

Strategic CSR for SMEs: paradox or possibility?*

Una RSE estratégica para las Pymes: ¿una paradoja o una posibilidad?

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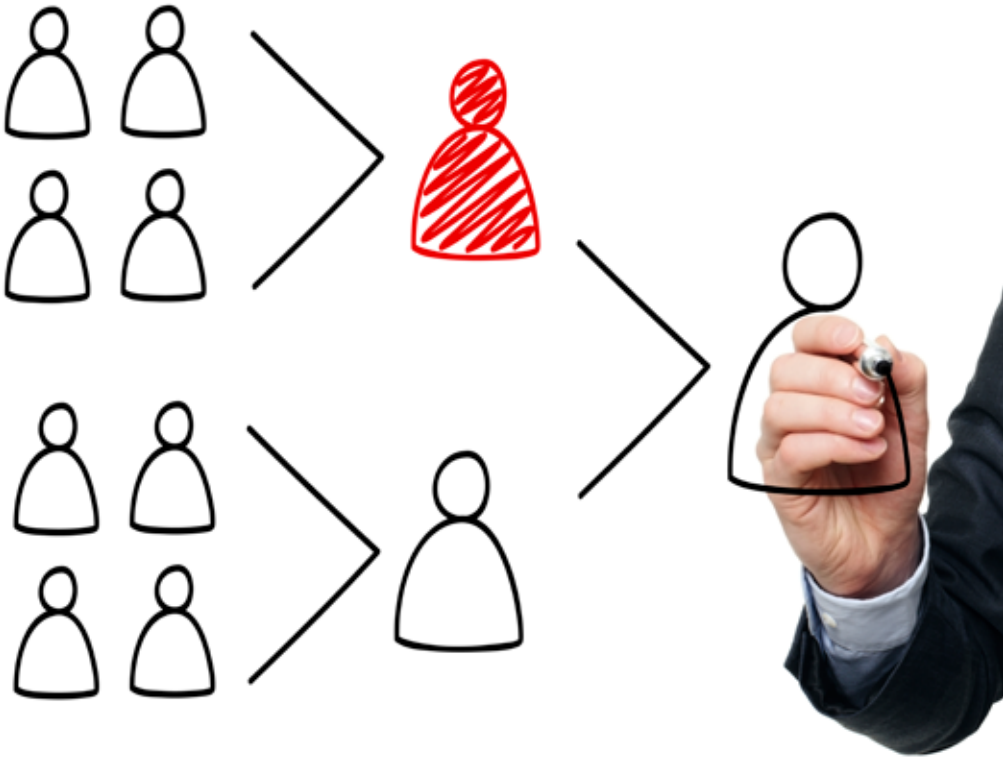
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I. INTRODUCTION

In this paper we investigate the relationship between CSR and strategy for the small and medium sized enterprise (SME) based on several research and consulting projects the past five years. There has been an increasing call in the CSR field to move beyond words (Fontrodona 2005) and costs, and for CSR to become rooted in the strategy of the firm (Porter and Kramer 2006, Davis 2005) so that it may help to generate sustainable value. Michael Porter, as an economist, has helped to increase dialogue in the space between CSR and competitiveness. Regardless of some of the recent criticism (Economist 2011) of his shared value concept (Porter and Kramer 2011) his work helps promote a greater exploration of how CSR (or sustainability in general) can help to generate economic value in the longer term, often from contributors who normally work outside the CSR space. However, few explorations seem to consider the SME at the strategic level, or at least recognise that the small enterprise has fundamental differences to larger companies when considering strategy. An increasing amount of CSR research and development as applied to the SME is taking place, but has mostly focused on awareness raising and implementation of the basic elements of CSR. Taking CSR to the next level is critical for a variety of reasons, not least when considering Porter's thesis on shared value which puts close collaboration across value chains near the top of the agenda.



