



ISO 26000 – Social responsibility

SMEs, ISO 26000 and social responsibility

by Oshani Perera

It is estimated that up to 97 % of the world's businesses are small to medium-sized enterprises (SMEs). International Standards thus need to provide as many benefits for small businesses as they do for global enterprises. This includes the future ISO 26000 standard giving guidance on social responsibility (SR). The International Institute for Sustainable Development (IISD) has carried out a global assessment of how relevant SMEs perceive SR and ISO 26000 to be. Because the survey was carried out on the basis of an early working draft of the standard, which has since evolved through several more drafts, its conclusions on the document cannot be regarded as definitive. However, the survey has the merit of bringing to light the preoccupations of SMEs with regard to SR.

At the last meeting (18-22 May 2009) of the ISO Working Group on Social Responsibility (ISO/WG SR), broad consensus was reached on the future ISO 26000 standard, *Guidance on social responsibility*. The document was scheduled to move from the status of Committee Draft to Draft International Standard (DIS) in September 2009.

Progressing to the DIS stage is undoubtedly a laudable effort for ISO and the standards development commu-

The draft standard represents an international consensus on social responsibility

nity. The draft standard represents an international consensus on how social responsibility, a concept that has been hotly debated for over 20 years, might be interpreted and applied across organizations of all types in both public and private sectors.

It marks an important step in what has been one of the biggest, formal, multi-stakeholder processes in the history of standardization. The ISO/WG SR brings together over 500 individuals from 91 countries. Governance of the WG is shared equally between industrialized and developing economy members of ISO, which has funded participation by stakeholders from lower income countries.

The process and the product are not without their critics.

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Among them are those who consider the development process to be well beyond the reach of the SMEs who form the backbone of the global economy.

Out of 42 international or regional organizations with liaison status to the ISO/WG SR, only one directly represents SMEs in the ISO 26000 process: NORMAPME, the European Office of Crafts, Trades and Small- and Medium-Sized Enterprises for Standardization. However, several other participating organizations have experience of working with SMEs. In addition, the national standards bodies who send experts to participate in developing ISO 26000 are re-

quired to take into account the interests of all stakeholders, including both SMEs and larger organizations.

SMEs have presented a challenge for sustainable development

SMEs have presented a challenge for some sustainable development proponents who still consider them to be rather un-engaged stakeholders in the quest for social, financial and environmental equity.

Given their small size and lower profile in the market, SMEs tend to escape both the scrutiny of watchdogs

and the assistance of governments and donors. But they are the first to be affected by the dynamics of globalization, including the prevailing economic downturn and ensuing fall in consumption.

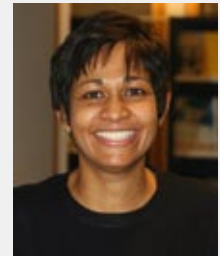
The credit crisis has severely affected credit flows to SMEs who are heavily dependent on bank credit and have limited recourse to financial markets. This is of grave concern to the entire global community as SMEs are the backbone of the global economy, accounting for up to 97 % of global enterprises, 40-60 % of global GDP and up to 70 % of employment in member countries of the Organisation for Economic Co-Operation and Development (OECD) – and even higher percentages in non-OECD countries.

Even as early confidence may be restoring in the financial markets and government stimulus spending begins to trickle into major supply chains, resources aimed directly at helping small firms weather the downturn remain few and far between.

It was against this backdrop that the Swiss Secretariat for Economic Affairs (SECO)¹⁾ commissioned the International Institute for Sustainable Development (IISD) – which has been participating as a liaison organization in the development of ISO 26000 since 2007 – to assess and map the relevance of the standard for SMEs²⁾.

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1) IISD is particularly grateful to Stefan Denzler, of SECO, for his guidance and support throughout the project.

