

## **Generating regional-scale improvements in SME corporate responsibility performance: Lessons from Responsibility Northwest**

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### **Abstract**

This paper describes the research carried out into small and medium enterprises (SMEs) and corporate responsibility (CR) in the Northwest of England during Phase I of Responsibility Northwest, a partnership programme designed to significantly increase the corporate responsibility of the region.

By engaging with significant numbers of SMEs and SME support providers across the region, key insights were gained in three key areas:

- The current attitudes to, understanding of, and management of CR issues in the SME sector.
- The barriers to greater implementation of CR management.
- The opportunities for overcoming the barriers and improving regional corporate responsibility

The research revealed a large diversity both in terms of understanding of the issues and their management. Seven key barriers to improved CR performance were identified which centred round the inappropriateness and inaccessibility of current CR approaches and support services on CR, certain characteristics of SMEs which tend to reduce their interest and opportunities for engaging in CR activities and supply chain barriers.

Fortunately there was significant agreement on the mechanisms which should be used to overcome these barriers, in particular the importance of delivering CR support through existing business networks that are valued and trusted by SMEs. These results have been used to create the partnership programme, Responsibility Northwest Phase II which runs until 2008 and aims to significantly increase the overall corporate responsibility of Northwest England.

**Key words:** business networks, corporate responsibility, Northwest England, regional competitiveness, small and medium-sized enterprises.

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## **Introduction**

This article sets out findings from a year-long research and consultation programme in the Northwest of England designed to determine the best way of significantly improving the corporate responsibility (CR) of the region as a whole. The programme, Responsibility Northwest was co-ordinated by Sustainability Northwest (SNW), the independent charity dedicated to improving the sustainability of the

region and involved a wide range of partners, AccountAbility, Business in the Community, ENWORKS and Liverpool Chamber of Commerce. The work was primarily funded by the Northwest Regional Development Agency (NWDA).

Given the structure of the Northwest's business, Responsibility Northwest's primary focus is on small and medium firms (SMEs). This paper describes the results from our research on the best ways of working with SMEs to lead to a significant improvement in regional corporate responsibility.

### **Regional context**

The Northwest of England has a population of 6.8 million people, 230,000 firms and a £98 billion economy (NWDA 2005). In the past, the business sector was dominated by manufacturing, although this has reduced over the years. During the 1980s and 1990s, the Northwest economy went through a major period of restructuring and underperformance. Although performance has improved since the turn of the century, many of the key performance indicators by which the regions are judged are below the national average. For example, the Gross Value Added (GVA) per head is 12% lower than the U.K. average, resulting in an output gap of £13 billion. The majority of this shortfall is due to lower productivity. Despite recent improvements, there are still major concentrations of deprivation and poor conditions restricting economic growth, closely associated with health inequalities and high crime (NWDA 2005).

Like all English regions the Northwest produces a Regional Economic Strategy (RES) setting out its vision for the region over the next twenty years. In the Northwest, the RES is co-ordinated by the NWDA and the vision for the region has been summarised as "A dynamic sustainable international economy which competes on the basis of knowledge, advanced technology and an excellent quality of life for

all” (NWDA 2005). Corporate responsibility is seen as a key component in the drive to improve productivity and grow the market in the Northwest (NWDA 2005) and consequently the NWDA is one of the key funders of Responsibility Northwest.

### **Business context**

SMEs dominate UK business. Of the 4.3 million business enterprises operating in the UK at the beginning of 2004, over 99% were small (0-49 employees). Only 26,000 (0.6%) were medium (50-249 employees) and 6,000 (0.1%) were large, employing over 250 employees. SMEs together accounted for more than half the employment (59%) and turnover (51%) of the UK (DTI 2005).

As in the rest of the UK, the overwhelming majority of businesses in the Northwest are small. There are over 230,000 firms in the Northwest, over 350,000 if firms run by individuals are taken into account. Where there is information on size, 78% of businesses employ less than 10 people and 20% employ between 11 and 100 people (Beta Model 2004).

