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# Responsibility of SME's for Development of People's Economy

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### **Responsibility of SME's for development of People's Economy**

In the last decade the role of business and the state is changing across the globe. Sustainable development has become a central theme in the activities of governments, NGO's and a small but growing number of investors. As stakeholders they exert pressure on the businesses to improve their environmental and social performance. This pressure tends to be backed up by local residents, media and society in general.

The demand is for Socially Responsible Business (SRB) which would keep people first and profits secondary, refers to ethical values, compliance with legal requirements and respect for people, communities and the environment in the way that business is conducted. SRB elements can be broadly categorized into social issues, health/safety issues and environmental issues.

As a result, the private sector is formulating answers to the sustainability challenge: achieving at the same time sustained economic growth, social progress and environmental protection. While traditional responses are inadequate, the effective response would be those which keep "human" face in the forefront. Leadership for social and economic entrepreneurship has become vital for the businesses today.

Some of the well known global initiatives in this field is Global Reporting Initiatives, Clean Clothes Campaign, and Fair Labor Associate etc. Even the International Standards Organization has set the ball rolling and they may soon come out with social standards on the lines of environment and quality standards.

The focus of all these efforts so far has been Western multinationals and large corporations. However about three fourth of enterprises in most countries across continents are small and medium enterprises (SMEs). These enterprises generate employment for a fairly large percentage of the working population in every country and thus play a major role in economic development as also social sphere.

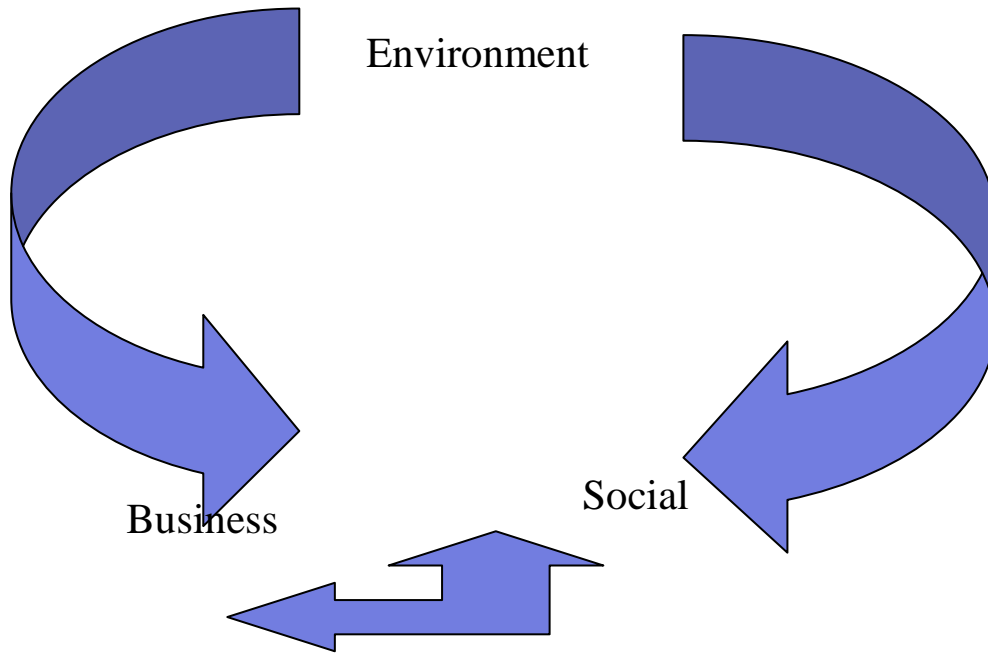
SMEs play an important role in the economic development of developing countries through the provision of productive employment opportunities and the generation of income. Accordingly, they are an excellent focal point for the introduction of SRB. The benefits for enterprises of adopting SRB in the workplace fall into three categories – improvements in human capital, revenue generation and strategic direction. In general, the business case for SRB is stronger for larger companies than for SMEs, but enterprises of all sizes stand to gain something.

So the need is to focus on SMEs, the local businesses sector to play a larger role in economic activities with social environmental considerations. Once SMEs begin to display responsibility towards society, there could be responsibility at the macro level as SMEs are inevitably part of the large supply source of global MNCs. While the MNCs are seen as distant entities the SMEs are in a position to interact with and influence the people with whom they work and vice versa. Therefore they have a vital role in putting people in the forefront of economic development.



Interventions to improve the SRB conditions may include 1) Workplace improvement, 2) Supply chain partnerships, and 3) Social marketing on the implementation of the labor code.

## Triple Bottom Line



While global corporations have large resources at their disposal, the SMEs have limited resources to cater to the needs arising out of CSR related demands. They need to be responsible, profitable and should survive in the tough markets. To this effect the *strategies they could adopt are:*

1. Check irresponsible business: These can prove to be an investment risk due to malpractices like environmental degradation and child labour in the supply chain.

