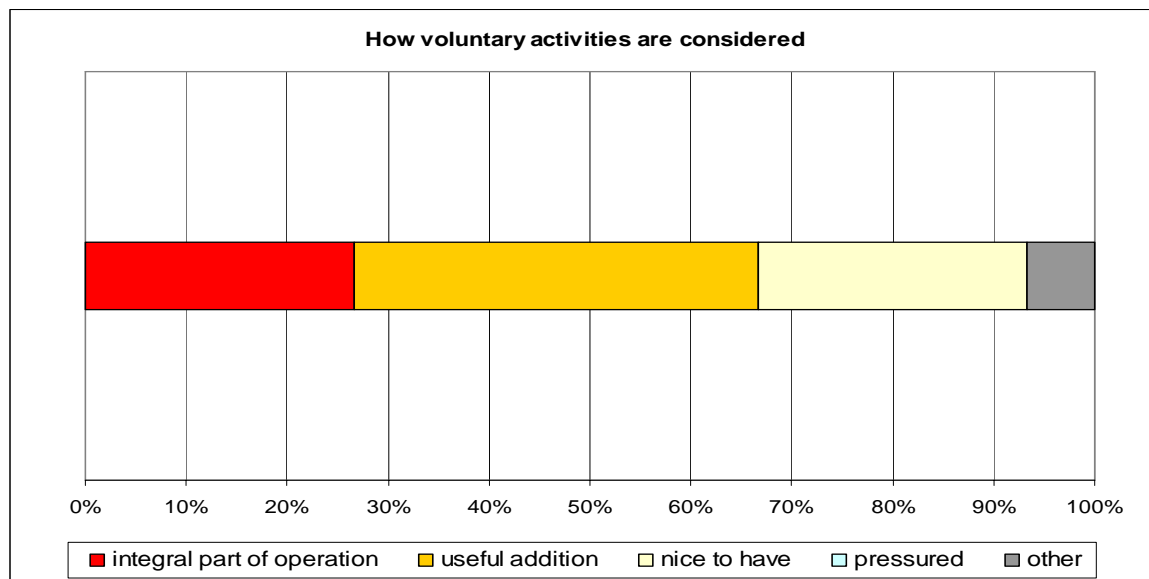


Source: RARE Project

The issue most important for our respondents was mitigating environmental impacts other than climate change and chemical risks, with high or rather high importance for 80% of the respondents (12 out of 15). A relatively even distribution of all the different answers was given in case of countering bribery and gender equality, presumably because these are the less clearly regulated issues. Still, the strategic importance of countering bribery is high or rather high for more than half of the companies. Chemical risk management is also of variable importance but the reason is different as we will see later (the relevance of the issue is mostly dependent on the technology used by the company). It is interesting that climate change is assessed to be less strategically important than the other issues. This might indicate that local challenges – ranging from female representation in the company to direct pollution – are given more weight than global ones.

How systematically do companies tackle the social and environmental issues which they consider to be strategically relevant? We asked companies whether voluntary activities were an integral part of their operations, a useful addition to the company's operations, a "nice to have" or something they did because they were pressurized to do so.

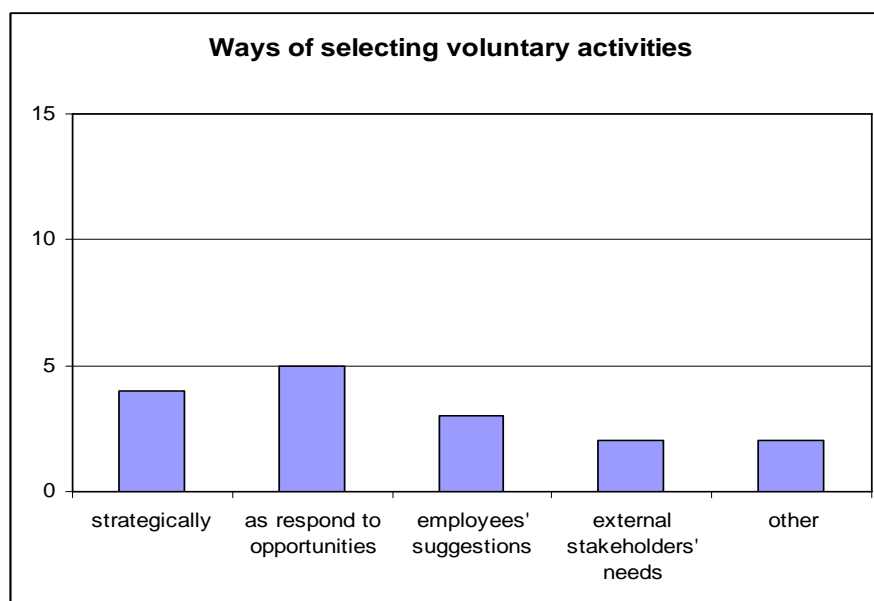
Figure 6: The companies' approach to voluntary activities



Source: RARE Project

It emerged that none of the companies see voluntary activities as a reaction to pressures. This is in harmony with the fact that, contrarily to MNEs, external societal pressures are not typical for the activities of SMEs. Most of the respondents see voluntary activities as a useful addition (6 out of 15). Only 4 out of 15 of the responding SMEs carry out voluntary activities as an integral part of their operations; likewise, 4 companies consider them as “nice to have”.

Figure 7: Ways of planning and selecting voluntary activities

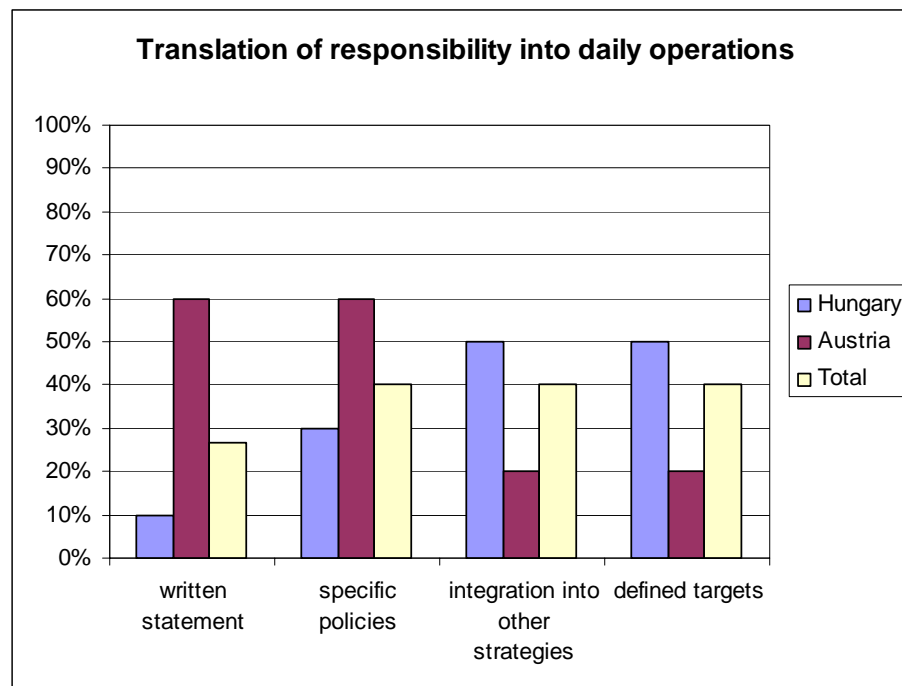


Source: RARE Project

We inquired more in-depth how voluntary activities were planned and selected. Most of the respondent companies react to opportunities when selecting voluntary activities. Five out of 15 respondents – mostly those that consider voluntary activities as integral part of their operation – select these activities strategically. Employees’ suggestions are also relatively important, highlighting that bottom-up initiatives can be significant in case of SMEs. External stakeholders do not significantly determine voluntary activities of the companies asked. This is in contradiction with the fact that meeting “expectation of customers or supply chain” was a frequently mentioned motive for accepting responsibility. Companies are confronted with external expectations but these are only partly experienced as concrete expectations.

