

»» SMEs all over the world are promoting social interests

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Author: Dr Jennifer Abel-Koch, phone +49 69 7431-9592, research@kfw.de,

In the past two years, nine in ten SMEs in industrialised and emerging economies have worked to achieve not just economic but also social and ecological goals. They are primarily involved in securing good working conditions. That means small and medium-sized enterprises (SMEs) have a broad impact – after all, they employ well over half the workforce in all countries. But SMEs also advocate for the careful management of natural resources – not least because this also yields clear business benefits.

These are the findings of a special evaluation of the KfW Competitiveness Indicator 2016, for which more than 3,100 businesses in ten important economies across Europe and the world were interviewed about their corporate social responsibility activities, among other topics.

SMEs anticipate that taking social responsibility and advocating for sustainable development will become even more important in the future. In particular, they expect energy efficiency to become an issue of growing significance. In light of this, many SMEs are still on the starting blocks towards implementing specific energy efficiency measures.

In international comparison, German SMEs are more dedicated to climate action and environmental protection than the average. They should not cease in their efforts so that they can meet their social responsibility in the future as well.

Corporate social responsibility is a highly topical issue ...

To what extent do businesses take responsibility for the consequences of their actions on society? What contribution do they make to sustainable development? These questions are of high topicality against the backdrop of increasing social tensions in many countries, continuing poverty and inequality in some regions, and continuing global climate change. In science, politics and the public domain, this discussion is usually held under the heading 'corporate social responsibility' (CSR).

According to a study by the European Commission, nine in ten consumers in Germany want to know what enterprises are doing to fulfil their responsibility towards society. That proportion is not much lower in other countries such as the USA, France or Brazil.¹ Consumers trust SMEs more to conduct their business in an economically as well as ecologically and socially responsible manner than large enterprises.²

What is corporate social responsibility (CSR)?

There is no generally acknowledged definition of CSR. The European Commission defines it as "the responsibility of enterprises for their impacts on society"³. The German Federal Ministry of Labour and Social Affairs, which is in charge of the further development of the national CSR strategy, also sees CSR as the social, ecological and economic contribution enterprises can make to sustainability.⁴

Social, ecological and economic aspects do not have to be mutually exclusive at all, but often go hand in hand. For example, good working conditions enhance the reputation of an enterprise as an attractive employer, making it easier for it to hire skilled labour. More efficient management of natural resources is not only good for the environment, but also helps an enterprise reduce its costs. Many customers and investors regard responsible corporate practices as a fundamental prerequisite for their business relationship. At the same time, competitive and successful enterprises have greater scope for supporting social and ecological projects.

... and of relevance for small and medium-sized enterprises

The fact is that the vast majority of small and medium-sized enterprises in Germany and other important industrialised and emerging economies today undertake CSR activities. For example, they campaign for good working conditions, promote sustainable use of natural resources, support social projects, or are engaged in climate action. The extent and thematic priorities of their activities differ from country to country. These are the findings of a special evaluation of the KfW Competitiveness Indicator 2016 in which more than 3,100 businesses in ten important economies across Europe and the world were interviewed about their CSR activities, among other topics.⁵

Chinese SMEs are most often socially engaged

Social engagement is particularly pronounced among SMEs in China. More than 98 % of enterprises with 50 to 500 employees there reported having been active in at least one area of CSR in the past two years (Figure 1).

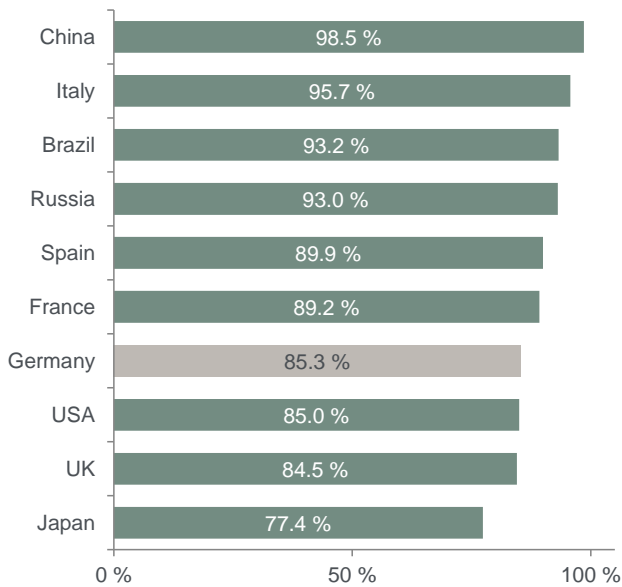
The actual number might be slightly lower if some enterprises are inclined to provide a socially desired response and therefore have exaggerated their social engagement. At the same time, the survey does not permit any conclusions to be