2. Legislation: SMEs should influence the local Governments to assume a greater role in mandating social responsibility in business and trade practices.

3. Check add-on business activities: Companies censured for lack of social responsibility resort to PR activities to rectify their tarnished image and regain consumer confidence. No effort is, however, made to bring about substantial modifications in trade practices. SMEs should work with their trading partners to stop malpractices.



4. SMEs should ensure that they do not support or discriminate on account of gender, class or race. Adopting a code of conduct could do this.
5. SMEs should ensure that the help in preservation of local crafts, culture, business practices and environment. This would ensure that they have an assured supply chain, and skilled employees protect local crafts

#### What can SMEs do ?

- 1) Be part of the International Solidarity Production Network (ISPN). Inter-firm cooperation, networking and clustering can fill in many management “resource gaps” that SMEs face. Firms interface internationally via formal partnering arrangements, such as procurement, sub-contracting, and local sourcing
- 2) SMEs may join networks that use alternative currencies, particularly community currencies.
- 3) Shift focus from being production-oriented to buyer-oriented.
- 4) Organize production in clusters.
- 5) Explore public-private joint venture. Local authority participation is extremely relevant for enhancing the value chain in the International Product Networking of SMEs.
- 6) Seek inter-firm linkages with larger national and international export firms.
- 7) Make use of IT to advance people’s economy through SME networking for industrial linkages. National network could initiate the linkages, especially in areas where the costs of acquiring and maintaining capital resources are relatively prohibitive given the limited resources of SMEs.
- 8) Promotion of local skill based products and employment opportunity as opposed to machine-based businesses.

#### What Can National and Regional SME Networks Do?

- 1) Conduct assessments of the extent to which SMEs have performed their social and environmental responsibilities
- 2) Develop standards of performance that would help rationalize the entry of SMEs into the Fair Trade system.
- 3) Implement capacity-building and training programs that would enable SMEs to comply with Fair Trade standards of performance
- 4) Recognize and reward model SMEs that are socially responsible
- 5) Enhance the advocacy for good governance and social responsibility in all sectors of society including the public and private corporate sectors and the civil society.
- 6) Help the SMEs to achieve economies of scale in following CSR practice be it pollution control or recruitment advertisement for getting people from socially backward strata.
- 7) Link with alternate and traditional markets to enhance the product profile of SME products



## CORPORATE SOCIAL RESPONSIBILITY (CSR) AND FAIR TRADE

One of the key aspects of CSR, which specialized literature identifies is “community involvement”. But as the concept of triple bottom line is gaining popularity the big businesses as well as SMEs are under pressure to follow the socially and environmentally sound policies. Some of the external factors forcing the SMES and Multi national corporations to become socially responsible are

- Brand/reputation: firms like to maintain a good reputation and enhance brand loyalty
- Risk management: socially responsible acts reduce the risks associated with unfair labor practices
- Legislation: companies generally want to avoid penalties arising from violations of laws upholding the rights of individuals as workers, consumers, and citizens; on the other hand, companies may comply with legislation to influence the passage of policies favorable to their industry
- Ethical investment: companies comply with their social responsibility to align themselves with the long term objectives of ethical investors.

There are pressures from consumers’ bodies, civil society as also support from industry associations for the CSR activities. For SMEs in particular, there is also a strong case for social responsibility. Irresponsible business is a bad investment risk. Socially responsible acts of SME has the potential to:

- improve product quality & consistency in upholding quality production and service
- align company interests with customer concerns
- maintain high employee retention
- improve business management skills

A number of tools for orienting business to become more socially responsible are now available. These include :

- Multi-stakeholder initiatives
- Management Systems (e.g. SIGMA)
- Stakeholder Dialogue Standard (e.g. AA1000)
- Codes of Conduct
- Sustainability Reporting Guidelines (Global Reporting Initiative)
- Social Accountability International Audits (SA 8000)

### Pitfalls related to existing CSR practices

Despite the presence of external and internal motivations for socially responsible business, the current state of CSR worldwide is still characterized by philanthropy. Social responsibility is viewed in terms of philanthropic acts, or as ‘add-on’ business activities or social enterprises aimed at enhancing the reputation of the company. Another popular way by which companies interpret



social responsibility is to consider the impact of their business as well as the views of customers and other stakeholders into management decision making

A study conducted by European Network for SME Research (ENSR) found details the socially responsible activities of SMEs as under

1. Participate in public/political affairs
2. Recruit people from socially unprivileged strata
3. Support environment friendly activities
4. Support education and training activities
5. Support cultural activities.

