

Presentation Leontien Plugge (Programme Coordinator SME projects Global Reporting Initiative)

The social responsibility of SMEs – Integration of CSR into SME Business Practice (Copenhagen Business School 26th of October 2006)

The aim of the conference is to provide a forum for participants to identify business case opportunities for CSR activities for SMEs; identify best practice strategic engagement in CSR activities among SMEs; draw from the experience of an ongoing CSR training programme among Danish SMEs; and discuss research on strategic CSR in SMEs.

This document will provide a short overview on:

- SMEs and CSR practices
- SMEs growing role within the CSR movement
- Challenges that SMEs face when reporting
- Transparency and SMEs
- What guidance does the GRI offer?
- GRI's reporting guidance for SMEs
- Current Reporting Projects with SMEs
- Conclusion

SMEs and CSR practices

From a complex multinational enterprise to a small one-man enterprise, every business entity has both positive and negative impacts on its stakeholders and society and the environment. SMEs have a critical role in moving our society towards sustainability. Small companies, along with those of medium-size, account for 90 percent of businesses worldwide and are responsible for 50 to 60 percent of employment. In Asia, for example, SMEs account for over 90% of enterprises, employ over half of the workforce, contribute about half of the GDP and provide around 35% of the exports.

CSR has traditionally been associated with large companies but over the last couple of decades SMEs have become more important to the world's economy. This trend is most likely to continue. The growing importance of the SME sector has led to a corresponding emphasis on their sustainability impact and the rise of several initiatives in different parts of the world addressing integration of CSR into SME business practice. This can be easily justified when acknowledging the importance of the SME sector as the foundation on which all economic activity is built and the fact that SMEs are a major economic force, especially when considering employment.

SMEs growing role within the CSR Movement

There are different drivers and ways that SME can engage in CSR and transparently communicate their environmental, economic and social performance. SMEs can engage with CSR as providers of employment, through their stakeholder relations and as providers of goods and services.

The small companies that are not necessarily linked to multinational customers often depend heavily on local customers, suppliers, governments, and employees for their success. These SMEs typically focus their sustainability efforts locally. Sustainability efforts can help cultivate and maintain essential local support and strengthen the prosperity, stability and the health of the community to which SMEs are tied. On the other hand, there are also SMEs that are part of the global supply chain and the link between these SMEs and their multinational customers is a reason why a limited but growing number of SMEs start thinking about integrating CSR into their business practice. A well known attempt to bring SMEs into the CSR agenda have been through supply chain requirements of multinational companies, mainly in export sectors where sustainability initiatives and practices have been embedded. Large companies can no longer afford unfavourable publicity about environmental tragedies, poor working conditions, or child labour. More and more SMEs will “get into CSR” because of their multinational customers insisting that their suppliers demonstrate social and environmental responsibility. This is the same when focusing solely on sustainability reporting and SMEs. Regardless of the size, sector or location of a company, communication is a core part of day-to-day business as well as of being a responsible company. There has been a considerable growth in the last four years of SMEs reporting using the GRI Guidelines to communicate their environmental, economic and social performance. Some of these SMEs are individual small companies that report for independent reasons and others are reporting that are part of the global supply chain and with less independent reasons.

Challenges that SMEs face when reporting

To date, the CSR agenda has primarily focused on large enterprises. SMEs have been part of CSR initiatives often as suppliers to a large multinational or as a beneficiary to a multinational’s philanthropic initiatives. SMEs often have a hard time capturing market opportunities which require large production quantities, homogenous standards, and regular supply. It is even more challenging for SMEs in developed and developing countries to access the necessary financial, technical and human resources to improve their social and environmental responsibility practices. This is a similar burden for SMEs when they would like to start sustainability reporting.

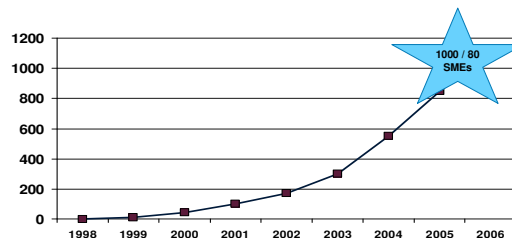
The reality is that many, SMEs are often content to survive economically. As long as their company is still in business there is not much need to raise the bottom line with sustainability issues. Starting a reporting process will require the SME’s financial, technical, human resources demands, as well as the owner or senior manager to commit themselves to becoming more sustainable as a business and be transparent about it. The SME ownership model influences how SMEs become more sustainable and start reporting on it: in contrast to complex multinationals, many SME’s have better opportunities for the owner or senior manager to integrate their personal ethics into the company’s activities and day to day business.