How do the companies express and translate their responsibility to society and the environment into daily operations? This is seen as a relevant step to make CSR a “built-in” rather than “bolt-on” activity. We received relatively different answers to this question from Austrian and Hungarian SMEs. We will hence break down the results nationally.

Figure 8: Ways of translating responsibility into daily operations



Source: RARE Project

Austrian SMEs feature a high proportion of written statement and specific policies. This result may partly be due to the application of ISO 14001 in most of the Austrian companies of our sample. As opposed to this, more Hungarian than Austrian companies state that they integrate social/ environmental responsibilities into other strategies and have defined specific targets concerning their social/environmental responsibility. To sum up, those ways of translating responsibility into daily practices that are more formal (e.g. specific policies) and easier to measure (written statement instead of defined targets that are not necessarily in written form), are more popular among Austrian compa-

nies. This might reflect the fact that the application of specific instruments is more “professional” in Austria than in Hungary. However, we have to keep in mind that the rate of medium-sized companies was higher in the Austrian sample, and this might bias our result.

### 4.1.3 Implementation

We assumed that implementation plays a crucial role in achieving a high CSR performance. Therefore the survey inquired in detail about implementation. Firstly, we asked the companies about the instruments they use in connection with CSR. The following table shows how many companies know a CSR instrument (without using it), and how many companies use the instrument or plan to use it in the near future.

*Table 5: Instruments used, known and planned to be implemented by the companies*

<b>Instruments</b>	<b>Know the instrument</b>	<b>Use the instrument</b>	<b>Plan to start using in next 2-5 years</b>
<b>Codes of Conduct</b>			
Global Compact	1		
Partnership agreement with trade unions	4		
Guidelines by your industry association	1	1	
Company-specific code(s)		2	2
<b>Management systems</b>			
ISO 14001	4	7	
EMAS	3		
ISO 9001	3	11	1
ISO/TS 16949	2	5	
VDA 6.1, 6.4	2	3	
Social Accountability 8000	1		
Company-specific management system(s)	1		1
<b>Ways of connecting to employees and external stakeholders</b>			
Monitoring employee satisfaction.	1	13	
Involving employees into decision-making.	3	8	
Collecting information about/ from external stakeholders (e.g. surveys, complaints management, focus groups).	3	8	
Consultation with external stakeholders and dialogue (e.g. in non-financial accounting or auditing, roundtables).	2	6	
Including external stakeholders into decision-making (e.g. in working groups, joint initiatives).	2	2	
Participation in local partnerships	3	2	
<b>Non-financial accounting and reporting</b>			
Non-financial reporting	4	3	

Labels, awards (known, gained)				
	National Eco-Label	4		
	EU Eco-Label	4		
	Gender, Diversity or Family-friendly workplace Awards	2	1	
	National Entrepreneurship Award	3	2	

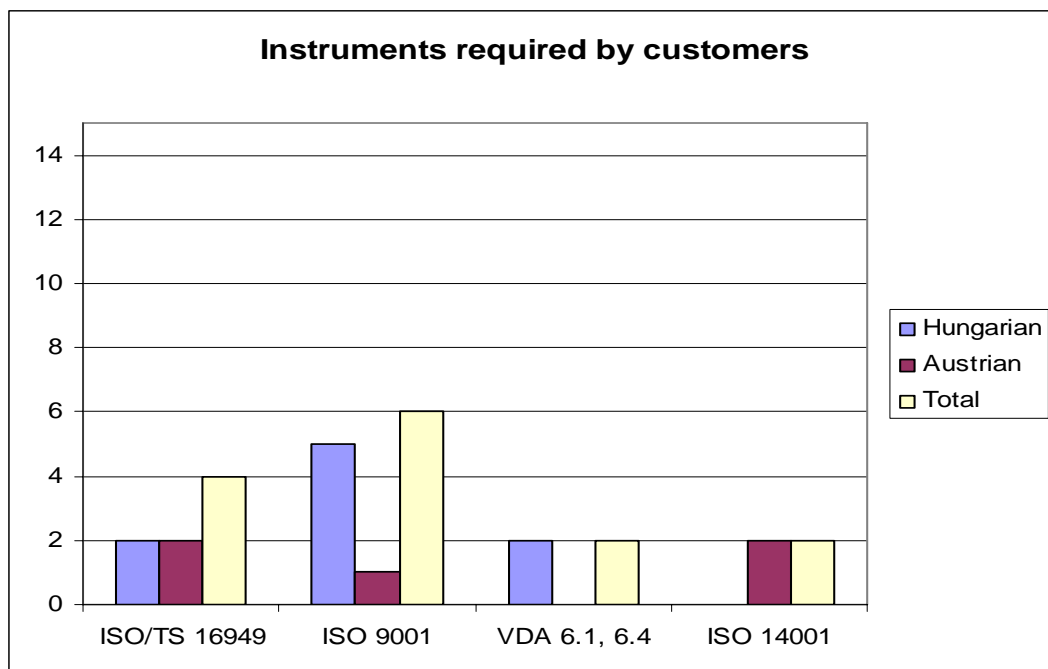
Source: RARE Project

CSR instruments are relatively unknown and generally rarely used by respondents. Two groups of instruments are an exception: management systems and ways of connecting to employees and external stakeholders. ISO14001 is the only environmental management standard applied among the sample companies, applied by almost half of the SMEs (7 out of 15), specifically by 3 (out of 10) Hungarian and 4 (out of 5) Austrian ones, showing a significant difference between the two national samples. Quality management standards are more common, especially ISO 9001, but sector-specific standards are also used by some of the companies. In the other group of popular instruments, monitoring employee satisfaction is the most common instrument. However, it is unclear whether this instrument consists in a formalised or a non-formal activity for the respondents.

The reputation of other instruments is remarkably low. Very few companies indicated that they plan to implement any of the available instruments. One of the reasons might be that most of the companies have implemented new instruments only recently.

In order to gain information about the role that supply chain pressure plays for SMEs, we asked the companies about the extent to which CSR instruments are required by some of their stakeholders, above all by customers.

