



FEDERATION OF SMALL BUSINESSES

Social and Environmental Responsibility and the Small Business Owner



Foreword

This report provides an important snapshot of the views of small businesses on social and environmental responsibility today. It shows that most small businesses are intrinsically responsible business owners. To quote one small business owner on corporate social responsibility (CSR) *'it is simply a part of doing business in a successful and profitable manner in the 21st century and not some stand - alone concept that is bolted on later.'*

Small businesses tell us they would benefit from Government incentives and practical examples from other businesses about enhancing and increasing their involvement in the social and environmental sphere.

What they do not want is any type of mandatory reporting of CSR activities or specific CSR legislation. The survey demonstrates that legislation would only serve to hinder the very good work already undertaken by small businesses. Time spent filling in forms to prove that businesses are acting in a socially responsible manner is time that could be better spent actually doing it.

Finally, I would like to take this opportunity to thank the members of the FSB who took time out of their busy schedules to respond to this survey and provide the interesting and insightful comments and case studies highlighted in the report.



John Holbrow

Chair of the Environment and Energy Policy Committee

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Social and Environmental Responsibility and the Small Business Owner

'Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.'

Statement from the World Business Council for Sustainable Development.

Introduction

The popular perception is that concern for social and environmental issues is the preserve of large businesses. This report demonstrates that small businesses are actively engaged in these issues and believe them to be important.

The FSB's survey of its membership was undertaken in the light of discussions in the EU and in the UK about potential regulatory measures on Corporate Social Responsibility (CSR). The specific objectives of the survey were to:

- *Determine to what extent small businesses practice CSR*
- *Determine what motivates them and what barriers they face*
- *To inform the debates taking place in the European parliament and on a national level on how to engage SMEs*

The research focused on business attitudes and actions toward the environment, their workforce and their local communities.

The findings were highly positive and showed that overall, 92% of respondents considered their businesses to be socially and environmentally responsible.

What the report uncovers is that many small business owners are unfamiliar with the terminology surrounding CSR and define their actions in this area as simply 'good business practice'.

Overall, significant barriers to greater engagement were cited as time and financial constraints but increased awareness of the business benefits would heighten involvement by most small businesses.

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.

Methodology

The survey was carried out using an online questionnaire on the FSB website. It was available for members to complete for two weeks in the early summer of 2007 and received over 1700 responses.

Profile of Respondents

It is perhaps unsurprising that small businesses rate their involvement with social and environmental responsibility so highly given their profile. Small businesses tend to be locally owned and often employ from a smaller catchment area than larger businesses and they have a direct impact on the local economy. This is backed up by research published in 2006 which records that 78% of small businesses serve their local area¹. Furthermore small businesses are largely family owned operations and place emphasis on their reputation and quality of product/service. It would seem then that small business owners are predisposed to responsible business ownership.

Another indicator of the premise that small business owners are concerned about social and environmental issues is the perception of their own quality of life. Even those who have taken great risks in establishing their businesses considered their quality of life to be very good². This goes some way to explaining why 'putting something back' formed the backbone of many of the motivations for engaging in social responsibility cited by respondents.