### **Aims and Methodology**

Responsibility Northwest is a partnership programme led by SNW to broaden and embed CR within the Northwest region and to integrate CR closely with regional competitiveness. The overall vision is *to create an internationally recognised region where businesses work to deliver sustainable development.*

To determine the most effective ways of realizing the vision a research phase was initiated in February 2004, involving SNW, Business in the Community, AccountAbility and the Liverpool Chamber of Commerce. The research phase aimed

to answer three key sets of questions: Firstly, what is the baseline? What is the current understanding of, and attitude to CR among businesses in the Northwest? To what extent are CR activities being implemented by businesses? Secondly, why is more not happening? What are the barriers to greater implementation of CR by businesses? And thirdly, what would make the difference? How could these barriers be overcome? The main focus of the research was with SMEs. Although there was some research with large companies, this paper purely focuses on the SME research and the findings from that research.

To meet the aims and objectives of Phase 1 of Responsibility Northwest above, five key sets of activities were carried out:

1. **Engagement with businesses** to gauge their understanding of CR and to gain insight into current management practices, obstacles to improved CR performance and demand for support services.
2. **Consultation with regional partners** to understand their views on the current CR situation and priority areas for assistance and to build links with potential delivery partners
3. **Mapping current provision of CR services** and assessing how it relates to demand and target markets.
4. **Assessing the relationship between CR and regional competitiveness** with the aim of developing a Regional Responsible Competitiveness Index.
5. **Assessing benchmarking options** with the aim of establishing a regional CR index.

## **1. Engagement with businesses**

“SMEs are frequently seen as a problem within the CSR debate because of their failure to engage with it. An alternative interpretation is that it is the CSR debate that is the problem, because of its failure to engage SMEs.” (Jenkins 2004)

To gain real insights into SME attitudes and understanding of CR within SMEs, an effective way of engaging with them on these issues needed to be identified. This means both identifying appropriate means of reaching SMEs and finding the right way to frame the issues and language with which to discuss them (see below)

The effectiveness of working through existing networks that SMEs already trust has been highlighted in the literature (DTI, 2002; Friedman and Miles, 2002; Revell and Rutherford, 2003). In addition, a key principle of the Responsibility Northwest programme from its inception was that it should be about complementing and reinforcing existing services and networks, not replicating them. A wide range of business support organisations are active in the Northwest which are valued and trusted; these were the starting point for organising business engagement sessions.

A database of 102 regional and sub-regional organisations was developed. This included both general business support organisations (e.g. Chambers of Commerce, Business Links) and specialist support organisations (e.g. ENWORKS, cluster support organisations, the Women’s Business Network). To ensure that the business engagement activities covered as wide a range of regional issues as possible, existing business intermediaries and networks were contacted that provided support and services to the five sub-regions that make up the Northwest. In addition, the

business engagement activities sought to cover a full range of business issues and sectors.

Initial contact was made with the chief executive, director or equivalent person within each business support organisation, with the aim of building a partnership and convening Responsibility Northwest focused business engagement sessions. The majority of those contacted were interested in the project and offered help in organising engagement sessions, although intensive follow-up was required to turn initial interest into an organised session within the timescale of the project. In total 18 engagement sessions with SMEs were carried out reaching 103 firms.

As noted in the literature, engaging with SMEs particularly on CR issues is notoriously difficult, helped in no small part by the inaccessibility of CR language (DTI, 2002). To overcome this issue, many of the sessions focused on engaging businesses in a discussion on managing risks and realising opportunities arising from the social, environmental and economic impacts of their activities, products and services, rather than using CR related acronyms and language. This approach has been successfully used in the Northwest to engage with SMEs on other issues, for example organisations such as ENWORKS use it to engage with SMEs on the environmental management agenda. In order to elicit information from participant businesses, potential social, environmental and economic impacts were conveyed via a slide show of images that were relevant to the particular business network.

