

## Social Sustainability in companies daily business

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### Abstract

*Social Responsibility is an accepted goal of sustainable development in different programs and agreements. Nevertheless the term remains unclear and intangible. This factor makes it very difficult to implement it in companies and regions and could possibly be the reason why a broad implementation hasn't taken place yet.*

*The project presented in this paper is based on the hypothesis that a stronger consideration of aspects of Social Sustainability can contribute to a fortification of enterprises in a way that a better identification of stakeholders with the enterprise, advantages through co-operations and networks, better co-operation with regions and also competitive advantages can be achieved. The presentation will be about the progress of a project JOANNEUM RESEARCH started in October 2002 to especially assist SMEs in dealing with Social Sustainability.*

*Aims of the project:*

- *Find out about the status of "Social Responsibility" in companies in a certain region of Austria (South Austria, consisting of the provinces of Burgenland, Styria and Carinthia)*
- *Pinpoint the strategic importance and the concrete benefit of sustainable development for enterprises and regions especially through adapted preparation of relevant information about social Responsibility*

- *Development of understandable definitions and criteria/indicators for social Responsibility for companies as well as for regions*
- *Development of practicable strategies and methods for implementation of social Responsibility for relevant actors (policy makers) in companies and regions*

## Introduction

### Sustainability and CSR

The term „Sustainability“ in common meaning includes three tightly linked dimensions: economic, environmental (ecological) and social. This tight connection contributes to the fact that Sustainability in practice often is seen as a theoretical and aloof concept which concrete benefits for e.g. companies and regions can only be seen at second sight.

In the course of the discussion about Sustainability there were defined a lot of indicators, especially in the environmental dimension. This was an attempt to make Sustainability measurable and therefore concrete.

Despite a lot of scientific studies about „Social Responsibility“ the relevance of the social dimension in Sustainability debate is far from being as much as high as on the environmental and economic side. The development of indicators for Social Responsibility therefore was a topic for research but fell behind in its in-depth elaboration and orientation on practice. Existing approaches are less systematic and criteria and goals of „Social Sustainability“ remain at least partly diffuse. There are only few analogies to concepts in the field of environmental Sustainability as bearing capacity of eco-systems, natural capital, etc.

On the side of the business world, **Corporate Social Responsibility (CSR)** has, for a long time, enjoyed the status of a product that is marketed through high-level conferences and consultants (see the aloof aspect here as well!). During the 1990s, CSR initiatives spread throughout

Europe, trying to give a consistent approach to the Social Responsibility of companies. In recent times, however, economic downturns, failures and breakdowns in accountability, the bursting of the high-tech bubble and other corporate misdemeanours have all contributed to undermine trust in companies. As a consequence, the concept can provoke different reactions: interest, indifference or animosity.

Then the concept started growing in importance at European level. In 2001 the European Commission presented a green paper with the title: "Promoting a European framework for corporate social responsibility". This Green Paper seeks to launch a broad debate on how the European Union could promote the social responsibility of companies at European and international levels and, in particular, on how to make best use of existing experience, encourage innovation, improve transparency and improve the reliability of the evaluation and validation of the various initiatives carried out in Europe.

In its 2002 Communication concerning CSR, the European Commission stated that:

"...the main function of an enterprise is to create value through producing goods and services that society demands, thereby generating profit for its owners and shareholders as well as welfare for society, particularly through an ongoing process of job creation. However, new social and market pressures are gradually leading to a change in the values and the horizon.

The Commission went on to outline the role that companies could play:

"There is today a growing perception among enterprises that sustainable business success and shareholder value cannot be achieved solely through maximising short-term profits, but instead through market-oriented yet responsible behaviour. Companies are aware that they can **contribute to sustainable development** by managing their operations in such a way as to

enhance economic growth and increase competitiveness whilst ensuring environmental protection and promoting social responsibility, including consumer interests." (European Commission, 2002)

All this encouraged plans to start a project which especially should deal with problems SMEs have in implementing CSR issues.