1. Lifting Barriers to Growth in UK Small Businesses, FSB (2006)

2. Ibid

Environmental Responsibility

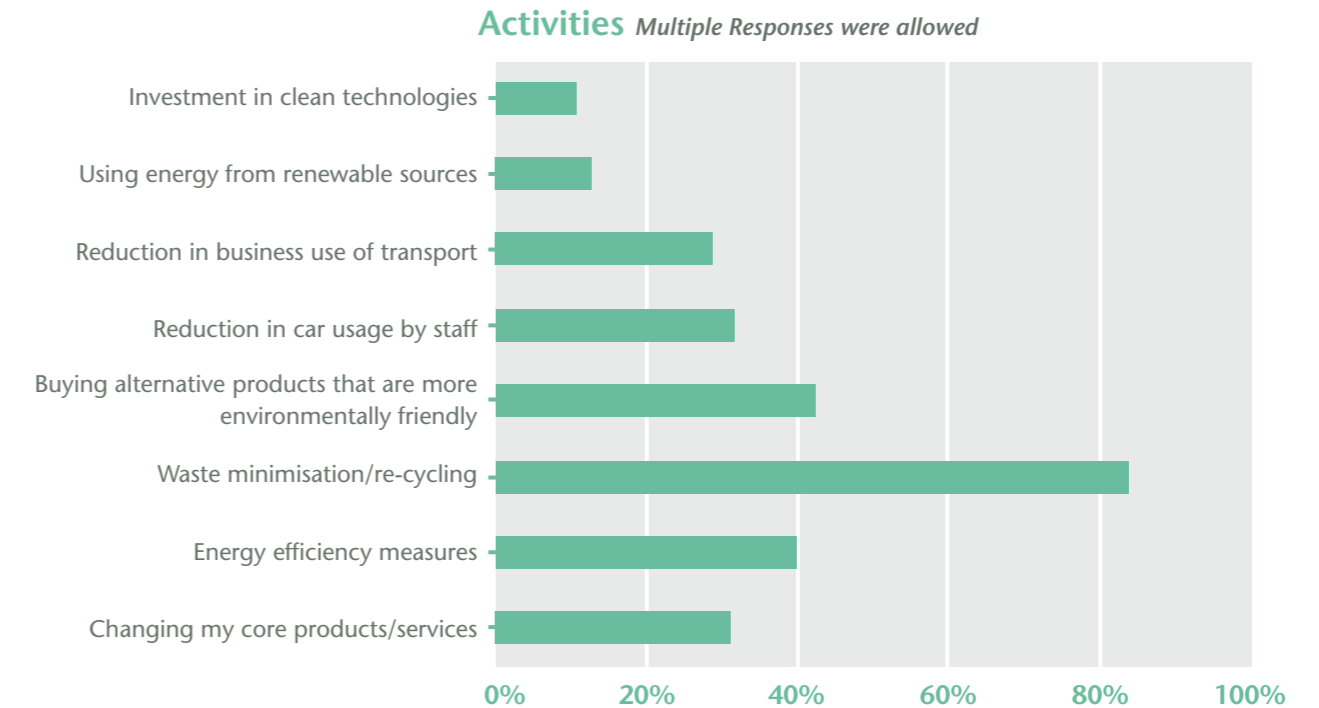
Small businesses traditionally receive poor press when it comes to their views and actions toward the environment. They have been perceived in the past as disinterested at worst and apathetic at best about the environment³.

The key problem for many small businesses has not been apathy but lack of awareness of what they can and should be doing to seek effective environmental solutions to waste disposal and other areas.

Broader issues such as climate change were considered a reality by small businesses but the responsibility of large businesses⁴. However this report shows a shift in attitude and a proactive approach by many small businesses to environmental issues.

83% of respondents actively engaged in waste minimisation and recycling and 41% of businesses bought products that were more environmentally friendly. Well over a third (39%) reported that they engaged in energy efficiency measures and 30% changed their core products and services to be more environmentally friendly.

This attitude shift in recent years is backed up by research conducted by the Environment Agency which states that a *'growing number of SMEs are concerned about the environment and are taking action to curb their environmental impact - 40 per cent now have an environmental policy in place, compared with 25 per cent in 2005.'*⁵



