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Implementation of CSR concept in manufacturing SMEs

1. Introduction

Corporate Social Responsibility (CSR) is a concept whereby companies take into account the interests of society and the environment, as well as relationships with key stakeholder groups. Organisations integrate social and environmental concerns in their business strategy and operations on a voluntary basis. In 2001, the European Commission published Green Paper on CSR in which it indicated that the concept tends to be far more popular among large corporations. Thereby the document highlighted the need for CSR implementation in the small and medium enterprises (SMEs) sector which plays an important role in the development of the European economy (Commission of the European Communities 2001, p. 3).

The significant potential of the sector of small and medium-sized enterprises in Poland is confirmed by its participation in the GDP. According to data provided by the Central Statistical Office of Poland, in 2011 SMEs accounted for nearly 71.8 per cent of GDP (Tarnawa, Zadura-Lichota 2013, p. 15). Currently, there are approximately 1.78 million actively operating businesses in Poland that create over 6 million workplaces. The number

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and contribution of SMEs to GDP indicate that this is an important backbone of economy, which builds a robust foundation for the systematic socio-economic development (Tarnawa, Zadura-Lichota 2013, p.5). Unfortunately, majority of Polish enterprises underestimate the importance of including the social and environmental aspects in their business strategy, while those are important components of the CSR concept.

Analysing the survey conducted in 2013 by The Polish Agency for Enterprise Development (PARP) it could be concluded that poor CSR implementation in SMEs results from the lack of awareness that such a concept exists, or from the lack of comprehensive knowledge of the aims, objectives and outcomes of a CSR-based management model (Polska Agencja Rozwoju Przedsiębiorczości 2013, p.12). As an obstacle for the CSR implementation entrepreneurs frequently name lack of financial resources as well as inability to apply it in management (www.hrstandard.pl, 10-01-2014). It is however worth noticing that there is a high share of organisations that declare certain activities consistent with the objectives of this concept (Polska Agencja Rozwoju Przedsiębiorczości 2013 p. 27). This means that a large part of the SME sector recognises the need and is ready to implement CSR, but at the same time, there is a lack of conscious application of this concept and its use as a competitive advantage. One reason for this could be a deficit of straightforward CSR models which would drive CSR implementation in SMEs. The aim of the concept is to propose a CSR implementation model, which would be suitable for the SME sector.

The main aim of the article is to propose a concept model of CSR implementation integrated with the management strategy of a small and medium-sized manufacturing company. The proposed model is based on compliance with legal and basic ethical obligations in all areas of the company's operations. Having this necessary foundation, the company can then extract its core CSR project, which in the long term would increase the company's competitiveness.

2. Review of CSR literature

The ongoing process of globalization calls for responsible business management. One should take into account not only financial aspects, but also the needs of different groups of stakeholders. According to M. Eiseneger (2009, p. 20), consequences of the economic crisis manifested themselves not only in poor financial results, but also caused some social effects. This crisis is not only about nose-diving share prices, or bankruptcy of some multinational corporations. It has resulted in a gigantic crisis of trust and reputation for the entire economic

system. Hence the need to rebuild the social trust, not only through relevant legislation but also through economy based on social responsibility, understood as transparency of decisions and actions, as well as stakeholder involvement.

The essence of Corporate Social Responsibility is reflected in the definition published in 2010 by the International Organization for Standardization. In the first-ever management standard providing guidelines for social responsibility (ISO 26000) CSR is defined as “The responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparency and ethical behaviour that:

- contributes to sustainable development, including health and welfare of society,
- takes into account the expectations of stakeholders,
- is in compliance with applicable laws and consistent with international norms of behaviour,
- is integrated throughout the whole organization and practiced within its sphere of influence” (quoted in: Makuch 2011, p.20).

The definition emphasizes the responsibility of an organization, which must certainly mean compliance with legal obligations and generally recognized ethical rules. Attention is also drawn to the expectations of stakeholders, which companies should incorporate in their strategy.

ISO 26000 also names and describes areas of Corporate Social Responsibility crucial for stakeholders. Table 1 presents key areas of social responsibility, i.e.: organizational governance, human rights, labour practices, the environment, fair operating practices, consumer issues, and community involvement and development (quoted in: Makuch 2011, p. 21). The table also gives examples of good practices within each area.

