

SMEs and CSR

**Assessing the Level of Corporate Social
Responsibility Activities and Knowledge**

in

Irish Small and Medium Enterprises

July 2015

This report is based on the results of a survey conducted in Q2, 2015 by ISME, the Irish Small and Medium Enterprise Association.

ISME is the only independent voice of Small & Medium business in Ireland, representing in excess of 9,500 members across all sectors. The Association is owned and run by owner managers and is independent of big business, government and unions; the TRUE voice of the Irish SME. www.isme.ie

Table of Contents

Executive Summary	3
Introduction	4
Survey Respondents	7
Corporate Social Responsibility and SME Engagement	8
The 'No's'	9
The 'Don't Knows'	9
Perceived Benefits of CSR	10
Do SMEs view CSR as Important?	10
Do SMEs have CSR Policy and Plans?	11
Do SMEs have Charity Partners?	11
SMEs and Charity Work	11
Voluntary Donations of Inventory and Products	12
Responsible Business	13
Activity Analysis	13
Environmental Awareness	14
Key Findings	14
Conclusion	15

ISME, the Irish Small & Medium Enterprises Association, is the only INDEPENDENT body representing owner managers of small & medium businesses in Ireland. Small and Medium Enterprises (SMEs) constitute 99.7% of all active businesses in Ireland, employ over 800,000, which equates to 68% of private sector employees and 52% of total employees, 50.3% of turnover and 46.2% of gross value added.¹

*The Irish Small and Medium Enterprises Association (ISME) was formed in 1993 to guarantee that Small and Medium Enterprises in Ireland have an independent voice. The Association represents in excess of 9,500 SME businesses throughout the 26 counties. Our independence stems from the fact that as a business organisation we uniquely rely on the resources of our members. We are not reliant on big business which compromises other representative organisations. We are the **only independent representative body for SMEs in Ireland.***

Our organisation's members employ over 225,000, from the sole trader operation right up to businesses with 250 employees. We also are a 'broad church', representing all sectors, from importers to exporters, agri-food to engineering, retail, manufacturing, distribution, service industries, including accountants, solicitors and other professions

¹ CSO Business demography 2012.

Executive Summary

ISME has consistently found that SMEs are very active in CSR but do not equate their actions with the concept of 'Corporate Social Responsibility'. They merely class their activities as community involvement and responsible business without considering the positive impact such actions have/could have on their business. It also appears that the term 'Corporate Social Responsibility' or 'CSR' is not well known or understood amongst SMEs even at a basic level.

- All survey respondents in 2015 were active in some forms of CSR.
- The term 'Corporate Social Responsibility' or 'CSR' is not well known or understood amongst SMEs even at a basic level.
- Only 54% understood enough about the term and the nature of CSR to be able to state that they were engaged in it.
- Therefore, although all SMEs were found to be active in CSR in some way, 46% did not understand the term.
- The 46% who did not realise they were conducting CSR activities require further education.
- 94% of SMEs donate money to charity.
- 94% have waste reduction programmes and 92% have a recycling programme.
- 92% are committed to the responsible business practice of paying promptly.
- 84% actively support the learning and development of their employees.
- 39% of SMEs have a charity partner (up from 35% in 2013).
- Respondents who answered 'no' when asked if they were active in CSR were over 70%+ active in all areas questioned.
- Respondents who answered 'don't know' when asked if they were active in CSR were over 80%+ active in all areas questioned.

FROM THIS AND THE PREVIOUS SURVEY OF IRISH SMES IT IS EVIDENT THAT ALL ARE INVOLVED IN SOME MANNER OF PRACTICE OF CSR, HOWEVER 46% DO NOT RECOGNISE THE TERM CSR.

- ISME does not believe that the term 'CSR' fits SMEs and prefers the term 'responsible entrepreneurship' which is running a business that enhances its positive contribution and minimises the possible negative impacts on society.
- The social responsibility behaviour of SMEs has a completely different form to that of large enterprises and requires a suitable methodology.
- CSR is voluntary and all associated measures must be voluntary.
- All future policy on CSR should enhance competitiveness and not detract from it.
- Improved CSR education is needed. ISME sees the role of government, through the CSR Forum as awareness raising and encouragement.
- ISME members reported that activities related to awareness raising, education and improving levels of trust in business were the most important.