Figure 9: Instruments required by the customers or business partners of the companies

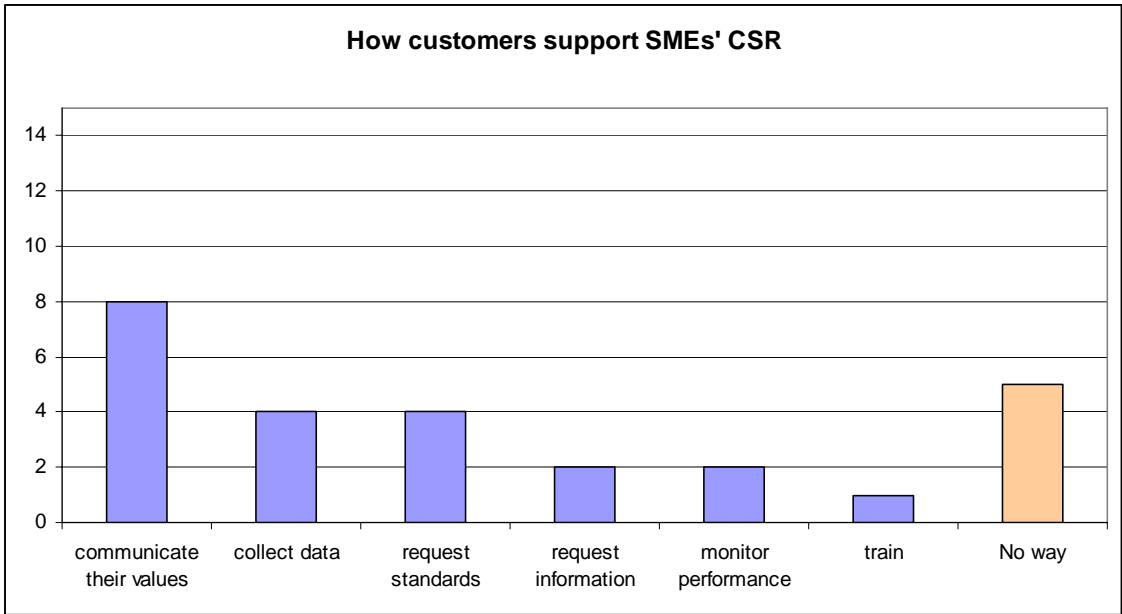


Source: RARE Project

Some customers require the application of some CSR instruments from SMEs, other business stakeholders are passive in this respect. In Hungary, the SME's customers most commonly require from the SMEs to implement the quality standard ISO9001 (n = 5 out of 10). In Austria, customers more frequently require the SMEs to use the standard TS 16949, a requirement for 40% of the companies asked (2 out of 5). In our Hungarian sample, environmental management standards are completely neglected by customers, while in the Austrian sample quality and environmental management standards are equally important for customers.

Supply chain pressure may also be exercised if customers or business partners either evaluate or support the SMEs' social or environmental performance.

Figure 10: How customers or business partners evaluate or support SMEs' CSR



Source: RARE Project

When asked, only 5 out of 15 companies claimed not to receive any support from their customers. The most common form of promoting the social responsibility of SMEs' is communicating company values to them and encouraging them to reflect it. Some customers collect data about their SMEs' environmental and social performance or monitor it. Only one company stated that it received training or assistance from their customers. We can conclude that customers show relatively little interest in their suppliers' social or environmental performance. This result puts into perspective the findings of the RARE sector surveys among large businesses; for example, in the fish processing sector 80% of companies stated that they require compliance from their contractors and suppliers with diverse CSR standards.

Turning to more 'bolt-on' CSR activities, we asked whether the SMEs regularly carried out community activities in pre-specified issue areas. The results are summarised in Table 6.

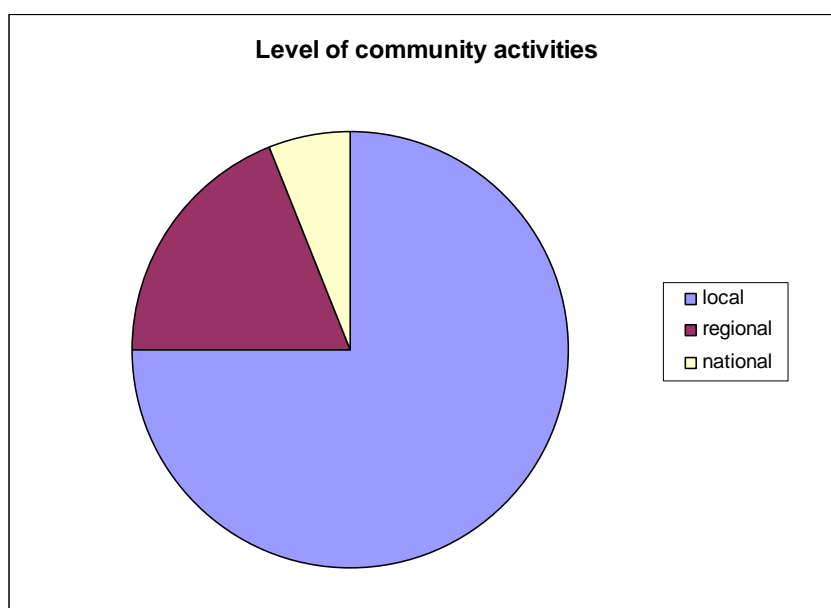
Table 6: Number of companies carrying out regular community activities

Community activities	Sports	Culture, youth and education	Health services	Environment	Other activities, e.g. charities, homeless. Please specify:
Donation of cash, equipment or other in-kind donations, or loaning of facilities to community organisations/projects.	6	5	5	0	4 (fire service, music, church)
We sponsor community organisations.	4	6	0	0	-
We support volunteering of staff with community organisations.	1	0	0	0	1 (fire service)
We align product sale to a social or environmental cause (Cause-Related Marketing).	0	0	0	0	-
Other (please specify):	0	0	0	0	-

Source: RARE Project

SMEs in our sample mostly support sport, culture and youth, as revealed by earlier surveys, too (e.g. Observatory of European SMEs 2002). The most frequent types of community activity are donations and sponsorship activities. Environmental protection is not supported by any of the companies asked, that is, even those companies that are committed to improve their own environmental performance remain passive with regard to environmental protection outside the company.

Figure 11: Level of community activities



Source: RARE Project

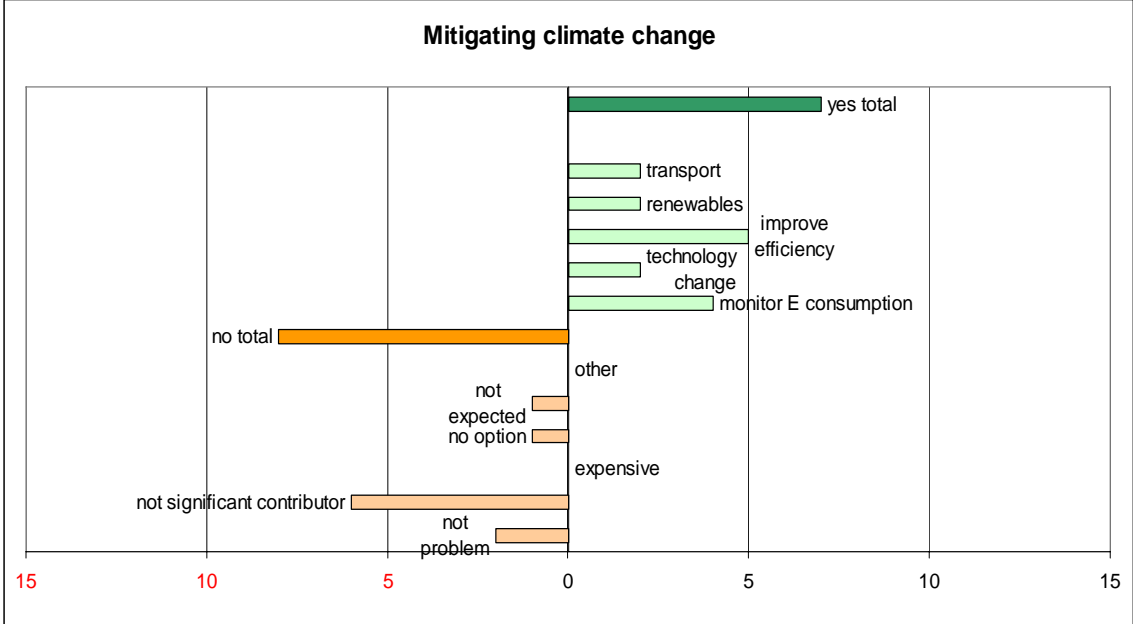
The geographical outreach of these community activities is mostly local (10 out of 15 respondents, 75%). Some bigger companies specified that their community activities were carried out at regional level, and one company, operating in Budapest, claimed to carry out activities at national level. These results are in harmony with the findings of

earlier studies. The smaller the company is, the more likely that its voluntary activities concentrate on the local level.

