Investigating corporate social responsibility in supply chains: a SME perspective

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Abstract

This paper analyzes the practices adopted and difficulties experienced by Small and Medium-sized Enterprises (SMEs) to transfer socially responsible behaviors to suppliers that operate in developing countries. In particular, a multiple case study was conducted on five Italian socially responsible SMEs. It was found that companies use diverse management systems and tools to address Corporate Social Responsibility (CSR) issues along their supply chains (SCs). The paper is innovative mainly since few are the existing studies that investigate the CSR practices adopted by SMEs in the SC. Furthermore, it is argued that our research can be helpful to SME managers willing to deal with CSR issues along their SCs, especially when developing countries are involved.

1. Introduction

Corporate Social Responsibility (CSR) can be defined as “the voluntary integration, by companies, of social and environmental concerns in their commercial operations and in their relationships with interested parties” ([1], p. 7). The economic, social and environmental benefits achieved when adopting socially responsible behaviors go beyond the boundaries of a single firm and involve wider communities. To be effective in terms of CSR, companies need all firms in their own supply chain (SC) to act in a socially responsible manner [2,3].

In the CSR literature, an increasing attention is devoted to Small and Medium-sized Enterprises (SMEs). Investigating CSR in SMEs is relevant for at least two reasons [4]. First, SMEs constitute 99% of the European Union (EU) business [5,6]. Second, CSR practices in SMEs are significantly different from those developed for large companies, due to SME peculiarities. For example, most SMEs are directly managed by owners, are strictly linked to business partners and the local community, and lack resources and support to implement CSR. Such aspects strongly affect the CSR practices adopted by SMEs.

This paper analyzes the practices adopted and difficulties experienced by SMEs to transfer socially responsible behaviors to suppliers that operate in developing countries. To achieve the paper’s goal we conducted a multiple case study on five Italian socially responsible SMEs that have relationships with suppliers that operate in developing countries.

The paper presents three main strengths. First, it contributes to fill a gap in the literature. Several studies highlight the specific role played by SMEs in the field of CSR (e.g., [4,7,8]). However, few studies investigate the adoption of CSR practices by SMEs from a SC perspective [3,4,9–11], which is the focus of this paper. Second, the case study methodology was adopted. Since case studies can be very effective to study complex themes such as CSR, several authors (e.g., [11–13]) have proposed case studies as a means to improve the mainstreaming of CSR. However, few case study researches have been conducted on CSR in SMEs [10,14,15]. Finally, the paper results can be used by SME managers interested in transferring socially responsible practices to SC partners.

The paper is organized as follows. In Section 2 we report the results of a literature review on CSR in SMEs and in SCs. In Section 3 we discuss the research design. Section 4 reports a short description of the case study companies, whereas Section 5 reports and discusses the results deriving from the cross-case analysis. Finally Section 6 presents the theoretical and managerial implications of the paper, discusses the limitations, and briefly presents future research streams.

2. Literature review

2.1. Corporate social responsibility in SMEs

The literature on CSR in SMEs is recent and not as wide as the literature concerning larger companies [4]. In particular, in the
literature the SME characteristics and approaches to CSR (e.g., \([9,16–18]\)) and the benefits deriving from the adoption of CSR practices have been investigated \([10,15,19]\). Reviews of the research on CSR in SMEs are reported in Lepoutre and Heene \([4]\), Thompson and Smith \([7]\), Spence \([8]\). With regard to the research methodologies, several studies adopt an empirical approach (e.g., \([11,20,21]\)). Some of them adopt case studies \([11,14,15]\).

The literature stresses that SME responsible behaviors are focused especially on internal stakeholders \([13]\). Most SMEs are unable to communicate to external stakeholders the CSR-related activities in which they are already involved \([15]\). Most SMEs are ‘vulnerably compliant’, as they are not aware of the existing (especially environmental) legislation \([16]\).

Research on CSR and SMEs has been conducted almost entirely in developed countries; exceptions include \([2,19,22,23]\). SMEs that operate in developing countries face several specific challenges, e.g., lack of mentorship and skills transfer, communication gaps, lack of awareness on development opportunities and support networks, infrastructure scarcity, low savings rates and difficulties in accessing financial services \([23]\). The primary reasons for such SMEs to adopt CSR practices are ethics and religious values \([19]\). SMEs in developing countries are scarcely aware of existing standards \([23]\). Pressure from SC partners (especially customers) that operate in developed countries is the main driver for such SMEs to adopt CSR behaviors \([19,23]\).

### 2.2. Corporate social responsibility in supply chain management

Despite the long history of CSR, applications of CSR (and also sustainability) concepts to SCs have only emerged in the last few years (e.g., \([3,12,24–26]\)). Sustainable SCM is defined as the management of SCs where all the three dimensions of sustainability, namely the economic, environmental, and social ones, are taken into account \([12]\). SC relationships are absolutely critical in a global world: to advantage from low labor wages, companies more and more frequently outsource business activities to developing countries \([27]\). When sustainable SCM principles are adopted, the companies adopting such principles hold themselves accountable for the social and environmental impacts arising along the SC, and are compelled to integrate ecological and social aspects into their decisions and actions along their SCs. When SC relationships involve developing countries, companies are also obligated to take responsibility for the well-being and performance of small upstream producers that work in those countries \([27]\).