Once businesses could relate to, and discuss, the issues in relation to their own company, the session then went on to examine what businesses understood from the term CR. Examples of best practice were identified together with areas where businesses may need additional support and/or advice.

As noted by other researchers (e.g. Spence and Lozano, 2000; Spence et al. 2003) sector differences can be important in SME research, so in sectors where the programme had little success in engaging with firms through existing business networks telephone interviews were carried out. Thirty firms were interviewed in each of the biotechnology, aerospace, textiles, engineering and retail and service sectors.

Effort was also made to ensure that there was a reasonable balance in geographical location. Interviews were carried out in all five of the sub-regions and firms were interviewed in rural areas as well as the cities, towns and other industrial areas.

## **2. Engagement with business support organisations and other regional partners**

Given the Responsibility Northwest principle of supporting and reinforcing existing networks and organisations and the importance of partnership for delivery of the implementation phase of the programme, engagement with relevant regional organisations, particularly business support organisations was crucial to this first phase

The approach used was similar to that for business engagement. Initial contact with a wide range of regional partners was then followed up with an intensive exercise to turn initial interest into a consultation meeting. In total, sixty-six meetings were held with business support organisations and other key regional agencies.

### 3. Mapping provision of CR products and services

To understand how current supply of CR related products and services related to interest from SMEs a desk-based literature review was carried out to determine the extent of existing provision of CR products and services in the region.

The mapping exercise covered 79 organisations that offer some kind of support service on CR-related issues, including consultancies, professional service firms, not-for-profit, government agencies, business support organisations, unions, industry associations and academic organisations.

The categories used in the mapping exercise are outlined in Tables 1 and 2. A matrix of provision of CR products and services in the region was then developed and populated with the information collected via the literature review.

**Table 1: CR product and service categories used in the mapping exercise**

CR Service Categories		
Strategy and review	Management systems and performance analysis	Benchmarking and indices
Verification and assurance	Communication and reporting	Risk/reputation management
Supply chain	Diversity	Stakeholder dialogue and facilitation
Mentoring	Conferences and seminars	Training and awareness raising
Community involvement/ Participation	Research and development	Environmental management
Health and Safety	Other	

**Table 2: Coverage and access categories used in the mapping exercise**

<b>Benchmarking criteria</b>	<b>Category</b>
General coverage	Northwest region
	National
	International
Specific geographical coverage	Cheshire
	Cumbria
	Greater Manchester
	Lancashire
	Liverpool
Target market	Public sector
	Private sector
	Voluntary/community groups
	General public
	Third sector/co-operatives
	SMEs
	No specific target group
Access to services	Paid
	Subsidised
	Free

The environmental category was not broken down further, as a comprehensive assessment of regional environmental support services carried out in 2003 determined that there were over 140 public sectors and over 30 private sector organisations in the Northwest solely devoted to providing the region's businesses with environmental advice and support (NCBS 2003).

#### **4. Assessing the relationship between CR and regional competitiveness**

Finding ways to ensure regional economies are sustainable and competitive is a key challenge for business, communities and governments, at both the regional and national level. Business competitiveness is a major contributor to regional economic development. Firms can also have a significant impact on progress towards sustainable development. Whether this is positive or negative depends on how responsibly they operate.

There has been recent innovative work on the links between national competitiveness and corporate responsibility. In 2003, AccountAbility and The Copenhagen Centre developed the *National Corporate Responsibility Index (NCRI)*, which examined both the extent to which there is an enabling environment for corporate responsibility at a national level, and the resulting outcomes of CR practice (AccountAbility, 2004).

However, the role of the private sector in contributing to sustainable regional development is much less well understood. Therefore AccountAbility was commissioned to build on the work done in developing the NCRI and carry out a study analysing the relationship between corporate responsibility and regional competitiveness and to develop a framework for monitoring regional 'responsible competitiveness' in the future.

This required the development of a set of indicators that reflected regional level responsibility performance and outcomes that could be integrated into Northwest competitiveness measures to ascertain where the potential of the region can be further developed.