The business case for reporting should be absolutely clear otherwise a small company will not start with reporting. It is often necessary for SMEs to understand that a lot of their performance is already linked to CSR, such as their strong link to a particular community or geographical location. The philanthropic activities of SMEs are often part of their business and key in their relation to the community. SMEs have a strong dependence on their key stakeholders such as employees, customers and neighbours by nature. This means stakeholder engagement is often already embedded well within their day to day business. SMEs that are part of a global supply chain often already comply with their foreign customers' expectation of environmental management systems and social standards. Reporting will be a way for SMEs to finally name all these activities and efforts and get recognition for their transparent disclosure of performance towards these goals. A commitment to transparency does come with risks, and, when starting a reporting process, small companies need to be aware of the increased competition they will face, or reputation risk, because of their transparency. Nonetheless, reports and reporting practices should be a balanced representation of an organization's sustainability performance.

Transparency and SMEs

The call for transparency is not just a recent imperative. People, politicians, companies have always struggled with being transparent. Being open and transparent is usually seen as, moving forward and walking the right path, but it's often not an easy path.

Sustainability Reporting based on the GRI guidelines is currently pursued by approximately a thousand companies worldwide. Most of them are large multinational companies and around eighty of the reporting organizations are SMEs from 21 different countries of the world. Amongst reporters, there is also representation from other non-corporate sectors, such as public agencies, NGOs and others.



Sustainability reporting is mostly seen as a tool for large companies with advanced sustainability strategies and management systems with high pressures from their

international stakeholders; *why would a SME try to start a sustainability reporting process?*

I. Globalization; The current State of the World

There are important global issues that affect companies around the world, and that companies also have an effects on, regardless the size, location or structure of a company. Cases of far reaching environmental disasters have dominated the news in recent years (The Tsunami in East Asia, the earthquake in Pakistan, and Hurricane Katrina in the U.S). With public awareness rising following popular films such as Al Gore's film "The Inconvenient truth", it is clear that the public's interest in climate change recognizes both the risks and opportunities for innovation – and demands that the private sector be part of the solution. Economic activity can help mitigate, or exacerbate social tensions and productive economic activity requires the support of the local community where it exists. Sustainable growth and development benefits both enterprises and the community, building good relations and encouraging the development of a positive cycle.

It is important for every company to take stock of how these broad issues are shaping the global business environment, and how every company is – or is not – strategically addressing them. How do these issues affect SMEs; and maybe even more important how can a small company or even micro company affect these issues? What impacts SMEs or micro-enterprises have? For these questions it really does not matter whether you are a multinational or an SME. The cumulative social and environmental aspects of SMEs are significant, although their individual impacts might be small. This is not only because they are a major economic force, but also because SMEs are often over-represented in industrial sectors with high environmental impacts and because they are often not subject to the same regulatory and enforcement processes to improve a company's negative sustainability impacts as complex multinationals.

In order to know their impact and to act accordingly, SMEs will need to measure their sustainability performance. "What gets measured, gets managed!" Sustainability reporting is one way to track these issues, know where a company stands, and develop management and communications about these issues.

II. Information Age

There has been an immense growth of the media and communications technology over the last decades. In the current age of information overload, the credibility of information is key. SMEs often refer to the business benefits that they can enjoy as they advance the CSR programmes. One of the biggest challenges that SMEs face when addressing CSR issues is proving them. Measuring and quantifying CSR performance can be a challenge but when CSR performance becomes more systematic, communicating the effort will become just as important. Organization-generated reports can gain legitimacy by using an external reporting framework like the GRI Guidelines for Sustainability Reporting.

III. Competitive advantage

Reporting can help SMEs best enter their company in the global market place or position their company.

IV. Legal Requirements

Using indicators to measure a company's environmental, economic and social performance is necessary to determine whether or not the company is complying with the relevant legislation. Tracking this data year by year can help reduce costs of compliance with new environmental and labour regulations.

V. Risk Management

Reporting can signal areas where attention is needed. It can serve as an “early warning system” for identifying possible environmental economic or social risks that a company is exposed to.

VI. Client and employee satisfaction

Reporting helps understand customer needs and helps improve customer loyalty. It can provide ideas for product or service innovations through better understanding the needs of customers through stakeholder engagement. Being transparent and sharing the views, policies, strategies and future goals with employees, will motivate employees to work towards attaining business and sustainability goals. “Walking the talk” on the companies’ sustainability commitments and being recognized as an employer demonstrating responsibility to its employees and the community has been proven to have positive impacts to a company.

VII. Internal Business Management Improvement

Indicators enable companies to track performance over time. After identifying a number of areas where measures can be taken to improve a companies’ environmental or social performance in a cost effective manner, using performance indicators will be able to help a company measure exactly how much its performance has improved after the measures have been implemented. The process of such performance-focused reporting can create cost-savings through improved performance as a result of looking more closely at the use of energy, water and raw materials.