An increased pressure by stakeholders, mainly consumers and non-governmental organizations (NGOs), is placed upon companies specifically to implement CSR management systems\(^2\) across the SC. Such systems can be used to transfer socially responsible behaviors along the SC \([24]\), in particular to influence the practices of their business partners and to provide a baseline of social and environmental principles to be fulfilled \([28,29,30,31]\). To transfer SC partners’ socially responsible behaviors, companies can use three management tools \([30]\):

1. Establishing written supplier requirements \([32]\). Suppliers are usually required to comply with local law and some CSR international standards \([32]\). Such standards usually also include requirements on the organizational structures, procedures and processes the companies have to adopt \([33]\).  

2. Monitoring supplier performance to verify compliance with the requirements \([30]\). Typical monitoring procedures involve surveys and factory inspections (i.e., audits) \([33]\). Companies can conduct audits by means of internal staff or external consultants (i.e., third-party auditing) \([31]\). A typical audit process is composed of: a physical inspection, a documentation inspection, and interviews with workers. A critical issue is the lack of knowledge regarding the labor laws existing in developing countries. This can be an opportunity for dialogue with local governments or NGOs \([31]\). Corrective action plans are generally agreed upon by a supplier and the auditor. Such plans are overseen by the company on the basis of established standards \([31]\).

Most CSR efforts are still targeted at monitoring first-tier suppliers; they leave second-tier suppliers intact or rely on first-tier suppliers’ responsibility \([32]\).

3. Contributing to suppliers’ awareness building and training on the company policy about CSR issues \([30]\). Communication and training need to be sensitive to regional or local dialects, non-verbal expressions, traditions of interpersonal communication, and the errors associated with translation and interpretation as well as gender, age, religion or tribal customs \([31]\).

Companies can use two CSR management strategies along the SC, i.e., compliance with requirements and capacity building \([30]\). The first approach sets standards for suppliers and tries to prevent non-compliances by a strict monitoring program. If a non-compliance is detected, companies terminate the contract with the supplier or stop the business until the corrective changes are implemented.

On the other hand, capacity building aims at building up the supplier’s own capacity of handling CSR issues. Companies thus promote a socially responsible culture among suppliers. When suppliers understand the logic and the business case for CSR they can in turn start promoting CSR. The continuous improvement philosophy is part of this approach. A prerequisite is building long-term close relationships with suppliers \([30]\).

Both the strategies involve all the three mentioned management tools. However, the compliance with requirements approach focuses more on the establishment of written requirements and the monitoring of supplier performance. The capacity building approach is rather focused on awareness building and training.

### 2.3. Corporate social responsibility in supply chains: A SME approach

Several papers (e.g., \([3,11]\)) have examined SME socially responsible behaviors along the SC. However, most of them consider the role of SMEs only as suppliers of larger companies and not as buyers from upstream suppliers. An overview of CSR issues in SCs made up of both large customers and small suppliers is reported in Roberts \([3]\) and Spence \([26]\). Pressure from large customers can stimulate the socially responsible behavior of their smaller suppliers \([4,21]\).

A company’s smaller size often results in lower bargaining power. Larger companies have more power to stimulate socially responsible behaviors among their SC partners \([4]\). The adoption of CSR practices and their transfer along the SC can be difficult for SMEs also because of the high costs that can occur (in terms of necessary resources and competences). For example, to monitor suppliers SMEs are often forced to rely on third parties, e.g., NGOs or multinational companies.

As buyers, SMEs can exert pressure through the SC by championing CSR and encouraging partners to adopt a socially responsible behavior. Different strategies are adopted to this end, e.g., exerting

\(^2\) The CSR management systems analyzed within the paper include: Social Accountability 8000, a social accountability management system (http://www.sa-intl.org, last access: May 28th, 2007); ISO 14001, an environmental management system (http://www.iso14000-iso14001-environmental-management.com, last access: May 28th, 2007), European Eco-Management and Audit Scheme, another environmental management system (http://ec.europa.eu/environment/emas, last access: May 28th, 2007).
Table 1: Sources of evidence

<table>
<thead>
<tr>
<th>Company</th>
<th>Role of the informant</th>
<th>Analyzed documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>Person in charge of the joint quality and social management system</td>
<td>SA8000 report, Periodic report on suppliers’ compliance with SA8000, Suppliers’ self-assessment questionnaire, Joint quality and social system management handbook, Code of conduct</td>
</tr>
<tr>
<td>#2</td>
<td>Person in charge of the social management system</td>
<td>Suppliers’ self-assessment questionnaire, Company policy</td>
</tr>
<tr>
<td>#3</td>
<td>CEO General business manager Purchasing manager</td>
<td>Social report, EMAS environmental statement</td>
</tr>
<tr>
<td>#4</td>
<td>Person in charge of the social management system and the social report</td>
<td>Social report, SA8000 report</td>
</tr>
<tr>
<td>#5</td>
<td>Owner</td>
<td>Press articles</td>
</tr>
</tbody>
</table>

direct pressure up and down the SC, acting as a best practice study, and providing SC partners CSR-related presentations or an open-house for peers [10]. SMEs can also show a well-known willingness to use the sanction of switching suppliers for CSR reasons, and they can also identify and share cost-savings and income-generation from CSR with suppliers [9]. In most cases, SMEs foster more easily environmental than social responsibility along the SC [10].