## SMEs and CSR

There are over 20 million small and medium sized enterprises (SMEs) in the European Economic Area, making up around 95 % of all EU enterprises and employing more than 80 million people. In the EU candidate countries there are another 5.7 million SMEs, employing 21 million people.<sup>1</sup>

Thus, SMEs are the key to achieve the EU strategic Lisbon goal (2000) of becoming the most competitive and dynamic knowledge based economy in the world, build on the three pillars of economic, ecological and social Sustainability. This is especially the case as SMEs are a major source of innovation and entrepreneurship.

The central challenge, however, is, how to engage large numbers of European SMEs in Corporate Social Responsibility (CSR) – defined by the European Commission as "a concept whereby companies integrate their social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis".<sup>2</sup>

Hitherto, CSR-activities (without being named as such) of many SMEs have been highly fragmented, carried out on a one-off-basis, neither being reported nor integrated into the core business strategy. SMEs therefore have not yet systematically extracted value gains from their engagement as have larger corporations.<sup>3</sup>

Many SMEs may also question the general relevance of CSR to their business – is it not just

another top-down-theory which adds to bureaucracy and the existing jungle of regulations?

Over the last 2 years, the European Commission and the European Council have highlighted the importance of SMEs in the field of CSR and that their specific requirements need to be addressed. The Communication on CSR (2 July 2002) for example, calls for explicit support to foster CSR engagement of SMEs by – among other means - exchange of good practise, the development of tailor-made instruments for SMEs and facilitation of co-operations among large companies and SMEs in order to improve awareness of SMEs for social and ecological responsibility.<sup>4</sup>

So far, most CSR research and advise has been from the perspective of larger companies and trans-national corporations. A large number of concepts, standards and instruments to implement CSR have been developed and mostly applied in the context of these enterprises.

A recent working paper of The Copenhagen Centre shows that the relevance of CSR to SMEs can be demonstrated on at least four levels which are directly linked to the business case of SMEs<sup>5</sup>:

- 1) Larger and trans-national corporations (often with an existing CSR-policy) demand environmentally and socially sound practice from supply chain SMEs – thus executing direct economic pressure on SMEs.
- 2) Both on national and international level, legal regulations (e.g. Basel II, social, ethical and ecological standards for pension funds in the UK and Germany), safety and health standards, anti-discrimination and environmental protection policies apply to all SMEs, regardless of their size.
- 3) Economic benefits can be gained from proactive measure in environmental and social management.
- 4) Local communities demand from SMEs not only compliance with existing legal regulations

but ever more respect for and fairness towards employees and customers as well as a general interest for the well-being of the community.

## The Project-Idea

Few publications give a critical overview on existing CSR-concepts and instruments, focusing on experience, the scope of use and general practicability. The majority of surveys describe either specific approaches and instruments, with Sustainability reporting having a prominent role, or the integration and compatibility of instruments or a very general state of the art without going into too many details.<sup>6</sup>

Various publications allow a general overview of SME needs. Recent international research<sup>7</sup> as well as national studies analyse the constraints hindering SMEs' engagement in Corporate Social Responsibility. They identified the following barriers: Time constraints, budget limits, attitudes of management and staff, missing links to the business case, low expectations of benefits from CSR-activities, fear of further legal obligations, fear of bureaucracy, lack of CSR-information from business minded organisations, no understanding of CSR-terminology, lack of easy-to-use instruments.

It is a fact that „Social Responsibility“ seems to be an accepted goal of sustainable development on the level of programmes and agreements. The term however remains intangible and diffuse especially for SMEs, which makes a practical application in SMEs and regions difficult and therefore has not been done in a broad range.

CSR processes may be doomed to fail as SMEs do not see the positive effects of their engagement on their business. Only 18% of SMEs regard direct economic success as the driving force behind their CSR activities. Good relations to the community or government institutions, trust of customers or improved relations to business partners and investors rank much

higher, especially for medium and larger sized companies (10-49 and 50-249 employees respectively).<sup>8</sup> Therefore, to inspire participation of SMEs in CSR pilot processes, on the basis of existing research and best practice, the project aims at demonstrating clear evidence in “SME language” that “soft issues” such as improved relations to communities and government, sustained trust of customers and good relations to business partners and investors indeed contribute to economic success.