Regarding the future plans of the SMEs with regard to commitment in community activities, 10 out of 15 said that they were planning to continue their community activities similarly as they do now and four companies were planning to extend the current types of activity. One company did not answer this question. The findings are in accordance with the earlier statement that very few companies plan to implement new instruments, i.e. that most of them prefer “business as usual”.

In order to gain additional information about companies’ performance in the selected issue areas, the SMEs were asked about their concrete activities and practices in the fields of mitigating climate change, chemicals risk management, mitigating other environmental effects, enhancing gender equality and countering bribery.

Figure 12: Climate change mitigation activity

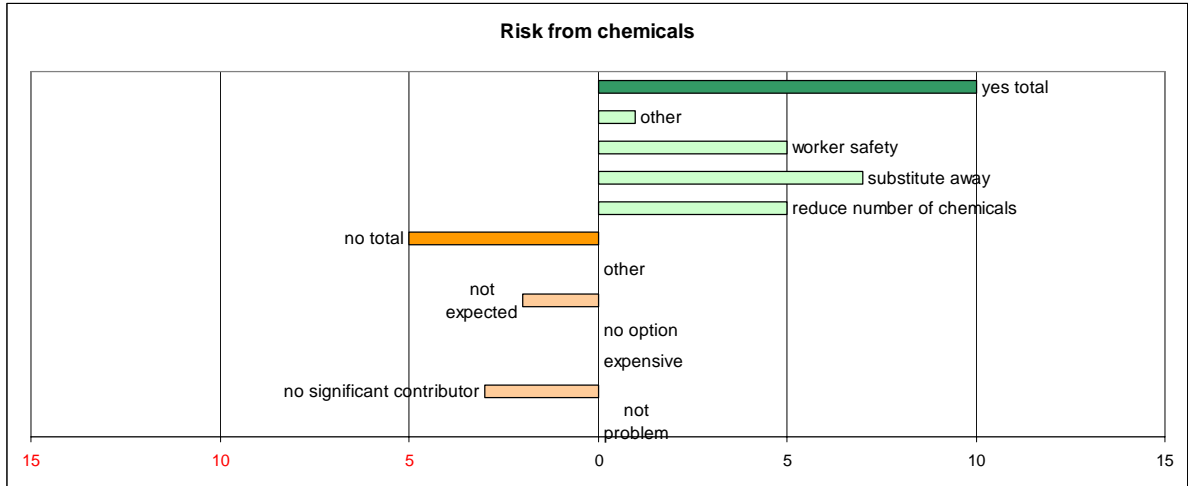


Source: RARE Project

Most of the respondents (8 out of 15) said they do not voluntarily contribute to the mitigation of climate change. The most frequent reason was the self-assessment that their “company’s activities do not contribute to climate change significantly”. Some companies marked multiple reasons and some marked “no”, but still named some activities. This might indicate that some companies do not link energy saving or efficiency to the mitigation of climate change, or consider their activities only as cost saving attempts. Indeed, the most frequent activities are improving energy efficiency and monitoring energy consumption. Working to reduce CO2 emission from transport is less frequent. One of the reasons for this might be that SMEs concentrate on manufacturing (nevertheless, they probably produce CO2 through transporting inputs and final products).

Changing to renewables and technology change are also less frequent, presumably because these activities require more resources and a more strategic approach.

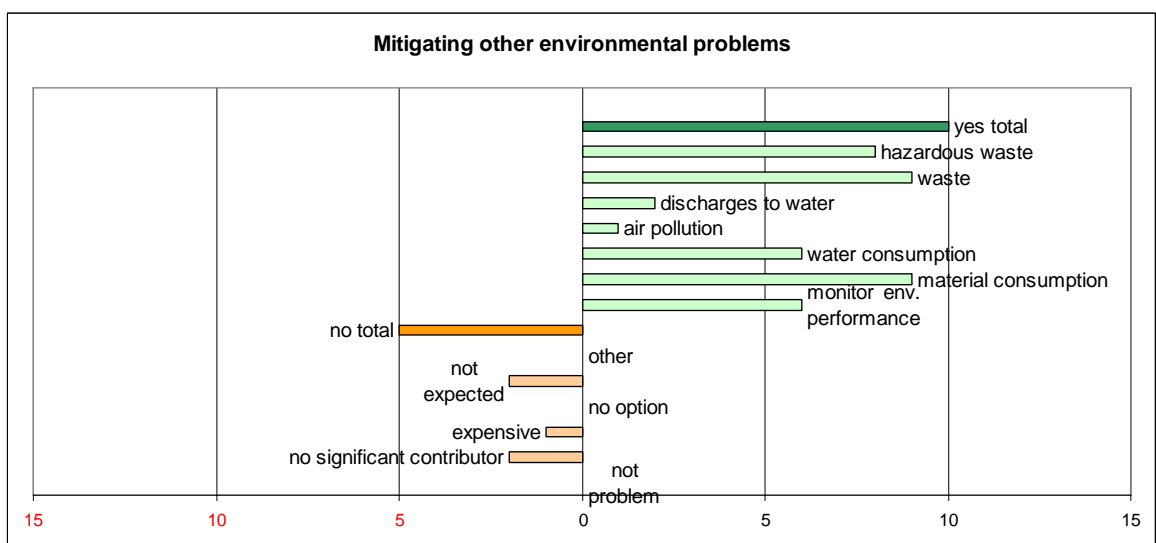
Figure 13: Chemical risk management activity



Source: RARE Project

10 out of 15 (66%) companies work to reduce the risk from chemicals. Five companies answered in the negative, three of them because the use of chemicals was assessed not to be significant, and two, because they think it is not expected from the company. It means that most of the companies concerned, deal with the issue. The reason for this might be that, while climate change is a global problem, the risk from chemical use affects not only the immediate environment of the company, but also the health of employees, and, as indicated earlier, SMEs are committed to provide good workplaces and improve working conditions. The other reason for the high activity might be that chemical risk management is a strictly regulated area and control is also quite developed.