Introduction

The fact that there is interest in Corporate Social Responsibility (CSR) is an indication of the important position entrepreneurs hold in present-day society.

In 2013, the Government launched a National Plan on Corporate Social Responsibility (CSR), stating “CSR is a voluntary approach to best practice that goes beyond an organisation’s statutory responsibilities in relation to the workplace, the environment, the marketplace and the community. It is primarily enterprise-led.”

The priorities for the National Plan on CSR are to:

- Increase awareness of CSR, its value to businesses and to society as a whole.
- Encourage enterprises to develop CSR practices and principles.
- Increase the adoption of responsible business policies and practices and the mainstreaming of CSR as a part of core business operations.
- Encourage more small and medium-sized enterprise to build CSR capacity.
- Increase transparency and disclosure of CSR activity by enterprises operating in Ireland
- Anchor CSR principles in public bodies in the context of their own operations.²

The Corporate Social Responsibility (CSR) activities of businesses provide a valuable contribution to local communities. SMEs, in particular, are dedicated to improving their localities through varied CSR measures such as sponsorship, mentoring and fundraising. SME owner-managers play a central role in developing and improving their communities. These CSR activities are often informal and are considered to be a normal part of business life. They tend to be largely undocumented and unpublicised and are not recorded or planned in strategy documents. The informal nature of these activities and charitable endeavours make them hard to quantify.

Corporate social responsibility is a rather complex notion, developed for large business, which is not the most appropriate term for communicating with or engaging SMEs. Therefore, we in ISME prefer the term “Responsible Entrepreneurship”. However, as the description Corporate Social Responsibility (CSR) has become the norm, we will use this term.

CSR or Responsible Entrepreneurship associates the individual entrepreneurial drive and attitude necessary for creating and running a small business with a wider sense of societal responsibilities that often forms part of the personal values of the SME owner-manager.

However, as the description CSR has become the norm, we will use this description.

² National Plan on CSR 2013.

Responsible Entrepreneurship encapsulates how to run a business in a way that enhances its positive contribution to society while minimising possible negative impacts on people and the environment. It represents the way in which entrepreneurs interact with their stakeholders on a daily basis: customers and business partners in the marketplace, employees in the workplace, the local community and the environment.

They do all this, and much more, not only by complying with regulation, but more often by going beyond minimum legislative requirements, on a voluntary basis, through daily involvement of the stakeholders, be it informal in a small enterprise.

SMEs involvement in CSR or social responsible entrepreneurship is generally underplayed and under-recognised, due to the fact that the SME's internal organisation is mostly informal and is performed mostly in local or regional framework conditions. On the other hand, the international operations of multinational enterprises make it possible for them to earn praise for increasing social standards both at home and in foreign product locations.

However, it needs also to be taken into account that it is primarily SMEs that lay the economic and social foundation, due to their constant training and employment efforts (they provide 69% of employment in Ireland).

So, it must be acknowledged that social responsible behaviour of SMEs has a completely different form to that of large enterprises, and that this requires a suitable methodology for its awareness raising, education, acknowledgement and measurement.

In 2013, ISME surveyed its membership regarding their levels of charitable donations and philanthropic work. This information allowed us to decipher some details on the level of CSR activity taking place amongst SMEs at that time.

In 2014, a Corporate Social Responsibility Stakeholder Forum was launched by the Department of Jobs, Enterprise and Innovation and ISME became a member.

In May 2015, ISME issued a survey which specifically asked owner-managers questions concerning their CSR policy and their voluntary efforts and the donations they gave to the community.

The results of this 2015 survey show that Irish SMEs make a significant contribution to their local communities through financial, time and goods donations and that this contribution is increasing. These activities are usually not reported or documented in SME company literature and so tend to go unnoticed and unacknowledged. They are appreciated only by their direct beneficiaries and because it is difficult to quantify their economic value or, indeed, the value of the contribution to local initiatives and organisations, the recognition is not forthcoming.