Though many smaller companies consider social responsibility as integral part of their values, most CSR activities of SME are carried out without calling them like that. From this basis, there still is a great challenge to activate SMEs to get more deeply and systematically involved in community or regional issues of sustainable development. A viable approach to sensitise SMEs for the broader challenges of CSR is the introduction of environmental management systems. Nevertheless, experience in Local Agenda 21 shows that it is mainly those SMEs that are anyway involved in regionally production-oriented cooperation that get involved in sustainable development issues at community or regional level.

The project which is presented in this paper emanates from the **hypotheses** that a stronger consideration of social Sustainability aspects will contribute to the fortification of enterprises. A stronger identification of stakeholder (in- and outside the company) with the company, advantages through cooperation and networking, better cooperation with regions as well as competitive advantages through a better image may be the results. Adaptation and communication about the social dimension (but not to forget about the economic and environmental dimension) of sustainable development, especially aligned to enterprises and regions shall enable the implementation on a broader basis and

therefore make a contribution to a change towards Sustainability.

## Social Sustainability in companies daily business

As the project has not been finished yet, this paper documents the “status quo” of the project after 9 months of work. Nevertheless some trends for SMEs in the selected region South Austria are deducible.

### Objectives

The aim of this project can be broken down to the following general objectives:

- Elaboration of understandable definitions and criteria/indicators for social Sustainability for enterprises as well as for regions.
- Strengthening the strategies and activities of SMEs responding to increasing public and supply chain demands in the field of Corporate Social Responsibility (CSR).
- To highlight the strategic relevance and the concrete benefit of sustainable development for enterprises and regions especially through communicative, custom-made communication material for different target groups concerning (social) Sustainability.
- Development of suitable strategies and methods for the implementation of social responsibility for relevant actors (decision makers) in enterprises and regions.

The project activities include background research, empirical studies, the conceptualisation, preparation, capacity building for, implementation of, evaluation and documentation of adequate CSR pilot processes for SME stakeholder engagement. All these activities will be documented and the results will flow into the production of communication material for sustainable development for different target groups and a handbook about “Steps towards Social Responsibility in SMEs”

Within the scope of the project the existing theoretical know-how concerning (social) Sustainability will be/was confronted with the perspective of the people who have to implement the concept (enterprises and regions) to deduce concrete information, tools and procedures for user, to adopt them and to make them available.

The project started in October 2002 with a planned duration of 18 month.

## Methodology

### Phase 1

First step was to get an overview on existing literature and existing methods and indicators. The results of this survey have partly been described in the previous chapters of this paper (Especially “SMEs and CSR”) and partly been used for designing a questionnaire. The survey based on this questionnaire was made to analyse general understanding and existing concepts of Social Responsibility in companies of a specific, well-defined region. Proving ground for this survey was a region called South Austria, consisting of the provinces of Burgenland, Styria and Carinthia. The reason for choosing this area was on the one hand the geographical closeness of the companies there - as one aim of the project is to get in personal touch with them through interviews - and on the other hand that this area is defined as “region of the future”.

The questionnaire was meant to show the relevance of Social Responsibility and therefore deduce examples where at least parts of Social Responsibility already have been implemented

(successfully). Important was to find out about what companies name examples for Social Responsibility and which barriers they had to overcome by implementing it. Questions within the survey also concerned visions and company culture, communication patterns with stakeholders and the reasons for implementing Social Responsibility to get a deeper insight also into the social environment of the companies.

Goal herein is to pinpoint the strategic importance and the concrete benefit of sustainable development for enterprises and regions especially through adapted preparation of relevant information about social Sustainability.

For a first analysis of the survey for the presentation of this paper we concentrated on 3 main topics:

1. General questions concerning number of employees and industrial sectors the companies are in (to get a general overview).
2. CSR – Responsibility and Recognition: did companies know the term before, who is responsible for it, is it stated in the mission statement, reasons and impulse for implementing CSR, etc.
3. Barriers and Support: which barriers had companies to overcome and where do they seek for support

### General Questions

From 1362 questionnaires which were sent out, 60 were returned (which corresponds to a rate of return of 4.4%). About a half of these enterprises (49%) is within the range of 51 to 250 employees.