VIII. Improved Access to Capital Markets

One of the proven results of reporting for SMEs is that communicating your sustainability performance results in a transparent and strong relationship with banks and other credit providers. This will help improve access to capital markets.

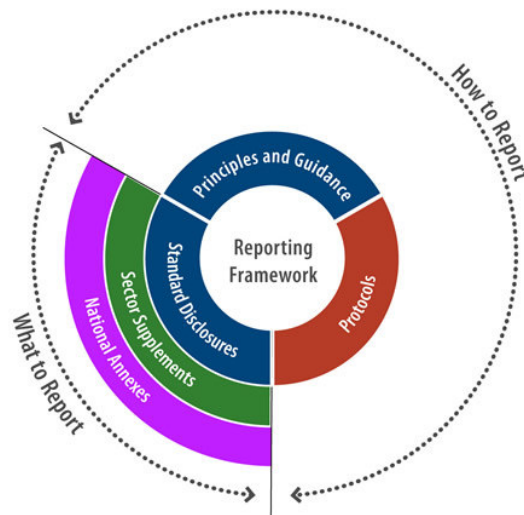
What guidance does the GRI offer?

The Global Reporting Initiative’s (GRI) vision is that reporting on economic, environmental, and social performance by all organizations becomes as routine and comparable as financial reporting. GRI accomplishes this vision by developing,

continually improving, and building capacity around the use of its Sustainability Reporting Framework.

An international network of thousands from business, civil society, labor, and professional institutions create the content of the Reporting Framework in a consensus-seeking process.

G3 Reporting Framework



The Guidelines should be used as the basis for all reporting. They are the foundation upon which all other reporting guidance is based, and outline core content for reporting that is broadly relevant to all organizations regardless of size, sector, or location. The Guidelines contain principles and guidance as well as standard disclosures – including indicators – to outline a disclosure framework that organizations can voluntarily, flexibly, and incrementally, adopt. Protocols are the "recipe" behind each indicator in the Guidelines and include definitions for key terms in the indicator, compilation methodologies, intended scope of the indicator, and other technical references. Sector Supplements respond to the limits of a one-size-fits-all approach. Sector Supplements complement (not replace) use of the core Guidelines by capturing the unique set of sustainability issues faced by different sectors such as mining, automotive, banking, public agencies and others.

Like all GRI products, the Reporting Framework is continuously improved as experience evolves and better practices emerge.

The core Guidelines are in their third generation (“G3”) and were released in October 2006 following a three year, innovative development period that engaged more than three thousand individuals from diverse sectors, worldwide.

The GRI also offers guidance specifically for SMEs that would like to report on their sustainability performance using this GRI Reporting Framework. The GRI SME Handbook “High 5!” is a guidance document especially developed for SMEs. It provides a

simple, five-step practical how-to process on using the Guidelines for *small and not-so-small companies* to easily and effectively create sustainability reports bringing value *and transparency*.

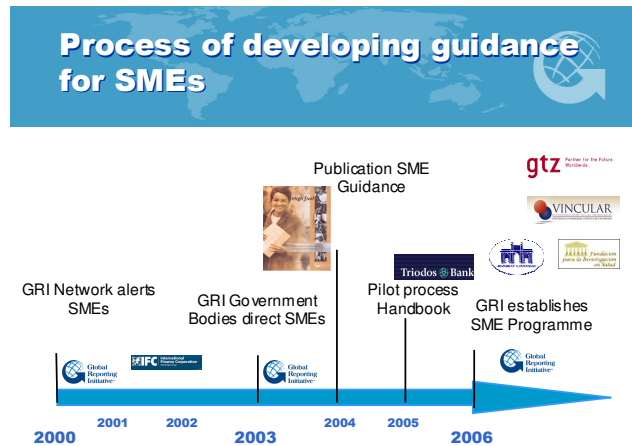
GRI's reporting guidance for SMEs

Since 2000, GRI's stakeholders and governance bodies have raised the issue of the applicability of the GRI Guidelines to SMEs. In response, between 2001-2003, the applicability of the GRI Guidelines to SMEs was tested through a joint GRI-WB/IFC project. SMEs in Central and Eastern Europe have pilot tested the Guidelines and this resulted in sustainability reports from SMEs in Hungary, Serbia, Turkey, and Poland. It also resulted in recommendations stating that the GRI reporting process had a positive impact on the overall organizational management and strategic planning, as well as building relationships with stakeholders. The Guidelines can be seen as relevant to SMEs as long as SMEs are familiar with, understand the benefits, and commit to the sustainable business development and sustainability reporting concept. In that way they are able to identify the relevant GRI indicators and learn from them. The key message was that a practical handbook was necessary that would explain in easy language the reporting process and the use of the GRI Guidelines.