The survey found that, although 30% of SMEs believed they were not active in CSR and 16% didn't know, everyone surveyed conducts activities that are classed as 'CSR'. Thus, the primary

challenge is not to increase levels of CSR but to increase awareness so that SMEs know what it entails and to acknowledge and encourage its practice.

The future challenges are to give more recognition to SME achievements in CSR and to encourage them to be more active through a bottom-up approach, awareness raising actions and dedicated tools.

In a nutshell “give proper recognition to SMEs for what they are already do and encourage them to do more”.

Social responsibility has to be part of normal business practice and it has to be a supportive concept for SMEs, consequently:

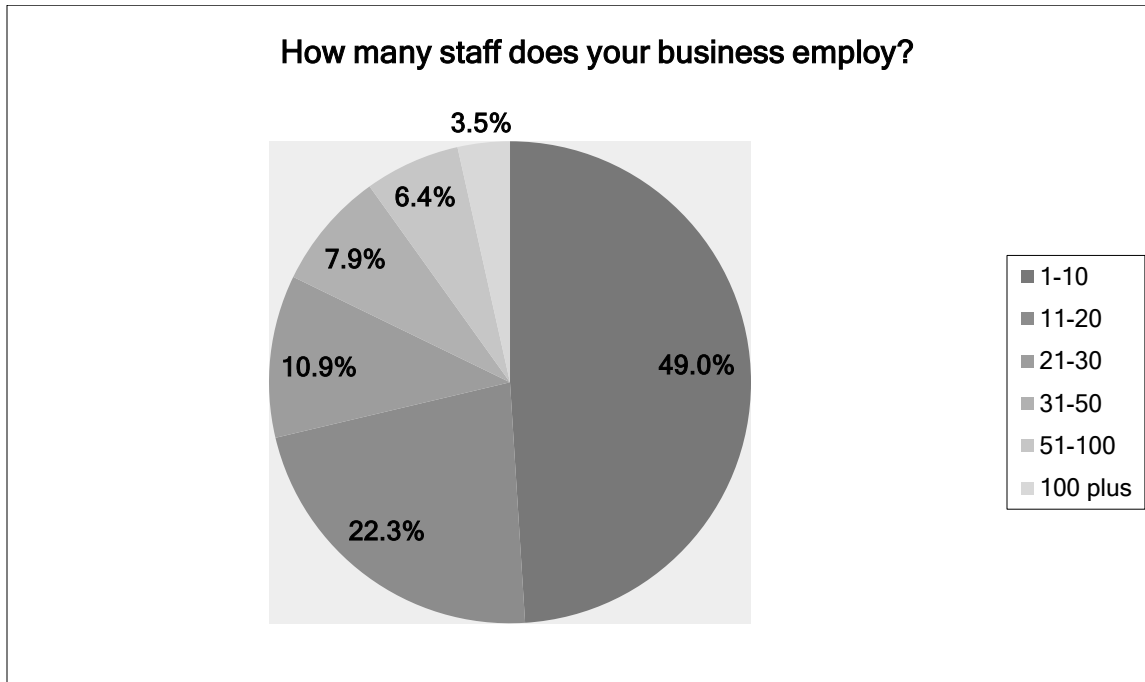
- Irish Government policy should respect the voluntary nature of CSR and recognise the efforts and specificities of SMEs.
- It has to support capacity-building for SME representative organisations to improve the quality and availability of CSR advice for small and medium enterprises.
- Education on the social responsibility of enterprises can assist in altering unjustified perceptions of the general public towards the business world.

The role of the Irish Government in CSR is, according to ISME, to raise awareness and visibility of CSR amongst all societal actors and to support small and medium enterprises in implementing CSR.

Survey Respondents

609 businesses responded to the ISME CSR Survey from a 5,000 database. The survey was conducted in the third week of May 2015.