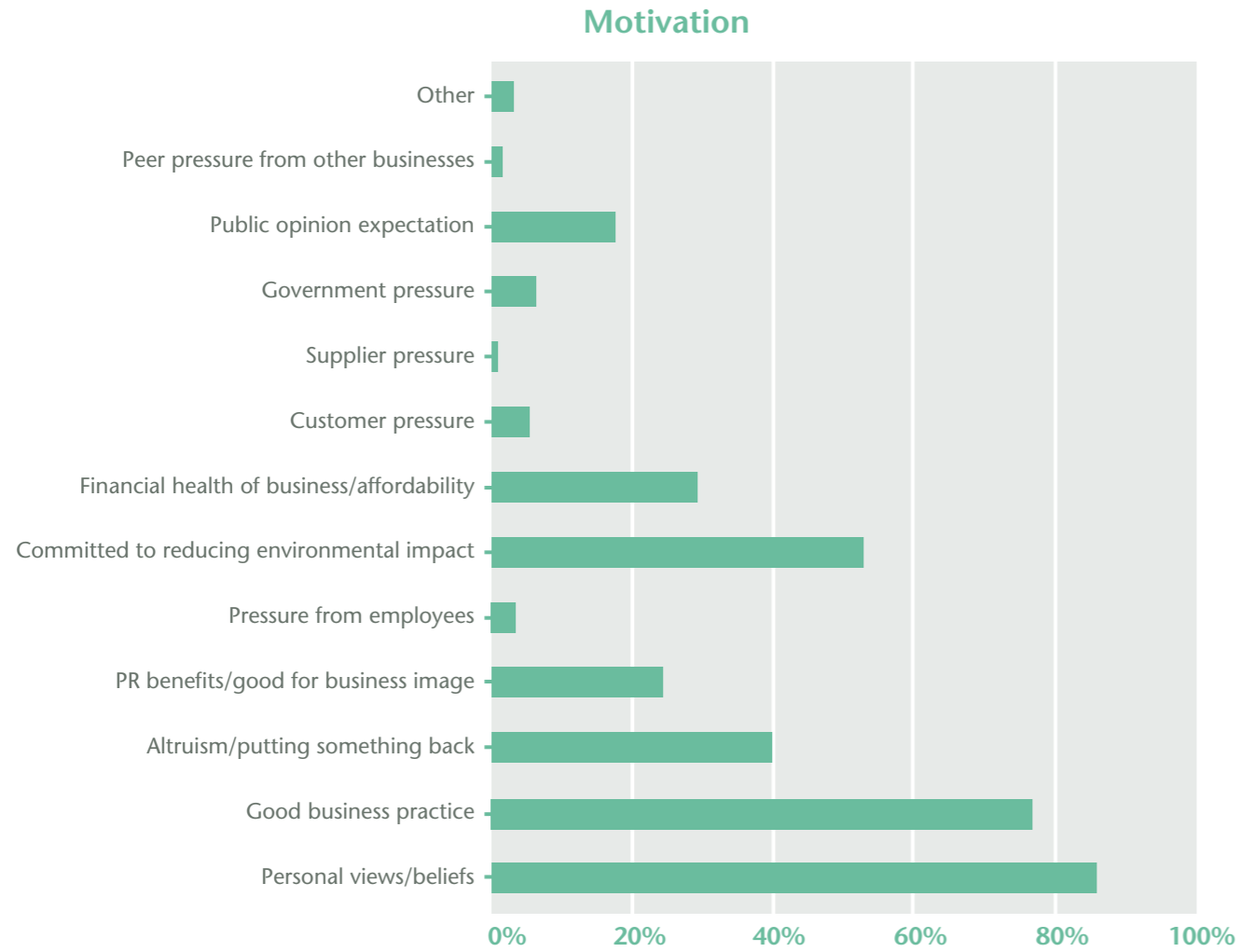
3. <http://www.esrcsocietytoday.ac.uk/ESRCInfoCentre/PO/releases/2004/june/uksmall>. Their research said that small business paid 'lip service to green issues' and estimated that they were 'responsible for 60% of industry's carbon dioxide emissions, 60% of commercial waste and eight out of ten pollution accidents'.

4. The Shell Springboard Report, 'Small Businesses attitudes to the opportunity of climate change', based on research conducted by MORI in 2005.

5. <http://www.environment-agency.gov.uk/business>

What Motivates Small Businesses to be Environmentally Responsible?

85% of businesses cited personal views and beliefs as their motivation for undertaking environmental activities with 76% citing good business practice. Over half highlighted a commitment to reducing their environmental impact and a quarter recognised the public relations benefits of demonstrating environmental responsibility.