3. Research design

The research question this paper addresses is how SMEs transfer socially responsible behaviors to suppliers that operate in developing countries. The research question was articulated in several research propositions. We investigated: how companies communicate their CSR objectives and practices to external stakeholders; how CSR criteria are taken into account when selecting suppliers; the CSR management systems adopted by companies; the type of relationships with suppliers (in terms of duration, formal status, and level of dependence on suppliers); the strategy to manage CSR issues within the relationships (i.e., compliance with requirements or capacity building); the used CSR management tools (i.e., establishing written requirements, monitoring and auditing, awareness building and training); the practices adopted; the obstacles and the means to spread the diffusion of CSR in developing countries. We also discussed how SME bargaining power affects the relationships with suppliers as to CSR. Most of the research propositions were defined on the basis of a literature review, which was briefly reported in Section 2. We mostly referred to the literature on large companies, due to the scarcity of empirical research on the paper topic. Due to the exploratory nature of the research, some research propositions were formulated and added during the data collection phase. In particular, we pointed out and discussed some misperceptions on CSR showed by the case study companies. To provide more insights, we also described the critical events, if any, occurred in the field of CSR in relationships with suppliers. We finally noticed that CSR practices adopted by companies are mainly directed towards the employees, the local community and the environment, whereas practices directed towards other stakeholders (e.g., customers) are not implemented.

To achieve the paper goal we conducted a multiple case study. In particular, we studied five Italian SMEs that have relationships with suppliers located in developing countries and adopt CSR management systems along the SC [9,15]. Cases were selected on the basis of a replication logic [34]. In selecting these cases we took into account: the CSR management system used by the companies (three companies are SA8000-certified, one company is ISO 14001-certified and EMAS-registered, one company belongs to the fair trade network), the company dimension (although all companies are SMEs, their dimension varies from micro- to medium-sized firm), and the developing countries where suppliers are located (which vary among case study companies). Only one stage of the SC (i.e., the case study company) was investigated. Relevant information on two other stages of the SC, namely first-tier customers and especially first-tier suppliers, was also gathered.

To analyze the cases we used a case study protocol [34]. In particular, we developed an overview of the research project, which included a general description of the project, the research question and propositions, and the results of the literature review. The general description of the project and its purpose were presented to the companies first with a letter of introduction, then with a presentation by phone call. For each company we conducted face-to-face interviews with the person that was better informed on the company's CSR practices as well as on the relationships with suppliers (due to the limited company size, there was a unique responsible person in all the cases). Table 1 shows the role played by each informant within the companies.

Each interview was conducted at the company headquarters and lasted from one to three hours. We conducted focused interviews in order to let the informants freely talk about the investigated issues while addressing the propositions derived from the case study protocol. All the interviews were recorded and transcribed. Visits to company headquarters were made in teams to have complementary insights and enhance confidence in the findings [35]. Interviews were conducted by one of the authors while the other two wrote down notes and observations.

To corroborate information deriving from the interviews and to increase construct validity we also analyzed all the company documents relevant to the paper goal. The list of the analyzed documents is reported in Table 1.

Since our research was exploratory and aimed at building theory, we applied conceptual labels to the data and grouped concepts that pertained to the same phenomenon to form categories [36]. We supplemented the interview data collection with field notes and memos. We constantly compared theory and data, and relied on tables to summarize the evidence (Tables 2 and 3). To analyze the collected data we conducted first an in-depth analysis of single cases then a cross-case analysis. In searching for cross-case patterns we selected categories, then looked for within-group similarities coupled with inter-group differences [36]. To address inter-coder reliability, each of the authors read the transcriptions and the documents separately, so that they could develop an independent point of view on each case. Then the authors separately coded the data, and identified concepts and categories. Finally they described the path followed when analyzing the data. Concepts and categories were afterwards compared among the three authors. When evaluations by the authors were conflicting, a discussion among the discordant authors was conducted until a final agreement was reached. The results on which authors agreed were compared with the existing literature to extend theory (when findings were conflicting with the literature), to enhance generalizability (when findings were consistent with the literature), and to increase the theoretical level of theory building from our case studies.

3 Italy is the first country in the world for the number of SA8000-certified companies. See http://www.sa-intl.org, last access: February 28th, 2007.
Table 2

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Birth (year)</th>
<th>Products</th>
<th>Firm dimension</th>
<th>Production (in-house or outsourced)</th>
<th>Adopted standards</th>
<th>Target market</th>
<th>Customers</th>
<th>Bargaining power towards suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company #1</td>
<td>1981</td>
<td>Consumer products</td>
<td>Medium</td>
<td>Outsourced</td>
<td>ISO 9001 and SA8000 (since 2001)</td>
<td>Large scale retail trade</td>
<td>Large-scale</td>
<td>High</td>
</tr>
<tr>
<td>Company #2</td>
<td>1968</td>
<td>Plaster, restoration materials and demolition mortars</td>
<td>Micro</td>
<td>In-house</td>
<td>ISO 9001 (since 1995)</td>
<td>Upscale</td>
<td>Large companies</td>
<td>Low</td>
</tr>
<tr>
<td>Company #3</td>
<td>1974</td>
<td>Starting and industrial batteries Electrical and ecological vehicles</td>
<td>Medium</td>
<td>In-house</td>
<td>ISO 9001 (since 1997)</td>
<td>Upscale</td>
<td>Large and small companies</td>
<td>High</td>
</tr>
<tr>
<td>Company #4</td>
<td>1968</td>
<td>Apparel for children (girls, 1–15 years old)</td>
<td>Medium</td>
<td>Outsourced</td>
<td>ISO 9001 (since 1999)</td>
<td>Upscale</td>
<td>Boutiques Shops</td>
<td>High</td>
</tr>
<tr>
<td>Company #5</td>
<td>2004</td>
<td>Furniture Fabrics Micro</td>
<td>Outsourced</td>
<td></td>
<td>ISO 9001 (since 2002)</td>
<td>Upscale</td>
<td>Shopping centers</td>
<td>High</td>
</tr>
</tbody>
</table>