EXECUTIVE SUMMARY

There are increasing calls for a strategic approach to CSR yet the SME case has often stalled at the awareness raising and mainstreaming levels. We aim to advance the implementation of CSR in SMEs, from superficial to strategic, by first asking if strategic CSR is even possible for an enterprise that has no strategy. We present a good practice case before highlighting input factors and the main points linking CSR and strategy, believing that CSR may be used as a pathway to professionalising the SME.

RESUMEN DEL ARTÍCULO

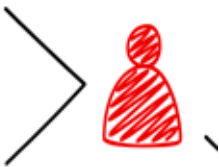
Aunque se oigan muchas voces a favor de un enfoque estratégico de la RSE, parece que en el caso de las Pymes todo se acaba en fomentar la sensibilización hacia estas cuestiones. En este artículo proponemos avanzar en la implementación de la RSE en las Pymes, desde un enfoque superficial a otro estratégico, empezando por preguntar si es posible hablar de una RSE estratégica en una empresa que ni siquiera tiene estrategia. El artículo presenta un caso práctico, así como una serie de factores de éxito, y algunos puntos a tener en cuenta en esta relación entre RSE y estrategia. La RSE se presenta como un posible camino para profesionalizar una Pyme.

In short, many SMEs have a poor level of formalisation and professionalization before even considering a formal strategy. The question then becomes: Is strategic CSR possible in an SME that has no strategy? We explore here if a strategy is required for CSR to flourish, or if indeed CSR may be used as the means by which the small enterprise may develop a strategy and increase their level of formalisation, professionalization and quality of service. The paper is structured as follows. Next we detail the recent activities which have led us to ask this question. This is followed by an exploration of value generation through CSR and the presentation of a Catalan SME, Metalquimia, as a case example. Next, we analyse CSR implementation moving from the superficial to the strategic before concluding with a summary of the connection points between CSR and strategy for the SME and closing remarks.

2. BACKGROUND

The starting point for our reflections on strategic CSR for the small firm began in 2006 with the RESPONSE project (MacGregor and Fontrodona 2008) one of the first European research projects to specifically explore the link between CSR and innovation. The project lasted for 15 months and included the study of 60 SMEs from Spain, UK and Italy. Funded through a 'mainstreaming CSR in SMEs' grant from the European Commission's Directorate General for Enterprise & Industry the initial aim of the research was to show that Corporate Social Responsibility may not just be seen as an additional cost for the enterprise, rather something that could add value, and in our case, add value through innovation. The main output of the research was the RESPONSE model (MacGregor et al 2010) which can be used to diagnose or guide CSR and innovation activities in the enterprise.

Our most recent research experience which focuses exclusively on the SME is the Responsible MED project where we have been engaged as external experts by the University of Girona. A 2-year project (from July 2010 to 2012) supported by the European Mediterranean (MED) fund and coordinated by the Regional Government of Tuscany, Responsible MED looks at the link between competitiveness and CSR in SMEs and aims to build a tool that will help SMEs become more competitive through CSR. The project partners come from academic and practitioner backgrounds with several chambers of commerce involved, and so CSR policy is a further key element



of analysis.

A third research project which helps develop our thesis is the European Union FP7 IMPACT (Impact Measurement and Performance Analysis of CSR) project where IESE together with 16 European partners aim to measure the impacts of CSR. Coordinated by the Oeko Institute and EABIS, IMPACT will run until 2013 with a focus on five sectors; Retail, ICT, Automotive, Construction & Real Estate, and Textiles.

Finally, we also exploit our experiences consulting for several small enterprises in the innovation and strategy domains as well as CSR and sustainable development.

