

How Material is ISO 26000 Social Responsibility to Small and Medium-sized Enterprises (SMEs)?

Oshani Perera | September 2008

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Secretariat for Economic Affairs (SECO)



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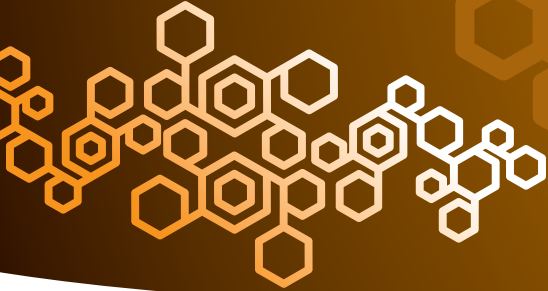


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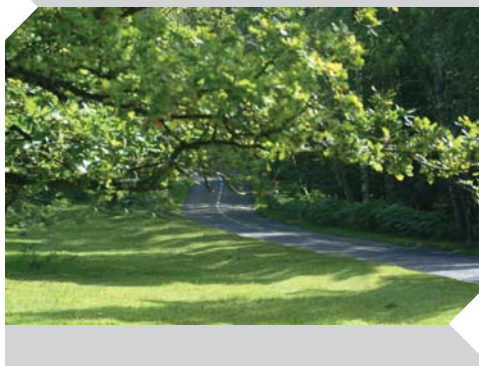
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This project maps the materiality of the ISO 26000 Social Responsibility to small and medium-sized enterprises (SMEs) through a global survey of 59 SMEs, 37 social responsibility consultations and 16 National Cleaner Production Centres across the world. It was commissioned by the Swiss State Secretariat for Economic Affairs (SECO) to further investigate the underlying reasons why SMEs continue to be missing from the sustainable development agenda, and if and how the ISO 26000 could serve as a catalyst for their greater participation.

The ISO 26000 is one of the largest multi-stakeholder processes in the history of ISO. It was accompanied by regional workshops to enable a wider body of stakeholders to follow the development of the standard (2005–2008) and to contribute towards its contents. ISO also worked with national standard organizations to establish multi-

ABOUT THIS PROJECT



stakeholder mirror committees to provide for global participation and a formal process for providing inputs. An important indicator of the participatory outreach was the meeting of the ISO 26000 working group in Vienna in November 2007, attended by approximately 400 experts—over 150 from developing countries.

SMEs are viewed as a challenge in the sustainable development debate. They are seen as standing at its periphery and to be general unconcerned by environmental and social issues—even those inherent to their businesses. They also escape the scrutiny of activists and campaigners, given their small size and their arguably lower profile in the marketplace. But this is only half the picture. SMEs today work in markets affected by a global pattern of supply and demand, which are rendered even more complex by the intervention of governments and skewed trade regulations that favour larger players and special interests. SMEs also face challenges in getting access to markets in which economies of scale are needed to drive down production and

distribution costs, while meeting just-in-time deadlines. Being at the lower end of supply chains, most SMEs also have to bear the risks associated with just-in-time delivery, low or no inventories, low lead times and rising prices of raw and semi-processed materials.

IISD embarked on this project with the understanding that while ISO 26000 may increase awareness, provide definition, and add legitimacy to the social responsibility debate, it may not contain the practical guidance to enable SMEs to implement theory in practice. SMEs are also likely to require external expertise to interpret and implement ISO 26000 in a manner that is best suited to their business context. This inherently presents additional costs that small organizations may find difficult to justify. In addition, as ISO 26000 was being developed through a global multi-stakeholder process, it will reflect the middle ground, where different stakeholder groups will agree to disagree. This is possibly the biggest drawback of multi-stakeholder processes—for as much as it ensures that all relevant issues are debated and diverse perspectives are given due consideration, it does not allow for precise and specialist outcomes. Hence, ISO 26000 is likely to be a comprehensive and inclusive guidance standard, which will define and describe the full spectrum of the social responsibility debate. This was indeed the spirit of the public consultation drafts of November 2007 and May 2008, which were used for this study.

One of the leading critiques facing the ISO 26000 development process is the lack of participation and engagement with SMEs. In the ISO 26000 processes, SMEs are included under the industry stakeholder grouping (and not as a stand-alone category). NORMAPME, European Office of Crafts, Trades and Small and Medium-Sized Enterprises for Standardization, is the only SME trade representative participating in the ISO 26000 processes (though several other participating organizations have experience in the SME sector). NORMAPME is concerned that this lack of representation is leading to the development of a standard, which will essentially have little application to small businesses.¹

SMEs in developing countries face added difficulties as they have fewer opportunities to benefit from social protection, lower access to formal credit suppliers and have limited subsidies from their governments. IISD suggests proponents of sustainable enterprise may need to first rethink and repackage the agenda to reflect the realities of the global marketplace, in order to facilitate the widespread participation of SMEs. There is also the tendency to consider SMEs as a homogenous group, when in fact they encompass a wide variety of businesses, which have very different reasons on why, how and how long they seek to be in businesses. For example, a start-up, a lifestyle service provider, and second-generation family butcher may have drastically different mindsets, which will be even more augmented when compared with a serial entrepreneur or an established middle-market enterprise.

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But, the ISO 26000 process is hardly the first and indeed shall not be the last to face this refutation. Large areas of the sustainable development and corporate responsibility agenda continue to be designed in manner that overlooks the vitality of small firms in making a considerable impact on local competitiveness. According to the International Chamber of Commerce, SMEs typically account for 99 per cent or more of all firms in both industrialized in emerging economies. SMEs are also reported to provide around 50 per cent of productive employment (45 per cent to 60 per cent in the EU and North America, 66 per cent in Japan, 72 per cent in Asia, 65 per cent in Africa, 77 per cent in South America) and over 50 per cent per cent of private sector turnover. More importantly, SMEs are reported to contribute 30 per cent to 60 per cent of GDP.²

The survey methodology is based on a wide cross section of in-person and telephone consultations with SMEs, National Cleaner Production Centres (NCPCs), leaders of the ISO 26000 processes and option leaders in the SME debate. IISD also conducted a literature review of widely circulated academic writings on this debate, as well as a scan of corporate social responsibility tools and guidelines for SMEs.

¹Direct communication with NORMAPME, May 2007

²IMF Small Businesses Programme, Annual Report, 2007

PART 1: THE LITERATURE REVIEW

This project commenced with a literature review of ongoing efforts to promote environmental and social responsibility in SMEs. The results indicated there is a great deal of literature, including:

- 87 websites promoting corporate social responsibly and/or greener management in firms of all sizes, including SMEs,
- 180 universities and business schools offering a dedicated curriculum on SMEs and environmental and social responsibility at both the graduate and undergraduate levels,
- 28 academic papers on responsible entrepreneurship in SMEs published in English between March 2006 and March 2008,
- 39 national and international events (conferences, workshops, round tables), included a focus on sustainable development and SMEs from January 2007 to March 2008,
- 17 tools and guidelines on environmental and social responsibility are targeted at SMEs.

GETTING STARTED



IISD attended two larger and more pluridisciplinary events to present this project, gauge interest in the ISO 26000 and sustainability standards at large: The October 2007 European SMEs forum, organized by the European Academy on Business in Society in Copenhagen; and the November 2007 Inter-American round table for responsible entrepreneurship in SMEs organized by the Inter-American Development Bank, the U.S. Chamber of Commerce

and the Clinton Foundation. Participants in both events were, for the most part, academic researchers studying the dynamics of SME management and how environmental and social responsibility may be encouraged therein.

The body of literature indicates there has been a concerted effort to introduce triple-bottom-line thinking to SMEs. These efforts include:

- Government- and donor-sponsored demonstration programs on eco-efficiency in smaller manufacturing companies,
- Sector specific tools on environmental management and corporate social responsibility, developed and promoted by industry associations,
- Eco-labels and certification schemes, which range from global brands, such as SA8000 and Forest Stewardship Council (FSC), to local eco-labels such as the eco-hotels certification scheme in Tirol, Austria,
- Specialized networks for corporate social responsibility: These range from global initiatives, such as the Prince of Wales Business Leaders Forum, Responsible Small Business Forum in Petra, Jordan, and Responsibility Northwest, U.K.

What has not been commented on, and indeed what sustainability proponents appear to be grappling with, is the SME business case. As mentioned earlier, there has been a concerted effort to adapt the larger firms' business case to a smaller size, and developing simplified versions of big-business toolkits to suit smaller counterparts. There appears to be little comment on whether either of these approaches has been particularly useful.

Another area missing in the debate is the potential link between sustainable enterprise and networking, be they value chains, business consortiums, cooperatives, or professional and social networks. Networks are an integral part of the small business model and critical to the survival of SMEs.

There is also not much written on how organizational form—sole trader, limited liability, co-operative, partnership—impacts the uptake of sustainable enterprise. There is even less said about how environmental and social responsibility practices may be influencing innovation in business processes, product/service features and how small businesses approach sustainable development.

Finally, a large cross-section of the SME debate centres around practices in industrialized countries, with little insight into how globally applicable tools and methodologies are playing out in other parts of the world. This gap is pertinent, given that the contribution SMEs make to GDP is higher in developing countries.

What this growing body of literature does establish is that smaller firms are less likely than larger firms to strategize environmental and social responsibility, and SMEs operate through far more informal processes, which are highly dependent on the personal dynamics of the individuals involved. We also learned that cost-savings and efficiency-improvements are only a part of the incentive packages for SMEs to go green-and-clean. Higher up the list was the desire to give back to communities and societies in terms of employment, B2B relationships and community projects.

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PART 2: THE SURVEY

The next step in this project focused on gaining insight into how SMEs may receive and use ISO 26000 Social Responsibility, and if the standard could be a catalyst for renewed action in enabling sustainable enterprise.

Personal and telephone consultations were organized with a selected sample from the following groups. Additional details and sample selection criteria are detailed in Table 1 and in the following graphics.