First the potential components of a Northwest Responsible Competitiveness Index were identified through literature and data review and meetings with regional businesses and other key players. Indicators were selected by analysing the relationship between the indicators used for the national Responsible Competitiveness Index and those used by the NWDA for monitoring competitiveness.

## **5. Assessing benchmarking options**

Constructive peer pressure can be one of the best mechanisms for driving forward improved performance. One of the best known CR benchmarking tools is the Business in the Community Index of Corporate Responsibility. This is now in its third year of operation and has incorporated the Index of Corporate Environmental Engagement which has been running for many years. BITC were contracted to pilot test the operation of a regional CR index in the Northwest.

The next section of the paper reports on the results of this project, and is organised by the three key sets of questions identified above.

## **Results**

### **1. What's the baseline?**

#### **Understanding and attitudes towards CR**

The 'risks and opportunities' approach to engaging with SMEs led to very productive discussions with SMEs on CR related issues. The SMEs that participated in the business engagement sessions required little prompting to highlight a wide range of business risks – see Table 3 below.

**Table 3: SME business risks highlighted during Phase 1 business engagement**

Environmental risks	Social risks	Economic risks
Poor public transport infrastructure	Increased health and safety regulations	Lack of affordable housing and business properties
Waste disposal – increased waste disposal costs	Supply chain pressures – increased demand from business customers to include social issues in tendering processes	Increased regulatory environment
Increased environmental regulations	Staff recruitment and retention	Delays in payment of contracts
Litter	Cost of living increases	Imposition of tax
Lack of recycling facilities and lack of information on the benefits on recycling	Social exclusion in local communities	Lack of enforcement of regulations
Congestion	Retail crime	Supply chain understanding of regulations
Lack of awareness of environmental risks and opportunities	Low-level crime, anti-social behaviour (e.g. vandalism)	Lack of competitive tendering opportunities
Pollution incidents	Lack of awareness of social risks and opportunities	Lack of awareness of economic risks and opportunities
Energy use – increased cost associated with energy use	Poor reputation within the local community	Impact of globalisation on small businesses - international competition has increased, creating an imbalance of power
Supply chain pressures – increased demand from business customers to include environmental issues in tendering processes	Image and profile of the sub-regions. Media imbalance which do not present the NW in a positive light	Planning regime
Lack of facilities (e.g. parking spaces) in built up areas	Increased insurance costs and postcode discrimination	Poor IT infrastructure

The priority risks highlighted by the businesses that participated in the engagement sessions were fairly consistent across sectors and can be summarised as follows: supply chain pressures – increased demand from business customers to include environmental and social issues in tendering processes; lack of competitive tendering opportunities with both the public and private sector; increased environmental and health and safety regulations; lack of awareness of social, environmental and economic risks and opportunities; staff recruitment and retention.

A similar set of priority risks were identified by the companies that participated in the sector-specific telephone interviews – see Table 4 below.

**Table 4: Risks highlighted through the Phase 1 sector-specific telephone interviews**

% Response	Risk type
31	Staff recruitment and retention
19	Impact of globalisation on small businesses
17	Increased regulatory environment
16	Increased Health and Safety regulations
14	Delays in payment of contracts

Other risks identified by businesses in the sector-specific interviews included: poor support from the government; reduction in government spending; increased waste disposal costs; increased costs associated with energy use; claims for negligence; imposition of tax.

The final part of the session explored the participants' understanding of the term corporate responsibility and resulted in a very mixed set of responses, the most common of which are set out in Box 1 below.

### **Box 1 SME definitions of CR**

CR is:

Continuing to do business and also do more within the community and in respect of environmental issues.

About having a good relationship and communicating with local communities.

About looking after employees and creating a better working environment (e.g. through the availability of training and development opportunities).

A philanthropic activity, and so distinct from economic, social and environmental risk.

About brand differentiation.

About ensuring that ethical issues are considered in the supply chain.

About sourcing products and services locally.

A woolly term.