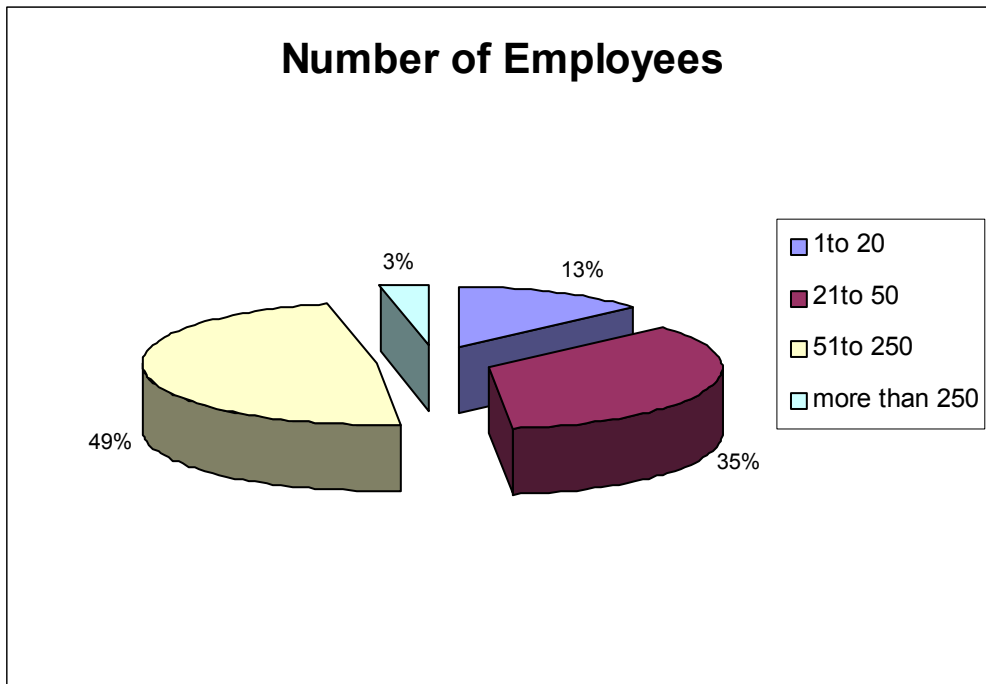


Figure 1: Number of Employees in Enterprises

The distribution among business sectors shows that 48% of all enterprises are doing their busi-

ness in the sector of Trade and Handcraft, followed by industry with 27%.