- SMEs from both industrialized and industrializing countries,
- National Cleaner Production Centres (NCPCs) who have played a pivotal role in enabling eco-efficiency in developing countries. The NCPC network was established by the UNIDO and UNEP Cleaner Production Programme to build national cleaner production capacities, foster dialogue for lifecycle approaches between industry and government and to promote investment in environmentally sound technologies. As cleaner production can only be sustained if capacity is in place to adopt and adjust it to local conditions, UNIDO and UNEP established NCPCs in developing and emerging economies, beginning in 1993. The NCPC network now extends to over 48 countries. The primary donors have been Switzerland and Austria.

- National chambers of commerce offering specialized services to SMEs,
- Corporate social responsibility consultants working with SME.

The interviews were based on an open questionnaire, which focused on:

- Rating of the ISO 26000 draft standard (versions of November 2007 and March 2008) on its potential contribution to business profitability and stakeholder relations,
- A qualitative discussion of the drivers and hindrances, when improving environmental and social performance,
- A qualitative discussion on implementing environmental and social standards.



A concerted effort was made to obtain a selected sample of SMEs who were legitimately engaged in environmental and social responsibility. The rationale was to obtain an informed rating on the value of the draft ISO 26000 standard, which would not be possible if the companies being consulted were new to the sustainable development debate.

In all cases, two interviews were carried out. The purpose of the first interview was to introduce the project and walk the respondents through the ISO 26000 draft standard. The second interview invited respondents to rate the key elements of the ISO 26000 draft and to discuss drivers and obstacles in advancing social responsibility. The participants were the owner-managers or the chief operating officers of each organization. The information obtained through the consultations was

supplemented by a brief study of documentation provided by each organization on their environmental and social performance.

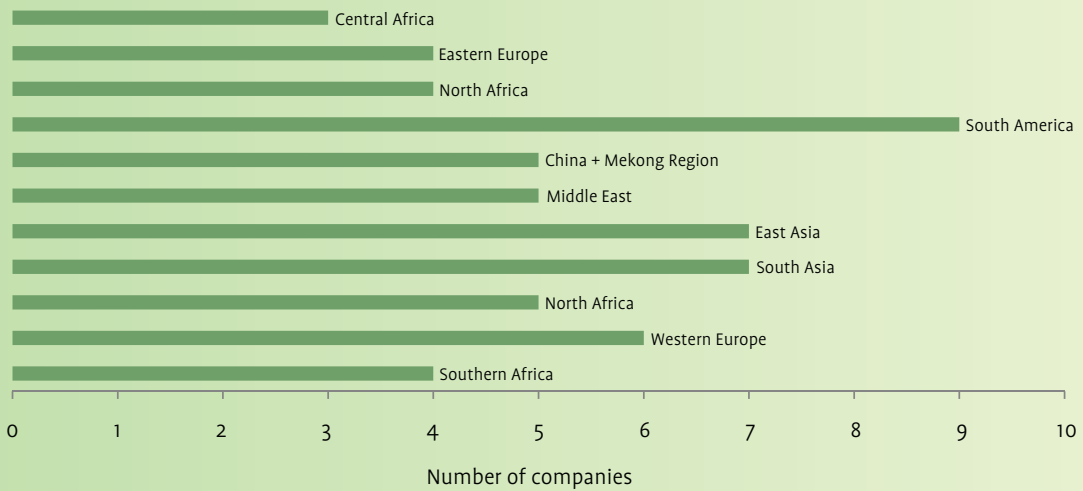
As work progressed, we discovered the national chambers of commerce were not sufficiently involved or informed on sustainable development to rate the draft ISO 26000 standard. We therefore designed the second consultation as a general discussion on the ISO 26000 draft standards and the use of environmental and social standards at the national level.

Table 1: Overview of consultations on the ISO 26000 Social Responsibility
(draft of November 2007 and March 2008)

STAKEHOLDER TYPE	NUMBER OF ORGANIZATIONS INTERVIEWED	CRITERIA ON WHICH ORGANIZATIONS WERE SCREENED AND SELECTED FOR THIS PROJECT
SMEs (All SMEs participating in this survey reported to employ between 30 and 112 full-time employees) ¹	59	Engaged in at least two of the following areas: <ul style="list-style-type: none"> • Businesses that produced and/or retailed environmentally or social preferable goods and services. This includes: <ul style="list-style-type: none"> – Producers of organic commodities, – Producers in the Max Havelaar fair trade supply chain, – SMEs certified to be compliant with corporate codes of conduct and supply chain charters of multinational enterprises listed in the Dow Jones Sustainability Index, – SMEs certified by nationally and internationally recognized eco-labels, • Businesses that are certified ISO 14001, • Businesses that are certified SA 8000, • Businesses financed by responsible venture capital funds.
Consulting firms (Between two and six full time positions)	23	Meeting the following two requirements: <ul style="list-style-type: none"> • minimum of a three-year track record on implementing environmental and social responsibility in SMEs, • Certified auditors for ISO14001 and/or SA8000.
National Cleaner Production Centres	16	<ul style="list-style-type: none"> • Experience with implementing environmental and social improvement initiatives in SMEs, • Experience with enabling compliance with environmental and social standards in SMEs.
National Chambers of Commerce	21	<ul style="list-style-type: none"> • Offering specialized services for SMEs (though not necessarily in environmental and social responsibility).

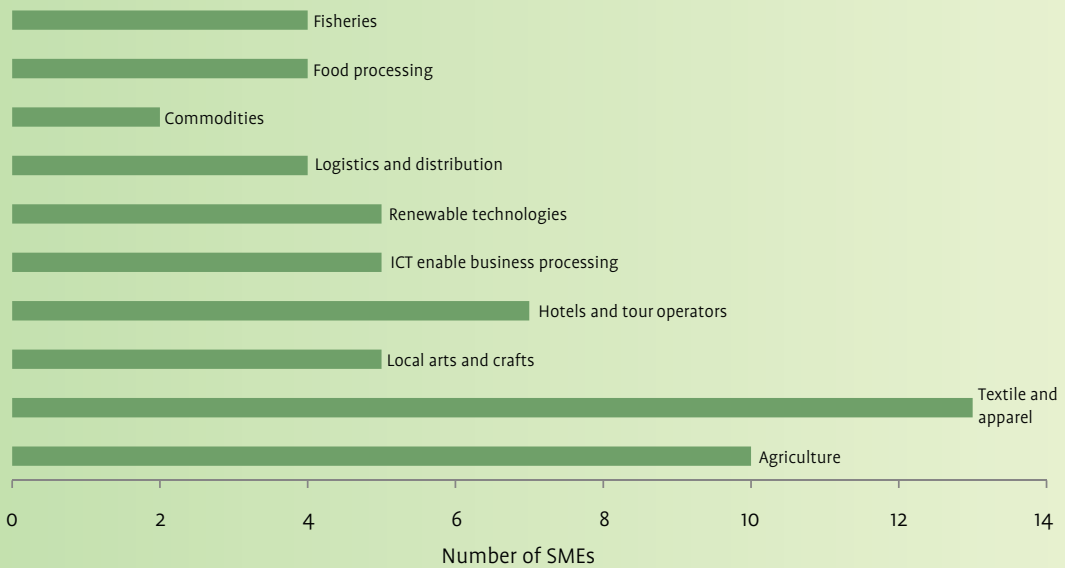
¹There is considerable variation in how countries and regions delineate the size of enterprises classified as SMEs.

Geographical spread of SMEs participating in this survey



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Sectoral spread of SMEs participating in this project



RESULTS OF THE SME SURVEY ON ISO 26000 SOCIAL RESPONSIBILITY

This section presents the results of the IISD survey on the materiality of ISO 26000 Social Responsibility for SMEs.

The broad findings on the opportunities and obstacles in advancing social responsibility in SMEs are discussed first. The discussion then moves to the overarching observations on ISO 26000 Social Responsibility and the rating of its contents—the social responsibility principles and the core social responsibility issues. The survey was based on the September 2007 and March 2008 drafts of ISO 26000 Social Responsibility.



PART 1: BROAD FINDINGS ON THE OPPORTUNITIES AND OBSTACLES IN ADVANCING SOCIAL RESPONSIBILITY IN SMES

DO STANDARDS FURTHER RESPONSIBLE ENTERPRISE IN SMES?

NCPCs and consultants provided an informative evaluation of how standards were contributing to sustainable enterprise in SMEs. They viewed standards as starter tools to introduce companies to sustainable enterprise and determine the best places to start action. They do not consider standards to be of high value in

raising skills, diversifying core product/service offerings and ensuring legal compliance, which are essential aspects of business longevity.

DO STANDARDS ENCOURAGE MOCK COMPLIANCE?

Even though SMEs are heterogeneous in size and working structure—from micro-enterprises with only one owner-manager and no employees to limited liability companies that employ over 200 people across diverse geographic locations—they appear to operate in a flat management and reporting hierarchy. There appears to be little distinction between the roles of management, ownership and floor-level responsibility, as functions tend to be flexible and multi-disciplinary. Furthermore, activities for the most part are oriented towards resolving day-to-day problems through informal communication and interpersonal relationships.

In such a setting, social responsibility proponents need to better understand the organizational and motivational subcultures of different SMEs to determine how to advance social responsibility within them. There is also a need to find environmental and social responsibility methodologies that are differentiated from the more formal ones used by multinational companies, which include codes of conduct, corporate sustainability reports, performance indicators, supplier standards and performance evaluation audits.

This study reveals that these tools may be inviting mock compliance by SMEs, rather than a deeper appreciation for sustainable development and the value of action at the level of small, individual enterprises.

SOCIAL RESPONSIBILITY IS DRIVEN BY THE VALUES OF THE OWNER-MANAGER

The personal values of the owner-manager are potentially the key driver of social responsibility practices in SMEs. This view was confirmed by all respondents, including the national chambers of commerce. While the perspectives of employees could make a difference in how social responsibility may be played out in day-to-day activities, direction and decisions appear to be made by the owner-manager alone. The consultations with SMEs also pinpointed how values related leadership was enabling the more enlightened and informed entrepreneurs to move beyond compliance and adopt a more holistic approach to sustainable enterprise. These individuals were also able to provide informed comments on the draft ISO 26000 standard based on their ongoing social responsibility practices.