### **Management of CR**

SMEs are already managing a large number of social, economic and environmental impacts but do not generally use the language of CR to define this. In particular, SMEs often have significant positive economic and social impacts in their local area, which are not often recognized in CR terms. Other research corroborates this finding, see for example Jenkins (2004). DTI (2002) quote a figure of up to £3bn a year, as the value of the social contribution that SMEs make in the UK, about ten times that of large corporations. They also quoted a popular comment from their five focus groups with SME directors held across the UK (one of which was in Manchester) as 'a lot of companies are doing it and do not know they are doing it'.

However, it is clear that there are still a significant number of SMEs who are not yet complying with legislation and where moving from non-compliance to compliance would yield significant CR benefits. Even in cases where awareness was relatively low there was generally an acknowledgement that CR issues are rising up the agenda and will become more important in the future.

## **2. Why is more not happening? Barriers to greater implementation of CR by SMEs**

The business engagement sessions, telephone survey and consultation with business network organisations and other key regional partners highlighted a range of obstacles to greater integration of CR into business activities. Many of these corroborate findings from research with SMEs across the UK and Europe. The main barriers (identified by over 70% of firms) are outlined below and discussed in further detail: inappropriate language reduces involvement by SMEs; lack of appropriate support services on CR for SMEs; lack of time and short term planning horizons; inadequate support for existing businesses; fear of doing things wrong; lack of appropriate information; supply-chain and procurement barriers.

### *Inappropriate language reduces involvement by SMEs*

As other researchers have argued (e.g. Jenkins, 2004) the language used to engage companies on CR issues can be a major obstacle to progress. The CR lexicon can be inaccessible or alienating to all organisations, particularly to SMEs. The terms 'corporate social responsibility' or 'corporate responsibility' are simply the wrong words to engage and/or support smaller businesses in understanding and managing their key social, environmental and economic impacts.

Firstly, use of the word 'corporate' can be alienating and meaningless for SMEs and seen as something that would be more applicable to multinationals or larger businesses. Furthermore, there is misunderstanding about the implications of use of the word 'responsibility'. Does failure by a business to adopt CR terminology mean that they are not responsible? Existing research carried out in this area found that the majority of SMEs consider that they conduct their businesses in a responsible way without having to 'pigeonhole' some of their activities under a CR heading (DTI 2002).

If the right approach to discussing the issues and appropriate language is used, it is much easier to engage SMEs on issues relating to the CR agenda. However, a clear message from the business engagement sessions is that a significant proportion of the support and advice provided to SMEs does not take into account the fact that the terms CSR and CR can be off-putting for smaller businesses. This message was corroborated by the consultation that took place with regional representatives of both the Confederation of British Industry (CBI) and the Federation of Small Business (FSB). Both the CBI and FSB were supportive of the Responsibility Northwest programme of activity, and reinforced the point that the language issue needs to be taken into account when engaging SMEs in the CR agenda.

#### *Lack of appropriate support services on CR for SMEs*

There was a clear sense from the engagement and consultation activities that SMEs and many of their support providers either feel that CR support in the region is insufficient, inappropriate or that they do not know how to access the support that is currently provided. This is corroborated in the literature (Simpson et al., 2004). Other

researchers have identified the need for 'better' advice for SMEs (Peters et al., 2004). The mapping exercise identified that the most comprehensive range of CR services is offered by the major consultancies. However, their market focus and fee structure put their services beyond the reach of the majority of firms in the Northwest and few have experience of accessing SMEs or at targeting their advice and support to their needs. For smaller companies with fewer resources, low cost or free support on some issues is available from some firms and not-for-profits, particularly on the environment, providing they know where to look.

However, the clear message from the research and consultation was that SMEs wanted to access CR services through the support services they already use and value such as Chambers of Commerce and Business Link Organisations. This is corroborated in the literature (Kemp et al., 1997; Simpson et al., 2004). However, few are currently geared up to provide support and advice on CR issues.