In the literature, we see a growing recognition of the importance of business ethics and social responsibility for SMEs that has led to an increasing interest both at the researcher level and on the management side (Fuller, 2003; Spence, 1999; Spence et al. 2003, 2004; Jenkins 2004, 2009, Murillo and Lozano 2009). SMEs find their own internal and external drivers and barriers to social performance (Kusyk and Lozano, 2007) and CSR could provide significant scope for competitive advantage for SMEs, not only a cost burden (Tilley, 2003). Innovation, and specifically developing innovative products and services with CSR credentials, has been considered as one viable source of competitive advantage (Lefebvre and Lefebvre, 1993; Jenkins 2009). However, it has been acknowledged that sometimes SMEs do not have either the structure or the time to bring in all management innovations as they are created (Spence, 1999; Baker, 2003; Murillo and Lozano, 2009). In their 2008 Competitiveness Report the European Commission view innovation as one element of the competitiveness possible by investing in CSR, with the CSR-competitiveness discussion based mostly on SME-based research. The other elements are cost structure, human resources, customer perspective, risk and reputation management, and financial performance, while the three areas in which innovation is thought to be supported through CSR engagement with other stakeholders; identifying business opportunities through addressing societal challenges; and creating work places that are more conducive to innovation.

In general, there seems to be growing trend towards the measurement of CSR and the benefits it can bring on a business value level. Nigel Roome, a professor at Vlerick Business School in Belgium and Chairman of the Academic Board of the Academy of Business

KEY WORDS

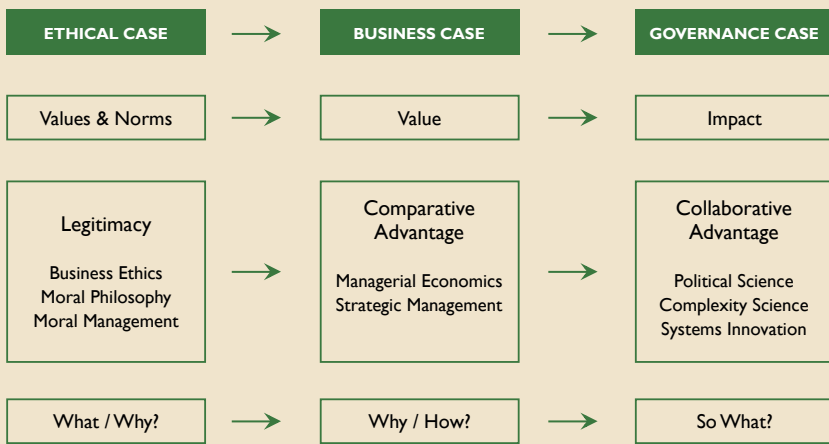
Strategic CSR, SME, professionalisation, innovation

PALABRAS CLAVE

Estrategia, RSE, Pymes, profesionalización, innovación

in Society (EABIS) comments on the evolution of CSR research, which has a long history in the values and norms of the ethical case, but which is increasingly moving towards the business and governance case, where work from other fields of study can help to derive insight (see **Figure 1** below).

Figure 1. The evolution of “Traditional” CSR Research



Source: Nigel Roome

3. GENERATING VALUE THROUGH CSR: LESSONS FROM METALQUIMIA

Strategic management and managerial economics can therefore aid the exploration of the business case for CSR yet such areas often pre-suppose a high degree of firm sophistication that is not present in the majority of SMEs, particularly at the smaller scale. Does this mean that strategic CSR for the SME is not possible? To help answer this question we present Metalquimia, who were first interviewed during the RESPONSE project in 2006.

Metalquimia are a medium sized family business headquartered in Girona. Founded in the Northern Catalan town of Besalu in 1971 they are a world leader in the design and manufacture of meat processing machinery and technology for cooked and cured meats such as ham and sausage. In the overall business chain they are situated between the livestock farmers/abattoirs and the meat processors who package and sell the final product to the consumer, most of

whom are situated within the strong pork cluster of the Girona region. These meat processing companies, the clients of Metalquimia, are usually large firms who distribute through a variety of channels, including the large national and international supermarkets. A family run business it employs 110 people between its design and research plant in Girona and production plant in nearby Banyoles. The company has a turnover of €22M, 90% of which comes from exports to over 70 countries worldwide.