SMEs DO NOT APPEAR TO INVEST IN SOCIAL CAPITAL

SMEs operate through a web of interpersonal relationships and therefore, at least in theory, they should be amongst the first to realize the value of investing in social capital. This study however reveals the reverse. None of the SMEs interviewed had, or planned to provide opportunities for continued education, re-skilling or up-skilling to their employees. Bonuses, awards, subsidized housing, meals and childcare were amongst the commonly sighted indicators of a socially conscious employer, but skills-building was not a part of this portfolio.

Consultants and NCPCs concurred with this finding and commented that the most frequent SME attendees for awareness-raising events were indeed the owner-managers themselves.

"Now that we talk about this, yes, it very rare to see a SME owner bringing along a top manager... or even making an informal effort to pass the information provided at these sessions to anyone else. They tend to keep such information to themselves." (NCPC, Cambodia)

SMEs OFTEN MISS THE BIGGER PICTURE

SME do not appear to have a cradle-to-cradle understanding of the social responsibility agenda, i.e. how the different areas of environmental and social responsibility can combine to bring improvements across the triple-bottom-line—economic, social and environmental—performance. All the SMEs consulted appeared to approach each social responsibility issue as a discrete area of activity. As these practices were carried out through informal process, with little or no performance monitoring, it is perhaps not that surprising that these companies were yet to realize the inter-connectivity between and across the different aspects of performance.

DO SMES VALUE SOCIAL RESPONSIBILITY AS A BUSINESS STRATEGY?

As discussed in several of the findings above, the study highlights divergences in opinion of the value SMEs place on social responsibility as a business strategy. Approximately 45 per cent of the SMEs were of the view that social responsibility was a matter of ethics and intuition, rather than a strategy to improve business. As one SME in the automobile sector in Slovakia commented, *"social responsibility is about doing the right thing; it is not about improving the company."*

However, at the end of the two consultations, which included some discussion on business issues and the local sustainable development context, over 75 per cent of the SMEs agreed that the right mix of social responsibility strategies could bring business benefits in both the immediate- and medium-term. They also pointed out that positive results were the key driver in inspiring continued social responsibility activities in smaller

companies. This further supports the theory that no-one-size-can-fit-all and that social responsibility has to be interpreted and applied to the local context, if it is to be of value to small businesses.



SMES TEND TO SPECIALIZE IN PARTICULAR SOCIAL RESPONSIBILITY ISSUES

SMEs tend to specialize in particular areas of social responsibility. For example, around 10 per cent of the SMEs commented that their key area of activity was health and safety, another 12 per cent were working mainly on energy and waste management, a further 25 per cent were working almost exclusively on working hours and overtime, 30 per cent had prioritized community contributions and another 23 per cent paid emphasis to social benefits provision.

What this study could not gauge is the extent to which this specialization was triggering the expansion of social responsibility practices to other areas. While many SMEs commented that *"one thing leads to another"* and social responsibility activities were expanding, they were unable to provide examples to demonstrate this in practice.

NETWORKED BUSINESSES ARE BETTER SOCIAL RESPONSIBILITY INCUBATORS

SMEs that are networked are likely to have a higher capacity to appreciate and respond to social responsibility challenges.

It is well documented that SMEs tend to suffer for a chronic shortage of time to address issues that are beyond immediate operational concern. For example, Sharma 2005 and Sharfman 2006 have written extensively about the shortage of discretionary slack in SMEs. Discretionary slack allows companies to plan ahead, innovate on products that do not require immediate pay off, and experiment with improvements on current design. SMEs are typically known to be focused on more immediate fire fighting and are generally unable to devote time opportunities beyond the immediate radar screen. Indeed, 45 per cent of the SMEs interviewed cited a lack of time as a major obstacle in improving social responsibility performance.

SMEs owner-managers are also responsible for a variety of tasks in the company and therefore may not develop functional specialization and expertise that are important to grow the business in the medium-term. Such expertise has an influence on the absorptive capacity of an organization—the ability to recognize and exploit opportunities from outside the organization's immediate sphere of influence (Cohen and Levinthal, 1990). Many small firms have little time to collate information that the typical social responsibility agenda requires, scan their impacts on stakeholders and the environment, and interpret this information into the business context. Small companies grow knowledge in implicit ways, based on experience and learning by doing. In such environments it is easy to see that the social responsibility agenda, which requires higher order learning and mindset changes, can be a harder sell.

Consequently, the more networked an SME is—be it through multinational value chains or through local professional and philanthropic networks—the greater its absorptive capacity is likely to be. The findings of this study indicate that firms that were directly linked to international value chains provided higher ratings on the relevance of ISO 26000 to business profitability.

"If our multinational clients had not asked us to get certified and trained us to do so, we could not have got this far. Today, I don't really need their help. I have learnt enough to lead improvements myself, but it is them that got me started. But of course, I still continue to learn a lot from the supplier-mentoring-programs—there is always something to learn from these big players." (SME in food processing, Chile)

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THE LACK OF EXPERTISE IS A GREAT HURDLE THAN THE LACK OF TIME

The point made above suggests that time and resources are always going to be a constraint for smaller companies in working around social responsibility. This study also points out that for companies already engaged in social responsibility, the lack of time wasn't as much of a hurdle as the lack of expertise to make the right decision in the given business context. The interviews with SMEs and NCPCs were especially revealing in that respondents were not concerned with the time spent on implementation, but the time spent on finding out what needed to be done. SMEs appear to lack the expertise to understand the social responsibility agenda, prioritize it within their business interests, and estimate the time and resources required to address them.

FINANCIAL RESOURCE CONSTRAINTS

Forty one per cent of SMEs and 37 per cent of the consultants and NCPCs observed that it was the liquid capital that prevented SMEs from investing in systemic improvements and new technologies what were inherent to the social responsibility debate. These SMEs also viewed the increasing social compliance costs as a constant barrier to improving competitiveness and suggested that their outputs did not reach the necessary economies-of-scale to justify investments in social and environmental improvement.

On the other hand, 38 per cent of the SMEs and 60 per cent of the consultants and NCPCs suggested that social responsibility-related investments did not present additional cost-burdens, provided that the mix of social responsibility strategies was suited to the firm's immediate priorities.

SMEs' LACK OF NEGOTIATING POWER ACROSS THE VALUE CHAIN

Smaller size often reflects lower negotiating power and lower leverage on market forces (Porter 1980).

This perspective was echoed by all persons consulted. Some SMEs went so far as to state that even if they were to demonstrate of strong commitments to social responsibility, market forces were unlikely to reward them. Indeed several respondents suggested the SMEs are more ethical than multinational firms, but there lack the negotiating and marketing power to demonstrate this commitment and to lobby for rewards for responsible entrepreneurship.

In order to compete in global markets, companies need to internalize a range of different capabilities, which include research and development, production, organizational and managerial competence, supplier and customer networks, and market intelligence.

These capabilities are important, for they allow the timely development and effective commercialization of goods and services. After all, a key ingredient for a successful business is the speed and the cost effectiveness with which it builds its capacities. But no company, not even market leaders, can effectively build all these capacities internally, while also managing them at the global level. Therefore, firms tend to focus on their key competencies and outsource other functions to streamline efficiency, reduce costs, and inherently reduce risks linked to production, inventory and distribution. Value chains are also increasingly modular and driven by low inventory, low lead-time, and just-in-time production models, where the risks of low-cost production are increasingly passed on to actors in the supply chain. Given these realities, it is perhaps no surprise that SMEs feel that social responsibility is an agenda in which mock compliance is the best way forward.



SIZE DOES INFLUENCE THE UPTAKE OF SOCIAL RESPONSIBILITY?

There is wealth of academic and empirical evidence to suggest that larger SMEs are more likely to implement and gain with social responsibility improvements, rather than smaller companies and micro-enterprises. This study is able to corroborate these findings given the direct correlation between company-size and the higher business profitability ratings provided by the SMEs participating in this study. The larger SMEs were also notably better informed and more proactive during the interviews.

ARE B2B BUSINESSES MORE LIKELY TO CHAMPION SOCIAL RESPONSIBILITY?

This study questions if B2B businesses could more likely be champions of the sustainable development than their B2C counterparts. B2B businesses, by virtue of their suppliers and customers are likely to be more integrated into formal larger supply chains, where environmental and social performance is becoming a must-have. Business customers also exercise greater influence on their suppliers as they represent higher volumes in turnover and can enable smaller companies to reach economies of scale. They also consistently provide valuable feedback on quality and point out areas for improvements in design.

Sixty-four per cent of the SMEs participating in this study were B2B firms.

SMES REQUIRE SPECIALIZED SUPPORT SERVICES AND IMPROVED ACCESS TO CREDIT

All the respondents commented that environmental and social responsibility required concerted support, and that the currently available resources were insufficient, sometimes even inappropriate, and that many smaller firms did not know how to access these support services in the first place. Several respondents also pointed out that many of their peers were unable to meet the demanded fee structure to move beyond reading the tool to actual implementation on the floor. This study identified three areas in which respondents believed more support was needed:

- 1) Strengthening the overall enabling fiscal and economic infrastructure to support SME development and reward proactive companies,
- 2) Building the capacity and capability of SMEs to recognize social responsibility issues and opportunities,
- 3) Improving SME access to financing.

The chambers of commerce interviewed also affirmed that they need to boost their services for SMEs in many areas, including sustainable enterprise. The traditional roles of chambers of commerce have been to provide advisory services for businesses development. Environmental and social responsibility is still very much viewed as an add on. A few chambers of commerce commented that they had worked with SMEs to address specific campaigns to buy local, provide services with a smile, reduce shop lifting and curb credit card frauds. Since 2000, several chambers had also organized public forums to discuss local environmental policy issues. A handful of Chambers also commented that one of the reasons they had not been active in promoting sustainable enterprise was because they felt that the agenda was out of their remit and that companies did not like being preached at.