4. Case studies

All the examined companies satisfy the definition of SME provided by the EU [37]. Data about number of employees and turnover refer to the latest year (Table 2). A short description of the case studies is reported below. Tables 2 and 3 summarize all the relevant information on the companies to be used for cross-case synthesis [34]. Additional information is also reported in the text. Names of the companies and the informants are not reported due to privacy issues. Quotes are used to illustrate key research findings as well as to highlight the opinion of the informants on specific issues.

4.1. Company #1

Company #1 sells aluminum wraps for food, barbecue products, latex gloves for domestic use, and moth-repellent products. It is a joint-stock company and part of a group of companies. It mainly sells to the domestic market. On such a market, it is the third brand in terms of sales regarding wraps for food and the first regarding barbecue products.

Company #1 has a written code of conduct that mainly deals with SA8000 issues and annually writes a report on the activities carried out to comply with the SA8000 principles. Such a report is sent to the main stakeholders, i.e., customers, suppliers, and public institutions.

Company #1 also writes a periodic report on suppliers' compliance with SA8000 principles; in such a report inspections to suppliers are also planned. For example, the latest report showed that some suppliers were non-compliant with SA8000 principles on occupational health and safety, and on monitoring second-tier suppliers. To further check non-compliant suppliers, an inspection to their factories was planned by company #1 in the short term.

Production is completely outsourced to external suppliers located in Malaysia, Croatia, UK, and the Netherlands. Latex gloves are procured from two companies in Malaysia and coal from three companies in Croatia. Supplier companies are small and sell almost exclusively to company #1. The relationship with one Malaysian supplier is very recent (less than one year long) so company #1 is not able to provide information on it. Consequently such supplier is defined 'at risk' in the report on suppliers' compliance with SA8000. Another supplier of latex gloves was a previous subsidiary of company #1. Due to organizational problems it is no longer a subsidiary although it still supplies company #1. The relationships with Croatian suppliers were established more than five years ago.

The most important Croatian supplier has a chain-of-custody certificate by which it is possible to trace back the source of forest products. Certified companies can thus label such products with the Forest Stewardship Council logo.

4.2. Company #2

Company #2 sells pre-mixed building materials. It is a limited family-managed company with only one partner. All products sold by company #2 are environmentally-friendly since they are based on natural elements, e.g., lime and its by-products. Company #2 has planned to get the ISO 14001 certification in the short term. It mainly sells to the domestic market. The market share is very small, since products belong to a niche market. In 1995 company #2 started an internationalization process by allowing companies in foreign countries (i.e., South Africa, Argentina, Brazil, and Egypt) to produce and sell its own products under license. Company #2 exports to Saudi Arabia, United Arab Emirates, Mexico, USA, and EU.

According to SA8000 procedures, CSR goals that have been achieved are periodically examined by the top management through a review process. Every year the results of the review are communicated to all the stakeholders.

Company #2 has a stake in an Egyptian firm and in an Argentinean firm; the latter supplies all raw materials. Production started two years ago in Egypt and last year in Argentina. Company #2 benefited from a tax exemption for the partners' operations in early years in both these countries. Such partners are large, have organizational characteristics similar to company #2, and focus on a small market niche. The Egyptian partner operates according to ISO 9001. Corporate representatives tied by familiar links to company #2's top management are present both in Egypt and Argentina.

4.3. Company #3

Company #3 is a joint-stock company owned by five partners. It is part of a group with about 200 employees that includes three specialized firms, which are managed as corporate divisions: the one examined in this study produces starting lead accumulators for upscale target-market vehicles, work vehicles, trucks, and military tactical vehicles; another division produces electrical and ecological vehicles for civil and industrial use. Research and development activities are focused on hydrogen-powered fuel cells. The launch of

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4 Forest Stewardship Council is an international voluntary standard that deals with the responsible management of forests (http://www.fsc.org, last access: May 28th, 2007).
the first vehicle based on fuel cells is planned within two years. The company mission is “to produce by working smart and not hard and to provide partners and customers with the top technology and the best quality–price ratio for the next 450 years” (an unusually long time span). Such a mission is detailed in ten points, known within the company as ‘the ten commandments’. Company #3 mostly sells to the domestic market and exports mainly within the EU, especially to France and Northern Europe.

Company #3 publishes a social report on a three-year-basis. The social report is divided into several chapters, each one designed to deal with a different ‘commandment’ of the company mission.

Company #3 owns 50% of a small production firm in Uruguay, which produces and sells industrial batteries in the same country and to Chile. In perspective the most relevant foreign market for company #3 is China (company #3 has a Chinese version of its Web site, in addition to the Italian and the English ones), where it has been operating for about 10 years. In this country, company #3 has a joint venture, some Original Equipment Manufacturing contracts, and it is starting with its own capital a new company. Company #3 started the partnership in Uruguay to expand to the South American market and to overcome entry taxes, which were quite high for foreign companies. In China company #3 is present because some products (e.g., small emergency batteries) are currently produced only in that country due to the large labor supply. Production is also sold to the local market. ISO 14001 is regularly applied by Chinese partners.