Table 1. Areas of CSR according to ISO 26000

Key area: Organizational governance	Corporate governance is a set of rules and standards relating to a broadly defined management of a company.
Good practices: Improving the management efficiency of the organization, while taking into account the public interest, respect for stakeholders and ethical principles.	
Key area: Human rights	Respect for all human rights and dignity, in particular civil, political, economic, social and cultural rights.
Good practices: anti-discrimination, strengthening the protection of labour rights.	

Key area: Labour practices	Relations concerning employees and cooperation with subcontractors, suppliers, competitors, etc..
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Good practices: working conditions and social welfare, health and safety, social development (training), social dialogue, open and honest relationships with cooperating entities.

Key area: Environment	Reduction and climate change adaptation and the protection and regeneration of the environment.
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Good practices: reducing emissions of pollutants, exploitation of natural resources, as a result of the operations.

Key area: Fair operating practices	Ethical business behavior towards other organizations, including government organizations, partners, suppliers, contractors, competitors and associations to which it belongs.
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Good practices: Preventing unfair competition, honest cooperation and respect for property rights, actively promoting the principles of social responsibility in area of influence (partners, suppliers, the environment).

Key area: Consumer issues	Fairness and transparency towards consumers.
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Good practices: application of fair practices in marketing products and services, fair contract terms, objective and reliable information, market education, commitment to protect the health and safety of consumers, the quality of service and support, and complaint handling.

Key area: Community involvement and development	Active support of local community aiming to resolve their problems, especially those that relate to its employees and other stakeholders
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Good practices: social dialogue, recognition of stakeholders needs in engagement projects, including investments in areas such as education and culture, health, development and access to technology.

Source: own work, based on http://www.pkn.pl/sites/default/files/discovering_iso_26000.pdf and <http://www.odpowiedzialnafirma.pl/o-csr/iso-26000>, date of access: 23.01.2014

Stakeholder management is one of basic components of Corporate Social Responsibility. According to AA1000 relevant stakeholders are those individuals, groups of individuals or organisations that affect and/or could be affected by an organisation's activities, products or services and associated performance with regard to the issues to be addressed by the engagement

(*Accountability* 2011, p. 20). Groups, significantly affected by economic activities are: owners (shareholders), management, employees, suppliers, customers, consumers, local communities and future generations (Stocki 2012, p. 31). It is worth mentioning that although each stakeholder is particularly interested in the areas that affect him directly, they can also take interest in other areas as a result of personal beliefs or requirements of business partners.

The literature on the subject stresses the importance of stakeholder involvement in the implementation of CSR. In this context involvement implies a two-way dialogue with key stakeholders at all stages of implementation, starting with planning, by carefully studying stakeholders' needs, through the implementation and evaluation of effects, as well as transparent communication. Transparency means presentation of non-financial results in a way that is meaningful to stakeholders. The results should also be published in a complete and measurable way so that the progress can be objectively assessed. Relevant evaluation indicators should form the basis of responsible community dialogue. KPIs (key performance indicators) methodology could prove useful for that purpose since it helps to present the information in a measurable way, based on specific indicators that give a clear picture of the achievements and plans for the future. Such an approach emphasizes the importance of meeting stakeholder needs and simultaneously shows the effectiveness of CSR implementation.

Effective CSR is beneficial for stakeholders and thus for the company. The advantages include sustainable development of the organization, access to qualified human resources, reduction of costs and risks associated with company's activities, increased innovative potential (Lydenberg, Rogers, Wood 2010, P.IVA - V). Such benefits for the SME sector are more than desirable. The research, however, shows that small and medium-sized enterprises are using this on a very small scale.