drawn as to how intensively a company has promoted social interests.

Regardless of this, corporate social responsibility has a significantly higher status in China today than some decades ago. Unethical corporate behaviour increased initially as the country began opening its economy and companies increasingly focused on profits, leading to serious environmental problems and inadequate occupational safety. New thinking did not set in until the beginning of the new millennium, including as a result of growing pressure from multinational enterprises on their Chinese suppliers. The demand to assume social responsibility has also been established in legislation since corporate law was reformed in 2006.⁶

Figure 1: All over the world, a very large portion of SMEs are promoting social interests

Percentage of enterprises that have been active in at least one area of CSR in the past two years.



Note: Percentages weighted by sector and size.

Source: KfW Competitiveness Indicator 2016

SMEs in other emerging economies are also assuming social responsibility

CSR has become more important in other emerging economies as well. Thus, around nine in ten SMEs in Brazil were active in various areas in order to fulfil their social responsibility. In South America the country is regarded as a leader in the implementation of CSR concepts.

SMEs in Russia usually see the goal of their social engagement as securing good working conditions. Nearly 70 % of Russian enterprises reported having been active in this area. In other CSR areas such as climate action and environmental protection, however, they lag far behind SMEs in other countries. Besides, many responsibilities which enterprises in other countries regard as obvious – such as paying taxes and abiding by the law – are regarded as CSR in Russia.⁷ The relatively high proportion of SMEs engaged in CSR

activities also needs to be put into perspective against this background.

In a comparison of industrialised countries, southern European SMEs are most active

In the industrialised countries surveyed, Italy has the highest proportion of SMEs that have engaged in CSR activities in the past two years. More than 95 % of enterprises there have supported social interests. The proportion of enterprises that pursue ecological or social goals in addition to their business endeavours is comparatively high in Spain and France as well. That share is slightly lower in Germany and the United Kingdom, at around 85 %.

The proportion of socially active SMEs is on a similar level in the USA, although the institutional environment is different from that of Europe. Markets are less regulated and personal freedoms and accountability are more highly valued. State-provided social benefits are relatively low in the USA. Enterprises traditionally play an important role here in promoting social interests.⁸ This is also true of SMEs, of which 23 % have supported social projects in the past two years while just under 17 % have done the same in Germany.

In Europe, social responsibility is more strongly attributed to the state. This explains why CSR was incorporated into European enterprises' agenda much later than in the USA.⁹ However, the European Commission has also addressed this topic for some 15 years now. With the new CSR strategy it presented in 2011 it generally relies on enterprises' voluntary engagement but also permits supplementary mandatory provisions.¹⁰ Overall, European states today play a significantly more active role in promoting and demanding corporate social responsibility than the USA.

In Japan the state also plays a major role in social and ecological matters. This is reflected in the 77 % of SMEs performing CSR activities, which is a rather low proportion in international comparison. Their engagement focuses on workers, with four in ten Japanese SMEs having advocated for good working conditions in the past two years.