4.4. Company #4

Company #4 is a joint-stock company. Its stakes are owned by the founder and his wife, who is the designer of the company. Company #4 is the core firm of a group formed by six companies and aims at developing upscale-targeted children’s apparel. Assembly and sewing activities are outsourced to small factories located in Central Italy and China. Design, prototyping and cutting activities are carried out in-house. Company #4 has only recently decided to procure some product types and production lines from suppliers in developing countries. Products are sold to 41 countries in the world (Europe, Russia, Middle East, North and South America, China and other Asian countries). With regard to the domestic market share, company #4 is the second in its sector.

Since 2002 every year a social report is made. In the latest report, several performance indicators are defined for each group of stakeholders, for a total of 115 indicators. The social report also includes the SA8000 report, which shows how the SA8000 principles are fulfilled, as well as the opinions of different focus groups (e.g., employees in the first edition, local contractors in the last one). Local contractors depend on company #4 for a high percentage of their turnover. During the last focus group, they highlighted the reduction of orders recently made by company #4 and their current need to get other customers. To address such observations, company #4 has planned to inform contractors on the SA8000 procedures to monitor suppliers and the CSR practices currently adopted in dealing with suppliers in developing countries.

Company #4 experienced illegal work at suppliers’ sites: some women wanted only off-the-book extra-pays to exclude them from the family budget. According to company #4, safety and health issues at suppliers’ sites are often cosmetic: for example, company #4 knows that some contractors prepared a manual in which they described the result of a noise analysis although they do not produce any noise, whereas the same contractors did not carry out any chemical risk analysis to assess problems caused by the use of dyes (which are regularly used). Company #4 procures products from firms located in China, India, Tunisia, and Turkey. Company #4 also sells its products to these countries. A license agreement is defined with the Chinese supplier. Suppliers are all medium-sized. Company #4 procures a relevant share of its total supplies from them. On the contrary the percentage of production sold by such suppliers to company #4 is low if compared to their total production. The choice to procure from suppliers located in developing countries is motivated by lower labor costs. Moreover, some items (e.g., shirts with many stitch-works or spangles) are no longer produced by other companies in Italy or Europe.

4.5. Company #5

Company #5 is an individual firm. Inspired by the reading of the autobiography by Muhammad Yunus, the founder of the Grameen Bank (a bank specialized in micro-credit), the founder of company #5 and his wife recognized the opportunity to create a furniture fabric business on the basis of more sympathetic principles towards developing countries.

Products sold by company #5 have unique characteristics; they are design-oriented, have a high quality, and are designed by the company itself. Production is completely outsourced to craftsmen in developing countries (namely Thailand, Nepal, Peru, and India), who grant a high production quality and are also able to meet delivery deadlines. Suppliers also include an Italian cooperative, which cares about prisoner rehabilitation.

Company #5 considers itself as a fair company since it operates according to ethical principles, but it also looks for profit. According to the vision of company #5, “a fair company cannot be a company that is born at first to seek profit and only at a certain moment in its life tries to set a balance between profit and ethics. A company is fair only if it aims from the very beginning to make business in an ethical way. CSR principles thus need to be integrated into its business philosophy and vision: ethics and profit are two parameters which cannot be separated. If a large company decides to operate according to fair business only at a certain moment in its life, it has to redefine and reorganize all its processes. Such a reorganization is very hard to be implemented and almost impossible when a company is very large”.

Company #5 operates fair business. According to company #5’s point of view, fair business originates from some considerations on fair trade products; for example, handicraft products “often have a low quality”. According to company #5, in fair trade, communication activities towards customers rely on ‘doing the right thing’, i.e., they stimulate customers to economically support poor producers rather than on customer satisfaction. In fair business, unlike fair trade, the main aim is to offer innovative (in some cases experimental) products. Such products are hand-made by respecting ancient local traditions (for example, the production of silk products starts with silkworm breeding) as well as transparency and solidarity principles in business. However, they are comparable in terms of quality and design to industrial products. To manage relationships with suppliers in developing countries, company #5 relies on the International Fair Trade Association (IFAT6).

5. Results and discussion

Several interesting results emerge from the cross-case analysis (Tables 2 and 3). Below, we discuss them in relation to the research propositions.