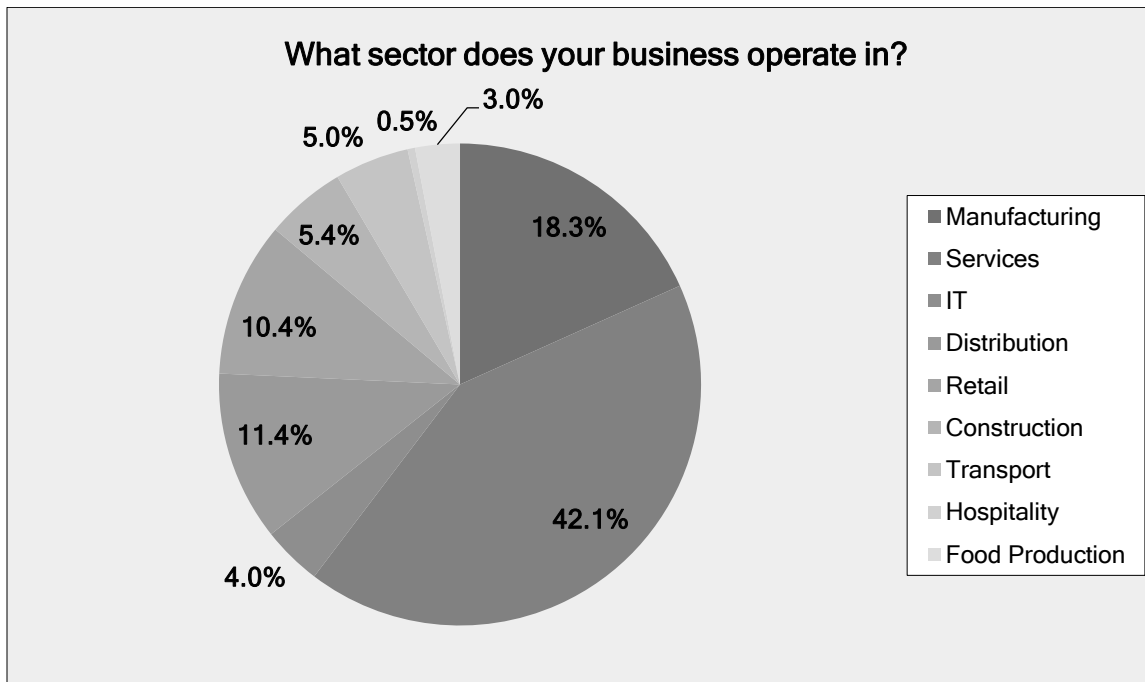
The respondents can be broken down as follows:



As shown, the largest proportion of respondents (49%) were micro businesses with 1-10 staff members. This ensures that results are reflective of very small Irish businesses who have limited resources for CSR activities.

22% of respondents employed between 11-20 staff and 10.9% employ 21-30. 7.9% employ 31-50, 6.4% employ 51-100 and 2.3% employ 100+.

The sectoral breakdown of respondents is:



As shown, the largest sector represented is Services at 42.1%. Manufacturing and Distribution follow at 18.3% and 11.4% effectively. Representation of the Retail sector is also relatively strong at 10.4%. 5.4% of respondents are in Construction, 5% in Transport and 4% in IT. 3% are in Food Production and just 0.5% are in Hospitality.

Corporate Social Responsibility and SME Engagement

ISME has consistently found that SMEs are very active in CSR but do not equate their actions with the concept of 'Corporate Social Responsibility'. They merely class their activities as community involvement and responsible business without considering the positive impact such actions have/could have on their business. It also appears that the term 'Corporate Social Responsibility' or 'CSR' is not well known or understood amongst SMEs even at a basic level.

The survey asked:

Are you/your business active in Corporate Social Responsibility (CSR) practices?

54% of respondents answered 'yes' and 30% answered 'no'. Interestingly, 16% answered 'don't know'. At first glance it would seem that 84% were quite aware of their companies CSR practices and the remaining 16% are the people who do not understand the term and must be communicated with to be informed.

However, further questions asked specifically about various company activities and found that a larger number of companies are engaging in CSR practices than had ticked 'yes' for this initial question. This points to a lack of knowledge about what the term means.

For example, 54% 'practice CSR' but 94% of overall respondents donate money to charity, 92% ensure that they pay promptly and 94% are working to reduce waste. Thus, many of the people who answered 'no' or 'don't know' when asked if their business engaged in CSR should have answered 'yes'. This points to a misunderstanding of what the term CSR encompasses.

