

**COMPETITIVE SOCIAL RESPONSIBILITY:
Uncovering the Economic Rationale for Corporate Social Responsibility
among Danish Small- and Medium-Sized Enterprises**

People & Profit Project
Danish Commerce and Companies Agency
Danish Ministry of Economic and Business Affairs

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The People & Profit Project is funded by:

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Den Europæiske Socialfond



About the Danish Commerce and Companies Agency

The Danish Commerce and Companies Agency (DCCA) is a government agency under the Danish Ministry of Economic and Business Affairs. The responsibilities and activities of the agency take place within three main areas:

- *Administration of company and enterprise legislation:* The agency is responsible for the administration and development of a number of legislative business acts, including: the Companies Act, the Company Accounts Act, the Commercial Foundations Act, and the Act on Undertakings Carrying on Business for Profit. The agency is also responsible for various commercial laws that apply to certain business types, such as accountants, real estate agents, authorized translators, interpreters, and restaurants and hotels, as well as the HomeService Scheme.
- *Registration and disclosure of certain information about companies, including company accounts:* The second core responsibility of the agency is registration of information and documents that must be filed under company law, and related legislation in order to secure the incorporation, re-registration, and striking-off of companies and other certain business types.
- *Improving the conditions of the business community:* The effort to improve the conditions of the business community focus on relieving the administrative burden on enterprises and is concentrated on two main areas: (1) preventing the imposition of unnecessary burdens on business from new legislation, and (2) exploring more efficient ways for business to communicate with authorities and comply with legislative and administrative requirements. Furthermore the DCCA is highly engaged in promoting the transition to eGovernment in the public sector

About People & Profit

The DCCA is currently conducting the People & Profit Project, funded by the European Social Fund and the National Labour Market Authority's (AMS) Fund for Development of the Inclusive Labour Market. The main goal of the project is to enhance the competitiveness of Danish companies by providing them with the education and tools to work strategically with CSR, disseminating knowledge on CSR as a business factor, and assisting SMEs in turning CSR knowledge into practice. These goals will be met through several types of activities:

- *Research* – gaining knowledge on the link between CSR and business activities for small- and medium-sized enterprises (SMEs): This includes identification of CSR activities, identification of available CSR tools, and analysis of the relationship between CSR activities and business practice.
- *Training* – developing a training sequence for managers and employees of Danish SMEs based on the findings in the research activities: This involves training 12,000 managers and employees in Danish SMEs on CSR activities.

- *Dissemination* – disseminating knowledge through an information campaign about CSR and the results of People & Profit, for SMEs that do not participate in the aforementioned training program.

About the authors

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Foundation Strategy Group is a mission-driven social enterprise dedicated to advancing the practice of social investment and corporate social engagement through consulting to governments, private foundations, community foundations, and corporations. With offices in Boston, Geneva, and San Francisco, our international team of full-time consultants – drawn from some of the world’s top strategy consulting firms – combine the highest standards of strategy consulting with a deep understanding of social investment and the nonprofit sector. We invest heavily in research to develop new ideas, and our thinking is regularly featured in such publications as the *Harvard Business Review*, the *Stanford Social Innovation Review*, and *The Chronicle of Philanthropy*.

In particular, our research and analytical frameworks about the competitive benefits of corporate social responsibility have been developed in collaboration with Professor Porter, who is acknowledged as one of the foremost experts on competitive strategy in the world today. His work on competitiveness has influenced the strategies of major corporations, as well as the policies of countries and regions around the world. We have drawn liberally on Professor Porter’s thinking from internal discussions and working papers, as well as his book, *The Competitive Advantage of Nations*.

For more information, please visit www.foundationstrategy.com.

Acknowledgements

The DCCA and the authors gratefully acknowledge the support of Anne Roepstorff, Ph.D. candidate at the Copenhagen Business School, for her assistance in identifying and conducting interviews with a number of SMEs for this study. We would also like to extend our thanks to Dorte Høeg Koch at Statistics Denmark for her assistance in obtaining data on the SME sector landscape. Finally, the authors would like to thank the SMEs who participated in our survey and graciously granted their time for interviews.

Disclaimer

All statements and conclusions in this report, unless specifically attributed to another source, are those of the authors and do not necessarily reflect the opinions of the interviewees, the Danish government, or any other parties.

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I. EXECUTIVE SUMMARY

Background

This study is one of the first steps in the two-year People & Profit Project, which is intended to enhance Denmark's global competitiveness through the use of strategic corporate social responsibility (CSR) by Danish companies. The project is managed by the Danish Commerce and Companies Agency (DCCA), under the Danish Ministry of Economic and Business Affairs, and funded by the European Social Fund and the National Labour Market Authority's (AMS) Fund for Development of the Inclusive Labour Market.

The purpose of this study is to determine whether we can identify measurable economic or competitive benefits that result from the CSR activities of the small- and medium-sized enterprises (SMEs) that constitute the vast majority of businesses in Denmark. Our mandate is not to conduct a comprehensive analysis, but merely to offer a conceptual basis for the more extensive research that will follow.

Summary of findings

Responses from our study of approximately 50 Danish SMEs that engage in a variety of CSR practices indicate four areas of CSR activity with potentially significant economic or competitive value:

- **Innovation:** We identified a number of companies that derive a substantial and growing share of business from socially-beneficial innovations that directly address societal problems as part of the customer value proposition. This seems to be an expanding niche well suited to smaller and more nimble enterprises such as SMEs.
- **Workforce development:** We found reduced costs associated with hiring, retention, and absenteeism among SMEs that offer unusually generous employee benefits. None of the SMEs we studied, however, had actually calculated whether these savings outweighed the costs of the extra benefits.
- **Environmental conservation:** SMEs reported reduced costs for energy conservation or waste disposal from their environmental CSR activities.
- **Contextual investments:** Voluntary corporate social investments, when explicitly directed toward factors that influence the company's competitive context, also demonstrated the potential to contribute to long-term competitiveness.

In addition, we found instances where government subsidies or incentives created *de facto* public-private partnerships that helped address societal challenges without imposing

a net economic burden on businesses. Subsidies for social inclusion, for example, enabled SMEs to employ handicapped or disadvantaged workers, even at lower levels of productivity, without diminishing competitiveness.

We also examined a number of other CSR activities conducted by the SMEs in our sample, but apart from the four areas listed above, we did not find any measurable economic or competitive benefits. In particular, extraordinary investments in the marketplace (such as enhanced product safety), in the supply chain (such as supplier employee education), and voluntary donations to unrelated community issues, were generally viewed by SMES as beneficial, but were not associated directly with specific and identifiable economic or competitive value.

Even when there was no apparent economic rationale, we found that many owners and managers of SMEs in Denmark operate their businesses in a socially responsible manner as a matter of strong personal conviction. SMEs have greater freedom than large public companies to subsidize social benefits at the expense of maximizing profitability, and in so doing, they contribute significantly to the health and prosperity of Denmark.

Recommendations

We conclude that there is evidence of economic and competitive benefits from CSR activities on the part of Danish SMEs, and we recommend that the DCCA study these benefits in greater depth through further research. We suggest that the Ministry use the next steps of the People & Profit Project to test our findings in more detail and explore ways to support SMEs in capturing economic value from their CSR activities. In particular, the DCCA might:

1. Provide encouragement, support activities, and other incentives for SMEs to pursue niche markets for CSR product or service innovations that build on their core areas of knowledge and activity. Workshops, centered around specific SME sectors or clusters could further expose SMEs to the achievements of peers and growth opportunities through social innovations.
2. Provide guidance, tools and incentives to help SMEs compare the costs of extra employee benefits against the longer-term savings from improvements in hiring, retention, productivity, health, safety and absenteeism. The DCCA might further work with SMEs to identify those extraordinary employee benefits that contribute the most to economic and competitive advantage, and to provide public recognition to encourage such practices.
3. Build knowledge about the return on investment from potential cost savings through investments in environmental conservation for specific SME sectors, including information on reference SMEs, technology, or system experts and providers.

4. Provide research and training for SMEs on the opportunity to direct voluntary support toward targeted issues that influence the underlying drivers of competitiveness in the locations in which they operate, such as education and workforce development, supply and demand conditions, regulatory issues, *etc.* The People & Profit project could help facilitate collaboration among SMEs within key regions or economic sectors to map and address such contextual issues collectively.

We see a great opportunity for the Ministry and the Danish government to pursue this agenda with SMEs and their industry associations, and to forge public-private initiatives that can promote mutually-reinforcing societal and economic value creation.

II. INTRODUCTION

Corporate social responsibility (CSR) is rapidly becoming an inescapable obligation of doing business today. Companies, both large and small, have modified their strategies and operations to take into account a vast array of governmental regulations, stakeholder interests, and evolving societal expectations. These changes have led to significant improvements in social and environmental factors, but they have often come at a cost to businesses. A considerable amount of research and heated debate has focused on whether these costs are offset by direct economic or competitive benefits to the business, or by a premium in its stock price. Different studies have led to contradictory conclusions and, to date, the evidence remains unclear.¹

Most studies have focused on the impact of CSR on publicly-traded global companies, and it is uncertain whether this research applies equally to SMEs, which in the case of Denmark represent the majority of its businesses. Furthermore, in a global marketplace, as different countries set varying CSR standards – either explicitly through regulation or implicitly through incentives and societal expectations – the question arises: Can a country enhance its global competitiveness through government efforts to facilitate CSR activities among businesses?

The Responsible Competitiveness Index 2003 examined the relationship between global competitiveness and the CSR profiles of different countries.² The study found that Denmark's global ranking in CSR was quite high and was, in fact, higher than its ranking in competitiveness, creating a CSR "surplus." The report did not, however, explore in any detail how CSR might contribute directly to the global competitiveness of a country's economy. It is through this study that the Government of Denmark decided to address that question directly. Our goal, therefore, is to explore whether there are economic and competitive benefits resulting from the CSR activities of SMEs in Denmark. If there are, then there may also be opportunities for the Danish government to work with SMEs to realize mutually-beneficial societal and economic outcomes of well-selected CSR activities, and ultimately, to enhance the competitiveness of the country as a whole.

It is important to note at the outset that the sample size and depth of research in this study are far too limited to draw definitive conclusions. As the first step in a much larger project, the purpose of this study is only to determine whether there is any evidence of an economic rationale for CSR activities, and if so, to offer guidance for the focus and structure of subsequent research.³

¹ Walsh, James, and Margolis, Joshua. "Misery Loves Companies: Rethinking Social Initiatives by Business." *Administrative Science Quarterly*. 2004.

² MacGillivray, Alex, John Sabapathy, and Simon Zadek. *Responsible Competitiveness Index 2003: Aligning Corporate Responsibility and the Competitiveness of Nations*. AccountAbility and The Copenhagen Centre. 2003.

³ Throughout the report, we use the term "economic rationale" to encompass both "economic benefits" in the form of short-term cost savings, and "competitive benefits" that contribute to product and service differentiation or to a sustainable long-term cost advantage.

Study background

Denmark and its enterprises have long been leaders in CSR. The Danish Commerce and Companies Agency (DCCA), for instance, recently developed an online resource that allows companies to compare Danish standards on CSR with international reporting methods, considerably reducing the burden of compliance. Earlier this year, the DCCA also launched the two-year People & Profit Project, funded by the European Social Fund and the National Labour Market Authority's (AMS) Fund for the Development of the Inclusive Labour Market. The main goal of the project is to enhance the competitiveness of Denmark by giving Danish companies the information and tools to work strategically with CSR in areas that contribute to their economic success and competitive advantage. Since the majority of Danish enterprises are SMEs, as noted above, the focus of the project is only on CSR activities that are relevant to those companies.

The project as a whole is organized into five phases (with targeted dates of completion):

1. Research on CSR activities, existing CSR tools, and the economic rationale for CSR among SMEs in Denmark (July 2005)
2. Mapping of CSR activities of Danish companies through a large-scale survey (October 2005)
3. Development of tools and educational programs (December 2005)
4. Pilot project (April 2006)
5. Large-scale implementation (December 2006)

Our mandate within Phase One was to build on the Ministry's experience to research the business case and identify the economic rationale, if any, behind the CSR activities of SMEs.⁴ Our objective is to focus the project as a whole on those CSR activities that are most likely to enhance the competitiveness of Danish SMEs. The research in this phase included a survey of 47 Danish companies active in CSR, as well as 20 in-depth interviews with SME owners and operators.

⁴ Throughout this report, we use the term "project" to refer to the overall two-year project as a whole, and the term "study" to refer to research and findings from Phase One of the project.

III. DEVELOPING AN ANALYTICAL FRAMEWORK FOR CSR

Two common methodological difficulties with CSR research are the variability in how it is defined, and the frequent reliance on anecdotal evidence. The limitations of this study prevent us from avoiding anecdotal data altogether; however, we have sought to distinguish clearly in our interviews and survey between the impacts of CSR activities that SME managers consider *measurable* (specific, quantifiable, and linked to the company's P&L statement or competitive position), and those that they do not. In some cases, the former includes impacts that have not yet been measured, but which would be measurable given the proper tools and resources. Benefits that are not considered measurable – although they may be real – are not highlighted in our study because they are less likely to be useful foci for the subsequent phases of research in the People & Profit Project.⁵

We have also sought to provide guidance for the overall project by developing a clear analytical framework to define and analyze CSR activities. This framework was developed by Foundation Strategy Group in collaboration with Professor Michael E. Porter of Harvard Business School. Our framework is built upon extensive research on the interdependence of business and society, and the relationships between economic and societal objectives.⁶ In particular, we have drawn liberally on Professor Porter's analysis of the value chain of activities within a company, and on his analysis of the elements of local context that influence the competitiveness of a nation or region.⁷ Our hypothesis is that CSR activities affecting a company's value chain or influencing elements of its competitive context are most likely to make a real and measurable contribution to the competitiveness of the company and of the country as a whole.

Our CSR framework divides CSR activities into four categories:

1. *Compliance*: Managing business operations to create societal benefits in conformance with local legal standards
2. *Best practices*: Managing business operations to create additional societal benefits motivated by the values of the owner or the expectations of society
3. *Innovation*: Developing new products or services that offer societal benefits as a specific part of the customer value proposition
4. *Voluntary support*: Voluntary contributions of money, time, products, or services that are either (a) acts of *good citizenship* that do not address elements of the competitive context, or (b) *contextual investments* that strengthen the future competitiveness of the company or industry

⁵ The People & Profit Ashridge report provided a range of CSR activities to explore; however, the purpose of the Ashridge report was to catalog activities, not to explore the economic and competitive impacts of those activities on businesses.

⁶ Porter, Michael, and Mark Kramer. "The Competitive Advantage of Corporate Philanthropy." *Harvard Business Review*. December 2002. Porter, Michael, and Mark Kramer. "Corporate Social Integration." Working Paper. 2005. By the term "societal," we mean both issues affecting people and the environment.

⁷ Porter, Michael. *The Competitive Advantage of Nations*. New York: The Free Press, 1991.

Since our research is structured around these categories, we discuss each in further detail before reporting the results of our study.

1. Compliance

Danish law imposes a relatively high standard of corporate responsibility. Some activities that might be considered voluntary CSR in other countries – such as prohibition of child labor – are mandatory in Denmark. We therefore explored the impact of compliance with Danish law on competitive advantage.

In this category, we include all legal standards for business operations with respect to the workforce, environment, business partners, and other stakeholders. Activities include the remediation of negative impacts from operations, such as health and safety hazards, as well as negative externalities, such as pollution. These activities aim to improve societal conditions affected by business operations. In rare instances they may result in cost savings; however, most regulations come at a direct cost to companies. Since this requirement is imposed on all competitors, there is no relative long-term competitive advantage or disadvantage within a specific regulatory regime. Export companies, however, may face competitors subject to lesser legal standards, potentially putting them at a competitive disadvantage. Conversely, some customers may value stricter regulations if, for example, they prohibit the use of child labor in the supply chain.