2) The complete study, *How material is ISO 26000 Social Responsibility to Small and Medium-sized Enterprises (SMEs)?*, published by IISD in 2008, can be downloaded from: www.iisd.org/publications/pub.aspx?id=1009





Stakeholder type	Number of organizations interviewed	Criteria on which organizations were screened and selected for project	Geographical areas covered	Sectors covered
SMEs (Participating companies employed between 30-112 full time employees)	59	Engaged in at least two of the following areas : <ul style="list-style-type: none"> • Businesses that produced and/or retailed environmentally or socially responsible goods and services. This included : <ul style="list-style-type: none"> – Producers of organic commodities – Producers in a Max Havelaar fair trade supply chain – SMEs certified to be compliant with corporate codes of conduct and supply chain charters of multi-national enterprises listed in the Dow Jones Sustainability Index – SMEs certified by nationally and internationally recognized eco-labels • Businesses certified to ISO 14001 • Businesses that are certified to SA 8000 • Businesses financed by responsible venture capital funds 	<ul style="list-style-type: none"> • Eastern Europe • Western Europe • North Africa • Southern Africa • China and the Mekong region • North America • South America • Middle East • South Asia • East Asia 	<ul style="list-style-type: none"> • Fisheries • Food processing • Agricultural commodities • Logistics and distribution • Renewable energy technologies • ICT enabled businesses • Hotels and tour operators • Arts and crafts • Apparel • Forestry products • Retail
Consulting firms (2-6 full time staff)	23	Meeting the following two requirements : <ul style="list-style-type: none"> • Minimum of three-year track record on implementing environmental and social responsibility in SMEs • Certified auditors for ISO 14001 and/or SA 8000 	As above	Not applicable
National cleaner production centres	16	<ul style="list-style-type: none"> • Experience with implementing environmental and social improvement initiatives in SMEs • Experience with enabling compliance with environmental and social standards in SMEs 	As above	Not applicable
National chambers of commerce	21	Offering specialized services for SMEs (though not necessarily in environmental and social responsibility)	<ul style="list-style-type: none"> • Western Europe • North Africa • Southern Africa • North America • South America • Middle East • South Asia • East Asia 	Not applicable

Table 1 – Overview of consultations on ISO 26000, Guidance on social responsibility.

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Literature review

The project began in the second half of 2007 with a Web-based literature review of ongoing efforts to promote environmental and social responsibility in SMEs. The results indicated that, in mid 2008, there were over:

- **87** Web sites promoting corporate social responsibly and/or greener management in firms of all sizes, including SMEs
- **180** universities and business schools offering a dedicated curriculum on SMEs and environmental and social responsibility at both the graduate and undergraduate levels
- **28** academic papers on responsible entrepreneurship in SMEs, published in English between March 2006 and March 2008
- **39** national and international events (conferences, workshops, round tables) which included a focus on sustainable development and SMEs from January 2007 to March 2008
- Over **17** tools and guidelines on environmental and social responsibility targeted at SMEs.

This body of literature led us to conclude that there are a substantial number of initiatives, demonstration programmes, eco labels, certification schemes and specialised networks that aim at introducing triple-bottom-line thinking (taking account of economic, environmental and

societal dimensions) to SMEs. What was missing, however, was the justification of the social responsibility business case for SMEs.

While there have been concerted efforts to adapt the larger firms' business case to a smaller size and to develop simplified versions of big business toolkits to suit smaller counterparts, there is little evidence to indicate of these approaches have been particularly successful.

Interviews and consultations

We then moved on to assessing how SMEs might become aware of and use ISO 26000. Interviews and telephone consultations were organized with selected SMEs, national cleaner production centres, national chambers of commerce offering specialised services to SMEs and corporate social responsibility consultants working with SMEs. Full details on the sample are given in **Table 1** (page 15).

In all cases, two interviews were carried out. The first was designed to introduce the project and walk the respondents through the November 2007 and March 2008 drafts of the ISO 26000 standard. The second interview invited respondents to rate the key elements of the ISO 26000 draft and to discuss drivers and obstacles to advancing social responsibility.

The consultations were supplemented by a brief study of documentation provided by each organization on their

environmental and social performance. Several site visits were also conducted.

The findings

Our study concludes that driven by the global and prestigious brand value attached to ISO standards, SMEs will look to ISO 26000 as a broad reference document which provides a comprehensive definition of social responsibility and a detailed description of all its contents.

That said, SMEs are not likely to use ISO 26000 as a practical guide or management tool. Over 89% of the respondents did not plan to use the standard as they considered it to be too long and covering too broad a spectrum to serve as a practical resource.