Narcis Lagares founded Metalquimia in 1971, with value generation through creativity and community contribution to the fore, even if little actual knowledge existed regarding their operationalisation. These founding visions continue to drive the company to this day, under the direction of Narcis's two sons, CEO Josep and Operations Director Narcis, with much more knowledge existing on how they are put into practice. At the core of firm sophistication is a formal strategy based on the systematic planning of creativity and innovation (jointly conceptualised in the company as 'creativation') inside the company as well as an open innovation system to connect across the value chain.

Metalquimia is active in community based CSR, supporting several local initiatives in a philanthropic sense, yet it is their CSR activities related to workforce and across the value chain which help to drive economic value. The starting point remains the values of a family business – each employee is made to feel part of the family with the best example perhaps being the approach to recruitment, where new staff are encouraged to think it could be a job for life. The culture and values of Metalquimia are formalised in various strategic sub-plans, 12 in all, including sales, operations, 'creativation', internationalisation, family and people management.

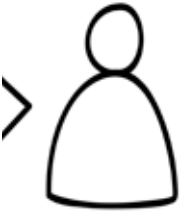
The Metalquimia 'family' are also rewarded financially more than most private enterprises with 20% of the annual profits being distributed between the workforce. The company has conducted internal research gauging the level of satisfaction of staff, finding that productivity has remained the same with less hours worked, more free time in addition to other measures improving that satisfaction, while less hours worked means lower overheads for the company (not to mention producing environmental value). Activities open to the workforce include cooking classes, organised cycling and walking excursions, and various conferences of cultural interest with Josep and other senior staff often present and mixing openly with all members of staff.



Josep comments that the value is in “enriching the workforce as well as helping to socialize people from different departments outside of the work environment”. Such a responsible approach to the workforce has provided the basis for a motivated, creative workforce and a strong innovation culture where over 50% of sales comes from products released in the past 5 years.

Yet the path towards this systematic, continuous innovation which drives sustainable value does not occur overnight. Product Portfolio Management was the first systematic tool to be implemented in the early 1990s, and ironically was implemented after the failed launch of a product which had won a technological innovation prize from the Catalan Government. The award was made for a HTST (High Temperature Short Time) sterile packing system for cooked meat products. The subsequent failure of the product (due to unforeseen complexity and market uncertainties) served as a catalyst to change the innovation process in the company - no longer would a good idea or good technology be enough. Innovation at Metalquimia had always depended on an idea champion (Josep’s father, Narcis) with the rest mostly down to chance but the paradox that was the failed award made Josep realise that understanding every aspect of the potential innovation was critical, and that the overall process had first to be socialised within the workforce, and then systemised.

The creativation concept inside the company which is founded on workforce CSR is complemented by value chain CSR which drives an Open Innovation strategy within the strong pork cluster in Girona. One recent success from this strategy is Quick Dry Slice (QDS) a revolutionary innovation process co-developed with a key customer, Casademont and the AgroFood research and technology centre IRTA. QDS accelerates the time related to the drying and curing of meat, from the typical 3-6 months when meat is hung in refrigerated drying chambers, to just 60 minutes. As well as providing the obvious business benefits for increased yield and time to the end consumer, QDS significantly reduces energy consumption and costs. Such close collaboration across the value chain is also complemented by more community based actions, with an example being the installation of a pilot production line for cooked meats at IRTA which will help to train new technologists as well as improve the overall research function. The line provides significant value to IRTA yet also to Metalquimia who will benefit from a stronger local knowledge base and a more qualified local talent pool for recruitment to aid the longer-term



growth needs of the company.