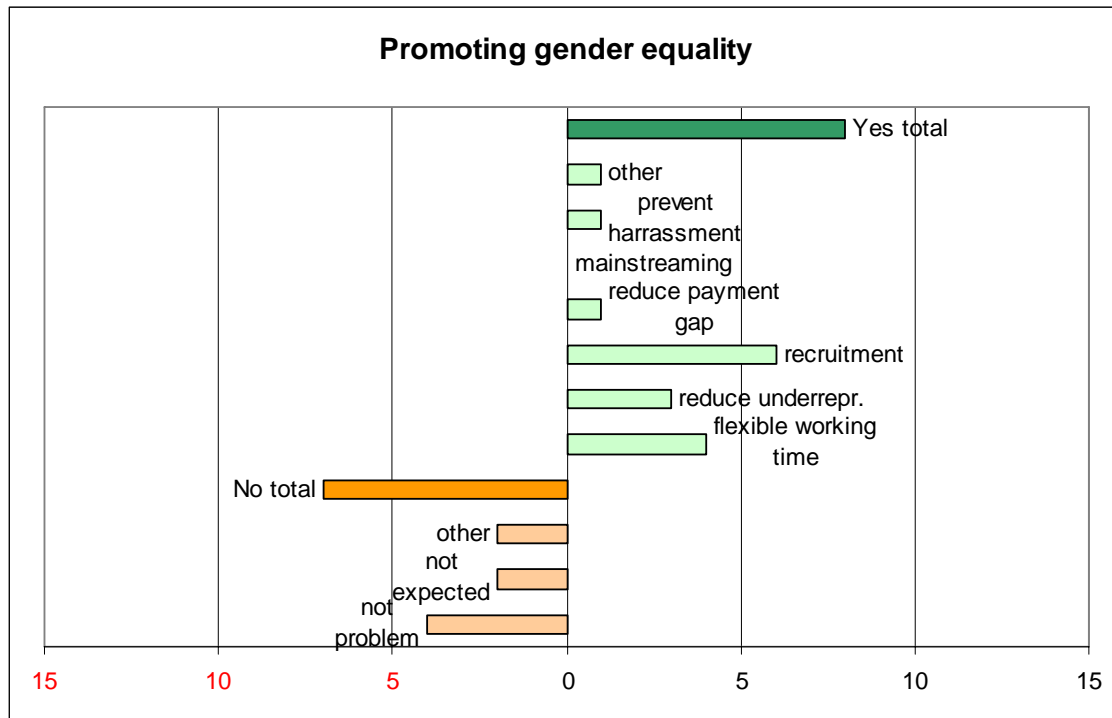
Figure 14: Mitigating other environmental problems



Source: RARE Project

The questioned SMEs are more active in the mitigation of other environmental problems than in regards to climate and chemical problems. Win-win solutions are preferred, the most frequent activities are reduction of material and water consumption, waste and hazardous waste, all of which are potential cost saving measures as well.

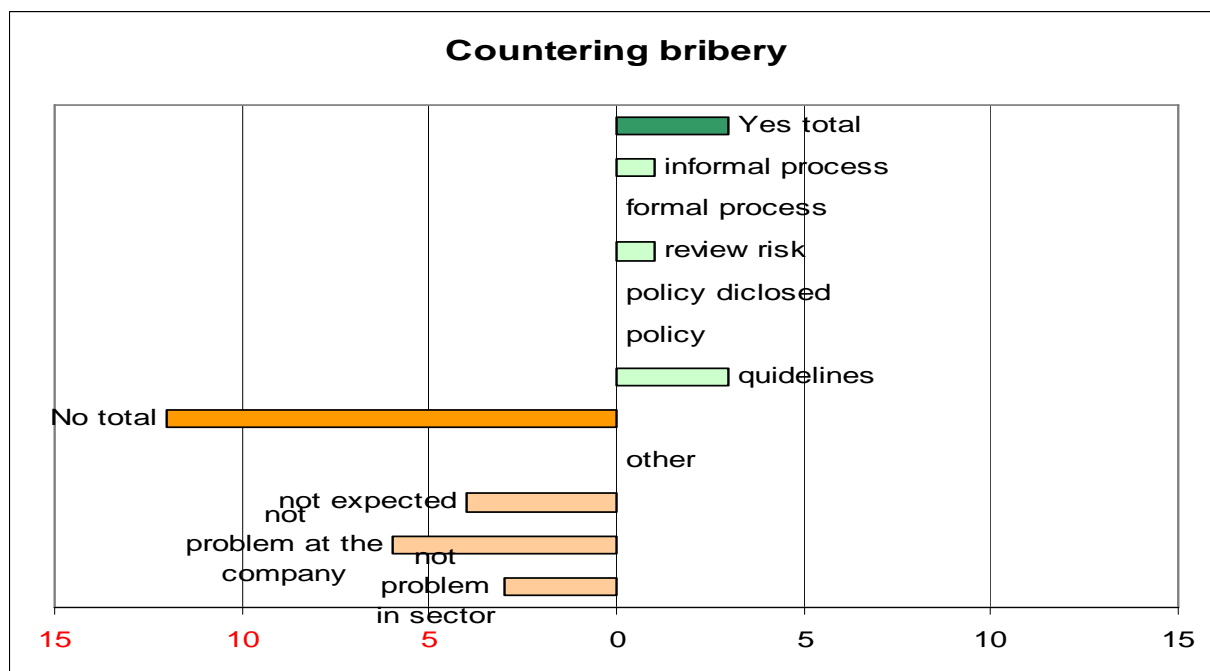
Figure 15: Promoting gender equality



Source: RARE Project

Although not represented in the diagram because of the small sample, 4 out of 5 (80%) Austrian and only 4 out of 10 (40%) Hungarian companies said that they work with gender equality, representing the difference between the regulatory and cultural environment with regard to this issue in the two countries. The most frequent reason for negative answers was that gender inequality is not perceived as a problem, followed by lack of experiencing such expectation and other reasons, namely that this is not an issue for the company because of low representation of women employees. The most frequent activities were considering gender equality during the recruitment and implementation of flexible working time.

Figure 16: Countering bribery



Source: RARE Project

Although, according to the answers in the first section of the survey, countering bribery is of high strategic importance, most of the companies (12 out of 15) indicated no activities in this field. Only three companies have relevant guidelines, one also reviews risk and one relies on informal processes. Other listed activities were not marked by any of the companies. From our survey, SMEs proved to be committed to counter bribery, however, they hardly know special instruments nor gave further details on their specific actions.

As the survey was conducted in the manufacturing sector, where the product and technology itself are significant determinants of environmental performance, companies were asked about products, services or technology, which are apt to benefit the environment. Ten out of 15 companies answered in the affirmative, and introduced their technologies or products. Most technologies enable recycling or involve the use of environmentally friendly materials.

Table 7: Organisational responsibilities of selected issue areas

	environment	gender	bribery	community
top management	5	5	6	8
team manager		1	1	0
functional management	3 environmental, 2 quality, 1 technical	1 quality, 1 HR	1 finan- cial	0

Source: RARE Project

When asked about organisational responsibilities, environment is the issue area where most companies named the level of responsibility, and most companies operate functional management. Gender and bribery issues usually belong to the top management level, it reflects that SMEs usually do not have a functional manager for these issues, however, it was an interesting finding that only one company indicated that gender equality is under the responsibility of the human resource manager. Community issues refer to the top management for all the respondents that indicate the assignment of organisational responsibilities.

Regarding the expenditure for implementing social and environmental instruments and activities in the past three years and in the future, results are summarised in a table which enables us to see past and future expenditures simultaneously.