In 2013, the Polish Agency for Enterprise Development conducted a study aiming to verify the percentage of micro, small, and medium enterprises (MSMEs) executives declaring inclusion of the CSR concept into their business. The study was conducted on a group of 1,000 companies from MSME sector, excluding the self-employed. The study has shown that the main barriers for CSR in SMEs are lack of awareness and knowledge about the concept. More than 66 per cent of the respondents were not able to define the concept of CSR. Among those who declared knowledge of CSR, 13.69 per cent understand this concept as professional, responsible and lawful activities and also as ensuring decent

working conditions. However, it seems that entrepreneurs do not understand that the obligations of this type are imposed by law and business ethics. Being in line with law is fundamental for CSR, however social responsibility should go beyond these basic expectations of society (Polska Agencja Rozwoju Przedsiębiorczości 2013, p. 27).

When asked about the reasons for the lack of interest in the subject, the respondents indicated: lack of impact of their business on the local community, no need, small size of the company, operating outside the local market and consequent lack of relationship with community. The respondents also admitted that businesses lack the time and resources to implement additional activities. Vast majority of the companies that have not implemented any principles of CSR have no plans to do so, quoting unfavourable economic situation as the main cause, 77.78 per cent of answers (Polska Agencja Rozwoju Przedsiębiorczości 2013, p. 27).

The need for research that would summarise and organise the knowledge of entrepreneurs on CSR and create models clearly defining levels of social responsibility is evident. There is a strong need for a concept which would differentiate between the fulfilment of legal and basic ethical expectations and a high-level CSR designed to actually attract the interest of society.

PARP's studies show a kind of paradox. Despite the declared lack of interest in CSR, up to 80 per cent of companies admit that they pursue activities consistent with the objectives of the concept. Those companies pay particular attention to the impact of their activities on employees, the environment and the local community (Polska Agencja Rozwoju Przedsiębiorczości 2013, p. 27). It can therefore be concluded that amongst the Polish SMEs there is a high potential for implementation of the CSR concept, but there are no models that would overcome the barriers identified in the cited studies.

It is true to say that there already are tools designed for the implementation of Corporate Social Responsibility. There are tools focused on a specific area of CSR, such as ISO 14000 (environment); others are specific to an industry, e.g. Extractive Industries Transparency Initiative (mining industry). One can also find standards meant for management of one of the aspects of the CSR implementation like AA1000 Stakeholder Engagement Standard (stakeholder management). Systems may also vary according to verifiability. By way of illustration, ISO 26000 is regarded as a set of guidelines and is not subject to certification, whereas United Nations Global Compact imposes a reporting obligation on its signatories, and SA 8000 requires independent auditing. Unfortunately, the wide range of available tools does not entail increased CSR

implementation in SMEs. One could venture an opinion that too wide a range calls for a qualified specialist who could help a company take steps towards CSR. In face of “unfavourable economic situation” small and medium-sized enterprises are not able to invest in such a specialist.

As already mentioned, one of the barriers for CSR implementation in enterprises is financials. Those would particularly be costs of investments and the specialist advice services on the process of CSR implementation. Hence the need for research and development of a model for the implementation of CSR in SMEs; a model that in its simplicity and effectiveness would motivate entrepreneurs to undertake implementation; a model that would be straightforward enough for the company to be able to plan, implement and manage effective CSR using its resources.

3. Concept model of effective CSR implementation in small and medium-sized manufacturing company

The concept model was designed especially for the needs of small and medium-sized manufacturing companies, because the vulnerability of both the sector and the industry can be mitigated or reduced by using the concept of CSR. A small or medium-sized manufacturing company - the focus of this paper - has certain production tasks. While performing these tasks, the company potentially affects many areas: environment, technological innovation and workplace safety to name but a few. Negligence could result in serious legal consequences or loss of public trust. .

The aim of the concept is to propose a CSR implementation model, which would be suitable for the SME sector. In this context ‘suitable’ means a model which would not only be a procedure or a code of conduct, but which would also deepen the understanding of the concept in practice. Respect for the levels of social responsibility is crucial for this approach. The model aims to be a useful tool accepted by the team involved in the implementation, but also transparent and potentially beneficial to stakeholders. To begin with, a structure of Corporate Social Responsibility divided in different levels must be established and agreed upon. Companies should take into account three levels of Corporate Social Responsibility as described below (see Figure 1). A shift to a higher level of responsibility should be determined by the fulfilment of the requirements of a lower level. The levels correspond to the first three stages of the CSR implementation in an enterprise (Carroll 1993, p. 31; Rybak 2004, p. 29).