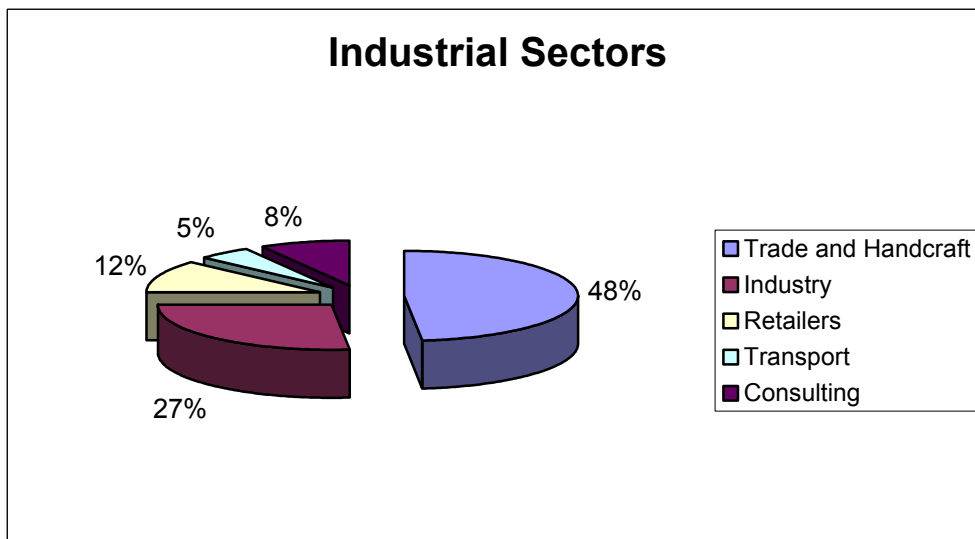


Figure 2: Industrial Sectors

### CSR – Responsibility and Recognition

Exactly 50% of the interviewed enterprises answered to have known the term of CSR before. When reminded by phone call to please fill in the questionnaire many companies didn't know

who was responsible for this topic inside the company. For those companies who answered it was clear in 96,7% that the Management was responsible for this topic inside the company, followed by the representative for environment, health and safety (33,3%) and the works com-

mittee (13,3%). In a lot of enterprises there is not only one person responsible for CSR.

87,8% of the enterprises who answered said that they had stated CSR in their mission statement. This declaration has to be seen with caution as about a third of all enterprises did not answer this question and only very few enclosed their mission statement so that it could be checked.

Asked about communication patterns and how important contact to and dialogue with different stakeholder it was astonishing that - right after the dialogue with customers (96%) – the importance companies see in good communication with their employees is very high (86,7%).

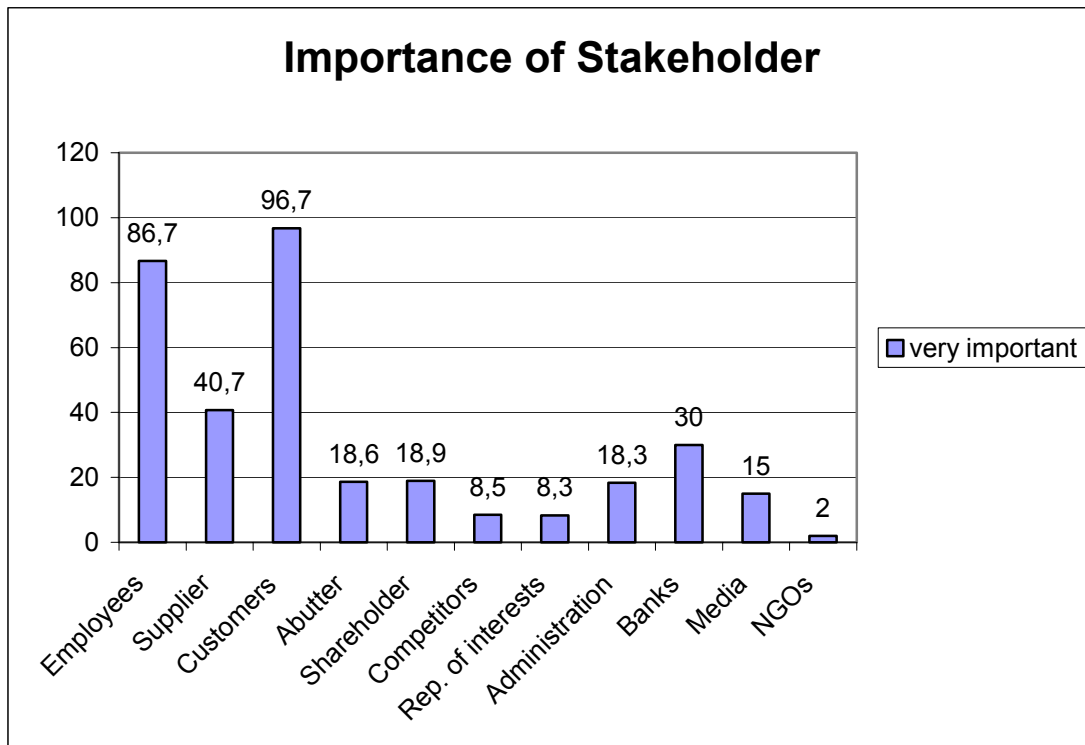


Figure 3: Importance of Stakeholder

For the reasons why companies implemented CSR 81,1% stated that it was personal concern who brought companies (resp. the management)

to implement the concept. This personal concern was in 88,5% the crucial factor to finally realise CSR in the company.