The traditional role of Chambers of Commerce and agencies has been to provide advice, services and opportunities within their own local economy to help businesses develop benefits for themselves and the area. Chambers of Commerce have helped SMEs in particular and have been able to reduce costs by working together to address local issues (e.g. in business crime partnerships). They also provide the forums through which views on policy are explored and where business representatives on public partnerships can gain advice, support and representational legitimacy.

Engagement with business support organisations revealed a wide range of understanding of CR issues in business support organisations from minimal to fairly comprehensive. However, in some cases even business support professionals with some knowledge of CR issues rarely raise them with clients either because they feel

it is not part of their remit, or because they are concerned companies will feel they are being 'preached at' and will not be as interested in working with the business support organisation.

*Inadequate support for existing business networks and groups on CR*

There was considerable interest from some business support organisations to engage with CR issues. However, they feel they lack the resources and support to do so effectively and consequently very few CR activities are being carried out. Business support organisations requested awareness raising and training for their advisers on the key CR issues that affect the companies they work with, financial support to increase their capabilities in this area and access to CR specialists to provide specific advice.

*Lack of time and resources and short-term business planning horizons*

Time and resources are always going to be a constraint in small organisations and have been identified specifically as a barrier to CR implementation in the literature, (Revell and Rutherford, 2003; Spence, 1999; Williams et al., 2000).

However, some research has indicated that often this is more of a perceptual fear that is not realized by SMEs who are engaged (DTI 2002). In this case, the finding on time and other resource constraints was also slightly more subtle, i.e. the key issue is not so much that SME staff are unwilling or unable to allocate time and resources to CR, but that they lack the expertise required to prioritise key elements of CR management for their business and to make an accurate assessment of the time and

resources required. When people are busy and planning horizons are short, they tend not to address issues where the risk-reward ratio is difficult to calculate or the way forward is not clear.

#### *Lack of appropriate information*

There is clear demand for relevant information to assist companies to move forward. Companies of all sizes and in all sectors requested information aimed at their own circumstances. SMEs feel that there is a big lack of well-produced information geared to the SME sector to help them improve their understanding of CR issues.

In particular there is demand for SME-focused case studies that illustrate the business benefits of managing CR issues well and the risks associated with not doing so. These need to be specific to both sector and the size of the business.

#### *Fear of doing things wrong*

Related to the above points is the fear among some SMEs that they could implement environmental and social activities poorly or in the wrong way, exposing themselves to increased problems. Therefore, in the absence of appropriate information and advice, it is easier and safer to do nothing.

#### *Supply chain and procurement barriers*

Exclusion from supply chains was the most often cited risk identified by SMEs from inadequate progress on CR issues. Increasing numbers of organisations are

including environmental and social criteria in their procurement processes which can have a positive influence on the CR behaviour of suppliers. However, there is the danger that SMEs feel that such criteria exclude them from competing for such contracts.

Research conducted by SNW on behalf of the NWDA found that between one-half and two-thirds of the £36 billion Northwest public-sector procurement budget is spent outside the region (SNW 2004). Procuring a higher proportion of goods and services from within the region could lead to significant benefits to the regional economy, so it is important that there is more purchasing from regional SMEs, not less. Therefore, the challenge is to work with buyers and SME suppliers to ensure that regional SMEs understand the requirements and can raise their game to meet them.

### **3. What would make the difference? How could these barriers be overcome?**

The engagement sessions with SMEs and support providers yielded six clear priorities (cited by over 70% of participants) in terms of support and service provision that would assist them to improve their CR performance: more targeted advice and support services; support and advice to benchmark CR performance; assistance in setting and meeting CR procurement requirements; opportunities to learn from others; more appropriate CR communication and details on best practice; increasing the evidence base and demonstrating the links between CR and competitiveness.

Furthermore, the businesses that participated in the sector-specific telephone interviews specified that a range of mechanisms, which corroborate the above findings, would need to be in place across the region in order to support them in the management of their key social, environmental and economic risks – see Table 5.