2. Best practices

Many companies make a conscious decision to exceed the legally required standards in their business operations in order to provide greater societal benefits, such as additional employee benefits, above-market wages, or advanced resource and waste management processes. These activities are typically driven by evolving societal expectations, new public initiatives, or the personal convictions of individual owners and managers. They may actually raise the cost of doing business over time, initially for the company that sets an example, and in some cases, for the overall industry, especially if the early example raises public expectations of acceptable corporate behavior.⁸

At other times, best practices may yield economic benefits by generating cost savings as a result of greater resource efficiency or waste reduction. Best practices may also yield economic benefits through employee recruitment and retention or heightened customer loyalty and demand as a result of the company's exemplary behavior. Another benefit may be risk mitigation, as companies that are caught violating societal expectations may

⁸ In his noted article, "The Virtue Matrix," Roger Martin describes how today's voluntary innovations tend to raise societal expectations and eventually become tomorrow's minimum standards, raising the bar for all actors. His analysis focuses on large-scale enterprises, however, and it is far less likely that the conduct of an SME would be sufficiently influential to influence societal expectations. Martin, Roger. "The Virtue Matrix." *Harvard Business Review*. March 2002.

be seriously punished by negative publicity or a consumer backlash.⁹ Economic and employment benefits are relatively easy to measure; however, customer motivations and the value of risk avoidance are much more difficult to quantify.

3. Innovation

Developing new products or services that incorporate societal benefits in their value proposition makes sense only if there is a demand for the product at a profitable price. Activities in this category are highly market-driven, targeting value chain innovations with sustainable business models while at the same time addressing important societal conditions, such as clean energy, elderly homecare, handicapped access, or public transportation. In fact, global attention to CSR has actually created new markets for products and services that help other companies improve their own societal impacts, from energy-saving devices to employee safety. These markets, where the overlap of business and societal objectives is clear and direct, are often too specialized to attract major global companies, and therefore appear to be potentially attractive markets for SMEs to serve.

4. Voluntary Support

Philanthropy, or the voluntary contribution of corporate resources, can take many forms. “Good citizenship” activities target issues that are important to the community or business owners personally, but that do not directly impact the success of the business. A manufacturing company that sponsors an unrelated art collection or sports activity, for instance, would fall into this category.

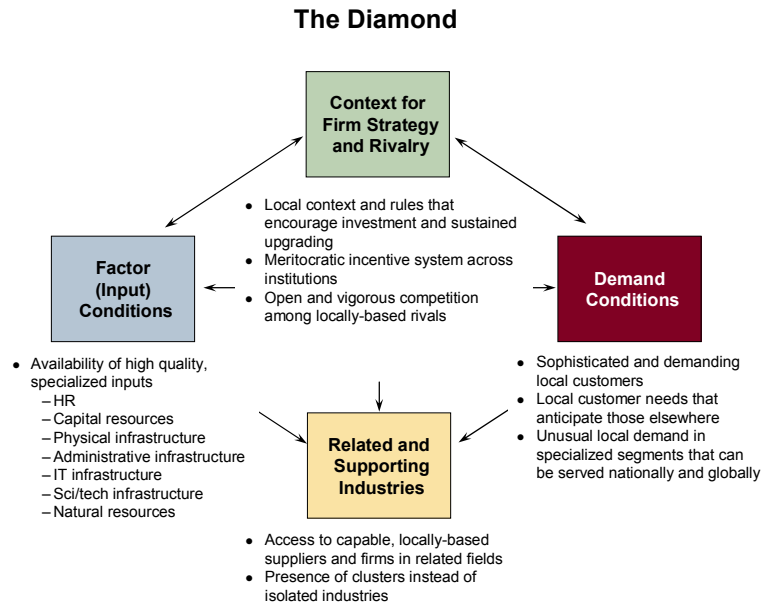
It is not clear whether the often intangible benefits of good citizenship contributions outweigh the costs. A minimum level of community support may simply be a necessary cost of doing business. These activities may also contribute to the stature of the SME owner and manager in the local community, and may yield indirect but significant benefits for the business through personal relationships or the manager’s local reputation. It is also possible that the owner is willing to absorb these costs because of the personal satisfaction they produce. Unlike larger companies that owe a fiduciary duty to many stockholders, the SME owner spends only his own profits and is free to trade off profitability in favor of allegiance to personal values.

Voluntary contributions, however, need not be limited to activities that are unrelated to the business. Companies can also target their “competitive context,” by focusing on issues that affect the underlying drivers of competitiveness in locations where they operate. Supportive societal factors, nurtured over time through interventions by both government and private entities, can have a significant impact on the growth and long-

⁹ The likelihood of such risk is substantially less, however, for SMEs than for large scale enterprises that tend to attract greater public scrutiny.

term productivity gain of companies, as illustrated by the elements of competitive context in Professor Porter's competitive "diamond" in Figure 1.¹⁰

Figure 1



Examples of contextual factors affected by societal conditions include:

- *Factor/input conditions*: Local educational systems that equip prospective employees with the necessary skills for the industry to succeed
- *Demand conditions*: Consumer awareness of safety, health and nutrition, or energy consumption, affecting demand for particular products and services
- *Related and supporting industries*: Presence of skilled suppliers who can deliver the necessary products or services while meeting standards of time, cost, and quality
- *Context for firm rivalry*: Legislation to protect human and intellectual property rights

Companies that make significant investments to improve factor conditions tend to open up new market opportunities or operate within a more favorable business context. Societal objectives, therefore, are aligned with long-term business objectives. Still, measurable economic and competitive benefits remain difficult to quantify. Furthermore, in a country like Denmark where factor conditions have been nurtured by generations of taxpayers and are relatively mature, incremental contextual investments may be more limited in reach compared to investments in less developed settings.

¹⁰ Porter, Michael, *ibid.*

Using this analytical framework, we oriented our research on Denmark SMEs and CSR around the following four questions:

1. Is **compliance** with Danish legal standards a competitive advantage/disadvantage for export-oriented SMEs (those with a significant portion of turnover from exports)?
2. Do SMEs that adopt **best practices** in employee benefits, social inclusion (hiring disadvantaged workers), environmental impacts, supplier and customer benefits, and other CSR activities, derive positive economic benefits?
3. To what extent do SMEs focus on **innovation** in products and services that yield societal benefits, and do these innovations contribute to their prospects for growth?
4. Do SMEs derive measurable benefits from their good citizenship contributions, and/or are they using voluntary support to improve their **competitive context** in the hopes of building a more promising long-term business environment?

IV. STUDY METHODOLOGY AND BACKGROUND RESEARCH

Our research methodology consisted of three parts:

1. *Description of Danish SMEs and prioritization of sectors*: What are the key characteristics of Danish SMEs, and which sectors of the domestic economy would be most important to study?
2. *Overview of SME research landscape*: What does existing research on CSR and SMEs tell us about our hypotheses concerning the overlap of societal and economic objectives?
3. *Testing hypotheses through a survey and interviews*: Can we confirm or expand on our hypotheses through a first survey of Danish SMEs and CSR, and through select interviews with individual companies?

1. Description of Danish SMEs and prioritization of sectors

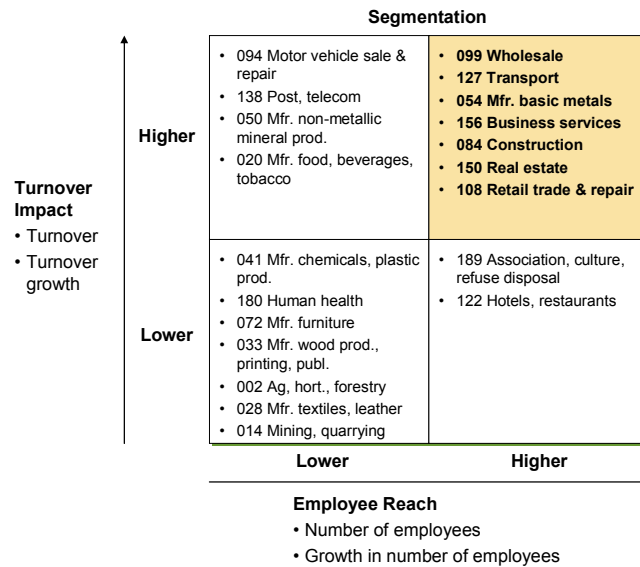
For the purposes of this study, SMEs were defined as companies with at least 10 and no more than 249 employees.¹¹ There are over 200,000 SMEs in Denmark, which as a group constitute 99 percent of the total number of enterprises, 65 percent of turnover, and 69 percent of employment.

Within the limited mandate of this study – developing a study sample of about 50 SMEs – it was essential for us to first identify which sectors of the economy to focus on. Given that the ultimate goal of the People & Profit Project is to determine how CSR policies can contribute to the competitiveness of Denmark as a country, we sought to identify which SME sectors have the greatest influence on the Danish economy in terms of size and growth. Utilizing data from Statistics Denmark on 20 sectors, over the 2000-2002 time period (the most recent available), our analysis yielded seven focus sectors: Wholesale, Transport, Manufacturing of Basic Metals, Business Services, Construction, Real Estate, and Retail Trade and Repair (Figure 2).

¹¹ Three companies in our sample exceeded 250 employees in 2005. They were selected from 2002-2003 employee data when the total number of employees was less than 250.

Figure 2

Sector Prioritization



Prioritizing these sectors helped us to identify approximately 120 SMEs to target for our survey, from which we expected 50 responses. Our sample was not randomly selected, however. In order to study the economic rationale of CSR activities, companies were selected based on their publicly demonstrated commitment to CSR practices.¹² The DCCA identified and contacted the SMEs directly and received 34 survey responses from the focus sectors. The DCCA also contacted additional SMEs from various sectors that could provide further examples of economic and competitive benefits from CSR activities. Thirteen additional SMEs responded to the survey. While the final sample was therefore not weighted by the size and importance of each focus sector, all of the identified sectors were represented by companies known for their CSR activities.

We then conducted a series of second-order analyses on these seven sectors, comparing figures on export intensity, value added, wage totals, urban versus rural location, age of the enterprise, and social inclusion.

- The seven focus sectors represent approximately 73 percent of turnover from all SME sectors, and 63 percent of employment.
- Some sectors are more export-oriented, such as Basic Metals, Transport, and Wholesale.
- Figures for value added and wages per employee are strikingly similar, with an exception for Retail, which is significantly lower than the other sectors.

¹² Sources included industry associations, business networks, CSR awards and publications, and a literature search. See Appendix for a full list of sources.

- Figures for social inclusion (hiring handicapped and disadvantaged workers) are also similar across sectors, again with several noticeable outliers: Business Services employs relatively more immigrants and women, Retail employs more women and uneducated staff, and Transport employs more low-skilled labor.
- For the seven SME focus sectors, mean turnover was DKK 39 million (vs. 33 million for all 20 SME sectors), the mean number of employees was 30 (vs. 29 for all 20 SME sectors), and the mean enterprise age was 15 years (same for all 20 SME sectors).¹³

We supplemented our sector analysis with a forward-looking perspective to identify high-potential clusters that are expected to impact Denmark's competitiveness in the long term. We reviewed existing cluster studies to identify clusters that are innovation leaders or policy focus areas. Two studies were particularly helpful: a review of cluster performance conducted by the National Agency for Enterprise and Construction in 2001, and a report on Denmark's future strategy published by the Innovation Council in 2004. As a result of this review, we added Health and Environmental Technology to our list¹⁴ resulting in the following list of focus sectors:

1. Wholesale
2. Transport
3. Manufacturing basic metals
4. Business services
5. Construction
6. Real estate
7. retail trade & repair
8. Health
9. Environmental technology

This analysis provided us with an enhanced understanding of the forces and trends affecting the focus sectors, and informed our interviews and findings. Our sample, however, was too small to extract any significant sector-specific results.¹⁵ We recommend that future research focus specifically on these focus sectors and clusters in examining the economic rationale for CSR among Danish SMEs, and that further analysis be carried out to identify which kinds of CSR activities offer the strongest economic rationale in each sector.

2. Overview of SME research landscape

¹³ For SMEs with 10-249 employees; weighted averages for age of enterprise by sector; 2002.

¹⁴ No companies from these two clusters responded to the survey.

¹⁵ We ran several analyses bundling companies in various categories, including capital-intensive vs. knowledge-intensive companies; in this case we found that both samples showed the same positive impact of CSR activities albeit to slightly different degrees.

In parallel, we also reviewed 10 CSR research initiatives with a significant SME component in order to understand how existing research might inform our hypotheses.¹⁶ We found that most studies link specific CSR activities with business economics in a highly qualitative fashion, often by surveying the attitudes of business executives. Case studies are common; few studies, however, focus on measurable economic and competitive benefits resulting from CSR activities carried out by SMEs.¹⁷

Several important findings, however, did emerge from our review:

- *SMEs have not yet integrated CSR activities into business strategy.*
 - According to the 2001 ENSR Survey conducted by the Observatory of European SMEs, nearly three-quarters of Danish SMEs are involved in some form of CSR.¹⁸ However, only 34 percent of these SMEs link their activities to business strategy. As with their European counterparts, sponsorships and donations represent the bulk of voluntary activities for Danish SMEs.
 - Despite limited current activity, over half of Danish SMEs believe that both social and environmental responsibility will become more important for them in the future.
 - European CSR studies that have looked at SMEs specifically emphasize the linkage between extraordinary investments in employee benefits and worker productivity and retention. Other win-win areas include eco-efficiency and innovations resulting from stakeholder engagement.

- *Labor issues are important to Danish SMEs, and access to skilled labor is an important business constraint. The most common response to labor issues is to provide enhanced benefits or incorporate disadvantaged groups into the workplace.*
 - In the 2002 ENSR Survey, Danish SMEs cite lack of skilled labor as one of their top three business constraints. Eighty-three percent of Danish SME employers carry out supplementary activities for their employees' benefit.
 - Based on the same study, while some SMEs actively support disadvantaged groups, most do not. Nearly three-quarters of Danish SME employers accord no special attention for any group – women, ethnic minorities, disabled, or other.
 - In an another survey of over 3,000 private companies conducted by the Danish Ministry of Employment in Fall 2004, half of respondents,

¹⁶ Initiatives/initiative sponsors included DTI/BITC, WWF-UK, CSR Europe SME Key, EU Multi-Stakeholder Forum on CSR, Responsible Entrepreneurship for SMEs, Observatory of European SMEs, Copenhagen Center, Ethics in Business, and UNIDO Triple Bottom Line Project.

¹⁷ Again, our emphasis was on measurable benefits, including those not yet measured.

¹⁸ In Europe, size and age of enterprise (especially more than five years) appear to drive greater levels of activity.

however, expressed that they believe to a certain or great extent that social inclusion can be positive for their businesses.¹⁹

- *The costs and benefits of CSR to SMEs is a critical issue to explore. Attitudes are mixed, with roughly equal percentages between those that view CSR purely as a cost versus those that believe that those activities create benefits. There is little evidence that many SMEs view CSR activities as win-win investments that accrue benefits for both business and society.*
 - Private enterprises have a mixed view about the benefits of CSR. More private companies than not say that CSR is “just something we do.” In the Ministry of Employment survey, 27 percent of companies indicated a high level of agreement with the statement, “It’s just something we do,” vs. 23 percent that indicated a low level of agreement. When asked whether they agreed with the statement, “Social commitment pays off,” 21 percent of companies indicated a high level of agreement, vs. 22 percent that indicated a low level of agreement.²⁰
 - Private companies cited lack of affordability as the biggest obstacle to engaging in CSR, followed closely by paperwork and bureaucracy.