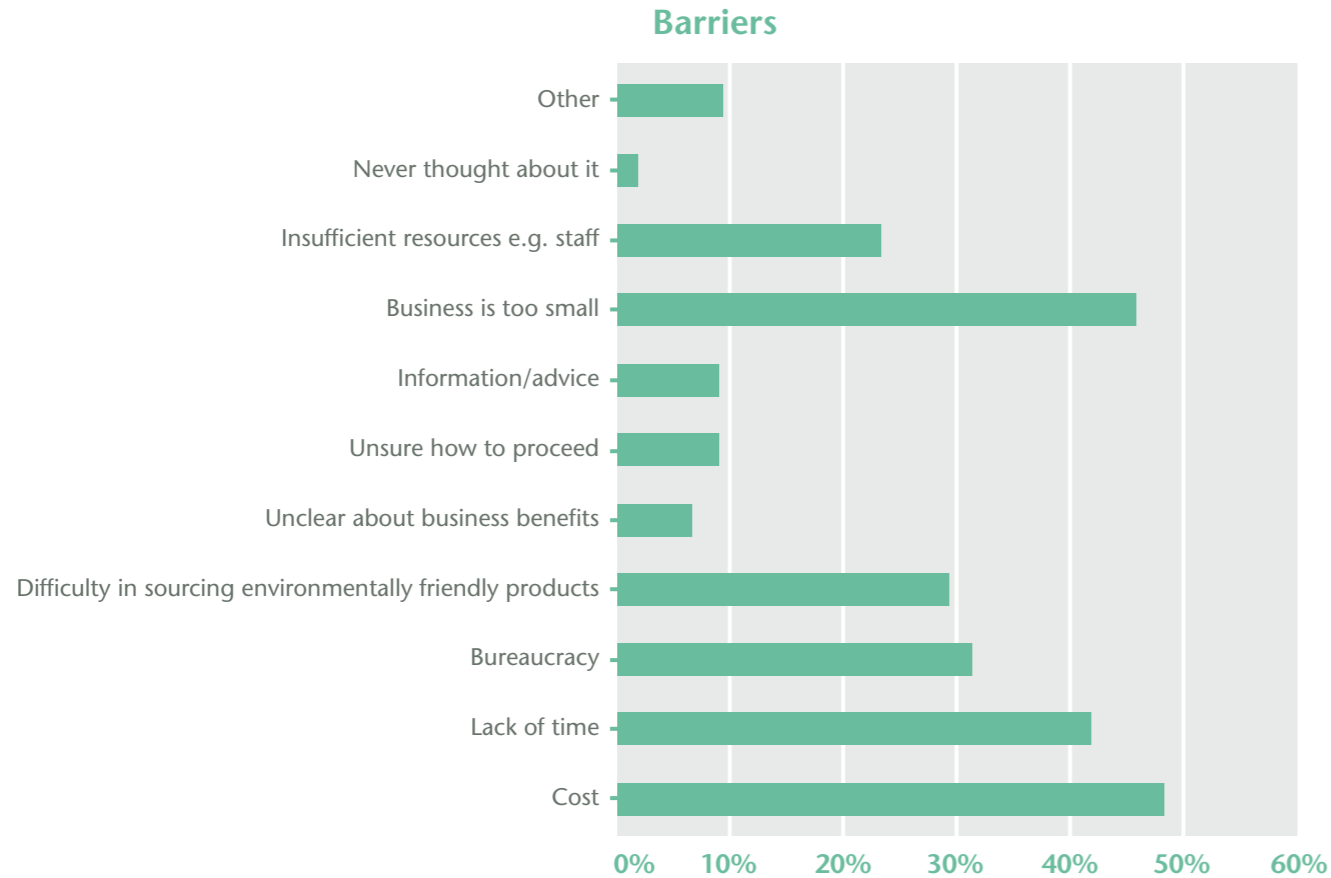
The FSB has for some time highlighted the similarities between householders and some small businesses in terms of levels of expertise and awareness of environmental issues and would contend that, like the population at large, the shift described is attributable to the heightened publicity given to environmental issues in recent years, together with the dramatic evidence of climate change occurring worldwide.



What are the Barriers Small Businesses Face?

The picture is not entirely rosy, and small businesses are still very much hampered by time, the size of their business and the complexity and raft of legislation emanating from the EU on the environment.

Environmental legislation to date has continued to apply a 'one-size fits all' approach which presents many barriers for small businesses in their efforts to seek effective environmental solutions. It is unsurprising then that lack of time, red tape and size of business scored highly as factors that prevented greater involvement with the environment.



When asked what would make involvement with the environment easier, an equal number of respondents (40%) stated that both guidance on how to get involved and information on business benefits would help.

'... most businesses want to be socially and environmentally responsible ... help and guidance would make a greater impact than implementing more legislation.'

The change evident in the environment and the legislation that aims to mitigate its effects, clearly poses opportunities and threats to many small businesses. Small businesses tend to be innovative and adapt quicker to change than large companies. They could readily make use of new technology and develop new markets however, the onus remains on the Government to improve and increase investment into R&D and provide clear, simple and timely guidance on the opportunities available and the steps small businesses need to take to mitigate negative effects on their businesses.

Moral and economic pressures are now at the forefront of discussions on ways to reduce carbon emissions and small businesses in particular are sensitive to these pressures.

Energy Efficiency

Approximately 70% of those that gave information on energy efficiency did the following:

- Utilised low energy light bulbs
- Invested in low energy lighting
- Turned off PCs/lights etc
- Changed heating systems
- Minimised electrical usage
- Reduced temperatures in offices

Thoughts on Environmental Responsibility:

'Pointless having a business if there's no planet to have it on ...'

'I believe that all businesses big or small should set an example regarding social and environmental issues...'

'It is the core ethos of our business.'

'Attractive to potential and existing employees.'

'Results in cost savings for our business.'

'Sets an example.'