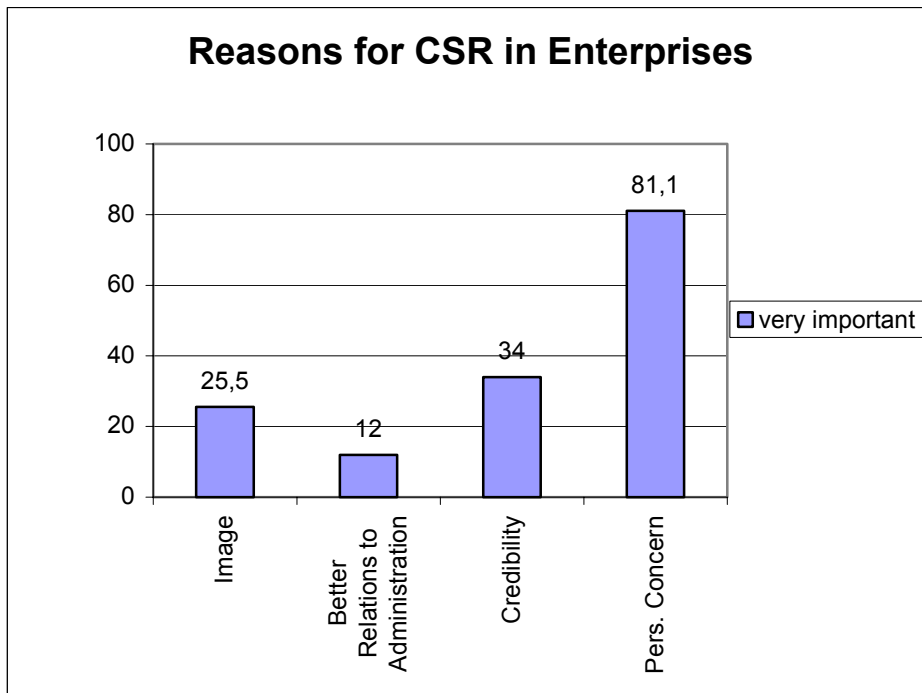


Figure 4: Reasons for Implementing CSR

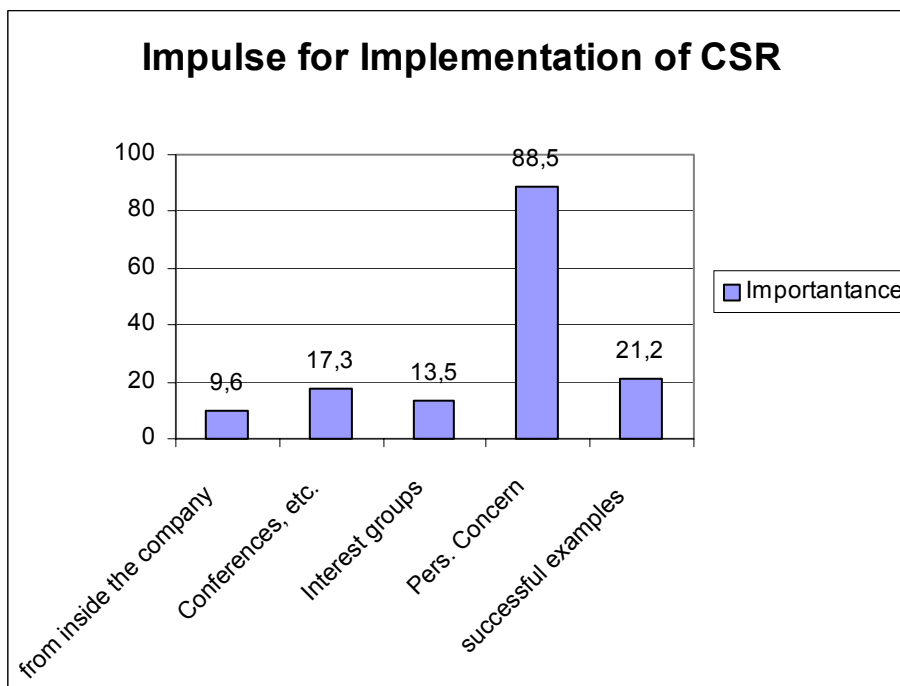


Figure 5: Impulses for CSR

Asked if implementing CSR in their companies had come up to their expectations, 77,1% said yes. Signals for the companies that the concept is successful are enjoying time at work, better qual-