In short, the issue of whether SMEs can derive measurable economic and competitive benefits from CSR activities has not been resolved by prior research studies, leaving open an important area for this study to address.

3. Testing hypotheses through a survey and interviews

The third part of our methodology was to design a survey to test our hypotheses and explore the linkages between CSR costs for Danish SMEs and related economic benefits. As shown in Figure 3, we designed the survey questions around two broad areas:

1. CSR activities intended to meet Danish legal standards, and the impact of existing regulations on SMEs.
2. CSR best practices that go beyond standards, product or service value chain innovations, and voluntary support (good citizenship contributions and contextual investments).²¹

We tested a pilot survey with six SMEs, and subsequently shortened and simplified the survey. The pilot demonstrated that companies could not clearly relate to a large number of different CSR activities, and felt more at ease with general categories, such as Workforce or Environment. The revised version also focused respondents on measurable

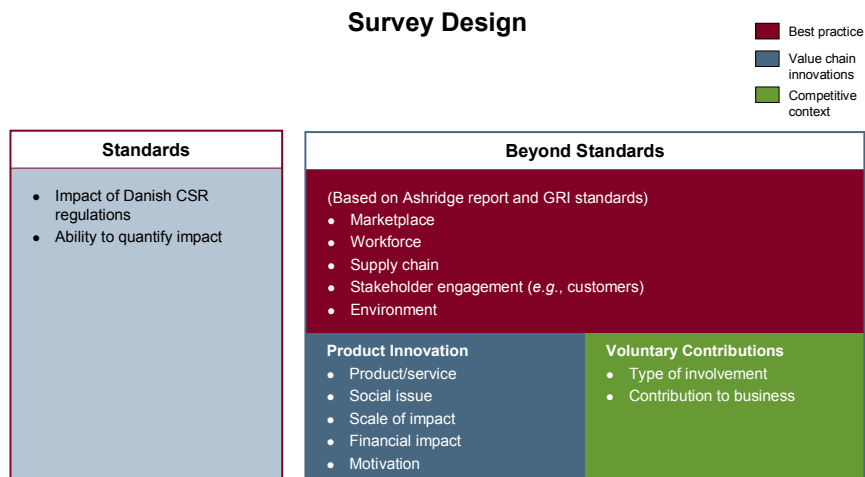
¹⁹ The larger survey sample included approximately 5,600 public and private organizations, of which 94 percent were SMEs.

²⁰ We do not know if the difference in responses is attributable to differences in the kinds of CSR activities performed, or merely representative of different attitudes toward CSR overall.

²¹ We drew upon mainstream reporting guidelines and other checklists to catalog compliance and best practice CSR activities. See Global Reporting Initiative and the Ashridge Report. See Appendix for complete survey in Danish.

impacts, asking them to comment specifically on the sources of positive or negative impacts resulting from their CSR activities.

Figure 3



The survey was administered online with email invitations and telephone follow-up. We received 47 eligible responses.²² We also conducted 20 interviews, all in-person. Fourteen interviews were with survey respondents, and six were with companies that did not complete the survey. In total, 53 companies participated in this phase.

²² In total, the survey yielded 50 responses; however, three were deemed ineligible either due to the number of employees of the enterprise or the respondent's status as a subsidiary of a multinational corporation.

V. FINDINGS AND IMPLICATIONS

1. Is compliance with Danish legal standards a competitive advantage/disadvantage for export-oriented SMEs?

Compliance with Danish legal standards is neither a competitive advantage nor disadvantage for export-oriented SMEs, as Danish standards are comparable to those of other EU countries that most Danish companies compete against or export into. Our recommendation is to not pursue this specific line of research in future studies.

Findings

Most SMEs in our sample had no strong opinion on the impact of legal standards on their businesses (see Figure 4). Survey comments and interviews confirmed that most SMEs did not feel that Danish regulations impose an extraordinary burden on their international competitiveness in terms of mandated social benefits or environmental standards. Only three companies claimed to be able to quantify the impact of legal standards on their businesses. A handful of voices, however, disagreed on both ends of the spectrum. Three SMEs felt that energy and carbon taxes were too high and quoted specific tax amounts. One SME mentioned the high cost of safety and work requirements, before adding, “Optimization in these areas enhances our competitiveness and reputation.” Another SME, in fact, appreciated the simpler tax system in Denmark: “In France, for example, it appears at first that taxes are lower, but when you add up all the benefit payments, it ends up being more.”

Figure 4

Impact of Danish Regulations on Company's Competitive Position*
Export-oriented companies, n = 36 survey respondents, average = 2.83



Implications

Danish standards, shared in large part with the EU and other developed markets that they compete against and sell into, do not appear to be a major concern for SMEs with regard to competitiveness. It may be that European and global standards have been raised to a point that Danish laws are not critical in terms of relative economic impact.²³

²³ Only one company in our survey exported goods to non-OECD countries; therefore, we could not draw any conclusions with respect to those markets.

Recommendations

- We recommend that future research not focus specifically on Danish law in determining the economic rationale for CSR activities among Danish SMEs.
- We further recommend that Danish law on CSR issues remain generally consistent with the requirements of other EU countries so as to avoid overburdening export-oriented SMEs.

2. Do SMEs that adopt best practices in employee benefits, social inclusion, environmental impacts, supplier and customer benefits, and other CSR activities, derive positive economic benefits?

SMEs that create additional societal benefits beyond those legally required generally believe that these activities produce business benefits or are simply “the right thing to do.” In most cases, however, SMEs could not identify specific and measurable economic benefits that resulted from these activities. In the case of SMEs offering extraordinary employee benefits, however, we did find measurable longer-term benefits from reduced costs associated with hiring, retention, and absenteeism, although none of the SMEs had actually calculated the costs of and savings from these extra benefits. SMEs also reported reduced costs for energy and waste disposal from their environmental CSR activities. In the case of social inclusion, we found that government subsidies covered the incremental cost of increased training or lower productivity, creating a societal benefit that the SMEs believe does not burden the business. In other areas, such as supply chain or marketplace activities, we found no measurable benefits. Our recommendations include developing a tool to help SMEs measure the financial return on their CSR investments, and designing incentives and training programs to encourage SMEs to make more of these investments.

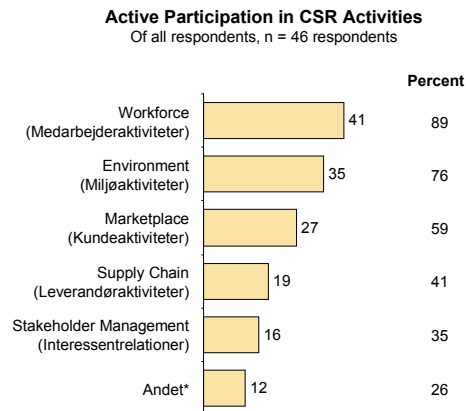
Findings

Respondents are involved to different extents in various types of CSR activities (see Figure 5).²⁴ Given the criteria for the selection of our sample, it is not surprising that all

²⁴ As noted earlier, activities were classified into categories based on the People & Profit Ashridge report, and the Global Reporting Initiative. Workforce activities include: Employee communication and representation (collective bargaining, privacy), ensuring employability and skills development (training, career development), diversity and equality (non-discrimination, equal access), remuneration (fair pay, equal benefits), work-life balance (flex hours, stress management), health, safety, and wellbeing (support programs, child care), and responsible restructuring (job sharing, employee support). Environmental activities include: Resource and energy use (energy efficiency, biodiversity), pollution and waste management (emissions treatment, recycling), environmental product responsibility (product take-back recycling, addressing GMO), and transport planning (reducing goods transport or employee travel, using teleconferencing). Marketplace activities include: Responsible customer relations (responsible advertising, cause-related marketing), product responsibility (product safety, addressing potential misuse), product

respondents showed some degree of CSR activity. Confirming earlier studies, most SMEs surveyed focus CSR initiatives on employee benefits and environmental or marketplace activities, such as product labeling and safety concerns. Fewer SMEs deal with supply chain or stakeholder activities, areas where the pressures on SMEs are far less than on large-scale enterprises.

Figure 5

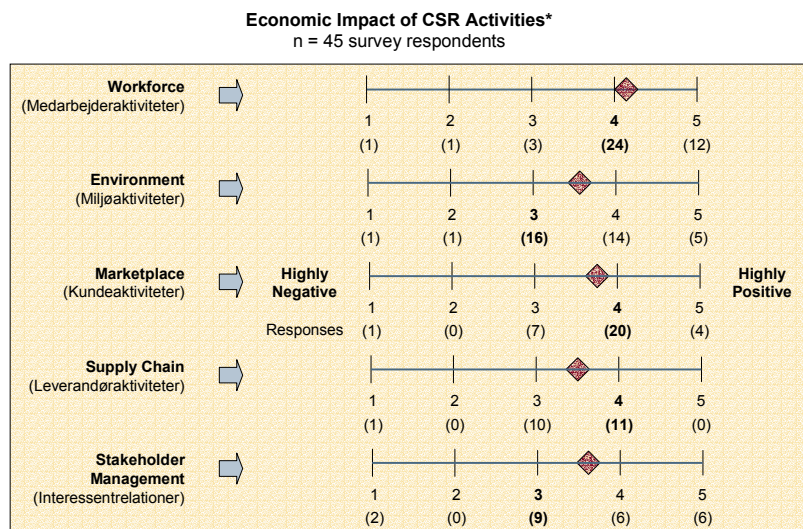


* Other includes other codes and policies, social partnerships, and international development
 Note: For economic impact scale, modes are boldfaced; one respondent skipped the participation question
 Source: SME CSR Survey, June 2005

We asked respondents to describe their activities under the different CSR categories and to evaluate the economic impact qualitatively on a spectrum of “highly negative” to “highly positive,” as shown in Figure 6. Given the criteria for selection, it is not surprising that all respondents showed some degree of CSR activity.

labeling (health impacts, materials origin), and ethical competition (corruption, fair pricing). Supply chain activities include: Being a fair customer (fair terms with suppliers, fair pricing and timely payment), and driving standards (labor and environmental, fair trade). Stakeholder management includes: Mapping stakeholders, relationship with enterprise, consultation (feedback, community liaison), and reporting (CSR reporting, external validation).

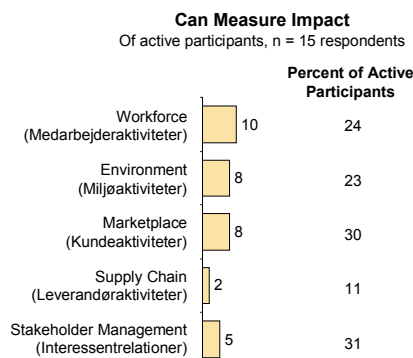
Figure 6



* Averages are 4.10, 3.57, 3.81, 3.41, and 3.61
 Note: For the economic impact scale, the mode is boldfaced; two respondents skipped this question
 Source: SME CSR Survey, June 2005

The result was consistent across all categories: companies feel that CSR activities that meet or exceed societal expectations have a moderately positive economic impact on their businesses. This response reflects a more optimistic view of economic impact than the attitudes suggested by previous studies, which is expected given that our sample was selected based on companies known for their commitment to CSR practices. When we dig deeper, however, we find that few SMEs are able to actually measure the impact on their businesses. While Workforce and Marketplace received the most positive responses (see Figure 6), and SMEs indicated that they had the ability to measure economic impact in all five areas (see Figure 7), detailed comments from the survey and in-depth interviews revealed that respondents were able to measure economic benefits in only two categories: *Workforce* and *Environment*.

Figure 7



Workforce

Looking at the survey responses and interviews with individual companies, workforce activities with measurable impact fell into two general groups: (1) extraordinary benefits to improve workplace conditions, and (2) social inclusion of disabled or elderly employees.

- *Improving workplace conditions*: A number of interviewees invest in employee education, health and safety, and lifestyle (e.g., flextime or light jobs).
 - *Bon 'A Parte* sells clothing via mail order and employs 367 employees, including large numbers of seasonal help. Eighty percent of employees are female. The company sponsors health projects for employees that include nutrition programs, sports activities, physiotherapy, first aid courses, psychological counseling, and support for private hospitals. Bon 'A Parte also encourages union participation and job training (by providing mentors for new employees), and provides a number of other employee benefits, e.g., allowing employees to bring children to work when childcare is not available. The company believes that such efforts pay off “not in the short-term, but in the long-term.” Bon 'A Parte receives 700 unsolicited job applications per year for its seasonal work and lower-skilled positions, and has a low sick-leave rate of two to three percent.²⁵
 - *Kjaer Group* exports cars to developing countries and sells them through their own dealerships. Kjaer employs 270 people and has been named the “Best Place to Work in Denmark” two years in a row by the Great Place to Work Institute. It is also ranked one of the top 10 highest-rated workplaces in Europe.²⁶ All employees are given company shares in order to stimulate a sense of employee ownership, and can purchase additional shares at discount pricing. In addition, dividends to employees in developing countries can add a significant portion to their compensation, which is already far above the market rate. Kjaer has also set up a fund to provide loans to African employees to build new homes. All employees, including the 65 located at the company’s headquarters in Denmark, are accorded an education allowance of DKK 10,000 per year, which they must utilize in order to qualify for the company bonus program. Non-Danish employees in Denmark receive free Danish classes, and all employees are offered English classes.²⁷ Kjaer has an important partnership with the AIDS Foundation that provides education to employees in Africa. Instead of focusing on the economic rationale for all of these activities, the company instead emphasizes that it is important to “earn money in the right way.” They do note a declining sick-leave rate

²⁵ The average sick-leave rate in Denmark is almost 5% (2003). Arbejdsmiljøinstituttet (AMI, National Institute of Occupational Health in Denmark). *Sygefravær i Norden (Sick leave in the Nordic countries)*. August 2003. Danish Ministry of Labour. *Nordiske initiativer til nedbringelse af sygefravær*. 2005.

²⁶ See GreatPlacetoWork.com.

²⁷ Since the majority of Kjaer’s employees are local citizens of developing countries, the company has a policy that all employees receive literacy training and learn how to read and write.

- (average of 3.2 days per employee in 2004 vs. 3.6 days in 2002) and low employee turnover. They also hope to lose fewer employees to AIDS in Africa, though this is yet to be seen. In short, Kjaer is willing to accept the cost of their CSR activities primarily because, in their view, it is the right way for the company to function.
- *Dansk Cleaning Services* got its start selling cleaning services to airlines, and eventually migrated to providing its services to a broader set of institutions. The company has 65 employees, almost all from non-Danish backgrounds, and 70 percent male. They have reorganized work around “empowered teams,” in which team members are responsible for each other’s work and for dealing with short-term absences. Employees get three days of education per year, and the owners pay extra for chemical dispensers that are safer for employees. Dansk Cleaning Services attributes an average employee tenure of five years (versus the industry average of one year), and a reduction in absenteeism rates (3.8 percent down to 1.1 percent) as a result of their new empowerment campaign.²⁸
 - *Valtra Danmark A/S*, the fifth-largest tractor manufacturer in the world with 32 employees, and *Sønderjyllands Fragt Service*, a transport company with 25 employees, are two other SMEs that, without being explicit about the economics, cite employee-focused activities as the reason for a more stable workforce, lower absenteeism rates, higher productivity, and more satisfied customers.
- *Inclusion of disabled or disadvantaged employees*: Many companies have partnered with local municipalities to employ a number of disabled or marginalized individuals. Through these partnerships, typically one-third to one-half of the individual’s salary is covered by the government. Companies interviewed generally consider these activities to be economically cost neutral, but either did not have or were not willing to disclose specifics.
 - *Sønderjyllands Fragt Service* employs nine disabled employees out of a total of 25 employees. The company first started down this route eight years ago at the request of the local municipality. The owners believe that the cost is more or less neutral when considering compensation carried by the company with respect to work output. Although their salaries are subsidized, each disabled or disadvantaged employee is less productive than the typical employee. In addition, management reports that the additional step-by-step training required for these employees is a heavy burden on a few individuals, borne out of the owners’ commitment and deep sense of social obligation.
 - *Horsens Varmeværk* is a semi-public utility that provides district heating to the municipality of Horsens. The company employs 14 people, including two disabled employees for a project to change hot water meters throughout the town and on short-term contracts subsidized by the municipality. Thirty to 50 percent of their salaries were subsidized by the municipality.

