The Standardization of Down-Streamed Small Business Social Responsibility (SBSR): SMEs and Their Sustainability Reporting Practices

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ABSTRACT

Scholars have begun to investigate the prevalence of Corporate Social Responsibility (CSR) within the context of small and medium-sized enterprises (SMEs). This paper studies the implementation of non-financial sustainability reporting tools in Italian SMEs as part of their Small Business Social Responsibility (SBSR) long supply chain compact with large multinationals. The fundamental finding of this work is that because of the down-streaming effect of CSR reporting from large companies to small ones, SMEs approach sustainability as a standard management practice. The sample is composed of 73 Italian multi-certified entities (SA8000/ISO14001/EMAS) that have published their sustainability report online between 2011 and 2013. Principal Component Analysis (PCA) was used to discover three otherwise un-observable underlying effects.

KEYWORDS

Corporate Social Responsibility, CSR, PCA, Principal Component Analysis, SMEs, Social and Environmental Accounting, Social and Environmental Management Systems, Sustainability Reporting

INTRODUCTION

In 2014, almost 99.8% of all European enterprises were small and medium-sized enterprises (SMEs). These SMEs employed around 87 million people and contributed 57.6% of the overall European economic value added (EU Commission website, 2016). At the same time, SMEs are responsible for up to 70% of the total environmental pollution generated on the planet (Eurobarometer, 2012). These facts have led to a growing awareness of SMEs’ significant impact in financial terms, but also in terms of their global natural environment and societal impacts. Moreover, the entire planetary economy revolves around the contributions of SMEs.

The definition of what constitutes an SME varies among countries, and within the same country over time (Ferenhof, Vignochi, Selig, Lezana, & Campos, 2014). From among the available definitions, the European Commission has adopted Recommendation 2003/361/EC, which defines an SME according to three criteria: staff headcount, annual turnover and annual balance sheet. In particular, an SME is identified as an enterprise that employs fewer than 250 employees. From the financial perspective two criteria are added: an annual turnover not exceeding 50 million euros, and an annual

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balance sheet total not exceeding 43 million euros. In addition, an SME must be an autonomous enterprise, that is, an independent entity. An independent entity is a firm without governance links between the firm itself and other companies. Meaning, it does not have an ownership stake in other enterprises, and no other enterprises have a relevant stake in it. If there are any cross-ownership linkages, they are not able to exert a relevant influence on the governance structure of the SME.

As stated by the Global Reporting Initiative (GRI) and the United Nations Environment Program (UNEP), multinational companies, because of economic globalization, engage SMEs in their supply chain. These SME suppliers are actually often responsible for producing the bulk of the components and services sold under the multinational’s brands (GRI and UNEP, 2008). Nowadays most of the economic, environmental and social impacts of a multinational business occur through this long supply chain, and most of these impacts are then obviously due to SMEs’ behaviors (Carbone et al., 2012).

The retrieval of supply chain sustainability data is often a costly and difficult process because of the lack of systematization of data collection and reporting within SMEs. As pointed out by Vázquez-Carrasco and López-Pérez (2012), although there is a growing tendency to focus on Corporate Social Responsibility (CSR) as part of the self-regulatory strategies, tools, and practices of small business environments, there are few studies critical of the tools aimed at Small Business Social Responsibility (SBSR), and fewer still on the issues of understanding, measuring, improving and reporting sustainability performances at the SME micro-scale.

The purpose of this research is to add a contribution to SBSR studies by showing how a tendentious global standardization practice arises in SMEs facing sustainability reporting because of an earlier internal commitment to sustainability. The methodology applied in this paper is Principal Component Analysis (PCA). PCA is a statistical method used to analyse the interrelationships between a large number of variables. It seeks to explain these variables in terms of a smaller number of variables, called principal components, with a minimum loss of information.

The sample for the study was chosen from among Italian multi-certified entities. By multi-certified we mean an entity that has reached at least one Management System certification on environmental issues - the International Standards Organization (ISO) international standard for environmental management, ISO 14001, or the related Eco-Management and Audit Scheme (EMAS) - and also a social environmental system certification, that is, the SA8000 certification by Social Accountability International (SAI). The selected organizations need in addition have published a sustainability report online, and have had financial information available in the Italian business database AIDA. The temporal dimension is 2013 both for financial and sustainability information. The companies selected have already been investigated in an earlier study with respect to their different managerial behaviors towards CSR by Scagnelli et al. (2013). The earlier study did not however focus on the standardization of sustainability accounting and reporting practices addressed herein.

This paper seeks to give useful insights to practitioners as to the effective application of Social and Environmental Management Systems (SEMS) to increase SBSR. On the scientific level, this study would like to contribute to the ongoing debate on the need for new researches and studies on the effects of standardization of sustainability practices at the SME level.

SMALL BUSINESS SOCIAL RESPONSIBILITY (SBSR)

Two decades of studies on SBSR have demonstrated a fallacy in the use of tools when downsizing CSR to smaller scale SME organizations (Tilley, 2000; Spence et al., 2003a; Fuller and Tian, 2006; Maurillo and Lozano, 2006; Jenkins, 2004, 2006; Cambra-Fierro et al., 2008). Even in the case of tools created and tailored for SMEs, if the SME entrepreneur does not immediately recognize explicit short term benefits, then the effectiveness of the tools is still compromised (M. P. Johnson & Schaltegger, 2016). The most widely adopted tools are those pertaining to the field of Social and Environmental Management Systems (SEM), which are aimed at transparency and ethical practices (Testa, Gusmerottia, Corsini, Passetti, & Iraldo, 2015).
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