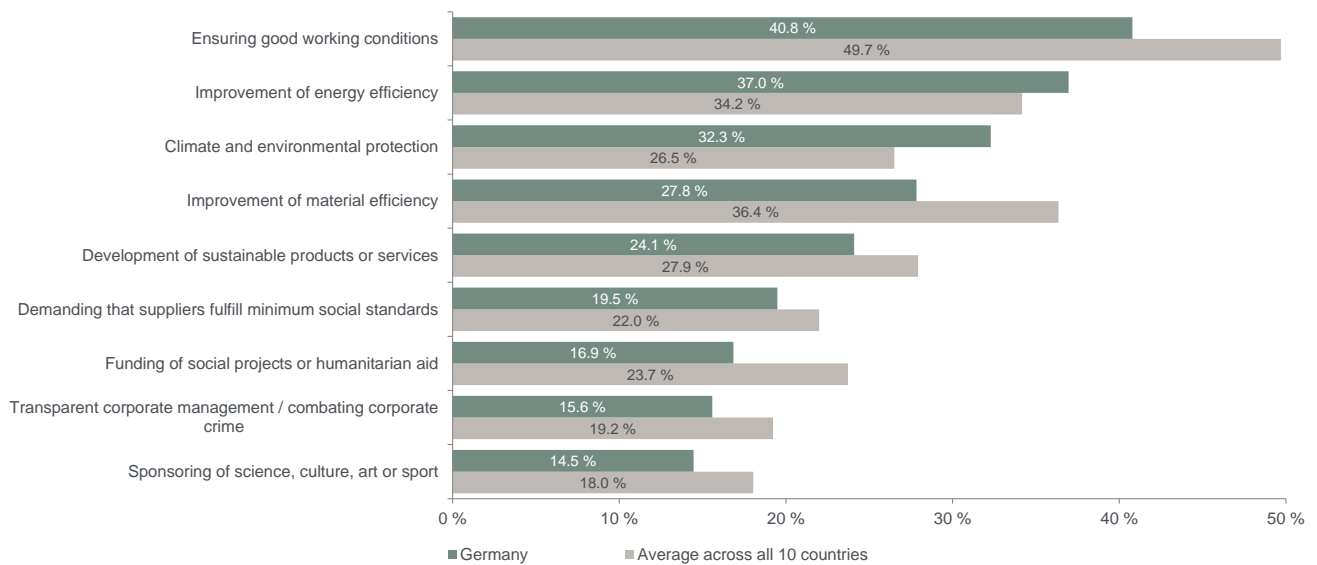
Good working conditions are a key issue for SMEs

Securing good working conditions is the field of CSR that receives the greatest attention overall, not just in Russia or Japan, but in all other surveyed economies (Figure 2). On average across all ten countries, half of all enterprises are committed to this cause. In Germany the proportion is 41 %. An engagement that goes beyond the legal requirements is somewhat less common here and in the other European countries than in the emerging economies, for example. However, the corresponding standards are already on a very high level here in international comparison and working conditions are significantly better than in many other regions.

In all regions, good working conditions are an important prerequisite for small and medium-sized enterprises to be able to successfully compete for skilled workers. On the labour market they are in competition with large enterprises

Figure 2: The focus is on good working conditions

Percentage of enterprises that have been active in at least one area of CSR in the past two years.



Note: Percentages weighted by sector and size.

Source: KfW Competitiveness Indicator 2016

that can usually pay higher wages and offer their employees better career prospects.

More efficient use of energy and materials also reduces costs

A very high number of SMEs the world over work to achieve sustainability by improving their energy and material efficiency. Around one third of the surveyed enterprises reported having been active in this regard in the past two years. This is due not least to the fact that using resources sparingly not just provides social benefits but also has clear economic advantages for an enterprise. Energy costs still account for an important part of SMEs' total costs – more than 10 % in nearly half of all German enterprises with 50 to 500 employees.¹¹ Various studies estimate that energy efficiency measures can reduce SMEs' energy consumption by as much as 25%.¹² In other words, this area still holds considerable cost reduction potential.

German SMEs are engaged in climate action and environmental protection

In the ten surveyed countries, around 28 % of SMEs have worked on developing sustainable products or services in the past two years. In Germany that proportion is slightly lower, at a good 24 %. In return, German SMEs' engagement in environmental protection and climate action is comparatively strong. One in three enterprises was active in this area, but only one in four on an international average. The focus of German SMEs on energy efficiency, climate action and environmental protection is also a result of political efforts of the past years.