Table 8: Expenditures on instruments in past three years and plans

n=11		Expenditure is planned to...		
		remain stable or decrease	increase a little	increase considerably
In past three years, expenditure...	decreased			
	remained stable		4	
	increased	1	5	1

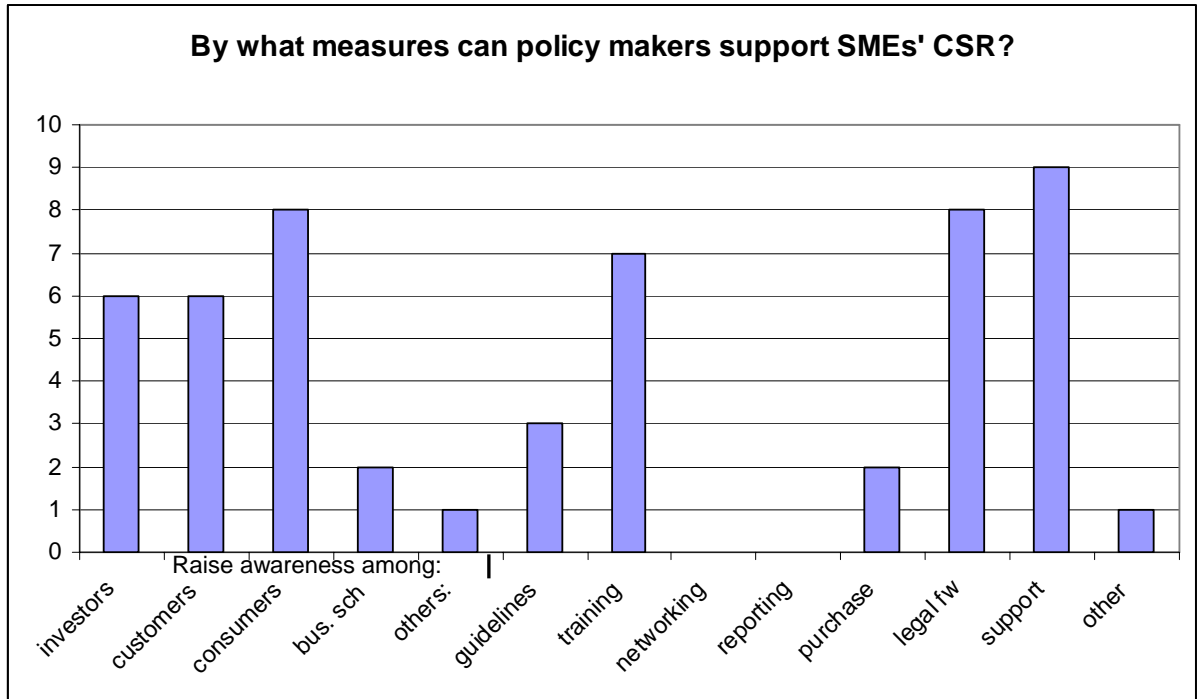
Source: RARE Project

None of the companies said that its expenditure had decreased. Four out of 15 companies said that it was stable and they plan little increase. Seven companies stated that their costs increased, one of them plans to keep the cost stable, 5 expect little and one considerable increase. Although as companies stated above, they do not plan to implement many new instruments in the near future, expenditure is expected to increase. This might be an explanation to the fact that they do not intend to implement new instruments.

In order to gain further information about potential ways of fostering CSR among SMEs, respondents were asked about potential means of enforcing CSR by industrial associations (open-ended question) and policy makers.

Most companies expect (free) training (7 companies), assistance and information (4) from associations, some also mentioned enabling communication, financial and legal support.

Figure 17: The ways policy makers can support SMEs' CSR

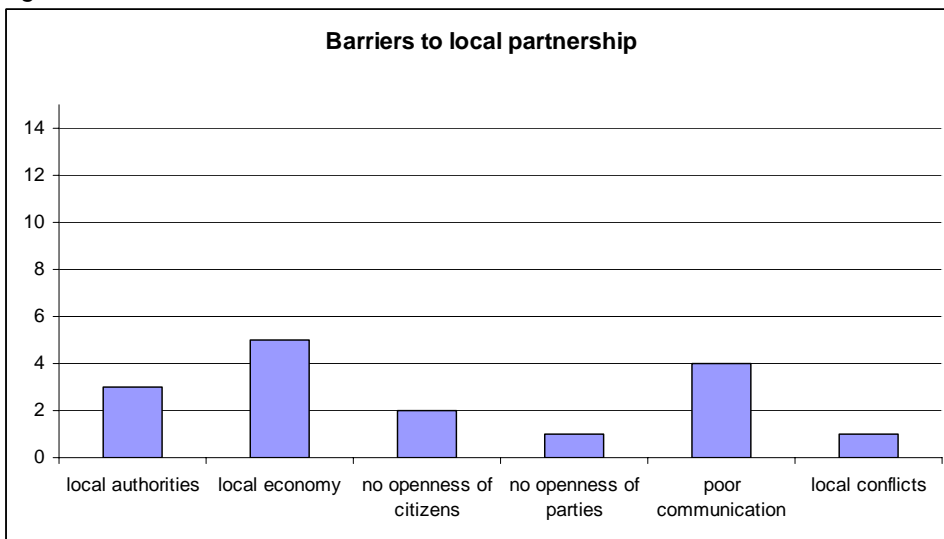


Source: RARE Project

From the policy makers, however, companies mostly expect financial support (9 out of 15) as well as “an appropriate legal framework for corporate action on social and environmental issues and encourage respective international agreements”, and awareness raising among consumers, investors and customers and training.

As it was seen above, very few companies participate in local partnerships. The barriers marked are as follows.

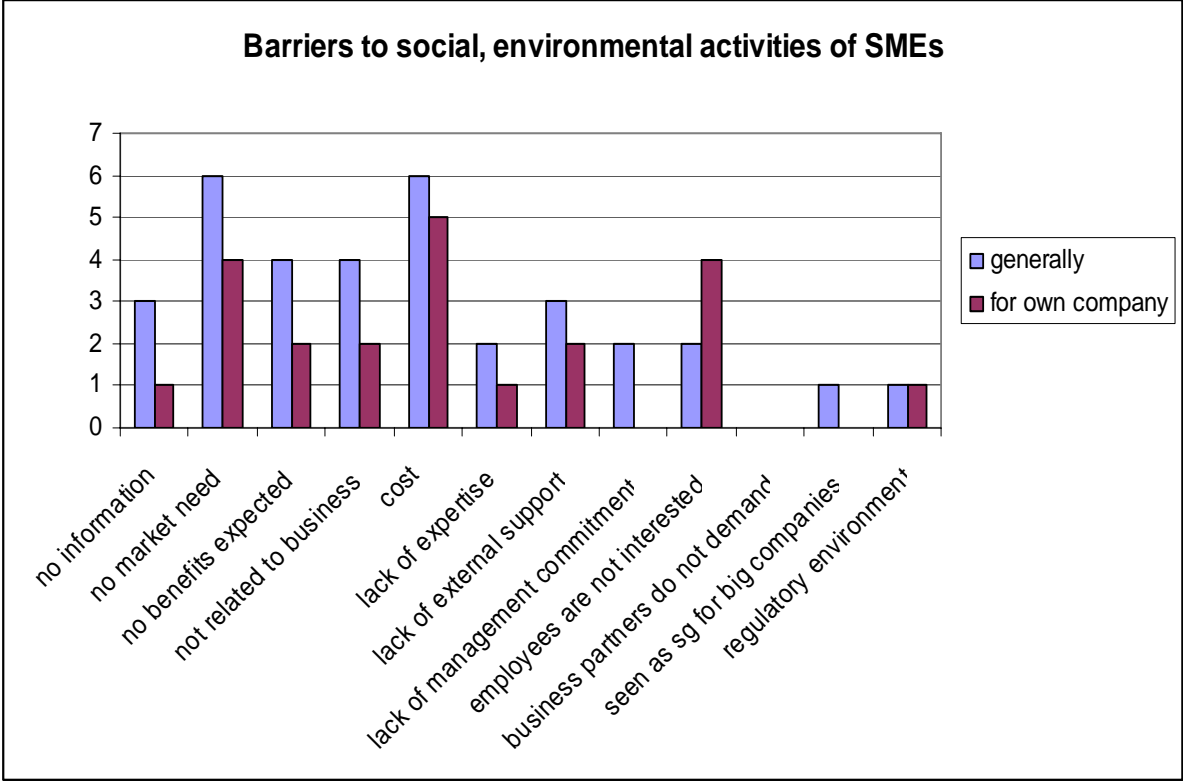
Figure 18: The barriers to social and environmental activities of SMEs



Source: RARE Project

Most companies marked “poor competitiveness of the local economy”, followed by “poor communication” and “lack of interest by local authorities”, that is, most companies blame external factors rather than openness of stakeholders or their own lack of interest in such partnerships.