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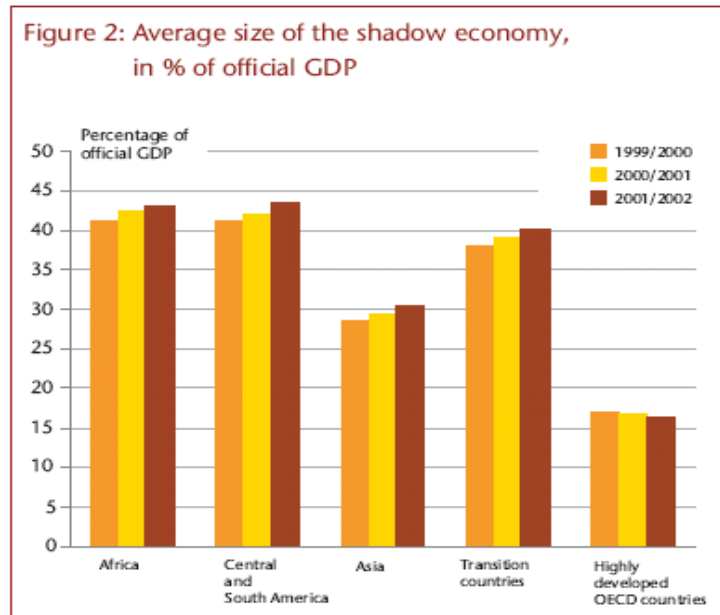
RISKS OF 'DOING WRONG BY NOT DOING RIGHT'

Over 68 per cent of the NCPCs and consultants were of the view that SMEs did not engage in social responsibility practices as they were afraid of performing poorly and thereby exposing themselves to additional risk. *"When you don't know what to do and if you are not sure what you are doing is what is needed, it is best to do nothing. And this is where many small companies are—not only here but all over the world."* (NCPC, Jordan)

STANDARDS CANNOT BE EXPECTED TO REACH OUT TO INFORMAL BUSINESSES

Informal sectors make a large contribution to nations' economies, accounting for between 30 per cent and 70 per cent of GDP. The World Bank's report, *Doing Business 2007*, presents the dilemma of the growing informal sectors which are a direct result of rising income inequality, costly regulations, heavy bureaucracies, poor credit and banking access and heavy tax burdens. SMEs were of the view that the decision to remain informal was indeed deliberate because the costs and procedural burden of joining the formal sector can well outweigh any benefits that could be gained by doing so.

Informal SMEs are difficult targets in the sustainable development debate, as they are ineligible for all types of development assistance and pose barriers for sustainable development in both the immediate and medium term.



Source: Schneider, Friedrich, 2005, "Size and Measurement of the Informal Economy in 110 Countries around the World," Working Paper 2005-13, Center for Research in Economics, Management and the Arts, Johannes Kepler University of Linz.

PART 2: OVERARCHING OBSERVATIONS ON ISO 26000 SOCIAL RESPONSIBILITY

THE ISO BRAND VALUE WILL PLAY AN IMPORTANT ROLE IN FURTHERING THE SOCIAL RESPONSIBILITY AGENDA

All the consultations, including those with the national chambers of commerce, indicate that ISO 26000, through its ISO branding, will add legitimacy to the social responsibility agenda and contribute towards its recognition as a trade and development strategy of global importance.

"Social responsibility has often thought to be corporate philanthropy. This standard will help indicate otherwise." Chamber of Commerce, U.S. "In our view, if ISO issues a standard on these aspects, we will have to take the agenda more seriously." (Chamber of Commerce, India)

ISO 26000, WITH EDITING AND IMPROVED PRESENTATION, HAS THE POTENTIAL TO SERVE AS A COMPREHENSIVE INTRODUCTION TO SOCIAL RESPONSIBILITY

This study provides evidence to suggest that ISO 26000, with substantial improvements in style, language and layout can serve as a comprehensive introduction to social responsibility.

While realizing the standard was in a draft form, all respondents commented that the language used impeded easy comprehension and navigation. Over 45 per cent of the respondents also commented that the draft was too long to serve as a useful tool for smaller organizations.

Despite these reservations, all the respondents agreed the content of the draft, though very global and generic, did provide SMEs with a bigger picture of what social responsibility could entail for all organizations including SMEs.

Many respondents also commented that the draft standard goes well beyond the requirements of other social responsibility standards and were interested to see how the standard would play out in the marketplace.

ISO 26000 IS NOT LIKELY TO SERVE AS A MANAGEMENT TOOL FOR SMES

As much as ISO 26000 provides a comprehensive introduction of the SME debate, 89 per cent of the respondents did not see ISO 26000 being used as a management tool by smaller organizations. The main reason for this perspective was that respondents regarded ISO 26000 to be too broad-spectrum and implicit to serve as a resource in operational challenges. The NCPCs commented further that ISO 26000 would need to be repackaged to address national and even sector-specific concerns, if it was to be of wider appeal.

ISO 26000 WILL ONLY ATTRACT A SELECTED PROFILE OF ENTREPRENEURS

All the respondents universally agreed that ISO 26000 will be picked up by a selected profile of SMEs:

- Those that are looking to export to Europe and North America,
- Those that feed into international value chains,
- Those whose products/services are inherently linked to environmental and social integrity,
- Those that are financed by socially responsible and ethical investors,
- Those that lead by individuals who appreciate the environmental and social opportunities and risks at the mezzo- and macro-level.

"ISO 26000 and all standards on these issues are not for everybody. We are going back to the debate on the public understanding of science—almost. Most small businesses don't understand green issues, or poverty issues, or as matter of fact, a lot that is being debated on News Night. You need to be aware of this and not have the expectation that all and sundry are going to be concerned about the planet to such as extent that they will be interested in this standard." (SME in graphic art and advertising, China)

ON THE ISO 26000 SECTION: GUIDANCE FOR AN ORGANIZATION ON IMPLEMENTING SOCIAL RESPONSIBILITY

Smaller organizations are characteristic of flat management structures, and informal working processes that depend on interpersonal relationships rather than formal documented processes. As discussed earlier, SMEs operational structures do not require them to formally map out stakeholder demands and report on social responsibility performance. It is therefore not surprising that all the respondents found this entire section of little relevance to SMEs.

THE NEED FOR MECHANISMS TO DEMONSTRATE COMPLIANCE WITH ISO 26000 SOCIAL RESPONSIBILITY

All the respondents were interested to learn about how compliance with ISO 26000 Social Responsibility, which is being designed as a guidance standard, could be demonstrated. Indeed all respondents were of the view that compliance mechanisms were integral to the widespread uptake of the standard.

Given that ISO 26000 is a guidance standard, several SMEs expected multinational supply chains to accordingly expand prevailing supplier management practices (including in-house performance monitoring and reporting). Others were of the view that larger clients will ask their suppliers to comply with ISO 26000 and include performance verification as a part of ongoing supplier audits. Over 60 per cent of the SMEs were also concerned about potential business losses, if they were not able to comply with the expanded social responsibility agenda encompassed within ISO 26000.

All respondents were of the view that ISO 26000 would see a flurry of compliance services entering the market. The NCPCs and consultants were certainly planning to pick up the standard, once it was launched. They also expected prevailing social responsibility standards (such as social responsibility 8000) and other eco-labels to modify their requirements based on ISO 26000.

“Social responsibility in SMEs is a combination of conviction, intuition and opportunity. No amount of reporting, communication and mapping will change this. We need to wake up to this reality.”

David Grayson, Opinion Leader
in Sustainable Enterprise

HOW IMPORTANT IS THE BUSINESS CASE?

Around 45 per cent of the respondents commented that the draft might be well-served with a discussion on the business case.

Many NCPCs were of the view that the most important entry point for improved social performance was provided by:

- 1) The sustainable supply chain management efforts for multinational enterprises.
- 2) Pollution prevention demonstration projects supported by international donors. As such, many companies, even those holding environmental and social certification, were yet to be convinced that environmental and social performance is of intrinsic value to successful business.

The consultants made similar remarks in that they believed that a company's environmental and social performance was driven in the longer term by marketing or public relations benefits, or because environmental and/or social integrity were intrinsic to its products and services. Therefore, the business case was viewed to be an important element to ensure that ISO 26000 would expand social responsibility uptake in the SME sector.

Still, the respondents agreed that developing a generic, but convincing business case was easier said than done. They also affirmed a generic discussion of the business case, without its application to the national and industrial social responsibility context, will be of limited value.

SMES DO NOT IDENTIFY WITH JARGON

Over 45 per cent of the SMEs and 60 per cent of the consultants and NCPCs raised the issue of terminology and jargon getting in the way of promoting social responsibility. SMEs do not identify with the terms social responsibility or corporate social responsibility and did not use them internally. Instead, they referred to their social responsibility activities under a variety of other terms including compliance, client relationships, client audits, client monitoring and external audits.

"Social responsibility (or whatever you want to call it) is knowing that my workers represent 215 children under 10 years old. This is about getting the balance right—helping the business grow and helping these children have better opportunities than their parents." (SME in Malaysia, forestry sector)

PART 3: RATING THE MATERIALITY OF ISO 26000 SOCIAL RESPONSIBILITY

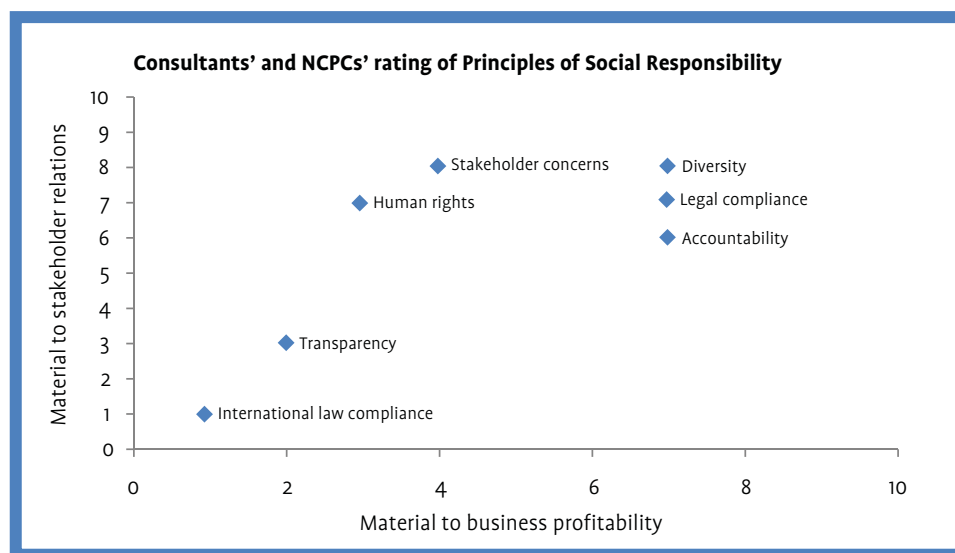
This section discusses the ratings provided by SMEs, consultants and National Cleaner Production Centres on the materiality of ISO 26000 Social Responsibility to:

- Business profitability,
- Stakeholder relations.