Staff Welfare

'My 'social responsibility' was taught to me by parents & grandparents - who in turn had been taught to treat their staff in a responsible and caring way - this went as far back as the 17th century in my family if not earlier.'

Small businesses have been described as the backbone of the economy and currently employ 13.2 million people, which accounts for over 58% of the UK private sector workforce⁶.

A significant number of small businesses are family owned and over a third are co-owned with a spouse⁷.

A key problem area for many small businesses, and which has been widely documented, is the recruitment of staff with relevant skills. Unsurprisingly then, colour, creed, age or disability is irrelevant to small businesses when hiring new recruits as long as applicants have the requisite skill set.

The problems of recruiting skilled staff presents a clear motivation for small businesses to retain the staff that they have.

These special difficulties in recruitment and retention of staff are reflected in the survey along with the lengths businesses are prepared to go, to ensure they have a happy workforce and a good working environment

The motivations are not entirely business focused and the research findings show that certain practices are considered common sense by many small businesses.

This predisposition to be good employers combined with the significant problems small businesses experience in recruiting skilled staff is borne out by the survey results outlined below.

It has been mentioned earlier in this report that the profile of small businesses in terms of their outlook on life is very much linked to how they perceive their environment and their workforce.

Currently of the businesses that employ staff, 63% employ people of varying ages and disabled staff.

60% of small businesses encourage staff to develop their skills. Over half of respondents (55%) cited consultation with staff on important issues as essential. Over half again (51%) engage in family friendly practices.

Measures to promote the health and well being of staff along with social events also rated highly, 42% in both cases.

The motivation given by respondents for investing in their employees in the ways that they described was overwhelmingly good business practice and personal views with over 80% responding accordingly in each case.

Retention of good staff is important to all companies but is clearly critical to the success of the smallest businesses.

The survey findings amply demonstrate that small businesses are highly motivated to provide a good working environment and work hard at ensuring that staff morale is a key consideration in their business practices.