In May 2004, the Dutch Ministry Foreign Affairs funded the development of SME High 5! Handbook, which is a practical guide on sustainability reporting for small and not-so-small companies. The SME High 5! Handbook was launched in November 2004 during the Maastricht EU Conference on CSR. Since then, an increasing number of SMEs worldwide have started using this handbook to learn about CSR and the possibilities to communicate and it has been piloted by 12 micro-credit banks in Africa, South America and Asia.

The GRI formally launched the SME Programme in February 2006 and since then the GRI has been working with SMEs in three different ways:

1. Independent SME's in developed and developing countries that report on an individual basis and because of independent reasons.
2. SMEs in developing countries that are part of the international global supply chain of multinationals in developed countries that are already GRI reporters.
3. Clusters (groups) of SMEs based on geographic location or sector that report as a cluster in an aggregated.



Currently, the GRI is revising the SME High 5! Handbook to make it compatible with the recently launched third generation of GRI Guidelines (G3). This new version of the SME guidance will be launched in January 2007.

Current Reporting Projects with SMEs

1. *Transparency in the Supply Chain*

Starting October, 2006, the GRI and the German Gesellschaft für Technische Zusammenarbeit (GTZ) are collaborating on a project “Transparency in the Supply Chain”. This project will bring together 3-5 European multinational companies that are leaders in the field of sustainability reporting. These companies will work together with three of their suppliers in emerging economies to help them start reporting based on the G3 Guidelines and the High 5! Handbook.

These sustainability reports will be used to help increase transparency and stable long-term partnerships in the supply chain of multinational enterprises from Europe. Producing sustainability reports within the supply-chain will facilitate mutual understanding, learning opportunities, improvement of risk management and overall performance by both the European-headquartered customers as the suppliers in emerging economies. The outcome of this project will be twelve small sustainability reports from SME suppliers in emerging economies and a resource document with guidance for SMEs on how to report using the GRI Guidelines when being part of the global supply chain.

2. *Aggregated reporting by SME clusters*

SMEs in emerging economies account for the majority of firms and a large share of employment in developing countries. Therefore, they have an extensive potential to play a key role in triggering economic growth and improve the sustainable performance of the private sector in emerging economies. It is difficult for SMEs, especially in emerging economies, to access the necessary financial, technical and human resources to improve their social and environmental responsibility practices.

One of the most successful policy approaches for SME development has leveraged on the benefits of clustering since there is a significant potential for small enterprises to achieve economies of scale and scope through co-operation at the local level. This project will provide the SME clusters access to the necessary technical, human and financial resources to start sustainability reporting as a network while securing a feasible reporting process. The aggregated “cluster report” will create transparency about the environmental, social and economic performance of the SMEs as a group. This CSR communication will be useful for overseas customers or business partners who want to assess whether their suppliers are sustainable. It will therefore enhance their competitiveness as sustainable SMEs when engaging in the global market. It will also help the cluster and the individual SMEs to set future goal to improve their sustainability impact on the region and help them measure their actual social and environmental impact.

The GRI is working with geographical clusters of SMEs from the same sector in Chile. This project explores the possibility for these clusters of SMEs to start reporting as a cluster in an aggregated way based on the G3 Guidelines. In partnership with regional organizations, the GRI will facilitate these clusters of SMEs to start and maintain a shared and feasible reporting. Currently, this project will start with participating SMEs from the Chilean fruit sector in collaboration with the Catholic University of Valparaiso. The desired outcome of this project is a resource document with guidance on how to use the GRI Guidelines when reporting in an aggregated way as a ASME cluster.

3. Sustainability Reporting by Individual Micro-companies

Demonstrating considerable initiative, a group of 20,000 Spanish pharmacies came to the GRI in mid-2006 wishing to begin sustainability reporting, and seeking support from the GRI about how best to initiate these processes. In collaboration with FUINSA (pharmaceutical NGO) and FEFE (Spanish Federation of Pharmacies) from Spain, the GRI is running a project with a sub-set of this group, who are piloting the implementation of the GRI Guidelines and the High 5! Handbook to produce their inaugural sustainability reports. These Spanish pharmacies are all micro-companies with 5-10 employees and the project is a research project to explore how applicable the GRI Guidelines are for micro companies that like to report on their sustainability performance on an individual basis.

Conclusion

The momentum to include SMEs in the CSR agenda is backed by both its urgency and growing practice. More and more SME are not only internally collecting information to report, but are also sharing their reports with the GRI. As the business-case becomes clearer, and more and more SMEs experience the external benefits for reporting, it is clear that sustainability reporting will become an essential part of an SME's effective, day-to-day business activities.

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