**Table 5: CR management support mechanisms requested via the sector-specific telephone interviews**

% Response	Requested regional CR support mechanism
47	Creation of a level playing field in terms of legislative enforcement.
44	Sub-regional or sector-specific networks which enable businesses to work together to manage social, economic and environmental risks.
41	Publicity and information to raise awareness regionally or for specific sectors of social, economic and environmental risks.
41	A mechanism which gives advanced warning of legislation.
32	Relevant examples of best practice.
25	Mentoring schemes and workshops.
16	Pressure from public sector organisations on SMEs when procuring products and services to manage social, economic and environmental risks.

*Targeted advice and support services*

There was a demand for more targeted advice on CR from SMEs across sectors, especially advice that focused on determining CR management priorities and developing action plans and assessing resource requirements.

There is demand for CR support to be provided through existing or adapted business support networks, such as NWDA cluster organisations or Chambers of Commerce. Support should be targeted to their individual needs, for example by focusing on a sector or a small geographic area. Many SME researchers have highlighted the effectiveness of providing support to SMEs through these routes and in this manner

(DTI, 2002; Friedman and Miles, 2002; Gernstenfeld and Roberts, 2000; Revell and Rutherford, 2003; Smith et al., 2000).

There is demand in the SME sector for assistance in improving understanding of the CR agenda and its relevance for SMEs. There is a clear demand for sector-specific case study material targeted at SMEs to help them understand CR risks and opportunities for their businesses. Again, this requirement was emphasised in the consultation with representatives of the CBI and FSB, both of whom stated the need for information and material on the CR agenda to recognise the SME sector. It is also corroborated in the literature, where again other researchers have highlighted the need for best practice case studies that are oriented to the size and sector of the target audience (Smith et al., 2000).

In terms of benchmarking, the conclusion from the pilot test of a regional CR index was that there was not sufficient take up to run it successfully and its requirements were too burdensome for most SMEs. There was more interest, however in a purely environmental benchmarking index.

#### *Assistance in setting and meeting CR procurement requirements*

SMEs are clearly worried by the potential for CR issues to act as exclusionary criteria in their bidding for contracts and are looking for support in assisting them to meet, and demonstrate that they meet, CR related criteria. It was also suggested that more should be done to make large buyers aware of the CR benefits of purchasing from local SMEs and of ensuring that their CR criteria did not act as an inadvertent mechanism for excluding SMEs.

### *Learning from others*

There is a tremendous desire to learn from others amongst businesses in all sectors and of all sizes in the Northwest. There is awareness of the considerable leading-edge experience on CR among some companies in the region and a feeling that, in many cases, the most effective learning comes from other companies. Other researchers have also highlighted the desirability of this type of learning (for example, Friedman and Miles, 2002).

### *Communicating and celebrating best practice*

There is consistent demand for accessible information on good practice in CR that was tailored to the needs of different types of company. Businesses are interested in information being provided in a variety of ways including periodic publications, workshops seminars and conferences and through a one-stop-shop website.

### *Increasing the evidence base and demonstrating the link between CR and competitiveness*

As Jenkins (2004) argues the business case for CR has been "developed almost exclusively from research based on large companies" and many of the key elements such as risk, reputation, consumer pressure and employee motivation do not play out in the same way for SMEs. The message from the engagement sessions was that SMEs need more convincing of the business case and that this would best be done

using sector specific evidence. This finding was backed up in the literature – see, for example, Revell and Blackburn, 2006).

In the consultation there was considerable interest in increasing the evidence base both in terms of CR performance and individual firm performance and for the more macro level in terms of the impact that improved CR performance has on regional Gross Domestic Product (GDP). For potential funders of the SME support on CR, demonstrating the links between CR and competitiveness is key to on-going support. The work carried out by AccountAbility during Phase I of Responsibility Northwest demonstrated the feasibility of developing a regional index of ‘responsible competitiveness’ building on their work on the links between CR and competitiveness at a national level.

### **Knowledge gaps**

Analysing the results the Responsibility Northwest research reveals three key knowledge gaps which are worthy of further investigation.