The 'No's

As mentioned, 30% of respondents answered 'no' when asked if their business engaged in CSR. However, a further analysis of that 30% found that:

- 91% are committed to reducing waste.
- 88% give financial support to good causes.
- 82% are committed to paying promptly.
- 87% recycle.
- 72% support employee learning and development.
- 46% donate inventory or products.
- 26% have a charity partner.

A filter of the survey results found that there every single respondent who said they didn't practice CSR had been involved in CSR practices, without recognising it as CSR.

The 'Don't Knows'

16% of respondents answered 'don't know' when asked if their business was engaged in CSR.

However, of that 16%:

- 97% donate money to good causes.
- 97% ensure prompt payment of suppliers.
- 90% recycle.
- 88% are committed to reducing waste.
- 84% support employee learning and development.
- 72% donate inventory or products.
- 29% have a charity partner.

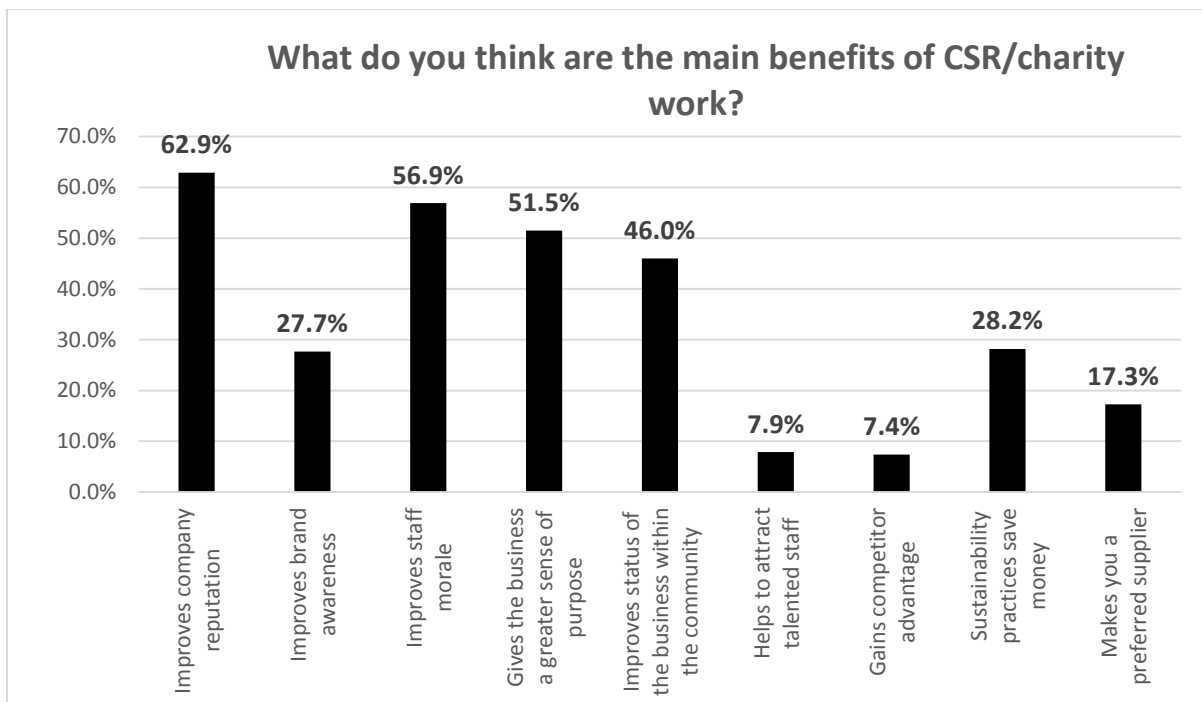
Again, a filter of the 'don't know respondents' found that there wasn't a single respondent that answered no to all specific questions relating to CSR. Once again pointing to a lack of awareness of the term CSR.

FROM THIS SURVEY OF IRISH SMES IT IS EVIDENT THAT ALL ARE INVOLVED IN SOME MANNER OF PRACTICE OF CSR, HOWEVER 46% DO NOT RECOGNISE THE TERM CSR.

Further questions in the survey mainly included references to charity and community work as well as CSR in order to get more accurate answers that were not skewed by a lack of understanding of the question.