²⁸ Measured per production hour for each employee.

- *Rambøll Management* is a consulting firm founded in Aarhus with over 180 employees in Denmark. The company provides IT services, public sector research and analysis, and engineering services. Rambøll hired immigrants to take on basic office tasks for the company, and their experience of the benefits has been mixed. In one case, an employee subsidized by the municipality for his first five months of work, successfully developed to take on an IT coordination job, but in another situation, an employee required extra supervision and therefore cost more than typical new administrative hires.
- *Scanseason* sells seasonal goods (*e.g.*, gift-wrap, ornaments, fireworks) in department stores and supermarkets. The company employs 55 people, and has a partnership with the municipality to employ disabled persons for special packaging tasks. These employees are subsidized and the company considers the costs roughly equal to the benefits.
- *Tricon*, a company with 200 employees selling electrical panels, panel software, and print circuits, is a rarer case of a company employing elderly persons and ethnic minorities without any subsidies. They started “just because they needed good employees, but it was a real success both for the company and for the other employees who were inspired by the new kind of colleagues.”

Implications

Larger SMEs, such as Bon ‘A Parte and Kjaer Group, appear to be more active providing workforce-related benefits that exceed legal minimums. The interview data suggests that SMEs with extraordinary employee benefits gain significant advantages in recruitment, retention, and reduced absenteeism; however, none of the SMEs we studied had actually calculated the cost of extra employee benefits provided compared to the value of the economic advantages gained. Some SME managers reject even the idea that such advantages could be measured, insisting that this is simply how their business should (and can afford) to operate: “There are no direct economic benefits: It is solid belief. There are too many unsure factors, which means we have no basis for measuring it.”

Social inclusion activities are clearly a cost to SMEs like Sønderjyllands Fragt Service and Scanseason, but this cost is typically offset by municipal subsidies. To the extent that government subsidies for employment are less than the cost to society of unemployed handicapped or disadvantaged workers, the government benefits financially, usually without an increase in net cost for SMEs. As a result, SMEs have the potential to become a valuable public-private instrument for social inclusion, reducing social costs without diminishing competitiveness.

Recommendations

- SMEs lack practical tools for accounting for the costs and potential savings of CSR investments. A workforce “return on investment” approach would be necessary to account for investments that exceed legal standards, and to capture indicators of lower hiring costs and absenteeism, and improved retention rates and worker productivity resulting from educational investments. Such a tool might enable SMEs to increase employee benefits, strengthening the local workforce while at the same time improving their competitiveness and economic returns. In short, while it appears that there are benefits, further study is necessary to determine if such a tool would in fact show that the benefits outweigh the costs.
- SMEs are clearly a very powerful engine of workforce development, and leaders with strong business models can afford to contribute more than others. A key area of intervention may lie in bridging the short-term increase in the cost of doing business, with evidence of long-term advantages (*e.g.*, business continuity). Incentives, such as rewards and public rankings, could help realize those benefits in the nearer term. The value of such incentives merits further investigation.

Environment

In the area of environmental activities, the survey responses and interviews were highly uniform for SMEs that have invested in this area: Adopting better practices and new technologies that are environmentally friendly also makes sense.

- *Sjørring Maskinfabrik* produces metal parts and employs 285 staff. In response to demands from customers, including Volvo, the company went through the ISO 14001 certification process for environmental management. One of the unexpected consequences of the process changes has been improved waste management practices, which have actually contributed positively to company earnings. “At first, you might become a bit negative when your customers bring on demands like these, but after working with them for a while, you see that there is an advantage since there is the possibility for savings and to enhance your competitiveness.”
- *Sønderjyllands Fragt Service* experienced a significant reduction in energy use as a result of educating its employees on how to drive for fuel efficiency. Fuel costs decreased by as much as 20 percent, representing an overall cost savings of three percent for the company.
- *Industrimuseet* also commented that it has observed significant energy savings from changing operational practices.
- *Horsens Varmaværk* has an internal mandate to continuously improve its energy efficiency, particularly when converting electricity and gas to hot water. Upgrade investments are made regularly based on expected positive returns on investment, even when the costs might only be offset in the long-term.
- As an example of a company with negative economic consequences, *Rexam Glass Holmegaard* experienced a sharp increase in the costs of its recycling efforts. Eight to 10 percent of the 60,000 tons it collects is garbage, resulting in a cost to the company of DKK 3.8 million.

Implications

The survey results confirm the widely-recognized business case for many environmental investments. Greater resource efficiency yields direct cost savings and can enhance competitiveness. The cases of Sjørring Maskinfabrik and Rexam Glass Holmegaard, however, suggest that waste management and recycling can have both positive or negative economic consequences.

Recommendations

- Interviews suggest that most SMEs, through the experience of their owners or managers, or in collaboration with industry associations, are aware of technological innovations that may reduce operational costs as well as negative environmental impacts. However, there remains a need to develop new energy-saving processes, educate business owners, and promote the further exchange of best practices among SMEs.

Marketplace, Supply Chain, and Stakeholder Management

We consider these three categories together since few companies in our sample could provide specific comments or examples to justify the economic rationale for these activities. However, we did uncover several specific examples through our interviews with individual SMEs.

- *Rice* designs consumer products – baskets, bags, home decorations – in Denmark and outsources manufacturing to developing countries. The company has 20 employees. In the late 1990s, the company responded to Nike’s entanglement with labor standards and suppliers in developing countries by reviewing their own operations. After some research, the owners decided to implement the SA 8000 standards for their suppliers in Asia and Africa. The standards consider a range of issues relating to working conditions, employee education, sanitary conditions, and more. In India, where enforcement is particularly difficult, DANIDA, the Danish Agency for Development, has given *Rice* a grant to support the rollout of SA 8000. In terms of marketplace activities, *Rice* advertises the company’s supply standards on product labels; however, they are skeptical about the impact on turnover. “Customers do not care, except maybe in the UK.” *Rice*’s owners feel that these activities represent an extraordinary effort and cost. With a successful and growing business, however, they feel they can afford it even though they face difficult conditions for implementation. In addition, although *Rice*’s implementation of the SA 8000 standards may not translate into turnover growth, the company benefits by mitigating potential supply chain risks that could negatively impact the business.

- *Select Sport* sells sports equipment and clothing and employs 43 staff. The company sources the production of its handmade footballs from Pakistan, and shares equally with its main supplier the costs of providing extraordinary benefits to its employees in Pakistan?, such as free medical care and education for both children and adults. They do not highlight these efforts in their marketing, although some customers appear to favor them for these activities.
- *Kjaer Group* has made a strong point to limit sales brokerage fees to strict minimums to avoid corruption in certain African countries. The owners admit that they probably lose some business this way, but explain that their values are more important to them than the economic argument.
- *Domus*, an architectural firm with 34 employees, has built a reputation of superior stakeholder management when dealing with new construction areas. Management believes that this profile has positively enhanced their competitive position vis-à-vis the competition, although they have not measured the impact.

Implications

Extending CSR activities into the supply chain and marketplace (*e.g.*, anti-corruption measures) clearly comes at a cost to SMEs. While respondents claim a positive impact on business economics from these CSR activities, the fact that they could not provide concrete examples of measurable impact suggests that the benefits, if any, are intangible and/or very long-term. Customers who make purchasing decisions on the basis of such practices appear to be the exceptions rather than the rule. SMEs are not subject to the same level of scrutiny from NGOs, the media, and the public, as are major global corporations. Nor do SMEs exert as much influence on suppliers or other stakeholders. Consequently, their CSR activities in these areas appear to carry fewer economic consequences, whether positive or negative.

Instead, respondents explain that their efforts are motivated by their values, describing their activities as “the right thing to do.” Just as some people deliberately choose lower-paying jobs in the public or NGO sectors out of a desire to do good, it appears that a segment of SME owner-managers are prepared to trade off maximizing profitability for themselves against the societal benefits for others that their businesses enable them to create. In some cases, they do believe in longer-term economic benefits (as indicated in qualitative survey responses), but cannot substantiate it due to the interplay of a numerous non-CSR factors in their business models.

Recommendations

- As with workforce development activities, there is an opportunity for government incentives to bridge the gap between short-term costs and long-term benefits, and to help raise awareness among SMEs about these activities. In our view, however, this should be secondary to workforce efforts. Employees are an inherent component of SMEs’ cost structure and competitiveness – investments

can be linked directly to health levels or productivity. When dealing with customer choices or stakeholder and supply chain practices, the wide variety of influencing factors and the relatively small footprint of SMEs makes determining the correlation between investments and measurable economic benefits much more difficult.

3. To what extent do SMEs focus on innovation in products and services that yield societal benefits, and do these innovations contribute to their prospects for growth?

The clearest example of alignment between societal and business interests is in product or service innovations that address societal problems. We identified a number of companies that derive a substantial and growing share of their business from socially-beneficial innovations. This seems to be a niche well suited to smaller and more nimble enterprises such as SMEs. Our recommendations include identifying potential new market areas, supporting and encouraging greater innovation.

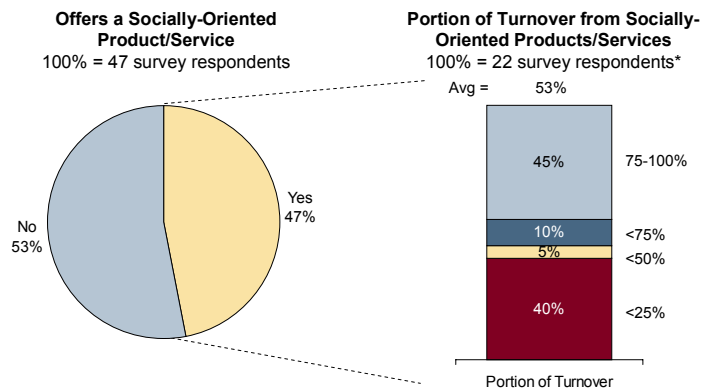
Findings

Innovation in core product and service offerings is clearly driven by a desire for profitability and growth. Yet when the innovation carries societal benefits, it represents one of the clearest synergies between societal and economic objectives, and the area of CSR with the greatest potential economic and competitive benefits for SMEs.

Based on the survey results and interviews, we found that the SMEs in our sample were significantly invested in this area. Nearly half of the SMEs surveyed offer a product or service with a specific value proposition that addresses an important societal problem (see Figure 8). Within this subset, socially-oriented products or services comprise over half of turnover for the average SME. Our selection of companies on the basis of CSR distinction has likely caused a bias in this direction and we would expect a lower percentage from a broader national survey; however, our findings strongly suggest the potential for significant economic and competitive benefits through product innovation.

Figure 8

Socially-Oriented Product/Service Offerings



* Two respondents skipped this question
Source: SME CSR Survey, June 2005

Both motivations and outcomes differed widely among the SMEs in our sample. Some companies were driven primarily by the market potential, responding to demand, whereas others were driven by personal values and worked to create new markets for products they considered socially beneficial. In addition, some respondents were obviously more successful than others at implementing their socially-oriented products and services.

- *Reson* is a medium-sized enterprise with 200 employees that designs and manufactures underwater sonar systems. The company holds 50 percent of the global market. In addition to its mainstream products for oil platform development, sea mapping, and underwater cabling, Reson also develops products for habitat management and monitoring drilling and gas leakages from underwater production platforms. Customer demand has been growing rapidly as a result of EU regulations, and sales from these socially-oriented products are expected to account for five percent of sales this year, doubling to 10 percent in 2006.
- *Rambøll Management* includes a number of socially-oriented projects in its portfolio of client work, including topics such as immigrant integration, labor market policies, and restructuring of orphanages to promote integration of orphans into families. These projects are a key part of the business, and Rambøll estimates that they account for over 10 percent of its annual turnover.
- *Merkur* is a bank with 36 employees. The company directs its lending primarily to companies and initiatives that create societal value. Examples include organic farming, food production that reduces ground water pollution and enhances food product quality, and independent primary schools.
- *SCA Packaging Flamingo* is a producer of expanded polystyrene (EPS), with 160 employees. The company develops customized packaging designed to minimize

- customer transport injuries when they export goods. In addition, the designs reduce environmental waste since the packaging is fitted to the product.
- *Aalborg Zoo* has 55 employees and reaches 10,000 students and 375,500 foreign visitors each year. Among its offerings are exhibitions where visitors can play with and learn about waste sorting, water recycling, and other environmental topics.

Implications

Innovation is alive and well in our SME sample. SMEs have succeeded at finding commercially profitable solutions for certain societal issues. In fact, the turnover figures suggest that SMEs can be very successful in this domain. As global trends in social and environmental responsibility continue, they create new market opportunities for products and services that address important societal problems. SMEs have the agility and creativity to find solutions and develop viable business models.

Recommendations

- Of the four CSR categories in our framework, innovation presents the clearest economic rationale. We encourage future research to focus on this area of CSR.
- Government incentives within the arena of CSR might be used to encourage greater innovation in socially-oriented product and service areas, especially since SMEs have limited resources to invest in research and development. Such an initiative could become a powerful tool for mobilizing the private sector to address important societal conditions and simultaneously improve the competitiveness of SMEs in Denmark.

4. Do SMEs derive measurable benefits from their good citizenship contributions, and/or are they using voluntary support to improve their competitive context in the hopes of building a more promising long-term business environment?

No measurable benefit was ascertained from the voluntary contributions that companies make out of a sense of citizenship to causes that have no connection to the businesses they are in. We did identify instances in which corporate social investments were directed toward factors that influence the company's competitive context, contributing to longer-term competitiveness. Our recommendations include identifying contextual factors to focus investment in, convening SMEs around common issues, and developing public-private partnerships with SMEs to address contextual social issues.

Findings

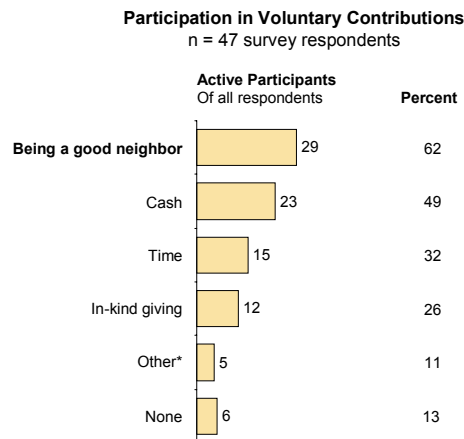
As discussed earlier, voluntary support can fall into two categories, good citizenship contributions or contextual investments. Whereas the former represent the most tenuous and least direct linkage between societal and economic impact, contextual investments can exhibit very strong ties, especially in the long term. Among the SMEs in our sample, good citizenship investments far outweighed contextual investments. However, there were several promising examples of contextual investments, suggesting the potential for more activity in this area.

Good citizenship contributions

Over 90 percent of survey respondents indicated that they participate in some form of voluntary contribution (see Figure 9). Being a good neighbor is the leading activity; however, a sizeable number of SMEs also donate cash and time. Our interviews indicated that most good citizenship voluntary contributions take the form of small cash contributions and product or time donations (e.g., sports sponsorships, exposing students to company activities). All of these activities clearly come at a cost to business owners with diffuse and difficult-to-measure economic benefits. The survey results indicate that most SMEs are motivated by a desire to build goodwill within the community (see Figure 10). We found that some SMEs were explicitly motivated by a desire to build consumer demand or attract employees; however, none were able to measure these benefits.