Only one in four enterprises is committed to social concerns

With the exception of securing good working conditions for

their own employees, social engagement is relatively far at the bottom of SMEs' list of priorities. Just under 24 % of them have supported social projects or humanitarian causes in the past two years. Engagement is somewhat higher than average in the emerging economies but slightly lower in Western Europe. This presumably has to do with the social benefits paid by the state, which are comparatively high here.

Overall, only 22 % of enterprises in the surveyed countries demand suppliers' compliance with minimum social standards, although an enterprise's reputation can be damaged quite severely if a supplier's breach of minimum social standards is made public.

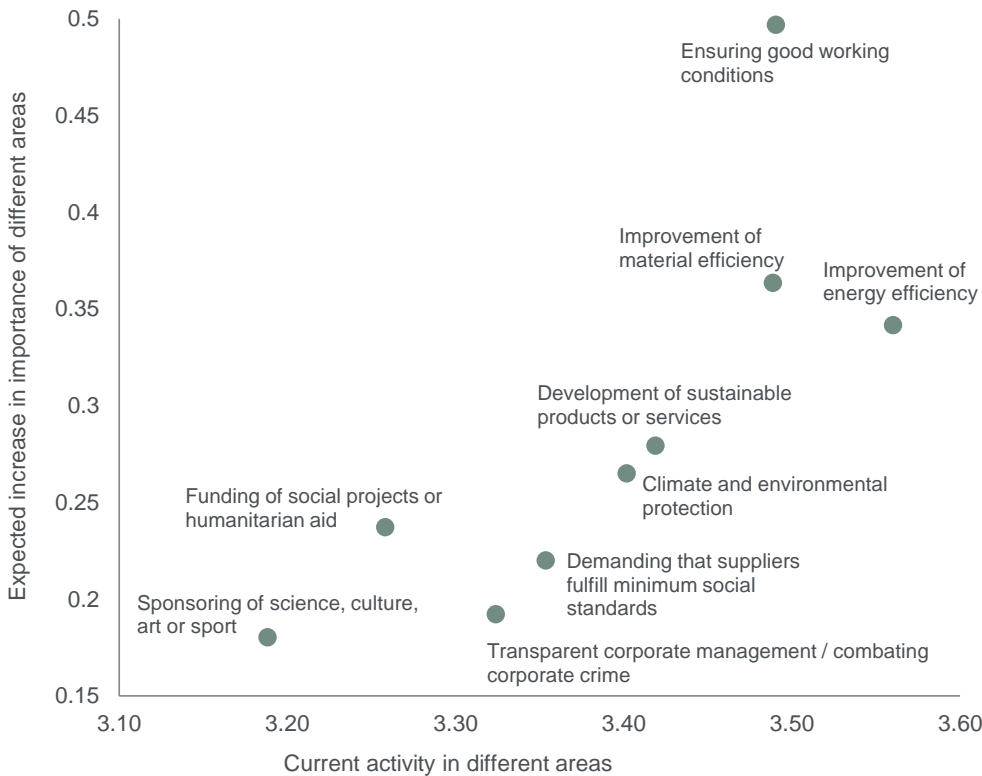
The National Action Plan for Business and Human Rights, which has recently been adopted by the German Federal Government, could provide important impetus in the future. Its aim is to implement the United Nations Guiding Principles on Business and Human Rights. They demand that enterprises be required to ensure respect for human rights along their entire supply chain regardless of their size.¹³

Transparency in corporate governance is lagging behind

An important part of corporate responsibility also consists in creating transparency and combating criminal conduct. In the past two years, around one fifth of SMEs in the ten surveyed economies have been active in this area. Typically, it is only large enterprises that are subject to legal provisions on corporate governance. For instance, the regulations on corporate management and supervision set out in the German Corporate Governance Code apply only to listed enterprises. Nevertheless, transparency can also be of advantage to SMEs, for example when they want to get access to loans.

Figure 3: Current activity and future significance

Share of enterprises that have been active in a specific area of CSR in the past two years and expected development of the importance of the respective area



Note: The vertical axis displays the share of enterprises that have been active in the specific area of CSR in the past two years. The horizontal axis displays how the importance of the respective area of CSR will develop in the next two years, according to the enterprises own assessment. Possible answers and associated values: (1) strongly decrease, (2) decrease, (3) remain the same, (4) increase, (5) strongly increase. A higher value thus means that the enterprises expect the area to gain more in importance. The displayed values are averages across all ten countries. At the country level, enterprises were weighted by sector and size.