In conclusion, Metalquimia still has to develop some aspects of their CSR strategy, one aspect being that formal recognition of CSR in the company is mostly limited to community based philanthropic actions. The workplace and supply chain CSR strategies presented here are considered to represent best practice innovation as well as following the founding values of the family enterprise. Such strategies are instructive in showing the power of CSR for SMEs to create a platform for sustainable value creation. We believe therefore that strategic CSR is possible for the SME and that CSR itself may be used as a means of creating a strategy and deriving comparative advantage for the small and medium sized firm. We now highlight some of the factors which need to be considered when moving from the superficial to the strategic.

4. CSR IMPLEMENTATION: FROM SUPERFICIAL TO STRATEGIC

Although the Metalquimia case provides a valuable lens to consider CSR and strategy in SMEs not every SME would be best advised, for example, to follow an Open Innovation strategy. Much will depend on the exact context for the SME in order to move to strategic CSR. For a basic introduction to CSR on the more superficial level, standard guides and tools will suffice for an enterprise to become aware of what CSR means, and implement small actions in the areas of human resources, environment, community and supply chain. Yet to move to the strategic level where an understanding of performance is possible, a high degree of specificity is required. This necessarily means an exploration of the core business of the firm and how a responsible and sustainable value approach may be taken in all areas of CSR. This exploration should include the specific strengths, weaknesses and profile of the company and their principal stakeholders. To this end we see companies like TNT focussed on the emissions caused by their core business and the general issue of climate change, Nestle focusing their shared value strategy on activities related to nutrition, water and rural development, and, in our case, Metalquimia taking an open approach to innovation within the strong pork cluster in Girona. Framing these company actions comes a call in some quarters to change the approach to stakeholder analysis where the issue is the core element on which all stakeholders are focussed, with such a focus arguably better able to lead to coherent action.

This specificity or context for an SME may be defined by several factors, including the size of the enterprise, the sector of activity, degree of maturity and location, each of which are now discussed.

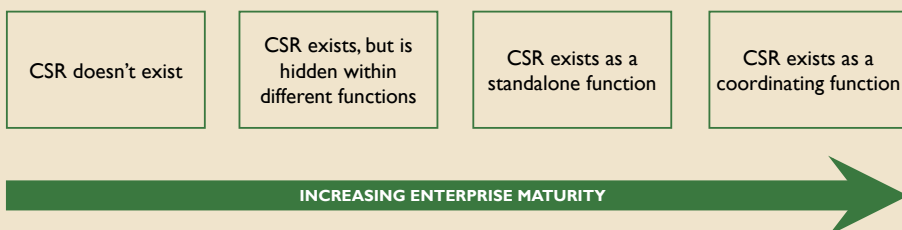
Size: A widely cited figure is that SMEs make up 98% of all European firms and generate 66% of all jobs. Yet the characteristics, and by extension, CSR needs of a small firm of 50 people varies greatly with a medium to large enterprise of 200. Key changes take place in an enterprise with more than around 50 people, where the owner manager ceases to become the focal point for all actions and decisions and where delegation is required. If we add the further complexity of considering micro-enterprises of one to ten people, the complexity and challenges become even greater still. An often overlooked fact is that the often cited statistics for SMEs are actually for MSMEs (Micro, Small and Medium) and that micro make up the majority of those enterprises which form 98% of European firms.

Sector: A sector-based approach to CSR has gained increasing traction in recent years. The Austrian research centre RIMAS investigated CSR for three key sectors in Europe; chemical, textile, and construction (Martinuzzi et al 2010). Part of their conclusion is that for future CSR initiatives, a sector specific approach should take the different “rules of the game” into account, address the different competitiveness issues and even look beyond the sector level to the sub-sector level. Further, discussions regarding CSR tool development in the Responsible MED project have recently centred on the need to cater for the large sector-based differences in SMEs, taking as a best practice example the Dutch CSR tool, MVO (<http://www.mvo-nederland.nl/>, in Dutch only), a standard reference point for small enterprises in Holland which owes part of its success to its sector-based approach, allowing visitors to specify their sector of activity before receiving CSR information tailored to their needs. The business sector may also result in different characteristics regarding the rate of growth and internationalisation. For example, much European Union innovation based policy has focussed on rapid growth firms or ‘gazelles’ in high technology industries while in the RESPONSE project we explored how CSR may actually help internationalisation of a small company as it helps to create a type of universal language and a basic level of trust on which to progress a business relationship.