Figure 9

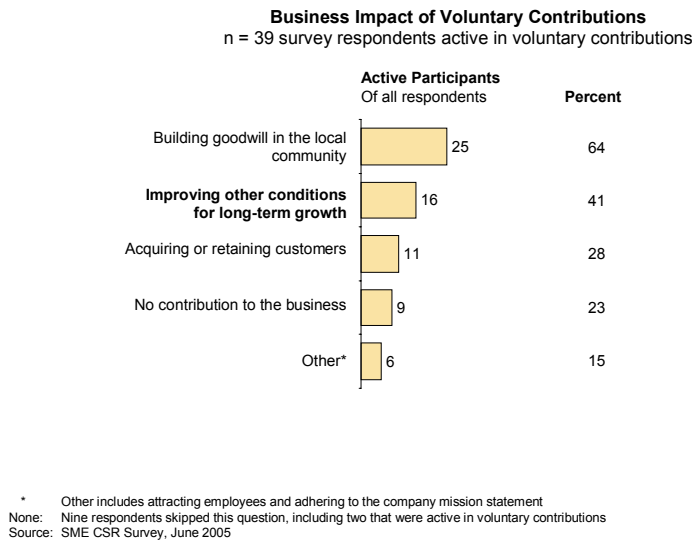
Voluntary Contributions



* Other includes purchasing rain forest parcels, supporting indigenous people groups overseas, other grants and sponsorships, membership in regional associations, student courses
Source: SME CSR Survey, June 2005

Figure 10

Impact of Voluntary Contributions



Implications

Our findings confirmed for Danish SMEs what we found in existing research. SMEs are very active in good citizenship investments, which are an especially important tool for connecting with the local community. These investments will likely continue without any additional encouragement. They may contribute to the stature of the owners and managers in their communities, and this may be worth the cost, or they may yield indirect benefits for the business through personal relationships. Given the indirect linkage to the business and lack of measurable data, resources for further study may be better spent on other kinds of CSR activities, or by encouraging voluntary support for contextual investments.

Contextual investments

While no interviewees explicitly viewed context as a source of economic constraint or opportunity, several invested in contextual issues (*e.g.*, joint projects with university students, upgrading technical standards for water heating, or developing guidelines for social evaluators). Most SMEs consider their investments in this area as either a normal contribution to the industry or another part of being a good neighbor, rather than as part of an explicit agenda to strengthen competitive context.

- *Nørrebro Handelsforening* is an association of 77 shop owners in Nørrebro, a section of Copenhagen. Recently, in response to increasing youth violence, the

- association worked with the Ministries of Education and Integration to design a new apprenticeship program that rebalanced the number of days apprentices are in school. The program launches in August of this year, and is expected to not only help keep youth off the streets and out of crime, but also address a longstanding shortage of apprentice sites in the city while reversing a trend over the past decade of declining availability of educated employees for the retail sector.
- The manager of *Horsens Varmeværk*, the semi-public heating utility mentioned earlier, participated in developed operating standards for an association of 400 “district heating companies” over a number of years that have helped to improve the competitiveness of the Danish water heating industry, making it, according to our interviewee, more efficient than Germany’s.
 - *Rambøll Management* created the Danish Society of Evaluators to establish standards for social evaluation. The company cannot link the initiative to specific revenue; however, the owners believe that in addition to enhancing Rambøll’s image, it has also had the more important impact of improving its competitive position within its market.
 - *Aarstiderne* is an organic foods delivery company with 90 employees. As part of the company’s promotional efforts and its goal of building positive relationships with the local community, the company sponsors a number of events directed toward youths: student education projects, children’s gardens, and children’s education events. *Aarstiderne* hopes these efforts will increase awareness in the market about the company and ecological food production. While the benefits for the business are yet to be seen, *Aarstiderne* hopes that these activities will eventually increase demand and the size of its future customer base.
 - *Columbus IT Partner* is an IT company with 200 employees across three offices in Denmark. Facing a labor shortage and fierce competition for talent, *Columbus* banded together with six of its competitors and designed a new course to retrain unemployed academics for the IT sector, in the hopes of creating a larger labor pool for the entire group, including their own company.

Implications

The survey and interviews confirmed that Danish SMEs do go beyond good citizenship contributions, investing in contextual issues that are important to their industries. One obvious constraint, however, is that individual SMEs have limited resources to influence their respective competitive contexts. In addition, most of the efforts identified in our sample appear to be sub-scale in terms of having the necessary resources to fundamentally address issues of relevance.

Recommendations

- Further study can explore ways to encourage these activities, in part by helping SMEs identify which contextual factors to focus their investment on.

- To address limited resources, convening party could help bring different SMEs together on common issues. Domus, the architecture firm discussed earlier, invested significant resources to develop tools and guidelines for environmentally-conscious project design because they “believed this would be the future.” Instead, faced with changes in government and unfavorable industry trends, they have encountered a lack of uptake on environmental standards and sustainable design. This is an example of one potential area that different SMEs could come together on – other architectural firms, construction, consulting, *etc.* – to promote a positive business context for their industry.
- As with social inclusion, there may be opportunities for public-private partnerships that simultaneously address social problems and strengthen the competitive context. In the aforementioned example of *Nørrebro Handelsforening*, reducing youth violence and increasing the pool of apprentices created both societal and economic/business benefits. Similarly, workforce constraints, such as a lack of skilled labor, could be addressed through collaboration between SMEs and the public sector.

VI. CONCLUSIONS AND RECOMMENDATIONS

Our study suggests that some, but not all, CSR activities of SMEs in Denmark can create measurable economic benefits. The results clearly suggest that additional research is justified, and provide guidance on where that research could most productively be focused.

We find that Danish SMEs are not motivated to engage in CSR activities only out of personal conviction, but because such activities pay off in the shorter or longer term. Many SMEs, however, continue to emphasize individual CSR activities rather than having a clear map of how their business and societal objectives overlap. As a result, we consider further strategic integration of CSR into business dynamics, as well as knowledge and best practice exchanges to be both possible and desirable.

Workforce development is central to many SMEs CSR activities. This study has allowed us to differentiate more carefully than previous studies between activities that affect business economics directly (*e.g.*, hiring costs, training and retention, absenteeism rates, *etc.*) and those that relate to social inclusion activities. The former relate to reduced costs and longer-term business continuity — and should therefore be a priority for the People & Profit project — while the latter demonstrates a powerful way to use public-private partnerships to achieve social objectives in a way that does not affect company competitiveness either positively or negatively.

Despite the potential economic benefits, it is clear that many companies still cannot measure or track the costs and benefits—or the competitive value— associated with their CSR activities. Supporting Danish SMEs in this area should be part of the project's next phases.

As described in the summary table, four areas warrant further investigation in the next phase of this project, in line with a wider mapping of CSR activities among SMEs in Denmark. Two areas address shorter-term “win-win” strategies (environmental best practice and social innovation) and two more address longer-term impacts and more intangible areas of convergence between societal and economic objectives (workforce development and voluntary contributions to strengthen contextual conditions that influence SME competitiveness).

The area of compliance, however, should warrant less attention moving forward. Danish legal standards on people or environmental issues, shared in large part with the markets that SMEs compete against and sell into, do not appear to be a major factor in SME competitiveness. Other best practice CSR activities around supply chain, marketplace and stakeholder engagement activities do bring evident societal value. However, these activities lacked the measurable economic rationale of workforce or environmental CSR initiatives. Employee retention and job performance, raw materials and energy use are all direct and inherent components of SME cost structures. CSR practices that affect these factors can be linked directly to competitiveness and productivity. When dealing with

customer choices or stakeholder and supply chain practices, however, the wide variety of influencing factors and the small footprint of individual SMEs makes determining the correlation between investments and measurable economic benefits much more difficult.

Within these four areas that warrant further research, we therefore offer the following recommendations:

Figure 11

Summary of Findings and Implications

	Shorter-Term Economic Impact	Longer-Term Economic Impact	Implications
Compliance	<ul style="list-style-type: none"> No clear relative competitive cost disadvantage, despite high energy taxes 	<ul style="list-style-type: none"> Select SMEs consider Danish standards as a source of long-term competitiveness 	<ul style="list-style-type: none"> No apparent need for intervention beyond existing regulatory processes
Best Practices	<ul style="list-style-type: none"> Select environmental investments display clear positive returns Workforce, supply chain, and other CSR activities have a negative short-term impact 	<ul style="list-style-type: none"> Workforce investments could pay off in the long-term, but SMEs lack resources and usable measurement tools Other CSR activities may contribute to marginal revenue, but the case is hard to make 	<ul style="list-style-type: none"> SMEs are a powerful engine for the workforce – could further recognize or create incentives for SME leaders to make extraordinary investments to accelerate the long-term pay-off for these companies; could also develop measurement tools
Innovation	<ul style="list-style-type: none"> SMEs appear to be extraordinary innovators of social value propositions that generate revenue 	<ul style="list-style-type: none"> Not all social value innovations are equally profitable, or as profitable as the core business 	<ul style="list-style-type: none"> Societal innovation can be further developed or encouraged with greater use of incentives
Voluntary Support	<ul style="list-style-type: none"> SMEs still mostly engage in good citizenship contributions with no measurable economic benefit 	<ul style="list-style-type: none"> A few SME leaders have helped shape a positive context, but many efforts are sub-scale in their ability to influence key contextual constraints 	<ul style="list-style-type: none"> SME public-private partnerships could play a greater role in working with SMEs to channel contributions towards contextual investments

- **Recommendation regarding best practices**

- Workforce

- Understanding the benefits of workforce investments requires further investigation to compare accrued savings with the cost of providing extraordinary employee benefits. Beyond research, new tools and training programs will need to be developed to enable SMEs to measure their return on investment. Basic research is also needed on a sector-by-sector basis to determine which kinds of benefits offer the greatest economic returns to businesses in different industries and with different employee skill levels.
- Research should also be conducted to explore whether there are measurable returns to society, through a better-educated, more productive, and healthier workforce, which might justify government subsidies for employers that offer these additional benefits. The DCCA might also consider whether support would be appropriate to help SMEs bridge the gap between a short-term disadvantage from added labor costs and longer-term advantages

from improvements in absenteeism and attrition rates. Even continued public recognition may be sufficient to encourage SMEs to invest more heavily in their employees.

- Environment
 - Here, too, further research is needed on a sector-by-sector basis to document savings, identify the most valuable kinds of environmental CSR activities, and explore barriers to widespread adoption.
 - Tools to measure return on investment, as well as education and training programs, could increase knowledge and awareness of options for environmental improvement.
 - Support might also be appropriate here to offset the short-term costs against the longer term savings.
 - The government may also consider reviewing the state of university research to identify new ways of increasing environmental efficiency

- **Recommendations regarding innovation**

- SMEs are clearly finding opportunities to extend their business models into products and services that present strong social value propositions. These activities should be promoted at both the company and sector/cluster levels.
- At the company level, for instance, research might focus on collecting success stories so that SME managers might be encouraged to consider innovations on the basis of the experience of their peers. At the sector or cluster level, a more comprehensive mapping of CSR practices across Denmark (and possibly across Europe) might uncover patterns of innovation, or emerging needs for socially-beneficial products and services, that could be promoted for development by Danish companies for sale to both domestic and international markets.
- Again, the limitations SMEs face on the availability of investment capital suggest that support and incentives could stimulate greater innovation and contribute to the competitive advantage of Denmark. A starting point within the People & Profit project, building on the broader survey of practices planned for the next phase of the project, would be to orchestrate social innovation workshops with SMEs to identify growth opportunities around social value propositions that build on their core capabilities.

- **Recommendations regarding voluntary contributions**

- Research is necessary to identify, again on a sector-by-sector basis, the critical elements of competitive context that could be strengthened through voluntary contextual investments. Individual SMEs lack the resources for such comprehensive research, suggesting that this would be a valuable

governmental undertaking. The government might also choose to invest directly in projects that improve the competitive context for Denmark's priority sectors and growth clusters.

- Individual SMEs rarely have the resources to spearhead contextual initiatives on a large scale. If they were brought together as a group, however, they could be a powerful force for social and economic improvement. There is a clear role for the DCCA and the project People & Profit in facilitating such collaborations among SMEs to work on targeted improvements in their competitive context.

We further recommend that future research be concentrated in the seven focus sectors (wholesale, transport, manufacturing basic metals, business services, construction, real estate, retail trade & repair) and two priority clusters (health, environmental technology) of the Danish economy identified by our research, and that with a sufficient sample size, patterns should be discernible about the kinds of CSR activities that have the strongest economic rationale in each sector and cluster.²⁹

Environmental best practices are likely to be important in the transport, manufacturing and construction areas. Social innovations in the business services, real estate, health and environmental technology sectors and clusters, in particular, should be documented and opportunities for growth exploited as potential competitive differentiators for both individual SMEs and the Danish economy as a whole.

The longer-term workforce and competitive context activities will be relevant for all sectors, but the emphasis is likely to differ. The next phase of the People & Profit project should identify which workforce investments bring the most benefit to each sector or cluster, and which contextual factors are perceived by each sector/cluster to warrant the most attention in terms of strengthening their respective competitive context through voluntary contributions.

Finally, the project should further explore the issue of scale. While our study sample was too small to determine precisely how company size influences the ability of SMEs to engage in "win-win" CSR, we did find some indications that smaller SMEs cannot invest substantially enough in CSR to reap the benefits found by larger companies. With more information on the subject, the next phases of the project could better focus on scaling-up activities for SMEs that fail to reach the "win-win" threshold.

²⁹ An analysis of the survey data comparing knowledge-intensive and capital-intensive SMEs resulted in some differences in response patterns; however, none of these were significant. See Appendix for more detail.

APPENDIX: STUDY METHODOLOGY AND BACKGROUND RESEARCH

1. Description of Danish SMEs and prioritization of sectors

- *Data and sample:* We obtained financial data from Statistics Denmark for a total of 27 sectors. No turnover data was available for seven sectors. Of the seven sectors for which no turnover data was available, all had low impact on employment, each with less than two percent share of the sample. The remaining 20 sectors represented 90 percent or greater share of turnover in each sector, with three exceptions: mining and quarrying (17 percent), letting and selling of real estate (64 percent), and human health (86 percent).³⁰
- *Segmentation:* The remaining 20 sectors were segmented by size and growth of turnover and employment. We used 2002 data for size, and 2000-2002 data for growth.³¹ We divided high and low in each category as follows: We started with an initial anchor point using the simple average of percentage values (x-axis) and the simple average of growth rates (y-axis). We assumed slope of negative one (-1) to reflect neutral weighting between percentage growth and percentage share. Finally, we calculated the x- and y-intercepts accordingly, and extrapolated the cutoff lines, which for turnover was $y = -x + 0.0654$, and for employment, $y = -x + 0.0495$.