The discussion is organized in accordance with the two central parts of ISO 26000—principles of social responsibility and the core social responsibility issues.

Rating of ISO 26000 Principles of Social Responsibility





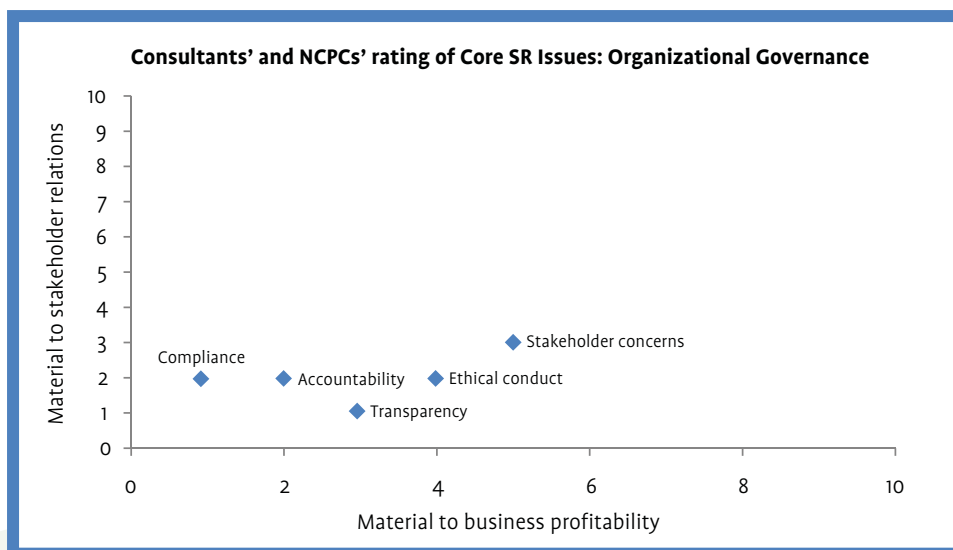
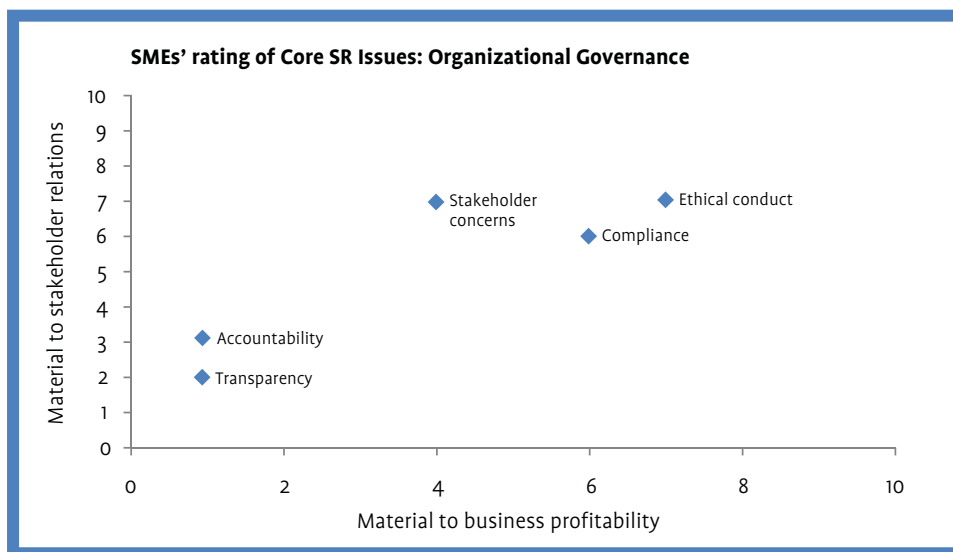
QUALITATIVE OBSERVATIONS

Approximately 90 per cent of the respondents considered the social responsibility principles given in ISO 26000 to be too remote from day-to-day operations to be of value to small organizations. They also noted that many of the principles were again taken up as a Core Issue in the ISO 26000.

Over 60 per cent of the consultants and NCPCs suggested social responsibility principles needed to address the linkage between social responsibility and improvements in product/service quality and employee productivity. Potential savings in operating costs and an improved feel-good factor among employees were viewed as valuable outcomes that prompted continued action and improvement in SMEs.

Of note, are those consultants and NCPCs demonstrating a greater appreciation for the principles of transparency and accountability, which is indicative of their wider mezzo-level appreciation of the social responsibility agenda. For SMEs, these principles appear to be still too remote: *"These are issues for multinational companies. To us, they mean nothing."* (SME in the apparel industry, Bangladesh)

Rating of ISO 26000 Core Social Responsibility Issues: Organizational Governance



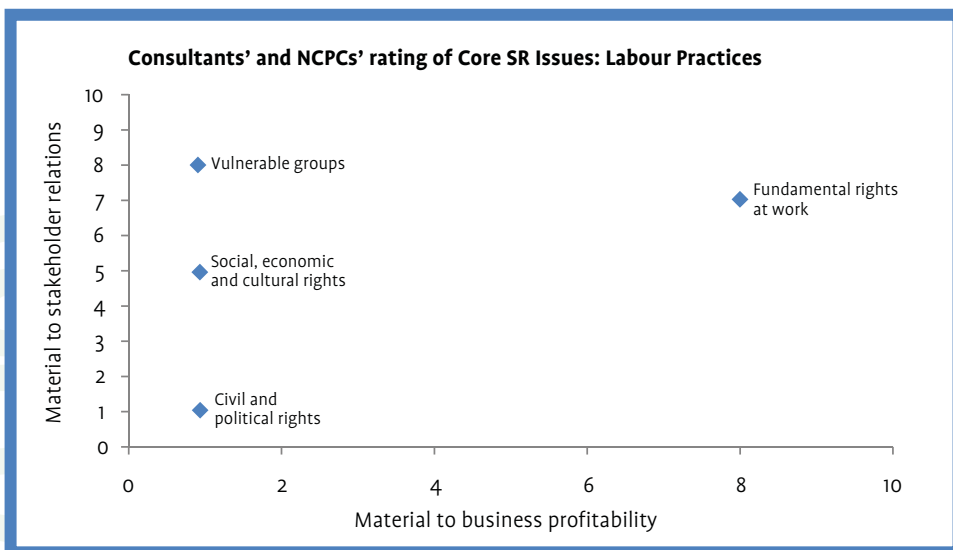
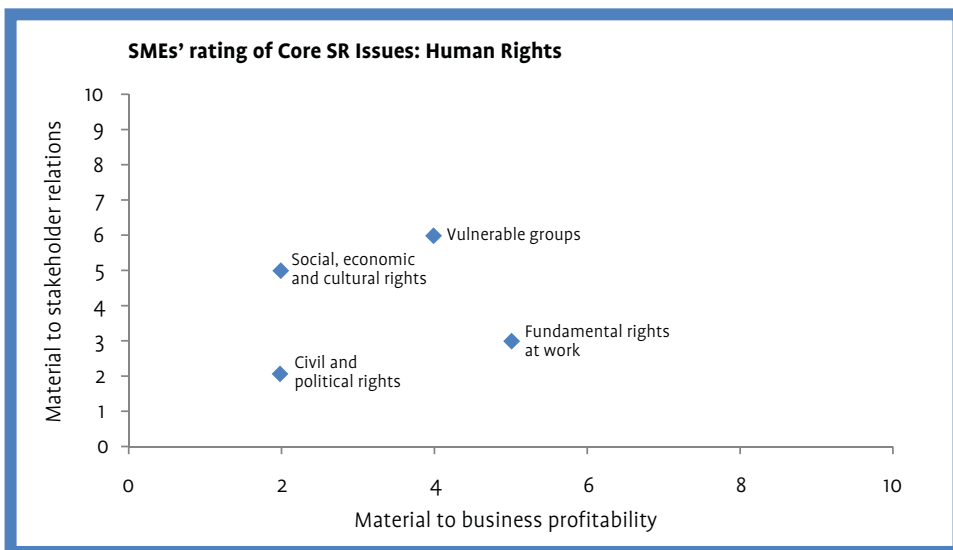
QUALITATIVE OBSERVATIONS

The contents of *Organizational Governance* are very much a recapitulation of the *Principles of Social Responsibility*, but viewed within the context of how socially responsible organizations need to be governed. When compared with the ratings provided on the social responsibility principles, it may be valuable to note that consultants and NCPCs view the above aspects more as social responsibility principles rather than indicators of good governance. Moreover, they do not recognize governance to be an issue of stakeholder concern.

"SME owner-managers spend a lot of time on the work floor, working alongside employees and overseeing all functions. SMEs are governed in this way; they don't have formal boards of directors, and sometimes not even a management hierarchy. Hence, governance is not a stakeholder concern—it should not be." (NCPC, Cambodia)

"As long as they are not violating an important law, how non-public companies are governed is not a matter of stakeholder concern." (Social responsibility consultant, Italy)

Rating of ISO 26000 Core Social Responsibility Issues: Human Rights



QUALITATIVE OBSERVATIONS

Almost all (over 90 per cent) of the respondents from industrializing countries commented on the human rights dilemma and how the above issues needed wider interpretation in accordance with national and sector specific conditions. For example, requirements described under *civil and political rights* and *vulnerable groups* were beyond reach of SMEs in sectors such as agriculture, mining, fisheries, food processing etc. Hence, many respondents were concerned that ISO 26000 could become as a disguised barrier to trade and sustainable development. Many SMEs wanted flexibility in how these aspects could be approached based on employment, education, and poverty-related challenges that effected day-to-day realities on their operations.