6. <http://stats.berr.gov.uk/ed/sme/smestats2006-ukspr.pdf>

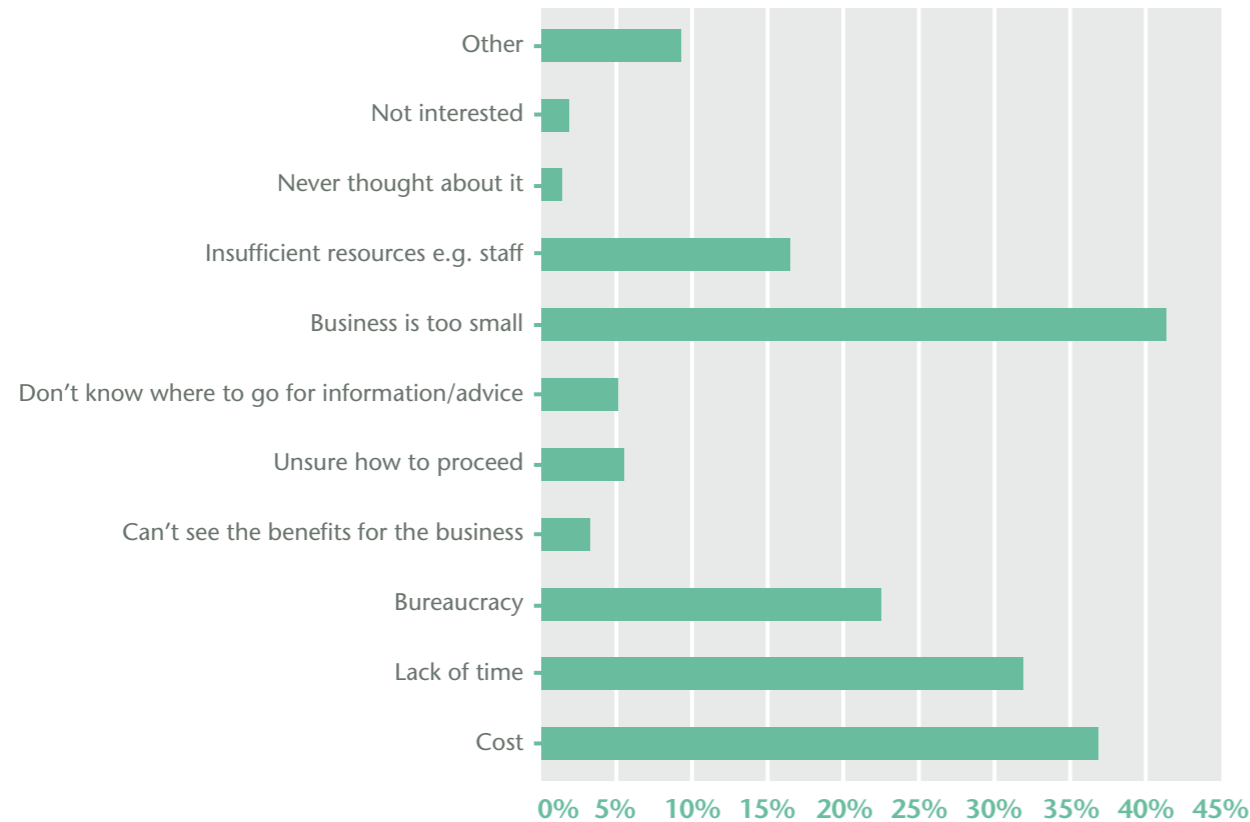
7. Lifting the Barriers to Growth, 2006

What are the Barriers to increasing Staff Welfare Activities?

Again, small businesses are quite often hampered by their size and cannot do as much as they would like in this area.

41% of respondents cited their business size as a problem closely followed by cost factors (37%) and time (32%).

What factors prevent you from being involved in staff welfare activities?



Why do it?

'We are a small family firm so like the vast majority of similar firms we are as employee friendly as they come.'

'...a healthy, relaxed, aware employee is a good employee and good for the business and the community.'

'Common sense.'

'It has always been my aim to have a contented workforce that works well together.'

Guidance and clear advice on business benefits scored highly as ways to encourage greater engagement by small businesses.

Community

As part of the 2006 Budget, the Chancellor announced that HM Treasury would undertake a review into the future role of the third sector (i.e. registered charities, voluntary groups etc). One of the issues they identified as key was 'corporate community involvement' and the way in which the private sector supports charities and voluntary groups.

This report shows that small businesses are unrivalled in their commitment to their local communities. They are highly motivated by their own personal beliefs and value systems and consider these activities good business practice. External pressures from customers or suppliers did not feature highly at all in the list of reasons for getting involved. Over a third of respondents considered that their business image benefited from their work in the community; a clear reflection of their role in their local economies. Nearly half of all respondents cited 'putting something back' or altruism as their key motivation.

'Basically small businesses take a different view from big businesses. The big boys are probably looking to see what they can get out of it [CSR], whereas small businesses see it as being part of the community and don't see it in business strategy terms at all.'

'This has been an intrinsic part of our business ethos from our foundation in 1995. All staff are fully 'signed up' to it and assume it is part of the way we work. We don't make a big thing of it, we just do it automatically.'

'Working with young people is a good way to find future employees/contractors and our work with selected local organisations and student groups helps us to be involved with entrepreneurs of the future.'

- 90% of businesses were motivated by their personal value system
- Nearly half (48%) cited altruistic motives
- 33% considered it to be good business practice
- 48% of respondents make charitable donations from company products
- 59% donate goods and services to local charities or voluntary organisations
- 61% of respondents worked with local schools and projects and sponsored local organisations
- 19% of small businesses actively encourage employees to undertake work with local charities

'We offer a zero fee design project once a month for charities and not for profit organisations'

Interestingly, the levels of community involvement described go beyond donations and ad hoc voluntary work but also include firms using their business expertise free of charge to support local charities and not for profit organisations in their area. 12% of respondents who listed their community activities cited their involvement in pro bono work for charities and other not for profit groups.

'We promote local voluntary groups for free in our magazine.'



A good example of the ways small businesses contribute to helping regenerate their local communities is outlined by John Pettifer of Recycle - IT.

• Case Study 1

John moved his business from Northumberland to Teeside 3 years ago. He was approached by Renew Tees Valley about whether his business would be interested in employing the long term unemployed in the community. John was keen to be involved in this project as he had been made redundant twice in his working life.

He said *'redundancy was a demoralising experience and at my time of life I had no hope of gainful employment but because of my skills I was able to start up my own business. It was this personal experience that motivated me to actively recruit from the long term unemployed through the job centres. Recruiting the long term unemployed comes with its own challenges but overall it's something I'm very committed to doing...'*

What are the Barriers to increasing Community Involvement?

Predictably, cost and lack of time were the key barriers cited by 46% and 45% of respondents respectively.

Over a quarter of respondents said they were unsure about what would make their involvement in the community easier. 26% cited guidance and 26% cited clear advice on the business benefits would improve their level of involvement.

• Case Study 2

Keith Brown of the Target Group has been running a PR/Marketing firm for over 20 years and is actively involved with his local community in Brentwood.