Sector Analysis (1/2)

Turnover data not available

Code	Danish	English
002	• Landbrug, gartneri og skovbrug	• Agriculture, horticulture and forestry
011	• Fiskeri mv.	• Fishing
014	• Råstofudvinding	• Mining and quarrying
020	• Nærings- og nydelsesmiddelindustri	• Mfr. of food, beverages and tobacco
028	• Tekstil-, beklædnings- og læderindustri	• Mfr. of textiles and leather
033	• Træ-, papir- og grafisk industri	• Mfr. of wood products, printing and publ.
041	• Mineralolie-, kemisk- og plastindustri mv.	• Mfr. of chemicals and plastic products
050	• Sten-, ler- og glasindustri mv.	• Mfr. of other non-metallic mineral products
054	• Jern- og metalindustri	• Mfr. of basic metals and fabr. metal prod.
072	• Møbelindustri og anden industri	• Mfr. of furniture; manufacturing n.e.c.
077	• Energi- og vandforsyning	• Electricity, gas and water supply
084	• Bygge- og anlægsvirksomhed	• Construction
094	• Handel m. biler, autorep., servicestationer	• Sale and repair of motor vehicles sale of auto. fuel
099	• Engros- og agenturhandel undt. m. Biler	• Wholesale except of motor vehicles

Source: Statistics Denmark

³⁰ We restricted our analysis to enterprises with 10-249 employees, ignoring microenterprises (enterprises with fewer than 10 employees) because of the limited likelihood of CSR involvement.

³¹ 2002 was the most recent year for which data was available, and 1999 was the most distant year; however, we opted for 2000 data due to the introduction of the CVR numbering system in 1999.

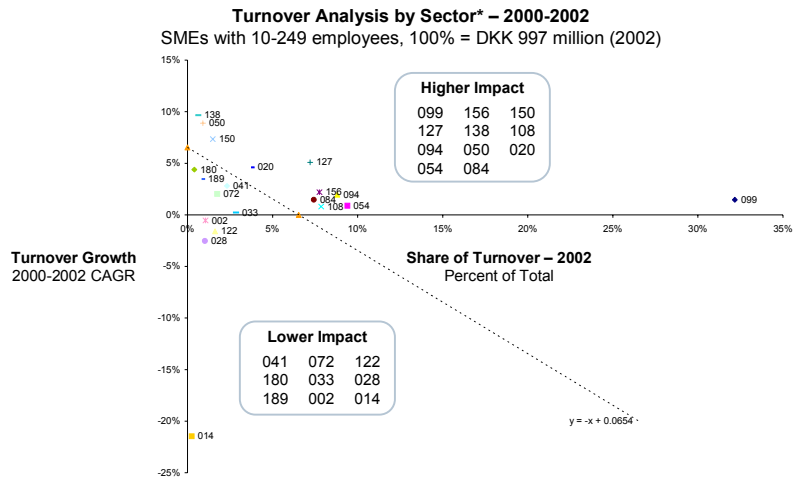
Sector Analysis (2/2)

Turnover data not available

Code	Danish	English
108	• Detailh. og reparationsvirks. undt. Biler	• Re. trade and repair work exc. of m. vehicles
122	• Hotel- og restaurationsvirksomhed mv.	• Hotels and restaurants
127	• Transportvirksomhed	• Transport
138	• Post og telekommunikation	• Post and telecommunications
142	• Finansierings- og forsikringsvirksomhed	• Finance and insurance
150	• Udlejning og ejendomsformidling	• Letting and sale of real estate
156	• Forretningsservice mv.	• Business activities
169	• Offentlig administration mv.	• Public administration
174	• Undervisning	• Education
180	• Sundhedsvæsen mv.	• Human health activities
184	• Sociale institutioner mv.	• Social institutions etc.
189	• Renovation, foreninger og forlystelser mv.	• Associations, culture and refuse disposal
199	• Uoplyst erhverv	• Activity not stated

Source: Statistics Denmark

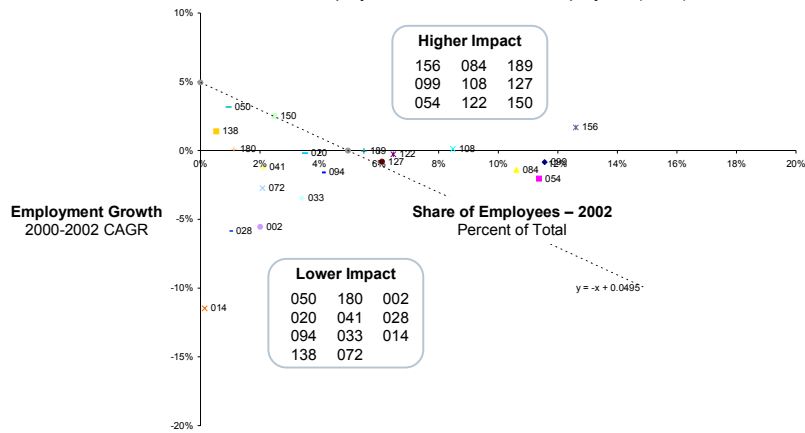
Turnover Analysis



* Data was unavailable for seven sectors: 011 Fiskeri mv., 077 Energi- og vandforsyning, 142 Finansierings- og forsikringsvirksomhed, 169 Offentlig administration mv., 174 Undervisning, 184 Sociale institutioner mv., 199 Uoplyst erhverv
Source: Denmark Statistics Agency; FSG analysis

Employment Analysis

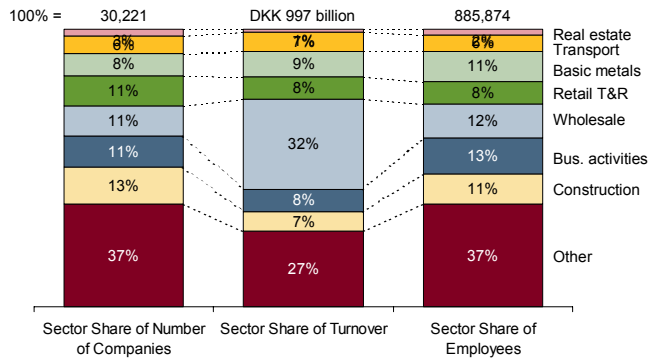
Employment Analysis by Sector* – 2000-2002
SMEs with 10-249 employees, 100% = 885,874 employees (2002)



* Seven sectors were removed because turnover data was unavailable for comparison: 011 Fiskeri mv., 077 Energi- og vandforsyning, 142 Finansierings- og forsikringsvirksomhed, 169 Offentlig administration mv., 174 Undervisning, 184 Sociale institutioner mv., 199 Uoplyst erhverv
Source: Denmark Statistics Agency; FSG analysis

Turnover and Employment

Sector Share of Number of Companies, Turnover, and Number of Employees – 2002
100% = 20 SME sectors, companies with 10-249 employees*

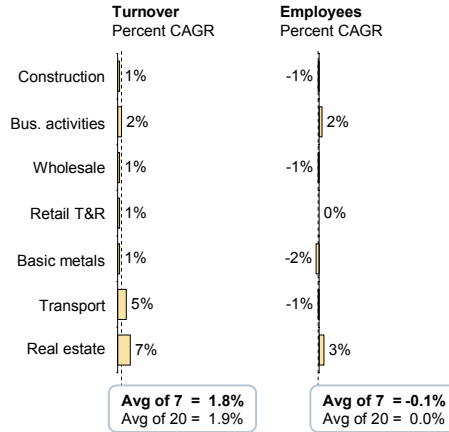


* Of a total of 27 SME sectors, employment and turnover data was available for 20 sectors
Source: Statistics Denmark, May 2005; FSG analysis

Turnover and Employment Growth

Growth in Turnover and Number of Employees – 2000-2002

100% = DKK 731 billion in turnover, 559,791 employees, 7 sectors, 18,952 SMEs, 10-249 employees

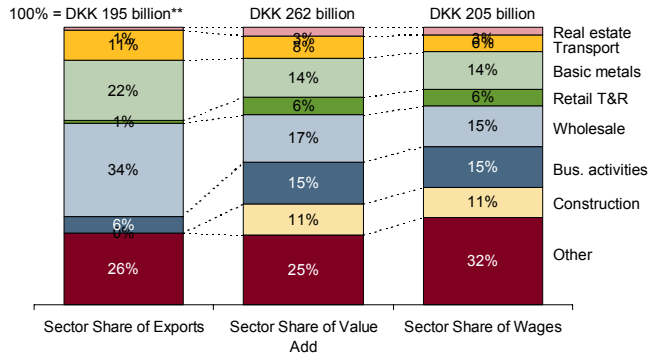


Source: Statistics Denmark, May 2005; FSG analysis

Exports, Value Add, and Wages

Sector Share of Exports, Value Add, and Wages – 2002

100% = 20 SME sectors, 10-249 employees*



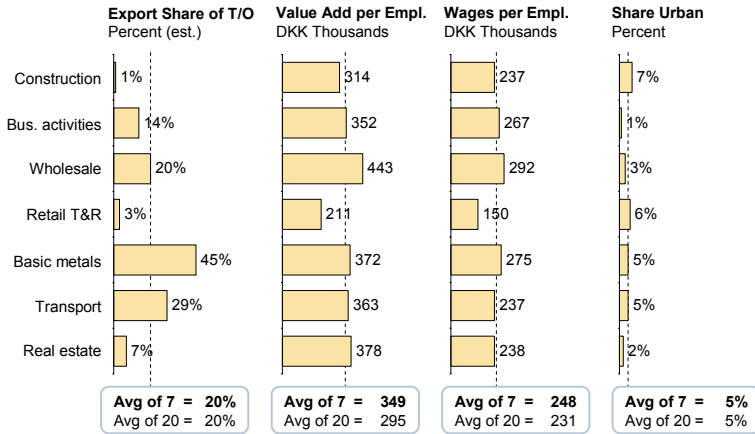
* Of a total of 27 SME sectors, employment and turnover data was available for 20 sectors

** Export shares are rough estimates since they are based on a unique subset of the total number of enterprises within each sector; Statistics Denmark did not have export figures for the same set of companies as for turnover, employees, value add, wages, or urban vs. rural location

Source: Statistics Denmark, May 2005; FSG analysis

Export Orientation

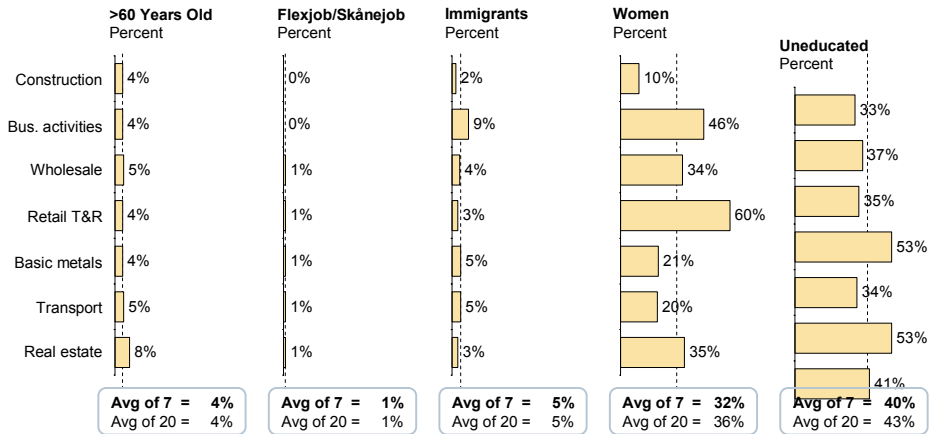
Export Share of Turnover, Value Add and Wages per Employee, Share Urban – 2000
 100% = DKK 731 billion in turnover, 559,791 employees, 7 sectors, 18,952 SMEs, 10-249 employees



Note: Export shares are rough estimates since they are based on a unique subset of the total number of enterprises within each sector; Statistics Denmark did not have export figures for the same set of companies as for turnover, employees, value add, wages, or urban vs. rural location
 Source: Statistics Denmark, May 2005; FSG analysis

Social Inclusion

Percent of Employees in Special Classes – 2002
 100% = 559,791 employees in 7 sectors, 18,952 SMEs, 10-249 employees

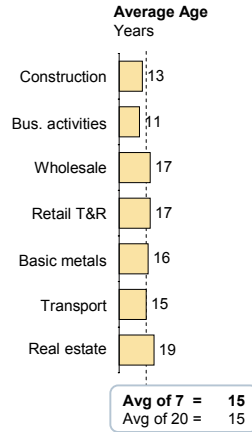


Source: Statistics Denmark, May 2005; FSG analysis

Average Age of Companies

Average Age of Companies by Sector – 2002

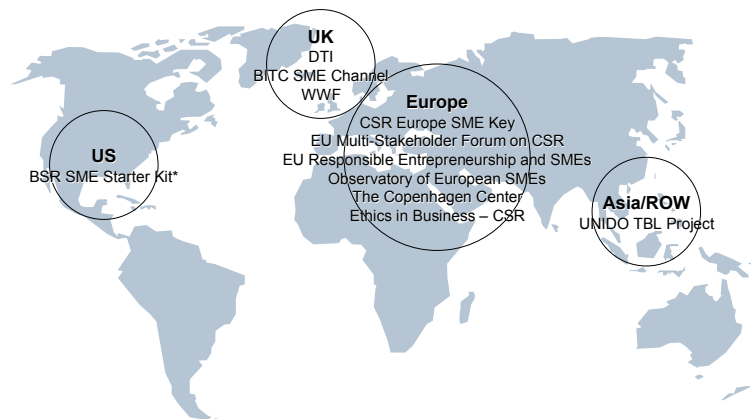
100% = DKK 731 billion in turnover, 559,791 employees, 7 sectors, 18,952 SMEs, 10-249 employees



Source: Statistics Denmark, May 2005; FSG analysis

2. Overview of SME research landscape

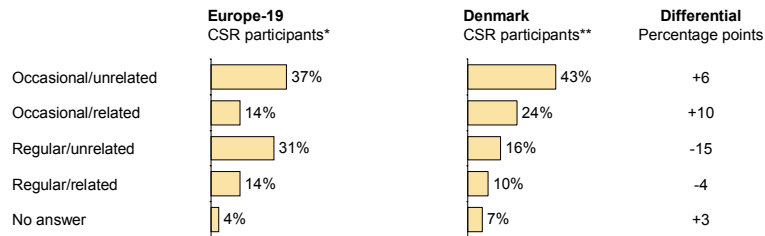
FSG Reviewed 10 SME CSR Research Initiatives, Most of Which Focus on Case Study Development



* Has been temporarily removed from the website pending an update to the original materials

Most SMEs Active in CSR Describe Their Approach to CSR as Occasional and Unrelated to Business Strategy

Strategic Approach to External CSR Activities – 2001



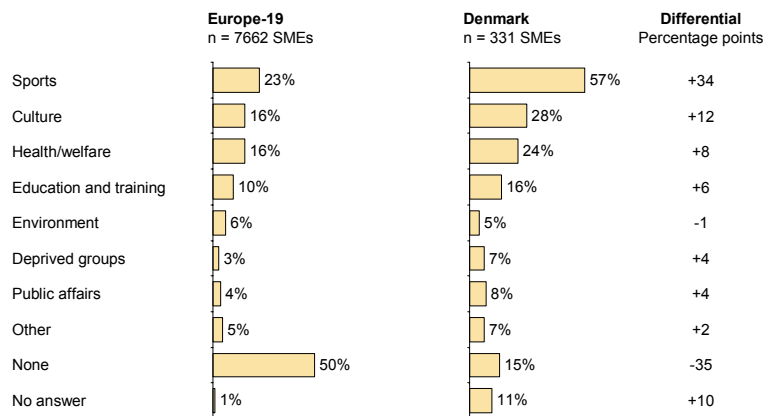
* n = approximately 3,760 with some variance due to sample quality

** n = approximately 245, as derived from synthesized data; actual number is not available in survey or survey technical notes

Source: ENSR Enterprise Survey 2001

74% of Danish SMEs Claim Some External CSR Involvement, vs. 50% for Europe-19 SMEs