Figure 19: The barriers to social and environmental activities of SMEs



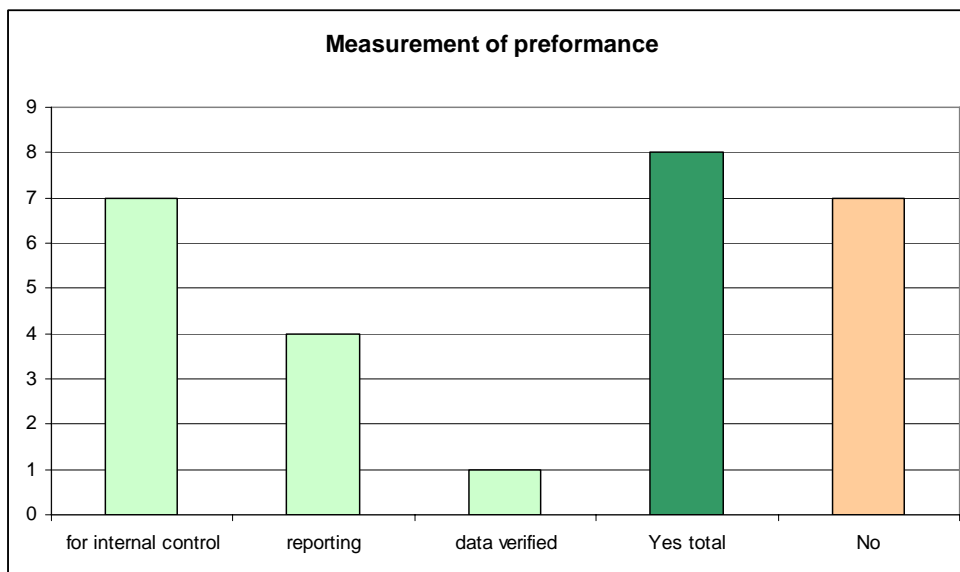
Source: RARE Project

The most frequently mentioned barrier both generally and for the company itself: “company lacks financial and/or time resources”. In general, the lack of market need was considered similarly important, but less frequently mentioned as a barrier for the given company. For the company itself, the lack of employees’ interest was similarly important. This is the only factor that companies marked more frequently as a inner barrier. The reason for this might be that companies see internal factors more clearly within the company than in case of other companies.

#### 4.1.4 Performance

As the impacts that corporate social behaviour generate in the society and the environment are the core interest of our research, the last section of the questionnaire was about measurable CSR impacts, that is, the performance of the companies.

Figure 20: The measurement of CSR performance



Source: RARE Project

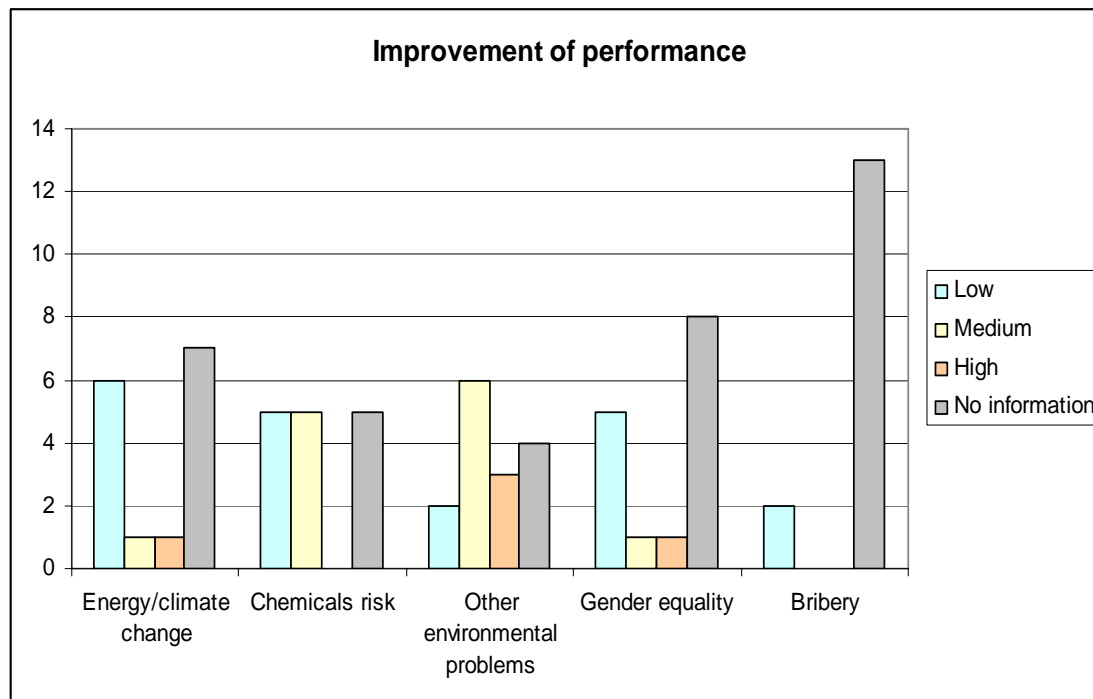
7 out of 15 stated that they measure their social and environmental performance. 6 of these companies operate ISO 14001, while there was a company that indicated that its performance measurement and supporting data collection system was under development. 4 out of the 15 respondents use the data for reporting, too, but data are verified externally only in one company.

Only 3 companies named specific indicators to measure their performance, all of them operate ISO14001. Those 4 companies that indicated systematic measurement of social and environmental performance, but did not name indicators either measure their performance qualitatively or the respondents had no information about the indicators used by the company.

The indicators named included “energy use” as an indicator for the issue area of energy efficiency/climate change, “number of hazardous materials/total number of materials” as an indicator of chemical risk management, “rate of recycling of waste and waste water” as environmental indicators, “rate of women in management” and “employee satisfaction” as indicators of gender equality.

Since companies use various indicators, comparison of improvement based on concrete indicators was impossible. However, many companies did not apply any indicators but gave information about estimated improvement. The following diagram represents estimated improvement of performance in the five areas.

Figure 21: Estimated improvement of performance



Source: RARE Project

In case of energy saving and efficiency/climate change, out of 15 respondents seven companies had no information, six experienced low improvement, one medium and one high. This is in harmony with the fact that this area is of low strategic importance. In case of chemical risk management five companies gave no estimates, five had low and five medium improvement. Although this area was of higher strategic importance, none of the companies indicated high improvement. “Other environmental problems” is the field where the most improvement was indicated: 2 companies stated low, 6 companies medium and 3 companies high improvement. Gender equality was evaluated by 7 companies, most of them (5 respondents) experienced low, one company medium and one high improvement. Bribery was the less frequently evaluated area, only 2 companies stated low improvement. One of the reasons for not evaluating countering bribery might be that respondents might have had the impression that by stating improvement in this field, they would have admitted earlier poor performance.

## 5 Conclusions

All of the respondents provided useful, informative answers. The main conclusions of the survey can be summarised as follows.

Most of the companies (60%) stated that compliance with mandatory legislation is “very relevant” for their social and environmental activities, the remaining companies consider compliance as “fairly relevant”. It is likely, that some companies are admittedly not completely compliant with legislation, but more likely some of them are not completely aware of the relevant legislation. All of the respondents state that they meet non-mandatory government recommendations to some extent, but only a minority of the SMEs polled regard their social and environmental activities to go clearly beyond compliance.