Perceived Benefits of CSR

The survey asked respondents what they felt were the main benefits of CSR. This helps us understand the motivation behind a typical SME business owner's decision to commit resources to CSR.



As you can see from the chart, the main perceived benefit of CSR is improvements to the company reputation, followed by improved staff morale and giving the business a sense of purpose. Gaining competitor advantage scored the lowest rating in this question, suggesting that businesses do not see it as a way to advance themselves in the market even though they do feel their status in the community is improved by CSR.

Do SMEs view CSR as Important?

When asked if they thought it was important to engage in CSR and/or charity work 92% answered 'yes'. This shows that SMEs do see the value in engaging in CSR and would theoretically be open to considering more engagement.

Do SMEs have CSR Policy and Plans?

Only 21% of businesses had a CSR policy or plan. The nature of SME CSR work tends to be more informal and ad hoc than the CSR work of multinationals.

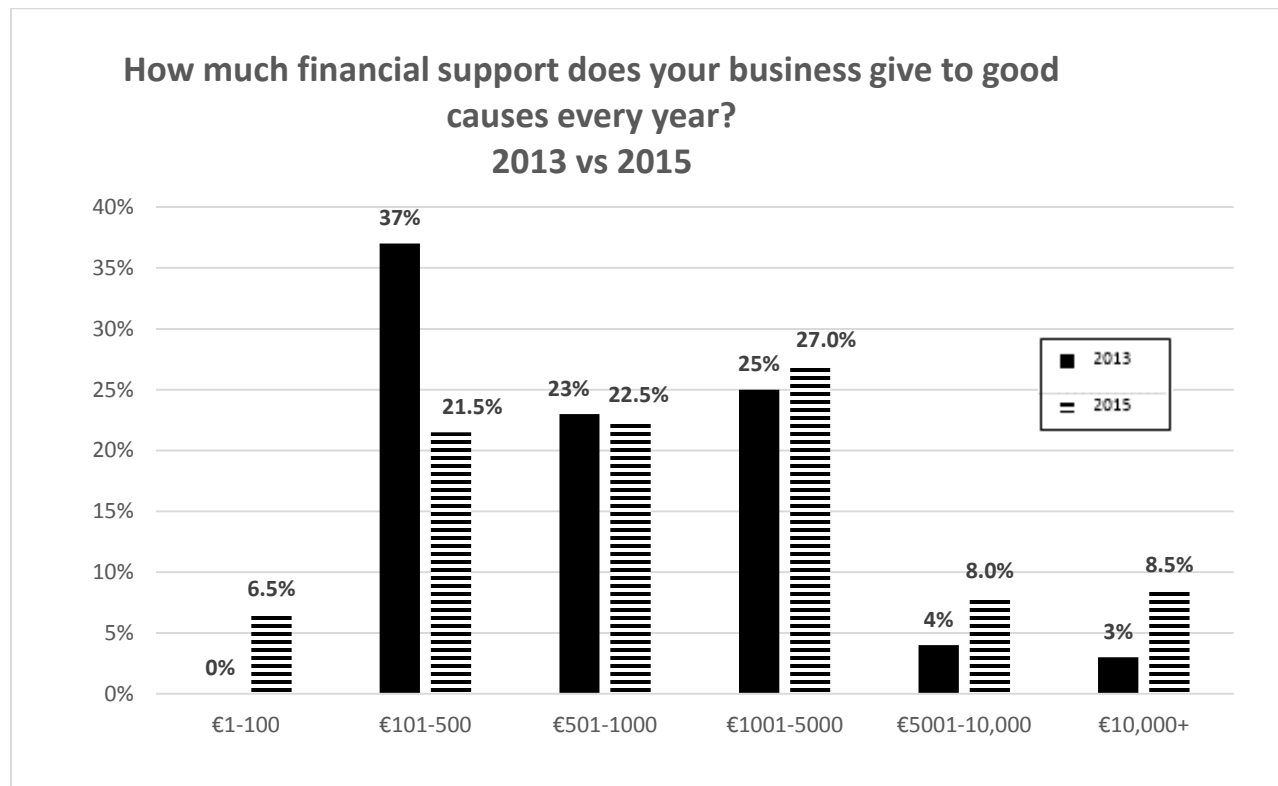
Note of Caution: Requiring SMEs to develop a plan might initially put them off the idea by adding an administrative burden to them. It is advised that this aspect be postponed or simplified in the early stages of CSR awareness building.