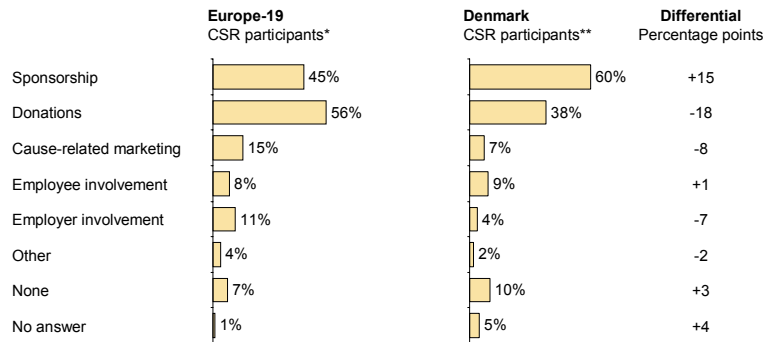
Participation in External CSR Activities – 2001



Note: Total of 74% is derived by subtracting the "None" and "No answer" categories from 100%; multiple answers are allowed
Source: ENSR Enterprise Survey 2001

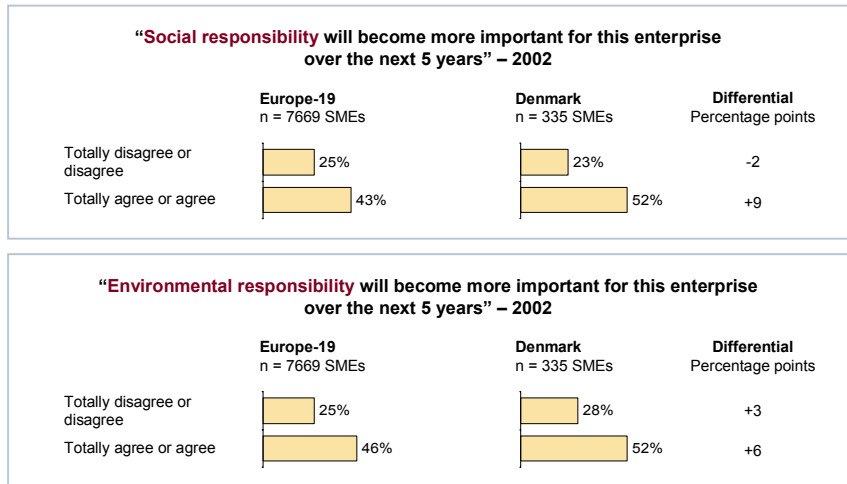
Both Europe-19 and Danish SMEs in Particular Use Sponsorship and Donations as Their Primary CSR Vehicles

Types of External CSR Activities – 2001



* n = approximately 3,760 with some variance due to sample quality
 ** n = approximately 245, as derived from synthesized data; actual number is not available in the survey technical notes
 Source: ENSR Enterprise Survey 2001

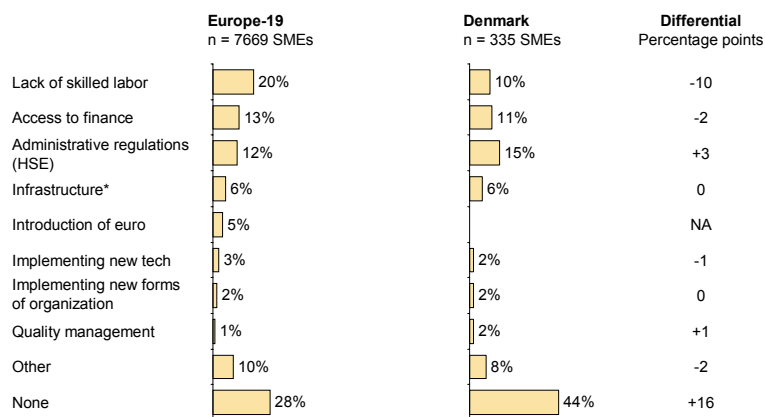
Despite Limited Current Activity, Over Half of Danish SMEs Believe that CSR Will Become More Important for Them



Source: ENSR Enterprise Survey 2002

The Top Business Constraints for Europe-19 & Danish SMEs Are Skilled Labor, Finance, and Administrative Regulations

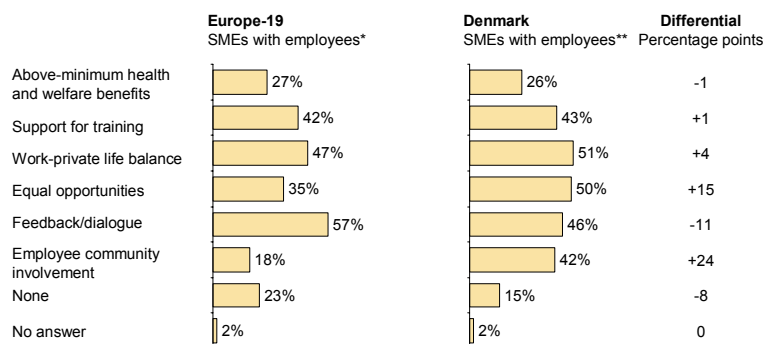
Major Constraints on Business Performance – 2002



* Includes roads, gas, electricity, and communications
Source: ENSR Enterprise Survey 2002

83% of Danish SMEs with Employees Carried Out Activities for Their Employees' Benefit in 2002

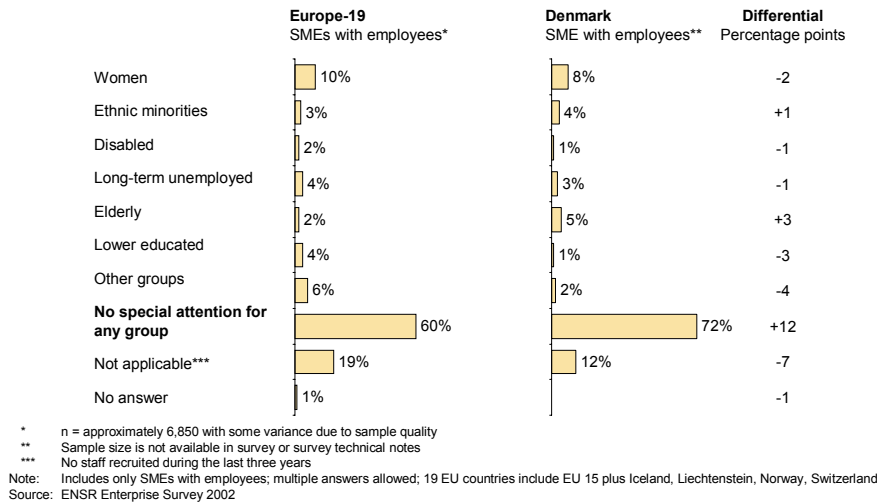
Conducted Activities Beneficial to Employees – 2002



* n = approximately 6,850 with some variance due to sample quality
** Sample size is not available in survey or survey technical notes
Note: Includes only SMEs with employees; multiple answers allowed
Source: ENSR Enterprise Survey 2002

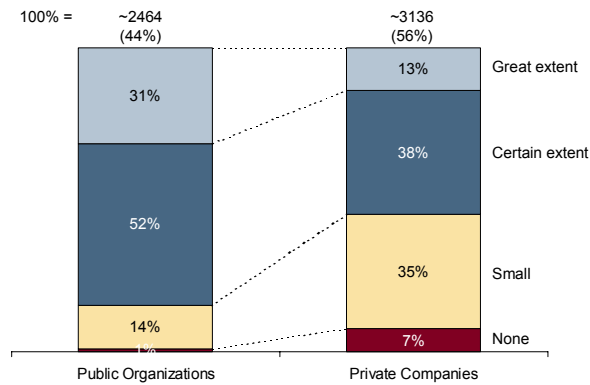
Nearly Three-Quarters of Danish SMEs with Employees Do Not Focus Recruitment or Attention on Any Disadvantaged Group

Recruitment and Attention to Disadvantaged Groups – 2002



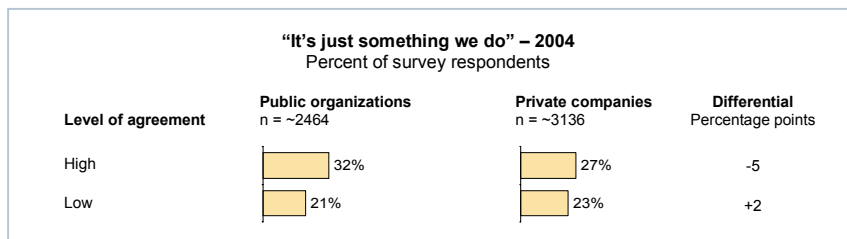
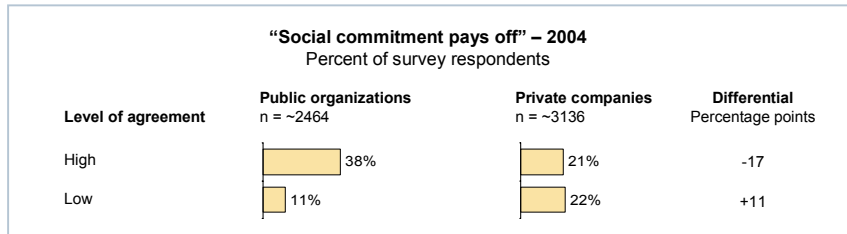
51% Private Companies Believe Social Inclusion Provides More than a Small Benefit for Their Businesses

Extent to Which Social Inclusion Can Be Positive for Your Business/Workplace – 2004
 Percent of survey respondents by type of organization



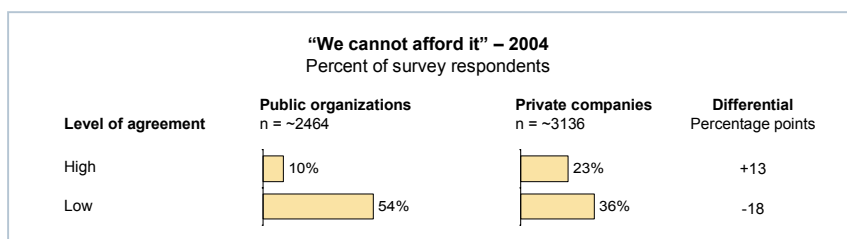
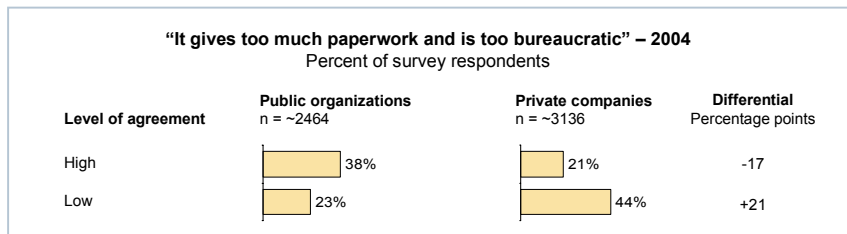
Source: Survey of approximately 5,600 public and private organizations on social inclusion conducted by the Danish Ministry of Employment, Fall 2004

An Almost Even Number of Private Companies Believe that CSR Pays Off



Source: Survey of approximately 5,600 public and private organizations on social inclusion conducted by the Danish Ministry of Employment, Fall 2004

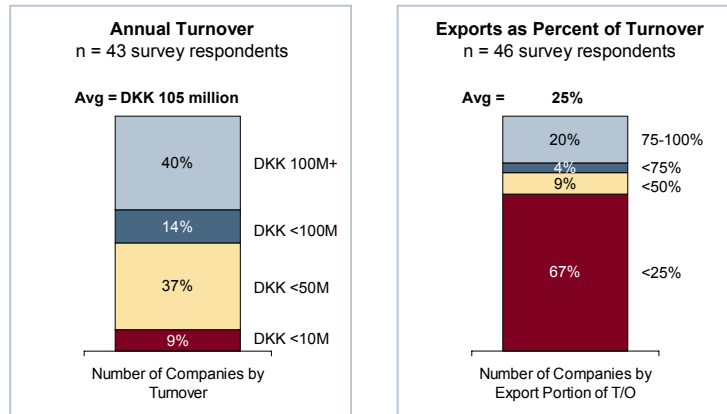
The Two Barriers to CSR Most Often Cited by Private Companies Are Cost and Paperwork/Bureaucracy



Source: Survey of approximately 5,600 public and private organizations on social inclusion conducted by the Danish Ministry of Employment, Fall 2004

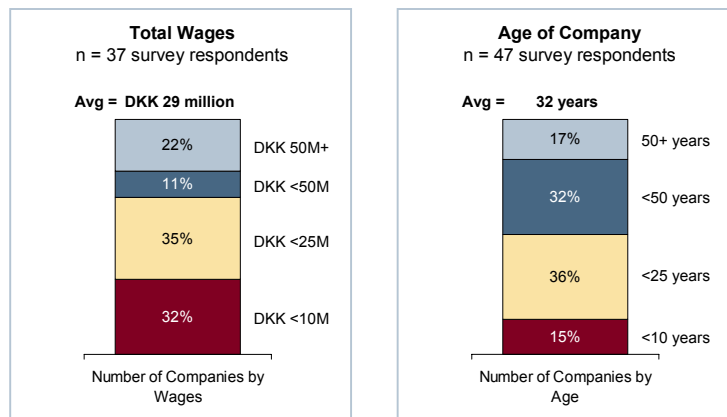
3. Testing hypotheses through a survey and interviews

Annual Turnover and Exports



Source: SME CSR Survey, June 2005

Total Wages and Age of Company



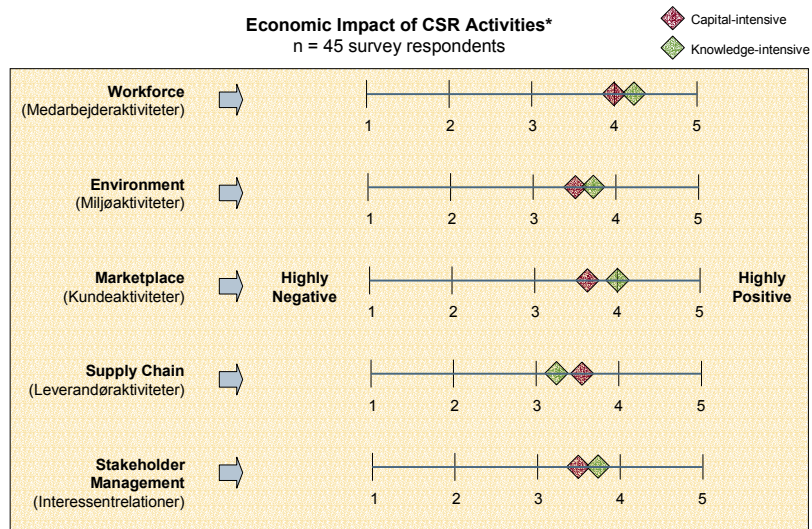
Source: SME CSR Survey, June 2005

Capital-Intensive vs. Knowledge-Intensive Profiles

Indicator	Capital-Intensive	Knowledge-Intensive
Number of enterprises In sample	25	22
Turnover Average per enterprise	DKK 150 million	DKK 59 million
Number of employees Average per enterprise	110	57
Exports Percent of turnover	38%	12%
Total wages	DKK 35 million	DKK 23 million
Wages per employee	DKK 321,165	DKK 411,509
Wages/turnover Percent	24%	40%
Urban vs. rural Percent urban	64%	73%
Age of company	41 years	21 years

Source: SME CSR Survey, June 2005

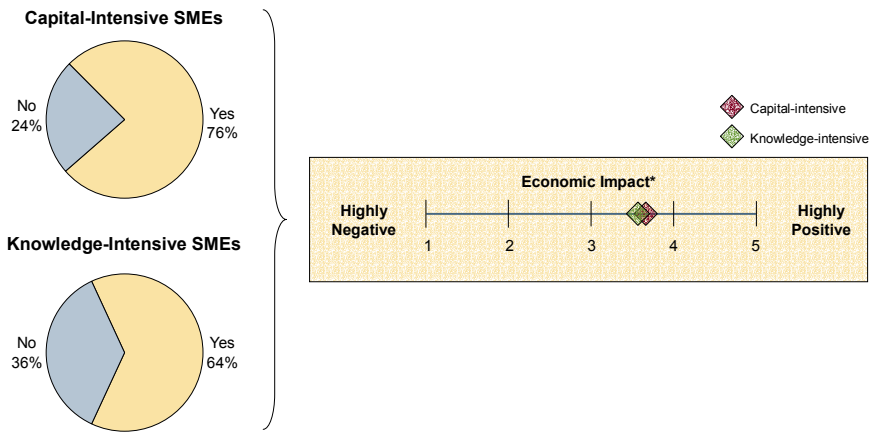
Economic Impact for Capital- vs. Knowledge-Intensive SMEs



* Averages for capital-intensive group are 4.0, 3.4, 3.7, 3.5, 3.4; for knowledge-intensive group are 4.2, 3.8, 4.0, 3.2, 3.8
Source: SME CSR Survey, June 2005

Innovation by Capital- vs. Knowledge-Intensive SMEs

Implementation of Product/Process Innovations with Social Impact
100% = 47 survey respondents



* Averages are 3.7 for capital-intensive group, 3.6 for knowledge-intensive group
Source: SME CSR Survey, June 2005

APPENDIX: SURVEY QUESTIONS

Introduktion

People & Profit er et projekt støttet af EU's Socialfond og Beskæftigelsesministeriets Rummelighedspulje. Erhvervs- og Selskabsstyrelsen har ansvaret for at lede projektet sammen med projektets referencegruppe bestående af Dansk Industri (DI), Dansk Metal, Dansk Byggeri, Dansk Arbejdsgiverforening (DA), Fagligt Fælles Forbund (3F), Arbejdsmarkedsstyrelsen, Ledernes Hovedorganisation, CO-industri, Dansk Handel & Service, Handel, Transport og Serviceerhvervene (HTS), Landsorganisationen i Danmark (LO) og HK Danmark.