"In this country, many employee representatives do not work in the wider interest of the workers, but are more about gathering support for political parties. In this sector, we have had long standing issues on wages and working hours. Now we have another. As commodities are fetching good prices in export markets, I have the cash flow to train my workers new skills to increase added value. But the employee representatives are trying to block this on the grounds on that we are asking workers to do more than (rubber) tapping. In such a setting, we need flexibility in how we can negotiate and deal with demands from employee representatives who do not understand the dynamics of export markets. It is not a simple matter of respect (as stated in ISO 26000)—it goes well beyond that." (SME in the rubber plantations/processing sector, Social Responsibility, Sri Lanka)

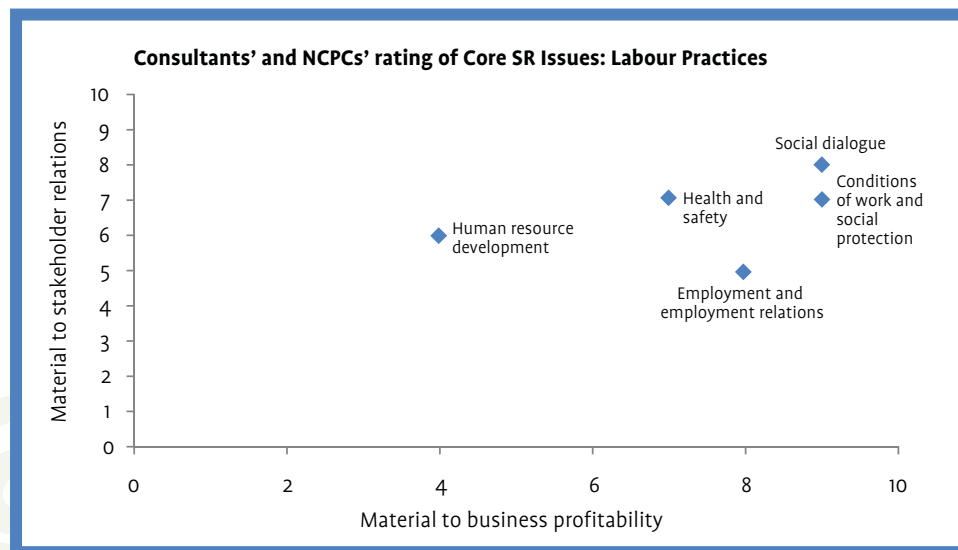
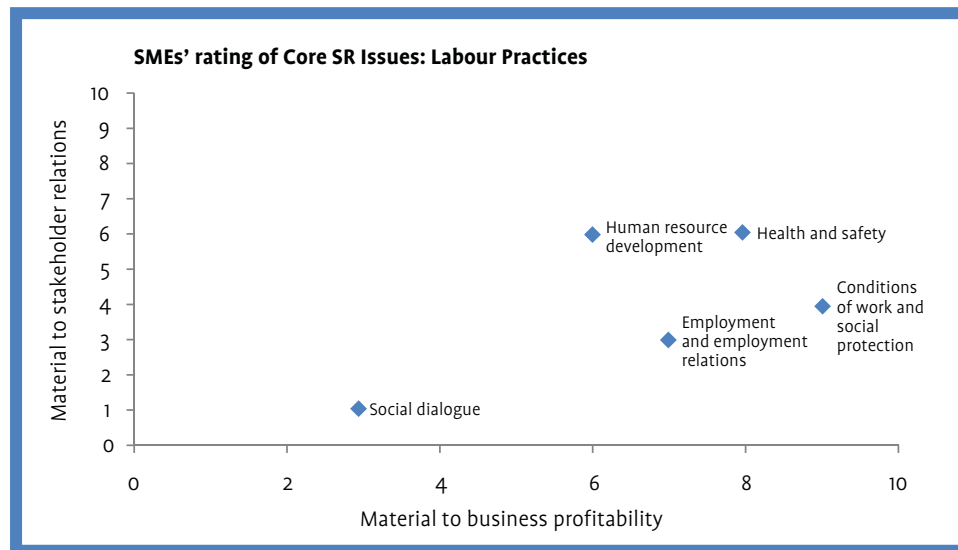
Several respondents also pointed out that the solutions to human rights abuses—especially those related to bonded labour and child labour—required flexible conditions under which vulnerable groups could be suitably employed.

"I employ several minors in my businesses—they go to school and they work for me in the afternoons. Now if I say no to employing them, it will not mean the end of the child labour problem—it will only mean that these teenagers will seek employment elsewhere, maybe in more dangerous industries. Their families need the money and that is why they are working." (SME in organic agriculture, Botswana)

"These issues cannot be discussed realistically when developing standards; if international standards require conditions that simply cannot be attained given the levels of poverty and bad leadership in developing countries, then these countries will only grow poorer and these problems will escalate." (NCPC, Peru)



Rating of ISO 26000 Core Social Responsibility Issues: Labour Practices



QUALITATIVE OBSERVATIONS

All respondents placed value on conditions of work and employment and employment relationships on the grounds that these aspects increased employee morale, improved productivity and lowered absenteeism and turnover.

Challenges related to wages, overtime and working hours were discussed in detail, especially related to difficulties in complying with these aspects while meeting global supply chain trends, no or low-stock inventories, coupled with just-in-time production and increasingly narrow lead-times. While management strategies certainly provide for flexibility and improve efficiency in the value chain, they also inherently pass the risks and costs associated with production right down the value chain to the first tier producers and assemblers. SMEs in these circumstances may have little choice but to alter working hours and wages, with little compensation in return.

"A major customer told me yesterday that they wanted 18 samples with 29 lab tests all done in three days. To meet this deadline, I have to operate my sample labs round the clock. I don't have people for 24-hour shifts—this is specialized work... What else am I to do but ask my people to work longer?" (SME in essential oil processing, Nicaragua)

Many of the respondents felt that as with human rights, labour practices needed to be applied to the local context, including national employment patterns and the level of skill required.

"Overtime is a key motivator for young women to work in this industry. They aim to earn as much as possible in the few years before they get married—at which point they stop working. If I don't offer my employees, especially line workers, the chance to work overtime, they will not work for me. But line managers and supervisors are a different category, they look at working for longer terms and hence, chances for them to move up the ladder are also important. But they too want to maximise their take-home wage, hence there is a high interest to work overtime." (SME in sporting goods industry, Morocco)

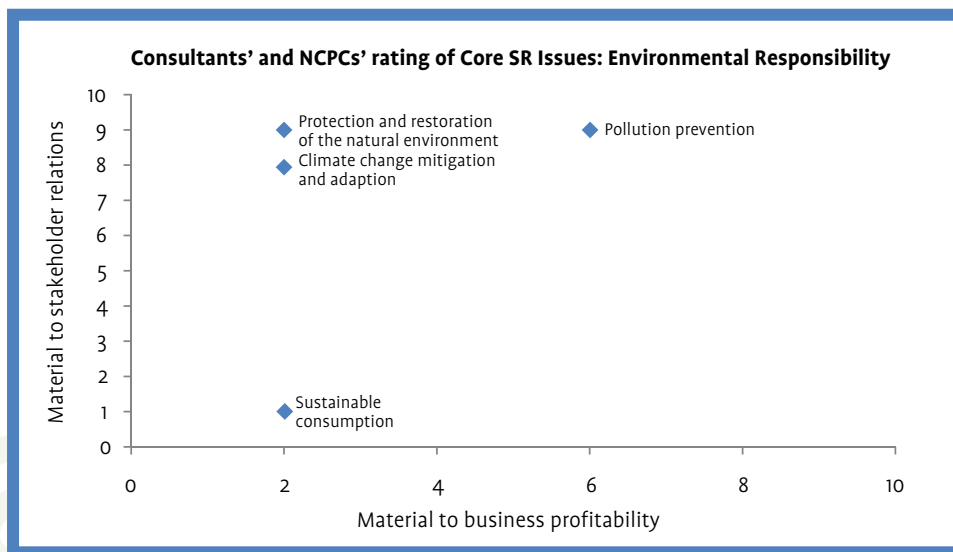
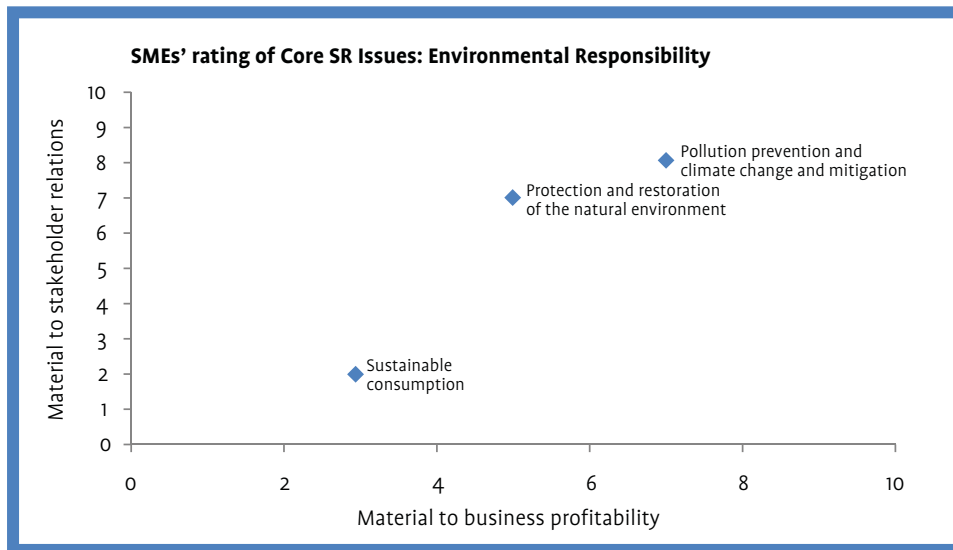
"Overtime is sometimes an issue for stakeholders in Europe and the U.S., who see our factories as some kind of slave labour. The reality is different. Here, not only line, but supervisory and management functions include working overtime and getting paid extra for it. It does not per se, have a negative impact on productivity. On the contrary, as business grows, so does working hours and overtime compensation." (NCPC, Jordan)

"There has been a lot of negative press on labour issues and worker representation in countries to which we export. But in actual fact, we need industries that will encourage skilled employment. It is not fair that labour conditions can be used as a barrier to enable industries in this country to grow and trade in a sustainable manner." (NCPC, Cambodia)

Of note is that the SMEs and consultants based in South and East Asia provided higher values on both the business and stakeholder materiality ratings, when compared with their counterparts in other continents. The reasons for this could include:

- Larger volumes of global manufacturing supply chains are based in Asia where multinational companies have been active in corporate social responsibility and responsible supply-chain management for a number of years. Therefore, companies in Asia have built up substantial experience in social sustainability and are better able to evaluate these issues in relation to business success.
- Labour practices in Asia are highly mediated, both in the region as well as on the global level.