Source: KfW Competitiveness Indicator 2016

Only very few SMEs are committed to science, the arts and culture

Around 18 % of enterprises with 50 to 500 employees have supported science, culture, the arts or sports in the past two years. That makes it the field of social engagement where SMEs are currently the least active. Not much is likely to change here in the future either because most enterprises assume that supporting science and culture will hardly become more important to them (Figure 3).

Enterprises already embrace CSR themes of the future

The survey results suggest that enterprises are primarily committed to CSR themes they believe will continue growing in importance in the future (Figure 3). Climate action is likely to move up further on the agenda due to the international climate agreement adopted in Paris in 2015 alone. Enterprises also regard the development of sustainable products as an increasingly important part of their social responsibility.

Securing good working conditions is already the CSR area that attracts most attention, and this is likely to continue in the years ahead. Fewer than 10 % of the enterprises in the surveyed countries expect it to become less important in the future. In reverse, nearly half of SMEs expect the topic to become more important for them. Ultimately, good working conditions do not only provide benefits to society. They also

make it easier for enterprises to hire skilled workers, who are likely to become more scarce in some economies as a result of demographic change alone.

Much remains to be done to improve energy efficiency

The CSR topic which SMEs around the world believe will gain most in significance is improving energy efficiency. More than half of enterprises expect the topic to become more important for them in the coming years. Given these expectations, SMEs have so far been relatively hesitant to implement concrete projects. Particularly in the emerging economies, their commitment is still relatively low. In China, only 28 % of enterprises have implemented or at least planned specific energy efficiency measures in the past two years while in Russia it was 26 %. Many enterprises at least appear to be aware of the problem. Thus, around 36 % of Chinese and 32 % of Russian SMEs reported seeing a need for action in this area.¹⁴

German SMEs are definitely more dedicated to the implementation and planning of specific energy efficiency measures. In the past two years, 37 % of them have made efforts to improve their energy efficiency. But they have to step up these efforts to fulfil their social responsibility – and to remain competitive in the future.¹⁵

Successful enterprises are more committed to social interests ...

As the results of our survey show, CSR activities and business success are closely linked. SMEs that consider themselves more profitable than their international competitors are significantly more often committed to social interests (Table 1). About 97% of high-profit enterprises are active, but only 89% of low or medium-profit enterprises. These differences are also revealed by multivariate analyses. Apparently, business success can lead to greater social involvement. This is also indicated by a recent study conducted by the Bertelsmann Foundation which revealed that scarce financial resources are by far the biggest obstacle to corporate social involvement.¹⁶

Table 1: CSR activity and business characteristics

Proportion of enterprises involved in CSR ...

... by size	
50 to under 150 employees	88.3
150 to 500 employees	90.3
... by cross-border activity	
No international turnover	85.8
International turnover	92.7
... by innovation activity	
No innovations planned for the next two years	77.6
Innovations planned for the next two years	93.2
... by business success	
Lower or comparable profitability	89.0
Higher profitability than competitors	96.7

Note: The profitability-based assessment applies only to enterprises that compete internationally. The values shown were obtained as averages across all ten countries. At the country level, enterprises were weighted by sector and size.

Source: KfW Competitiveness Indicator 2016.

... as are large, internationally active and innovative enterprises

The size of an enterprise, its international activities and innovation intentions also have a positive influence on its social involvement (Table 1). A possible explanation is that the general public pays more attention to larger, internationally active enterprises, which makes it more worthwhile for them to build a reputation through social involvement. Innovative SMEs can use their social involvement more strongly as a signal of high quality of their products or services, which is difficult to assess especially when they are being newly introduced.¹⁷

Conclusion

Social engagement tends to be the rule rather than the exception among SMEs in both industrialised and emerging economies. Their involvement covers a very wide variety of areas, but their main focus is generally on their own workforce. For half of all SMEs around the world, securing good working conditions is the most important corporate social responsibility activity.