Projektets hovedformål er at undersøge Corporate Social Responsibility (CSR) indvirkning på små- og mellemstore virksomheder i Danmark. CSR - på dansk virksomheders samfundsmæssige engagement - handler om virksomheders frivillige integration af sociale, etiske og miljømæssige hensyn i deres forretning.

Særligt ønsker vi at undersøge de økonomiske begrundelser for små- og mellemstore virksomheders arbejde med CSR via forskning, økonomiske analyser og case studier.

Formålet med dette spørgeskema er at indhente information om de økonomiske argumenter for små- og mellemstore virksomheders arbejde med CSR: 1) Findes der en sammenhæng mellem økonomi og CSR, og 2) Hvis denne sammenhæng findes, hvordan sammenhængen kan beskrives og demonstreres.

Fokus er på din virksomheds konkurrencesituation. Vi vil også undersøge, hvordan de eksisterende CSR-normer virker. Det er ikke formålet med denne undersøgelse at ændre på eksisterende lovkrav, men at forstå deres positive eller negative indvirkning.

Hvis undersøgelsen viser os, at der er en klar økonomisk sammenhæng mellem CSR og forbedring af virksomhedernes konkurrencesituation, vil der blive udviklet værktøjer, der kan hjælpe andre virksomheder til at forbedre deres CSR-arbejde i fremtiden.

Din besvarelse af spørgeskemaet er meget vigtig for at give os en fornemmelse for, hvordan arbejde med CSR påvirker din virksomhed. Alle svar er fortrolige og vil alene blive brugt til denne undersøgelse. Det tager 15-30 minutter at svare på spørgeskemaet. Mange tak for din deltagelse og hjælp.

(Hvis du har nogle spørgsmål eller kommentarer til spørgeskemaet, eller hvis der opstår problemer med at udfylde spørgeskemaet skriv eller ring til Janda Campos, jca@eogs.dk, tlf.: 33 30 74 17.)

Baggrund

1. Virksomhedens navn:
2. Antal af medarbejdere (skriv "0", hvis ingen):
 - Antal medarbejdere i alt
 - Medarbejdere over 60 år
 - Ansatte i flex/skånejob
 - Medarbejdere med fysisk eller psykisk handicap
 - Medarbejdere med indvandrere eller flygtninge baggrund
 - Antal af kvindelige ansatte
 - Antal af ufaglærte
3. Årsomsætning (DKK seneste år f.eks. 50.000.000):
4. Eksportens andel af årsomsætning (procentsats f.eks. 80%):
5. Totale lønomkostninger (DKK f.eks. 10.000.000)
6. Er virksomheden placeret i land- eller bykommune (bykommune = kommune hvis største by har mindst 10.000 indbyggere)?
7. Hvor længe har din virksomhed eksisteret (antal år f.eks. 15)?

CSR-aktiviteter

Eksisterende undersøgelser viser, at en række små- og mellemstore virksomheder har igangsat CSR-aktiviteter. Det kan være mange forskellige initiativer som tager etiske, miljømæssige eller sociale hensyn ud over det loven foreskriver. Formålet med følgende spørgsmål er at finde ud af, om denne form for aktiviteter er almindelig blandt små- og mellemstore virksomheder, og hvordan disse aktiviteter påvirker din forretning.

8. Marker venligst de områder hvori din virksomhed har igangsat aktiviteter.
 - Kundeaktiviteter (f.eks. ansvarlig kunderelationer, produktansvar, produktmærkning, anti-korruption politik)
 - Medarbejderaktiviteter (f.eks. kompetenceudvikling, mangfoldighed og ligestilling, indretning, fair aflønning, balancere arbejdsliv, sundhed og sikkerhed)
 - Leverandøraktiviteter (fair leverandørbetingelser, anvendelse af standarder igennem leverandørkæden, fremme 'fair trade')
 - Interessentrelationer (kortlægning og prioritering af interessenter, dialog med interessenter, miljø og social rapportering)
 - Miljøaktiviteter (materiale og energiforbrug, forurening og affaldshåndtering, miljømæssig produktansvar, transport planlægning)
 - Andet (beskriv nærmere):

9. Hvis din virksomhed har aktiviteter inden for nedenstående områder, marker venligst om den økonomiske effekt af aktiviteten er positiv eller negativ. (Meget negative, Negativ, Hverken negativ eller positive, Positiv, Meget positive)
- Kundeaktiviteter
 - Medarbejderaktiviteter
 - Leverandøraktiviteter
 - Interessentrelationer
 - Miljøaktiviteter
10. Hvis din virksomhed har aktiviteter inden for nedenstående områder, marker venligst om du kan sætte tal på den økonomiske effekt af aktiviteten.
- Kundeaktiviteter
 - Medarbejderaktiviteter
 - Leverandøraktiviteter
 - Interessentrelationer
 - Miljøaktiviteter
11. Hvis din virksomhed kan sætte tal på den økonomiske effekt, vær venlig at uddybe den, f.eks. faktisk effekt, hvilken form for effekt, eksempel.

Innovation af processer/forretningsgange med klare samfundsmæssige gevinster

Følgende spørgsmål undersøger, hvorvidt I har udviklet nye processer/forretningsgange i din virksomhed med henblik på at opnå miljømæssige eller andre sociale gevinster. F.eks. nye produktionsprocesser med henblik på at reducere brug af kemikalier, eller dansk kurser for medarbejdere.

12. Har I iværksat nye processer/forretningsgange, der har miljømæssige eller social effekt?
- Ja
 - Nej
13. Hvis ja, beskriv kort den/de nye processer/forretningsgange.
14. Hvad er den økonomiske effekt på kort sigt (inden for 3 år) af denne/disse processer/forretningsgange på forretningen generelt? (Meget negativ, Negativ, Hverken negativ eller positiv, Positiv, Meget positiv)
- Økonomisk effekt på kort sigt
15. Kan du sætte tal på effekten?

- Ja
- Nej

16. Hvis din virksomhed kan sætte tal på den økonomiske effekt, vær venlig at uddybe den, f.eks. faktisk effekt, hvilken form for effekt, eksempel.

Udvikling af nye produkter med henblik på at løse sociale og/eller miljømæssige samfundsproblemer

Disse spørgsmål undersøger udvikling af nye produkter eller serviceydelser i din virksomhed, hvis målsætning er at afhjælpe eller forbedre sociale og miljømæssige samfundsproblematikker såsom arbejdsløshed, forurening, klima ændringer mm.

17. Er der nogle af jeres produkter eller serviceydelser, som afhjælper eller forbedrer en eller flere samfundsproblematikker?

- Ja
- Nej

18. Hvis ja, beskriv produktet eller serviceydelserne.

19. Hvor stor andel af jeres omsætning kommer fra disse produkter/serviceydelser (procentsats f.eks. 25%)?

Andre indsatser for at forbedre forhold omkring og for din forretning f.eks. velgørehed

Denne sektion omhandler andre frivillige indsatser f.eks. velgørehed, og hvordan disse indsatser påvirker dine forretningsbetingelser.

20. Markér hvorvidt din virksomhed deltager i følgende aktiviteter:

- Støtte i form af kontanter
- Støtte i form af tid f.eks. frivilligt arbejde af medarbejdere
- Gavedonationer i naturalier, f.eks. tøj, mad
- Lokalt engagement f.eks. deltagelse i bestyrelser, lokalforeninger mm.
- Ingen
- Andet (beskriv nærmere):

21. Hvis din virksomhed er aktiv med frivillige indsatser, hvordan indvirker det på din forretning?

- Opbygge goodwill i lokalsamfundet (ikke nødvendigvis til potentielle kunder eller medarbejdere)
- Tiltrække og fastholde kunder
- Forbedre andre forhold, der bidrager til virksomhedens vækst på lang sigt
- Ingen indvirkning på forretning
- Andet (beskriv nærmere):

Miljø-, social- eller anden lovgivning indvirkning på konkurrenceevnen

De følgende spørgsmål retter sig mod virksomheder med eksport, dvs. hvis din virksomhed indhenter en markant del af omsætning fra eksport. Selvom formålet med denne undersøgelse ikke er at evaluere eller ændre lovkrav, men i stedet at forstå indvirkning af normkrav på forretningsøkonomi og konkurrenceevne, vil vi alligevel gerne høre din mening om følgende elementer i dansk lovgivning:

22. Har dansk miljø-, social- eller anden lovgivning positiv eller negativ indvirkning på din virksomheds konkurrenceevne? (Meget negativ, Negativ, Hverken negativ eller positiv, Positiv, Meget positiv)

- Effekt på konkurrenceevnen

23. Kan du måle/sætte tal på virksomhedens omkostninger i relation til danske lovkrav?

- Ja
- Nej

24. Hvis 'ja' vær venlig at uddybe.

Konklusion

25. Hvis din virksomhed arbejder med sociale og miljømæssige hensyn, indikér den beskrivelse, der bedst passer til jeres tilgang til CSR. (Meget uenig, Uenig, Hverken enig eller uenig, Enig, Meget enig)

- Vi har CSR-aktiviteter, fordi vi har oplevet, at det har en positiv indvirkning på vores forretning, som vi ønsker at opretholde/udvide.
- Vi har endnu ikke registreret positiv effekt af CSR på forretningen, men vi har CSR-aktiviteter, fordi vi tror på, at det vil gavne forretningen i det lange løb.
- Vi har ikke registreret positiv effekt af CSR på forretning og forventer ikke, at det vil forbedre vores forretning, men vi har CSR-aktiviteter på grund af andre faktorer (f.eks. etiske, personlige uegennyttige grunde).

26. Kender du til nogen form for regeringsinitiativer rettet mod at støtte din virksomheds arbejde med CSR, dvs. sociale og miljømæssige hensyn?

- Ja
- Nej

27. Hvis 'ja', hvilke? Hvis du i øvrigt har benyttet dig af initiativet, beskriv venligst hvilken effekt det har haft.

28. Andre bemærkninger:

29. Vi vil gerne foretage interviews med respondenter fra spørgeskemaundersøgelsen, så vi kan få større viden om, hvad I gør i praksis på CSR-området. Hvis vi må kontakte dig for at følge op på nogle af dine svar inden for denne uge, så udfyld venligst følgende:

- Navn
- Titel
- Virksomhed
- Email
- Telefon
- Bedst at træffe på følgende tidspunkt

APPENDIX: LIST OF INTERVIEWEES AND SURVEY RESPONDENTS

List of interviewees (20 in total)

(*Italics* indicates respondent did not participate in the survey – six of 20 companies listed below.)

- *Aarstiderne*
- *AC Trafik*
- Bon 'A Parte
- Columbus IT
- Dansk Cleaning Service
- Domus
- *Flügger/Nørrebro Handelsforening*
- *Genbyg*
- Horsens Kraftvarmeværk
- Horsens Varmeværk
- *Kjaer Group*
- *Nybolig Lillelund*
- Rambøll Management
- Reson
- Rice
- Scanseason
- Select Sport
- Sjørring Maskinfabrik
- Sønderjyllands Fragtservice
- Tricon Electric

List of survey respondents (47 in total)

(**Boldface** indicates respondent was also interviewed – 14 of 20 companies listed above.)

- A. Winther A/S
- Aalborg Zoologiske Have
- Andersen & Broberg A/S
- anlægsgartner Leon Askov
- AORTA ApS
- **Bon 'A Parte A/S**
- Brüsck Maskinfabrik A/S
- **Columbus IT Partner Danmark A/S**
- Comwell Rebild Bakker
- Cronquist HR- & Projektudvikling
- CUBIC-Modulsystem A/S

- Dafolo A/S
- Damcos A/S
- **Dansk Cleaning Service**
- **DOMUS arkitekter a/s**
- estron a/s
- EuroCode A/S
- FINELCO A/S
- Hagens Fjedre A/S
- Hanegal A/S
- Hillerod Fysioterapi og Tr ningscenter
- **Horsens kraftvarmev rk**
- **Horsens Varmev rk**
- IMC Business Consulting A/S
- Industrimuseet
- Lyngsoe Systems A/S
- Merkur, Den Almennyttige Andelskasse
- NCH Europe Inc, Usa Dansk filial
- Nybolig Jan Milvertz
- Print Production A/S
- **Ramb ll Management**
- **RESON A/S**
- Rexam Glass Holmegaard
- **RICE A/S**
- Ruukki Danmark A/S, Fredericia
- SCA Packaging Flamingo
- **scanseason**
- **Select Sport A/S**
- **Sj rring Maskinfabrik**
- Sole Minkfoder A/S
- **S nderjyllands Fragt Service A/S**
- Thise Mejeri
- Tresu Group
- **Tricon Electric A/S**
- Udbye & le Fevre Grafisk Mediehus A/S
- Valtra Danmark A/S
- VetXX A/S

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- Networks and associations
 - Confederation of Danish Industries
 - Copenhagen Centre
 - Danish Foreign Ministry

- Danish Institute of Human Rights
- Green Network
- Nybolig
- Regional Network of Leaders Copenhagen
- Regional Network of Leaders East-Jutland
- Regional Network of Leaders South
- CSR brochures, publications, and surveys
 - Etik i Erhvervslivet, 2002
 - Virksomhedernes Sociale Engagement – Eksempelsamling: Initiativer på 70 virksomheder, 1996
 - Servicemedarbejderen, 1999
 - Sideproduktion – en gevinst for virksomhed og medarbejdere, 1999
 - Virksomhedernes Sociale Engagement – en interviewundersøgelse i mindre virksomheder, 1995
- Awards
 - Aids prisen
 - Årets Sociale Virksomhed i Haderslev Kommune
 - Årets Transportvirksomhed
 - Integrationsprisen
 - Inter-Cot Award
 - MIA prisen
 - Netværksprisen
 - Royal Green Food Award
- Lit search (news and magazine articles, CSR experts, other recommendations)

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