The current state of CSR as practiced by multinational corporations is linked to three Ps - People Planet and Profit and is therefore flawed. Consider the following:

- It is not linked to a rigorous framework of development e.g. sustainable development, Millennium Development Goals
- It focuses on tools, not impact
- It is designed as a 'flanking' measure in trade agreements: e.g. CSR is used as protectionist measure
- It creates confusion with social enterprises
  - It is Northern driven, CSR standards are imposed by companies in developed countries
  - It undermines potential for corporate accountability legislation
  - CSR can marginalize small enterprises that cannot meet the standards set by buyer companies in developed countries
  - It places the burden of monitoring on the shoulders of SMEs

On a positive note, many companies already practice Social Responsibility without making an issue of it.

Despite its glaring flaws, CSR remains highly relevant for the establishment of an alternative economy. It can create new possibilities for revitalizing SMEs – comprising 90% of businesses worldwide and contributes 50-60 percent of world employment - as the main driving force of people's/ solidarity economy. CSR jointly practiced by SMEs and their buyer-companies in developed countries has the potential of:

- Harnessing business' resources for good, i.e. reducing negative impacts, increasing positive impacts
- Companies can deliver sustainable, innovative solutions
- Provides network to reach people and influence their behavior for the better
- Enhances business-to-business linkages
- Promote sustainable development

#### Fair Trade – A Model for SME Responsibility



The basic Fair Trade principles advocated by Traidcraft are the following:

- Trade can and should fight poverty
- Fair price for products and services
- Participation/partnership in community development
- Empowerment & capacity building of small producers
- Sustainable growth & improvement
- Stakeholder engagement
- Traceable supply chains = accountable businesses

In a nutshell, Fair Trade is an instrument for realizing sustainable development, defined by UNDP as 'a process, which enables all people to realize their potential and to improve their quality of life in ways which protect and enhance the Earth's life support systems'. A concrete step SMEs can readily adopt is to shift to Fair Trade and cooperate with Fair Trade organizations

Fair Trade as a trading partnership, contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South.

#### Fair Trade: A concrete step to CSR

A concrete step towards CSR is to shift to Fair Trade and cooperate with Fair Trade organizations. One such Fair Trade organizations is Traidcraft of U.K. Established in 1979, Traidcraft's vision is to fight poverty through trade. Currently, it has a turnover of over 14 million British pounds, trading mainly in agricultural, textile, and craft products. Apart from its trading function, Traidcraft also provides overseas business development services, and engages in policy research and lobbying. In 1993, it initiated corporate social reporting and also goes for social accounting now.

Proponents of Fair Trade adhere to principles mutually agreed upon by Fairtrade stakeholders. These principles can be summarized as follows :

- adherence to ILO agreements (No child labour and slave labour; Decent working conditions; Decent working conditions and safe workplace; and the right to unionize),
- adherence to the United Nations charter of human rights,
- a fair price (production cost + social premium) that will at least cover the cost of production and facilitate social development, and especially in agriculture,
- protection and conservation of the environment.
- long-term business relationships that are transparent throughout the chain.

The adherence to these principles is indicated to the consumer with a fair trade label or brand. Products that carry a Fairtrade Label ensure that both the consumers (largely in the North) and producers (mostly in the South) get a better deal. According to Fairtrade Labeling Organization



(FLO), more than 800,000 producers, workers and their dependents in over 45 countries benefit from a Fairtrade label.

In another light, Young (2003) highlights the uniqueness of Fair Trade as a deliberate initiative to work with marginalized producers and workers in order to help them move from a position of vulnerability to security and economic self-sufficiency, to empower producers and workers as stakeholders in their own organizations, and to actively play a wider role in the global arena to achieve greater equity in international trade .

Obtaining fairer prices and improved revenue for producers is no more than a minimum condition for Fair Trade. These conditions are not enough, on their own, to guarantee sustainable and equitable development, any more than it establishes an agricultural policy that encourages this form of development. But the advantages that Fair Trade gives can act as an important support for certain groups of producers in their efforts towards integrated local development. Fair trade organizations such as the FLO or EFTA have attempted to ensure that the premium offered by Fair Trade is invested in social programmes, in product diversification or in the development of organic cultivation.

True alternatives to the dominant relationships presupposes action on several fronts; agricultural policy, training, savings, health, production, commercial technical support, etc. Fair Trade operating principally on the marketing level isn't a sufficient enough alternative on its own, but should instead be seen as a component of alternative development strategies, which include many dimensions.

Development is a complex process that demands a dynamic balance between complementary, yet sometimes contradictory, objectives. The development of export products for Fair Trade shouldn't result in the central objective being forgotten; that the diversification of food-producing activities and production are one of the bases of rural producers' autonomy. The objectives of Fair Trade are varied and are not solely based on attempts to obtain a just price. It is also essential to act on the context within which exchange takes place.