Keith and his staff work with schools in Harold Hill to produce an annual newspaper.

'We work with the youngsters on the layout, design and distribution of the paper. It's an event the youngsters look forward to and they learn practical skills and how to apply themselves to a project.'

Keith's motivation for this work is to support his local community.

'Harold Hill is currently undergoing regeneration and our work supports that'. When asked about how he allocates time to get involved with his community he responded, 'if you put a value on something you find the time to do it.'

Legislation

'Small businesses are frightened off by heavy booted legislators.'

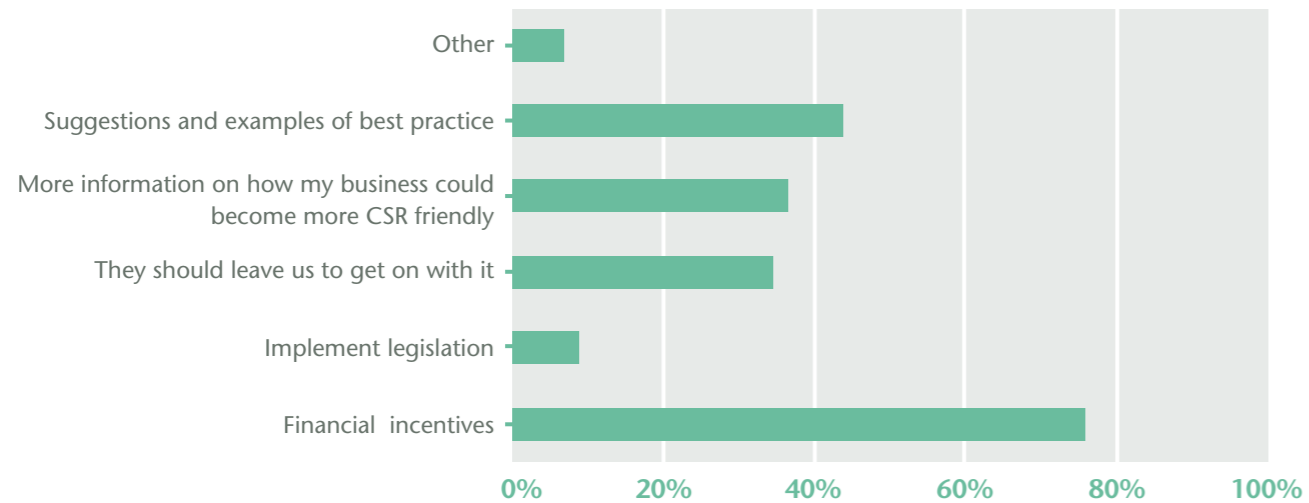
Currently the European Commission is focusing on making Europe a 'pole of excellence on CSR' it contends that the *'uptake, implementation and strategic integration of CSR by European enterprises should be further improved.'*⁸

This report clearly demonstrates that many FSB members are already implementing socially and environmentally responsible practices but are unlikely to be familiar with the concept of CSR. Small businesses are aware that there is increasing public concern about business activities and a decline in trust and they take these issues very seriously.

The FSB supports the European Commission's definition of Corporate Social Responsibility 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.'*

A concern for the FSB has been suggestions to include social and environmental reporting alongside financial reporting, this would only burden small businesses already heavily constrained by time and resources.

What role should the Government play in helping small businesses?



8. Commission of the European Communities - Implementing the Partnership for Growth and Jobs.

A respondent sums up the views on legislation well:

'Legislation for CSR on small businesses would be completely inappropriate. Most small businesses contribute significantly to their local community without thinking. After all, our kids go to the local school, play in the local playground join the local football teams ... we want the best environment for our kids to grow up in and for us to live in.'