ity of work, employees who are proud of their company and also economic success.

### Barriers and Support

Asked for barriers they had to overcome, companies named personal costs (30,6) and time

exposure (20,6%) as the most common reasons. This fact was not a surprise and had been proven in several studies in other countries and regions before.

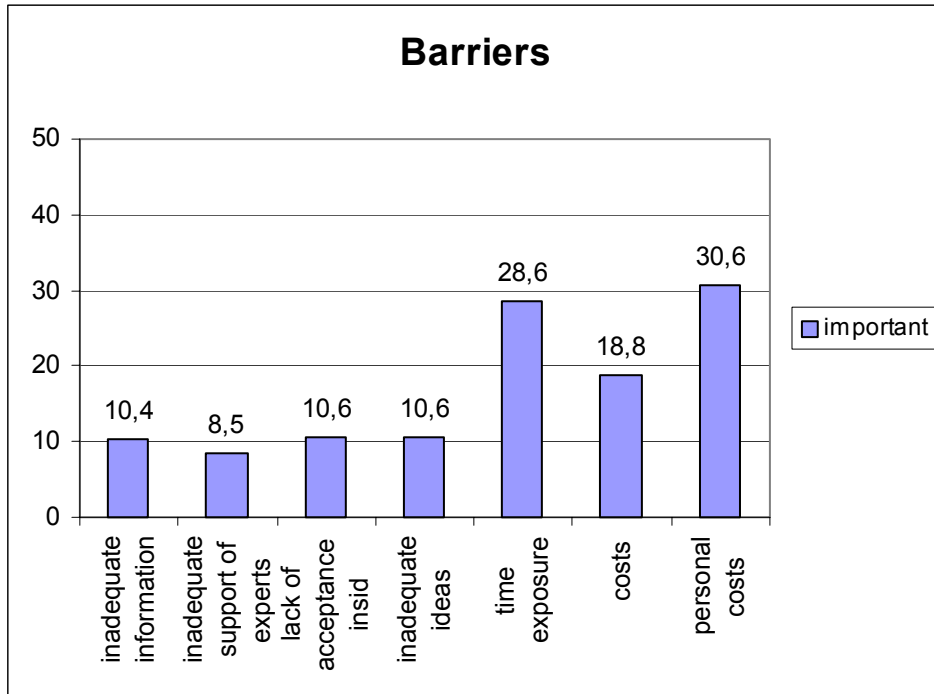


Figure 6: Barriers

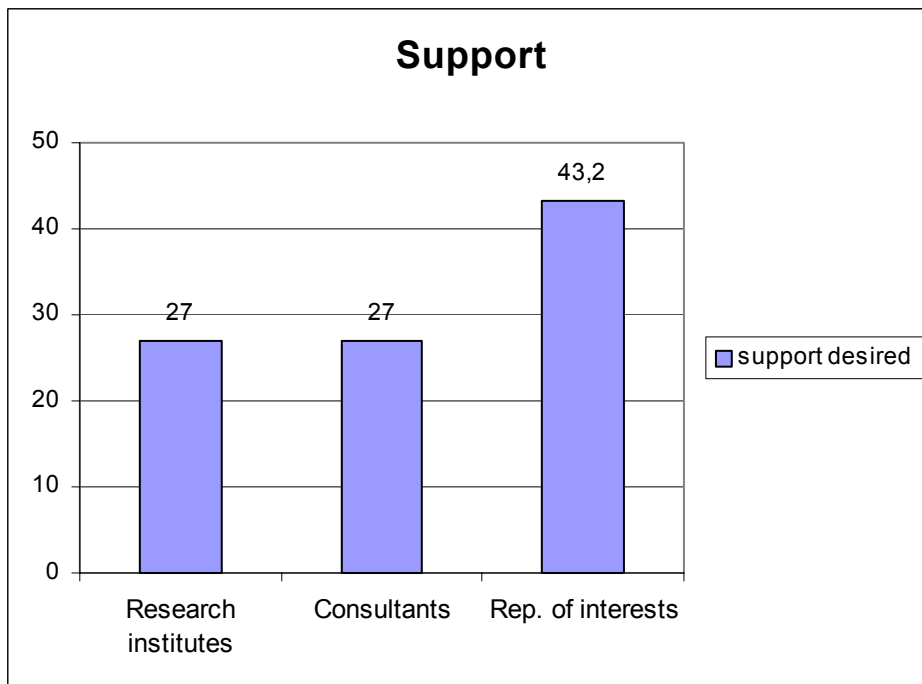


Figure 7: Desired Support

Concerning possible support, the statement deduced from the answers is clear: companies see it as one of the duties of their representatives of interests to find solutions. What enterprises would see as good support from outside are more information, financial support, acknowledgement through public in general and more sensitization for the topic. It is also clear that research institutes can play an important role if they are able to provide practice-oriented concepts.

Based on this analysis we will contact a few enterprises who are willing to let us get a more in-depth look into their implementation of CSR. The final result of Phase 1 will be the development of a concept of Social Responsibility adjust for selected SMEs in this specific region but based on well-established definitions and criteria of Social Responsibility. The outcome therefore will be practice-oriented and easy to apply criteria and indicators, compatible for different target groups for a social sustainable development of companies and regions. Development of practicable strategies and methods for implementation of social Sustainability for relevant actors (policy makers) in companies and regions.

## Phase 2

Goal of Phase 2 is to get even deeper into the topic and finally find a possibility to standardise Social Responsibility for SMEs. Together with the companies we also try to work out scenarios how to use the broad field of Social Responsibility for strengthening their enterprises.

## Notes

<sup>1</sup> Enterprise Europe, 08.07.2002, <http://europa.eu.int/comm/enterprise/library/enterprise-europe/news/updates/enterprise-policy/20020708.htm>