CSR maturity: SMEs may of course possess varying levels of maturity in their approach to CSR, just as they do in any business function or activity, including strategy. Within the two poles of CSR which fra-

me this section, from superficial to strategic, we may identify several stages, including awareness, implementation, integration and continuous improvement. Related to maturity is the question whether CSR exist as a separate department. In some interviews during the Responsible MED project we found that CSR activities were present, but ownership resided within more conventional functional areas including Human Resources, Quality, and Marketing. CSR has often been compared to the Quality function in the literature (Waddock and Bodwell 2004) which leads us to believe that a formal constitution of CSR as a function is perhaps necessary. However, if we look at the case of another key 'function' within the enterprise, that of innovation, a sign of maturity of innovation is that there is no single department that innovates, since the responsibility for innovation rests with everyone. Additionally, it has been remarked that the sign of ultimate success for the quality movement is that it became invisible. Yet there is an argument for an intermediary structure to formally recognise a set of activities (whether that be quality, innovation, or in our case, CSR) and to champion them throughout the company. Such a function may therefore follow a transversal nature, coordinating and supporting CSR-related activities in other areas and helping to integrate and develop them. Such an approach can be viewed in high-performing CSR functions including Mango who, with a total workforce of almost 9000 employees have a CSR function with just 10 people, which by no means translates to a company with a lack of commitment to CSR – rather that the CSR department plays an interfacing and integrating role within the company. We therefore propose the following CSR development path (see **Figure 2** below) which we believe to exist in many present day companies, small or large.

Figure 2. **CSR development in the enterprise**



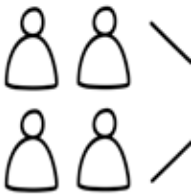
Location: Finally, the location of the enterprise may affect their approach to CSR. This may be linked to the sector of activity where the company forms part of a local cluster or traditional sector, such as textiles in Northern Italy, or it may be linked to the cultural response to CSR in that locality by society. Such behaviours may be further shaped by government policy on a national or regional level. The European Commission has long taken the stance for voluntary CSR with light regulation, with the recent German strategy on CSR focusing on civic engagement as the platform for CSR.

5. LINKING CSR TO STRATEGY

In summary we provide the following connection points between CSR and the strategic definition of the small firm. Such actions are often carried out by firms as part of their strategic development yet we see CSR as the ideal staging post or platform on which to initiate and develop these actions. We therefore propose a type of CSR strategic reflection which begins with the SME variables described above, and is developed through the areas which follow.

Mission, vision and values: many small companies do not have a formalised mission and so CSR may be used as the means of framing a suitably longer-term view of value creation that is based on sustainability and shared value with stakeholders. Indeed, values may be the starting point as these are often more present within the small company but rarely made explicit. Mango's values of Harmony, Humility, and Human Warmth provide the driving point for both a responsible approach to business and a successful business. Further, our analysis of the Metalquimia case shows the importance of family values, and how these translate to strategy. In many small firms, the value-set of the owner/manager is one of the principal reasons for CSR, yet these are seldom made explicit. When they are, CSR will develop as the workforce will help bring alive the responsible business vision of the owners.

Stakeholder analysis: an awareness of, and dialogue with company stakeholders can provide the basis for a more responsible approach to business as well as a better understanding of the business and value generation. For example, we worked recently with a small family business based in Barcelona, on a strategic improvement project. We first conducted a thorough stakeholder analysis, starting internally with their employees, before moving to their key customers, as a means of uncovering the key strengths of the company and possible



new strategic directions. Such an approach had no specific targeted rationale towards CSR yet the key was to uncover a sustainable new means of value generation that would complement the core business in the short term and possibly supersede it in the longer term.