The national cleaner production centres (NCPC) and consultants commented that it would need to address national and even sector-specific concerns if it was to have a wider appeal.

Our findings also challenge many paradigms on the role of standards in sustainable development. For example, it is legitimate to question if environmental and social standards might be inviting "mock compliance" by smaller firms who tend to specialise in discrete areas of social responsibility.

Many have yet to realise that benefits in terms of productivity gains, improved image and costs savings can only be realised by addressing environmental and social improvement as a combined effort.

SMEs are known to focus typically more on "fire fighting"

Instead, SMEs tend to select one (or a few) discrete activities and stick to them. Preferred areas of specialisation include energy saving, waste management and community projects. Follow-up is





then carried out through informal processes, with little or no performance monitoring. Hence, is it not surprising that these companies have not realized the benefits of taking on multiple activities that cut across several business processes.

SMEs account for up to 97% of global enterprises

Another dimension that supports this perspective is that SMEs and their stakeholders tend to view standards as valuable starter tools for introducing firms to the concept of sustainable development and possibly help them determine the best places to initiate action.

They do not consider standards to be pivotal in raising skills, diversifying core product/service offerings and obtaining finance – all essential aspects of business longevity.

SMEs that are networked are likely to have a higher capacity to appreciate and respond to social responsibility challenges. Supporting this premise is the well documented evidence that SMEs tend to suffer a chronic shortage of “discretionary slack”: time to address issues that are beyond immediate operational concern. Discretionary slack allows companies to plan ahead, innovate with products that do not provide immediate pay-off, and experiment with improvements on current design.



SMEs are known to focus typically more on “fire fighting” and are generally unable to devote time to developing opportunities beyond the immediate radar screen. Indeed, 45 % of the SMEs interviewed cited a lack of time as a major obstacle in improving social responsibility performance.

SMEs owner-managers are also responsible for a variety of tasks in the company and therefore may not develop functional specialization and expertise that are impor-

tant to grow the business in the medium-term.

Such expertise has an influence on the absorptive capacity of an organization – the ability to recognize and exploit opportunities from outside the organization’s immediate sphere of influence. Many small firms have little time to collate information that the typical social responsibility agenda requires, scan their impacts on stakeholders and the environment and interpret this information for their business context.

Small companies grow knowledge in implicit ways, based on experience and learning by doing. In such environments, it is easy to see that the social responsibility agenda, which requires higher order learning and mindset changes, can be a harder sell.

Consequently, the more networked an SME is – be it through multi-national value chains or through local professional and philanthropic networks – the greater its absorptive capacity is likely to be.

B2B³⁾ businesses might be more likely to champion social responsibility than their B2C⁴⁾ counterparts. B2B businesses, by virtue of their suppliers and customers, are likely to be more integrated into large, formal supply chains, where environmental and social performance is becoming a “must have”.

ISO 26000 is a global standard for all types of organization

Business customers also exercise greater influence on their suppliers as they represent higher volumes of turnover and can enable smaller companies to reach economies of scale. They also consistently provide valuable feedback on quality and point out areas for improvements in design. (64 % of the SMEs participating in this study were B2B firms).

3) B2B – business-to-business.

4) B2C – business-to-customer.

SPECIAL REPORT

SMEs appear to lack the expertise to understand the social responsibility agenda, prioritize it within their business interests, and estimate the time and resources required to address them. For companies already engaged in social responsibility, a lack of expertise to make the right decision in the given business context was a greater hurdle than a lack of time.

The interviews were especially revealing in that respondents were not concerned with the time spent on implementation, but the time spent on finding out what needed to be done.

Smaller size also implies lower negotiating power and

lower leverage on market forces. Some SMEs went so far as to state that even if they were to demonstrate a strong commitment to social responsibility, market forces were unlikely to reward them. Indeed, several respondents suggested that SMEs are more ethical than multi-national firms, but they lack the negotiating and marketing power to demonstrate this commitment and to lobby for rewards for responsible entrepreneurship.

There is also the risk of “doing wrong by not doing right”. SMEs may be reluctant to engage in social responsibility because they are afraid of performing poorly

and thereby exposing themselves to additional risk. As one of the NCPCs commented. “When you don’t know what to do and if you are not sure what you are doing is what is needed, it is best to do nothing. And this is where many small companies are – not only here, but all over the world.” This substantiates the above finding that guidance provided in ISO 26000 is too generic and global to be of operational value to SMEs.