76% would welcome some form of incentive

42% would welcome suggestions and examples of best practice

37% would welcome more information on becoming more CSR friendly

35% want to be left to get on with it



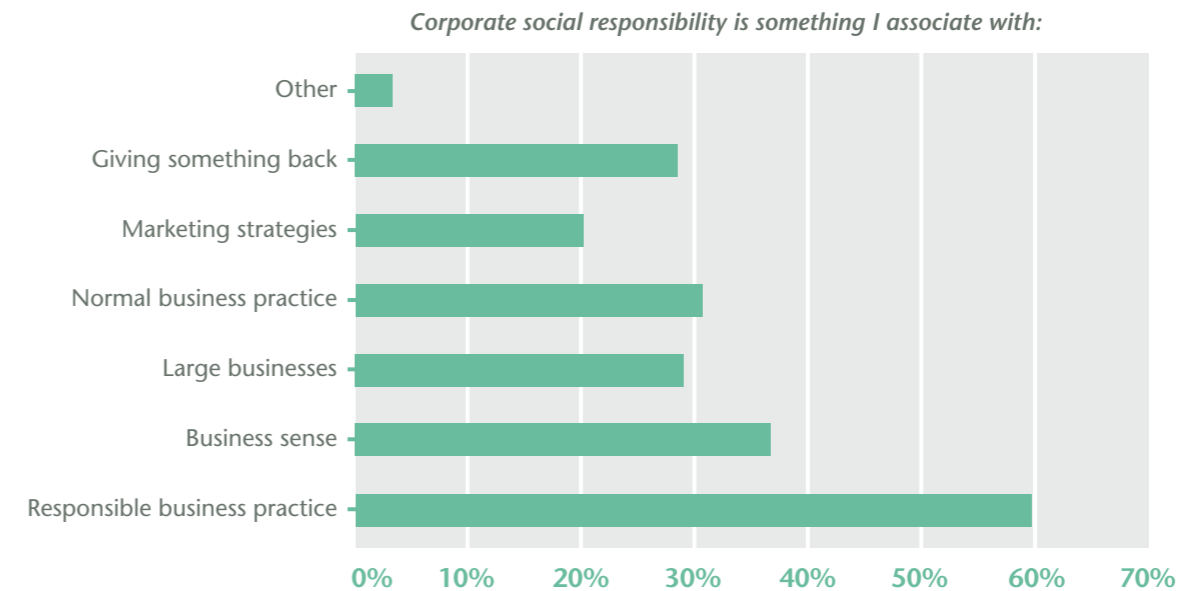
Attitudes to CSR

Many small businesses are not driven by any commercial or monetary benefits from engaging with social and environmental issues but consider these activities to be good and responsible business practice. 45% considered that social and environmental responsibility could be a useful marketing tool for business but over a third of respondents (31%) were ambivalent about the marketing opportunities CSR provides. A number of businesses were at pains to state that they felt it was inappropriate to 'shout' about their activities. However, evidence from the survey suggests that businesses are waking up to the value of communicating the type of work they undertake and would benefit from help from other businesses in this regard.

Well over a third of respondents (38%) were of the view that a business that is socially and environmentally responsible was more likely to be successful in the current business climate and 92% of all respondents considered their business to be socially and environmentally responsible.

There was a clear mix of views about the terminology and the concept of corporate social responsibility. 60% associate CSR with responsible business practice and over a third perceived CSR as 'normal' business practice.

'A lot of companies use it as a marketing tool and not as a real social responsibility...'



The corporate aspect of the term concerned a number of the respondents who identified this with large businesses and with marketing strategies.

Conclusion

This report has demonstrated that by their very nature small businesses are engaged in social and environmental activities. Social and environmental responsibility is considered by most small businesses as a normal part of business development and growth.

The report recognises that small businesses would benefit from a more structured approach to their involvement in social and environmental issues and need clear examples and concise easily accessible guidance.

Legislation and onerous reporting requirements would be a deterrent to busy small enterprises.

It would appear that responsible business practice is a core ethos for many of the 4.2 million small businesses in the UK and this should be enhanced by Government and not hampered by misguided regulatory controls.

Recommendations for the Support and Promotion of Corporate Social Responsibility among Small Businesses:

- *Government funding into incentives to engage small businesses in a more structured manner in CSR activities*
- *Seek to improve the current voluntary environment*
- *Promote simple and effective ideas to increase and enhance current participation*
- *Promotion of CSR through initiatives like the UK's Better Business Journey*
- *Celebrate and award businesses that apply ethical values and demonstrate positive impacts on staff, local communities and the environment*

Sources for Desk Research

- Lifting the Barriers to Growth for UK Small Businesses, the FSB biennial membership survey 2006
- The Environment Agency www.environment-agency.gov.uk/business
- Economic and Social Research Council www.esrcsocietytoday.ac.uk
- Better Business Journey: produced by the UK Small Business Consortium (2006)
- Engaging SMEs in Community and Social Issues, 2002 – A small business Consortium Research study on behalf of the DTI
- The Economist: June 2-8th 2007 'Cleaning Up'. A 15 page report on how Business is tackling climate change
- The Shell Springboard Report 'Small Businesses attitudes to the opportunity of climate change' based on research conducted by MORI in 2005