6 The International Fair Trade Association (IFAT) is a global network of fair trade organizations which includes over 270 organizations in 60 countries (http://www.ifat.org, last access: May 28th, 2007).
<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Developing countries where suppliers are located</th>
<th>Formal status of the relationships</th>
<th>Suppliers’ degree of dependence</th>
<th>Relationship duration</th>
<th>Means to monitor suppliers</th>
<th>Practices towards employees</th>
<th>Practices towards the community</th>
<th>Practices towards the environment</th>
<th>Obstacles to the diffusion of CSR in developing countries</th>
<th>Means to spread the diffusion of CSR in developing countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1 Malaysia</td>
<td>None (independent companies)</td>
<td>High</td>
<td>Both short- and long-term</td>
<td>Direct and third-party inspections Survey</td>
<td>Difficulty in finding information</td>
<td>No impact</td>
<td>Not fully aware of the environmental impact of suppliers</td>
<td>Not mentioned</td>
<td>Not mentioned</td>
<td></td>
</tr>
<tr>
<td>Croatia</td>
<td></td>
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<tr>
<td>#2 Egypt</td>
<td>Subsidiaries</td>
<td>High</td>
<td>Long-term (compared to the age of supplier companies)</td>
<td>Direct inspections Survey</td>
<td>Wages slightly higher than local ones (especially in Egypt) Some benefits (e.g., vaccinations, medical examinations, Christmas bonuses) Respect of local customs (e.g., prayer or tea moments) A kind of insurance based on funds such as the retirement allowance (in Egypt) Election of employees’ representatives Training on accounting and Italian language</td>
<td>No impact</td>
<td>Unable to monitor environmental issues at suppliers’ sites</td>
<td>The irresponsible behavior of most companies Cultural differences Investments of companies in stimulating customer awareness Change in regulation</td>
<td></td>
<td></td>
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<tr>
<td>Argentina</td>
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<td></td>
</tr>
<tr>
<td>#3 China</td>
<td>Subsidiary (Uruguay)</td>
<td>High</td>
<td>Long-term</td>
<td>Direct inspections</td>
<td>Tries to adapt the Italian regulation to the host countries Wages based on the local average level Production premiums</td>
<td>Charity projects</td>
<td>Promotes a more environmentally-friendly culture in China Invited suppliers to visit the plants of Italian companies</td>
<td>Cultural differences Adopting the point of view of people living in host countries</td>
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<td>Uruguay</td>
<td>Joint venture (China)</td>
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<td>#4 China</td>
<td>None (independent companies)</td>
<td>Low</td>
<td>Short-term</td>
<td>Direct and third-party inspections Survey</td>
<td>Working conditions rather good compared to other local companies Invited suppliers to visit the company plant</td>
<td>No impact</td>
<td>Not fully aware of the environmental impact of suppliers</td>
<td>Consumer behavior Support from networks of local organizations</td>
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<td>#5 Tunisia</td>
<td>None (independent craftsmen)</td>
<td>Low</td>
<td>Long-term (compared to the life of the company)</td>
<td>Direct and third-party inspections</td>
<td>Special production means provided to craftsmen Wage level, payment conditions, respect of occupational health and safety issues according to fair trade principles</td>
<td>No impact</td>
<td>Suppliers’ handicrafts not harmful to the environment</td>
<td>The irresponsible behavior of most companies Cultural differences Language differences Lack of adequate communication and information tools</td>
<td>Change in customer behavior</td>
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5.1. Communication

Differently from what is stated in the literature (e.g., [10,15]), all companies emphasize the importance of communicating their CSR objectives and practices to external stakeholders; to this end they adopt different tools (e.g., social reports or codes of conduct; Table 1) to demonstrate their commitment and try to involve external stakeholders in CSR initiatives. The external communication is mainly directed towards the areas of immediate influence of the external stakeholders in CSR initiatives. Companies that rely more on the capacity building strategy have longer and closer relationships with suppliers; companies #2 and #3 also have a stake in supplier companies. All companies try to build long-term relationships with suppliers; otherwise a short-term relationship results from specific contingencies (e.g., problems with product quality or the fact that production outsourcing to developing countries is a recent decision) rather than from the company strategy.

5.2. Supplier selection

Companies select suppliers on the basis of CSR criteria (SA8000 principles for SA8000-certified companies, fair trade principles for company #5). However, such issues are generally considered as subordinate in comparison with economic and/or product quality evaluations.

5.3. Standard adoption

To manage CSR issues along the SC, companies refer to requirements and procedures included in the adopted CSR management systems (especially, SA8000 and ISO 14001); company #5 refers to fair trade principles.

5.4. CSR management strategies and tools adopted towards suppliers

Companies use a combined approach towards suppliers; they mix elements from both compliance with requirements and capacity building approaches. SA8000-certified companies establish written requirements to be fulfilled by suppliers. Such requirements are defined by the company's social management system. On the other hand, company #3, which is not SA8000-certified, does not write supplier requirements whereas focuses on the awareness building.

Different practices are adopted by companies to build suppliers' capacity, e.g., information and communication activities, training initiatives, and invitations to Italian plants. Company #5 tries to build craftsmen's knowledge and abilities by making them develop innovative products (e.g., patterns) and providing them with special tools, e.g., customized looms.

5.5. Monitoring suppliers

All companies, even those which are not forced by SA8000 certification, regularly monitor supplier performance. According to the procedures defined in the standard, SA8000-certified companies annually submit self-assessment questionnaires to suppliers to check the compliance with SA8000 principles. Most of the suppliers signed the SA8000 principles.

All companies conduct direct or third party audits. The CEO and the general manager of company #3 live in China for a short period every year and personally conduct inspections. In the case of company #1, the long-standing Malaysian partner has been periodically visited by company #1's top management, as well as by a third party on behalf of the large-scale retail trader, which is the company's main customer. As for company #5, inspections at suppliers' sites are conducted by IFAT. Direct inspections are preferred although not always conducted due to time shortage. Companies also notice that direct inspections have a limited frequency (generally once a year) and time length (about 1 h on average), so they find it difficult to check the quality of working conditions and human rights at suppliers' sites. Company #5 believes that at least two inspections every year are necessary to set up closer relationships with suppliers.