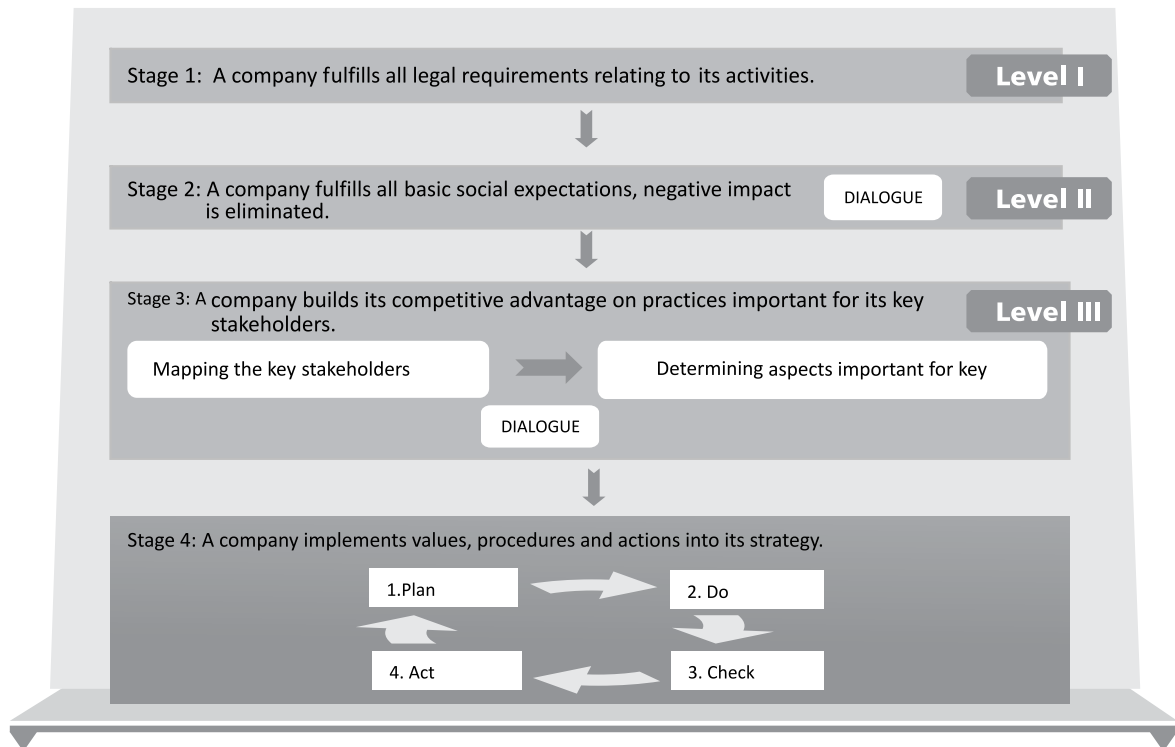


Figure 1. Levels and stages of CSR implementation in SMEs

Source: own work

Stage 1

The first level and thereby first stage implies that all activities and operations are in line with legislation binding on the territory where the company operates.

Stage 2

The second level implies the company's compliance with ethical norms that are consistent with objectives of Corporate Social Responsibility, internationally recognized conventions, or standards accepted by the stakeholders as ethical. At this stage a dialogue with civil society is crucial to ensure that the company at least does not harm its stakeholders. In case of breaching laws or norms, the company should undertake corrective and preventive actions.

The first two levels are an absolute necessity for an entrepreneur who aims to be perceived as socially responsible, regardless of its size. It should be noted that an entrepreneur who aspires to the third level, cannot skip the previous two, otherwise he risks embarrassment and failure. The levels are shown in Figure 1 (Carroll 1993, p. 31).

Stage 3

The third level is the top one, where the activities go beyond basic needs of stakeholders and the entrepreneur aims to build new quality. At this stage the focus is on determining specific actions that will create a competitive advantage for the company. Corporations which have a very broad range of CSR activities, plus a specialist or a team of specialists in place, usually undertake third level actions in several areas. The SME sector cannot afford implementing as many third level actions due to financial and human resources limitations.