<sup>2</sup> Green Paper on Promoting a European Framework for Corporate Social Responsibility, page 6

<sup>3</sup> Observatory of European SMEs: European SMEs and Social and Ecological Responsibility, 2002

<sup>4</sup> Communication on CSR, 2 July 2002 (German Version), p. 12 - 14

Milestones for this phase will be the development of a concept for communication and monitoring the process of the implementation of social Sustainability in companies and regions and information material for different target groups which supports the awareness building process, especially the know-how transfer about Sustainability from science into companies and regions (guideline: "Steps towards Social Responsibility in SMEs").

## Conclusion and Outlook

The first analysis of our survey shows that there is still a lot to do to make the concept of CSR attractive to SMEs in South Austria. Nevertheless there are some promising examples in SMEs how Social Responsibility can be realised in companies daily business. The challenging job for research institutes will be to convince enterprises of the importance and relevance of the concept of CSR for their business. It is also necessary to pinpoint the strategic importance of concrete benefits for the companies. Job of research institutes will be to concretise Sustainability with all its facets and the term CSR in particular.

But not only enterprises themselves and research institutes are claimed. It will also be the duty of representatives of interests and other institutions in business to consider the topic of CSR in more detail. Here, a concept for communication and monitoring the implementation of Social Responsibility in companies and information material for different target groups which supports the awareness building process could be helpful.

- <sup>5</sup> David Grayson: Inspiration – successfully engaging Europe’s smaller businesses in environmental and social issues; a thought piece of The Copenhagen Centre, p. 3
- <sup>6</sup> see for example: CSR Europe: It simply works better. Campaign Report on European CSR Excellence 2002 - 2003. The Copenhagen Centre
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