Non-compliances have been noticed in suppliers' plants just in a few but not critical cases. They mainly referred to occupational health and safety and did not concern child or forced labor, which are considered unacceptable by the studied companies. When a non-compliance is detected, companies react in different ways. Company #1 tries to formally explain to suppliers the relevance of the problem, according to SA8000 principles. A few years ago company #4 decided to break up the relationship with a non-compliant supplier. Company #1 also broke up the commercial relationship with a coal supplier in Nigeria, due to the difficulty to check the working conditions and the respect of human rights. On the other hand, company #3 tries to discuss problems with suppliers and to find solutions together with them. Such an approach is explicitly based on the continuous improvement philosophy, which encourages suppliers to meet the minimum standards and to continuously improve the performed processes.

5.6. Type of relationships with suppliers

Companies that rely more on the capacity building strategy have longer and closer relationships with suppliers; companies #2 and #3 also have a stake in supplier companies. Companies that rely more on the capacity building strategy have longer and closer relationships with suppliers; otherwise a short-term relationship results from specific contingencies (e.g., problems with product quality or the fact that production outsourcing to developing countries is a recent decision) rather than from the company strategy.

5.7. Environmental protection practices

Differently from what is stated in the literature (e.g., [10]), companies regard environmental responsibility not easier than social responsibility to foster. This seems to depend on the countries wherein partners operate, in particular on the existence of an environmental regulation (whose rigor could be considered as comparable to Italian regulation, as experienced by companies #2 in Argentina and #3 in Uruguay). Company #1 has no idea of the harm caused by suppliers to the natural environment and surprisingly believes that, due to the nature of their operations, the environmental impact of suppliers is somewhat low: "in coal production there is at most smoke emission, whereas latex is gathered from plants and processed without harm to the environment".

In the past company #2 requested foreign companies to send an environmental report concerning the sites where they quarry raw materials and the ways such sites are reclaimed, but received no answer. Company #2 thus considers itself as not able to monitor the environmental impact of its partners. Company #3 is involved together with the Italian Ministry of the Environment in an initiative to promote a more environmentally-friendly culture in China: for example, Chinese partners are periodically invited to visit top Italian plants where company #3 shows them how to recover lead batteries. Company #4 does not have a high awareness of the environmental impact of suppliers; the only activity that the company considers harmful to the environment is the dyeing of some products. As an example, company #4 says that the black color produced in China is more intense than the one produced in Italy, because it contains substances that are harmful to the environment and are banned in Italy. Handicrafts manufactured by company #5's suppliers are not harmful to the environment, because craftsmen use natural techniques that are not polluting.
5.8. Practices towards employees

Companies experience problems in retrieving information on working conditions (i.e., employees’ wage and working hours) in supplier companies. They are able to encourage the adoption of practices addressed to employees only in subsidiaries (Table 3). Companies try to use the Italian law as a reference for working conditions at suppliers’ sites. Company #3 tries to adapt the Italian standards to local cases; when the Italian regulation is more restrictive, company #3 tries to share it with partners rather than enforce it on them. On the other hand, company #4 does not try to export the Italian regulation to developing countries since it considers it unrealistic. Companies have to deal with clearly different working hours and costs; for example, Chinese employees regularly work six days a week and perform at least 2 h on overtime every day (so they work about 60 h per week) whereas they earn relatively low wages. Due to the different regulation, company #4 cannot submit to Chinese suppliers the occupational health and safety checklist prepared for Italian suppliers.

5.9. Practices towards the community

With the exception of company #3, companies are not able to promote initiatives to benefit communities in developing countries wherein suppliers are located, due to their limited size and resources.

5.10. Obstacles to spread the diffusion of CSR in developing countries

Companies experience problems concerning skills transfer, communication gaps, and lack of information [23]. Companies can be considered ‘vulnerably compliant’ [13] in managing CSR issues along their SC, since they do not know enough about legislation in developing countries. Some companies rely on NGOs to retrieve more information on local laws. Contacts with local networks of supporting organizations would also be helpful to this end.

Cultural differences are the main obstacle to the diffusion of CSR in developing countries. This is a critical issue, especially, when companies try to use a capacity building approach towards suppliers. For example, company #3 experiences some troubles in pointing out non-compliances to partners. Company #3 also finds it difficult to involve to a greater extent local employees in managerial issues (according to company #3, “the Chinese mind is more hierarchical and less participatory than the Italian mind”). Language differences are critical as well: in some countries it is very difficult to find people speaking any foreign language (as an example, English is not as widespread as French in Africa and not at all in Nepal).

Another relevant obstacle is the low interest currently showed by customers in CSR. Company #4 believes that consumer choices are mainly driven by price and that CSR can generate profits only to companies selling luxury products (e.g., on the basis of the Italian design). This is why company #4 has not yet invested in promoting the CSR initiatives that it is currently implementing. When consumers become more aware, company #4 will start to adopt an ethical label to grant the ethical traceability of its products.

Another obstacle is the way many companies located in developed countries are actually operating in developing countries. According to company #5, such firms often exploit local workers. Even when they respect human rights, they constantly negotiate the price of products procured by local workers. Their impact is stronger when they also sell the products in the local market, because the prices of final products are lower than the prices of the products sold in developed countries.

Corruption is a further obstacle to the diffusion of CSR in developing countries. Company #2 has noticed that “corruption in Argentina is common”; in fact, top managers personally experienced it several times. Company #3 experienced a high level of corruption in China, in particular the habit of systematically paying tips to government officers. Nevertheless companies have no policy to deal with corruption. Religion can influence corruption in developing countries: for example, company #2 did not experience corruption in Egypt, the informant thinks “probably because of their Muslim religion”.