Cost efficiency/operations: the economic crisis and commentary on the coming age of austerity has resulted in a range of cost-cutting measures, from the government level to that of the private firm and individual. A view of environmental CSR may provide a suitable template for analysing costs and the means by which business processes and operations may be made more efficient. The danger of course is that companies only view the short-term need to cut costs and with it, reduce the number of jobs they provide. To this end, it is critical that such a view of the CSR-business link should be complemented by the other areas mentioned here, with the predominant view being that of Metalquimia who view their primary role in CSR as that of providing long-term jobs for the community, with such long-term security the pre-requisite for creating a collaborative, high performing culture. One example specifically linked to operations in Metalquimia was the reduction of the working week, thereby reducing overheads, but which maintained levels of productivity. Part of the strategy here, and appropriate for many engineering based organisations, is the implementation of lean philosophy which looks at minimising waste, and which provides the basis for continuous improvement which is first necessary before a company, especially a small enterprise, can innovate.

Innovation: In contrast to the operations focused view of the firm which centres on the present business, innovation is necessary for the enterprise to change and evolve, thereby uncovering the operations of the future business. As such innovation relates to a continuous process of creative destruction that SMEs often find very hard to do. A priori following such an ambidextrous strategy (O'Reilly III and Tushman 2004) in a small enterprise is a tough challenge yet they have the advantages of being more agile and not locked into a rewards culture that focuses on present operations and customers (Bower and Christensen 1995). Sustainability, although mostly used in the context of sustainable development may also be used to refer to the sustainable competitiveness of a firm. If SMEs can create space for innovation in the organisation (without being constrained by limited resources and a 'firefighting' culture) their agile nature and supportive culture may help them achieve sustainable competitive-

ness, relatively speaking, more easily than a large company. As we have seen in the Metalquimia case, CSR may help to create this space in the organisation.

In the RESPONSE project we found the most innovative companies also had the highest levels of CSR. Yet we cannot say that implementing more CSR will lead to more innovation, as it is unclear which came first in the majority of companies. We also found that SMEs were either proactive or reactive in their approach to both CSR and innovation and concluded that proactive CSR (although difficult) may actually be easier than proactive innovation. Indeed, many companies, when considering the risks inherent in innovation asked the

question: *Why should we innovate?* CSR may therefore represent a starting point for innovation and for those companies who want to improve their position in the industry but are generally risk averse: we can say that the start of innovation is risk-abundant though the start of CSR may be viewed as risk reduction.

One of the key insights of the Metalquimia story was the formalisation of CSR and innovation over time, and with increasing maturity. In essence the RESPONSE model aimed to formalise innovation for the small enterprise, who, as we found in the research, often carry out many CSR and innovation related actions but which are informal, sometimes chaotic and rarely measured, albeit important to the success and direction of the company. The trigger for this increasing formalisation in Metalquimia was the costly market failure of a large scale project, which convinced the management team

that a new approach to innovation was required – innovation that first had to be socialised, not over-relying on key creative individuals, and also formalised, so that innovative products could be produced time and again. In essence, CSR has provided the sustainable energy for this innovation to endure and succeed.

6. CONCLUDING REMARKS

In conclusion, we believe that strategic CSR is very much a possibility for the SME and that it may offer a means of professionalising the enterprise, especially where no formal strategy exists. However, if companies integrate such practices in their business action the CSR term may not even be used - is there a danger in the CSR field not getting the glory? Yet, when considering the evolution of the quality

In conclusion, we believe that strategic CSR is very much a possibility for the SME and that it may offer a means of professionalising the enterprise, especially where no formal strategy exists

movement, perhaps the measure that CSR becomes truly mainstreamed will be the day when it becomes, to a degree, invisible. Surely that will be welcome news for all in the CSR community?

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NOTES

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