SMEs operate through a web of interpersonal relationships and therefore, at least in theory, they should be amongst the first to realize the value of investing in social capital. Our study, however, reveals

the reverse. No evidence was found of prevailing or future plans for assistance with continued education, re-skilling or up-skilling for management and employees. Subsidized accommodation, meals and child care were amongst the commonly cited issues on social capital building.

ISO 26000 and beyond

This study establishes that ISO 26000 may increase awareness, provide definitions and add legitimacy to the social responsibility debate, it may not contain the practical guidance to enable SMEs to turn theory in practice. As ISO 26000 is being designed as a global guidance document, this might not come as a big surprise.

ISO 26000 is also a global standard for all types of organization – public sector and governmental, as well as big business and SMEs. It is, therefore, impractical to expect a global document to have equal applicability across diverse sectors and geographies.

It is also important to note that as ISO 26000 was developed through a very large, global, multi-stakeholder process, it reflects the generic middle ground where different stakeholder groups “agreed to disagree”. Multi-stakeholder processes are crucial for sustainable development. They ensure that all relevant issues are debated and diverse perspectives are given equal and due consideration. However, developing expert, cross-





cutting and non-technical standards through them can be extremely challenging as perspectives and priorities can be extremely polarised across stakeholder groups and achieving a compromise might mean a watering down of standard's contents.

ISO 26000 is an extremely ambitious project, not only in terms of the working group size, but also considering the wide range of issues that fall under the banner of social responsibility. Ranging from human rights and decent work conditions to consumer protection, these are aspects on which the global debate remains tense and even polarised.

SMEs have little interest in following codes of conduct

As such, solutions need to be highly specific to each geographical, industrial and economic setting. The fact that a level of consensus has been attained allowing ISO 26000 to progress to DIS status is itself an achievement.

As speculation mounts on how ISO 26000 will play out across global markets, we also need to be aware that while it may raise the bar on the level and scope of work that is defined as social responsibility, it can also create immediate term difficulties for SMEs who will lack the financial resources and expertise in the short term to follow its guidance.

Governments and the financial sector must heed the small businesses' call for improved access to finance. If SMEs are to take on environment and social improvements, they will require concerted support in terms of credit and consultancy. They will also require external expertise to interpret and implement ISO 26000 in a manner that is best suited to their business context. This inherently implies additional costs that small organizations may find difficult to justify.

Even though SMEs are heterogeneous in size and working structure – from micro enterprises with only one owner-manager and no employees to limited liability companies that employ over 200 people across diverse geographic locations – they tend to operate in a flat management and reporting hierarchy.

There appears to be little distinction between the roles of management, ownership and floor-level responsibility as job functions tend to be flexible and multi-disciplinary. Moreover, daily operations for the most part are oriented towards resolving day-to-day problems through informal communication and inter-personal relationships.

In such a setting, social responsibility proponents need to understand better the organizational and motivational sub-cultures of different SMEs to determine how to advance social responsibility within them.

Then, we must work to find methods to implement these improvements that are different from the more formal ones used by multi-national companies. SMEs have little interest in following codes of conduct, writing corporate sustainability reports, tracking performance indicators and paying for evaluation audits.

presents a toughly negotiated position on how social responsibility could be interpreted worldwide. It is also consistent with ISO's objective of developing standards that are practical tools for achieving a sustainable world.

While IISD, like a number of other stakeholders, believes that the standard has many



Finally, dare we suggest that it is not standards, incentives, or any other voluntary market policy that will drive social responsibility in SMES, but the personal values of the owner. ISO 26000, as a guidance standard, could well appeal to enlightened entrepreneurs, propelling renewed growth with far less discontent.

IISD is playing an active role in the development of ISO 26000. We are confident that it

shortcomings, it recognizes too that ISO 26000 has been in development for over five years and that more years of debate are difficult to justify.

As organizations worldwide prepare to survive a recession while planning for better days, the time for guidance is ripe. Postponing the launch of ISO 26000 would be a case of "too little too late". ●