Company #5 also experiences problems with Information and Communication Technology at suppliers’ sites in developing countries. Such craftsmen do not use personal computers and even faxes; as an example, the IFAT’s local office in Lima, Peru, has to send pictures to the town where the craftsmen operate by bus, which involves an eight-hour travel on the Andes.

Companies think that several changes are needed, both in local laws and customer behavior, to overcome such barriers. Investments made by companies to stimulate awareness on CSR and a stronger support from networks of local organizations would also be necessary. Finally, the willingness to adopt the point of view of the people living in the host countries could be helpful.

5.11. Bargaining power

Although most of the analyzed companies have a high bargaining power towards suppliers, they are not able to transfer CSR behaviors to suppliers due to the above discussed obstacles. As a consequence of the limited power to transfer CSR behaviors, some of the companies are able to monitor neither the environmental impact of suppliers nor the working conditions at suppliers’ sites. Control on suppliers has a limited effect and is restricted to first-tier suppliers. In general, the influence on suppliers’ behavior is not high: formal standards (such as SA8000) are used by companies to increase their influence. Nevertheless such standards are not able to address all problems related to supplier monitoring. According to company #4, SA8000 certification of course helps to avoid the most evident violations to working conditions and human rights issues. However, it does not completely prevent from the risk of having relationships with companies that still may violate human rights.

5.12. Misperceptions

By analyzing the cases, some discrepancies between the CSR perception and the implemented practices can be stressed. Company #1 seems to neglect all the potential damages to the environment deriving from the coal industry and the production of latex gloves; company #2 is not able to monitor their suppliers’ environmental impact although suppliers are subsidiaries; company #3 does not define formal corrective action plans to address suppliers’ non-compliances; company #4 does not know all the local laws at suppliers’ factories although it carries out direct inspections. Such results suggest that companies may not have a broad view of CSR. To overcome these misperceptions, companies should gather more information on developing countries. A potential problem could be faced by company #5, whose radicalism in terms of strategic choices on fair business could result in an obstacle, if the company would decide to expand.

6. Implications and limitations of the research

This paper analyzed Corporate Social Responsibility (CSR) in Small and Medium-sized Enterprises (SMEs) by using a multiple case study approach. In particular, we examined the practices and difficulties, respectively, adopted and faced by SMEs to transfer socially responsible behaviors to the partners in their supply chains (SCs). The paper has an exploratory nature and tries to fill a gap in
the literature; to the authors’ knowledge the existing studies on CSR along the SC only focus on large companies (a partial discussion by Lepoutre and Heene [4]). Some of the companies think that in the future consumers will be motivated by CSR principles. Raising awareness on the value of CSR principles and advertising the effects of the adoption of CSR socially responsible behaviors and practices are means that companies can adopt to facilitate such a process. In order to do that, companies (especially the larger ones), also supported by public institutions and NGOs, could invest in communication and training initiatives.

To more effectively manage CSR issues along their SC, they encourage partners along the SC to become more socially responsible. Companies use a management strategy towards suppliers that combines the compliance with requirements and the capacity building approaches. A strict policy is used to deal with child or forced labor; in the other cases, companies use a more open approach. Such a strategy seems to be used by companies respectively of their business. All the companies invest a lot in communicating CSR to suppliers, and in monitoring and auditing suppliers.

Different CSR practices are adopted by companies along their SC. Such practices are mainly focused to suppliers’ employees. As a consequence, the employees’ loyalty and motivation increase. The choice of a certain practice seems to depend on the vision of the owner/entrepreneur and the socio-economic context wherein the company operates. It is hard to identify the most successful practices among the above mentioned ones. To overcome some of the mentioned limits, companies could probably invest more in building awareness of suppliers on critical CSR issues, e.g., environmental protection.

Some interesting managerial implications can also be derived from our study. (1) Different management tools can be effectively and simultaneously adopted by SME managers to get suppliers more involved in CSR. Managers can establish written requirements (e.g., by adopting a CSR management system), implement information and communication activities as well as training initiatives, and monitor supplier performance through the submission of checklists or by direct inspections. They should preferably have long-lasting close relationships with suppliers and adopt a continuous improvement philosophy. (2) SME managers could rely on NGOs or local networks of supporting organizations to address problems in monitoring second-tier suppliers and retrieving information on working conditions and local laws in developing countries. Joining fair trade consortiums can also be useful to retrieve such information as well as to provide more general information on CSR and the means to transfer CSR behaviors to the SC. (3) When a permissive environmental regulation exists in developing countries wherein suppliers are located, SME managers can develop some initiatives to transfer environmental protection practices to suppliers, such as promoting visits of suppliers to the SME plants or showing suppliers environmental best practices already implemented by other companies, e.g., in recovery activities. (4) SME managers should adopt the point of view of the people living in host countries to overcome problems concerning skills transfer and cultural differences.

The mentioned results clearly refer to the examined cases and cannot be generalized to all SMEs. In addition they can be affected by a bias due to the criteria used to select companies. To address such limits, a survey aimed at further investigating the most relevant results will be conducted in the future. Further development of the research will also include the analysis of companies selected on the basis of different criteria, e.g., using informal systems to transfer CSR issues to suppliers and monitor their practices.

References