Do SMEs have Charity Partners?

The number of SMEs who have a charity partner increased from 34% in 2013 to 39% in 2015.

SMEs and Charity Work

Many SMEs equate CSR with being synonymous with charity work. The term technically incorporates a far more wide-ranging list of activities and principles but as charity work and community involvement is the most popular CSR activity amongst SMEs the survey analysed the extent of this work and compared it with a 2013 survey.



*No figure available for €1-100 in 2013

The 2013 survey found that 92% of Irish SMEs give financial support to charitable organisations each year. The graph shows that in 2013 the largest proportion of businesses (37%) donated between €100- €500 annually. 25% of businesses donated between €1001- €5000 and 23%

donated between €501-€1000 per year. A combined 7% donate more than €5000 to charities or voluntary organisations every year.

The 2015 survey found that 94% of Irish SMEs give financial support to charitable organisations each year. The graph shows that in 2015 the largest proportion of businesses (27%) donated between €1001- €5000 annually. 22.5% of businesses donated between €501- €1000 and 21.5% donated between €101-€500 per year. A combined 16.5% donated more than €5001 to charities or voluntary organisations every year.

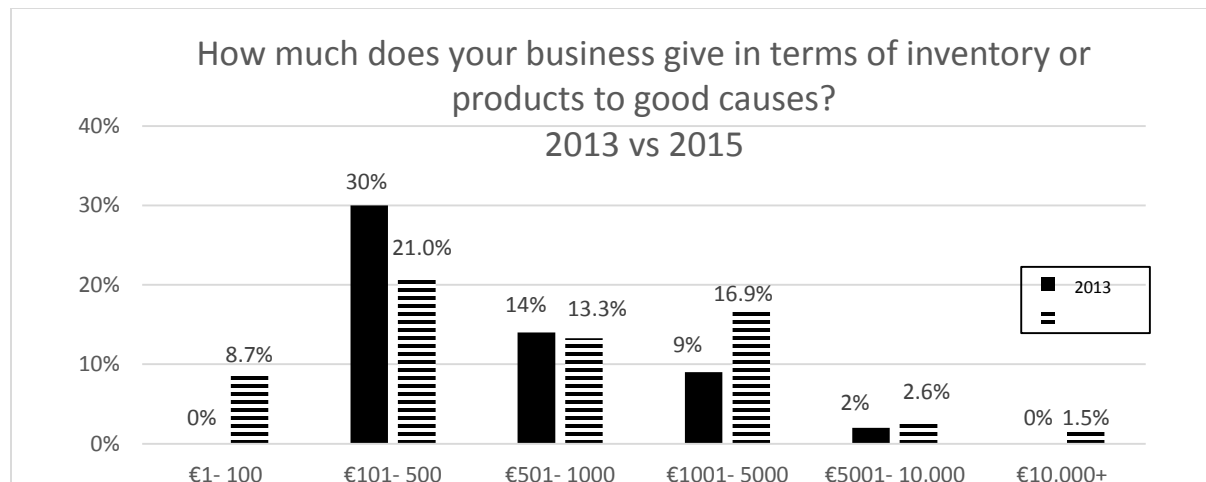
These figures represent large increases on the 2013 figures and show that, as improvements in resources allow it, SMEs are scaling up their charitable endeavours.

In 2015, the average annual donation given by respondents to good causes was €2709. This is compared to an average annual donation of €1709 in 2013. The large increase is due to more donations being made at the higher end of the scale.

Voluntary Donations of Inventory and Products

SMEs often donate some of their inventory or products to local causes, schools, voluntary groups etc. Often these donations are used to support community projects or as fundraising prizes and incentives. The survey asked respondents to place a value on the goods which they donate yearly. This will be compared with the 2013 results.