Rating of Core Social Responsibility Issues: Environmental Responsibility



QUALITATIVE OBSERVATIONS

Respondents were unanimous in accepting that the right mix of environmental management practices to suit the individual businesses context could reduce lower resource inputs and waste outputs and realize notable savings.

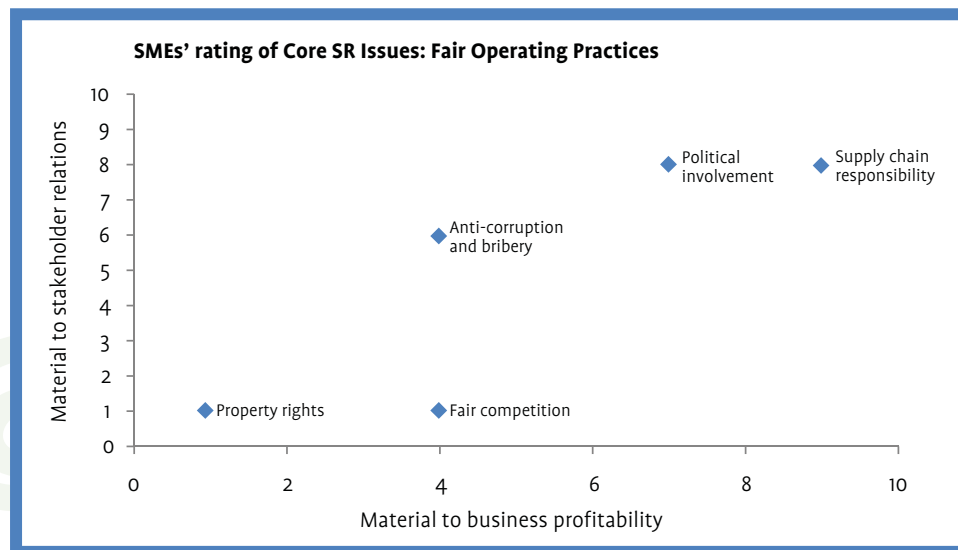


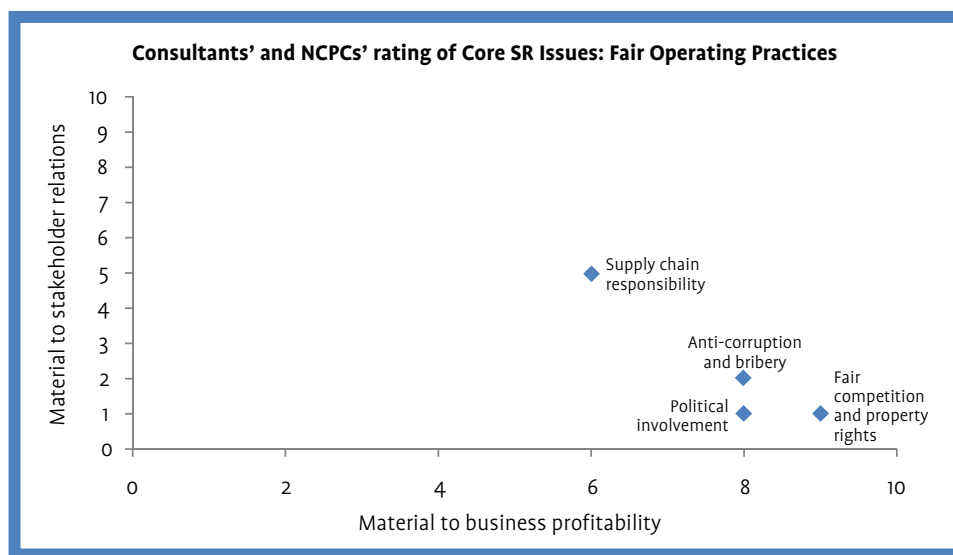
However, it was only the consultants and NCPCs that could cite examples of theory in practice. Most of the SMEs could only refer to expected resource and cost savings over 2007-08 and beyond. Several companies mentioned that their utility bills were lower as a result of environmental management efforts, but they could not provide details how they were achieved. This indicates that SMEs, even when engaged in the social responsibility agenda, did not take the time or effort to understand exactly how social responsibility activities contribute to their businesses. This finding also contributes towards the theory that SMEs for the most part engage in mock compliance rather than embedding social and environmental performance in daily operations.

"Having installed solar water heaters, we don't use electric heaters any more. My electricity bills are certainly lower. I did pay 70,000 rupees for each solar water heater... if they (heaters) last seven years; it is not so bad—is it?" (Hotel Owner, Rajasthan, India)

Sustainable consumption was poorly understood and appreciated by all respondents. Several NCPCs and consultants commented that it was a poor fit in a standard on social responsibility and had no application to SMEs.

Rating of Core Social Responsibility Issues: Fair Operating Practices





QUALITATIVE OBSERVATIONS

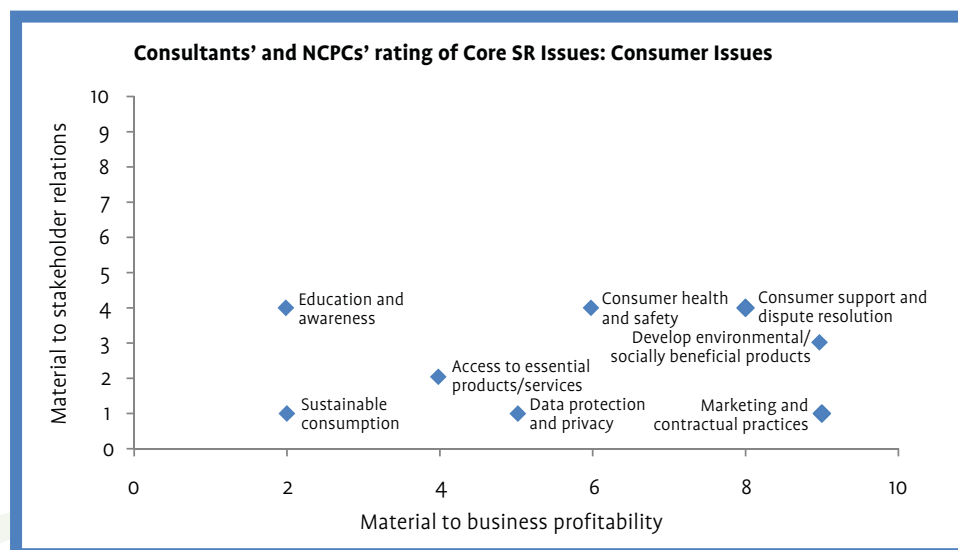
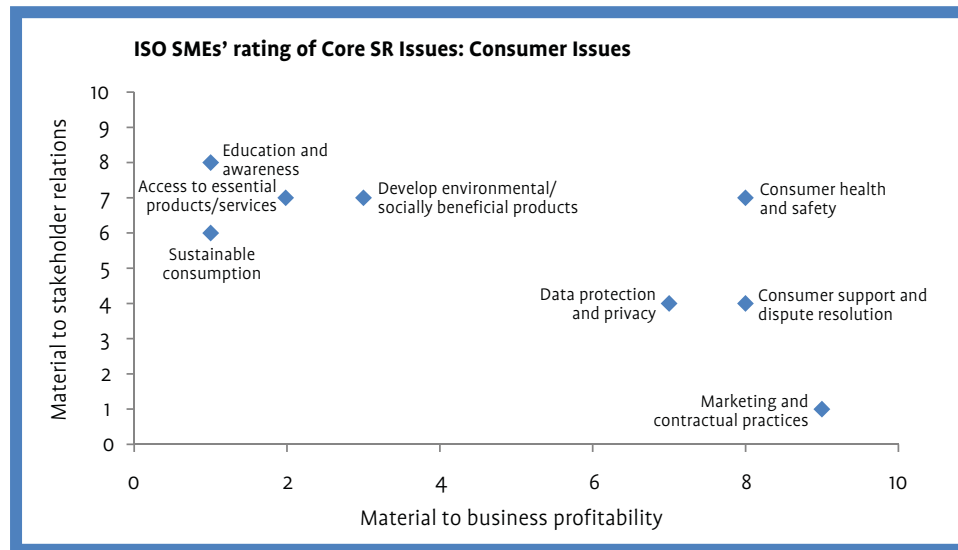
There are significant differences between the SMEs and consultants/NCPCs' ratings on Fair Operating Practices, which indicates that the implementation of these issues will require wider debate on how such issues could be strategized in SMEs. SMEs commented that larger companies and multinational clients needed to lead by example and therefore, awarded higher ratings to supply chain responsibility. They also commented that political involvement could potentially be a hot issue as many owner-managers needed to be linked to the correct political party to know whom to approach to get things moving.

"Any business has to contribute to the local political processes, in kind, in cash, in attending lobbies. . . this is an important way to win tenders, know about investors entering the market and where the next deal could be made." (SME in the building and construction, Venezuela)

There was also some discussion around anti-bribery, as respondents in industrializing countries regarded facilitation payments as "operating expenses" and very much a part of day-to-day businesses.