#### *Clarifying the baseline*

While all SMEs will be managing some of their social, environmental or economic impacts, more effective ways of identifying where SMEs are in terms of the extent and effectiveness of their CR management is required. In some cases significant improvement in CR benefits could come from firms moving from a point of non-compliance to legislative compliance. In other cases, firms will be well beyond this point.

The picture is further complicated by the turnover of firms in the SME sector. Over the next 10 years the majority of businesses that are here today will be replaced by new businesses. Reaching firms at this stage in their development may yield significant benefits in terms of on-going implementation of CR related activities. A better understanding of the proportion of firms at different points on the CR scale and the approach of start-ups would help in the design and implementation of support services.

*Understanding the factors that support collaboration and longer time horizons*

One of the hypotheses coming out of the engagement sessions with business was that CR activity increased for SMEs as businesses extended their planning horizons and identified ways to work in collaboration to address impacts.

A number of authors such as Peters and Turner (2004) have identified the importance of collective voluntary initiatives in making significant progress on CR related issues. In the Northwest there are good examples of collaboration yielding positive benefits on specific issues, such as business crime clubs and green business parks. Generating further insights into effective ways of encouraging collaboration for CR would be highly beneficial.

Short time horizons mitigate against significant implementation of CR related activities, so the hypothesis is that mechanisms which increase SME time horizons would assist improved management of CR related issues. Identifying relevant mechanisms and testing the hypothesis should yield useful information to aid work on CR and SMEs.

### *Monitoring and evaluating changes*

Finding ways of evaluating changes in SME CR performance is difficult. SMEs tend to have less inclination to get involved in formal benchmarking scheme and it is unrealistic to expect voluntary reporting on CR activity by individual businesses in sufficient numbers to track performance changes. One alternative is to develop indicators that could be collected on behalf of business at the sub-regional level, for example through Chamber of Commerce surveys. Research on appropriate indicators and effective mechanisms for collecting such data would be very welcome. Further work is also required assessing the relationship between improved CR performance and regional competitiveness and developing systems which will allow the required data to be collected and analysed.

### **Conclusions**

“The strongest finding from this study is that third parties need to work together to further engage SMEs in socially responsible business. A centrally coordinated holistic approach would not only leverage information resources more effectively but from an SME point of view, would provide coherent and seamless mechanisms for engagement, tailored for specific sectors and issues.” (DTI, 2002).

While this quote is taken from the UK wide DTI study, it could equally well apply to the work carried out under Responsibility Northwest.

The first phase of Responsibility Northwest corroborated the findings of other researchers that there is interest in CR issues amongst SMEs but support services will only be accessed if they are developed in partnership with existing business

support organisations that SMEs already value and designed with SMEs in mind. Support services have to be joined up and require the involvement of policy makers, business support organisations and networks and specialist CR organisations. There is no interest in 'another new initiative' but there is interest in programmes that build demand for existing services, strengthen existing networks and build capacity of trusted organisations.

The language and materials used to engage SMEs on these issues is crucial. Use of CR jargon will dramatically reduce interest and involvement whereas targeted case studies focused on specific sectors, geographic areas or type of SME will be highly valued. Opportunities for businesses to learn from each other are highly valued and mentoring schemes will help embed CR.

Finally, from a policy perspective, it is crucial that understanding of the link between improved CR performance and regional competitiveness increases. Without this type of 'regional business case' on-going support for widespread CR initiatives with the potential to reach significant numbers of business are likely to be unsustainable.

A second Phase of Responsibility Northwest began in November 2005. It is a partnership between business support organisations (Chambers of Commerce, Business Links, professional advisers, sector/cluster bodies), specialist delivery partners (SNW, ENWORKS, AccountAbility, BITC) and regional bodies. Its aim is to implement a "centrally co-ordinated holistic approach" that makes an effective difference to the CR performance of significant numbers of SMEs. The programme will run until March 2008 and should result in additional insights into effective ways of increasing CR management by SMEs.

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