This graph shows the percentage of businesses who give inventory/product donations within set monetary categories:



*No figure available for €1-100 in 2013

The graph shows that in 2013, 30 % businesses donated between €101- €500 worth of goods to charitable causes. 14% of businesses donated between €501- €1000 and 9% donated between

€1001-€5000 of goods per year. 2% of Irish SMEs donated more than €5000 worth of inventory or products to charities or voluntary organisations every year.

In 2015, 21% of businesses donated between €101- €500 worth of goods to charitable causes. 13.3% of businesses donated between €501- €1000 and almost 17% donated between €1001-€5000 of goods per year. 4.1% of Irish SMEs donated more than €5000 worth of inventory or products to charities or voluntary organisations every year.

In 2015, SMEs made an average donation of €1094 worth of inventory or products. This was an increase from €540 in 2013.

Responsible Business

A commitment to responsible business practices is another way for businesses to expand their CSR programme. ISME believes that paying suppliers on time is the most important responsible business practice for SMEs. Our survey found that 92% of SMEs are committed to paying promptly.

Activity Analysis

In order to further the analysis of those who stated that they are active in CSR, those who said they weren't and those who said they didn't know, answers to key questions for each of those categories were extrapolated.

Does your business do CSR?	Yes	No	Don't Know
Charity Work	92%	88%	97%
Employee Development	84%	72%	84%
Prompt Payment	92%	82%	97%
Waste Reduction	93%	91%	88%
Recycling	92%	87%	90%

Interestingly, the 'don't knows' are doing the most charity work and have the highest rates of paying promptly. The 'no' category also have very high levels of engagement across all areas particularly waste reduction and charity work.

This table categorically proves that SMEs are highly engaged in CSR, whether they know it or not. This raises the question of whether there is a need to educate them about CSR and to raise

awareness. If high levels of engagement are already happening, and these levels are improving as the economy improves, why is any intervention necessary? Is there a need for SMEs to understand the term 'CSR' when they are already acting responsibly within their communities?

However, a better knowledge of the term CSR might allow SMEs to better harness the reputational benefits it should be having for their company.

The analysis also found that 62% of respondents said yes to all of the questions in the chart i.e. they give money to charity, are committed to employee development, pay promptly and focus on waste reduction and recycling. These 62% could be deemed to be highly engaged in CSR despite the fact that 21% of that group said they were not active in CSR and 15% didn't know.

Environmental Awareness

Environmental protection is a further pillar of CSR. The survey found that 94% of Irish SMEs are attempting to reduce waste and 92% have a recycling programme.

Key Findings

In summary, the key findings of the survey are:

When asked if their business was active in CSR, 54% said 'yes', 30% said 'no' and 16% didn't know.

However,

- The survey found that 94% of SMEs donate money to charity.
- 94% have waste reduction programmes and 92% have a recycling programme.
- 92% are committed to the responsible business practice of paying promptly.
- 84% actively support the learning and development of their employees.

Thus,

A large amount of respondents who believed they either didn't do CSR or didn't know what it was are conducting CSR activities without understanding that their activities equate to the term. An analysis of the responses of the 'no' and 'don't know' answers on page 8 confirms this.

Furthermore,

As improvements in the economy allow, SMEs are scaling up their CSR activities.

The number of SMEs with a charity partner has grown to 39% from 35% in 2013.

Conclusion

The results outlined in this report show that Irish SMEs make a significant contribution to their local communities through financial, time and goods donations and that this contribution is increasing. These activities are usually not reported or documented in company literature and so tend to go unnoticed and unacknowledged. They are appreciated only by their direct beneficiaries and it is difficult to quantify their economic value or, indeed, the value of the contribution to local initiatives and organisations.

The survey found that, although 30% of SMEs believed they were not active in CSR and 16% didn't know, everyone surveyed conducts activities that are classed as 'CSR'. Thus, the primary challenge is not to increase levels of CSR but to increase awareness to that SMEs know what it entails and to acknowledge and encourage its practice.

The future challenges are to give more recognition to SME achievements in CSR and to encourage them to be more active through a bottom-up approach, awareness raising actions and dedicated tools.

The role of the Irish Government in CSR is, according to ISME, to raise awareness and visibility of CSR amongst all societal actors and to support small and medium enterprises in implementing CSR.