"We cannot comply with this requirement. If I don't pay my way at customs to get my equipment cleared in good time, or at the local planning office to get my centre extension approved quickly, we will be in some trouble. We can't tackle these issues with compliance—it is a wider government issue—it is a global issue." (SME in call centre/data entry operations, Senegal)

Rating of Core Social Responsibility Issues: Consumer Issues



QUALITATIVE OBSERVATIONS

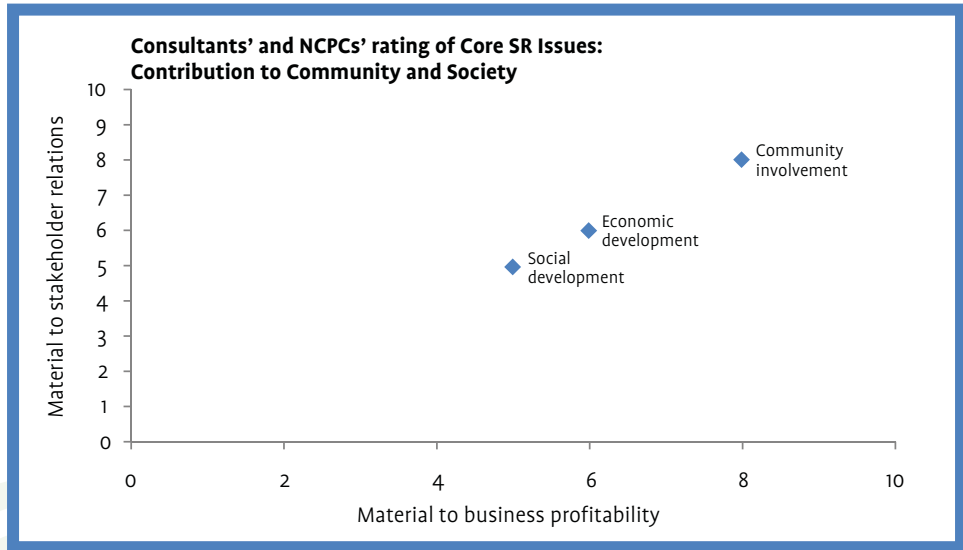
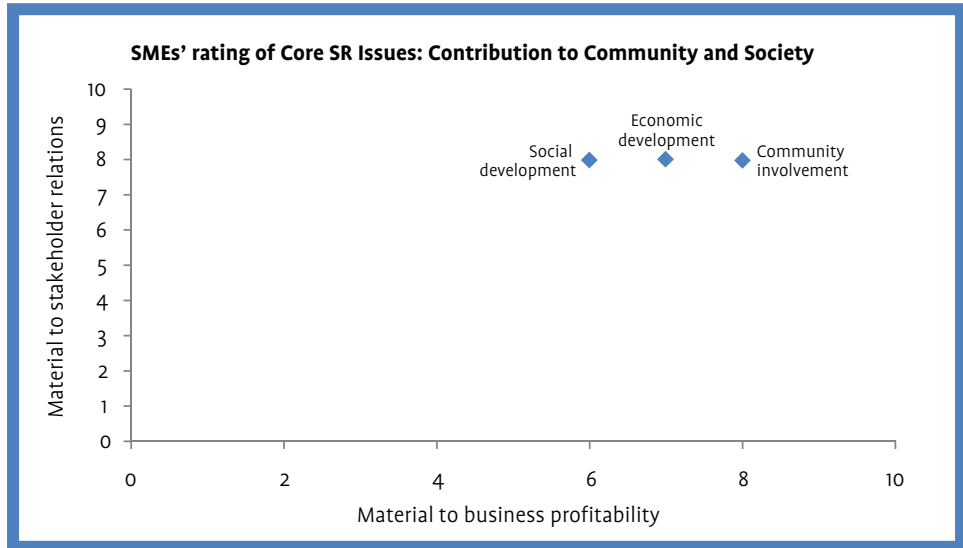
Consumer issues presented somewhat of a paradox, as many SMEs did not perceive them to be a part of the social responsibility agenda. A large part of the interview was spent on discussing these issues and on demonstrating their relevance to social sustainability.

The consultants and NCPCs on the other hand, felt that these aspects would become relevant to smaller companies, (especially B2B enterprises) when they move from being micro-businesses to those that are better networked and feed into larger value chains.

Consultants and NCPCs also felt that the above aspects were more relevant to business operations than to stakeholder relations.



Rating of Core Social Responsibility Issues: Contribution to Community and Society



QUALITATIVE OBSERVATIONS

All SMEs were able to speak at length on their contributions, even though none of them had implemented any projects that were of strategic interest to their business. Several respondents found that tailoring community projects to also serve business interests and further business credentials was a very good idea and even a very new idea. However, others did not feel comfortable about making business links with community contributions. This was seen to be a big-business thing to do and there was belief that larger companies only took on community projects for public-relations benefits.

Several respondents also stated that they did not feel comfortable to even publicize their community projects, as they were undertaken for ethical reasons. As one SME in plastics processing in Egypt remarked: *"I don't feel it is right to use these projects as a marketing exercise, as we are doing these activities, not to further business, but to do the right thing."*

In a similar vein, the consultants and NCPCs commented that strategic community involvement was an area that was yet to be promoted in their work.

MAINSTREAMING SOCIAL RESPONSIBILITY: THE WAY FORWARD

This study establishes that ISO 26000 and social responsibility has the potential to serve as a comprehensive guide to introduce the agenda to SMEs. It also establishes that only a particular profile of SMEs can be expected to join the debate—those that are export-oriented, networked into international supply chains, produce products/services that are linked to environmental and social integrity, financed through socially responsible and ethical investors, and finally, those that are lead by individuals who are aware of the urgency for sustainable development.

This study also indicates that social responsibility practices need to move from mock compliance to a component of mainstream business acumen. The debate needs to move from doing-the-right-thing to a useful way to maintain market position and differentiate from competitors. Social responsibility proponents need to move from building on the big-business case and experiment with alternative tools and models to help SMEs develop the right mix of strategies to suit their businesses. Policy makers also need to design market instruments that will reward responsible enterprise.

There needs to be movement from promoting stakeholder consultation for its own sake, to validating that environmental and social responsibility involves complex issues that can only be understood and managed by consulting others, especially those that are directly impacted by the organization's activities. No organization operates in a vacuum; no organization can address these challenges on its own.

But perhaps the very first step to bring ISO 26000 Social Responsibility to life is to acknowledge that the sustainable development debate tends to protect itself from the economic realities and linkages of the global economy.

For example:

- While we are aware differences in growth rates are widening between industrializing and industrialized economies, we still view industrializing countries only as supply bases. What is often forgotten is that industrializing and emerging economies are using their export revenues to increase imports. International Monetary Fund (IMF) reports that over 50 per cent of the combined volumes of export from the U.S., EU and Japan are accounted for by the BRIC countries (Brazil, Russia, India, and China). (This excludes trade in food and fossil fuels.⁴)
- While the prices of goods and services imported from BRIC and industrializing countries may be rising, the price of their imports are rising even faster. Oil prices have quadrupled over the last eight years and prices in copper, steel and other such commodities, including agricultural products, are at their highest since 2000.

⁴Export trends in East Asia', IMF, 2007

- At the global level, growth in emerging countries is not substituting for outputs in industrialized countries, but is adding to it—driving down production costs and increasing productivity. This is why multinational companies (except in the banking sector) are yet reporting gains for they are achieving greater economies of scale and maintaining per-unit-cost margins.
- The global economy is focused on supplying to the middle classes in emerging and industrializing countries. And to a great extent their demands are yet to discern on environmental and social attributes.

We have also to realize that the biggest loser in the globalizing world is likely to be the worker, which lies at the very heart of the social responsibility debate. Social responsibility is after all about making living conditions more equitable and sustainable for all. In economically advanced countries, workers are losing their bargaining power to those entering the workforce from poorer countries. This is manifested, not only the loss of jobs in the first world, but in a real decline in wages.

Wages are declining not only for lower skilled workers, but for professionals in medical services, back offices, banking and IT services. In a similar vein, workers in developing countries have even less bargaining power, as the labour they bring to the global economy is rarely combined with capital. And capital has never been so free to move. In their case, the loss of jobs is more catastrophic than the lowering of wages, as high inflation rates have ensured that wages have always remained low, while the social safety-net of unemployment benefits, access to retraining, chances for job conversion, and access to healthcare is being fast eroded. As a direct consequence of these trends, income inequalities are likely to increase even further. *The Economist* of June 21, 2008, reported that America's top 1 per cent of earners now receives 16 per cent in all incomes, up from 8 per cent in 1980—and that wage inequality has also increased in Europe and Japan. Income inequalities in emerging and developing economies are even wider.

Standards are an important tool in defining and levelling the playing field for more equitable trade and development. But just as they provide incentives for responsible enterprise, they can also be played out as trade barriers, especially vis-à-vis SMEs in industrializing countries that may lack the resources to comply. We need to intensify the debate on how standards can indeed open opportunities for sustainable trade and how they can be less manipulated to move more risks to the lower ends of the value chain.

To remain competitive, global value chains are increasingly designed to pass on the costs and responsibilities of compliance to those at the primary tiers of the supply chain. And there is legitimate concern that environmental and social standards can be used as an excuse to consolidate supply chains and drastically reduce the number of supplier units in both developed and developing countries. Suppliers, who are unable to comply with environmental and social specifications, meet just-in-time schedules and reduce production costs, are being left out. Those companies who can meet these demands have to merge and consolidate to do so, which adds to the concentration of profits and expertise in limited pockets of society.

Standards, especially ISO 26000, also need to be flexible in their application to the social and environmental realities of industrializing countries. While we are all aware that no-one-size-can-fit-all, we also need to acknowledge that social responsibility issues cannot be universally interpreted. As much as we work to safeguard and enhance labour standards, we need to do so in a way that promotes flexible and dynamic workforces.

As much as we work towards employment for all, we need to look for newer ways to enable job conversion, re-skilling and up-skilling. As much as we work to enable decent work and abolish child- and forced-labour, we need to tackle the economic and social realities that create these conditions in the first place.

This study is being published in the run up to the development of the ISO 26000 Social Responsibility committee draft. This was necessary to ensure that the survey was conducted on the most recent and integrated draft versions of ISO 26000.

IISD looks forward to continued learning and debate on responsible entrepreneurship, focusing on both trickle down and on bottom up strategies for sustainable development in the middle-of-the-pyramid.

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