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The effect of buyer pressure on suppliers in SMEs to demonstrate CSR practices: An added incentive or counter productive?

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Supply chain;
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Summary Those promoting the corporate social responsibility agenda to small and medium-sized enterprises (SMEs) are interested in the potential of supply chain drivers as an incentive. This paper presents results from an empirical study into the attitudes and behaviours of 103 UK SME owner/managers in response to buyer pressure to demonstrate CSR activities. Most said that the inclusion of social and environmental requirements as preconditions to supply would increase their motivation to engage in CSR (82% for environmental criteria and 55% for social criteria). However, a quarter would be put off tendering and 12% thought that such criteria would be counter productive.

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Introduction

Society's expectation of business is changing as the power of national governments lessens with increasing globalisation. Companies now are not only expected to be responsible to their shareholders but to society in general. In the business world, this has been reflected in the increasing importance given to corporate social responsibility (CSR). To date, most of the attention has been focussed on large companies and multinational corporations (MNCs). Most of the companies listed on the FTSE Global 500 index make some reference to CSR or related concepts such as corporate citizenship or sustainable development in their corporate publications. However, SMEs account for 99.8% of European enterprises,

66% of total employment and half of the total value added in the EU (European Commission, 2003). It has been estimated that SMEs have a greater environmental impact per unit than large firms and are the largest contributors to pollution, carbon dioxide emissions and commercial waste (Environment Agency, 2003).

Attention is thus beginning to be paid to ways in which SMEs can be encouraged to engage in the CSR agenda. One means of doing so is through supply chain pressure, whereby large organisations specify CSR criteria either as a precondition for tendering to supply, or as a variable to be considered in the purchasing decision alongside value-for-money. While there is evidence that such supply chain drivers towards CSR are increasing, there is little data on how this is being perceived by the SME suppliers themselves, or whether such an approach is successful. Our research aims

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to address this gap by exploring to what extent supply chain pressure on SMEs to engage in CSR is achieving its goal. Does such pressure increase motivation to engage in CSR, or can it be counter productive?

In this paper, we briefly discuss the pros and cons of various means of promoting CSR in SMEs, in the context of the particular challenges posed by the distinctive nature of SMEs. We focus on the role of supply chain pressure in this endeavour, and present existing research that may contribute towards an appreciation of the advantages and disadvantages of this approach. Relevant psychological theory is introduced to more fully understand how such external pressures to engage in CSR may affect the individual motivations and responses of SME owner/managers. We then present the results of our research into the attitudes of UK SME owner/managers to the inclusion of CSR criteria into the procurement strategies of their business-to-business customers. This entailed some preliminary insights gained through semi-structured interviews with 25 SME owner/managers which then informed the design of an online survey completed by 103 SME owner/managers.

Literature review

How to promote CSR to SMEs: advantages and disadvantages of regulation

The European Commission has defined CSR as, “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (European Commission, 2001, p. 8). It was recognised in a subsequent report that regulation would compromise the voluntary basis of CSR and risk stifling the innovation and creativity of SMEs (European Commission, 2002a). A survey of 1700 UK SMEs supports this view: “the responses to the prospect of Government legislation in this area ranged from incredulity ‘how can you legislate for goodwill?’ to concern. Many businesses perceive legislation in this area as a stumbling block to getting involved and to sustaining responsible business practice” (FSB, 2007, p. 3).

On the other hand, some studies have portrayed SMEs as ‘fortress enterprises’ detached from their environment, only interested in their own business activities and too busy with day to day tasks to be any more than reactive to most issues that are not of immediate urgency (Spence, 1999). A study of the environmental behaviour of manufacturing SMEs (Williamson et al., 2006) indicates that regulation will be more effective than voluntary initiatives. Williamson et al. claim that CSR policies that hope to promote voluntary actions based on the business case will fail as CSR practices are perceived as optional and expensive. Similarly, a study of SMEs’ attitudes towards environmental issues found a common theme emerging from interviews that self-regulation will not work – economic interest will always prevail over environmental interest (Tilley, 2000). SMEs also expressed concerns that voluntary, as opposed to regulatory, initiatives enable ‘free riders’ to gain a competitive advantage. Thus, no consistent picture emerges from the literature on whether regulation has a positive or negative impact on SMEs (for a review, see Williamson et al. (2006)). While reg-

ulation generally induces compliance and results in a level playing field, a major drawback is that this can be at the cost of greater bureaucracy, involving heavy costs that weigh disproportionately on smaller businesses.

Advantages and disadvantages of using supply chain drivers to promote CSR to SMEs

A study of SMEs and CSR in the UK found that one of the risks of not engaging in CSR was exclusion from supply chains (Roberts et al., 2006), as many large organisations are beginning to include social and environmental criteria in their procurement policies. A report by the Department of Trade and Industry (DTI) on business and society claimed that, “CSR is likely to become an increasingly important business issue for many SMEs in future. This is partly because of the increasing take-up of ethical codes of practice by their large customers, which is creating a pressure for demonstrably responsible behaviour back down the supply chain” (DTI, 2002a, p. 31). Research carried out for the DTI exploring the impact of CSR on SMEs found that most SMEs reported having to satisfy corporate customers regarding CSR issues (60% on health and safety, 43% on environmental practices, 16% on social/community commitment), which may appear to provide an incentive to engage with CSR (DTI, 2002b). Starcher (2005) refers to statistics that claim over half of UK retailers have codes of conduct for their suppliers (Ethical Performance (2003) cited in Starcher (2005)) and claims that, “supply chain pressures are proving to be a more powerful force for social and environmental change than local regulation” (p. 1). Globally, compliance with social and environmental criteria is a necessary condition for supplying many transnational corporations (Raynard and Forstater, 2002), although critics maintain that not enough is being done to monitor compliance with these codes.

It has thus been suggested that the incorporation of CSR criteria into purchasing decisions might be an effective incentive for SMEs to engage with CSR that avoids the need for broad-based regulation (e.g. European Commission, 2002a). An example of the success of such an approach is provided by the following: “It was buyers’ specifications from European supermarkets that drove the adoption of integrated pest management (IPM) in South Africa’s renowned citrus industry. IPM not only reduced pesticide consumption but also radically improved worker health and environmental quality and distinguished their fruit from competitors” (Starcher, 2005, p. 22).

Supply chain pressure was found to be the most effective driver for environmental change in a study of SMEs in Hong Kong (Studer et al., 2008). A range of stakeholders was presented with different means of promoting environmental change among SMEs (e.g. fiscal policy, energy prices, voluntary agreements, consumer preference, employee pressure, etc.) and the likely effectiveness of each measure was plotted against the likelihood of it being implemented in the near future. In general, factors that affect the company’s competitiveness were deemed more effective than voluntary agreements or employee pressure, and it was supply chain pressure that scored the highest, both in terms of its impact and the likelihood of this incentive becoming stronger in the future. A number of contextual factors are

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