The fact that conserving resources is high on enterprises' agenda illustrates that their CSR activities definitely serve business goals as well. They expect higher resource efficiency to become much more important in the future. In light of this, however, much remains to be done especially in the area of energy efficiency. This is also true of German SMEs which – although they have already accomplished a lot in the field of climate action and environmental protection – must meet their social responsibility in the future as well. ■

¹ Cf. European Commission (2013): How Companies Influence Our Society: Citizen's View, Flash Eurobarometer 363, Brussels.

² A study recently published by the Bertelsmann Foundation confirms this result for Germany. In an online survey 66% of the population indicated they had great faith in small and medium-sized enterprises to do good things for society. By contrast, only 31% of respondents stated they had great faith in large enterprises or corporations to do good things for society. Cf. Bertelsmann Stiftung (2016): Trau, schau, wem! Unternehmen in Deutschland (*Trust, But Be Careful in Whom! Enterprises in Germany* - our title translation), Gütersloh (in German).

³ Cf. European Commission (2011), A renewed EU strategy 2011-14 for Corporate Social Responsibility (CSR), document COM(2011) 681.

⁴ See also the website of the German Federal Ministry of Labour and Social Affairs on this topic, www.csr-in-deutschland.de.

⁵ Cf. Abel-Koch, J. (2016): KfW Competitiveness Indicator 2016 – German SMEs Must Defend Their Competitiveness – and Continue Improving Their Energy Efficiency, KfW Research, Frankfurt am Main; and Abel-Koch (2016): KfW Competitiveness Indicator 2016, Appendix of Tables and Methods, KfW Research, Frankfurt am Main.

⁶ Cf. Henning, A. (2010): Corporate Ethics in China – An Introduction, China Business & Research, No. 003, Frankfurt School of Finance and Management, Frankfurt am Main.

⁷ Cf. Kuznetsov, A., Kuznetsova, O. and R. Warren (2009): CSR and the Legitimacy of Business in Transition Economies: The Case of Russia, *Scandinavian Journal of Management*, 25 (1), pages 37–45.

⁸ Cf. Crane, A., Matten, D. and L. Spence (2013): *Corporate Social Responsibility: Readings and Cases in Global Context*, 2nd edition, Routledge, London.

⁹ Cf. *ibid.*

¹⁰ One example of this is the European Directive 2014/95/EU on non-financial reporting, which applies only to enterprises with more than 500 employees, however. The directive had to be implemented into national law by the end of 2016. The German Federal Government adopted a corresponding bill on 21 September 2016.

¹¹ Cf. Abel-Koch, J. (2016): KfW Competitiveness Indicator 2016 – German SMEs Must Defend Their Competitiveness – and Continue Improving Their Energy Efficiency, KfW Research, Frankfurt am Main.

¹² Cf. International Energy Agency (2015): *Accelerating Energy Efficiency in Small and Medium-Sized Enterprises*, Paris, and the studies quoted therein.

¹³ Cf. Deutsches Global Compact Netzwerk (2014): *Leitprinzipien für Wirtschaft und Menschenrechte – Umsetzung des Rahmens der Vereinten Nationen "Schutz, Achtung und Abhilfe"* (Guiding Principles on Business and Human Rights – Implementation of the "Protect, Respect and Remedy" Framework), Berlin.

¹⁴ Cf. In more detail Abel-Koch, J. (2016): *KfW Competitiveness Indicator 2016 – German SMEs Must Defend Their Competitiveness – and Continue Improving Their Energy Efficiency*, KfW Research, Frankfurt am Main.

¹⁵ Cf. *ibid.*

¹⁶ Bertelsmann Foundation (2015): *Gesellschaftliche Verantwortung der Unternehmen – Ergebnisse der Umfrage August 2015 (Corporate Social Responsibility – Results of the August 2015 Survey – our title translation, in German)*, Gütersloh.

¹⁷ See also the arguments set forth in Zimmermann, V. (2011): *Corporate Social Responsibility im deutschen Mittelstand (Corporate Social Responsibility in German SMEs – our title translation, in German)*, KfW Research, Frankfurt am Main.