Cost savings was the most frequently mentioned motivate to accept social or environmental responsibility, specified by more than half of the companies. This motive was followed by “meeting a fundamental value of the company”, “contributing to sustainable development” and “meeting customer expectations”. Earlier research studies suggested that ethical considerations were more dominant.

SMEs, even those that are committed to CSR, know and apply relatively few CSR instruments, and they do not plan to implement more of them in the near future. Quality management is common, and ISO14001 is also applied by almost half of the respondents. (However, we have to keep in mind that use of CSR instruments was one of the company selection criteria.)

Employees seem to be considered as a crucial resource by responding SMEs. They are important actors in case of CSR, too, as bottom-up initiatives (involving employees into decision making, reacting to employees’ suggestions to select voluntary activities) are relatively important. Most companies monitor employee satisfaction and many mentioned improving working conditions or awareness raising among employees as the most important social and environmental issues for the company’s operation.

The difference between Austrian and Hungarian respondent companies was less significant than we expected. One reason is possibly that Hungarian companies (two years after Hungary’s accession to the EU) are very motivated, and companies in our sample and in the sector analysed work for international markets. Practical implementation of CSR, however, is more advanced in Austria, where 4 out of 5 respondents operate ISO14001, while only 3 out of 10 Hungarian respondents do so. CSR instrument are more consciously and professionally applied in Austria.

Regarding CSR impacts, a major problem is that measurement of social and environmental performance is not widespread among SMEs. Hence, it is difficult to track the results of the implementation of specific measures. Improvements estimated by the company staff, however, can give us some insights about the relative improvement within the issue areas, as the companies gave different estimates for different fields. Also, the responding SMEs did not seem to systematically overestimate the improvement of their performance. Minimizing environmental impacts other than energy use

and efficiency/climate change and chemical risk management was the issue area where the highest improvement could be reached. Countering bribery is a critical area, since, despite its claimed high strategic importance, companies usually cannot measure performance.

On the basis of this survey, CSR success factors are difficult to identify. However, ISO14001 was a clearly useful instrument to define targets, foster measurement and improve environmental performance. SMEs have less capacity to implement company specific instruments, therefore non-specific instruments are more important than in case of large enterprises.

The involvement of SMEs in CSR can be fostered by training and assistance from business associations. From policy makers, the respondents would welcome not only financial support, but awareness-raising activities as well.

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## **Annex I - Findings of the literature review**

Research projects about CSR of SMEs

<b>Title</b>	<i>European SMEs and Social and Environmental Responsibility</i>	<i>Multistakeholder Forum</i>	<i>Engaging SMEs in Community and Social Issues</i>	<i>Engaging Small Business in Corporate Social Responsibility</i>	<i>Survey of Small and Medium Enterprises in The Global Compact</i>
<b>Organisation</b>	Observatory of European SMEs	EU Multistakeholder Forum on CSR	Consortium led by Business in the Community for the DTI	Canadian Business for Social Responsibility	United Nations Industrial Development Organisation
<b>Year</b>	2001-2002	2002	2002	2003	2004
<b>Scope of research</b>	EU15 and Iceland, Liechtenstein, Norway, Switzerland	European Union	United Kingdom, SMEs with 20-250 employees	Canada, 10 SMEs from different sectors	Global, (signatories to the Global Compact) 78 of 193 SMEs answered
<b>Research methodology</b>	Literature review and comprehensive survey amongst 7662 European SMEs	Roundtable discussion	Literature review, policy interviews, consultation with reference group and organisations Quantitative research among 200 SMEs, qualitative research: five group discussions	Interviews with SMEs from several sectors	Questionnaire survey (25 questions), 40% of 193 SMEs answered
<b>CSR definition</b>	Definition of the Green Paper	Definition of the Green Paper	CSR is an abstract term that does not include all forms of community involvement	SMEs define CSR informally, implicitly e.g. "CSR is recognizing when you are in a position to do good" (interviewee)	Corporate Social and Environmental Responsibility (health&safety, employment, environmental management, reporting)

*Barriers of SMEs' CSR*

Title	European SMEs and Social and Environmental Responsibility		Multistakeholder Forum	Engaging SMEs in Community and Social Issues		Engaging Small Business in Corporate Social Responsibility	Survey of SMEs in GC (obstacles to compliance with GC principles)
Lack of considering CSR	25%	+++	NI	11%	++	NI	NI
Not related to enterprise activities	17%	++	NI	NI	-	NI	NI
Lack of financial resources	16%	++	Yes	22%	+++	Yes	+++
Lack of personnel/ time	18%	++	Yes	11%	++	Yes, training is difficult	+
Lack of perception of business benefits	8%	+	Yes	0%	-	NI	NI
Lack of awareness, knowledge of the issue	NI	-	Yes	0%	-	NI	NI
Lack of motivation among employees	NI	-	NI	11%	++	Yes	NI
Lack of public support	NI	-	NI	NI	-	NI	NI
Bureaucracy	NI	-	NI	11%	++	NI	NI
Other reasons	13%	++	Concentration on day to day operation Being reluctant	33%	+++	Difficulty in buying environment-friendly products, lack of customer expectation	Inappropriate government regulation, macroeconomic instability ++

Motivating factors for CSR in SMEs

Title	European SMEs and Social and Environmental Responsibility		Multistakeholder Forum	Engaging SMEs in Community and Social Issues		Engaging Small Business in Corporate Social Responsibility	Survey of SMEs in GC (obstacles to compliance with GC principles)	
Ethical reasons	55%	++++	Yes	14%	++	Yes, personal value	38%	+++
Improve relations with community and authorities	33%	+++	Yes	21%	+++	NI	NI	-
Improve customer relations, loyalty	26%	+++	Yes	NI	-	NI	NI	-
Improve relations with business partners and investors	15%	++	Yes	NI	-	NI	14%	++
Attract employees, improved employees' job satisfaction	14%	++	Yes	28%	+++	NI	NI	-
Improve economic performance	13%	++	Yes (cost savings)	10%	+	NI	(Business practice) 10%	+
Image, PR	NI	-	Yes	30%	+++	NI	9%	+
Other reason	Use incentives 4%	+	Anticipate future legislation	Better future 14%	++	NI	Link up with UN	+++
	Code of conduct or third parties pressure 12%	++	Innovation	Good business practice 37%	+++	NI	-	-

*Benefits of CSR in SMEs*

<b>Title<sup>1</sup></b>	<i>European SMEs and Social and Environmental Responsibility</i>		<i>Engaging Small Business in Corporate Social Responsibility</i>
Enhanced image, reputation	NI	-	Yes
Improved customer loyalty	35%	+++	NI
Improved economic performance	15%	++	Yes
Productivity increase	NI	-	NI
Better risk management	NI	-	NI
Enhanced ability to attract employees, improved employees' job satisfaction	17%	++	Yes
Improved relations with community and authorities	28%	+++	NI
Improved relations with business partners and investors	15%	++	NI
No benefits perceived	28%	+++	-

Source: RARE project

Clue for tables 6-8:

NI: not included among answer options (or not mentioned by participants)

X%: X% of respondents marked this option

+: marked by a low number of respondents

++: marked by 10-20% of respondents

+++ : marked by more than 20% of respondents

++++: marked by more than half of the respondent

<sup>1</sup> In case of the *Multistakeholder Forum, Engaging SMEs in Community and Social Issues* and the *Survey of SMEs in GC* this aspect was not included.