Ø At international level Fair trade must continue to question the dominant rules and practices of international commerce, and promote fairer rules and conditions. These will be particularly concerned with the stopping of product dumping by the rich nations, and the opening of their markets to all southern products under equal and equitable conditions.

Ø Fair Trade's aim of sustainable development cannot exist without taking into account the local dimension. At the local level, Fair Trade should encourage, not only better commercial conditions for producers and of work for wage-earners, but also nutritional sovereignty and security, rural employment, health and education, in parallel to other economic practices based on solidarity.

Ø Fair Trade allows bonds of solidarity at different levels to develop between producers and consumers. It helps the formation of local and regional markets of solidarity, which link local sustainable development and ethical and responsible consumption.



Ø Fair trade practitioners are now aligning with other socially and economically responsible movements like Ethical Consumption , organic agriculture etc.

These multiple functions of Fair Trade are one of the best arguments in its favor. On the contrary development strategies based solely on export growth set their sights in only one direction: the growth of monetary revenue through access to the international market. Yet even when this is achieved, development is not guaranteed.

### The Asian SME experiment

Some Asian organizations came together to form the Asian Coalition (Coalition of Socially Responsible SMEs in Asia). The broad objectives of the Asian Coalition are:

- to facilitate the establishment of a network of socially responsible small and medium enterprises (SMEs) and entrepreneurs who could contribute to a vibrant dialogue on alternative views and approaches to socio-economic development in the context of globalization
- to enhance the advocacy for good governance and social responsibility in all sectors of society including the public and private corporate sectors and the civil society.
- to strengthen the capacity of socially responsible citizens and institutions to cooperate in pursuit of shared vision and goals.

To achieve these objectives, the Asian Coalition has set the following tasks to be undertaken during the period 2003-2008:

- 1) develop the principles of good governance and social responsibility, using available materials as reference including the Charter of Company Ethics and other available documents
- 2) develop indicators of performance on corporate governance and social responsibility
- 3) establish and operationally a system for monitoring and evaluation (M&E) of performance of local companies and their international business partners
- 4) make use of the M& E results to identify Innovative Enterprises in Asia, with special focus on SMEs that have attained significant improvements in corporate governance and social responsibility
- 5) run and operate the FPH-Asian Coalition SME Award as a collaborative effort between Asia and Europe (and other continents) to recognize SMEs excelling in corporate governance and social responsibility



- 6) establish contacts for the Alliance in other Asian countries especially China, Indonesia, and Japan organize through dialogues among partner networks.

The Asian Coalition began networking activities last year and some of the accomplishments are

1. Defined the principles of good governance and social responsibility

The Asian Forum in Kuala Lumpur on 5-7 June 2003 discussed the principles of good governance and social responsibility of business and the advocacy role to be played by the Asian Coalition in the Asia-Pacific region. Inputs to the forum included: (1) the report on the 'Consultation on Social Responsibility of Companies' by the Asian and Pacific Development Centre (APDC) released in November 2001; and (2) a document developed by an association of SMEs (small and medium enterprises) in Lille, France which promote responsibility of enterprises towards their various stakeholders and to the environment. The said document was made available by Yves de Bretagne of FPH with the aim of sharing the experience of a group of businessmen in Lille. There was much discussion on the cultural context of the principles of good governance and social responsibility and their applicability to the Asian societies, more so to the SME sector. However, the meeting arrived at the consensus view that such principles as were discussed represented an ideal goal towards which SMEs in developing countries should strive for.

2. Developed indicators of performance on corporate governance and social responsibility, with special focus on SMEs

The Asian Forum in Kuala Lumpur reviewed a set of questionnaire prepared by members of the Facilitation Team, and identified specific items applicable to the Asian context. A revised questionnaire resulted from this exercise which comprise a combination of indicators suggested by the Lille association of SMEs and new indicators suggested by the KL Meeting.

3. Established a system for monitoring and evaluation (M&E) of performance of local companies and their international business partners

Partner networks agreed that each one of them will have equal opportunity to nominate candidate SMEs for the FPH-Asian Coalition SME Award. The same opportunity will be extended to government agencies, chambers of commerce, associations of SMEs, and other organizations that may be interested to nominate their own candidates. The nominee will take responsibility for monitoring and evaluating the performance of candidate SMEs.

4. Identifying Innovative Enterprises with significant improvements in corporate governance and social responsibility

To conclude SMEs carry a lot of expectations from the civil society. If they do not meet this challenge, they would perish, and would also cause downfall of local economy and skills. The



whole world would become a big tough unequal marketplace and the weaker section of the society would find hard to survive. It is for the SMEs to ensure that they play their role well so that all the strata of society live happily.