Stakeholders are the backbone for this level, since they have the greatest impact on the company's competitiveness. After determining the key stakeholders, a social dialog must take place in order to select an area and CSR practice(s) which is interesting from their point of view. Effectiveness of Social Responsibility in SME sector will therefore largely depend on the company's ability to complete the first two stages, as well as the right choice of the practice on which the company will build its competitive advantage.

The selected practice should be a compromise between what is important for the key stakeholders and what is achievable for the company. The practice should also bring new quality and its effectiveness should be measurable. It is very important to determine key performance indicators (KPIs) already in the planning phase.

Stage 4

The fourth stage is based on inclusion of values, procedures and practices to business strategy. The process could be based on the Deming's method. Communication at this stage is extremely important. While planning the company should inform internal and external stakeholders about the details of the practice to be implemented, especially its purpose, and how its effectiveness will be measured. Implementation and testing should overlap. The effectiveness of the practice should be regularly verified by ongoing dialogue with key stakeholders and monitoring of KPIs, in order to exclude any possible risks before any costs are incurred. Particular changes that happen during the process should also be communicated to stakeholders, together with a rationale behind them and their desired effects. Continuous social dialogue guarantees that stakeholders recognize themselves as fully-fledged members of the implementation team, which in turn reinforces relations between them and the company.

4. Conclusions

Globalisation brought about processes that largely determine expectations of society towards economy. Factors, such as the economic crisis and mobility of capital, foster development of predatory competition, which is nothing more but the need to survive on market. Competition may tempt entrepreneurs with grey zone practices that are legal, but generally considered unethical. In the face of these problems, CSR becomes in a way a necessity of today. SME sector significantly affects development of domestic economy, therefore it is important to focus on the research that would promote and facilitate application of the social responsibility concept among companies operating within this sector. The challenge is to design a CSR model which can be used in an SME company with no need for expensive specialists or large-scale cost-intensive projects.

Innovative character of the proposed concept is based on priorities and principles of CSR that are specific to the company's profile. The presented concept of CSR implementation model is in the first place based on the fulfilment of legal requirements and basic expectations of stakeholders. It allows the company to operate and continue its practices that are focused on measurable results desired from the perspective of key stakeholders. For the entrepreneur himself this approach is transparent and motivating because of a clear plan to gain trust of a group of stakeholders, on which he depends as they have direct impact on the increase in the profitability of the company.

The application of the model and the verification of its success in practice require development of detailed procedures for the presented stages of implementation, as well as development of a set of key performance indicators (KPIs) specific to production companies of the SME sector.

Summary

Implementation of CSR concept in manufacturing SMEs

This article constitutes an attempt to propose a concept model for the implementation of Corporate Social Responsibility in small and medium-sized manufacturing enterprises. Poor CSR awareness and implementation across the SME sector is presented and discussed on the basis of research carried out by Polish Agency for Enterprise Development. The article recommends approach where the hierarchy of different levels of Corporate Social Responsibility forms the fundament upon which the company builds its competitive advantage. Attention is also drawn to the

development of practices important from the point of view of key stakeholders in order to increase the effectiveness of CSR activities which are seen as instrumental in enhancing the competitiveness of the whole enterprises.

Keywords: *CSR model, manufacturing SMEs, implementation.*

Streszczenie

Zastosowanie koncepcji CSR w małych i średnich przedsiębiorstwach produkcyjnych

W artykule podejmuje się próbę zaproponowania modelu wdrażania koncepcji społecznej odpowiedzialności biznesu w małych i średnich przedsiębiorstwach produkcyjnych. Na podstawie badań PARP przedstawia się problem jakim jest słaba kondycja SCR w sektorze MSP. Sugeruje się podejście w którym kluczowym aspektem są poziomy społecznej odpowiedzialności biznesu rozumiane jako fundamenty na których przedsiębiorstwo nadbudowuje swoją konkurencyjność. W pracy podkreśla się również inwestycję w praktyki istotne z punktu widzenia kluczowych interesariuszy celem zwiększenie efektywności działań CSR rozumianych jako podniesienie konkurencyjności przedsiębiorstwa.

Słowa

kluczowe: *model CSR, produkcyjne MSP, wdrożenie.*

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